2018

SOCIETE GENERALE BANK & TRUST S.A.

CONSOLIDATED FINANCIAL STATEMENTS

SOCIETE GENERALE

Societe Generale Bank & Trust
11 Avenue Emile Reuter
L-2420 Luxembourg

Consolidated Financial Statements, Consolidated management report and Report of the Independent auditor as at 31 December 2018

R.C.S. Luxembourg: B 006.061

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BOARD OF DIRECTORS

CHAIRMAN

Patrick Suet
Corporate Secretary of Societe Generale Group

MANAGING DIRECTOR

Arnaud Jacquemin
Chief Executive Officer of Societe Generale Bank & Trust

DIRECTORS

Cécile Bartenieff
Chief Operating Officer of the Global Banking & Investor Solutions division, Societe Generale Group

Patrick Folléa
Deputy Director of Societe Generale Group Private Banking

Fabienne Gatti
Staff representative Director

Virginie Lagrange
Independent Director

Virgil Magri
Staff representative Director

Didier Mouget
Independent Director

Frédéric Ogorzaly
Staff representative Director

Pierre Palmieri
Head of Global Finance of Societe Generale Corporate and Investment Banking

Bruno Prigent
Head of Securities Services, Societe Generale Group

Frédéric Roveda
Staff representative Director

1. Patrick Suet.
2. Arnaud Jacquemin.
3. Cécile Bartenieff.
4. Patrick Folléa.
5. Fabienne Gatti. **6.** Virginie Lagrange.
7. Virgil Magri. **8.** Didier Mouget.
9. Frédéric Ogorzaly. **10.** Pierre Palmieri.
11. Bruno Prigent. **12.** Frédéric Roveda.
13. Olivier Renault. **14.** Hélène Crinquant

AUTHORIZED MANAGEMENT

Arnaud Jacquemin
Chief Executive Officer

Olivier Renault
Chief Operating Officer

Hélène Crinquant
General Secretary

REGISTERED OFFICE

Societe Generale Bank & Trust S.A.
11, Avenue Emile Reuter
L-2420 Luxembourg

AUDITORS

Ernst & Young
Société Anonyme
35E, Avenue John F. Kennedy
L-1855 Luxembourg

II. CONSOLIDATED MANAGEMENT REPORT

1. CHIEF EXECUTIVE OFFICER STATEMENT

Societe Generale Bank & Trust (the “Bank” or the “Group”) is one of Luxembourg’s largest banking groups by number of staff (1 965 as at the end of 2018), net income (EUR 296 million in 2018) and statement of financial position (assets of EUR 101 billion at end 2018), and the oldest foreign bank in the Grand Duchy.

At the heart of Europe, Societe Generale Bank & Trust is a multi-expertise banking group with operations in Luxembourg and main foreign subsidiaries in Switzerland and Monaco, capitalizing on the strengths of the Societe Generale Group.

By drawing on our Code of Conduct and Societe Generale Group’s values - Team Spirit, Commitment, Innovation and Responsibility - each employee aims at excellence to offer clients security, transparency and unsurpassed expertise. Our teams partner with our clients to structure innovative solutions to help accelerate their international development and fulfill their ambitions.

We are a responsible bank, chosen for its commitment to diversity and inclusion, and for its contribution to the sustainable and profitable development of our societies through positive impact finance and socially responsible investments. We help develop tomorrow’s world.

Leveraging on the dynamic Luxembourg Fin Tech ecosystem, we are pursuing our digital transformation to improve our clients’ experience and anticipate their future needs, as well as optimize our operational efficiency, security and compliance with applicable regulations.

The shift to digital has led to the transformation of our working methods. As a responsible employer, we strive to encourage the well-being of our employees and their collective agility and innovation skills for the benefit of our clients. We are proud to be the first employer in the Luxembourg banking sector to have deployed flex working and teleworking on a large scale.

In all such respects, we contribute to the sustainable development of the Luxembourg’s economy and the dynamism of the country’s society at large.

2. CORPORATE GOVERNANCE

2.1. CORPORATE GOVERNANCE STRUCTURE AND MAIN BODIES

2.1.1. Board Committees

As of 31 December 2018, the specialized committees of the Board were:

- Audit and Accounts Committee: this committee's remit is to monitor issues related to the preparation and control of accounting and financial information, the independence of the statutory auditors, and the effectiveness of the internal control, especially for risk related to the accounting and financial processes. If needed, it gives recommendations and its opinion to the Board of Directors;
- Risk and Compliance Committee: this committee advises the Board of Directors on the overall strategy of the entity and its risk appetite, and assists it in verifying implementation of this strategy, examining the supervision systems and monitoring banking and financial risk measurement;
- Compensation Committee: this committee prepares the decisions of the Board of Directors concerning compensation, especially compensation related to the directors, the executive officers and the persons having a significant impact on the Group's risk profile and risk management;
- Nomination Committee: this committee identifies and recommends future company officers (directors and executive officers) to the Board of Directors. It periodically examines the policies of the Board of Directors as regards selection and appointment, and proposes a target in respect of the balanced representation of women and men.

2.1.2. Executive Committees

The main executive committees of the Bank are as follows:

- Management committees:
  - Authorized Management Committee: the mission of this committee is to orientate and oversee strategic and transversal business and affairs of the Bank;
  - Executive Committee: this committee deals with strategic implementation, business development and other transversal topics. It gathers the authorized management and the business lines', the support functions' and the internal control functions' executive managers;
  - Business Committee: the mission of this committee is to focus on business and affairs topics, commercial strategies and synergies within the Bank;
  - Senior Management Team Committee: this committee is a privileged forum of exchanges, reflections and works on the general interest's questions related to the Bank.
- Steering and functional committees:
  - Finance Committee: the mission of this committee is to elaborate the Group's financial strategy and manage scarce resources (capital, liquidity, statement of financial position, etc.);
  - HR Committee: the mission of this committee is to elaborate the human resources policy, which especially consists of attractiveness, transformation, compensation, retention and regulatory subjects.
- Enterprise Risk Management Committees:
  - Risk Committee: the mission of this committee is to define the Group's key priorities in terms of risk, within the framework of the risk appetite and the financial targets set by the Bank, and to monitor compliance in such respect;
  - Compliance Committee: the mission of this committee is to define the Group's main guidelines and principles in terms of compliance. This committee ensures a sound adherence to all regulations to be applied by the Group, and takes appropriate measures in case of gaps;
  - Internal Control Coordination Committee: the mission of this committee is to provide a consolidated overview of the Bank's internal control framework, assessing it in terms of efficiency, consistency and completeness, taking corrective actions and monitoring their implementation;
  - IS Security Committee: the mission of this committee is to deal with the Bank's IS security policy and governance, compliance with IT laws and regulations as well as IT risk assessments.

2.2. REMUNERATION POLICY

The Group strictly applies the remuneration policy of the Societe Generale Group, which aims at guaranteeing the appeal, engagement and loyalty of its associates in the long run, while ensuring appropriate risk management and compliance.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. GROUP MAIN ACTIVITIES

The Group has built over time a solid diversified banking model suited to the needs of its corporate, institutional and individual customers and structured around several complementary pillars enabling the Group to diversify risk and benefit from strong market positions.

3.1.1. Private Banking

Societe Generale Private Banking teams primarily based in Luxembourg, Switzerland and Monaco offer wealth management solutions to entrepreneurs and High Net Worth Individuals. Its offering includes international wealth planning and fiduciary services, portfolio management, global expertise in investment advisory and financing solutions, strategy and expertise in asset allocation, funds, markets and wealth management solutions, as well as life insurance and lending activities.

3.1.2. Corporate Banking and Cash Management

The Group's customised offer covers a large range of business requirements including daily cash management, working capital financing and commercial banking.

The Group designs domestic and international solutions for corporate and institutional investors to improve their payment methods, monitor their accounts, manage their transactions remotely and pool their cash.

The corporate service provides banking solutions to our corporate clients and financial institutions. Its offers global banking services including cash management and credit.

In addition to the local expertise, the Group also works in synergy with the international network of Societe Generale Wholesale Banking.

3.1.3. Securities Services

The securities services activity is performed by Societe Generale Securities Services (SGSS). SGSS offers a full range of services adapted to the latest financial markets and regulatory trends.

Varied solutions are offered throughout the life of the funds, including fund structuring, domiciliation and personalised regulatory watch services; custody and trustee services (including liquidity management services); fund administration services (pricing of complex products, dedicated Key Investor Information solutions, risk and performance attribution, legal and tax reporting, compliance, etc.); global fund trading, transfer agency services, issuing and paying agent services, and register agent services.

3.1.4. Structured Financing

Societe Generale Wholesale Banking originates and distributes structured finance transactions. It assists corporates, financial institutions, public sector institutions and family offices to meet their needs in terms of investments, strategic advisory services, capital raising and capital structure optimisation.

Infrastructure & Finance activities offer a broad range of products and services, including capital-raising, risk management and advisory services in project finance, public private solutions.

Structured Solutions & Leasing develops, originates and executes (alone or together with other business lines) tailor made structured finance solutions especially asset finance (asset-backed finance, operating leases and export leases).

3.1.5. Structured investment products issuance

The Issuing activity is performed by SG Issuer (SGIS) as well as through the "Sogéis" framework based on Luxembourg's fiduciary legal framework and provides investors with access to the entire range of financial engineering services (Asset and Liability Management – portfolio management, securitisation, risk policy management and Capital Management – strategic management of shareholdings, equity-linked products, and employee savings plans). SGIS issues both secured and unsecured notes through private placements or public offerings. Sogéis only issues secured notes. The securities issued by SG Issuer or by the Bank via Sogéis are also backed by a guarantee from the Societe Generale Group.

3.2. GROUP ACTIVITY AND RESULTS

3.2.1. Group activity and results – Consolidated Statement of Income

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

(in EUR thousand)	**31 December 2018**	**31 December 2017**	**Change in %**	**Change in value**
Net interest margin	343 666	359 849	-4%	-16 183
Net commission margin	251 651	185 024	36%	66 627
Net gains and losses on financial transactions	132 336	146 295	-10%	-13 959
Net income from other activities	40 006	101 132	-60%	-61 126
Net banking income	**767 659**	**792 300**	**-3%**	**-24 641**
Operating expenses	-420 780	-418 110	1%	-2 670
Gross operating income	**346 879**	**374 190**	**-7%**	**-27 311**
Cost of risk	-7 506	16 010	-147%	-23 516
Operating income	**339 373**	**390 200**	**-13%**	**-50 827**
Net income from investments accounted for using the equity method	10 303	9 384	10%	919
Net income/expense from other assets	-638	-389	64%	-249
Impairment losses on goodwill	0	-50 528	-100%	50 528
Consolidated Net Income before tax	**349 038**	**348 667**	**0%**	**-371**
Tax expenses	-52 481	-74 179	-29%	21 698
Consolidated Net Income	296 557	274 488	8%	22 069
Net income, Group share	296 545	274 595	8%	21 950

In an environment marked by political uncertainty and still very low interest rates, the Group proved in 2018 the resilience of its diversified business model. The 3% decrease in revenues from 2017 to 2018 results from a contrasted evolution of the various Group's businesses.

2018 was a transition year for **Private Banking** activities, following several years of decrease of assets under management resulting from a derisking strategy, and the sale, late 2017, of certain fiduciary activities. In such context, financial results were resilient, as the NBI decreased only by 3% compared to 2017. The commercial performance was strong: net inflows of AuM reached EUR 651 million in 2018, AuMs from new clients more than compensating outflows resulting from the derisking strategy. Efforts to increase recurring revenues by increasing the level of assets under management were successful. On the contrary, 2018 saw a significant decrease of transaction revenues, penalized by the application of the new MiFid2 regulation.

2019 perspectives are positive, with the continuing development of our franchise on Ultra High Net Worth clients on a B2C and B2B mode on the main continental European markets.

Securities Services (SGSS) posted healthy results in 2018: NBI increased by 9% over 2017 to EUR 188 million. Commercial dynamics were strong on our core client segments (including on Tier 2 asset managers and Private Equity and Real Estate funds, and on the Issuing and Paying Agent activity).

In 2019, the SGSS business will be affected by the reorganization by Amundi of its fund offer, following its acquisition of Pioneer Investments, leading to a reduction of the business SGSS conducted for Pioneer Investments until then (exit of a portion of assets under custody, reduction of the number of funds for which SGSS performs valuation services, decrease of the scope of the Transfer Agent business). Apart from this contract, 2019 is expected to confirm a strong growth of the underlying business with other clients.

In 2018, Commercial Banking performance was underpinned by the continuing growth of the cash management business. Commercial efforts and quality of service translated into an increase of 9% of client accounts managed by the business line over the year. NBI increased by 19% over 2017, despite the persistently unfavorable low interest rate environment.

Similarly to 2018, 2019 is expected to be a year of commercial development, notably with corporate clients and funds which need sophisticated international cash management services, as well as with an offer jointly developed with the Private Banking business line towards international entrepreneurs with specific financing needs.

The structured financing business saw its business decrease again in 2018 due to the extinction of some significant transactions. The repositioning of the business line, in particular on leasing transactions, asset financings and securitizations, will be pursued in 2019.

The activity of structured product issuances was healthy. Products issued through the wholly-owned subsidiary SG Issuer Services were complemented by the start in 2018 of new fiduciary note issuances. The ongoing acquisition of certain activities by the Societe Generale Group from Commerzbank should translate into additional business in 2019.

Costs increased by 3.5% over the period. The legal framework of salary indexation resulted in a mechanical 2.5% salary increase in 2018. The pursuit of efforts to comply with existing and future regulations and increasing Supervisors' expectations required again significant investments in fields such as KYC and fight against financial crime more generally, client protection, market regulations… Investments in IT and digitalization continued, contributing to more efficiency and security of our plateform. Such efforts will be pursued over the coming years for the ultimate benefit of our clients.

Cost of risk remained at a very low level, reflecting a prudent risk appetite. So did operational losses, well below our tolerance level. No impairment of goodwill was recorded in 2018, contrary to 2017.

As a result, the Net income stood at EUR 296.5 million in 2018 (+8% vs 2017).

3.2.2. Group activity and results – Statement of financial position

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in EUR thousand)	31 December 2018	1 January 2018	31 December 2017	Change in %	Change in value
Cash, due from central banks	5 173 455	5 512 824	5 512 824	-6%	-339 369
Financial assets at fair value through profit or loss	49 809 890	47 890 802	47 858 979	4%	1 919 088
Hedging derivatives	4 161	14 949	14 949	-72%	-10 788
Financial assets at fair value through other comprehensive income	3 338 542	3 378 313			
Available-for-sale financial assets			3 861 381	-	-
Securities at amortized cost	5 642 478	5 368 538			
Due from banks at amortised cost	10 018 941	9 276 566	9 312 411	8%	742 375
Customer loans at amortised cost	25 802 754	23 191 581	28 540 409	11%	2 611 173
Investments of insurance activities	479 659	498 280			
Held-to-maturity financial assets			51 683	-	-
Tax assets	19 338	15 746	12 591	23%	3 592
Other assets	847 236	766 550	766 772	11%	80 686
Investments accounted for using the equity method	71 486	108 020	108 020	-34%	-36 534
Tangible and intangible fixed assets	69 269	86 393	86 393	-20%	-17 124
Total Assets	**101 277 209**	**96 108 562**	**96 126 412**	**5%**	**5 168 647**

LIABILITIES

(in EUR thousand)	31 December 2018	1 January 2018	31 December 2017	Change in %	Change in value
Financial liabilities at fair value through profit or loss	49 661 210	47 774 491	47 774 491	4%	1 886 719
Hedging derivatives	225 004	253 499	253 499	-11%	-28 495
Debt securities issued	460 305	505 730	505 730	-9%	-45 425
Due to banks	19 726 269	19 910 791	19 910 791	-1%	-184 522
Customer deposits	25 868 265	22 706 274	22 706 274	14%	3 161 991
Tax liabilities	156 606	171 067	172 787	-8%	-14 461
Other liabilities	1 283 698	872 666	872 666	47%	411 032
Underwriting reserves of insurance companies			231 563	-	-
Insurance contracts related liabilities	246 124	231 563			
Provisions	87 158	78 045	76 114	12%	9 113
Subordinated debt	400 249	400 154	400 154	0%	95
Total liabilities	**98 114 888**	**92 904 280**	**92 904 069**	**6%**	**5 210 608**
Issued capital	1 389 043	1 389 043	1 389 043	0%	0
Reserves and retained earnings	1 439 410	1 461 746	1 468 420	-2%	-22 336
Net income	296 545	274 595	274 595	8%	21 950
Sub-total	**3 124 998**	**3 125 384**	**3 132 058**	**0%**	**-386**
Unrealised or deferred capital gains and losses	37 182	76 991	88 378	-52%	-39 809
Shareholders' Equity, Group share	**3 162 180**	**3 202 375**	**3 220 436**	**-1%**	**-40 195**
Non-controlling interests	141	1 907	1 907	-93%	-1 766
Total equity	**3 162 321**	**3 204 282**	**3 222 343**	**-1%**	**-41 961**
TOTAL LIABILITIES AND EQUITY	**101 277 209**	**96 108 562**	**96 126 412**	**5%**	**5 168 647**

As of 31 December 2018, the Group's consolidated statement of financial position totalled EUR 101 277 million, an increase of EUR 5 169 million (+5%) compared to 31 December 2017.

Cash and balances with central banks decreased by EUR 339 million (-6%) compared to 31 December 2017.

Financial assets at fair value through profit or loss increased by EUR 1 919 million (4%) compared to 31 December 2017. Financial liabilities at fair value through profit or loss also increased by EUR 1 887 million (4%) compared to 31 December 2017. These increases are related to the offsetting of some warrants issued by the Group.

Due from banks at amortized cost increased EUR 742 million (8%) compared to 31 December 2017.

Customers loans at amortized cost increased by EUR 2 611 million (11%) compared to 31 December 2017 mainly driven by the decrease of term and demand deposits linked to the re-focusing strategy of the Group.

Amounts due to credit institutions decreased by EUR 185 million (-1%) compared to 31 December 2017, mainly due to the increase of securities sold under repurchase agreements.

Amounts due to customers increased by EUR 3 162 million (+14%) compared to 31 December 2017.

Debt securities issued decreased by EUR 45 million (-9%) compared to 31 December 2017. This decrease is linked to the non-renewal of some matured certificates of deposits due to the low interest rate environment.

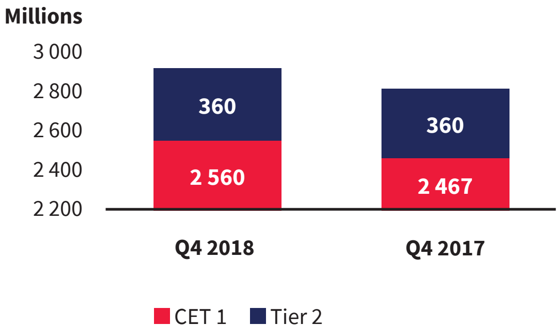
Other assets increased by EUR 81 million (9%) compared to 31 December 2017, mainly driven by a decrease in guarantee deposits paid on financial instruments. **Other Liabilities** increased by EUR 411 million (+47%) reflecting a slight increase in guarantee deposits received on financial instruments.

Property and equipment decreased by EUR 17 million (-20%) compared to 31 December 2017, driven by the work in progress activation and Fixed assets cleaning.

The **provisions** increased by EUR 9 million (12%) compared to 31 December 2017. Provisions remain at a low level reflecting the quality of loan portfolio.

Group shareholders' equity amounted to EUR 3 162 million as of 31 December 2018.

3.3. OWN FUNDS



The Group's sole shareholder is Sogeparticipations S.A., a French Company fully owned by the Societe Generale Group.

In 2018, the Group did not proceed with the buyback of its own shares. As of 31 December 2018, the Group's sole shareholder holds 11 024 148 shares representing 100% of the share capital of the Societe Generale Bank & Trust S.A.

The Group's capital, on a consolidated basis, is made of:

- Core Tier I capital: EUR 2 560 million (2017: EUR 2 467 million)
- Additional eligible capital: EUR 360 million (2017: EUR 360 million)

3.4. POST CLOSING EVENTS

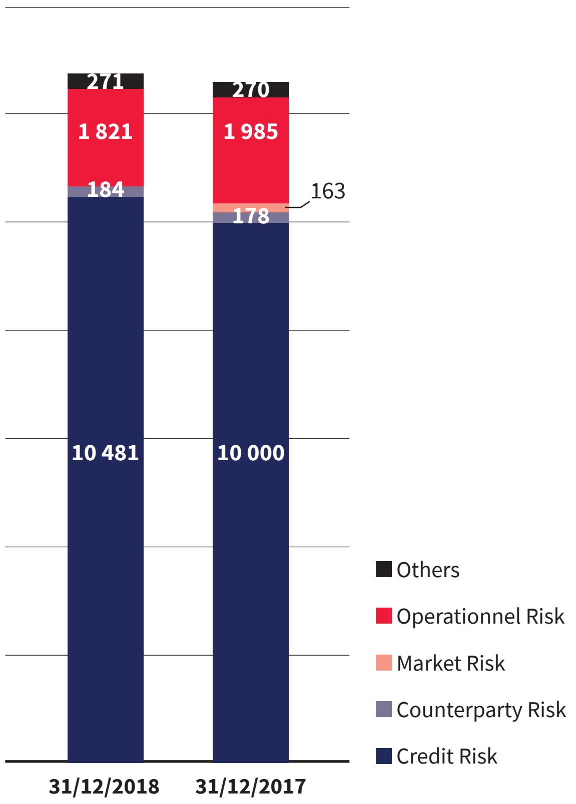
On 27 January 2019, the OFAC removed a client of the Group from its sanction list. This client had a credit loan with the Group and was considered defaulted since the first quarter 2018. The situation of the client was reviewed and the EUR 12 million impairment of the loan was totally reversed during the first semester 2019.

On 25 April 2019, the Luxembourg Parliament voted to approve the 2019 Budget Law which reduces the corporate income tax rate from 18% applicable to financial year 2018 to 17% for the financial year 2019. This results in an overall effective corporate tax rate of 24.94% for corporates in Luxembourg City for financial year 2019 as compared to 26.01% for financial year 2018. The differed tax calculated as at 31 December 2018 is based on the 2018 tax rate.

4. RISKS AND CAPITAL ADEQUACY

4.1. KEY FIGURES

4.1.1. Risk-Weighted Assets

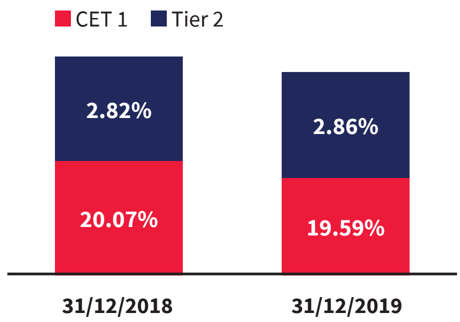


As at 31 December 2018, the total Risk-Weighted Assets of the Group amounted to EUR 12 758 million (2017: EUR 12 596 million).

It was composed by:

- EUR 10 481 million related to credit risk (2017: EUR 10 000 million);
- EUR 1 821 million related to operational risk (2017: EUR 1 985 million);
- EUR 0.581 million related to market risk (2017: EUR 163 million);
- EUR 184 million related to counterparty risk (2017: EUR 178 million);
- EUR 271 million related to others, including Credit Valuation Adjustment and Settlement risk (2017: EUR 270 million).

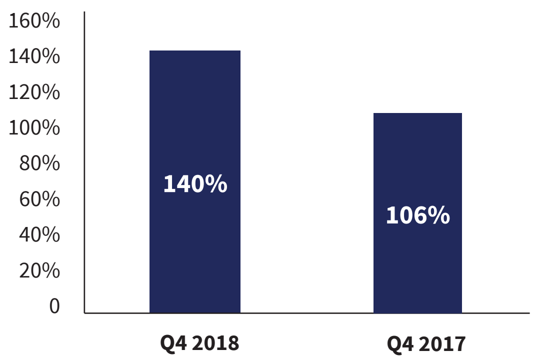
4.1.2. Capital ratios



As at 31 December 2018, the Group total capital ratio was 22.89% (2017: 22.44%), 20.07% based on the Common Equity Tier 1 Capital (2017: 19.59%) and an additional 2.82% based on the Tier 2 Capital (2017: 2.86%).

As at 31 December 2018, the Group capital ratios are significantly above the minimum solvency ratio level of 8.5% for the Common Equity Tier One Ratio, 10% for the Tier One Capital Ratio and 12% for the total capital ratio.

4.1.3. Liquidity Coverage Ratio



As at 31 December 2018, the Group one-month Liquidity Coverage Ratio (LCR) stood at 140% (2017: 106%).

As at 31 December 2018, the Group LCR ratio is above the regulatory requirement of 100% applicable as of 1 January 2018.

4.2. RISK MANAGEMENT

The understanding, identification, mitigation and control of risks are essential elements of the successful management of the Group. In accordance with circular CSSF 12/552 as amended, the Group's internal governance is consistent with the three-lines-of-defence model which includes distinct internal control functions: risk management, internal audit and compliance. This section focuses on risk management.

The main objectives of the Group's risk management strategy are:

- to identify all the risks the Group is subject to and to set up monitoring mechanisms and response plans;
- to apply Societe Generale's risk policies in conjunction with the objectives set by the Bank's business divisions;
- to participate in the improvement of risk assessment and oversight;
- to forecast provisions on bad debts / non-performing loans and operational errors;
- to guarantee the Bank's longevity by rolling out a high-performance system for analysing, measuring and monitoring risks.

Risk management governance relies on substantial commitment from all the Bank's management, clearly defines internal rules and procedures, and checks performed by independent operational management teams to control the underwriting of new risks, ensure it is regularly monitored and enforce rules and procedures.

4.3. RISKS

The Group's risk monitoring process identifies six main risk categories:

Credit Risk: credit risk is defined by the Group as the risk of loss resulting from the inability of the Group's customers, sovereign issuers or other counterparties to honour their financial commitments. It also includes the counterparty risk relating to the market activities conducted by the Group entities.

Market Risk: market risk is defined as the risk of loss due to unfavourable movements in market factors, such as interest rates, share prices or currency exchange rates, impacting the value of the Bank's proprietary positions.

Interest Rate Risk: structural interest rate risk is measured within the scope of structural activities (commercial transactions, the associated hedging transactions and corporate centre transactions) for each of the Group's entities.

Currency Risk: structural exchange risk is the risk that a loss occurs due to an unfavourable movement of the exchange rate that would affect the Group due to existing opened positions in foreign currencies.

Liquidity Risk: liquidity risk is defined as the risk for the Group of not being able to meet its current and future cash requirements, whether or not such have been anticipated, at a reasonable cost. Liquidity is considered a key factor for the viability of the Group and liquidity risk policy is summarized as the ability of the Group to meet its obligations at all times.

Operational Risk: operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures, human error or external events, including IT risk and management risk. Particular attention is paid to the risk of compliance which is the subject of enhanced structural organization.

Please refer to note 9 to the Consolidated Financial Statements for further details.

4.4. RISK APPETITE

Risk Appetite is defined as the level of risk that the Group is prepared to bear in the course of pursuing its strategic objectives.

The Group has defined a Risk appetite framework which includes:

- A governance over an identified scope;
- A mechanism made up of a set of policies, instructions, procedures, and controls;
- A risk culture building team risk awareness.

The Risk Appetite Statement describes the principles, policies, and metrics that set the Bank's Risk Appetite, which includes thresholds, limits and financial goals.

The principles framing risk appetite for the main risks are summarised below.

4.4.1. Structural interest rate and exchange risks

The Group assesses and strictly controls structural risks. The mechanism to control interest rate risk, foreign exchange risk and the risk on employee benefits is based on sensitivity or stress limits adapted to each of the various businesses (entities and business lines).

4.4.2. Liquidity and funding risks

The Group assesses the solidity of its liquidity profile based on three complementary elements:

- Controlling liquidity risk;
- Controlling funding risk;
- Complying with regulatory obligations (LCR and NSFR).

Most of this risk is towards the head office and is therefore limited.

4.4.3. Credit and counterparty risks

When it assumes credit risk, the Group focuses on medium and long-term client relationships, targeting clients with which the Bank has an established relationship of trust and prospects offering the potential for profitable business development over the medium-term. In a credit transaction, risk acceptability is based, first and foremost, on the borrower's ability to meet its commitments. The Bank defines its credit risk appetite based on Societe Generale's policy. Credit risk is primarily intragroup.

4.4.4. Market risks

The business development strategy of the Group for market activities is 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 and remains limited at the Bank.

4.4.5. Operational risks (including compliance risk)

The Bank has no appetite for operational risk. The Group's activities strictly comply with all laws and regulations governing financial and banking activities. The Group has also defined values and principles of conduct which apply to all of its employees. The requirements in relation to that risk are constantly growing and so are the costs to mitigate them.

4.5. ICAAP - INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS & ILAAP - INTERNAL ASSESSMENT OF THE LIQUIDITY ADEQUACY

4.5.1. ICAAP

In application of CSSF Circular 07/301 supplemented by CSSF Circulars 11/506 and 11/513, European Regulation EU575/2013 and CSSF Regulation 15-02, the management is required, at least once a year, to present the situation of the Group's risks and internal capital to the Board of Directors.

The Internal Capital Adequacy Assessment Process (ICAAP) aims at assessing to what extent the Group's internal capital is sufficient to cover all the risks to which it is or may be exposed over a one-year horizon. This process supplements the regulatory scheme setting the minimum requirement for prudential capital in respect of Basel 2, pillar I, from which it differs, in particular in the following aspects:

The concept of internal capital may be broader than that of prudential capital and includes the elements of capital available to cover losses and not eligible to the prudential capital (e.g. hybrid securities).

This process is internal to the Group and must therefore cover its own requirements and be tailored to its organisation and to its specific activities.

All the risks to which the Group is or could be exposed must be covered and not only risks covered by pillar I (i.e. credit risk, market risk and operational risk). For example, the counterparty risks are extended to suppliers; the liquidity risk, which will also be subsequently structured by law, is specifically dealt with and the risks of concentrations are explored.

The adequacy of internal capital relies on internal measurements of the identified risks. This approach supplements the internal advanced models (IRBA and AMA) by implementing a stress test plan, as promoted in Circular CSSF 11/506, in order to assess to what extent unfavourable elements may challenge the match between the business model (activity stress), the risk profile and the existing capacity to manage and support the risk.

This ICAAP exercise leads, if required, to the development and conduct of corrective action plans to guarantee the longevity of the institution.

4.5.2. ILAAP

Internal Assessment of the Liquidity Adequacy Process (ILAAP), encompasses a detailed description of the internal framework in place for measuring, monitoring and managing the liquidity risk at the Group level as well as a discussion of the key liquidity metrics for the Group as of end of 2018 and their evolution over the year 2019. The scope of the ILAAP is the Bank Consolidated prudential perimeter.

This report covers topics relating to liquidity and funding risks management for governance & management oversight, liquidity risk tolerance, liquidity risk profil, intraday liquidity management, funding strategy and market access, management and allocation of liquidity within the Group, liquidity reserve and collateral management & information system.

4.6. CAS – CAPITAL ADEQUACY STATEMENT

The Management of the Group produces and signs the capital adequacy statement (CAS). The CAS at statutory level was validated on 24 April 2019. In such statement, the management body provides its assessment of the capital adequacy of the Group and explains its main supporting arguments, backed by financial information, strategy, stress testing, including ICAAP outcomes.

5. CORPORATE SOCIAL RESPONSIBILITY

Being one of the oldest banks in Luxembourg, we have a particular responsibility as a Corporate entity as well as a leading banking group to promote a sustainable development of the country and sustainable finance more globally.

This is why responsibility is one of the four values of our shared "leadership model", together with team spirit, innovation and commitment.

5.1. OUR ENGAGEMENT AS A CORPORATE

PROMOTING WELL-BEING AT WORK

The Group considers employees' well-being to be a long-term driver of performance and critical to its attractiveness, effectiveness and sustainability. The Group has therefore implemented over the past years several key initiatives to enhance well-being at work such as:

- Promotion of efficient working methods such as a flexi-time policy;
- Homeworking: among over 1,400 employees in Luxembourg, 330 of them have adopted homeworking.

PROMOTING GENDER EQUALITY

Gender equality is a top objective of the Group and its management. The Group signed the Luxembourg Diversity Charter in 2013, and is a longstanding participant to the Diversity Day Lëtzebuerg. Developing awareness in this area is key: the Group therefore regularly organizes conferences about prejudices related to gender.

EMPLOYEE COMMITMENT

In the continuity of its past actions, the Group renewed in 2018 its support to the associations "Special Olympic Luxembourg" and "Back to Sport". Taking the opportunity of client events such as "Golf Tournament", the Group also partnered with Foundation Croix Rouge Kannerhaus Jean.

For the fourth year, private bankers have also decided to draw on their skills and visit Luxemburgish schools during the March "Financial Education Week" in order to give school pupils a better understanding of personal finance matters and instil good habits in terms of budget management.

Since January 2018, a "Payroll giving" initiative allows staff to contribute to the association PADEM (*Programme d'Aide et de Développement aux Enfants du Monde)* and its project *Eclaireurs et Eclaireuses du Sénégal*.

RESPONSIBILITY AT THE HEART OF THE RELATIONSHIP BANKING CULTURE

For the past two years, the Group has organized a series of workshops dedicated to culture and conduct. In 2018, the focus was put on SG Group Code of Conduct and the identification and analysis of "grey zone" situations. As of 31st December 2018, almost 100% of the staff had participated to such workshops.

THE GROUP ACTS FOR THE CLIMATE AND ENVIRONMENT PRESERVATION

Like each corporate, the Group generates environmental impacts through its activity. The Group is well-aware of its responsibility and therefore was pioneer in this matter by taking the decision, 10 years ago, to reduce its CO_2 emissions by:

- Continually enhancing the energy performance of its buildings: the boulevard Royal complex Carrefour is certified under BREEAM (Building Research Establishment Environmental Assessment Methods and the ambitious project *"Arsenal"*, our new headquarter to be finalized in 2022, will follow several principles such as well-being at work, circular economy, low energy and water consumption;
- Encouraging our people to take the city bus service or use e-bikes (in partnership with ALD Automotive);
- Saving paper: an increasing number of initiatives such as FollowMe printing, paperless workflows and client records as well as electronic archiving are continuously improved to rationalise paper consumption. Following a 50% reduction from 2016 to 2017, the additional reduction of the Group's paper consumption is of 18% in 2018;
- Producing a CSR questionnaire for suppliers to assess their social and environnemental policy;
- Helping the *Institut pour le Mouvement Sociétal* (IMS) by participating to their initiatives (knowledge sharing, Diversity day, IMS Forum) and hosting its dozen employees in our premises in 2018;
- Signing early 2019 a Zero Plastic Manifesto with the *Institut pour le Mouvement Sociétal* (IMS).

5.2. OUR ENGAGEMENT AS A BANK

PROMOTE SOCIALLY RESPONSIBLE INVESTMENTS

We are convinced that a strong ESG policy will be synonymous of a sustainable superior financial performance; in addition, we are willing to allow our institutional and private clients to give more sense to their investments. This is why we offer our clients several socially responsible investment (SRI) solutions.

In Private Banking particularly, our clients have access to bespoke SRI portfolios that seek to combine financial performance with a positive social and environmental impact. Clients can measure the environmental, social and governance (ESG) performance of their portfolio via dedicated ESG reportings. Furthermore, a dedicated team has developed a full range of structured positive impact finance (PIF) products and structured products with a charity dimension. Private Banking also supports investors in organising their philanthropic projects and defining their philanthropic strategy and objective for each donation, set up a budget and payment plan and measure the impact.

SGSS continues to promote to their institutional clients an ESG reporting solution, a system for measuring the impact of investment strategies on the environment and society. Its objective is to help investors and asset managers to better integrate ESG criteria into their investment decisions.

SUPPORT A SUSTAINABLE DEVELOPMENT OF THE ECONOMY

The Group is thriving to play a major role by participating to the promotion of Positive Impact Finance in the country together with partners like Luxembourg For Finance or the ABBL.

6. OUTLOOK

In 2019, the Group intends to implement its renewed strategy at the service of our clients' development, positioning itself as a promoter of a changing society.

Our top strategic priority is to pursue in 2019 the development of our businesses to more comprehensively and adequately serve our clients in private banking, securities services, commercial banking but also structured financings and capital market services. We will further work on putting our clients' needs at the heart of our way of collectively working.

2019 will also mark the pursuit – and in certain areas the acceleration – of initiatives to optimize our efficiency and security, through IT investments, optimization of processes and further digitalization.

Finally, we will further enhance our attractiveness as a responsible employer of choice, though several initiatives, internal as well as external such as our participation to the Skills Bridge initiative sponsored by the Luxembourg Government.

With the strong commitment of our teams and our recognized expertise, we are starting 2019 with confidence on our ability to seize growth opportunities in our various activities, in a European economic and financial environment that will remain challenging but with the benefit of the structural dynamism of the Luxembourg ecosystem.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III. INDEPENDENT AUDITOR'S REPORT

REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

To the Board of Directors of
Societe Generale Bank & Trust S.A.
11, Avenue Emile Reuter
L-2420 Luxembourg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Societe Generale Bank & Trust S.A. (the "Group" or "SGBT Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the *"Commission de Surveillance du Secteur Financier"* ("CSSF").

Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the *"réviseur d'entreprises agréé"* for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ASSESSMENT OF IMPAIRMENTS ON CUSTOMER LOANS AND FINANCING COMMITMENTS

DESCRIPTION

As at 31 December 2018, the gross amount of customer loans is EUR 25 838,9 million, and associated impairments amount to EUR 36,5 million (see Note 4.5).

As at 31 December 2018, impairments relating to financing commitments amount to EUR 0,8 million (see Note 5.8).

Since 1 January 2018, Societe Generale Bank & Trust S.A. is applying the IFRS 9 standard "Financial instruments" (phases 1 and 2) to financial assets and liabilities. This new standard defines, inter alia, a new methodology for assessing the impairment on loans at inception (" stage 1"), with significant increase in credit risk (" stage 2") or defaulted (" stage 3") based on expected credit loss, and no longer incurred credit loss.

Expected credit losses on loans classified in stages 1 and 2 are determined mainly based on models which include various assumptions (probability of default, loss given default, forward looking scenarios, etc.).

Impairments on customer loans and financing commitments classified as defaulted (stage 3) are assessed individually. Such impairments are determined by the Group management based on expected cash flows and estimated recovery from any underlying collateral.

We consider the first-time application of IFRS 9 as a key audit matter for the following reasons:

- the significance of loans and advances to customers in the Group's statement of financial position;
- the use of various parameters and assumptions in the models to determine the probability of default and the loss given default;
- the importance of judgment in determining the criteria of significant increase in credit risk and the way macro-economic forecasts are taken into account;
- the assessment of individual impairment on defaulted loans (stage 3);
- the importance of operational changes implied by the implementation of the new standard (new control framework, new information systems, etc.).

Principles relating to the provisioning of credit risks are described in notes 2.3.3.10.1 "Impairment and provisions for credit risk" and 9.1 "Credit risk" to the consolidated financial statements.

The impact of the first-time adoption of the IFRS 9 standard as of 1 January 2018 is detailed in Note 2.2.2 "First time application of IFRS 9 "Financial instruments". The impact is a net decrease in shareholders' equity of EUR 18,1 million and corresponds solely to the provisioning of credit risk (net of deferred tax).

The net effect before tax of allowances and reversals of impairments and expected credit loss related to loans and advances and credit commitments for the year ended 31 December 2018 is a reversal of EUR 23,1 million.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

With the support of our specialist integrated into the audit team we reviewed the preparatory analyses and the processes deployed by the Group in the context of IFRS 9 implementation.

We critically examined the methodological options retained by the Group and their compliance with IFRS 9 standard and more particularly the classification criteria of customer loans and financing commitments between stages 1, 2 or 3 and the assessment of expected credit losses.

We ensured that the classification criteria of customer loans and financing commitments between stages 1, 2 or 3 were respected both at transition date and as at 31 December 2018.

Regarding impairments and expected credit losses related to customer loans and financing commitments classified in stage 1 and stage 2:

- we reviewed the governance framework and tested the related key controls implemented by the Group;
- with the support of our specialists we identified the changes into the provisioning process, including from an IT perspective, and tested the key controls implemented by the Group;
- we checked with the support of our credit risk specialists the compliance of models with the methodology notes;
- we re-performed a calculation of expected credit losses as at 1 January 2018 and as at 31 December 2018;
- we examined (i) the main parameters retained by the Group to classify the loans and advances and assess the impairment and (ii) the permanence of methods applied by the Group between transition date and 31 December 2018;
- we tested a sample of loans and advances consisting of key items and items selected on the basis of our professional judgement to form our own assessment as to whether they are classified in the appropriate stage;
- we examined the analyses prepared by the Group regarding variations of loans and advances between stages and the related provisions between transition date and 31 December 2018.

Regarding impairments and expected credit losses related to defaulted customer loans and financing commitments (stage 3), we reviewed the conclusions of the specialized committee monitoring such loans and checked, based on a sample of loans selected using our professional judgement, that such conclusions were appropriately taken into account in the assessment of the impairment. We examined in a critical manner the assumptions used by the Group to determine expected cash flows and estimated recovery from any underlying collateral.

HEDGING OF FINANCIAL INSTRUMENTS ISSUED AND VALUATION OF FINANCIAL INSTRUMENTS

DESCRIPTION

An activity of the Group consists in issuing back-to-back Notes and Warrants, which are subscribed by investors. These financial instruments are fully hedged with mirror transactions concluded with Societe Generale Paris replicating the financial instruments issued by the Group (see Notes 4.3 and 5.1).

We have considered the hedging of financial instruments issued and the valuation of financial instruments to be a key audit matter considering the financial risk which could result from inadequate hedging of the financial instruments issued by the Group.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

We tested the controls implemented by the Group in relation with the issuance of financial instruments and the conclusion of mirror transactions with Societe Generale Paris to hedge the market risks, the controls on the stock of financial instruments, as well as the controls implemented in relation with the valuation of the financial instruments.

We verified the intercompany reconciliation process between the Group and Societe Generale Paris, and the intercompany reconciliations performed as at 31 December 2018.

For a sample of financial instruments issued by the Group as at 31 December 2018, we ensured that the Group has contracted the corresponding financial instruments with Societe Generale Paris to hedge the market risks.

We performed an independent valuation of a sample of financial instruments as at 31 December 2018, which was composed of key items and other items selected randomly.

Also, we inquired about the existence of operational errors during the year and, if applicable, the related financial impact.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of *"réviseur d'entreprises agréé"* thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND OF THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors 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, the Board of Directors is responsible for assessing the Group'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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

RESPONSIBILITIES OF THE *"RÉVISEUR D'ENTREPRISES AGRÉÉ"* FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the *"réviseur d'entreprises agréé"* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF 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 part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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;
- obtain 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of Board of Directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the *"réviseur d'entreprises agréé"* to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have been appointed as *"Réviseur d'Entreprises Agréé"* for the audit of the consolidated financial statements by the Board of Directors on 13 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud | Charles Dequaire

Luxembourg, 28 June 2019

IV. CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in EUR thousand)	*Notes*	**31 December 2018**	**1 January 2018[1]**	**31 December 2017**
Cash, due from central banks	*4.1*	5 173 455	5 512 824	5 512 824
Financial assets at fair value through profit or loss	*4.2*	49 809 890	47 890 802	47 858 979
Hedging derivatives	*6.1*	4 161	14 949	14 949
Financial assets at fair value through other comprehensive income	*4.3*	3 338 542	3 378 313	
Available-for-sale financial assets	*2.2.2.4*			3 861 381
Securities at amortized cost	*4.6*	5 642 478	5 368 538	
Due from banks at amortised cost	*4.4*	10 018 941	9 276 566	9 312 411
Customer loans at amortised cost	*4.5*	25 802 754	23 191 581	28 540 409
Investments of insurance activities	*5.6.2*	479 659	498 280	
Held-to-maturity financial assets	*2.2.2.4*			51 683
Tax assets	*6.2*	19 338	15 746	12 591
Other assets	*4.8*	847 236	766 550	766 772
Investments accounted for using the equity method	*3.2.4*	71 486	108 020	108 020
Tangible and intangible fixed assets	*4.7*	69 269	86 393	86 393
Total assets		**101 277 209**	**96 108 562**	**96 126 412**

(1) The amounts have been restated following the first-time application of IFRS 9 “Financial instruments”. Impacts of the first-time adoption of IFRS 9 are disclosed in Note 2.2.2 and details on comparative date are disclosed in Note 2.3.21

The accompanying notes are an integral part of the consolidated financial statements.

As at 31 December 2018

LIABILITIES

(in EUR thousand)	Notes	31 December 2018	1 January 2018[1]	31 December 2017
Financial liabilities at fair value through profit or loss	*5.1*	49 661 210	47 774 491	47 774 491
Hedging derivatives	*6.1*	225 004	253 499	253 499
Debt securities issued	*5.4*	460 305	505 730	505 730
Due to banks	*5.2*	19 726 269	19 910 791	19 910 791
Customer deposits	*5.3*	25 868 265	22 706 274	22 706 274
Tax liabilities	*6.2*	156 606	171 067	172 787
Other liabilities	*5.5*	1 283 698	872 666	872 666
Underwriting reserves of insurance companies	*5.6*			231 563
Insurance contracts related liabilities	*5.6*	246 124	231 563	
Provisions	*5.7*	87 158	78 045	76 114
Subordinated debt	*5.10*	400 249	400 154	400 154
Total liabilities		**98 114 888**	**92 904 280**	**92 904 069**
Issued capital	*5.11*	1 389 043	1 389 043	1 389 043
Reserves and retained earnings	*5.11*	1 439 410	1 461 746	1 468 420
Net income	*5.11*	296 545		274 595
Income not yet allocated	*5.11*		274 595	
Sub-total		**3 124 998**	**3 125 384**	**3 132 058**
Unrealised or deferred capital gains and losses		37 182	76 991	88 378
Shareholders' equity, Group share	*5.11*	**3 162 180**	**3 202 375**	**3 220 436**
Non-controlling interests	*3.2.4*	141	1 907	1 907
Total equity		**3 162 321**	**3 204 282**	**3 222 343**
Total liabilities and equity		**101 277 209**	**96 108 562**	**96 126 412**

(1) The amounts have been restated following the first-time application of IFRS 9 "Financial instruments". Impacts of the first-time adoption of IFRS 9 are disclosed in Note 2.2.2 and details on comparative date are disclosed in Note 2.3.21

The accompanying notes are an integral part of the consolidated financial statements.

For the year ended 31 December 2018

2. CONSOLIDATED INCOME STATEMENT

(in EUR thousand)	*Notes*	**2018[1]**	**2017**
Interest and similar income	*7.1*	737 251	696 202
Interest and similar expense	*7.1*	(393 585)	(336 353)
Fee income	*7.2*	430 498	413 641
Fee expense	*7.2*	(178 847)	(228 617)
Net gains and losses on financial transactions		132 336	146 295
o/w net gains and losses on financial instruments at fair value through profit or loss	*7.3.1*	*132 340*	*141 585*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	*7.3.2*	*(4)*	-
o/w net gains and losses on available-for-sale financial assets	*7.5*	-	*4 710*
Net income from insurance activities	*5.6.6*	35 138	
Income from other activities	*7.7*	14 765	178 042
Expenses from other activities	*7.7*	(9 897)	(76 910)
Net banking income		**767 659**	**792 300**
Personnel expenses	*7.8*	(214 866)	(208 514)
Other operating expenses	*7.9*	(187 681)	(194 470)
Amortisation, depreciation and impairment of tangible and intangible fixed assets	*4.7*	(18 233)	(15 126)
Gross operating income		**346 879**	**374 190**
Cost of risk	*7.6*	(7 506)	16 010
Operating income		**339 373**	**390 200**
Net income from investments accounted for using the equity method	*3.2.4*	10 303	9 384
Net income/expense from other assets		(638)	(389)
Value adjustments on goodwill	*3.2.3.2*	-	(50 528)
Earnings before tax		**349 038**	**348 667**
Income tax	*7.10*	(52 481)	(74 179)
Consolidated Net Income		**296 557**	**274 488**
Net income, Group share		296 545	274 595
Net income, non-controlling interests	*3.2.4*	**12**	**(107)**

(1) The presentation of the Group's consolidated income statement is modified from 2018 with the transition to IFRS 9:
- income and expenses from insurance activities are grouped on a specific line item within the "Net income from insurance activity" (see Note 2.3.20);
- the line item "Cost of risk" is now exclusively dedicated to credit risk (see Note 2.3.3.10.2);
- 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 2.3.3.4.3)

Please also refer to details on comparative data in Note 2.3.21.

The accompanying notes are an integral part of the consolidated financial statements.

For the year ended 31 December 2018

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in EUR thousand)	2018	2017
Consolidated Net income	**296 557**	**274 488**
Unrealised or deferred gains and losses that may be reclassified subsequently into income statement	**(42 901)**	**21 161**
Translation differences	(5 883)	11 050
Revaluation of available-for-sale financial assets*	(14 429)	(15 414)
Revaluation of debt instruments at fair value through other comprehensive income	(30 189)	
Revaluation of hedging derivatives	(3 862)	29 183
Unrealised gains and losses of entities accounted for using the equity method	(1 960)	(1 006)
Tax related	13 422	(2 652)
Unrealised or deferred gains and losses that will not be reclassified subsequently into income	**3 092**	**1 693**
Actuarial gains and losses on defined benefits plans	6 719	2 275
Unrealised gains and losses of entities accounted for using the equity method	13	-
Tax related	(3 640)	(582)
Total unrealised or deferred gains and losses	**(39 809)**	**22 854**
Net income and unrealised or deferred gains and losses	**256 748**	**297 342**
o/w Group share	*256 736*	*297 449*
o/w non-controlling interests	*12*	*(107)*

* *Unrealized gains and losses on available-for-sale financial assets are related exclusively to insurance activities for 2018 financial year (Note 5.6.6).*

The accompanying notes are an integral part of the consolidated financial statements.

For the year ended 31 December 2018

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTE 5

	Capital and associated reserves				
(in EUR thousand)	Subscribed capital	Additional paid capital	Elimination of treasury shares	Other equity instruments	Total
Shareholders' equity at 1 January 2017	**1 389 043**	**2 817**	**-**	**-**	**1 391 860**
Appropriation of net income	-	-	-	-	-
Increase in common stock	-	-	-	-	-
Elimination of treasury stock	-	-	-	-	-
Issuance / Redemption of equity instruments	-	-	-	-	-
Equity component of share-based payment plans	-	-	-	-	-
2017 dividends paid (see Note 8.6)	-	-	-	-	-
Effect of changes of the consolidation scope	-	-	-	-	-
Sub-total of changes linked to relations with shareholders	**-**	**-**	**-**	**-**	**-**
Unrealised or deferred gains and losses	-	-	-	-	-
Other changes	-	-	-	-	-
Change in equity of associates and joint ventures accounted for using the equity method	-	-	-	-	-
2017 Net income	-	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**	**-**
Shareholders' equity at 31 December 2017	**1 389 043**	**2 817**	**-**	**-**	**1 391 860**
IFRS 9 First time application (see Notes 2.2.2.4 and 2.2.5)	-	-	-	-	-
Shareholders' equity at 1 January 2018	**1 389 043**	**2 817**	**-**	**-**	**1 391 860**
Appropriation of net income	-	-	-	-	-
Increase in common stock	-	-	-	-	-
Elimination of treasury stock	-	-	-	-	-
Issuance / Redemption of equity instruments	-	-	-	-	-
Equity component of share-based payment plans	-	-	-	-	-
2018 dividends paid (see Note 8.6)	-	-	-	-	-
Effect of changes of the consolidation scope	-	-	-	-	-
Sub-total of changes linked to relations with shareholders	**-**	**-**	**-**	**-**	**-**
Unrealised or deferred gains and losses	-	-	-	-	-
2018 Net income	-	-	-	-	-
Change in equity of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Other changes	-	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**	**-**
Shareholders' equity at 31 December 2018	**1 389 043**	**2 817**	**-**	**-**	**1 391 860**

The accompanying notes are an integral part of the consolidated financial statements.

Reserves and Retained earnings	Net income, Group share	Unrealised or deferred gains and losses for the year ended			Shareholders' equity, Group share	Non-controlling interests	Total consolidated shareholders' equity
		that will be reclassified subsequently into income	that will not be reclassified subsequently into income	Total			
1 483 975	**281 007**	**65 524**	**-**	**65 524**	**3 222 366**	**1 980**	**3 224 346**
281 007	(281 007)	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	--	-	-	-	-	-	**-**
(310 000)	-	-	-	-	(310 000)	-	**(310 000)**
-	-	-	-	-	-	-	**-**
(28 993)	***(281 007)***	**-**	**-**	**-**	***(310 000)***	**-**	***(310 000)***
-	-	21 161	1 693	22 854	22 854	-	**22 854**
10 621	-	-	-	-	10 621	34	**10 655**
-	-	-	-	-	-	-	**-**
-	274 595	-	-	-	274 595	(107)	**274 488**
10 621	***274 595***	***21 161***	***1 693***	***22 854***	***308 070***	***(73)***	***307 997***
1 465 603	***274 595***	***86 685***	***1 693***	***88 378***	***3 220 436***	***1 907***	***3 222 343***
(6 674)	-	(11 387)	-	(11 387)	(18 061)	-	**(18 061)**
1 458 929	**274 595**	**75 298**	**1 693**	**76 991**	**3 202 375**	**1 907**	**3 204 282**
274 595	(274 595)	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
(298 000)	-	-	-	-	(298 000)	-	**(298 000)**
-	-	-	-	-	-	-	**-**
(23 405)	***(274 595)***	**-**	**-**	**-**	***(298 000)***	**-**	***(298 000)***
-	-	(42 901)	3 092	(39 809)	(39 809)	-	**(39 809)**
-	296 545	-	-	-	296 545	12	**296 557**
-	-	-	-	-	-	-	**-**
1 069	-	-	-	-	1 069	(1 778)	**(709)**
1 069	***296 545***	***(42 901)***	***3 092***	***(39 809)***	***257 805***	***(1 766)***	***256 039***
1 436 593	**296 545**	**32 397**	**4 785**	**37 182**	**3 162 180**	**141**	**3 162 321**

For the year ended 31 December 2018

5. CONSOLIDATED STATEMENT OF CASH FLOWS

(in EUR thousand)	2018	2017
Consolidated Net income for the year (I)	**296 557**	**274 488**
Amortisation expense on tangible fixed assets and intangible assets (including operational leasing)	18 233	(6 002)
Net allocation to provision and impairment	(11 942)	4 547
Net income/loss from investments accounted for using the equity method	(10 303)	(9 384)
Change in deferred taxes	11 870	389
Net income from the sale of long-term assets and subsidiaries	(4)	(11)
Change in deferred income	920	4 784
Change in prepaid expenses	11 587	10 488
Change in accrued income	(14 536)	20 350
Change in accrued expenses	859 115	(993)
Other changes	(285 637)	145 667
Non-cash items included in net income and other adjustments not including income on financial instruments at fair value through Profit or Loss (II)	**579 303**	**169 835**
Income on financial instruments at fair value through profit or loss	62 662	(144 676)
Interbank transactions	(1 710 140)	5 136 682
Customers transactions	1 017 309	34 326
Transactions related to other financial assets and liabilities	(521 770)	(4 935 367)
Transactions related to other non-financial assets and liabilities	141 622	278 127
Net increase/decrease in cash related to operating assets and liabilities (III)	**(1 010 317)**	**369 092**
NET CASH INFLOW (OUTFLOW) RELATED TO OPERATING ACTIVITIES (A) = (I) + (II) + (III)	**(134 457)**	**813 415**
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long-term investments	(118 435)	154 697
Net cash inflow (outflow) related to tangible and intangible fixed assets	800	(11 723)
NET CASH INFLOW (OUTFLOW) RELATED TO INVESTMENT ACTIVITIES (B)	**(117 635)**	**142 974**
Cash flow from/to shareholders (see Note 8.6)	(298 000)	(310 000)
NET CASH INFLOW (OUTFLOW) RELATED TO FINANCING ACTIVITIES (C)	**(298 000)**	**(310 000)**
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS (A) + (B) + (C)	**(550 092)**	**646 389**
Current accounts with banks (see Note 4.1)	5 512 824	4 950 059
Demand deposits and current accounts with banks (see Notes 4.4, 5.2 and 5.6.2)	109 531	25 907
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR	**5 622 355**	**4 975 966**
Current accounts with banks (see Note 4.1)	5 173 455	5 512 824
Demand deposits and current accounts with banks (see Notes 4.4, 5.2 and 5.6.2)	(101 192)	109 531
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**5 072 263**	**5 622 355**
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS	**(550 092)**	**646 389**

The accompanying notes are an integral part of the consolidated financial statements.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 CORPORATE INFORMATION

Societe Generale Bank & Trust S.A. (the "Group" or the "Bank") was formed as Ingéfilux on April 11, 1956. Its name was changed to Luxbanque, Societe Luxembourgeoise de Banque S.A. on May 7, 1981. In 1995, the Extraordinary Shareholders' Meeting decided to change the Bank's name to Societe Generale Bank & Trust S.A., with effect as of June 1, 1995. The Bank is governed by Luxembourg banking regulations and in particular the Law of April 5, 1993, as amended, on the financial sector. The Bank was incorporated as a limited liability company ("Société Anonyme") for an unlimited duration.

The Group provides asset management, investment advisory, financial engineering and depository services, in particular for collective investment undertakings. It is also active on the financial markets and with institutional clients, with a high volume of proprietary cash management transactions and financing operations carried out on behalf of large corporations.

As at December 31, 2018, the Bank's capital is wholly-owned by Soge participations, a Société Anonyme incorporated under French law.

The Bank and other entities of the Group are included in Societe Generale Group's consolidated financial statements. The consolidated financial statements of Societe Generale may be obtained from its registered office at Societe Generale, 29 Boulevard Haussmann, 75009 Paris, France.

Societe Generale Group is a public limited company (Société Anonyme) established under French law and headquartered in Paris, that prepares and published IFRS consolidated financial statements since 2005.

In 2017, the Bank launched two representation offices in Italy and Spain. In 2018, the Bank launched a representation office in Germany.

These consolidated financial statements were approved by the Board of Directors of the Bank on 24 April 2019.

NOTE 2 SIGNIFICANT ACCOUNTING PRINCIPLES

Note 2.1. Basis of preparation

The consolidated financial statements have been prepared on an historical cost basis except for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value.

The carrying values of assets and liabilities that are designated as hedged items (fair value hedges) are adjusted to record changes in the fair values attributable to risks that are being hedged in effective hedge relationships. These assets and liabilities would otherwise be carried at amortized cost.

The consolidation financial statements are presented in Euros ("EUR") and all values are rounded to the nearest thousand (EUR 000), except when otherwise indicated.

The most significant change made to the accounting principles is the application of IFRS 9 "Financial Instruments" as from 1 January 2018. The presentation of the consolidated financial statements changes from the financial year 2018 further to the application of IFRS 9 standard "Financial instruments", except for insurance activities. The transitional provisions of this standard, that the Group chose to apply, allow avoiding a restatement of comparative periods. Consequently, comparative balances related to the 2017 financial year are still established according to the provisions of IAS 39 as adopted by the European Union (please also refer to Note 2.3.3.1 for the previously applicable accounting principles).

2.1.1. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards ("IFRS") as adopted by the European Union and endorsed as at 31 December 2018 and with the going concern principle.

In accordance with the transitional measures provided by IFRS 9, the Group has elected to recognize hedging transactions under IAS 39 as adopted by the European Union, including measures related to macro-fair value hedge accounting (IAS 39 "carve-out").

In relation to the insurance activity of its component SG Re, the Group has taken the exemption authorized under IFRS 4 not to discount the technical provisions.

Disclosures provided in the Notes to the consolidated financial statements are focused on information that is both relevant and material to the financial statements of the Group, its activities and the circumstances in which it conducted its operations over the period.

The Group presents its consolidated statement of financial position in order of liquidity.

2.1.2. USE OF ESTIMATES AND JUDGMENT

The preparation of the consolidated financial statements requires the Board of Directors to make judgments, estimates and assumptions that affect the reported figures recorded in the consolidated income statement, on the valuation of assets and liabilities in the consolidated statement of financial position, and on information disclosed in the Notes to the consolidated financial statements.

In order to make these assumptions and estimates, the Board of Directors 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.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgment and/or estimates are listed below with respect to judgments/estimates involved.

In the process of applying the Group's accounting policies, the Board of Directors has made the following judgements and estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- fair value in the consolidated statement of financial position 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 or assets at fair value through other comprehensive income or available-for-sale financial assets for the 2017 financial year (see Notes 2.3.3.1.8, 2.3.3.4, 2.3.3.5, 2.3.3.6 and Notes 4.2, 4.3, 5.1, 6.1);
- classification of financial instruments (see Notes 2.3.3.1.1, 2.3.3.2 and Notes 4.2,4.3, 4.4, 4.5 and 4.6);
- 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 (Loans and receivables, Financial assets at fair value through other comprehensive income, Securities at amortised cost) (see Notes 2.3.3.6., 2.3.3.8., 2.3.3.9. and 2.3.10.);
- provisions (in particular, provisions for disputes in a complex legal environment), including Underwriting reserves of insurance companies (see Notes 2.3.7., 2.3.20.2.1, 5.6. and 8.3.);
- the assessment of control of the Group over an entity when updating the consolidation scope, mainly when structured entities are concerned (see Note 3);
- the entities excluded from the consolidation scope (see Note 3.2.1.3);
- the amount of deferred tax assets recognized in the consolidated statement of financial position (see Note 2.3.8.2. and Note 6.2.);
- assumptions used for the supplemental defined benefit retirement plan (see Note 5.9).

For the application of IFRS 9, the Group has expanded the use of estimates and judgement in analyzing 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.

Brexit and its impact on financial markets and the economic environment could have an adverse impact on SG 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 still 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. Latest decision from the European Union stated that the Brexit process should not be extended again beyond 31 October 2019.
In the context of the Brexit, the Group is currently filing an additional debt issuance program (the "DIIP UK") dedicated to the issuance of notes distributed in the United Kingdom.

2.1.3. PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is Euro.

The statements of financial position of consolidated companies reporting in foreign currencies are translated into Euros at the official exchange rates prevailing at the closing date. The statements of income of these companies are translated into Euros at the monthly average exchange rates.

The figures presented in the consolidated financial statements and in the Notes are expressed in EUR thousands, unless otherwise specified.

Note 2.2. Changes in accounting policies

2.2.1. NEW ACCOUNTING STANDARDS APPLIED BY THE GROUP AS AT 1 JANUARY 2018

New accounting standards applied by the Group as at 1 January 2018 are detailed in the following paragraphs refered below:

- IFRS 9 "Financial Instruments" (see Notes 2.2.2 and 2.3.3);
- IFRS 15 "Revenue from Contracts with Customers" and subsequent clarifications (Note 2.2.1.2.);
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (Note 2.2.1.3);
- Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (see paragraph 2.2.2.2);
- Annual improvements (2014-2016) (Note 2.2.1.4);
- Amendments to IAS 40 "Transfers of Investment Property" (Note 2.2.1.4);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (Note 2.2.1.4);
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (see Note 2.2.2.1).

2.2.1.1. IFRS 9 "FINANCIAL INSTRUMENTS", SUBSEQUENT AMENDMENTS AND AMENDMENTS TO IFRS 4 RELATED TO THE APPLICATION OF IFRS 9 BY INSURANCE COMPANIES

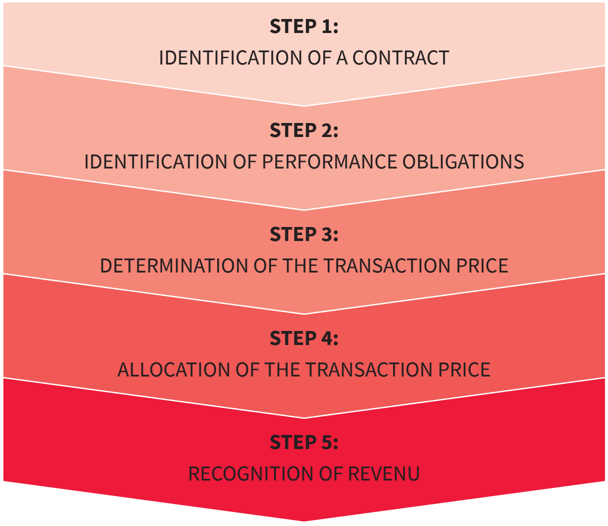
The impacts of the first-time application of IFRS 9 are presented in Note 2.2.2 "First-time application of IFRS 9".

2.2.1.2. 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:



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.

2.2.1.3. AMENDMENTS TO IFRS 2 "CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS"

Issued by IASB on 20 June 2016

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments.

The Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction.

The impact of the amendments of IFRS 2 standard is not material for the Group.

2.2.1.4. OTHER AMENDMENTS

The application of the following amendments had no significant impact on the Group's net income and equity.

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.

Amendments to IAS 40 "Transfers of Investment Property"

Issued by IASB on 8 December 2016

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"

Issued by IASB on 8 December 2016

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 nonmonetary 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.

2.2.2. FIRST TIME 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 interim condensed consolidated financial statements have been supplemented, in accordance with the amendments to IFRS 7 at the time IFRS 9 was adopted.

In accordance with the recommendations issued 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", published by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018.

2.2.2.1. ACCOUNTING PRINCIPLES OF IFRS 9

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND 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 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 that the entity elects to measure using the fair value option through profit or loss. In that 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). 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 classifying and measuring financial instruments are detailed in Note 2.3.3.

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/loss allowances are recorded at initial recognition of the financial assets rather than at objective evidence of impairment (trigger event).

The scope of application and accounting principles governing the impairment and provisions for credit risk are detailed in the accounting policies (Note 2.3.3.10).

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 the Notes to the consolidated financial statements pursuant to IFRS 7 (Note 7.4).

2.2.2.2. TRANSITION REQUIREMENTS

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 Group, of not restating comparative figures for previous financial years.

Consequently, for financial instruments, the data related 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.

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 first-time adoption reserve at that date.

INSURANCE ACTIVITY

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 5.6).

The insurance subsidiaries of the Group, SG Ré and SG LIB respect the criteria laid out in IFRS 4 §20B, namely:

- the subsidiaries do not apply IFRS 9 yet;
- the subsidiaries' activities are predominantly (over 90%) connected with insurance, as described in IFRS 4 §20D, taking into account the liabilities linked to the (re)insurance contracts.

A separate line was added to the income statement under Net Banking Income for clarification purposes. The table below presents the 2018 Net banking income prior to this reclassification which is solely related to SG Ré.

(in EUR thousand)	**2018 before reclassification**	**2017**
Interest and similar income	748 769	696 202
Interest and similar expense	(399 608)	(336 353)
Fee income	435 673	413 641
Fee expense	(216 337)	(228 617)
Net gains and losses from financial transactions	131 005	146 295
o/w net gains and losses on financial instruments at fair value through profit or loss	*130 487*	*141 585*
o/w net gains and losses on available-for-sale financial assets	*518*	*4 710*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	-	
o/w net gains and losses from the derecognition of financial assets at amortised cost	-	
Income from other activities	137 839	178 042
Expenses from other activities	(69 682)	(76 910)
Net banking income	**767 659**	**792 300**

2.2.2.3. IMPACT ON IMPAIRMENT AND PROVISIONS

ADJUSTMENT OF DEPRECIATION FOR CREDIT RISK AND PROVISIONS AT FIRST TIME APPLICATION

The following table presents the adjustments recorded on depreciation for credit risk and provisions between the situation as of 31 December 2017 established in compliance with IAS 39 and the situation as of 1 January 2018, established in compliance with IFRS 9 standard.

			Balances as at 1 January 2018 IFRS 9			
(in EUR thousand)	Balances as at 31 December 2017 IAS 39 / IAS 37	Adjustment of credit risk impairment / provisions	Stage 1	Stage 2	Stage 3	Total
Impairment of financial assets	37 444	21 152	9 566	11 586	37 444	58 596
Provisions for credit risk on commitments	-	1 931	736	1 195	-	1 931
Total impairments and provisions	**37 444**	**23 083**	**10 302**	**12 781**	**37 444**	**60 527**

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 considering the following:

- definition of default remained unchanged between IAS 39 and IFRS 9 as applied by the Group;
- approach of the Group related to the calculation of potential losses was already prospective.

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.

However due to the expected credit loss model on stage 1 and stage 2 exposures, impairment at one year or at maturity has been recorded:

- outstanding on counterparties with a weakened financial situation since the initial recognition of those financial assets but without an objective evidence of impairment identified individually (watch list outstanding) have been included in the stage 2 category with expected credit loss impairment calculated at maturity;
- outstanding on counterparties of economic sectors considered as in crisis following loss triggering events or outstanding of geographical sectors or of countries on which a deterioration of the credit risk have 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.

Consequently, the increase of depreciation for credit risk / provisions through the transition to IFRS 9 is explained by the booking of impairments and provisions newly calculated on non defaulted exposures under stage 1 and stage 2 for an amount of EUR 23 083 thousand.

BREAKDOWN OF IMPAIRMENT AND PROVISION BY ITEM OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Balances as at 31 December 2017 IAS 39 / IAS 37				Balances as at 1 January 2018 IFRS 9			
(in EUR thousand)	Specific assessment	Total	**Reclassification effects**	**Adjustment of credit risk impairment / provisions IFRS9**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Impairment of financial assets								
Customer loans at amortised cost	36 848	36 848	-	20 086	8 723	11 363	36 848	**56 934**
Due from banks at amortised cost	-	-	-	697	696	1	-	**697**
Securities at amortised cost	-	-	-	-	-	-	-	**-**
Held-to-maturity financial assets	-	-	-	-				
Available-for-sale assets	596	596	(596)	-				
Financial assets at fair value through other comprehensive income		-	596	147	147	-	596	**743**
Other assets[(1)]	-	-	-	222	-	222	-	**222**
Provisions for credit risk on commitments	**-**	**-**	**-**	**1 931**	**736**	**1 195**	**-**	**1 931**
Total impairments and provisions	**37 444**	**37 444**	**-**	**23 083**	**10 302**	**12 781**	**37 444**	**60 527**

The net impact on reserves and retained earnings related to IFRS 9 first-time application represents EUR (6 674) thousand, of which impact of credit related impairment and provisions for EUR (23 083) thousand, reclassification effects from fair value through OCI for EUR 15 402 thousand and related deferred tax for EUR 1 007 thousand.

2.2.2.4. RECONCILIATION OF ASSETS BETWEEN IAS 39 AND IFRS 9

To determine the classification under IFRS 9 of financial assets recognised on statement of financial position as at 1 January 2018, 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 portfolios 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 guarantees and loan commitments.

The carrying amount of investments accounted for using the equity method is not actually impacted by the application of IFRS 9, as the only concerned underlying entity is Sogelife S.A., an insurance company which is not submitted to IFRS 9.

(1) The amount is composed of expected credit losses on commissions to receive from customers. Please see also Note 4.8

RECLASSIFICATIONS

The following tables presented in the next page reconcile the asset side of the consolidated statement of financial position as of 31 December 2017, prepared in compliance with IAS 39, and the asset side of the consolidated statement of financial position as of 1 January 2018, prepared in compliance with IFRS 9.

		Reclassification		
(in EUR thousand)	**Balances at 31 December 2017 IAS 39**	of investments of insurance activities	of Available-for-sale financial assets	of Held-to-maturity financial assets
		A	**B**	**C**
Cash and balances with central banks	5 512 824	-	-	-
Financial assets at fair value through profit or loss	47 858 979	-	19 936	-
Hedging derivatives	14 949	-	-	-
Financial assets at fair value through other comprehensive income		-	3 378 313	-
Available-for-sale financial assets	3 861 381	(463 132)	(3 398 249)	-
Securities at amortized cost		-	-	51 683
Loan and advances to credit institutions at amortized cost	9 312 411	(35 148)	-	-
Loan and advances to customers at amortized cost	28 540 409	-	-	-
Net investments from insurance activities		498 280	-	-
Held-to-maturity financial assets	51 683	-	-	(51 683)
Tax assets	12 591	-	-	-
Other assets	766 772	-	-	-
Investments accounted for using the equity method	108 020	-	-	-
Property and equipment and other intangible assets	86 393	-	-	-
Total	**96 126 412**	**-**	**-**	**-**

The accompanying notes are an integral part of the consolidated financial statements.

DESCRIPTION OF RECLASSIFICATIONS

GROUPING OF INVESTMENT OF INSURANCE ACTIVITIES (COLUMN A)

Following the decision by the Group to defer the application of IFRS 9 for its insurance activity subsidiaries, all financial assets and real-estate investments held by those entities have been grouped in a specific line of the consolidated statement of financial position *(Investment of insurance activities)* in which financial assets remain recorded in compliance with IAS 39.

RECLASSIFICATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS 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 I*nvestment 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 investment of insurance activities, available-for-sale financial assets included debt securities (bonds and equivalent securities) for EUR 3 378 437 thousand and equity instruments (shares and equivalent securities) for EUR 19 812 thousand:

- debt securities are mainly held as part of the cash management activities for the Group'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 3 378 313 thousand in compliance with their business model which implies regular sales of assets from liquidity buffer portfolios. A residual amount of EUR 124 thousand of Debt securities related to fair value adjustment was reclassified to *Financial assets at fair value through profit or loss*;
- equity instruments have been classified as F*inancial assets at fair value through profit or loss* for EUR 19 812 thousand. The Group has not used the option to measure shares at fair value through other comprehensive income without later reclassification through profit or loss as at 01/01/2018.

(1) Impairment for credit risk on financial assets at fair value through other comprehensive income are recognised in OCI.

			Adjustments		
Reclassification of non-SPPI loans and advances	Other	Total after reclassifications	Impairment for credit risk	Change in deferred tax	**Balances at 1 January 2018 IFRS 9**
D	**E**		**G**	**H**	
-	-	5 512 824	-	-	5 512 824
-	11 887	47 890 802	-	-	47 890 802
-	-	14 949	-	-	14 949
-	-	3 378 313	-(1)	-	3 378 313
-	-	-	-	-	-
-	5 316 855	5 368 538	-	-	5 368 538
-	-	9 277 263	(697)	-	9 276 566
-	(5 328 742)	23 211 667	(20 086)	-	23 191 581
-	-	498 280	-	-	498 280
-	-	-	-	-	-
-	-	12 591	-	3 155	15 746
-	-	766 772	(222)	-	766 550
-	-	108 020	-	-	108 020
-	-	86 393	-	-	86 393
-	**-**	**96 126 412**	**(21 005)**	**3 155**	**96 108 562**

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 amortized cost* for EUR 51 683 thousand.

OTHER RECLASSIFICATIONS (COLUMN E)

Some loans to customers for an amount of EUR 11 887 thousand have been identified as being held by the Group with the intention to be Held for trading. Such loans have therefore been reclassified as *Financial assets at fair value through profit or loss* as part of the trading portfolio of the Group. As the reclassification was made based on the business model and not the cash flow characteristics of the loans, the reclassification has been disclosed under "Other reclassifications".

SG SCF bonds, considered as loans under IAS 39, have been reclassified as securities at amortized cost for

EUR 5 316 855 thousand in consideration of their Held to Collect business model and compliance with SPPI criteria.

Following adoption of IFRS 9 standard, the financial assets originally measured at fair value through profit or loss using the fair value option were analysed. It was established that EUR 70 043 thousand related to trading assets should be reclassified to trading portfolio based on their nature. EUR 44 065 712 thousand related to the SG Issuer assets issued which had to be reclassified to financial assets measured mandatorily at fair value through profit or loss as its business model is Held to Collect while assets are not SPPI.

DESCRIPTION OF VALUE ADJUSTMENTS

INCREASE IN DEPRECIATION FOR CREDIT RISK (COLUMN G)

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 21 005 thousand). This adjustment concerns mainly loans to customers. The impairment for credit risk impact on other assets amounts EUR 222 thousand.

The analysis of those adjustments is presented in Note 2.2.2.3 "Impact on depreciation and provisions for credit risk".

TAX EFFECTS (COLUMN H)

The tax effects of those adjustments changed the amounts of deferred tax assets and liabilities in the Group consolidated statement of financial position.

2.2.2.5. RECONCILIATION OF LIABILITIES BETWEEN IAS 39 AND IFRS 9

The following table reconciles the liability side of the statement of financial position as at 31 December 2017 prepared in compliance with IAS 39 and the liability side of the statement of financial position as at 1 January 2018 prepared in compliance with IFRS 9.

		Reclassification
(in EUR thousand)	**Balances at 31 December 2017 IAS 39**	of insurance liabilities
		A
Financial liabilities at fair value through profit or loss	47 774 491	-
Hedging derivatives	253 499	-
Debt securities issued	505 730	-
Amounts due to credit institutions	19 910 791	-
Amounts due to customers	22 706 274	-
Tax liabilities	172 787	-
Other liabilities	872 666	-
Underwriting reserves of insurance companies	231 563	(231 563)
Liabilities from insurance activities		231 563
Provisions	76 114	-
Subordinated debt	400 154	-
Total liabilities	**92 904 069**	**-**
Shareholders' Equity (Group share)		
Issued Capital	**1 389 043**	**-**
Treasury shares	-	-
Reserves and retained earnings	1 468 420	-
Other reserves	-	-
Net income for the year	274 595	-
Sub-total	**3 132 058**	**-**
Gains and losses not recognised in consolidated income statement	88 378	-
Sub-total equity, Group share	**3 220 436**	**-**
Non controlling interest	1 907	-
Total equity	**3 222 343**	**-**
Total liabilities and equity	**96 126 412**	**-**

DESCRIPTION OF RECLASSIFICATIONS

GROUPING OF LIABILITIES RELATED TO INSURANCE CONTRACTS (COLUMN A)

Following the decision by the Group to defer the application of IFRS 9 for its insurance activity subsidiaries (referring to SG Ré, only insurance subsidiary with financial instruments), liabilities related to insurance contracts (underwriting reserves of insurance companies and derivatives instruments) have been grouped in a specific line of the consolidated statement of financial position *(Liabilities related to insurance activities contracts)*.

Considering the limited impact of the liabilities related to insurance contracts on the Group total liabilities and the nature of such liabilities (usually basic financial instruments with low speculative volatility), the assessment of own credit risk on such instruments resulted in non-material impact.

DESCRIPTION OF VALUE ADJUSTMENTS

LIMITED INCREASE IN PROVISIONS FOR CREDIT RISK (COLUMN C)

The application of the new accounting model for credit risk causes an adjustment of provisions on guarantees and loan commitments for an amount of EUR 1 931 thousand in addition to an adjustment of impairment on the assets side.

Total after reclassifications	Adjustments: Reclassification effects	Adjustments: Impairment for credit risk	Adjustments: Change in deferred tax	**Balances at 1 January 2018 IFRS 9**
	B	**C**	**D**	
47 774 491	-	-	-	47 774 491
253 499	-	-	-	253 499
505 730	-	-	-	505 730
19 910 791	-	-	-	19 910 791
22 706 274	-	-	-	22 706 274
172 787	-	-	(1 720)	171 067
872 666	-	-	-	872 666
-	-	-	-	-
231 563	-	-	-	231 563
76 114	-	1 931	-	78 045
400 154	-	-	-	400 154
92 904 069	**-**	**1 931**	**(1 720)**	**92 904 280**
1 389 043	**-**	**-**	**-**	**1 389 043**
-	-	-	-	-
1 468 420	15 402	(23 083)	1 007	1 461 746
-	-	-	-	-
274 595	-	-	-	274 595
3 132 058	**15 402**	**(23 083)**	**1 007**	**3 125 384**
88 378	(15 402)	147	3 868	76 991
3 220 436	**-**	**(22 936)**	**4 875**	**3 202 375**
1 907	-	-	-	1 907
3 222 343	**-**	**(22 936)**	**4 875**	**3 204 282**
96 126 412	**-**	**(21 005)**	**3 155**	**96 108 562**

The analysis of those adjustments is presented in the Note 2.2.2.3 “Impact on impairment and provisions”.

TAX EFFECTS (COLUMN D)

The tax effects of those adjustments changed the amounts of deferred tax assets and liabilities in the Group consolidated statement of financial position.

EQUITY (COLUMNS B, C AND D)

The value adjustments recorded as of 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 for EUR (23 083) thousand.

Moreover, revaluation reserve on former Available-for-Sale assets equity instruments reclassified as Financial instruments at Fair Value through Profit or Loss have been transferred from Unrealised or deferred capital gains and losses to Reserves and retained earnings for EUR 15 402 thousand.

Finally, there are increases in depreciation and provisions for credit risk: EUR 1 931 thousand for off-balance sheet commitments, and EUR 147 thousand for financial assets at fair value through other comprehensive income (on top of the EUR 596 thousand already recognised as part of the fair value for Stage 3 exposures under IAS 39).

2.2.3. ACCOUNTING STANDARDS, AMENDMENTS OR INTERPRETATIONS TO BE APPLIED BY THE GROUP IN THE FUTURE

IASB publishes 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" – IFRIC 23 "Uncertainty over Income Tax Treatments" – Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" – Annual improvements to IFRSs (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"

2.2.3.1. PREPARATION FOR THE FIRST APPLICATION OF IFRS 16 "LEASES"

This new standard will supersede the existing standard, IAS 17 and modify accounting requirements for leases, and 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, lessee will be required to recognise a right-of-use asset 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 standard concerns 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 will use this optional exemption. The Group, as lessee, currently records its leases as operating leases and recognises lease payments as income according to the straight-line method over the term of the lease, in compliance with IAS 17.

The annual lease payments totalled EUR thousand 21 411 as at 31 December 2018, compared to EUR thousand 20 572 (see Note 7.9.1) as at 31 December 2017. Most lease payments concern property leases concluded for the rental of office buildings.

The other lease payments concern mostly leasing of IT equipment and vehicle leasing used for real estate purposes.

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). Considering this guidline, the Group decided to apply a threshold of EUR 5,000.

DISTINGUISHING BETWEEN LEASE CONTRACTS AND SERVICE CONTRACTS

IFRS 16 includes new requirements to distinguish a lease contract from a service contract.

In the financial statements of lessees, the standard will no longer separate operating leases from finance-leases.

However, contracts must be analysed to determine whether they meet the definition of a lease contract and to separate, if applicable, each lease component from non-lease components (or services).

	Income statement	Fixed assets	Liabilities	Off balance sheet rights and obligations
IAS 17	Lease payments in Other operating expenses	-	-	
IFRS 16	Interest expense in NBI + Amortisation expense			-

A contract is a lease or contains a lease component if the contract conveys the right to control the use of an identified asset for a given 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 lessee is not able to separate lease components within the same contract from non-lease components, the contract will be accounted for as a single lease component.

ACCOUNTING TREATMENT OF LEASE CONTRACTS FOR THE LESSEES

Recognition of a lessee's lease liabilities

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 statement of financial position. 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 statement of financial position.

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.

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.

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 statement of financial position, 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 are presented in the lessee's statement of financial position under the same heading as other properties of the same nature held in full ownership. In the income statement, depreciation and amortisation of rights of use are presented with the amortisation, depreciation and impairment of 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 terms of governance, the Group integrated in the development of the calculation tool improvements of the internal controls already existing on the contract database to ensure data quality and completeness. Reconciliation and consistency controls between contract database and accounting bases were implemented for half-year closing.

In 2018, SG Group launched a first calculation at consolidated level integrating calculations for SGBT Group as well on basis of the half-year closing as of 30 June 2018. The objective was to assess the efficiency of calculations and potential missing variables with the target to complete compliance with the standard as of 31 December 2018. Further to the first assessment, additional variables were integrated in the calculation of the right-of-use during the second semester of 2018 and internal controls on the contract database were refined accordingly.

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 statement of financial position 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 MEUR 134.

2.2.3.2. IFRIC 23 "UNCERTAINTY OVER INCOME TAX TREATMENTS"

Issued by IASB on 7 June 2017
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.

2.2.3.3. 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.

The Group does not expect any material impact from these amendments.

2.2.3.4. 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".

The Group does not expect any material impact from these amendments.

2.2.3.5. AMENDMENTS TO IAS 19 "PLAN AMENDMENTS, CURTAILMENT OR SETTLEMENT"

Published 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 assumptions from this remeasurement to determine past service cost and net interest.

The Group does not expect any material impact from these amendments.

2.2.3.6. AMENDMENTS TO IFRS 3 "BUSINESS COMBINATIONS"

Published 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.

The Group does not expect any material impact from these amendments.

2.2.3.7. AMENDMENTS TO IAS 1 AND IAS 8 "DEFINITION OF MATERIAL"

Published 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 by the preparers of financial statements, particularly when selecting the information to be presented in the Notes.

2.2.3.8. IFRS 17 "INSURANCE CONTRACTS"

Issued by IASB on 18 May 2017

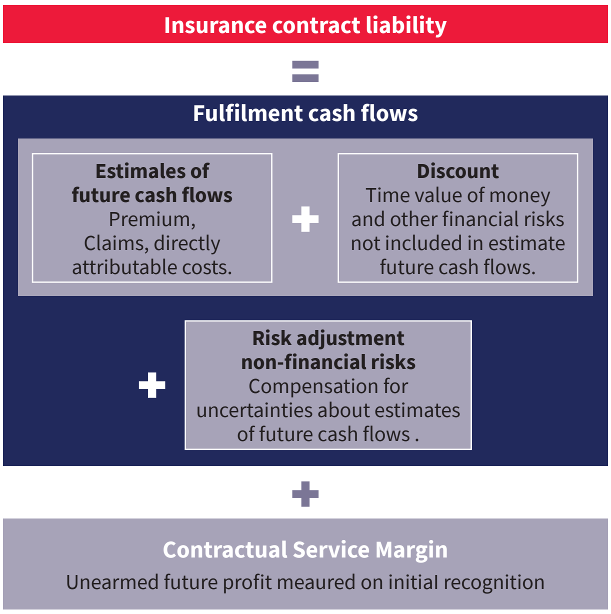
This new standard will replace IFRS 4 "Insurance Contracts" that was issued in 2004 and which currently allows entities to use national requirements for the accounting of insurance contracts.

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 consolidated statement of financial position will be replaced by a current value measurement of insurance contracts.

The general model provided for the measurement of insurance contracts in the consolidated statement of financial position 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 2.3. Summary of significant accounting policies

2.3.1. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

2.3.1.1. FOREIGN CURRENCY TRANSLATION

The consolidated statement of financial position items of consolidated companies reporting in foreign currencies are translated into Euros at the official exchange rates prevailing at the closing date. Consolidated 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 recognized under *Unrealized or deferred gains and losses – Translation differences* in the consolidated statement of comprehensive income. 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.

On disposal of a foreign entity, such exchange differences are recognized in the consolidated income statement as part of the gain or loss upon disposal. Initial consolidation differences and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

2.3.1.2. FOREIGN CURRENCY TRANSACTIONS

At the consolidated statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Euro at the prevailing spot exchange rate. Realized or unrealized foreign exchange losses or gains are recognized in the consolidated income statement.

Forward foreign exchange transactions are recognized 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. Unrealized gains and losses are recognized in the consolidated income statement under *Net gains and losses on financial instruments at fair value through profit or loss* (see Note 7.3), except when hedge accounting is applied to a cash-flow hedge transaction or to a hedge of a net investment in a foreign currency operation (see Note 7.4).

Non-monetary financial assets measured at Fair value through profit or loss and denominated in foreign currencies, including shares and other variable income securities that are not part of the trading portfolio, are converted into the entity's functional currency at the spot exchange rate prevailing at the end of the period. 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.

The main spot exchange rates used as at 31 December 2018 and 2017 are as follows:

31.12.2018		31.12.2017	
EUR 1 =	USD 1.1450	**EUR 1 =**	USD 1.1993
EUR 1 =	GBP 0.8945	**EUR 1 =**	GBP 0.8872
EUR 1 =	CHF 1.1269	**EUR 1 =**	CHF 1.1702

2.3.2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred in the consolidated statement of cash flows comprise cash on hand and non-restricted current accounts with central banks.

Cash and cash equivalents not available for the Group mainly comprise the legal reserve held with the Luxembourg Central Bank.

2.3.3. FINANCIAL INSTRUMENTS

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 statement of financial position, no matter what their purpose is (market activities or hedging transactions).

2.3.3.1. ACCOUNTING PRINCIPLES APPLIED UP TO 31 DECEMBER 2017 TO FINANCIAL INSTRUMENTS

The accounting principles presented hereafter are those applied to financial instruments up to 31 December 2017 in accordance with IAS 39.

2.3.3.1.1. Classification of financial instruments

When initially recognized, financial instruments are presented in the statement of financial position 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 amortized cost and may be subject to impairment as appropriate. Amortized 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 Unrealized or deferred gains and losses. Interest accrued or paid on debt securities is recognized in the income statement using the effective interest rate method while dividend income earned on equity instruments 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 amortized cost.

Derivative financial assets and liabilities qualifying as hedging instruments are carried on separate lines of the statement of financial position (see Note 6.1).

2.3.3.1.2. 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 recognized 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 recoverability, 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.

2.3.3.1.3. 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 2.3.3.7.

2.3.3.1.4. 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 statement of financial position 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 statement of financial position 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 7.3).

2.3.3.1.5. 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 result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the statement of financial position 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.

2.3.3.1.6. Derivative financial instruments

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.

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 consolidated statement of financial position 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.

Accounting principles related to Derivatives financial instruments under IAS 39 remains applicable under IFRS 9 (cf. Note 2.3.3.5.).

2.3.3.1.6.1. EMBEDDED DERIVATIVE

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
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Once separated, the derivative is recognised at fair value in the consolidated statement of financial position 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.

2.3.3.1.6.2. TRADING DERIVATIVE

Trading derivatives are recorded in the consolidated statement of financial position 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 consolidated statement of financial position. Any further impairment of these receivables is recognised under Cost of risk in the income statement.

2.3.3.1.6.3. HEDGING DERIVATIVE

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.

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 hedged item.

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 is discontinued.

Hedging derivatives are recognised in the consolidated statement of financial position under Hedging derivatives.

2.3.3.1.6.3.1. 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 consolidated statement of financial position.

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 and similar income / expense symmetrically as accrued interest income and expenses related to the hedged item.

In the consolidated statement of financial position, 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.

2.3.3.1.6.3.2. 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 consolidated statement of financial position (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 and similar income / expense 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 and similar income / 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.

2.3.3.1.6.3.3. 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.

2.3.3.1.7. 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 recognizes 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 recognizes 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 recognized 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 recognized 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.

2.3.3.1.8. 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 recognized 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 unrealized 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 unrealized 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 in Note 2.3.3.1.12.

2.3.3.1.9. 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 recognized 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 amortized cost using the effective interest rate method and impairment, determined on an individual or a collective basis, may be recorded if appropriate (see Note 2.3.3.1.12).

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 derecognized 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 amortized 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 2.3.3.8 and 2.3.9).

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 recognized 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.

2.3.3.1.10. Debts

Financial liabilities are classified into one of the following two categories:

- *Debts:* these include the other non-derivative financial liabilities and are measured at amortised cost;
- *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.

2.3.3.1.11. Recognition of interest income and expense

Interest income and expense are recognized in the income statement under Interest and similar income and Interest and similar expense for all financial instruments measured at amortized 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 recognized 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.

2.3.3.1.12. 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 recognized (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 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;
- 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.

2.3.3.1.13. 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 acordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

2.3.3.1.14. 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 2.3.3.7.1.

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 recognized directly in shareholders' equity under Unrealized or deferred gains and losses and subsequent objective evidence of impairment emerges, the Group recognizes the total accumulated unrealized 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 instruments.

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

Impairment losses recognized 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 recognized 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.

2.3.3.1.15. 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:

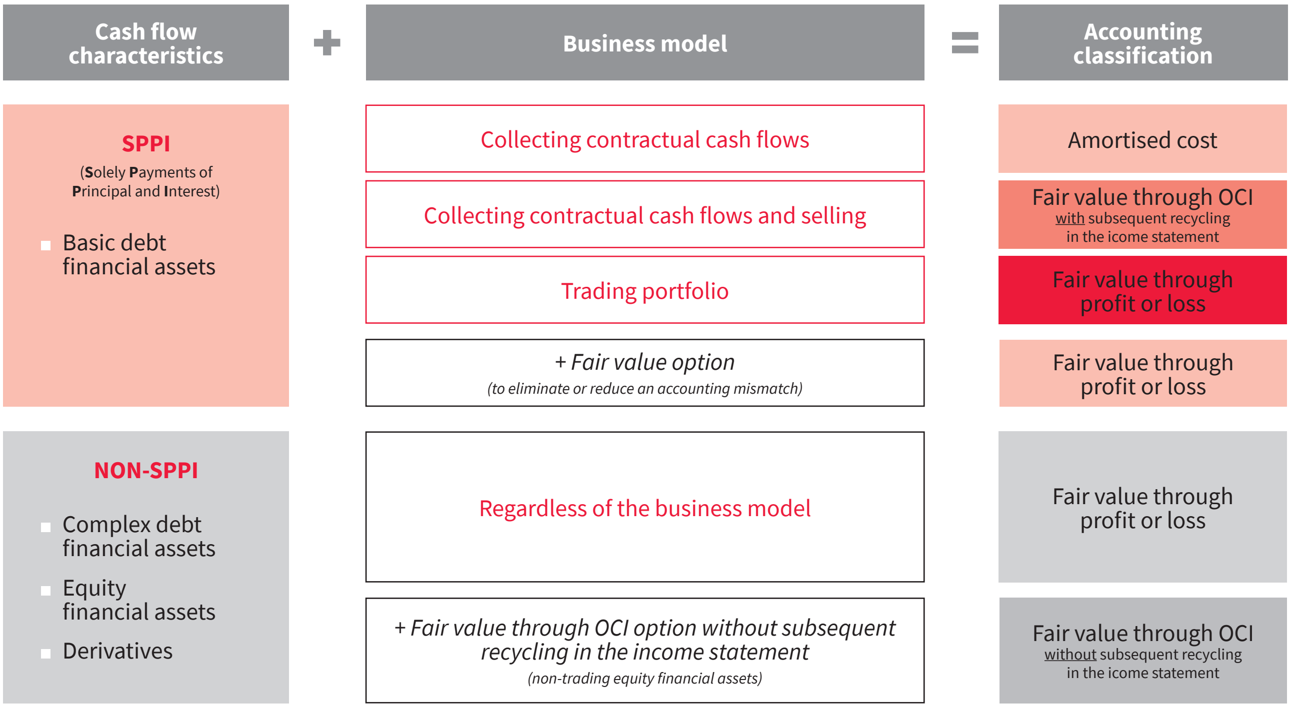
- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;
- and when the amount of probable outflow of resources can be reliably estimated.

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.

2.3.3.2. CLASSIFICATION OF FINANCIAL INSTRUMENTS UNDER IFRS 9 (FROM 1 JANUARY 2018)

At initial recognition, financial instruments are classified in the Group consolidated statement of financial position 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 diagram below describes how financial assets are classified under IFRS 9 depending on the cash flow characteristics and the business model:



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.

2.3.3.2.1. Analysis of contractual cash flows

2.3.3.2.1.1. ANALYSIS OF CONTRACTUAL CASH FLOW CHARACTERISTICS

The aim of the analysis of contractual cash flow characteristics is to limit the option of recognising revenues from financial assets using the effective interest method exclusively to 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 inflows that represent solely payments of principal and interest (SPPI) 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 rate 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 6.1).

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 instruments) 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).

2.3.3.2.1.2. ANALYSIS OF CONTRACTUAL CASH FLOW OF FINANCIAL ASSETS

The Group has established procedures for determining if financial assets pass the SPPI test at initial recognition (allocation of loans, 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. Such compensation can be either positive or negative which is not inconsistent with SPPI cash flows.

The prepayment compensation is considered as reasonable especially when:

- the amount is calculated on the remaining 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; or
- the amount is equal to the difference between contractual interest that should have been received until the maturity of the loan and 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 that would be 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 flow 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…).

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 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 term 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 undiscounted contractual cash flows and undiscounted benchmark cash flows is significant or can become significant, then the instrument is not considered standard.

Depending on the contractual terms, 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 considered 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.

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.

The Group can make the irrevocable election to classify and measure an investment in an equity instrument 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 to profit or loss (only dividends from those investments will be recognised as income).

2.3.3.2.2. Analysis of the business model characteristics

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; and also
- sales of assets realised or expected (size, 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, and especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

2.3.3.2.2.1. BUSINESS MODEL "COLLECTING CONTRACTUAL CASH FLOW" (HOLD TO COLLECT "HTC")

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.

2.3.3.2.2.2. BUSINESS MODEL "COLLECTING CONTRACTUAL CASH FLOW AND SALE" (HOLD TO COLLECT AND SELL "HTCS")

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.

2.3.3.2.2.3. BUSINESS MODEL "TRADING ACTIVITIES"

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 2.3.3.5.3).

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.

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.

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.

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 2.3.18).

2.3.3.2.3. Fair value option

A non-SPPI financial asset that is 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 certain financial assets and liabilities (accounting mismatch).

2.3.3.2.4. Reclassification of financial assets

Reclassification of financial assets is only required in the exceptional event that the Group changes the business model used to manage these assets.

2.3.3.2.5. Classification of financial liabilities

Financial liabilities are classified into one of the following two categories:

- Debts: these include the other non-derivative financial liabilities and are measured at amortised cost;
- 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 (see Note 2.3.3.4.3).

Derivative financial assets and liabilities qualifying as hedging instruments are carried on separate lines of the consolidated statement of financial position (see Note 6.1).

Guarantee deposits received and trade payables are presented among Other liabilities (see Note 5.5).

2.3.3.3. MEASUREMENT OF FINANCIAL INSTRUMENTS

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 2.3.3.7.

2.3.3.3.1. Initial recognition

Financial assets are recognised on consolidated statement of financial position:

- 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, 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.

2.3.3.3.2. Measurement

For instruments measured at fair value, changes in fair value between the trade date and the settlement-delivery date are recorded under profit or loss or under 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.

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 deferred in the income statement. 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.

2.3.3.3.3. Derecognition

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 consolidated statement of financial position 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 derecognized 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.

During the years 2018 and 2017, no financial assets were written off.

2.3.3.4. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

2.3.3.4.1. Trading portfolio

The trading book contains financial assets and liabilities held or accrued for the purpose of capital markets 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.

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 6.1).

The financial instruments recorded in the trading portfolio are measured at fair value at the consolidated statement of financial position date and recognised in the consolidated statement of financial position 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.

The trading portfolio includes all the financial assets held for trading purposes 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 section 2.3.3.4.2 below).

2.3.3.4.2. Financial instruments mandatorily at fair value through profit or loss

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. The Group has elected to systematically recognise equity instruments at fair value through profit or loss, barring exceptions.

By exception and on specific occurence, if they are not held for trading purposes, equity instruments (shares and share equivalents) are classified in *Financial assets at fair value through other comprehensive income* (cf 2.3.3.6.2.) where the Group initially designated them at fair value through other comprehensive income. This option may not subsequently be changed, regardless of the reason leading to the classification of the instrument at fair value through profit or loss.

These assets are recorded at fair value in the consolidated statement of financial position under *Financial assets at fair value through profit or loss* and changes in the fair value of these instruments (including interest and dividend) are recorded in the income statement under Net gains or losses on financial instruments at fair value through profit or loss.

2.3.3.4.3. Financial instruments at fair value through profit or loss using fair value option

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.

For financial assets, this option may only be taken to eliminate or significantly reduce accounting mismatches that would otherwise arise from applying different accounting treatments to certain financial assets and liabilities.

For financial liabilities, this option may only be taken in the following cases:

- to eliminate or reduce discrepancies in the accounting treatment of certain 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.

To eliminate discrepancies in the accounting treatment between the Notes issued and the Fully Funded Swap (mirror transaction) which are measured mandatorily at fair value through profit or loss, the Group has designated at fair value through profit or loss the Notes issued.

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. The Group does not record the share of the changes in fair value that is due to changes in the Group's own credit risk under Unrealised or deferred gains and losses as this would create an accounting mismatch with the mirrored assets.

2.3.3.5. FINANCIAL DERIVATIVES

First time application of IFRS 9 did not change the accounting principles applicable to derivative financial instruments.

These accounting principles are described in Note 2.3.3.1.6.

2.3.3.6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

2.3.3.6.1. Debt instruments

Debt instruments (loans and receivables, bonds and other debt securities) are classified as Financial assets at fair value through other comprehensive income where their contractual cash flows are consistent with basic lending arrangements and they are managed under a Held to Collect and Sell business model (HTCS).

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 2.3.3.10.

If these instruments are sold, the impairments for credit risk are reversed in *Cost of risk* in the income statement, and the unrealised or deferred gains and losses are reclassified to profit or loss under *Net gains or losses on financial assets at fair value through other comprehensive income*.

2.3.3.6.2. Equity instruments

When exceptionally classified at fair value through other comprehensive income, at the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under U*nrealised or deferred gains and losses*. 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. Dividend income, if it is considered as a return of investment, is recorded in the income statement under *Net gains or losses on financial assets at fair value through other comprehensive income*.

As at 31 December 2018, the Group did not apply the fair value through other comprehensive income option to any equity instruments.

2.3.3.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 Note 10.

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.

2.3.3.7.1. 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.

2.3.3.7.2. Fair value hierarchy

The fair values of financial instruments include accrued interest as applicable.

For information purposes, in the notes to the interim condensed consolidated financial statements, the fair value of financial instruments is classified using a fair value hierarchy (see Note 10) that reflects the significance of the inputs used according to 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 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 statement of financial position granted to counterparties whose credit risk is quoted via Credit Default Swap (see Note 10).

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 consolidated statement of financial position are predominantly instruments for which the sales margin is not immediately recognized in profit or loss.

Accordingly, Level 3 financial instruments include derivatives with longer maturities than those usually traded and/or with specifically-tailored return profiles. Similarly, debt measured at fair value is classified as Level 3 where the valuation of the associated embedded derivatives is also based on unobservable inputs.

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);
- 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).

2.3.3.8. LOANS AND RECEIVABLES AT AMORTISED COST

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 "Held 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 2.3.3.10.

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.

2.3.3.9. DEBT AT AMORTISED COST

Financial liabilities at amortised cost include non-derivative instruments that are not measured at fair value through profit or loss.

They are recognised in the consolidated statement of financial position 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 and 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.

2.3.3.10. IMPAIRMENT AND PROVISIONS

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. The Group is remunerated for bearing this risk by a portion of the contractual interest that it receives on those assets; this is known as the credit margin.

This potential loss, or expected credit loss, is recognised in profit or loss without waiting for 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 in Cost of risk. On the balance sheet, this potential loss is recognised as an impairment that reduces the carrying amount of assets measured at amortised cost. Impairments are written-back in case of a subsequent decrease of credit risk.

2.3.3.10.1. Impairment and provisions for credit risk

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, and also loan commitments and guarantees given, are systematically subject to impairment or a loss allowance for expected credit losses. These impairments and loss allowances are recognised when the loans are granted, the commitments undertaken or the debt securities purchased, without waiting for objective evidence of impairment to occur.

To determine the amount of impairment or loss allowances to be recorded at each reporting date, these exposures are classified into one of three categories based on the increase in credit risk observed since initial recognition. An impairment or loss allowance shall be recognised for the exposures in each category as follows:

OBSERVED DETERIORATION IN CREDIT RISK SINCE INITIAL RECOGNITION ON THE FINANCIAL ASSET			
CREDIT RISK CATEGORY	**STAGE 1** PERFORMING ASSETS	**STAGE 2** UNDER-PERFORMING OR DOWNGRATED ASSETS	**STAGE 3** CREDIT-IMPAIRED OR DEFAULTED ASSETS
Transfer criteria	Inition 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-months 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 underperforming/credit-impaired on acquisition.

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 2.

- ***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 outstandings), the Group determines whether or not there is 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 to Stage 2, the contracts are kept in Stage 2 from six months to two years according to the nature of the risk portfolio to which they 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.

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.

2.3.3.10.2. Cost of risk

Cost of risk includes net reversals of impairment and loss allowances for credit risk, losses on irrecoverable loans and amounts recovered on amortised receivables.

The Group proceed to a write off by recognising a loss on the bad loan and a reversal of impairment in Cost of risk when a debt is forgiven or when there are no longer any hopes of future recovery. The lack of future hopes of recovery is documented when a certificate issued as proof that the debt is uncollectible is delivered by the relevant authority or when strong circumstantial evidences are identified (years in default, provisions at 100%, lack of recent recoveries, specificities off the case).

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. In case of recoveries on an exposure previously written-off, such recoveries are recognised as Amounts recovered on bad loans on the period of collection.

2.3.3.10.3. 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.

2.3.3.11. TRANSFERRED FINANCIAL ASSETS

Transferred financial assets that are not derecognised include securities lending transactions and repurchase agreements as well as certain loans transferred to consolidated securitisation vehicles.

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 Due to Banks 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. However, in the event the borrowed securities are subsequently sold, a debt representing the return of these securities to their lender is recorded on the liabilities side of the Group's balance sheet, under Financial liabilities at fair value through profit or loss. For securities received under a reverse repurchase agreement, the right to recover the amounts delivered by the Group is recorded under Customer Loans 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.

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.

2.3.3.12. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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.

2.3.4. OTHER ASSETS AND LIABILITIES

Other assets mainly relate to settlement accounts on securities transactions, commissions and other accrued income, prepaid expenses and security deposits paid.

Other liabilities include the debt on securities transactions, accrued income and accrued expenses other than interest expense on financial instruments and security deposits received.

2.3.5. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

2.3.5.1. RECOGNITION

Property, plant and equipment and intangible assets with finite useful life are carried at their purchase price on the asset side of the consolidated statement of financial position less depreciation, amortization and impairment.

The purchase price of property, plant and equipment includes borrowing costs incurred to fund a lengthy construction period for the property, plant and equipment, 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 consolidated statement of financial position for the amount of direct cost of development.

Intangible assets with non-defined useful lives that are acquired separately are recognized at cost less cumulative value adjustments.

2.3.5.2. AMORTIZATION AND DEPRECIATION

Amortization is recognized using a straight-line method on the estimated useful life of the asset. Estimated useful lives and the amortization method are reviewed at the end of each financial reporting period, and the impact of any changes on the estimates is prospectively recognized.

Depreciation and amortization expenses are recognized in consolidated income statement under *"Amortization, depreciation and impairment of property, plant and equipment and other intangible assets"*.

The range of the useful life of assets used by the Group is as follows:

Intangible assets are amortized using the straight-line method based on their estimated useful lives; the amortization rates used range from 20% to 33.33%.

Property, plant and equipment are depreciated using the straight-line method based on their estimated useful lives; the depreciation rates used are:

- other facilities, office furniture and equipment: 10 - 33.33%
- computer hardware: 20 - 33.33%

Land with an indefinite life is not depreciated.

Changes in the expected useful life are accounted for by changing the amortization period or methodology, as appropriate, and treated as changes in accounting estimates.

2.3.5.3. IMPAIRMENT

Property, plant and equipment are tested for impairment whenever there is an indication that the asset may be impaired and, for intangible assets with an indefinite useful life, at least once a year. Any indications of impairment are reviewed at each financial year-end.

In the event of impairment, an impairment loss is recognized in the consolidated income statement under *"Amortization, depreciation and impairment of property, plant and equipment and other intangible assets"*.

2.3.5.4. DERECOGNITION

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in *"Income and expenses from other activities"* in the consolidated income statement in the year the asset is derecognized. Detailed disclosures are provided in Note 4.7.

2.3.6. EMPLOYEE COMPENSATION AND BENEFITS

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).

Employees benefits include all forms of consideration given by the Group in exchange for service rendered by employees and are recognized in accordance with the revised IAS 19. These are presented in Note 7.8.

Employee benefits are divided into four categories:

- short-term employee benefits which are employee benefits expected to be settled wholly within 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, which include 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 within twelve months, such as defined variable compensation paid in cash and not indexed to the SGBT share, long service awards and time saving accounts;
- termination benefits.

Staff 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 two Deputy Chief Executive Officers), their respective spouses and any children residing in the family home, subsidiaries which are controlled either exclusively or jointly by the Group, and companies over which SGBT exercises significant influence.

2.3.6.1. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits mainly include wages, bonuses and rights to annual leave.

Staff 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 Staff expenses in the period where the services were provided by the employee.

They are recognized as a liability net of any amount already paid and as a period expense.

2.3.6.2. POST-EMPLOYMENT BENEFITS

Post-employment benefits are classified as either defined contribution plans or defined benefit 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 commit the Group, either formally or constructively, to pay a specified amount or level of future benefits and therefore bear the medium- or long-term actuarial risk.

Provisions are recognized on the liability side of the consolidated statement of financial position under "Provisions", to cover the entirety of these retirement obligations. The provision is reviewed regularly by independent actuaries using the "Projected Unit Credit Method". This valuation technique incorporates assumptions about demographics, early retirement, payroll growth as well as discount and inflation rates.

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 relevant obligations.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognized 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 recognized in shareholders' equity among Unrealized or deferred gains and losses and they cannot be subsequently reclassified as income.

In the consolidated financial statements, these items that cannot be subsequently reclassified as income are displayed separately in the Statement of net income and unrealized or deferred gains and losses, but are transferred immediately to retained earnings in the Statement of changes in shareholders' equity so that they are presented directly under Retained earnings on the liabilities side of the balance sheet.

The amount recognized as a liability in relation to defined benefit plans includes:

- the present value of the obligation in relation to defined benefit plans at the end of the reporting period;
- plus actuarial profits (less actuarial losses) that are not recognized;
- less the cost of past services not yet recognized;
- less the fair value of plan assets (if applicable) at the end of the reporting period used directly to settle the obligations.

The Group recognizes the following amounts in the consolidated income statement:

- the cost of services rendered by staff during the reporting period;
- the cost of past services resulting in a change to the plan (related to an amendment or reduction);
- net interest on the plan's net liabilities (or assets);
- profit or loss on curtailment of a plan.

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 recognized in the same way as post-employment benefits, with the exception of actuarial gains and losses, which are immediately recognized in the consolidated statement of comprehensive income.

2.3.6.3. SHARE-BASED PAYMENT PLANS

Share-based payments include cash payments whose amount depends on the performance of equity instruments (see Note 7.8.2).

Share-based payments systematically give rise to an operating expense recognized as Staff expenses in the amount of the fair value of the share-based payments granted to employees and according to their terms of settlement.

For cash-settled share-based payments (e.g. compensation indexed on SG shares), the fair value of the amounts payable is recorded under Staff expenses as an expense over the vesting period against a corresponding liabilities entry recognized in the consolidated statement of financial position 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 the consolidated income statement under Staff expense as well.

In a share-based payment transaction, an entity receives goods or services form counterparty and grants equity instruments (equity-settled share based payment transactions) or incurs a liability to deliver cash or other assets for amounts that are based on the price (or value) of the equity instruments (cash-settled share based payment transactions) as consideration.

Such transactions are entered into with employees, shareholders or managers in consideration of past and/or future services.

The procedures for share-based payment transactions determine their accounting treatment according to whether this settlement is done by issuing equity instruments, by payment in cash or whether a choice is possible between these two methods of settlement at the initiative of the entity or the beneficiary.

Group scope

As of 31 December 2018, the Group analyzed the share-based payment transactions existing in its scope and identified the following:

- long-term incentive plan composed by free shares based payment, with a grant period of several years, which is intended as a long-term incentive;
- share appreciation rights: These are cash payments granted a given year and perceived in another, considered as deferred bonus;
- the global employee share-ownership plan (GESOP). The settlement of the shares involved is through sale or voiding.

The Group does not grant any stock options or warrants.

Equity-settled share-based payment transactions

The charge relating to the equity-settled share-based payment transactions (delivery of the underlying securities) is recorded in the entity's equity account.

The charge to be recorded is equal to the unit fair value of the equity instruments granted multiplied by the number of instruments that will in the end be purchased by the beneficiaries.

The unit fair value of the equity instrument granted is determined definitively at the grant date, taking into account the market conditions that determine the vesting conditions.

If the equity instruments are immediately vested with the beneficiary (the case, for example, of the discount of the GESOP), the charge is recorded in the profit or loss at its total value at the grant date.

When the grant of the equity instruments is subordinated to vesting conditions, such as (performance or service conditions) (the case, for example, of the free shares), the entity must, on the basis of a project on the achievement of or compliance with these conditions, estimate the number of equity instruments that will actually be vested with the beneficiaries at the end of the vesting period. The entity will estimate this based on a projection on the achievement of or the compliance with these conditions.

The total charge calculated on the basis of the unit fair value at the grant date multiplied by the number of instruments vested thus estimated must be staggered in the profit or loss over the vesting period.

The estimate of the number of equity instruments that will effectively be vested with beneficiaries at the end of the vesting period must be revised at each accounting close by adjustment of the projections made on the vesting conditions (the fulfilment or not of market conditions is not revised as it is already included in the assessment of the unit fair value of the instruments at grant date).

Cash-settled share-based payment transactions

The equity instrument granted must be fair value measured each year throughout the plan's term. This fair value is not set in stone as at grant date. Consequently, this annual measurement will take account of the vesting conditions (service or performance conditions).

Moreover, the estimate of the number of equity instruments that will be actually vested with beneficiaries at the end of the vesting period must be reviewed at each accounting end date by adjustment of the projections made on the vesting conditions.

The charge is staggered in the profit or loss over the vesting period and recorded in a "debts to staff" account. This debt then continues to be reassessed each year until final payment to the employee. If the performance or service conditions are not fulfilled or if the employee does not exercise his/her stock options, the charge will be reversed. The staff charge recognized in the profit or loss must reflect the sum that is paid to the employee.

Deferred taxes and current taxes associated with share based payments

IFRS 2 (share-based payment), through an amendment of IAS 12 (income taxes), introduced a special treatment of taxes (both due and deferred) associated to share-based payment transactions.

The taxation authorities of Luxembourg accept the recognized charges as the tax basis. There is therefore no need to recognize a deferred tax asset (or liability).

2.3.7. PROVISIONS

Provisions, other than those for credit risk or employee benefits, are recognized when the Group has a present obligation (legal, contractual or implicit) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined based on the best estimate of the expenditure required to settle the obligation, in application of certain assumptions. Provisions are discounted when the effect of the time value of money is material, using a discount rate that reflects current market assessments of the time value of money.

Provisions include provisions for credit risk related to guarantee commitments granted to third parties by the Group and to contingent liabilities whose timing or amount cannot be precisely determined (primarily legal disputes and restructuring).

Provisions may be recorded:

- when the Group will probably or certainly incur an outflow of resources to a third-party;
- 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 are recorded through the consolidated income statement.

Probable losses incurred by the Group in identifying objective evidence of credit risk related to loan and guarantee commitments are recorded in the consolidated income statement of under *Cost of risk* against a liability booked under *Provision* in the consolidated statement of financial position.

Provisions are presented in Note 5.7. Information relating to the nature and the amount of the relevant risks is not disclosed if the Group considers that it could cause the Group serious harm in a dispute with third parties on the matter covered by the provision.

The caption Provisions in consolidated statement of financial position includes also includes provisions for employee benefits and tax adjustments.

2.3.8. INCOME TAX

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.

2.3.8.1. Current tax

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.

2.3.8.2. Deferred tax

Deferred taxes are recognized whenever the Group identifies a temporary difference between the accounting base and tax base for assets and liabilities that will affect future tax payments. Deferred tax assets and liabilities are measured in each consolidated taxable entity considering rules established by the local taxation authorities.

The amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realized 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. Temporary differences or tax loss carry forwards can also be used against future taxable profit. Tax loss carry forward review taking into account the tax system applicable to each relevant tax entity and a realistic projection of their tax income or expense, based on their business development outlook: any previously unrecognized deferred tax assets are recorded in the consolidated statement of financial position 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 recognized in the consolidated statement of financial position is reduced where a risk of total or partial non-recovery occurs.

Current and deferred taxes are recognized in the consolidated income statement under Income Tax. However, deferred taxes related to gains and losses recorded under “Unrealized or deferred gains and losses” are also recognized under the same heading in the consolidated statement of comprehensive income.

Provisions for tax adjustments represent liabilities whose timing or amount cannot be precisely determined. 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 the consolidated 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.

2.3.8.3. Tax integration

Since financial year 2005, SGBT has elected to be considered as an integrated group for tax purposes (intégration fiscale or tax integration).

As at 31 December 2018, 18 subsidiaries were included in the group filing a consolidated return (2017: 22 subsidiaries). In accordance with a tax integration agreement entered into with SGBT, some affiliates recognize in their financial statements the tax which they would have paid had they not been included in SGBT’s Group tax scope.

SGBT establishes its income tax provisions (“Impôt sur le revenu des collectivités” or “IRC”, [National corporate income tax] and the “Impôt commercial communal” or “ICC” [Municipal business tax]) based on the taxable income of the entire consolidated group, including its own revenue.

Tax prepayments due by SGBT are also calculated on this basis and paid by SGBT as the lead company of the integrated group.

There is no tax filing integration for wealth tax. However, in compliance with existing tax law, SGBT sets up, on behalf of some affiliates, a special reserve for the purpose of charging each of these affiliates for the wealth tax. The reserve thus constituted for each affiliate is equal to five times the wealth tax due in principle by each of the members of the integrated group and is unavailable for a period of five years.

The reserve for the wealth tax charged to affiliates is separate from the tax expense reserve set up for SGBT's own needs. The reserve is set up each year and maintained for the specified legal time limit i.e. five years. The maximum amount of wealth tax that can be charged by affiliates and by SGBT is determined by reference to the IRC payable by the integrated group before the allocation of tax credits.

2.3.9. Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

As a lessee, leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they it is incurred.

2.3.10. Given commitments

2.3.10.1. GUARANTEE COMMITMENTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because of the failure of a specified debtor to make a payment at maturity at the initial or modified terms in the debt instrument.

When considered as non-derivative financial instruments, financial guarantees issued by the Group are initially recognized in the consolidated statement of financial position at fair value. Thereafter, they are measured at either the amount of the obligation or the amount initially recognized (whichever is higher) less, when appropriate, the cumulative amortization of a guarantee commission. Where there is objective evidence of impairment, a provision for financial guarantees given is recognized on the liabilities side of the consolidated statement of financial position (see Note 2.3.3.10.).

2.3.10.2. LOAN COMMITMENTS

Loan commitments that are not considered as financial derivatives or that are not measured at fair value through profit or loss for trading purposes are initially recognized at fair value. Thereafter, they are provisioned as necessary in accordance with the accounting principles for Impairment and provisions (see Note 2.3.3.10.).

2.3.10.3. SECURITIES COMMITMENTS

Securities bought and sold, which are recorded under 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 recognized on the consolidated statement of financial position at the settlement-delivery date. Between the trade date and the settlement-delivery date, securities receivable or deliverable are not recognized on the consolidated statement of financial position. Changes in the fair value of securities measured at fair value through profit or loss, at fair value through other comprehensive income and of available-for-sale securities between the trade date and the settlement-delivery date are recorded in the consolidated income statement or the consolidated statement of other comprehensive income, depending on the accounting classification of the related securities (see Note 8.2.).

2.3.11. Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated statement of financial position, as they are not assets of the Group (see Note 8.2.3).

2.3.12. Financiel instruments issued by the Group

Financial instruments issued by the Group are recorded 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 SGBT are recorded under Other equity instruments. If they are issued by Group subsidiaries and not held by the Group, these securities are recognized 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 amortized cost (see Notes 5.2, 5.3 and 5.4).

2.3.13. Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.3.14. Non-current assets held for sale and disposal groups

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

If the fair value less selling costs of non-current assets and groups of assets and liabilities held for sale is less than their net carrying value, an impairment is then recognized in consolidated income statement. Moreover, Non-current assets held for sale are no longer amortized or depreciated.

2.3.15. Interest income and expenses

Interest is recognized as expense or income over the life of the financing service granted or received, proportionally to the principal amount outstanding.

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 or loss and for interest rate risk hedging derivatives in the amount of the income and 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 measured at the effective interest rate applied to the net carrying amount of the financial asset with an offsetting entry equal to the outstanding financial asset before impairment.

2.3.16. Fee and commission income and expense

Fee income and *Fee expense* combine fees on services rendered and received, as well as fees on commitments, which 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 7.1.).

Transactions with customers combine the fees from retail customers (in particular credit card fees, account maintenance fees or the application fees not equivalent to interest).

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 and 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, 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 likely not to be subsequently reduced significantly.

The possible mismatches between the payment date of the service provided and the date of control transfer give assets and liabilities depending on the type of contracts and mismatches which are recognized under Other Assets and Other Liabilities (see Notes 4.8 and 5.5):

- customer contracts generate trade receivables, accrued income or prepaid income;
- supplier contracts generate trade payables, accrued expenses or prepaid expenses.

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:

- customer contracts generate trade receivables, accrued income or prepaid income;
- supplier contracts generate trade payables, accrued expenses or prepaid expenses.

2.3.17. Dividend income

Dividend income (including dividend from assets at fair value through other comprehensive income) is recognized when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend.

2.3.18. Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

2.3.19. Other operating expenses

The Group records operating expenses according to the type of services to which they refer.

Other operating expenses mainly include lease payments, building maintenance and other costs, travel and business expenses, outsourcing and advisory fees and marketing and advertising expenses. Detail is provided in Note 7.9

Lease payments include real estate and equipment leasing expenses (mainly computer-related), which are booked over the lease period using the straight-line method.

2.3.20. Insurance activities

2.3.20.1. 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 the current standard, 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 SG 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 applies the same approach as SG Group. 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 interim condensed consolidated financial statements for clarification purposes: Investments of insurance activities under balance sheet assets, Insurance contracts related liabilities under consolidated statement of financial position liabilities, and Net income from insurance activities under Net Banking Income in the consolidated income statement.

The only subsidiary concerned is SG Ré.

2.3.20.2. INSURANCE CONTRACTS RELATED LIABILITIES

2.3.20.2.1. 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 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.

Underwriting reserves for unit-linked policies with discretionary profit-sharing or any other significant feature (mortality, invalidity, etc.) are measured at the balance sheet date on the basis of the market value of the assets underlying these policies.

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 approach 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.

2.3.20.2.2. 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 and revaluation differences on portfolios hedged against interest rate risk, which are recorded under Insurance contracts related liabilities.

2.3.20.3. NET INVESTMENT OF INSURANCE COMPANIES

Accounting principles related to net investment of insurance companies are describe in section 2.3.3.1 related to accounting principles for financial instruments under IAS 39.

2.3.20.4. NET INCOME FROM INSURANCE ACTIVITIES

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 consolidated 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 consolidated income statement or under Unrealised or deferred gains and losses under the appropriate headings for the underlying assets in question.

2.3.21. Comparative data

The comparative data for balance sheet items and commitments associated with financial instruments presented throughout Note 4 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.

The comparative data at 31 December 2017 are available in the consolidated financial statements for financial year 2017, whereas the accounting policies applicable to financial instruments at 31 December 2017 are detailed in Note 2.3.3.1.

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 4 exclude the financial instruments of insurance subsidiaries.

NOTE 3 CONSOLIDATION

Note 3.1. Summary of significant accounting policies

3.1.1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group include the financial statements of the parent company and of the main Luxembourg and foreign companies over which the Group exercises control, joint control or significant influence.

3.1.1.1. 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. This 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, securitization 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.

3.1.1.2. 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.

3.1.1.3. 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 the Group 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 the Group. 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.

3.1.2. 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 the parent 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.

3.1.2.1. CONSOLIDATION METHODS

The subsidiaries which may include structured entities over which the Group has exclusive control are fully consolidated.

In the consolidated statement of financial position, full consolidation consists in replacing the value of the subsidiary's equity instruments held by the Group with each of the subsidiary's assets and liabilities, in addition to the goodwill recognized when the Group assumed control over the entity (see Note 3.2).

In the consolidated income statement and the statement of comprehensive income, 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 statement of financial position and consolidated income statement.

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 recognized 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 recognize 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 consolidated statement of financial position 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 unrealized or deferred gains and losses is presented on separate lines in the consolidated income statement and the consolidated statement of net income and unrealized or deferred gains and losses. If the Group's share in 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 recognize 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".

3.1.2.2. 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 difference 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 "Consolidated reserves, Group share".

Also, in the event of a reduction in the Group's stake in an entity over which it keeps control, the difference between the selling price and the carrying amount of the share of interests sold is accounted for under "Consolidated reserves, Group share".

The cost relative to these transactions is recognized directly in equity.

At the date when the Group loses control of a consolidated subsidiary, any investment retained in the former subsidiary is then remeasured at fair value through consolidated income statement, 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.

Note 3.2. Consolidation scope

The scope of consolidation is presented by location hereafter:

3.2.1. LIST OF FULLY CONSOLIDATED SUBSIDIARIES, NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The scope of consolidation 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.

The consolidated financial statements represent the financial statements of the Group and the subsidiaries presented at the next page for the year ended 31 December 2018 and 2017.

3.2.1.1. FULLY CONSOLIDATED SUBSIDIARIES

Country	Company	Activity
Ireland	SGBT Finance Ireland Ltd.	Corporate Financing
Ireland	SG Hedging Ltd.	Corporate Financing
Luxembourg	IVEFI S.A.	Other Financing Company
Luxembourg	Generas S.A.	Other Financing Company
Luxembourg	SG Issuer S.A.	Security issuance
Luxembourg	SGBT Asset Based Funding S.A.	Investments & management
Luxembourg	SGBT CI S.A.	Corporate Financing
Luxembourg	Société Immobilière de l'Arsenal S.A.R.L.	Non Financial Corporation
Luxembourg	Societe Generale Capital Market Finance S.A.	Financial services
Luxembourg	Societe Generale Financing and Distribution S.A.	Financial services
Luxembourg	Societe Generale LDG S.A.(1)	Mortgaged Bond Bank
Luxembourg	Societe Generale Life Insurance Broker S.A.	Brokerage
Luxembourg	Societe Generale Private Wealth Management S.A.	Wealth management
Luxembourg	Societe Generale Ré S.A.	Reinsurance
Monaco	Societe Generale Private Banking (Monaco) S.A.	Private Banking
Netherlands	Montalis Investment B.V.	Corporate Financing
Netherlands	Coparer Holding B.V.	Non Financial Corporation
Switzerland	Societe Generale Private Banking (Suisse) S.A.	Private Banking

3.2.1.2. ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Country	Company	Activity
Luxembourg	Fondation Capital I S.C.A., SICAR(1)	Investment Funds
Luxembourg	Sogelife S.A.	Insurance

(1) Please see Note 3.2.2 (b) Companies no longer consolidated in 2018 and reason for exclusion

Consolidation method		Group ownership interest		Group voting interest	
2018	2017	2018	2017	2018	2017
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	95.00%	100.00%	95.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	0.00%	100.00%	0.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	95.00%	95.00%	95.00%	95.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%

Consolidation method		Group ownership interest		Group voting interest	
2018	2017	2018	2017	2018	2017
N/A	Equity	23.21%	23.21%	23.21%	23.21%
Equity	Equity	39.86%	39.86%	39.86%	39.86%

3.2.1.3. NON-CONSOLIDATED SUBSIDIARIES

			2018		2017	
Country	Company	Activity	Capital held	Reason for exclusion	Capital held	Reason for exclusion
Luxembourg	Alamea Investment S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	ALEF II	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Arise	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Arche Finance S.A.	Financial services	0.00%	Liquidated	95.00%	Insignificant
Luxembourg	Hyperion S.A.	Financial services	0.00%	Liquidated	100.00%	No control
Luxembourg	Nocaria investment S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Nethuns	Financial services	97.22%	No control	95.00%	No control
Luxembourg	Palila Investment S.A.	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	SGBT Finance Partners S.A.	Financial services	0.00%	Liquidated	99.97%	No control
Luxembourg	SGBT Financial Markets S.A.R.L.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	SGBT Financing S.A.	Financial services	99.00%	No control	99.97%	No control
Luxembourg	SGBT Securities S.A.	Securities management	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Surya Investments S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	SFGD S.A.	Financial services	100.00%	Insignificant	15.00%	No control
Luxembourg	LB international Fonds limited (LBIF)	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Société de la Bourse de Luxembourg	Stock exchange	0.01%	No control	0.01%	No control
Luxembourg	FS-T S.A.R.L.	Financial services	0.00%	Sold	1.69%	No control
Luxembourg	FS-B S.A.R.L.	Financial services	0.00%	Sold	1.69%	No control
Luxembourg	Société Immobilière du Golf S.A.	Commercial	0.00%	Sold	0.20%	No control

Non-consolidated subsidiaries are accounted in the consolidated accounts of SGBT as financial instruments at fair value through profit or loss.

3.2.2. MATERIAL CHANGES IN SCOPE OF CONSOLIDATION

The Group amended the consolidation perimeter as follows:

a. companies consolidated for the first time in 2018: none;

b. companies no longer consolidated in 2018 and reason for exclusion:

- Societe Generale LDG S.A. The entity was liquidated on 30 October 2018;
- Fondation Capital I S.C.A., SICAR. The entity has become insignificant further to the sale of its assets as at 31 December 2018.

3.2.3. BUSINESS COMBINATIONS AND GOODWILL

3.2.3.1. BUSINESS COMBINATION

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value.

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 purposes. The analyses and professional appraisals required for this initial valuation must be carried out within 12 months as from the acquisition date as from the acquisition date, as must any corrections 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 interest 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 recognized in the consolidated income statement for the period except those related to the issuance of equity instrument.

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 recognized under equity or debt in the consolidated statement of financial position depending on the settlement alternatives; if recognized 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. For equity instruments, these subsequent adjustments are not recognized. 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 statement of financial position under goodwill. Any deficit is immediately recognized in the consolidated 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 consolidated income statement. In the case of a step acquisition, goodwill is therefore determined by referring to the fair value on the acquisition date.

3.2.3.2. GOODWILL

Initial consolidation differences are initially measured as the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

If the consolidation difference is positive ("positive goodwill"), it is included in the consolidated statement of financial position under "Goodwill" on the asset side. The positive goodwill is not amortized but is tested for impairment at least once a year and more frequently if there is an indication that it may be impaired. If the carrying amount of goodwill exceeds its recoverable amount, an impairment loss is recognized in the consolidated income statement.

An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

If the consolidation difference is negative ("negative goodwill"), it is recognized immediately in the consolidated income statement.

The impairment of KEUR 50 528 recorded in 2017 is solely linked to the goodwill on the participation SGPB Switzerland S.A.. As at 31 December 2017 and 31 December 2018, the net book value of the goodwill is nil.

3.2.4. ADDITIONAL DISCLOSURE 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 SGBT exercises exclusive 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.

Consolidated structured entities

Consolidated structured entities include:

- 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.

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 and does not intend to support them financially.

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 141 thousand at 31 December 2018.

31 December 2018

(in EUR thousand)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to the holders of non-controlling interest
Montalis	95.00%	95.00%	12	141	-
Total			**12**	**141**	**-**

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Associates	
(in EUR thousand)	**31 December 2018**	**31 December 2017**
Group share		
Net income	10 303	9 384
Unrealized or deferred gains and losses (net of tax)	(1 947)	(1 006)
Net income and unrealized or deferred gains and losses	**8 356**	**8 378**

There were no commitments provided to associates as of 31 December 2018 and 2017.

The associates are:

(in EUR thousand)	**31 December 2018**	**31 December 2017**
Sogelife S.A.	71 486	36 619
Fondation Capital S.C.A, SICAR	-	71 401
Group carrying amount of the investment	**71 486**	**108 020**

3.2.5. RESTRICTIONS

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, liquidity ratios or large exposures ratios that aim to cap the entity's exposure in relation to the Group. The Group was not exposed to significant limitations as of 31 December 2018 and 2017.

The ability of the Group to use assets may also be restricted in the following cases:

- assets pledged as security for liabilities, or assets pledged as security for transactions on 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;
- mandatory deposits placed with central banks.

3.2.6. 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 Other (including issuing vehicles).

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.

The Group's interests in unconsolidated entities that have been structured by third parties are classified among financial instruments in the consolidated statement of financial position according to their nature (Financial assets at fair value through profit or loss, Available-for-sale financial assets, etc.).

3.2.6.1. INTEREST 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.

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 amortized cost or fair value for non-derivative financial assets entered into with the structured entity depending on how they are measured on the consolidated statement of financial position;
- the fair value of derivative financial assets recognized in the consolidated statement of financial position;
- 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 EUR thousand)	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Entity consolidated statement of financial position total	-	-	-	-	**1 447 046**	**3 962 949**
Net carrying amount of Group interests in unconsolidated structured entities:	-		-		-	44 957
Assets:	-	-	-	-	**322**	**926 406**
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income					322	
Available-for-sale financial assets	-	-	-	-		498 297
Loan and advances to credit institutions and customers	-	-	-	-		428 109
Liabilities:	-	-	-	-	**3 317**	**39 157**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	90
Amounts due to credit institutions and customers	-	-	-	-	3 317	39 067
Other liabilities	-	-	-	-	-	-

The variation of the consolidated statement of financial positions for non-consolidated structured entities is mostly due to the decrease in balance sheet size of SGFD S.A. as at 31 December 2018 in view of its future liquidation.

	Asset financing		Asset management		Others	
(in EUR thousand)	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Amortized cost or fair value[(1)] (according to the measurement of the financial instrument) of non-derivative financial assets entered into with the structured entity	-	-	-	-	322	926 406
Fair value[(1)] of derivative financial assets recognized in the consolidated statement of financial position	-	-		-	-	-
Notional amount of loan or guarantee commitments granted	-	-	-	-	-	-
Maximum exposure to loss	**-**	**-**	**-**	**-**	**322**	**926 406**

The amount of maximum exposure to loss can be mitigated by:

- the notional amount of guarantee commitments received;
- the fair value 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 realizable or recoverable amounts.

The variation of the amortised cost of fair value is due to the decrese in balance sheet size of SGFD S.A. as at 31 December 2018 in view of its future liquidation.

3.2.6.2. SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES WHERE THE GROUP HAS NO INTEREST

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 structure;
- 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).

(1) Fair value at the closing date, which may fluctuate in subsequent periods.

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.

	Asset financing		Asset management		Others	
(in EUR thousand)	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Entity consolidated statement of financial position total[(1)]	**2 087**	**357**	**2 161 000**	**1 681 837**	**138**	**112 300**
Income from those entities during the reporting period	-	-	-	150	-	-
Carrying amounts of all assets transferred to those structured entities during the reporting period	-	-	-	-	-	-

NOTE 4 NOTES ON ASSETS

Note 4.1. Cash, due from central banks

4.1.1. ANALYSIS BY NATURE

Cash due from central banks are broken down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Cash	1 630	4 004
Balances with central banks	5 171 825	5 508 820
Total	**5 173 455**	**5 512 824**
o/w mandatory reserve	240 840	230 348

4.1.2. ANALYSIS BY MATURITIES

An analysis by contractual maturities is provided in Note 9.3.1.

Note 4.2. Financial assets at fair value through profit or loss

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2)

		Reclassifications		
(in EUR thousand)	Balance as at 31 December 2017 IAS 39	Available-for-sale financial assets	Other reclassifications	Balance as at 1 January 2018 IFRS 9
Trading portfolio	3 723 224	-	81 930	3 805 154
Financial instruments measured mandatorily at fair value through profit or loss	-	19 936	44 065 712	44 085 648
Financial assets at fair value through profit or loss using fair value option	44 135 755	-	(44 135 755)	-
Total	**47 858 979**	**19 936**	**11 887**	**47 890 802**

(1) For Asset management, NAV (Net Asset Value) of the fund.

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A. ANALYSIS BY NATURE

(in EUR thousand)	31 December 2018	1 January 2018
Trading portfolio	4 714 769	3 805 154
Financial assets measured mandatorily at fair value through profit or loss	45 095 121	44 085 648
Total	**49 809 890**	**47 890 802**

4.2.1. TRADING PORTFOLIO

4.2.1.1. ANALYSIS BY NATURE

(in EUR thousand)	31 December 2018	1 January 2018
Interest rate instruments	121 835	117 017
Foreign exchange instruments	163 269	201 089
Equity and index instruments	3 849 930	3 131 592
Commodities instruments	485 422	273 526
Other trading instruments	94 313	81 930
Total	**4 714 769**	**3 805 154**

4.2.1.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

4.2.1.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

4.2.2. FINANCIAL ASSETS MEASURED MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

4.2.2.1. ANALYSIS BY NATURE

(in EUR thousand)	31 December 2018	1 January 2018
Bonds and other debt securities	5 178	124
Shares and other equity instruments	27 810	34 191
Loans and receivables	45 062 133	44 051 333
Total	**45 095 121**	**44 085 648**

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 which are not SPPI compliant.

4.2.2.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

4.2.2.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

Note 4.3. Financial assets at fair value through Other Comprehensive Income

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2)

(in EUR thousand)	Balance at 31 December 2017 IAS 39	Reclassifications Available-for-sale financial assets	Balance at 1 January 2018 IFRS 9
Debt instruments at fair value through other comprehensive income		3 378 313	3 378 313
Total		**3 378 313**	**3 378 313**

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

4.3.1. ANALYSIS BY NATURE

Financial assets at fair value though Other Comprehensive Income are broken down as follows:

(in EUR thousand)	31 December 2018	1 January 2018
Bonds and other debt securities	3 338 542	3 378 313
Total	**3 338 542**	**3 378 313**
o/w unrealized gain/loss through OCI, excluding deferred taxes and allowances for impairment losses	*54 836*	*84 296*
Allowances for impairment losses	13	743

4.3.2. CHANGES OF THE CARRYING AMOUNT

(in EUR thousand)	2018
Balance as at 1 January	**3 378 313**
Acquisitions / disbursments	759 496
Disposals / redemptions	(751 221)
Change in scope and others	-
Transfers due to reclassification to (or from) another accounting category	(17 116)
Changes in fair value recognized directly in equity during the period	(30 189)
Change in related receivables	(1 835)
Translation differences	1 094
Balance as at 31 December	**3 338 542**

4.3.3. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

4.3.4. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

4.3.5. BREAKDOWN OF CUMULATED UNREALIZED GAINS AND LOSSES RECOGNIZED DIRECTLY IN EQUITY AND THAT WOULD BE RECLASSIFIED SUBSEQUENTLY INTO INCOME (EXCLUDING DEFERRED TAXES)

	31 December 2018		
(in EUR thousand)	Cumulated unrealized gains and losses	"o.w. without adjustments for credit risk"	"o.w. adjustments for credit risk"
Unrealised gains	61 356	61 343	13
Unrealised losses	(6 507)	(6 507)	-
Total	**54 849**	**54 836**	**13**

Note 4.4. Due from banks at amortized cost

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2.)

		Reclassifications	Value Adjustments	
(in EUR thousand)	**Balance at 31 December 2017 IAS 39**	Investments of insurance activities	Depreciation for credit risk	**Balance at 1 January 2018 IFRS 9**
Due from banks at amortised cost	**9 312 411**	**(35 148)**	**(697)**	**9 276 566**

OVERVIEW OF DUE FROM BANKS AT AMORTIZED COST

4.4.1. ANALYSIS BY NATURE

Amounts due from banks at amortized cost are broken down as follows:

(in EUR thousand)	**31 December 2018**	**1 January 2018**
Deposits and loans		
Demand and overnights		
Current accounts	462 021	396 162
Overnight deposits and loans and others	2	3 246
Term		
Term deposits and loans	9 537 355	8 863 920
Subordinated and participating loans	-	-
Loans secured by notes and securities	19 433	13 475
Gross amount	**10 018 811**	**9 276 803**
Impairment		
Allowances for impairment losses	(353)	(697)
Revaluation of hedged items	-	-
Net amount	**10 018 458**	**9 276 106**
Securities purchased under resale agreements	483	460
Total	**10 018 941**	**9 276 566**

4.4.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

Note 4.5. Customer loans at amortized cost

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2.)

(in EUR thousand)	Balance at 31 December 2017 IAS 39	Reclassifications		Value Adjustments	
		Other	Other reclassifications	Depreciation for credit risk	Balance at 1 January 2018 IFRS 9
Customer loans at amortized cost	**28 540 409**	**(11 887)**	**(5 316 855)**	**(20 086)**	**23 191 581**

OVERVIEW OF CUSTOMER LOANS AT AMORTIZED COST

4.5.1. ANALYSIS BY NATURE

Customer loans at amortized cost are broken down as follows:

(in EUR thousand)	31 December 2018	1 January 2018
Customer loans at amortized cost		
Trade loans	2 016 893	1 268 149
Other customer loans	22 963 651	20 779 858
o/w housing loans	1 276 805	1 062 121
o/w other loans	21 686 846	19 717 737
Overdrafts	815 870	1 145 192
Related receivables	42 441	54 851
Gross amount	**25 838 855**	**23 248 050**
Impairment		
Allowances for impairment losses	(36 456)	(56 933)
Revaluation of hedged items	**355**	**464**
Total	**25 802 754**	**23 191 581**

4.5.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

Note 4.6. Securities at amortized cost

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2.)

(in EUR thousand)	**Balance at 31 December 2017 IAS 39**	Reclassifications of Held-to-maturity financial assets	**Balance at 1 January 2018 IFRS 9**
Securities at amortized cost		**5 368 538**	**5 368 538**

OVERVIEW OF SECURITIES AT AMORTIZED COST

4.6.1. ANALYSIS BY NATURE

Securities at amortized cost are broken down as follows:

(in EUR thousand)	**31 December 2018**	**1 January 2018**
Government securities	-	49 963
Bonds and other debt securities	5 638 135	5 308 173
Related receivables	4 356	10 402
Impairment	(13)	-
Revaluation of hedged items	-	-
Total	**5 642 478**	**5 368 538**

4.6.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.1.

Note 4.7. Tangible and intangible fixed assets

31 December 2018

(in EUR thousand)	Gross book value as at 01 January 2018	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	54 888	7 192	(30 692)	(465)
Internally generated assets	24 269	-	-	-
Assets under development	32 609	3 231	(1 399)	(13 184)
Others	1 500	-	-	-
Sub-total	**113 266**	**10 423**	**(32 091)**	**(13 649)**
Property and Equipment				
Land and buildings	24 507	342	-	-
Assets under development	-	763	-	4
Others	86 137	3 201	(25 829)	(368)
Sub-total	**110 644**	**4 306**	**(25 829)**	**(364)**
Property and equipment and other intangible assets	**223 910**	**14 729**	**(57 920)**	**(14 013)**

31 December 2017

(in EUR thousand)	Gross book value as at 01 January 2017	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	50 425	5 020	-	(557)
Internally generated assets	20 340	-	(648)	4 577
Assets under development	21 396	14 422	-	(3 209)
Others	1 500	-	-	-
Sub-total	**93 661**	**19 442**	**(648)**	**811**
Property and Equipment				
Land and buildings	24 576	-	(69)	-
Others	69 238	16 899	-	-
Sub-total	**93 814**	**16 899**	**(69)**	**-**
Property and equipment and other intangible assets	**187 475**	**36 341**	**(717)**	**811**

(1) Mainly related to guarantee deposits paid on financial instruments, their fair value is taken to be the same as their book value net of depreciation for incurred credit risk.

(2) Mainly related to transitory accounts for coupon and dividend payments in relation to bonds and other financial instruments.

(3) The amount is composed of expected credit losses on commissions to receive from customers.

	Gross value as at 31 December 2018	Accumulated depreciation and amortisation of assets at 01 January	Allocations to amortisation and depreciation in the period	Impairment of assets in the period	Write-backs from amortisation and depreciation in the period	Changes in translation, consolidation scope and reclassifications	Net book value as at 31 December 2018
	30 923	(46 582)	(6 014)	-	30 692	1 162	10 181
	24 269	(12 619)	(4 370)	-	-	529	7 809
	21 257	-	-	-	-	-	21 257
	1 500	(1 281)	(125)	-	-	-	94
	77 949	**(60 482)**	**(10 509)**	**-**	**30 692**	**1 691**	**39 341**
	24 849	(17 992)	(644)	-	-	-	6 213
	767	-	-	-	-	-	767
	63 141	(59 043)	(7 080)	-	25 829	101	22 948
	88 757	**(77 035)**	**(7 724)**	**-**	**25 829**	**101**	**29 928**
	166 706	**(137 517)**	**(18 233)**	**-**	**56 521**	**1 792**	**69 269**

	Gross value as at 31 December 2017	Accumulated depreciation and amortisation of assets at 01 January	Allocations to amortisation and depreciation in the period	Impairment of assets in the period	Write-backs from amortisation and depreciation in the period	Changes in translation, consolidation scope and reclassifications	Net book value as at 31 December 2017
	54 888	(45 315)	(2 849)	-	-	1 582	8 306
	24 269	(10 154)	(3 106)	-	648	(7)	11 650
	32 609	-	-	-	-	-	32 609
	1 500	(1 156)	(125)	-	-	-	219
	113 266	**(56 625)**	**(6 080)**	**-**	**648**	**1 575**	**52 784**
	24 507	(17 364)	(628)	-	-	-	6 515
	86 137	(44 627)	(8 418)	-	-	(5 998)	27 094
	110 644	**(61 991)**	**(9 046)**	**-**	**-**	**(5 998)**	**33 609**
	(118 616)	**(15 126)**	**-**	**648**	**(4 423)**	**86 393**	**86 393**

Note 4.8. Other assets

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2)

(in EUR thousand)	Balance at 31 December 2017 IAS 39	Value Adjustments Depreciation for credit risk	Balance at 1 January 2018 IFRS 9
Other assets	**766 772**	**(222)**	**766 550**

OVERVIEW OF OTHER ASSETS

A. BREAKDOWN OF OTHER ASSETS

Other assets are broken down as follows:

(in EUR thousand)	31 December 2018	1 January 2018
Guarantee deposits paid[(1)]	326 382	190 984
Settlement accounts on securities transactions	102 647	106 891
Prepaid expenses	11 994	23 581
Amounts receivable and prepayments	196 480	149 584
Accrued income	45 470	3 768
Other[(2)]	164 446	291 964
Gross amount	**847 419**	**766 772**
Impairment[(3)]	(183)	(222)
Net amount	**847 236**	**766 550**

(1) Mainly related to guarantee deposits paid on financial instruments, their fair value is taken to be the same as their book value net of depreciation for incurred credit risk.

(2) Mainly related to transitory accounts for coupon and dividend payments in relation to bonds and other financial instruments.

(3) The amount is composed of expected credit losses on commissions to receive from customers.

NOTE 5 NOTES ON LIABILITIES

There was no impact of first-time adoption of IFRS 9 standard on the financial liabilities as of 1 January 2018. Please also refer to Note 2.2.2.

Note 5.1. Financial liabilities at fair value through profit or loss

(in EUR thousand)	31 December 2018	31 December 2017
Trading portfolio	4 606 597	3 725 900
Financial liabilities at fair value through profit or loss using fair value option	45 054 613	44 048 591
Total	**49 661 210**	**47 774 491**

Trading derivatives constituting the main part of the trading portfolio are recorded in the statement of financial position under “Financial assets or liabilities at fair value through profit or loss”.

These assets and liabilities respectively include:

- options purchased in order to hedge the issued warrants;
- warrants issued by the Group through its issuer subsidiary.

The notional amounts of the Warrants issued together with the hedging options purchased are reported on the off-balance sheet.

The Group 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.

5.1.1. TRADING PORTFOLIO

5.1.1.1. ANALYSIS BY NATURE

(in EUR thousand)	31 December 2018	31 December 2017
Interest rate instruments	265 652	272 836
Foreign exchange rate instruments	154 108	197 039
Equity and index instruments	3 959 195	3 087 759
Commodities instruments	226 894	168 154
Other trading Instruments	748	112
Total	**4 606 597**	**3 725 900**

5.1.1.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.2.

5.1.1.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

5.1.2. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS USING FAIR VALUE OPTION

5.1.2.1. ANALYSIS BY NATURE

(in EUR thousand)	31 December 2018	31 December 2017
Structured notes	45 053 000	44 046 920
Other financial liabilities	1 613	1 671
Total	**45 054 613**	**44 048 591**

Financial liabilities measured at fair value through profit or loss using the fair value option predominantly consist of structured notes issued by the Group.

Please also refer to Note 2.3.3.4.3. for more details.

5.1.2.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.2.

5.1.2.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

Note 5.2. Due to banks

5.2.1. ANALYSIS BY NATURE

Amounts due to banks are broken down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Demand and overnight		
Demand deposits and current accounts	558 560	321 780
Overnight deposits and borrowings and others	5 510	3 741
Sub-total	**564 070**	**325 521**
Term deposits		
Term deposits and borrowings	17 378 265	17 667 133
Borrowings secured by notes and securities	-	-
Sub-total	**17 378 265**	**17 667 133**
Related payables	10 931	15 120
Revaluation of hedged items	-	-
Securities sold under repurchase agreements	1 773 003	1 903 017
Total	**19 726 269**	**19 910 791**

5.2.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.2.

Note 5.3. Customers deposits

5.3.1. ANALYSIS BY NATURE

Customers deposits are broken down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Other demand deposits		
Profesionnals and corporates	9 189 616	7 382 044
Individual customers	2 612 859	2 686 321
Financial customers	641 941	845 819
Other	59 594	54 300
Sub-total	**12 504 010**	**10 968 484**
Other term deposits		
Profesionnals and corporates	2 262 254	3 677 702
Individual customers	609 903	593 311
Financial customers	10 468 249	7 456 931
Other	12 927	1 809
Sub-total	**13 353 333**	**11 729 753**
Related payables	10 922	8 035
Revaluation of hedged items	-	-
Total customer deposits	**25 868 265**	**22 706 272**
Borrowings secured by notes and securities	-	-
Securities sold to customers under repurchase agreements	-	2
Total	**25 868 265**	**22 706 274**

5.3.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.2.

5.3.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

Note 5.4. Debt securities issued

5.4.1. ANALYSIS BY NATURE

Debt securities issued are broken down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Term savings certificates	-	-
Bond borrowings	-	1
Interbank certificates and negotiable debt instruments	454 626	505 203
Related payables	5 679	526
Total	**460 305**	**505 730**
Revaluation of hedged items	-	-
Total	**460 305**	**505 730**

5.4.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Note 9.3.2.

5.4.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

Note 5.5. Other liabilities

Other liabilities are broken down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Guarantee deposits received(1)	9 160	64 569
Settlement accounts on securities transactions	67 448	197 090
Other securities transactions	21	19
Expenses payable on employee benefits	24 210	27 032
Deferred income	9 520	8 600
Accrued expenses	-	79 311
Amounts payables and sundry creditors(2)	1 173 339	496 045
Total	**1 283 698**	**872 666**

(1) Mainly related to guarantee deposits paid on financial instruments, their fair value is taken to be the same as their book value.

(2) Mainly related to a new transaction of the SG CMF entity that was concluded during the year 2018 and that generates a deferred purchase amount. This will be repaid to the seller of the receivables at each settlement date depending on the collections received from this seller.

Note 5.6. Insurance activities

Financial liabilities related to insurance activities were not impacted by the first-time application of IFRS 9. Please also refer to Note 2.2.2.

5.6.1. INSURANCE CONTRACTS RELATED LIABILITIES

(in EUR thousand)	31 December 2018	31 December 2017
Underwriting reserves of insurance companies [1]	246 124	231 563

UNDERWRITING RESERVES OF INSURANCE COMPANIES

(in EUR thousand)	31 December 2018	31 December 2017
Life insurance underwriting reserves	137 498	135 123
Non-life insurance underwriting reserves	108 626	96 440
Total	**246 124**	**231 563**
Attributable to reinsurers	(169)	(169)
Underwriting reserves of insurance companies (including provisions for deferred profit-sharing) net of the share attributable to reinsurers	**245 955**	**231 394**

STATEMENT OF CHANGES IN UNDERWRITING RESERVES

(in EUR thousand)	Life insurance underwriting reserves	Non-life insurance underwriting reserves
Reserves at 1 January 2018	**135 123**	**96 440**
Allocation to insurance reserves	2 375	12 186
Reserves at 31 December 2018 (except provisions for deferred profit-sharing)	**137 498**	**108 626**

BREAKDOWN OF UNDERWRITING RESERVES OF INSURANCE COMPANIES BY RESIDUAL MATURITY

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total as at 31 December 2018
Underwriting reserves of insurance companies	**-**	**32 706**	**130 820**	**82 598**	**246 124**

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total as at 31 December 2017
Underwriting reserves of insurance companies	**-**	**30 667**	**122 668**	**78 228**	**231 563**

(1) The amount corresponds to life and non-life insurance underwriting reserves.

5.6.2. INVESTMENTS OF INSURANCE ACTIVITIES

Based on the fact that the caption “Net investments of insurance companies” did not exist as at 31 December 2017, comparative figures were applied as at 1 January 2018.

(in EUR thousand)	31 December 2018	1 January 2018
Available-for-sale financial assets	479 659	463 132
Debt instruments	332 366	313 876
Equity instruments	147 293	149 256
Due from banks	**49 086**	**74 379**
Total investments of insurance companies before elimination of intercompany transactions	**528 745**	**537 511**
Elimination of intercompany transactions	**(49 086)**	**(39 231)**
Total investments of insurance companies after elimination of intercompany transactions	**479 659**	**498 280**

5.6.3. ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

The following table shows the carrying value of the financial assets included in *Net investments from insurance activities*, whereby those assets whose contractual conditions give rise to cash-flows on set dates which are solely payments of principal and interest (basic instruments) are placed in a separate category which excludes trading assets and assets measured using the fair value option through profit or loss.

	31 December 2018			
(in EUR thousand)	Basic instruments	Other instruments(1)	Total carrying amount	Fair value
Financial assets at fair value	332 366	147 293	479 659	479 659
Total carrying amount at the end of the period	**332 366**	**147 293**	**479 659**	**479 659**

(1) Other instruments are mainly composed of equity instruments.

5.6.4. FAIR VALUE HIERARCHY OF "AVAILABLE-FOR-SALE" FINANCIAL ASSETS FROM INSURANCE ACTIVITIES(2)

	31 December 2018			
(in EUR thousand)	(L1)	(L2)	(L3)	Total
Available-for-sale financial assets	477 404	-	2 255	479 659
Total	**477 404**	**-**	**2 255**	**479 659**

	1 January 2018			
(in EUR thousand)	(L1)	(L2)	(L3)	Total
Available-for-sale financial assets	460 877	-	2 255	463 132
Total	**460 877**	**-**	**2 255**	**463 132**

(in EUR thousand)	2018
Balance as of 1 January 2018	463 132
Acquisitions	76 126
Disposals / redemptions	(41 891)
Transfers to held-to-maturity financial assets	-
Change in scope and others	(3 279)
Gains and losses on changes in fair value recognised directly in equity during the period	(14 429)
Change in impairment on debt instruments recognised in profit or loss	-
o/w allocations	-
o/w reversals	-
Impairment losses on equity instruments recognised in profit or loss	-
Translation differences	-
Balance as of 31 December 2018	**479 659**

(2) The fair value hierarchy levels (L1), (L2) and (L3) are explained in accounting principles Note 2.3.3.7.2

5.6.5. UNREALISED GAINS AND LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	31 December 2018		
(in EUR thousand)	**Capital gains**	**Capital losses**	**Net revaluation**
Unrealised gains and losses of insurance companies	**19 639**	**(3 076)**	**16 563**
On available-for-sale equity instruments	*11 899*	*(319)*	*11 580*
On available-for-sale debt instruments and assets reclassified as loans and receivables	*7 740*	*(2 757)*	*4 983*

	1 January 2018		
(in EUR thousand)	**Capital gains**	**Capital losses**	**Net revaluation**
Unrealised gains and losses of insurance companies	**31 502**	**(510)**	**30 992**
On available-for-sale equity instruments	*12 590*	*(191)*	*12 399*
On available-for-sale debt instruments and assets reclassified as loans and receivables	*18 912*	*(319)*	*18 593*

5.6.6. NET INCOME FROM INSURANCE ACTIVITIES

The following table shows the breakdown of income and expense from insurance activities and associated investments on a separate line under *Net Banking Income: net income from insurance activities* (after eliminating intercompany transactions).

(in EUR thousand)	**2018**
Net premiums	123 008
Net income from investments	3 089
Cost of benefits (including changes in reserves)	(86 677)
Other net technical income (expense)	(4 282)
Net income from insurance activities	**35 138**
Funding cost	(2 893)
Net banking income of insurance companies	**32 245**

(in EUR thousand)	**2018**
Dividend income on equity instruments	595
Interest income	4 420
On available-for-sale financial assets	*7 550*
Other net interest income	*(3 130)*
Net gains and losses on financial instruments at fair value through profit or loss	(2 122)
Net gains and losses on available-for-sale financial instruments	196
Capital gains and losses on sale of debt instruments	*196*
Total net income from investments	**3 089**

5.6.7. 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 undergo regular monitoring and are reported to the General Management of both the entities concerned and the business lines.

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 just like objectives on long-term performance. The optimisation 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 analysed by the Finance and Risk Department of the insurance business line. Societe Generale's overall asset and liability management policy is validated by the Group Board of Directors at the ALM Committee meetings held every six months.

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 of exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per rating issuer and per category of assets;
- 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 CSSF after approval by the Board;
- application of policies related to ALM and investment risks.

5.6.7.1. BREAKDOWN OF INVESTMENTS BY RATING OF BASIC INSTRUMENTS

The following table shows the carrying amounts after eliminating intercompany transactions.

	31 December 2018		
(in EUR thousand)	**Available-for-sale financial assets**	**Due from banks**	**Total**
AAA	31 792	-	31 792
AA+ / AA / AA-	154 214	-	154 214
A+ / A / A-	96 823	49 086	145 909
BBB+ / BBB / BBB-	133 324	-	133 324
BB+ / BB / BB-	6 870	-	6 870
B+ / B / B-	1 444	-	1 444
CCC+ / CCC / CCC-	-	-	-
CC+ / CC / CC-	-	-	-
Lower than CC-	-	-	-
Without rating	55 192	-	55 192
Total before impairment	**479 659**	**49 086**	**528 745**
Elimination of intercompany transactions	-	(49 086)	(49 086)
Carrying amount	**479 659**	**-**	**479 659**

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 5.7. Provisions

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 2.2.2)

(in EUR thousand)	Balance as at 31 December 2017 IAS 39	Adjustments Depreciation for credit risk and provisions	Balance as at 1 January 2018 IFRS 9
Provisions	76 114	1 931	78 045
Total Provisions	**76 114**	**1 931**	**78 045**

OVERVIEW OF PROVISIONS

Provisions are broken down as follows:

31 December 2018

(in EUR thousand)	Provisions as at 1 January 2018	Allocations	Write-backs available	Net allocation	Write-backs used	Actuarial gains and losses	Currency and scope effects	Provisions as at 31 December 2018
Provisions for employee benefits	50 660	10 079	(7 616)	2 463	(24)	6 719	(1 005)	58 813
Provision for litigations	3 258	660	(529)	131	-	-	(180)	3 205
Provision for financing commitments	1 412	637	(1 369)	(732)	-	-	123	803
Provision for Guarantee commitments	519	335	(508)	(173)	-	-	(45)	301
Other provisions[1]	22 196	2 500	-	2 500	-	-	(664)	24 036
Total	**78 045**	**14 211**	**(10 022)**	**4 189**	**(24)**	**6 719**	**(1 771)**	**87 158**

31 December 2017

(in EUR thousand)	Provisions as at 1 January 2017	Allocations	Write-backs available	Net allocation	Write-backs used	Actuarial gains and losses	Currency and scope effects	Provisions as at 31 December 2017
Provisions for off-balance sheet commitments to banks	-	-	-	-	-	-	-	-
Provisions for off-balance sheet commitments to customers	-	-	-	-	-	-	-	-
Provisions for employee benefits	65 452	11 534	(9 006)	2 528	-	(16 349)	(971)	50 660
Provisions for litigations	8 721	277	(5 478)	(5 201)	-	-	(262)	3 258
Other provisions[1]	26 855	3 916	(4 394)	(478)	(1 478)	-	(2 703)	22 196
Total	**101 028**	**15 727**	**(18 878)**	**(3 151)**	**(1 478)**	**(16 349)**	**(3 936)**	**76 114**

(1) Other provisions are mainly composed of provisions in relation with ongoing matter with foreign tax authorities.

Note 5.8. Impairment and provisions

This caption has been impacted by the first-time adoption of IFRS 9, please refer to Note 2.2.2.3 for the reconciliation between impairment and provisions as at 31 December 2017 and 1 January 2018.

(in EUR thousand)	31 December 2018	1 January 2018
Impairment of financial assets at fair value through other comprehensive income	13	743
Impairment of financial assets at amortised cost	37 005	57 853
Total impairment on Financial assets	**37 018**	**58 596**
Provisions for financing commitments	803	1 412
Provisions for guarantee commitments	302	519
Total Credit Loss Impairment	**38 123**	**60 527**

5.8.1. IMPAIRMENT OF FINANCIAL ASSETS

BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

(in EUR thousand)	Asset impairments as at 1 January 2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Asset impairments as at 31 December 2018
Financial assets at fair value through OCI	**743**	**-**	**(96)**	**(96)**	**(596)**	**(38)**	**13**
Impairment on performing exposures (Stage 1)	147	-	(96)	(96)	-	(38)	13
Impairment on under-performing exposures (Stage 2)	-	-	-	-	-	-	-
Impairment on doubtful exposures (Stage 3)	596	-	-	-	(596)	-	-
Financial instruments at amortised cost	**57 853**	**25 620**	**(18 920)**	**6 700**	**(27 933)**	**385**	**37 005**
Impairment on performing exposures (Stage 1)	9 419	4 745	(3 792)	953	-	47	10 419
Impairment on under-performing exposures (Stage 2)	11 586	443	(11 080)	(10 637)	-	19	968
Impairment on doubtful exposures (Stage 3)	36 848	20 432	(4 048)	16 384	(27 933)	319	25 618
Total	**58 596**	**25 620**	**(19 016)**	**6 604**	**(28 529)**	**347**	**37 018**

The increase in allocation for Stage 3 financial instruments at amortised cost is mainly (EUR 12 105 thousand) linked to the one client identified on the OFAC list on 4 April 2018.

Following an assessment of the identified client situation, its ability to reimburse was assessed as compromised and the Group resolved to record a provision for impairment.

5.8.2. PROVISIONS FOR CREDIT RISK

BREAKDOWN OF PROVISIONS

(in EUR thousand)	**Amounts as at 1 January 2018**	**Allocations**	**Write-backs available**	**Net allocations**	**Write-backs used**	**Currency and scope effects**	**Asset impairments as at 31 December 2018**
Financing commitments	**1 412**	**637**	**(1 369)**	**(732)**	**-**	**123**	**803**
Provisions on performing exposures (Stage 1)	625	637	(422)	215	-	(37)	803
Provisions on under-performing exposures (Stage 2)	787	-	(947)	(947)	-	160	-
Guarantee commitments	**519**	**335**	**(508)**	**(173)**	**-**	**(44)**	**302**
Provisions on performing exposures (Stage 1)	111	334	(100)	234	-	(44)	301
Provisions on under-performing exposures (Stage 2)	408	1	(408)	(407)	-	-	1
Total	**1 931**	**972**	**(1 877)**	**(905)**	**-**	**79**	**1 105**

Note 5.9. Employee benefits

NOTE 5.9.1. EMPLOYEE BENEFITS - RETIREMENT PLAN

A. PLANS' PROVISIONS AND ASSUMPTIONS

Disclosures are provided only for main retirement plans in the Group: the Luxembourg plan in place at Societe Generale Bank & Trust S.A. ("SGBT"), Societe Generale Private Wealth Management S.A. ("SGPWM") and the Swiss plan in place at SG Private Banking (Suisse) S.A. ("SGPBS").

Societe Generale Bank & Trust S.A. ("SGBT") retirement plan also covers the other subsidiaries of the Group – except for Societe Generale Private Wealth Management S.A. ("SGPWM") and SG Private Banking (Suisse) S.A. ("SGPBS") that follow their own retirement plan. The retirement plan provisions are recharged by SGBT to its subsidiaries based on the actual amount of provision booked in SGBT's accounts.

The Luxembourg retirement plan provisions

The Group offers a supplemental defined benefit retirement plan to all eligible employees at its headquarters in Luxembourg.

Under the defined benefit retirement plan, payment of a supplementary pension to the Luxembourg government pension starting from age 65 is planned. The goal of the business pension plan is to grant, for 35 years of service, benefits equal to approximately 60% of salary at retirement, including Luxembourg Social Security.

More specifically, for 35 years of service in the company, the retirement benefit will be equal to 8.33% of the portion of the final pensionable salary, limited to the pension ceiling plus 62.5% of the final pensionable salary that surpasses this ceiling. The salary used for calculation purposes is the annual base salary. The pension benefit is a planned joint and survivor annuity of 60% to the survivor after retirement.

The plan allows for payment of capital instead of the planned supplemental retirement annuity. By its nature, this defined benefit retirement plan exposes SGBT to certain associated actuarial risks, such as investment risk, interest rate risk, longevity, inflation and the effect of an increase in payroll.

Investment risk	The present value of the defined benefit commitment is calculated using a discount rate determined by reference to the interest rates of the highest-quality corporate bonds. If the return on plan assets is below this rate, this will create a plan deficit. The plan assets are limited to those of a reduced insurance group that benefits from a guaranteed return from an insurer.
Interest rate risk	A decline in interest rates for bonds will increase the plan's commitments.
Longevity risk	The present value of the pension commitment is calculated taking into account the estimated mortality tables. The objective being to best reflect the mortality of the pension plan's participants. However, an increase in the life expectancy of participants will increase the plan's commitments.
Risk of payroll growth	The present value of the pension commitment is calculated under the assumption that the pension plan's participants' salaries will increase. Any future increase that is greater than the estimate will increase the plan's commitments.
Inflation risk	The inflation rate directly affects the changes in payrolls and the pension ceiling. An increase in the inflation rate will cause an increase in the current value of the pension commitments.

Risks related to benefits paid to beneficiaries in the event of the death of a plan participant before retirement age is insured by an insurance company.

The Swiss retirement plan provisions

The plan provisions detailed were effective from 1 January 2011.

All employees aged at least 18 with an indefinite working contract beyond 3 months are eligible.

For death and disability benefits, participation starts at hire date, but not before 1st of January following 17th birthday. For retirement and termination benefits, participation starts at hire date, but not before 1st of January following 22nd birthday.

The participant has the option of electing to take all the benefit as a pension payable monthly or electing to take part or all of the benefit as a lump sum.

Annual pension payable monthly (if married or have a registered partner, 60% J&S annuity and if single, life annuity): Accrued Retirement Savings Capital converted to annuity using conversion rates, varying by portion of benefit associated with BVG (Survivors', disability and pension plan) minimum benefit and portion of benefit in excess of BVG minimum benefit.

Lump sum: Accrued Retirement Savings Capital.

The plan must be financed.

The components of the overall contribution include the cost of:

- retirement benefits;
- risk benefits (death, disability), including cost-of-living adjustments;
- payments to the Guarantee Fund;
- administrative costs.

The Group has measured the obligations of the retirement plan as at 31 December 2018 and as at 31 December 2017 in accordance with IAS19 Revised.

The present value of the defined benefit pension obligation as well as the pension cost related to one year of service were measured using the actuarial method called the "projected unit credit method".

The principal assumptions used for measuring pension fund obligations are summarized below:

	31 December 2018		31 December 2017	
Luxembourg				
SGBT				
Discount rate	1.60%		1.50%	
Inflation rate	1.50%		1.72%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Rate	Age	Rate
	<35 years	1,9%-2,00%	<35 years	1,9%-2,00%
	35 years <= age < 45 years	1%-1,3%	35 years <= age < 45 years	1%-1,3%
	45 years <= age < 55 years	0,3%-0,65%	45 years <= age < 55 years	0,3%-0,65%
	55 years <= age < 65 years	0%-0,7%	55 years <= age < 65 years	0%-0,7%
PWM				
Discount rate	1.80%		1.80%	
Inflation rate	1.70%		1.73%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Rate	Age	Rate
	<35 years	1,9%-2,00%	<35 years	1,9%-2,00%
	35 years <= age < 45 years	1%-1,3%	35 years <= age < 45 years	1%-1,3%
	45 years <= age < 55 years	0,3%-0,65%	45 years <= age < 55 years	0,3%-0,65%
	55 years <= age < 65 years	0%-0,7%	55 years <= age < 65 years	0%-0,7%
Switzerland				
SGPBS				
Discount rate	0.68%		0.56%	
Inflation rate	1.00%		1.00%	
Expected rate of return on assets	N/A		n/a	
Compensation increase rate (excluding indexation)	1.20%		1.20%	

The discount rate used as at 31 December of the year in question is based on the yield curve for corporate bonds rated AA.

This curve is observed in October via the Merrill Lynch Index.

IAS19 requires taking the same rate for the expected return. The inflation rates used are in line with the long-term objectives of the central banks of the Euro zone.

The cost of services rendered and the net interest on net liabilities (assets) are reported under “Staff expenses” in profit or loss.

Following the adoption of IAS 19, the “corridor” method is no longer used: net actuarial gains are now reported at their total amount on the liability side of the consolidated statement of financial position.

Revaluations of net liabilities (assets) are reported in the other items of comprehensive income.

B. PLAN RESULTS

Amounts included in the comprehensive income related to the main defined benefit pension plans are summarized below:

(in EUR thousand)	31 December 2018	31 December 2017
Service cost		
– Cost of services rendered during the reporting period	8 528	8 518
– Cost of past services and profit or loss resulting from liquidation(*)	-	-
Net interest on the net liabilities (assets)	546	609
Amounts recognised in net income	**9 074**	**9 127**
Revaluations of net liabilities (assets) to report in the other items of comprehensive income	-	-
– Impact of changes to demographic assumptions	-	(4 535)
– Impact of changes to financial assumptions	(3 940)	(853)
– Impact of adjustments due to experience	5 183	(1 328)
– Return on assets excluding amounts included in interest income	4 684	7 913
– Return on hedging assets excluding amounts included in interest income	-	-
Amount recognised in other items of comprehensive income	**5 927**	**1 197**
Total	**15 001**	**10 324**

C. PENSION PLAN LIABILITIES

The pension plan's liabilities according to IAS 19R breaks down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Defined benefit obligation	191 913	181 943
Fair value of plan assets	(142 374)	(140 344)
Net defined benefit asset/ (liability)	**49 539**	**41 599**

D. ACTUARIAL GAINS AND LOSSES(*)

As at 31 December 2018, total actuarial gains and losses were as follows:

(in EUR thousand)	
Total at January 1, 2017	**-**
Net 2017 change	2 275
Total at 31 December 2017	**2 275**
Net 2018 change	(11 269)
Total at 31 December 2018	**(8 994)**

E. CHANGE IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS DURING THE YEAR

The reconciliation of opening and closing obligation balances related to defined benefits for the current year is as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Obligation in relation to defined benefits - Opening	**181 943**	**219 578**
Service cost	11 324	8 666
Past service cost	-	-
Interest expense	1 359	1 406
Employee contribution	-	2 913
Paid benefits	(1 501)	(9 255)
Transfer between group entities	59	110
Revaluation - actuarial gains and losses	1 223	(7 470)
Paiement from plan assets	(7 950)	(14)
Settlement	-	(18 916)
Translation effect	5 662	(15 075)
Obligation in relation to defined benefits - Closing	**192 119**	**181 943**

F. CHANGE IN FAIR VALUE OF PLAN ASSETS

The reconciliation of opening and closing obligation balances of the fair value of assets for the current year is as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Fair value of plan assets - Opening	**140 344**	**163 505**
Interest income	813	654
Employee contributions	2 833	2 913
Employer contributions	5 586	5 860
Paid benefits	(7 901)	(8 444)
Transfer between group entities	-	-
Transfer through expense	-	-
Settlement	-	(18 916)
Return on assets excluding amounts included in interest income	(4 654)	8 198
Translation effect	5 353	(13 425)
Fair value of plan assets - Closing	**142 374**	**140 345**

For SGBT, the fair value of plan assets is comprised of mathematical reserves of past insurance contracts of the Group to which no contributions have been made since 1997. These reduced insurance contracts benefit from a guaranteed return by the insurer.

G. FAIR VALUE OF PLAN ASSETS

The breakdown by asset category of the fair value of assets at the end of the reporting period is as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Insurance contracts	7 554	7 272
Equity	46 033	37 479
Bonds	59 321	60 694
Property	16 252	14 964
Other	13 214	19 936
Plan assets at fair value - Closing	**142 374**	**140 345**

The fair value of assets is comprised of mathematical reserves of past insurance contracts of the Group to which no contributions have been made since 1997. These reduced insurance contracts benefit from a guaranteed return by the insurer.
Assets held are not quoted in an active market.

H. CHANGE IN REDEMPTION RIGHTS

The reconciliation of opening and closing obligation balances of the fair value of redemption rights for the current year is as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Redemption rights at fair value - Opening	**652**	**649**
Interest income	10	10
Employer contributions	-	-
Repaid benefits	(159)	(8)
Transfer between group entities	-	-
Return on redemption rights excluding amounts included in interest income	24	1
Translation effect	-	-
Plan assets at fair value - Closing	**527**	**652**

I. SENSITIVITY ANALYSIS

Actuarial assumptions which are significant in determining pension commitments are: discount rates, inflation and future payroll growth.

The calculation's sensitivity to these individual key assumptions was analyzed on the date of the calculation, i.e. 31 December 2018, using the same projection method (projected unit credit method).

The impact of each individual assumption is not representative of the potential impact of a sensitivity analysis based on combined variations of assumptions.

DBO sensitivity to a change of assumptions by +0.5%, -0.5% would have the following effect as at 31 December 2018:

2018

Luxembourg

SGBT

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	7,5%	7,6%	0,2%
Discount rate +0,5%:	-6,8%	-6,9%	-0,6%
Inflation rate -0,5%:	-5,1%	-6,2%	-6,0%
Inflation rate +0,5%:	5,5%	6,7%	6,5%
Salary increase +0,5%:	10,0%	12,5%	12,0%

PWM

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	9,4%	9,5%	4,5%
Discount rate +0,5%:	-8,4%	-8,4%	-3,0%
Inflation rate -0,5%:	-7,7%	-8,5%	-7,8%
Inflation rate +0,5%:	8,4%	9,3%	9,9%
Salary increase +0,5%:	18,4%	19,8%	20,4%

Switzerland

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	7,1%	8,1%	7,0%
Discount rate +0,5%:	-6,2%	-7,1%	-7,3%
Inflation rate -0,5%:	-1,0%	0,2%	0,1%
Inflation rate +0,5%:	0,9%	0,1%	0,2%
Salary increase +0,5%:	1,0%	0,1%	0,2%

J. PLAN FINANCING

Luxembourg law does not require companies to outsource pension obligations to a pension fund or an insurance group.

The Group's retirement plan is funded directly by the payment of benefits when they become due. In order to provide the benefits expected, the Group recognizes accounting reserves in consolidated statement of financial position liabilities. The retirement plan can be considered as an internally-funded retirement plan. Pension plan liabilities are recognized in the consolidated statement of financial position of the company while pension plan assets are included in the assets used in the company's business activities. Should the company become insolvent, a mechanism to protect pension rights is provided through insolvency insurance with the German pension security fund ("Pensionssicherungsverein" - PSV). Finally, for staff hired before 1997, a small part of the retirement obligation is funded in a former insurance group that no longer receives additional inflows of contributions. There is also a reduced hedging insurance reserve.

Plan duration:

In years		**31 December 2018**	**31 December 2017**
Luxembourg	SGBT	14,4	14,9
	PWM	17,8	17,8
Switzerland	SGPBS	13,2	16,1

Expected future benefit payments are as follows:

Year	**Luxembourg**	**Switzerland**
		31 December 2018
		(in EUR thousand)
2020	891	9 113
2021	1 424	10 116
2022	983	8 751
2023	1 658	8 914
2024-2028	11 184	41 796

Year	**Luxembourg**	**Switzerland**
		31 December 2017
		(in EUR thousand)
2019	907	9 038
2020	881	8 833
2021	1 406	9 204
2022	1 316	8 297
2023-2027	11 906	38 633

K. TREATMENT OF ENTITIES THAT PARTICIPATE IN THE PLAN BUT ARE NOT PART OF SGBT GROUP

For entities that participate in the plan but are not part of SGBT Group, paragraphs 32 to 39 of IAS 19 apply, and the plan is treated as a multiemployer plan.

There are two possible scenarios, depending on whether the entity does or does not have sufficient data to categories the plan in its books as a defined benefit or defined contribution plan.

The number of employees (active or retired) benefiting from the plan in each entity must be considered as a major feature. In fact, the use of projection techniques (IAS 19's projected unit credit method) and all demographic parameters based on a small number of people cannot give truly pertinent results and generates significant statistical volatility each time there is a change in personnel. In such cases the results could be considered insufficiently reliable.

Furthermore, some of these entities have an employee policy based on the use of employees that stay with the entity for a short period (four to five years) and come from/return to SGBT, effectively resulting in high employee turnover. Similarly, in this context, projecting these employees' compensation over the long term does not make much sense as, by design, they do not remain with the company although they stay with the Group.

Within this framework, and in order to prevent administrative work that does not take into account financial challenges at the SGBT Group level, these entities treat this plan as a defined benefit plan (paragraph 36) and pay SGBT their share of the total annual cost of financing the plan, proportional to the percentage of total eligible employees represented by the entities' employees, through a contractual agreement.

The materiality threshold has been set at 20 people (i.e., 3% of the total number of employees benefiting from the plan) as defined with the actuary in charge of the work.

L. TREATMENT OF ENTITIES THAT PARTICIPATE IN THE PLAN AND ARE PART OF SGBT GROUP

Paragraphs 40 to 42 of IAS 19 describe this specific case.

The concerned entities have a small number of employee plan members (less than 5 full-time equivalent employees).

Furthermore, the various entities related to SGBT are parties to general agreements covering the reinvoicing of services that they receive (not only with respect to human resources) and also signed an agreement involving the employee and SGBT that confirms their financial contribution to the supplementary pension plan.

In light of these factors, SGBT is considered to keep the total liability for these employees on its books and invoices the entities for their share of the financing of this plan in the form of a contribution to the plan's net expenses.

For simplicity's sake, these expenses are determined annually and invoiced on a monthly basis. The amount of these expenses is a share of the plan's total cost proportional to the percentage of total eligible employees represented by the entity's employees.

M. TREATMENT OF ENTITIES THAT DO NOT PARTICIPATE IN THE PENSION PLAN AND EMPLOY STAFF FROM AN AFFILIATED ENTITY

This occurs when SGBT assigns its personnel to other Societe Generale Group entities. In such cases, employee entitlements in the pension plan are maintained during their assignment period.

The obligation remains with the original affiliation entity. The unaffiliated entity, to which an employee is assigned, has no obligation, not even an implicit one, to the defined benefit plan.

The original entity therefore invoices the expense of maintaining the employee's entitlements under the supplementary pension plan to the entity to which the employee is assigned, as it does for other employee benefits. Societe Generale has implemented a standard reinvoicing contract that the assigning entity must use, filling out the appendices with the various benefits due to the employee in question.

Accordingly, the accounting treatment used is the one used for intra-Group billing of payroll expenses in the entity to which an employee is assigned and for defined benefits in the original entity. Income received from each entity contributes to the financing of the plan at the original entity.

For simplicity's sake, the invoicing principles is based on a fixed amount, defined annually in proportion to the length of time that employees are assigned to an entity and based on the annual cost of the plan and the percentage represented by assigned employees in the total number of eligible employees in the plan.

N. DEFINED CONTRIBUTION PLAN

Starting in 2015, all new incoming SGBT employees enroll in a defined contribution pension plan.

Retirement capital

Retirement capital, or Early Retirement capital, is paid to Plan Members when they retire at normal retirement age or when they take early retirement, respectively.

Plan Members have the option of taking all of the benefit as a pension payable monthly or taking part or all of the benefit as a lump sum.

Death benefit

If a Plan Member dies before retirement age, the retirement savings at the time of death are paid in the form of capital to the Beneficiaries designated in the event of death.

Employer contributions

Employer contributions are calculated as follows: 2.5% S1 + 9% S2

Where:

- S1 represents the portion of S below the annual cap on contributions to Social Security in force as of the calculation date;
- S2 represents the portion of S which exceeds this cap;
- S represents January's monthly salary x 13.

The employer contribution is multiplied by the percentage of employee time as of the calculation date.

The employer contribution for the year of enrolment in the plan may be paid, in accordance with the plan's administrative provisions, in the year of enrolment or in the following year.

SGBT allocated EUR thousand 1 025 as employer contribution in 2018. For the same period SGPWM allocated EUR thousand 23.

Personal contributions

The Plan Member may elect to contribute to the Plan and can choose the monthly or annual contribution amount at the time of enrolment.

Funding vehicle

The Plan Member may choose from among three financial management and investment formulae for investing the investment of employer contributions, and for the transfer of any entitlements resulting from employer contributions.

However, according to current legal provisions, personal contributions may only be invested in a fund with a guaranteed rate of return at least equal to the rate set by the Commissariat aux Assurances (Luxembourg Insurance Commission).

Finance

The company guarantees the payment of benefits and contributions provided for by the supplementary pension plan.

To accomplish this, the Company signed a group insurance contract with the AXA insurance company.

5.9.2. EMPLOYEE BENEFITS - JUBILEE AWARDS

A. PLANS' PROVISIONS AND ASSUMPTIONS

Disclosures are provided only for the two mains jubilee plans in the Group: the Luxembourg plan in place at SG Bank & Trust S.A. and the Swiss plan in place at SG Private Banking Suisse S.A.

SGBT Group employees are entitled to a plan that provides for a jubilee award which is a function of their seniority in the Group.

The defined benefit obligation corresponding to this plan was estimated according to the standard IAS19. For this plan, the actuarial gains and losses are immediately recognized in the consolidated income statement account.

The principal assumptions used for measuring the jubilee plan obligations are summarized below:

	December 2018		December 2017	
Luxembourg				
SGBT				
Discount rate	1.20%		1.80%	
Inflation rate	1.50%		1.17%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Age	Age	Age
	<35 years	1.90% - 2.00%	<35 years	1.90% - 2.00%
	35 years <= age < 45 years	1.00% - 1.30%	35 years <= age < 45 years	1.00% - 1.30%
	45 years <= age < 55 years	0.30% - 0.65%	45 years <= age < 55 years	0.30% - 0.65%
	55 years <= age < 65 years	0.70%	55 years <= age < 65 years	0.70%
PWM				
Discount rate	1.30%		0.90%	
Inflation rate	1.60%		1.22%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate (excluding indexation)	1.00%		1.00%	
Switzerland				
Discount rate	0.14%		0.18%	
Inflation rate	1.00%		1.00%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate (excluding indexation)	0.20%		0.20%	

B. PLAN RESULTS

The cost associated with jubilee awards is reported under “Staff expenses” in Profit or Loss and breaks down as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Service cost (*)	636	650
Financial cost	51	35
Actuarial gains and losses	(55)	(463)
Total	**632**	**222**

C. CHANGE IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS DURING THE YEAR

The reconciliation of opening and closing obligation balances related to defined benefits for the current year is as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Obligation in relation to defined benefits - Opening	**5 534**	**6 081**
Total (expense)/ revenue recognized in the income statement	632	240
Paid benefits	(414)	(672)
Transfer between group entities	-	-
Translation effect	34	(115)
Obligation in relation to defined benefits - Closing	**5 786**	**5 534**

Note 5.10. Subordinated debt

As at 31 December 2018 and 2017, the Group issued a subordinated loan for a nominal amount of EUR thousand 400 000 the terms of which are set out hereafter:

(in EUR thousand)	
Amount	400 000
Currency	EUR
Interest rate	3-month Euribor +3,098%
Initial maturity	December 24, 2024

On 24 December 2014, the Group redeemed a subordinated loan of a nominal amount of EUR thousand 200 000 and, on the same date, issued another subordinated loan of a nominal amount of EUR thousand 400 000.

The outstanding loan may be redeemed early on request by the Group, subject to three months’ notice. This notice must be notified to the lender and to the Commission de Surveillance du Secteur Financier (CSSF). If the CSSF disallows early redemption, the loan will not be redeemed early. At the date of those financial statements, no need for early redemption is anticipated.

The loan contract includes unconditional subordination clauses. At maturity, repayment of the subordinated loan will be subject to approval by the CSSF.

Interest expenses on these subordinated loans amounted to EUR thousand 11 402 at year-end 2018 (2017: EUR thousand 11 393) of which EUR thousand 249 are still outstanding as accrued interest as at 31 December 2018 (2017: EUR thousand 154).

As at 31 December 2018 and 2017, EUR thousand 400 000 was deemed equivalent to Tier Two additional capital for the purposes of calculating the capital adequacy ratio.

Note 5.11. Shareholders' equity, Group share

(in EUR thousand)	31 December 2018	1 January 2018	31 December 2017
Share capital	1 389 043	1 389 043	1 389 043
Share premium	2 817	2 817	2 817
Consolidation reserve	530 685	553 605	225 654
Revaluation reserve	37 182	76 991	88 378
Legal reserve	138 905	138 905	138 905
Special reserve for Net Wealth Tax reduction	218 566	238 593	238 593
Retained earnings	548 437	527 826	862 451
Net income for the year	296 545	-	274 595
Income not yet allocated	-	274 595	-
Total	**3 162 180**	**3 202 375**	**3 220 436**

Share capital

As at 31 December 2018 and 2017, the fully subscribed share capital amounted to EUR 1 389 042 648 divided into 11 024 148 registered shares with a nominal value of EUR 126 each.

Consolidation reserve

Consolidation reserves represent the contribution of the subsidiaries to the reserves of the Group.

Revaluation reserve

Revaluation reserve is composed of (i) translation reserves, (ii) change in fair value of assets available-for-sale, (iii) change in fair value of hedging derivatives, (iv) consolidated reserves and (v) actuarial gains and losses on post-employment defined benefits plans:

(in EUR thousand)	31 December 2018	1 January 2018	31 December 2017
Translation reserve	(1 279)	4 604	4 604
Revaluation of debt instruments at fair value through other comprehensive income	54 849	85 038	-
Revaluation reserve of available-for-sale financial assets	16 564	30 993	131 285
Revaluation of hedging derivatives	(30 194)	(26 332)	(26 333)
Unrealized gains and losses of entities accounted for using the equity method	3 909	5 869	5 869
Tax related	(11 452)	(24 874)	(28 740)
Unrealized or deferred gains (losses) that may be reclassified subsequently to profit or loss	**32 397**	**75 298**	**86 685**
Actuarial gains (losses) on defined benefits plans	8 994	2 275	2 275
Unrealised gains and losses of entities accounted for using the equity method	13	-	-
Revaluation of equity instruments at fair value through other comprehensive income	-	-	-
Tax related	(4 222)	(582)	(582)
Unrealized or deferred gains (losses) that will not be reclassified subsequently to profit or loss	**4 785**	**1 693**	**1 693**
Total Revaluation reserve	**37 182**	**76 991**	**88 378**

Legal reserve

In accordance with legal requirements, 5% of the net income for the period must be allocated to a legal reserve. This allocation is no longer required once this reserve reaches 10% of the subscribed and paid-up share capital. The legal reserve cannot be used for dividend payments.

As at 31 December 2018 and 2017 the legal reserve reached 10% of the capital and amounted to EUR thousand 138 905.

Special reserve for Net Wealth Tax reduction

For the reporting periods ended 31 December 2012 to 2018, the Group reduced its Net Wealth Tax charge in accordance with the tax legislation; i.e. by setting up an unavailable reserve in an amount equal to five times the amount of the Net Wealth Tax reduction. The lock-in period on this reserve is five years starting on 1 January of the year following the year in which the Net Wealth Tax has been reduced.

(in EUR thousand)	**31 December 2018**	**31 December 2017**
2012	-	62 553
2013	52 280	52 280
2014	49 939	49 939
2015	1 484	1 484
2016	30 981	30 981
2017	41 356	41 356
2018	42 526	-
Total	**218 566**	**238 593**

NOTE 6 OTHER NOTES ON THE STATEMENT OF FINANCIAL POSITION

Note 6.1. Hedging derivatives

6.1.1. ANALYSIS BY NATURE

Hedging derivatives are broken down as follows:

FAIR VALUE HEDGE	Assets	Liabilities	Assets	Liabilities
Interest rate instruments				
Firm instruments	-	-	-	-
Swaps	3 372	184 591	7 360	209 934
Forward Rate Agreements (FRA)	-	-	-	-
Options	-	-	-	-
Options on organised markets	-	-	-	-
OTC options	-	-	-	-
Caps, floors, collars	-	-	-	-
Foreign exchange instruments				
Firm instruments	-	-	-	-
Currency financing swaps	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
Equity and index instruments				
Equity and stock index options	6	-	6	-
CASH FLOW HEDGE				
Interest rate instruments				
Firm instruments	-	-	-	-
Swaps	753	39 791	7 464	43 251
Foreign exchange instruments				
Firm instruments	-	-	-	-
Currency financing swaps	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
Other instruments				
Other forward financial instruments	30	622	119	314
Total	**4 161**	**225 004**	**14 949**	**253 499**

6.1.2. ANALYSIS BY MATURITIES

An analysis by remaining contractual maturities is provided in Notes 9.3.1 and 9.3.2.

6.1.3. FAIR VALUE ANALYSIS

An analysis of fair value levels is provided in Note 10.1.

6.1.4. NOTIONAL AMOUNTS

An analysis of notional amounts is provided in Note 7.4.

Note 6.2. Tax assets and liabilities

6.2.1. CURRENT AND DEFERRED TAX ASSETS

Transition to IFRS 9 table

(in EUR thousand)	**Balance as at 31 December 2017 IAS 39**	Adjustments Change in deferred tax	**Balance as at 1 January 2018 IFRS 9**
Tax assets	12 591	3 155	**15 746**
Total	**12 591**	**3 155**	**15 746**

Tax assets are broken down as follows:

(in EUR thousand)	**31 December 2018**	**1 January 2018**
Current tax assets	5 759	3 676
Deferred tax assets	13 579	12 070
o/w deferred tax assets on tax loss carry forwards	*12 687*	*8 659*
o/w deferred tax assets on temporary differences	*892*	*3 411*
Total	**19 338**	**15 746**

6.2.2. CURRENT AND DEFERRED TAX LIABILITIES

Transition to IFRS 9 table

(in EUR thousand)	**Balance as at 31 December 2017 IAS 39**	Adjustments Change in deferred tax	**Balance as at 1 January 2018 IFRS 9**
Tax liabilities	172 787	(1 720)	**171 067**
Total	**172 787**	**(1 720)**	**171 067**

Tax liabilities are broken down as follows:

(in EUR thousand)	**31 December 2018**	**1 January 2018**
Current tax liabilities	25 681	39 220
Deferred tax liabilities	130 925	131 847
Total	**156 606**	**171 067**

6.2.3. DEFERRED TAX ON UNREALIZED OR DEFERRED GAINS AND LOSS

Deferred tax on unrealized or deferred gains and loss are broken down as follows:

(in EUR thousand)	31 December 2018	1 January 2018
Tax impact on items that will be subsequently reclassified into income	**(11 451)**	**(24 873)**
Revaluation of debts instruments at fair value through other comprehensive income	(14 022)	-
Revaluation of available-for-sale financial assets	(4 308)	(30 117)
Hedging derivatives	7 853	6 849
Unrealized or deferred gains and loss accounted for by the equity method and that will be subsequently reclassified into income	(974)	(1 605)
On items that will not be subsequently reclassified into income	**(4 221)**	**(582)**
Actuarial gain / (loss) on post-employment benefits	(4 217)	(582)
Unrealized or deferred gains and losses accounted for by the equity method and that cannot be subsequently recycled to P&L	(4)	-
Total	**(15 672)**	**(25 455)**

6.2.4. DEFERRED TAX ASSETS RECOGNIZED ON TAX LOSS CARRY FORWARD

As at 31 December 2018 and 2017, based on the tax system of each entity and a realistic projection of their tax income or expense, the projected period for deferred tax asset recovery is indicated in the table below:

(in EUR thousand)	Amount	Statutory time limit on carry forwards	Expected recovery period
SGBT CI S.A.			
31 December 2018	12 687	Illimited	Within 5 years
31 December 2017	8 659	Illimited	Within 5 years

Note 6.3. Transferred financial assets

6.3.1. TRANSFERRED FINANCIAL ASSETS NOT DERECOGNIZED

6.3.1.1. REPURCHASE AGREEMENTS

	31 December 2018		31 December 2017	
(in EUR thousand)	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Financial assets at fair value through profit or loss	1 741 344	1 773 003	1 751 953	1 903 018
Total	**1 741 344**	**1 773 003**	**1 751 953**	**1 903 018**

6.3.1.2. SECURITIES LENDING

As at 31 December 2018 and 2017, there is no open securities lending transaction.

6.3.2. TRANSFERRED FINANCIAL ASSETS PARTIALLY OR FULLY DERECOGNIZED

As at 31 December 2018 and 2017, the Group carried out no transaction resulting in the partial or full derecognition of financial assets leaving the Group with a continuous involvement in said assets.

Note 6.4. Non-current assets and liabilities held for sale

As at 31 December 2018 and 2017, there are no assets or liabilities held for sale.

NOTE 7 NOTES ON THE CONSOLIDATED INCOME STATEMENT

Note 7.1. Interest income and expense

(in EUR thousand)	2018 Income	2018 Expense	2018 Net	2017 Income	2017 Expense	2017 Net
Financial instruments at amortised cost	**664 845**	**(307 227)**	**357 618**	**609 002**	**(242 093)**	**366 909**
Central banks	(2)	-	(2)	-	-	-
Bonds and other debt securities	66 488	(8 980)	57 508	6 566	(22 955)	(16 389)
Due from/to banks	200 054	(159 699)	40 355	167 737	(137 693)	30 044
Customer loans and deposits[1]	382 850	(125 123)	257 727	420 964	(59 485)	361 479
Subordinated debt	-	(11 402)	(11 402)	-	(11 636)	(11 636)
Securities lending/borrowing	3 125	-	3 125	1 686	-	1 686
Securities purchased/sold under resale/purchase agreements and borrowings secured by notes and securities	12 330	(2 023)	10 307	12 049	(10 324)	1 725
Hedging derivatives	**11 163**	**(86 358)**	**(75 195)**	**12 030**	**(94 260)**	**(82 230)**
Financial instruments at fair value through other comprehensive income	**60 011**	**-**	**60 011**	**-**	**-**	**-**
Financial instruments at fair value through profit or loss	**1 232**	**-**	**1 232**	**-**	**-**	**-**
Total Interest income and expense	**737 251**	**(393 585)**	**343 666**	**696 202**	**(336 353)**	**359 849**
o/w interest income from impaired financial assets	*2 774*		*2 774*	*1 792*	-	*1 792*

(1) Interest income on other customer loans is broken down as follows:

(in EUR thousand)	2018	2017
Trade notes	47 664	51 847
Short-term loans	133 910	147 163
Equipment loans	-	1
Housing loans	18 245	14 309
Other customer loans	114 449	162 324
Overdrafts	68 582	45 829
Total	**382 850**	**420 964**

Note 7.2. Fee and commission income and expense

	2018			2017		
(in EUR thousand)	Income	Expense	Net	Income	Expense	Net
Transactions with banks	**892**	**(32 387)**	**(31 495)**	**2 185**	**(29 895)**	**(27 710)**
Transactions with customers	**86 376**	**-**	**86 376**	**48 746**	**-**	**48 746**
Financial instruments operations	**98 890**	**(48 931)**	**49 959**	**126 064**	**(69 318)**	**56 746**
Securities transactions	61 547	(47 283)	14 264	79 953	(69 247)	10 706
Primary market transactions	21 598	-	21 598	33 424	-	33 424
Foreign exchange transactions and financial derivatives	15 745	(1 648)	14 097	12 687	(71)	12 616
Loan and guarantee commitments	**41 185**	**(34 631)**	**6 554**	**27 108**	**(28 117)**	**(1 009)**
Services(1)	**167 380**	**-**	**167 380**	**176 619**	**-**	**176 619**
Asset management fees	61 134	-	61 134	58 410	-	58 410
Payment instruments fees	2 965	-	2 965	1 076	-	1 076
Insurance products fees	2 487	-	2 487	2 798	-	2 798
Underwriting fees of UCITS	5 162	-	5 162	3 670	-	3 670
Other services	95 632	-	95 632	110 665	-	110 665
Other(2)	**35 775**	**(62 898)**	**(27 123)**	**32 919**	**(101 287)**	**(68 368)**
Total fee	**430 498**	**(178 847)**	**251 651**	**413 641**	**(228 617)**	**185 024**

(1) Mainly relates to client portfolio management fees on customers and UCITS portfolios.
(2) Mainly relates to Fund administration fees, reinsurance fees paid as well as various fees re-charged by SG Paris.

Note 7.3. Net gains and losses on financial instruments at fair value

7.3.1. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(in EUR thousand)	2018	2017
Net gains and losses on non-derivative financial assets held for trading		**89 405**
Net gains and losses on trading portfolio	(2 686)	
Net gains and losses on derivatives financial instruments held for trading	(31 966)	(24 391)
Net gains and losses on financial instruments measured mandatorily at fair value through profit or loss	(10 826 892)	
Net gains and losses on financial instruments measured using fair value option	10 931 450	
Net gains and losses on financial assets measured using fair value option	-	4 964 620
Net gains and losses on financial liabilities measured using fair value option		(4 858 190)
Net gains and losses on non-derivative financial liabilities held for trading		(84 636)
Net gains and losses on hedging transactions[1]	**(3 773)**	**592**
Net gains and losses on fair value hedging derivatives	*19 733*	*64 334*
Revaluation of hedged items attributable to hedged risks	*(23 179)*	*(63 742)*
Ineffective portion of cash flow hedge	*(327)*	-
Net gains and losses on foreign exchange transactions	**66 207**	**54 185**
Total of the gains and losses on financial instruments at fair value through profit or loss	**132 340**	**141 585**
o/w dividends on financial instruments at fair value through profit or loss	*23 008*	

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.

7.3.2. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in EUR thousand)	2018	2017
Net gains and losses on disposal of debt securities at fair value through OCI	(4)	-
Total	**(4)**	**-**

(1) 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 or loss account of the hedged item.

Note 7.4. Hedge accounting

7.4.1. FAIR VALUE HEDGE

The Group enters into micro fair value hedge relationships to protect itself against changes in the fair value of financial assets due to movements in interest rates. The financial instruments hedged for interest rate risk in fair value hedge relationships include loans and bonds. The Group uses interest rate swaps to hedge interest rate risk.

As at 31 December 2018 and 2017, the fair value hedge relationships present the following features:

31 December 2018

Derivative	Hedged Item	Hedged Risk
Interest rate Swap	Financial assets at fair value through other comprehensive income	Interest rate risk
Interest rate Swap	Loans to customers	Interest rate risk
Interest rate Swap	Loans to credit institutions	Interest rate risk
		Total

31 December 2017

Derivative	Hedged Item	Hedged Risk
Interest rate Swap	Available for sales	Interest rate risk
Interest rate Swap	Loans to customers	Interest rate risk
Interest rate Swap	Loans to credit institutions	Interest rate risk
		Total

Hedge inefficiency is recorded in the consolidated income statement in “Net gains and losses on financial instruments at fair value” under “Net gains/losses on fair value hedging instruments” and under “Revaluation of hedged items attributable to hedged risks” for a net amount of EUR thousand 3 773 (2017: EUR thousand 592).

Hedging derivatives				Hedged items		
Notional	Fair Value	Changes in fair Value during the year	Ineffective portion booked during the period	Fair Value	Cumulative change in the fair value of the hedged item	Changes in fair Value during the year attributable to hedge accounting
2 587 000	(180 811)	20 550	(95)	2 776 024	155 370	(20 645)
3 000	(402)	109	100	3 403	355	(9)
-	-	-	-	-	-	-
2 590 000	**(181 213)**	**20 659**	**5**	**2 779 427**	**155 725**	**(20 654)**

Hedging derivatives				Hedged items		
Notional	Fair Value	Changes in fair Value during the year	Ineffective portion booked during the period	Fair Value	Cumulative change in the fair value of the hedged item	Changes in fair Value during the year attributable to hedge accounting
2 500 160	(202 063)	62 223	-	2 500 804	-	(61 631)
3 000	(511)	150	-	3 000	-	(2 111)
-	-	1 961	-	-	-	-
2 503 160	**(202 574)**	**64 334**	**-**	**2 503 804**	**-**	**(63 742)**

7.4.2. CASH FLOW HEDGE

The Group is exposed to variability in future interest cash flows on non–trading assets and liabilities which bear interest at variable rates or are expected to be reinvested or refinanced in the future. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. Regarding the cash flow hedges, the change in fair value of hedged items is assessed using the hypothetical derivative method described in the accounting principles above.

The following tables specify the amount of cash flow that is subject to a cash flow hedge relationship (broken down by expected due date) and the amount of highly probable hedged forecast transactions:

Breakdown of cash flow hedged items

(in EUR thousand)	31 December 2018
Hedge of interest rate risk	**3 886**
Hedged assets	3 886
Due from banks, at amortised cost	-
Customer loans, at amortised cost	-
Securities at amortized cost	-
Financial assets at fair value through other comprehensive income	-
Customer loans (macro hedged)	3 886
Forecast transactions	-
Hedge of currency risk	**-**
Hedged assets	-
Due from banks, at amortised cost	-
Customer loans, at amortised cost	-
Securities at amortized cost	-
Financial assets at fair value through other comprehensive income	-
Forecast transactions	-
Hedge of equity risk	**389**
Forecast transactions	389

Maturity of cash flow hedge

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31 December 2018
Floating cash flows hedged (rates)	15 652 957	5 379 984	3 389 892	1 473 982	**25 896 815**
Total flows covered by cash flow hedge	**15 652 957**	**5 379 984**	**3 389 892**	**1 473 982**	**25 896 815**

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31 December 2017
Floating cash flows hedged (rates)	21 716 038	7 468 899	455 637	442 000	**30 082 574**
Total flows covered by cash flow hedge	**21 716 038**	**7 468 899**	**455 637**	**442 000**	**30 082 574**

Hedge inefficiency is recorded in the consolidated income statement in “Net gains and losses on financial instruments at fair value” under “Net Ineffective portion of cash flow hedge” for EUR thousand 327 thousand (2017: EUR thousand 0) and for its effective part in the consolidated statement of comprehensive income for EUR thousand 30 194 (2017: EUR thousand (26 333)).

Breakdown of cash flow hedging instruments

(in EUR thousand)	Notional amounts	Fair value of hedging derivatives: Fair value of assets	Change in fair value booked during the period: Portion recorded under unrealised or deferred gains and losses	Change in fair value booked during the period: Ineffective portion booked under net income	Cumulative change in fair value recorded under unrealised or deferred gains and losses
Hedge of interest rate risk	**4 658 000**	**(39 038)**	**(3 886)**	**(3)**	**(30 132)**
Firm instruments – Swaps	4 658 000	(39 038)	(3 886)	(3)	(30 132)
For hedged portfolios of assets (macro hedge)	4 658 000	(39 038)	(3 886)	(3)	(30 132)
Hedge of equity risk	**1 917**	**(592)**	**(74)**	**(324)**	**(62)**
Options	1 917	(592)	(74)	(324)	(62)
For hedged forecast transactions	1 917	(592)	(74)	(324)	(62)
Total	**4 659 917**	**(39 630)**	**(3 960)**	**(327)**	**(30 194)**

7.4.3. NET INVESTMENT HEDGE

7.4.3.1. BREAKDOWN OF NIH ITEMS

(in EUR thousand)	31 December 2018: Change in the fair value of the hedged item during the period	31 December 2018: Cumulative translations differences related to the hedged items
Hedge of currency risk	**17 588**	**17 588**
Hedged net investment in CHF	17 588	17 588

(in EUR million)	Hedging derivatives commitments[1]	Carrying amount of hedge instruments[2]: Assets	Carrying amount of hedge instruments[2]: Liabilities	Changes in value booked during the period: Portion booked under unrealised or deferred gains and losses	Changes in value booked during the period: Ineffective portion booked under net income	Cumulative changes in value booked under unrealised or deferred gains and losses
						31 December 2018
Hedge of currency risk	**-**	**-**	**459 117**	**(17 588)**	**-**	**(17 588)**
Firm instruments	-	-	459 117	(17 588)	-	(17 588)
Hedging net investment in CHF	-	-	459 117	(17 588)	-	(17 588)

7.4.3.2. BREAKDOWN OF NIH INSTRUMENTS

In 2018, KEUR 9 818 corresponding to currency revaluation of the below-described borrowings have been transferred to equity in order to offset gains or losses on translation of the net investment in the subsidiary (2017: 0).

MATURITIES OF HEDGING FINANCIAL NON-DERIVATIVES

These items are presented according to the contractual maturity of the financial instruments.

(in EUR thousand)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31 December 2018
Foreign exchange instruments	-	-	53 274	464 105	**517 379**
Total	**-**	**-**	**53 274**	**464 105**	**517 379**

(1) The net position of the derivative hedging 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.

(2) The carrying value equals fair value in the case of derivative instruments and equals amortised cost, translated at the closing date, in the case of loans and borrowings in foreign currencies.

Note 7.5. Net gains and losses on available-for-sale financial assets

This part of the income statement relates to insurance activities only, as described in Note 5.6.

(in EUR thousand)	31 December 2018	31 December 2017
Current activities		
Gains on sale		775
Losses on sale		(444)
Impairment losses on variable-income securities		-
Profit-sharing on available-for-sale financial assets of insurance subsidiaries		-
Sub-total		**331**
Long-term equity investments		
Gains on sale		1 003
Losses on sale		-
Impairment losses on variable-income securities		(17)
Sub-total		**986**
Dividend income		**3 393**
Total		**4 710**

Note 7.6. Cost of risk

Please refer to Note 2.3.3.10.1. for the relevant accounting policies.

(in EUR thousand)	31 December 2018(*)	31 December 2017
Credit risk		
Net allocation to impairment losses	**(6 604)**	**3 033**
on financial assets at fair value through other comprehensive income	96	
on financial assets at amortised cost	(6 700)	
Net allocation to provisions	**905**	729
on financing commitments	732	
on guarantee commitments	173	
Losses not covered on bad loans	**(1 809)**	(638)
Amounts recovered on bad loans(*)	2	12 886
Total	**(7 506)**	**16 010**

For IFRS 9 breakdown, please refer to Note 5.8.2.

(*) The amount of EUR 2 thousand for 2018 refers to insurance compensation.

Note 7.7. Income and expenses from other activities

(in EUR thousand)	31 December 2018	31 December 2017
Income from other activities		
Other activities[(a)(b)]	14 765	178 042
o.w Insurrance activities	-	*130 891*
Sub-total	**14 765**	**178 042**
Expenses from other activities		
Expenses from other activities[(2)]	(9 897)	(76 910)
o.w Insurance activities	-	*(59 964)*
Sub-total	**(9 897)**	**(76 910)**
Total	**4 868**	**101 132**

Note 7.8. Employee compensation and benefits

7.8.1. STAFF EXPENSES

(in EUR thousand)	31 December 2018	31 December 2017
Employee compensation	(179 404)	(173 923)
Social security charges and payroll taxes	(17 036)	(17 701)
Net pension expenses - defined contribution plans	(4 383)	(4 980)
Net pension expenses - defined benefit plans	(14 043)	(11 910)
Total	**(214 866)**	**(208 514)**
Including net expenses from share based payments	*(1 853)*	*(1 025)*

Over the course of 2018, the Group employed an average of 1 965 employees (2017: 1 953 employees).

Staff may be broken down as follows:w

Average full time-equivalent employees over the year)	31 December 2018	31 December 2017
General Management	16	24
Senior managers	424	443
Other employees	1 525	1 486
Total	**1 965**	**1 953**

(a) Remaining part of other activities mainly refers to income from tax recharges in relation to non-consolidated entities that are fiscally integrated.

(b) As of the financial year 2018, income and expenses for the Group insurance business will be shown n a separate line of the income related entitled “net income from insurance activities”.

7.8.2. SHARE-BASED PAYMENTS

7.8.2.1. DESCRIPTION OF THE SHARE-BASED PAYMENT ARRANGEMENT

As at 31 December 2018, the Group had the following share-based payment arrangements.

Share appreciation rights (cash settled)

The Group granted share appreciation rights to employees that entitle them to a cash payment. The amount of the cash payment is determined based on the increase in the share price of Societe Generale Group between grant date and the time to exercise.

The terms and conditions of the grants are as follows:

Grant date	Number of instruments at grant date	Vesting conditions – Performance	Contractual life of option
April 2016	52 653	Yes	From 24 to 36 months
April 2017	30 046	Yes	From 24 to 36 months
April 2018	30 880	Yes	From 24 to 36 months

Details of the liabilities arising from the share appreciation rights are as follows:

(in EUR thousand)	31 December 2018	31 December 2017
Total carrying amount of liabilities for cash-settled arrangements (*)	**1 450**	**1 428**
Total intrinsic value of liability for vested benefits	**(1 240)**	**229**

Net expenses from share based payment is of EUR thousand (1 853) (2017: EUR thousand (1 025)).

(*) Carrying amount of liabilities for cash-settled arrangements is included in the Note 5.5 other liabilities.

7.8.2.2. MEASUREMENT OF FAIR VALUE – SHARE APPRECIATION RIGHTS

The fair value of share appreciation rights is determined using the arbitrage method. The inputs used in the measurement of the fair value at grant date and measurement date were as follows:

For share appreciation rights, information regarding fair value is displayed below per tranches (Tranche 2 is related to fixed differed amounts not based on share appreciation rights).

As at 31 December 2018, the tranches are the following:

Tranche 1	Grant date 01.01.2018	Measurement date 31.12.2018
Fair value	(8 542,38)	-
Share price	45,46	27,82
Exercise price	46,16	46,16
Expected volatility	19,79	-
Expected life	28/09/2018	Matured
Expected dividends	2,20	-
Risk-free interest rate	(0,35)	(0,36)

Tranche 3	Grant date 01.01.2018	Measurement date 31.12.2018
Fair value	(33 641,18)	(148 718,54)
Share price	45,46	27,82
Exercise price	46,16	46,16
Expected volatility	21,96	23,39
Expected life	30/09/2020	30/09/2020
Expected dividends	5,20	4,07
Risk-free interest rate	(0,35)	(0,36)

Tranche 4	Grant date 01.01.2018	Measurement date 31.12.2018
Fair value	(49 291.68)	(170 293,99)
Share price	46,16	27,82
Exercise price	44,10	44,10
Expected volatility	22,68	22,38
Expected life	30/09/2021	30/09/2021
Expected dividends	6,05	5,98
Risk-free interest rate	(0,35)	(0,36)

As at 31 December 2017, the tranches are the following:

Tranche 1	**Grant date 01.01.2017**	**Measurement date 31.12.2017**
Fair value	82 578,85	-
Share price	50,21	43,05
Exercise price	44,10	44,10
Expected volatility	31,28	21,14
Expected life	30/09/2017	Matured
Expected dividends	2,20	-
Risk-free interest rate	(0,35)	(0,35)

Tranche 3	**Grant date 01.01.2017**	**Measurement date 31.12.2017**
Fair value	20 989,87	(24 584,87)
Share price	50,21	43,05
Exercise price	44,10	44,10
Expected volatility	28,11	24,69
Expected life	30/09/2019	30/09/2019
Expected dividends	6,51	4,49
Risk-free interest rate	(0,35)	(0,35)

Tranche 4	**Grant date 01.01.2017**	**Measurement date 31.12.2017**
Fair value	6 811,03	41 078,43
Share price	50,21	43,05
Exercise price	44,10	44,10
Expected volatility	28,50	24,91
Expected life	30/09/2020	30/09/2020
Expected dividends	7,92	6,84
Risk-free interest rate	(0,35)	(0,35)

The fair value of the liability is remeasured at each reporting date and at settlement date.

Note 7.9. Other operating expenses

Other operating expenses can be broken down as follows:

(in EUR thousand)	2018	2017
IT expenses	(40 138)	(41 883)
Telecommunication expenses	(3 311)	(2 886)
Marketing, advertising and public relations	(6 605)	(7 354)
Professional fees	(28 116)	(24 189)
Premises and equipment leases	(21 411)	(20 572)
Service and maintenance	(11 164)	(10 190)
Administrative expenses	(1 289)	(1 219)
VAT and other taxes	(17 119)	(15 680)
Training	(1 091)	(468)
Insurance fees	(1 275)	(1 080)
Data provider fees	(5 945)	(6 551)
Re-charge fees [(*)]	(44 515)	(55 057)
Other operating expenses	(5 702)	(7 341)
Total	**(187 681)**	**(194 470)**

7.9.1. PREMISES LEASES

As at 31 December 2018 and 2017, the Group was obligated under a number of non-cancellable operating leases for premises for which the future minimum lease payments is extended over a number of years.

(in EUR thousand)	31 December 2018	31 December 2017
Future minimum lease payments under non-cancellable operating leases expiring:		
– no later than one year	22 235	22 109
– later than one year and no later than five years	78 044	75 204
– later than five years	29 720	59 044
Total	**129 999**	**156 357**

During the year, EUR thousand 21 411 (2017: EUR thousand 20 572) were recognized within premises and equipment leases in respect of lease and sub-lease agreements, all of which related to minimum lease payments.

Please refer to FTA IFRS 16 disclosed in Note 2.2.3.1.

(*) Mainly reinvoiced intragroup personnel fees and allocated share of headquarter expenses

7.9.2. FEES PAID TO THE INDEPENDENT AUDITORS

Further to the publication of the European regulation on audit reform, a new approval policy of the non-audit services of statutory auditors and their network was set up in 2016 to verify the compliance of these missions in relation to the new regulation before the validation by the Audit committee.

A report is submitted each year to the Audit and Internal Control Committee, detailing the fees paid by type of assignment to the statutory auditors' networks.

Moreover, to prevent the development of excessively close ties between auditors and Management, and to gain a new perspective on the accounts of the Group's entities, a new distribution of audit sections has been implemented. A rotation between the firms in charge of the different audit sections was done on 1 January 2015.

Lastly, the finance departments and business divisions of the entities annually appraise the quality of the audits performed by Ernst & Young and Deloitte. The conclusions of this survey are presented to the Audit and Internal Control Committee.

(in EUR thousand)	**31 December 2018**	**31 December 2017**
Statutory and consolidated financial statements audit	(3 296)	(3 149)
Other assurance services	(115)	(618)
Other services	(78)	-
Total	**(3 489)**	**(3 767)**

Note 7.10. Tax expenses

As at 31 December 2018, applicable rate for tax calculation purposes is 26.01% (2017: 27.08%). This rate is composed with Corporate Income Tax (CIT) and Municipal Business Tax (MBT).

(in EUR thousand)	31 December 2018	31 December 2017
Current taxes	(40 611)	(42 551)
Deferred taxes	(11 870)	(31 628)
Total	**(52 481)**	**(74 179)**

Reconciliation of the difference between the Group's standard tax rate and its effective tax rate:

(in EUR thousand)	31 December 2018	31 December 2017
Income before tax excluding net income from companies accounted for using the equity method and impairment losses on goodwill	271 988	281 754
Statutory tax rate	26.01%	27,08%
Theoretical income tax	**(70 744)**	**(76 299)**
Tax effect of non-taxable income	42 450	98 469
Tax effect of non-deductible expenses	16	(20 463)
Tax without basis(*)	(1 753)	(38 620)
Provisions for tax adjustments	-	(1 308)
Permanent differences on operations taxed at a different rate from statutory rate	-	-
Sub-consolidated results taxed at other rates	(1 307)	(1 880)
Not activated losses and profits without tax	-	-
Tax adjustment	-	-
Previous year corrections	-	(2 450)
Other items	(9 273)	-
Total current income tax	**(40 611)**	**(42 551)**

Tax credits resulting on income from receivables and trading portfolios, when used to settle the tax on income due in the same period, are booked in the same accounts as the income they are linked to. The corresponding tax charge is maintained in the account "Tax expense", explaining the transfer in the net banking result.

Tax impact on non-taxable income is mainly explained through various income received from fully taxable resident or non-resident participations held by the Group. As all conditions for participation exemption regime are met (EU parent directive and article 166 LITL), the Group avoids double taxation by using these provisions.

Without considering this participation exemption regime, effective tax rate of the Group amounts to 26.01 % in 2018 (2017: 27.08 %).

(*) Refers to tax expenses of fiscally integrated entities.

NOTE 8 OTHER NOTES

Note 8.1. Offsetting financial assets and financial liabilities

As at 31 December 2018, the impact of the offsetting (decrease in the balance sheet) is EUR thousand 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: EUR thousand 23 631 494) and EUR thousand 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: EUR 6 945 467).

For more details related to the accounting treatment, please refer to Note 2.3.3.4.3. Financial instruments at fair value through profit or loss using fair value option.

The tables on the following page summarizes the financial assets and liabilities subject to offsetting, enforceable master netting and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets, and whether offset is achieved in the consolidated statement of financial position:

31 December 2018

Assets	Impact of offsetting on the balance sheet			
(in EUR thousand)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Financial assets at fair value through profit or loss	-	95 877 558	(46 067 668)	49 809 890
Other assets not subject to offsetting	51 467 319	-	-	51 467 319
Total assets	**51 467 319**	**95 877 558**	**(46 067 668)**	**101 277 209**

31 December 2018

Liabilities	Impact of offsetting on the balance sheet			
(in EUR thousand)	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Financial liabilities at fair value through profit or loss	-	95 728 878	(46 067 668)	49 661 210
Other liabilities not subject to offsetting	48 453 678	-	-	48 453 678
Total liabilities	**48 453 678**	**95 728 878**	**(46 067 668)**	**98 114 888**

31 December 2017

Assets	Impact of offsetting on the balance sheet			
(in EUR thousand)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Financial assets at fair value through profit or loss	-	78 435 940	(30 576 961)	47 858 979
Other assets not subject to offsetting	48 267 433	-	-	48 267 433
Total assets	**48 267 433**	**78 435 940**	**(30 576 961)**	**96 126 412**

31 December 2017

Liabilities	Impact of offsetting on the balance sheet			
(in EUR thousand)	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Financial liabilities at fair value through profit or loss	-	78 351 452	(30 576 961)	47 774 491
Other liabilities not subject to offsetting	45 129 578	-	-	45 129 578
Total liabilities	**45 129 578**	**78 351 452**	**(30 576 961)**	**92 904 069**

Note 8.2. Commitments and assets pledged and received as securities

8.2.1. COMMITMENTS GRANTED

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry a similar credit risk to loans.

(in EUR thousand)	31 December 2018	31 December 2017
Financing commitments	5 969 387	4 314 901
Guarantee commitments	1 278 646	958 260
Securities commitments	2 805 099	2 093 366
Other commitments	-	8 620
Total	**10 053 132**	**7 375 147**

8.2.2. COMMITMENTS RECEIVED

(in EUR thousand)	31 December 2018	31 December 2017
Financing commitments	2 144 762	1 438 691
Guarantee commitments	10 182 519	10 422 709
Securities commitments	14 982	126 274
Other commitments	1 331 448	984 383
Total	**13 673 711**	**12 972 057**

8.2.3. MANAGEMENT FUNCTIONS

(in EUR thousand)	31 December 2018	31 December 2017
Custody assets	373 445 950	428 698 962
Fiduciary transactions	6 086 377	3 627 363
Asset management	14 673 880	69 001 839
Financial agent function	286 067 739	288 593 819
Total	**680 273 946**	**789 921 983**

The Group provides management and representation services to third parties, particularly wealth management services, custody and administration of securities, fiduciary representation and agent functions.

A fiduciary issuance program has been launched by SGBT in 2018. During 2018, the Group issued 15 fiduciary notes from which 1 in EUR for a nominal amount of EUR 10 million and 14 in JPY for a total nominal amount of JPY 543,4 billion. As of 31 December 2018, the Group has 23 outstanding notes split between 20 notes in JPY (nominal of JPY 574,4 billion) and 3 notes in EUR (nominal of EUR 20 million) for a total nominal amount in countervalue of EUR 4,6 billion.

8.2.4. DERIVATIVE FINANCIAL ASSETS COMMITMENTS (NOTIONAL AMOUNTS)

	31 December 2018		31 December 2017	
(in EUR thousand)	Trading transactions	Hedging transactions	Trading transactions	Hedging transactions
Interest rate instruments	5 001 353	7 248 000	4 576 157	6 984 160
Foreign exchange instruments	29 583 887	-	42 281 383	-
Equity and index instruments	122 778 242	-	105 860 790	-
Commodity instruments	1 658 522	-	727 456	-
Credit derivatives	-	-	-	-
Other forward financial instruments	137 043	1 917	1 087	2 248
Total	**159 159 047**	**7 249 917**	**153 446 873**	**6 986 408**

8.2.5. DERIVATIVE FINANCIAL LIABILITIES COMMITMENTS (NOTIONAL AMOUNTS)

	31 December 2018		31 December 2017	
(in EUR thousand)	Trading transactions	Hedging transactions	Trading transactions	Hedging transactions
Interest rate instruments	4 891 099	7 248 000	4 760 819	6 984 160
Foreign exchange instruments	29 618 727	-	42 171 941	-
Equity and index instruments	121 733 389	-	103 944 761	-
Commodity instruments	1 483 695	-	1 388 174	-
Credit derivatives	-	-	-	-
Other forward financial instruments	-	-	-	-
Total	**157 726 910**	**7 248 000**	**152 265 695**	**6 984 160**

8.2.6. FINANCIAL ASSETS PLEDGED

(in EUR thousand)	31 December 2018	31 December 2017
Book value of assets pledged as security for transactions in financial instruments	5 463 692	7 381 348
Book value of assets pledged as security for off-balance sheet commitments	139 798	139 798
Total	**5 603 490**	**7 521 146**

As at 31 December 2018 the Group has pledged collateral assets for secured issuances in amount of EUR thousands 3 609 288 (31 December 2017: KEUR thousands 5 369 022), collateral for derivative transactions for EUR thousands 189 078 (31 December 2017: KEUR thousands 434 810) and collateral for repurchase agreements for EUR thousands 1 823 248 (31 December 2017: KEUR thousands 454 421).

Note 8.3. Legal claims

The Group operates in a regulatory and legal environment that, by nature, has an element of litigation risk inherent in its operations. As a result, the Group is involved in various litigations, both in Luxembourg and in other jurisdictions in the ordinary course of its business. The Group has implemented formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in Note 2.3.7.

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.

For each of the disputes described in the present Note, 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.

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 authorised 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 action. 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.

Note 8.4. Transactions with related parties

In addition to transactions with key management, the Group enters into transactions with non-consolidated entities on which the Societe Generale Group controls exclusively or jointly or has significant influence over. Other related parties refer to entities other than headquarter and subsidiaries that are part of the Societe Generale Group. The following table shows the outstanding balance at year end:

8.4.1. OUTSTANDING ASSETS WITH RELATED PARTIES

As at 31 December 2018

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Financial assets at fair value through profit or loss	49 182 457	-	183 952	49 366 409
Other assets	9 816 347	40 841	10 274 808	20 131 996
Total	**58 998 804**	**40 841**	**10 458 760**	**69 498 405**

As at 31 December 2017

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Financial assets at fair value through consolidated income statement	47 483 768	-	139 906	47 623 674
Other assets	8 388 804	40 413	9 440 912	17 870 129
Total	**55 872 572**	**40 413**	**9 580 818**	**65 493 803**

8.4.2. OUTSTANDING LIABILITIES WITH RELATED PARTIES

As at 31 December 2018

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Liabilities at fair value through profit or loss	3 445 909	-	2 670 773	6 116 682
Customer deposits	-	41 693	7 314 616	7 356 309
Other liabilities	19 273 465	-	413 157	19 686 622
Total	**22 719 374**	**41 693**	**10 398 546**	**33 159 613**

As at 31 December 2017

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Liabilities at fair value through profit or loss	1 905 890	-	2 936 569	4 842 459
Customer deposits	-	41 691	6 155 292	6 196 983
Other liabilities	19 749 234	-	648 680	20 397 914
Total	**21 655 124**	**41 691**	**9 740 541**	**31 437 356**

8.4.3. NET BANKING INCOME FROM RELATED PARTIES

2018

(in EUR thousand)	**Headquarter**	**Subsidiaries**	**Other related parties**	**Total**
Net interest and similar income	(52 308)	2 030	68 583	18 305
Fees	(14 766)	4 285	(53 169)	(63 650)
Net income from financial transactions	142 766	9 965	(18 425)	134 306
Net income from other activities	768	-	56 861	57 629
Net banking income	**76 460**	**16 280**	**53 850**	**146 590**
General Administrative expense	50 760	(1 106)	(4 692)	44 962
Gross operating income	**127 220**	**15 174**	**49 158**	**191 552**
Cost of risk	-	-	-	-
Operating income	**127 220**	**15 174**	**49 158**	**191 552**
Net income from investments accounted for using the equity method	-	-	-	-
Net income/expense from other activities	-	-	-	-
Impairment losses on goodwill	-	-	-	-
Consolidated Net Income before tax	**127 220**	**15 174**	**49 158**	**191 552**
Tax expenses	-	-	-	-
Consolidated Net Income	**127 220**	**15 174**	**49 158**	**191 552**

2017

(in EUR thousand)	**Headquarter**	**Subsidiaries**	**Other related parties**	**Total**
Net interest and similar income	(53 041)	-	71 496	18 455
Fees	(19 582)	3 729	(41 395)	(57 248)
Net income from financial transactions	(67 257)	-	129 403	62 146
Net income from other activities	725	-	55 699	56 424
Net banking income	**(139 155)**	**3 729**	**215 203**	**79 777**
General Administrative expense	61 038	(1 277)	(1 647)	58 114
Gross operating income	**(78 117)**	**2 452**	**213 556**	**137 891**
Cost of risk	-	-	-	-
Operating income	**(78 117)**	**2 452**	**213 556**	**137 891**
Net income from investments accounted for using the equity method	-	-	-	-
Net income/expense from other activities	-	-	-	-
Impairment losses on goodwill	-	-	-	-
Consolidated Net Income before tax	**(78 117)**	**2 452**	**213 556**	**137 891**
Tax expenses	-	-	-	-
Consolidated Net Income	**(78 117)**	**2 452**	**213 556**	**137 891**

8.4.4. COMMITMENTS TO RELATED PARTIES

As at 31 December 2018

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Commitments granted	5 448 026	-	555 094	6 003 120
Commitments received	11 331 168	-	1 680 812	13 011 980
Derivative financial assets commitments	103 310 835	-	14 807 211	118 118 046
Derivative financial liabilities commitments	119 574 298	-	13 891 946	133 466 244

As at 31 December 2017

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Commitments granted	3 271 399	-	696 890	3 968 289
Commitments received	11 221 866	-	1 155 687	12 377 553
Derivative financial assets commitments	114 848 513	-	14 226 204	129 074 717
Derivative financial liabilities commitments	89 044 591	-	15 465 691	104 510 282

8.4.5. EMPLOYEE BENEFITS FOR KEY MANAGEMENT PERSONNEL

Key management personnel include the authorized management of the Group, their respective spouses and any children residing in the family home.

(in EUR thousand)	31 December 2018	31 December 2017
Short-term benefits	1 050	855
Post-employment benefits	28	28
Long-term benefits	79	72
Share-based payments	270	212
Total	**1 427**	**1 167**

Note 8.5. Segment information

8.5.1. SEGMENT DEFINITION

The Group is managed on a matrix basis that considers 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 segment all operating income and expenses directly related to its activity. Income for each segment, except for the Corporate and Investment Banking, also includes the return on equity allocated to it, based on the estimated rate of return on Group equity. The return on the segment's book equity is then reallocated to the Corporate and Investment Banking. Transactions between segments are carried out under the same terms and conditions as those applying to non-Group customers.

In 2018, the Group's core businesses are managed through five strategic segments of activity:

- Corporate and Investment Banking;
- Private Banking;
- Corporate Center;
- Insurance activities;
- Securities Services.

The Corporate and Investment Banking acts as the Group's central funding department.

It includes Treasury and Assets Liabilities Management functions which are responsible for monitoring, managing and hedging structural risks (liquidity, interest rate and forex) arising from all the active business units within SGBT namely Private Banking (PRIV), Corporate Commercial Department (COV), Securities Services (SGSS). This team is also in charge of the oversight of similar activities in Monaco and Switzerland SGBT's affiliates devoted to the private banking area, and operates under the functional oversight of the Group central departments (GTR and ALM).

It recognises too 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 and Investment Banking.

Segment income takes 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 and Investment Banking.

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.

8.5.2. SEGMENT REPORTING BY OPERATING SEGMENTS

Amounts by division and sub-division incorporate the new organizational structure of Group activities.

31 December 2018

(in EUR thousand)	Corporate & Investment Banking	Private Banking	Corporate center	Insurance activities	Securities Services	Total
Net banking income	**233 324**	**249 125**	**50 171**	**27 531**	**207 508**	**767 659**
Staff expenses	(8 802)	(133 951)	(147)	(57)	(71 908)	(214 865)
Other operating expenses	(32 207)	(71 769)	(682)	(1 188)	(81 835)	(187 681)
Amortisation, depreciation and impairment of tangible and intangible fixed assets	(695)	(15 047)	(219)	(219)	(2 054)	(18 234)
Gross operating income	**191 620**	**28 358**	**49 123**	**26 067**	**51 711**	**346 879**
Cost of risk	(2 699)	(5 009)	-	-	202	(7 506)
Operating income	**188 921**	**23 349**	**49 123**	**26 067**	**51 913**	**339 373**
Net income from investments accounted for using the equity method	-	-	-	10 303	-	10 303
Net income/expense from other assets	-	(638)	-	-	-	(638)
Impairment losses on goodwill	-	-	-	-	-	-
Consolidated Net Income before tax	**188 921**	**22 711**	**49 123**	**36 370**	**51 913**	**349 038**
Tax expenses	(28 451)	(3 408)	(7 372)	(5 458)	(7 792)	(52 481)
Consolidated net income	**160 470**	**19 303**	**41 751**	**30 912**	**44 121**	**296 557**
Total assets	**64 712 219**	**9 209 937**	**26 764 873**	**551 220**	**38 960**	**101 277 209**
Total liabilities & equity	**70 415 965**	**13 485 218**	**16 125 479**	**551 220**	**699 327**	**101 277 209**

31 December 2017

(in EUR thousand)	International retail banking	Financial Services	Corporate & Investment Banking	Private Banking	Corporate center	Life insurance	Securities Services	Total
Net banking income	**6 545**	**2 906**	**85 248**	**485 845**	**(5 076)**	**36 356**	**180 476**	**792 300**
Staff expenses	(576)	(697)	(6 033)	(139 406)	188	21	(62 011)	(208 514)
Other operating expenses	(5 986)	(3 027)	(17 426)	(105 830)	(361)	(1 739)	(60 101)	(194 470)
Amortisation, depreciation and impairment of tangible and intangible fixed assets	(138)	(128)	(225)	(12 095)	(101)	(101)	(2 338)	(15 126)
Gross operating income	**(155)**	**(946)**	**61 564**	**228 514**	**(5 350)**	**34 537**	**56 026**	**374 190**
Cost of risk	286	-	4 451	11 273	-	-	-	16 010
Operating income	**131**	**(946)**	**66 015**	**239 787**	**(5 350)**	**34 537**	**56 026**	**390 200**
Net income from investments accounted for using the equity method	-	-	-	-	-	9 384	-	9 384
Net income/expense from other assets	-	-	-	(389)	-	-	-	(389)
Impairment losses on goodwill	-	-	-	(50 528)	-	-	-	(50 528)
Consolidated Net Income before tax	**131**	**(946)**	**66 015**	**188 870**	**(5 350)**	**43 921**	**56 026**	**348 667**
Tax expenses	(27)	(27)	(6 381)	(11 012)	(50 141)	(6 415)	(176)	(74 179)
Consolidated net income	**104**	**(973)**	**59 634**	**177 858**	**(55 491)**	**37 506**	**55 850**	**274 488**
Total assets	**657**	**68 926**	**58 569 960**	**34 988 498**	**101 699**	**580 183**	**1 816 489**	**96 126 412**
Total liabilities & equity	**86 356**	**2 631 651**	**58 822 605**	**25 566 845**	**3 950 285**	**566 302**	**4 502 368**	**96 126 412**

8.5.3. SEGMENT REPORTING BY GEOGRAPHICAL REGION

31 December 2018

(in EUR thousand)	Luxembourg	Monaco	Switzerland	Other	**Total**
Net banking income	614 028	55 494	96 686	1 451	767 659
Total assets	**93 048 496**	**3 226 853**	**2 860 220**	**2 141 640**	**101 277 209**
Total liabilities	**95 237 113**	**2 212 820**	**3 758 708**	**68 568**	**101 277 209**

31 December 2017

(in EUR thousand)	Luxembourg	Monaco	Switzerland	Other	**Total**
Net banking income	636 162	60 269	94 880	989	792 300
Total assets	**90 604 442**	**2 110 092**	**3 320 618**	**91 260**	**96 126 412**
Total liabilities	**90 639 725**	**2 092 522**	**3 306 728**	**87 437**	**96 126 412**

Note 8.6. Dividends paid and proposed

(in EUR thousand)	31 December 2018	31 December 2017
Declared and paid during the year		
Dividends on ordinary shares	298 000	310 000
Dividends per share (in EUR)	27	28
Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)		
Dividends on ordinary shares	359 000	298 000
Dividends per share (in EUR)	33	27

NOTE 9 NOTE ON RISK EXPOSURES

The understanding, identification, mitigation and management of risk are essential elements for the successful management of the Group. The Group deployed a strategy to ensure the implementation of robust and efficient risk management and monitoring organization where the main objective is:

- to contribute to the development of the Group's business lines by optimizing the overall profitability in consideration of assumed risks;
- to ensure the Group's sustainability by rolling out a high-performance organization for the analysis, valuation and monitoring of risks: global risk policies and procedures define the framework for controlling all types of risks by describing the methods used, defining limits, as well as setting escalation procedures;
- to provide the Management Board and the Board of Directors with a comprehensive, objective and relevant overview of the risks;
- to design dedicated risk monitoring reports sent and presented to the Chief Risk Officer (CRO) on a regular basis;
- to ensure that the risk limits are compatible with the Group's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Group is willing to take in order to achieve its strategic and financial goals;
- to ensure compliance with banking regulation requirements by submitting regular reports to the regulators (CSSF, ECB, EBA and BCL), taking part in regulatory discussions and analyzing all new requirements related to risk management that could affect the regulatory monitoring of the Group's activities.

The governance of risk management relies on an active involvement from all the company's managers, a clearly defined internal rules and procedures, and monitoring performed by independent operational management teams to structure the underwriting of new risks in order to ensure regular monitoring and proper implementation of rules and procedures.

SGBT's Risk Committee, chaired by the Chief Executive Officer, meets quarterly to review risk management and, if necessary, to determine whether to accept or manage risks. It aims to:

- inform Executive Management about the nature and magnitude of the risks to which the Group is exposed and, accordingly, to provide analyses of the credit portfolio on a periodic basis;
- identify possible remedial measures for identified risks;
- examine provisions from a prudential perspective;
- report on the progress of any initiatives initiated by the Risk Department in terms of managing counterparty, market, credit and operational risk.

To reflect a sound management of risk and develop an integrated risk culture, the Group has set up an effective Risk Management organization, in adequacy with its activities, encompassing the relevant risks resulting from the activities.

At the Management Board level, the overall Risk Management framework remains under the CRO's responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the Group's overall risk profile to be defined and managed.

The CRO delegates the day-to-day supervision of the department to the Head of the Group's Risk Management.

Note 9.1. Credit risk

Credit risk is defined by the Group as the risk of loss resulting from the inability of the Group's customers, sovereign issuers or other counterparties to honor their financial commitments. It also includes the counterparty risk relating to the market activities conducted by the Group entities.

In 2013, SGBT adopted a Group-wide credit risk policy covering all of its activities that specified the risk tolerance of the various business lines and established a number of common principles relating to the acceptance and monitoring of risk. This policy has been validated by the Group's Board of Directors.

The approval of risks complies with rules common to all business lines:

- all transactions resulting in a counterparty risk are subject to a prior analysis by a unit monitoring credit risk and to an authorization process;

- the Group's internal organization makes appropriate arrangements to monitor clients' creditworthiness. This approach primarily concerns large exposures to "corporations" or financial institutions and limits concentration risk;
- with support from their associated risk departments, the business lines are responsible for analyzing and approving risk insofar as their delegations of authority permit;
- the comparison of the commercial interest, driven by a profitability/risk pairing on the one hand, and the independent opinion of the risk departments on the other hand, supports the decision-making. In the event of a disagreement between the parties, an arbitration process for the decision exists, with limits on the amount;
- all decisions in respect of the granting of credit must automatically take into account the risk ratings attributed internally to the counterparties, such as were communicated by the business lines and approved by the SGBT Group's risk management team.

Loans extended by the Private Banking division are offered only to clients with assets on the Group's books. Credit policy is based, in particular, on the nature of the collateral. This policy is underpinned by a market "stress test" approach with application of the appropriate discounts to the value of the collateral based on its quality, liquidity, volatility and degree of asset diversification. Exposures and collateral are monitored daily for risk.

For corporate and institutional credit risks, the Group has a strong governance system covering its credit approval process, which relies on case-by-case analysis of exposure and the financial soundness of the counterparties. This analysis is geared towards assessing the ability of the counterparty to meet its obligations.

The credit policy focuses on the quality of the counterparty, as assessed by an internal rating, and the financing structure, which enables the Group to calculate the loss in the event of default.

With regard to financial engineering, any risk-taking sought by the business line is reviewed on a case-by-case basis for structural, contractual and counterparty quality. The review may lead to the conducting of "stress tests" to validate the counterparty's ability to pay back loans under deteriorated conditions or the profitability of the assets financed.

A Credit Committee, chaired by an approved member from SGBT's General Management, approves the Group's main exposures within the limits of the Committee's delegated responsibilities. The Risk Department is responsible for monitoring exposure, compiling reports and issuing alerts accordingly as well as for the regular updating of analyses. Regarding counterparty banks and brokers, the Group's Risk Department relies on the analytical capabilities of the SGBT Group, which validates the internal counterparty credit rating. The level of outstanding loans is assessed locally allowing to the special needs of the Treasury. The Group strives to establish master netting agreements and collateralization contracts with most of the Group counterparties with which it trades on the markets.

9.1.1. CREDIT RISK CONSIDERATIONS UNDER IFRS 9

9.1.1.1. ESTIMATING EXPECTED CREDIT LOSSES

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.

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 1 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.

Accounting policies having to do with determining the outstandings to be provisioned as well as the principles for classification in stages of provisioning are described in Note 2.3.3.10.1.

The methodology for calculating Stage 1 and 2 expected credit losses is based on the Basel framework, which served as the basis for selecting the methods for valuing the parameters for calculating IFRS 9 provisions (probability of default and loss given default for exposures under the A-IRB approaches, and the provisioning rate for exposures under the standardised method). The segmentation of SGBT portfolios is realized at the level of SG Group to ensure that they are consistent in terms of risk characteristics and to ensure better correlation with global and local macroeconomic variables. This segmentation factors in all the specific characteristics associated with the SG Group's activities. This new segmentation is consistent or equivalent to the segmentation defined in the Basel framework in order to ensure the uniqueness of past data on defaults and losses.

The forward-looking ECL approach (12-month/lifetime ECL) is based first and foremost on the incorporation of economic forecasts in probability of default. The main macroeconomic variable used for SGBT is the economic growth of Luxembourg. For SGBT Group, the macroeconomic variables used include growth of France (Monaco) and growth of Switzerland.

The method is supplemented with a sector adjustment that increases or decreases expected credit losses in an effort to better anticipate defaults or recoveries in certain cyclical sectors. These adjustments are reviewed and updated quarterly. The sectors of interest are economic sectors that are regarded a cyclical, which have been subject to default spikes in the past and for which group exposure exceeds the threshold reviewed and established every year by the Risk Division.

On PRIV perimeter, a simplified approach of expected credit losses calculation is deployed. This methodology is based on segmentation by homogeneous portfolio specification for which a provisioning rate is applied. These rates are reviewed by the business line on a quarterly basis.

Lastly, on an ancillary basis, loss allowances based on expert opinions that increase or decrease ECL have been retained to factor in future risks which cannot be modelled (mainly legislative or regulatory changes). These variables are updated quarterly.

9.1.1.2. RISK MEASUREMENT AND INTERNAL RATINGS

- To calculate its capital requirements under the IRB method, SGBT 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, SGBT 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 Group 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.
- SGBT 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.

9.1.1.3. ANALYSIS OF GROSS OUTSTANDINGS AND PROVISIONS FOR CREDIT RISK

The following tables detail the provisioned 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 impairment and provisions by stage.

The scope of these tables includes:

- securities (excluding securities received under repurchase agreements), customer loans and due from banks measured at amortised cost or at fair value through other comprehensive income;
- various receivables that fall under the scope of application of IFRS 9;
- financing and guarantee commitments.

9.1.2. ANALYSIS OF MAXIMUM CREDIT RISK EXPOSURE

The following table shows the maximum exposure to credit risk by class of financial asset and commitment. It also shows the total fair value of collateral.

Any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates) is not presented.

	31 December 2018		31 December 2017	
(in EUR thousand)	Credit risk exposures	Collateral	Credit risk exposures	Collateral
Financial assets at fair value through profit or loss	49 809 890	-	47 858 979	-
Hedging derivatives	4 161	-	14 949	-
Financial assets at fair value through other comprehensive income	3 338 542	-		
Available-for-sale financial assets			3 861 381	-
Securities at amortized cost	5 642 478	-		
Loans and advances to credit institutions[1]	10 018 941	-	9 312 411	1 406 843
Loans and advances to customers[2]	25 802 754	19 419 963	28 540 409	16 945 281
Investments of insurance activities	479 659	-		
Held-to-maturity financial assets			51 683	-
Other assets	847 236	-	766 772	-
Total	**95 943 661**	**19 419 963**	**90 406 584**	**18 352 124**
Loan commitments	5 969 387	-	4 314 901	-
Financial guarantees	1 278 646	-	958 260	-
Other commitments	2 805 099	-	2 101 986	-
Total	**10 053 132**	**-**	**7 375 147**	**-**

(in EUR thousand)	31 December 2018	31 December 2017
Loans and advances to credit institutions:	**-**	**1 406 843**
Other collateralized loans:	**-**	**1 405 549**
Cash	-	*1 405 549*
Rest	-	-
Financial guarantees received	**-**	**1 294**

(in EUR thousand)	31 December 2018	31 December 2017
Loans and advances to customers:	**19 419 963**	**16 945 281**
Mortgage loans:	**3 238 558**	**2 851 490**
Residential	*3 238 558*	*2 545 195*
Commerical	-	*306 295*
Other collateralized loans:	**7 711 489**	**5 854 478**
Cash	*4 398 034*	*1 701 864*
Others	*3 313 455*	*4 152 614*
Financial guarantees received	**8 469 916**	**8 239 313**

(1) Below is detailed as at 31 December the financial effect of the collateral related to loans and advances to credit institutions.

(2) Below are detailed as at 31 December the financial effect of the collateral related to loans and advances to customers

9.1.3. COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables;
- for retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

For securities collateral, a loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets.

The Risk department monitors the market value and the loanable value of collateral and will request additional collateral in accordance with the underlying agreement.

For real estate, the Group obtains a detailed real estate expert appraisal with a study of the market by an independent company for all financing of more than 2.5 MEUR. A loan to value is also determined, generally between 50 and 65% depending the type of credit. The location of the assets is limited to the following countries: France, Belgium, Luxembourg, Italy, Monaco, Switzerland and the UK.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds generally at auctions to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position and treated as non-current held for sale.

The Group also makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

9.1.4. CREDIT QUALITY OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR INDIVIDUALLY IMPAIRED

In the context of the application of IFRS 9 standard from 1st January 2018, the Group records Expected Credit Losses on financial assets, financial guarantees and other financial commitments on basis of Group calculation rules defined in Note 2.3.3.10.1. The Group determines that "individually impaired" financial assets refer mainly to financial assets classified in Stage 3 under IFRS 9.

9.1.4.1. ANALYSIS OF RISK EXPOSURE BY RATING

The Group manages the credit quality of financial assets using internal risk ratings. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

Internal rating is based on a detailed analysis of qualitative and financial information of the counterparty, the economic, sector or juridical background, etc.

The internal ratings are regularly assessed and reviewed by the Risk Division, at least once a year.

The rating determines the level of probability of default of the counterparty and is directly influenced by the level of risk weight.

There's a correspondence between internal and external ratings (see table hereafter).

SG Obligator rating scale	Moody's rating	S & P rating	Fitch IBCA rating
1	Aaa	AAA	AAA
2+ 2 2-	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
3+ 3 3-	A1 A2 A3	A+ A A-	A+ A A-
4+ 4 4-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
5+ 5 5-	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
6+ 6 6-	B1 B2 B3	B+ B B-	B+ B B-
7+ 7 7-	Caa1 Caa2 Caa3	CCC+ CCC CCC-	CCC+ CCC CCC-
8 9 10	Ca C	D	DDD DD D

For private banking, the approach is based on the collateral and the Group's operational capacity to track changes in each loan's collateral. Loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets. The Group implemented a monitoring mechanism for detecting collateral downgrading and defining, with its clients, measures for making up insufficient margins.

Loan applications are also reviewed in order to assess the debtor's quality and make a decision about the transaction (background and economic justification for the financing).

Exposures are classified in nine credit pools. Each credit pool is allocated an internal as follows:

Credit pool	Internal rating scale
Pool 1 to 5	→ 3+
Pool 6	→ 3-
Pool 7	→ 4
Pool 8	→ 4-
Pool 9	→ 8 (default)

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 marginal.

As at 31 December 2018 and 2017, the breakdown of EAD by the Basel method is as follows:

	31 December 2018	31 December 2017
IRB	91%	92%
Standard	9%	8%
Total	**100%**	**100%**

As at 31 December 2018 and 2017, the breakdown of IRBA's exposures and Risk Weighted Asset (RWA) by type and internal rating by counterparty type is as follows:

31 December 2018

(in EUR million)	Credit institutions		Corporate		Sovereign		**Total**	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	**Exposure value at risk**	**Amount of assets at weighted risk**
0 to 2+	112	-	586	34	7 561	-	8 259	34
2 to 3+	258	5	28	3	350	-	636	9
3 to 4+	77 611	1 554	1 723	312	-	-	79 334	1 867
< 4+	360	56	4 628	3 001	219	14	5 207	3 071
Total IRBA	**78 341**	**1 615**	**6 965**	**3 350**	**8 130**	**14**	**93 436**	**4 981**

31 December 2017

(in EUR million)	Credit institutions		Corporate		Sovereign		**Total**	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	**Exposure value at risk**	**Amount of assets at weighted risk**
0 to 2+	-	-	69	4	8 418	-	8 487	4
2 to 3+	123	4	98	13	412	1	633	18
3 to 4+	74 980	2 202	2 448	320	-	-	77 428	2 522
< 4+	532	11	3 831	2 403	105	26	4 468	2 440
Total IRBA	**75 635**	**2 217**	**6 446**	**2 740**	**8 935**	**27**	**91 016**	**4 984**

Regarding exposure with private customers, in the proposed model used to assess the private bank's exposure in cost of capital, the structure of the collateral is overriding. Exposure is classified according to the quality of the securities and divided between 9 pools or aggregates presenting similar risk profiles.

It is on the basis of this classification by pools that the calculation of capital requirements is carried out for exposure across private customers. By basing itself on the EL (Expected Loss) approach or the rate of average loss, the model determines, in relation to the regulatory calculation formulae, the RWA (Risk weighted assets) which depend on the nature of the counterparty (individual or legal entity) and of the pool. This model for the internal assessment of risks of the PRIV business line (Advanced Method) has been validated by Societe Generale Group Risk Management.

31 December 2018

	Pool 1	Pool 2	Pool 3	Pool 4	Pool 5
	Cash	Rating >A Obligations	Rating <A Obligations	Liquid and diversified portfolio	Exposure secured by property assets
Monaco	380	-	1	1 006	1 786
Switzerland	191	-	3	1 193	520
Luxembourg	430	2	47	1 205	735
	1 001	**2**	**51**	**3 404**	**3 041**

31 December 2017

	Pool 1	Pool 2	Pool 3	Pool 4	Pool 5
	Cash	Rating >A Obligations	Rating <A Obligations	Liquid and diversified portfolio	Exposure secured by property assets
Monaco	373	-	-	1 230	1 795
Switzerland	297	-	6	1 201	462
Luxembourg	263	2	30	790	634
	933	**2**	**36**	**3 221**	**2 891**

51.1% of EAD is in pools 1 to 4 having better quality and liquidity criteria (51% in 2017);

34.9% of the exposure secured by property assets (pool 5), which is a specific activity of our Monaco location (35% in 2017);

Contribution of uncovered exposure (pools 7 and 8) remains limited to 5% (6% in 2017).

Pool 6	Pool 7	Pool 8	Pool 9	Corp		
Non diversified liquid portfolio	Non liquid non quoted assets	Unsecured exposures	Defaults	Corp / MS	**Total EAD**	**Total RWA**
-	-	126	104	-	**3 403**	**1 324**
193	104	164	73	71	**2 512**	**795**
121	24	10	33	94	**2 701**	**644**
314	**128**	**300**	**210**	**165**	**8 616**	**2 763**

Pool 6	Pool 7	Pool 8	Pool 9	Corp		
Non diversified liquid portfolio	Non liquid non quoted assets	Unsecured exposures	Defaults	Corp / MS	**Total EAD**	**Total RWA**
-	-	189	-	45	**3 632**	**1 156**
300	70	136	70	63	**2 605**	**698**
173	15	82	25	28	**2 042**	**468**
473	**85**	**407**	**95**	**136**	**8 279**	**2 322**

As at 31 December 2018 and 2017, the breakdown of standard approach's exposures and Risk Weighted Asset by type and internal rating by counterparty type is related to the entities SG Capital Market Finance (SG CMF) and SG Fund Distribution (SG FD). It is as follows:

- Breakdown of exposures and Risk Weighted Asset by type and internal rating by counterparty type of SG FD:

31 December 2018

(in EUR million)	Credit institutions		Corporate		Total	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk
0 to 2+	-	-	-	-	-	-
2 to 3+	-	-	-	-	-	-
3 to 4+	-	-	-	-	-	-
< 4+	-	-	178	182	178	182
Total Standard approach	**-**	**-**	**178**	**182**	**178**	**182**

31 December 2017

(in EUR million)	Credit institutions		Corporate		Total	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk
0 to 2+	-	-	-	-	-	-
2 to 3+	-	-	-	-	-	-
3 to 4+	27	11	-	-	27	11
< 4+	-	-	91	84	91	84
Total Standard approach	**27**	**11**	**91**	**84**	**118**	**95**

- Breakdown of exposures and Risk Weighted Asset by type and internal rating by counterparty type of SG CMF:

31 December 2018

(in EUR million)	Credit institutions		Corporate		**Total**	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	**Exposure value at risk**	**Amount of assets at weighted risk**
0 to 2+	-	-	-	-	-	-
2 to 3+	-	-	-	-	-	-
3 to 4+	961	1 774	75	15	1 036	1 789
< 4+	775	-	739	0	1 514	-
N/A	457	13	6 691	91	7 148	104
Total Standard approach	**2 193**	**1 787**	**7 505**	**106**	**9 698**	**1 893**

Among the EUR 7 148 million of exposure value at risk with no rating, EUR 5 204 million are related to risk and funding provided by SG Group and fully secured via deposits with restricted recourses, therefore representing no risk.

31 December 2017

(in EUR million)	Credit institutions		Corporate		**Total**	
Rating	Exposure value at risk	Amount of assets at weighted risk	Exposure value at risk	Amount of assets at weighted risk	**Exposure value at risk**	**Amount of assets at weighted risk**
0 to 2+	-	-	-	-	-	-
2 to 3+	-	-	-	-	-	-
3 to 4+	1 085	60	250	1 649	1 335	1 709
< 4+	958	45	70	14	1 028	59
N/A	406	2	5 615	-	6 021	2
Total Standard approach	**2 449**	**107**	**5 935**	**1 663**	**8 384**	**1 770**

Among the EUR 6 021 million of exposure value at risk with no rating, EUR 5 068 million are related to risk and funding provided by SG Group and fully secured via deposits with restricted recourses, therefore representing no risk.

9.1.4.2. ANALYSIS OF RISK EXPOSURE BY NATURE

9.1.4.2.1. Analysis by industry

The breakdown of exposure to credit risk by economic sector is not considered a decision-making criterion given the specific nature of the Group's activity. However, the breakdown by type of counterparty, which excludes investments of insurance activities is as follows:

As at 31 December 2018

(in EUR thousand)	Central administrations	Credit institutions	Other financial corporations	Non-financial corporations	Retail customers	Total
Cash and balances with central banks	5 173 455	-	-	-	-	**5 173 455**
Financial assets at fair value through profit or loss	-	49 776 902	32 988	-	-	**49 809 890**
Hedging derivatives	-	4 161	-	-	-	**4 161**
Financial assets at fair value through other comprehensive income	2 804 987	533 555	-	-	-	**3 338 542**
Securities at amortized cost	-	284 365	5 358 113	-	-	**5 642 478**
Loans and advances	29 215	11 640 047	3 221 526	18 006 623	2 924 284	**35 821 695**
Total financial assets	**8 007 657**	**62 239 030**	**8 612 627**	**18 006 623**	**2 924 284**	**99 790 221**
Loan commitments given	-	2 972 264	478 394	2 357 543	161 186	**5 969 387**
Financial guarantees	-	418 033	71 587	686 408	102 618	**1 278 646**
Other commitments	-	2 799 528	2 307	-	3 264	**2 805 099**
Total given commitments	**-**	**6 189 825**	**552 288**	**3 043 951**	**267 068**	**10 053 132**

As at 31 December 2017

(in EUR thousand)	Central administrations	Credit institutions	Other financial corporations	Non-financial corporations	Retail customers	Total
Cash and balances with central banks	5 512 824	-	-	-	-	**5 512 824**
Financial assets at fair value through profit or loss	-	47 825 110	22 682	11 187	-	**47 858 979**
Hedging derivatives	-	14 949	-	-	-	**14 949**
Available-for-sale financial assets	3 583 106	223 396	-	54 879	-	**3 861 381**
Loans and advances	23 022	12 533 911	11 572 563	11 269 077	2 454 247	**37 852 820**
Held-to-maturity	51 492	191	-	-	-	**51 683**
Total financial assets	**9 170 444**	**60 597 557**	**11 595 245**	**11 335 143**	**2 454 247**	**95 152 636**
Loan commitments given	-	1 901 492	1 328 434	941 417	143 558	**4 314 901**
Financial guarantees	-	380 079	210 912	217 999	149 270	**958 260**
Other commitments	-	2 073 355	477	-	28 154	**2 101 986**
Total given commitments	**-**	**4 354 926**	**1 539 823**	**1 159 416**	**320 982**	**7 375 147**

Central administrations include the public sector, composed of national, regional and local governments, except for undertakings under public or private law controlled by these governments.

Financial institutions include banks, multilateral development banks and central banks.

Institutions other than financial institutions are investment firms.

Corporate are counterparties that do not meet the requirements to be included in the other columns.

Retail customers are made up of individuals.

9.1.4.2.2. Analysis by geography

Geographically, the Group has limited exposure to "emerging" countries and concentrates its activities in the European Union ("EU"). The Group had no exposure to Portugal, Greece, Ukraine or Cyprus as at 31 December 2018 and 2017.

As at 31 December 2018

(in EUR thousand)	EU	Outside the EU	Total
Cash, due from central banks	4 493 345	680 110	**5 173 455**
Financial assets at fair value through profit or loss	49 630 155	179 735	**49 809 890**
Hedging derivatives	4 161	-	**4 161**
Financial assets at fair value through other comprehensive income	3 310 859	27 683	**3 338 542**
Securities at amortized cost	5 642 478	-	**5 642 478**
Loans and receivables at amortized cost	31 566 061	4 255 634	**35 821 695**
Total financial assets	**94 647 059**	**5 143 162**	**99 790 221**
Loan commitments given	5 524 334	445 053	**5 969 387**
Financial guarantees given	1 114 411	164 235	**1 278 646**
Other commitments given	2 805 099	-	**2 805 099**
Total given commitments	**9 443 844**	**609 288**	**10 053 132**

As at 31 December 2017

(in EUR thousand)	EU	Outside the EU	Total
Cash, due from central banks	5 006 465	506 359	**5 512 824**
Financial assets at fair value through profit or loss	23 375 353	22 483 626	**47 858 979**
Hedging derivatives	14 949	-	**14 949**
Available-for-sale financial assets	3 814 051	47 330	**3 861 381**
Loans and advances	34 364 680	3 488 140	**37 852 820**
Held-to-maturity financial assets	50 902	781	**51 683**
Total financial assets	**68 626 400**	**26 526 236**	**95 152 636**
Loan commitments given	2 366 508	1 948 393	**4 314 901**
Financial guarantees	791 863	166 397	**958 260**
Other commitments	2 098 201	3 785	**2 101 986**
Total given commitments	**5 256 572**	**2 118 575**	**7 375 147**

9.1.5. QUALITY OF FINANCIAL ASSETS

9.1.5.1. PAST DUE AND IMPAIRED FINANCIAL ASSETS

As at 31 December 2018

(in EUR thousand)	Past due but not impaired assets ≤ 90 days	> 90 days ≤ 180 days	> 180 days	Total	Gross carrying amount of individually impaired financial assets	Guarantees held for past due or individually impaired assets and debt instruments
Loans and advances	253 956	143 801	39 000	**436 757**	122 524	223 437
Total	**253 956**	**143 801**	**39 000**	**436 757**	**122 524**	**223 437**

As at 31 December 2017

(in EUR thousand)	Past due but not impaired assets[1] ≤ 90 days	> 90 days ≤ 180 days	> 180 days	Total	Gross carrying amount of individually impaired financial assets[1]	Guarantees held for past due or individually impaired assets and debt instruments[2]
Loans and advances	125 478	22 386	125 274	**273 138**	53 576	98 332
Total	**125 478**	**22 386**	**125 274**	**273 138**	**53 576**	**98 332**

As at 31 December 2018

(in EUR thousand)	Past due but not impaired assets ≤ 90 days	> 90 days≤ 180 days	> 180 days	Total	Gross carrying amount of individually impaired financial assets
Loans and receivables					
Other financial corporation	-	-	-	-	-
Non-financial corporation	128 824	134 863	23 690	**287 377**	48 402
Households	125 132	8 938	15 311	**149 381**	74 122
Total	**253 956**	**143 801**	**39 001**	**436 758**	**122 524**

As at 31 December 2017

(in EUR thousand)	Past due but not impaired assets ≤ 90 days	> 90 days ≤ 180 days	> 180 days	Total	Gross carrying amount of individually impaired financial assets
Loans and receivables					
Other financial corporation	-	-	32 008	**32 008**	29 363
Non-financial corporation	57 832	17 481	58 474	**133 787**	-
Households	67 646	4 905	34 792	**107 343**	24 213
Total	**125 478**	**22 386**	**125 274**	**273 138**	**53 576**

(1) Below is disclosed the breakdown of past due and impaired loans and advances.

(2) Below is disclosed the breakdown of guarantees held for past due or individually impaired assets and debt instruments

	31 December 2018	31 December 2017
Guarantees held for past due or individually impaired assets and debt instruments		
Past due	203 842	83 458
Impaired	19 595	14 875
Total	**223 437**	**98 333**

9.1.5.2. ANALYSIS OF IMPAIRED ASSETS

Analysis of not impaired loans and securities	Gross amount (A)	
(in EUR thousand)	31 December 2018(1)	31 December 2017(2)
Not impaired financial assets at fair value through other comprehensive income	3 338 542	
Not impaired financial investments available-for-sale		3 824 803
of which bonds and fixed-income instruments		*3 688 313*
of which equities and other variable-income instruments		*136 490*
Not impaired securities at amortized cost		
Not impaired loans and advances to credit institutions		9 312 411
Not impaired loans and advances to customers		28 449 985
Not impaired investments of insurance activities	479 659	
Not impaired financial investments held to maturity		51 683
Collective impairment on not impaired loans		-
Total	**3 818 201**	**41 638 882**

(*) Under IFRS 9, with consideration of gross amounts of loans and securities not valued at fair value through profit or loss, which do not generate ECL.
(**) Under IAS 39 definition of impairment (specific allowances)

Analysis of impaired loans and securities	Gross amount (B)		Expected credit loss allowance (C)		Net amount (B+C)	
(in EUR thousand)	**31 December 2018**[1]	**31 December 2017**[2]	**31 December 2018**[1]	**31 December 2017**[2]	**31 December 2018**[1]	**31 December 2017**[2]
Impaired financial assets at fair value through other comprehensive income	3 378 326	-	(13)	-	3 378 313	-
Impaired financial assets available for sale		233 459		(196 882)		36 577
of which bonds and fixed-income instruments		*597*		*(597)*		-
of which equities and other variable-income instruments		*232 862*		*(196 285)*		*36 577*
Impaired securities at amortized cost	5 642 491		(13)		5 642 478	
Impaired loans and advances to credit institutions	10 019 294	-	(353)	-	10 018 941	-
Impaired loans and advances to customers	25 836 172	127 271	(36 456)	(36 847)	25 799 716	90 424
Impaired other assets	847 419	-	(183)	-	847 236	-
Impaired investments of insurance activities	-		-		-	
Impaired financial investments held to maturity		-		-		-
Collective impairment on not impaired loans						
Total	**45 686 969**	**360 730**	**(37 018)**	**(233 729)**	**45 649 951**	**127 001**

(1) Under IFRS 9, with consideration of gross amounts of loans and securities not valued at fair value through profit or loss, which generate ECL under Stages 1, 2 and 3.

(2) Under IAS 39 definition of impairment (specific allowances)

9.1.5.3. ANALYSIS OF ASSETS' IMPAIRMENT

Assets' impairment is broken down as follows:

31 December 2018

(in EUR thousand)	Assets' impairments as at 1 January 2018	Allocations	Write-backs available	Net impairment losses	Reversals used	Currency and scope effects	Asset impairments as at 31 December 2018
Financial assets at fair value through other comprehensive income	**(743)**	-	96	96	596	38	**(13)**
Securities at amortized cost	**-**	(20)	10	(10)	-	(3)	**(13)**
Loans and advances to credit institutions	**(697)**	(548)	994	446	-	(102)	**(353)**
Loans and advances to customers	**(56 933)**	(24 650)	17 466	(7 184)	27 933	(272)	**(36 456)**
Other assets	**(222)**	(394)	439	45	-	(5)	**(183)**
Investments of insurance activities	**-**	-	-	-	-	-	**-**
Total	**(58 596)**	**(25 612)**	**19 005**	**(6 607)**	**28 529**	**(343)**	**(37 018)**

31 December 2017

(in EUR thousand)	Assets' impairments as at 1 January 2017	Allocations	Write-backs available	Net impairment losses	Reversals used	Currency and scope effects	Asset impairments as at 31 December 2017
Financial assets available for sale	**(197 115)**	(17 261)	-	(17 261)	-	44 574	**(169 802)**
of which bonds and fixed-income instruments	***(597)***	-	-	-	-	*27 080*	***26 483***
of which equities and other variable-income instruments	***(196 518)***	*(17 261)*	-	*(17 261)*	-	*17 494*	***(196 285)***
Loans and advances to credit institutions	**-**	-	-	-	-	-	**-**
Loans and advances to customers	**(48 881)**	(3 411)	6 444	3 033	8 321	680	**(36 847)**
Financial investments held to maturity	**-**	-	-	-	-	-	**-**
Total	**(245 996)**	**(20 672)**	**6 444**	**(14 228)**	**8 321**	**45 254**	**(206 649)**

9.1.6. COLLATERAL OR OTHER CREDIT ENHANCEMENTS OBTAINED BY TAKING POSSESSION OF THE GUARANTEE HELD

The carrying value of assets obtained during the period by taking possession of the guarantees held is:

(in EUR thousand)	**31 December 2018**	**31 December 2017**
Cash	945	17 027
Securities	-	1 000
Mortgage	5 023	-
Total	**5 968**	**18 027**

9.1.7. RESTRUCTURED DEBT

For the 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). The Group aligned its definition of restructured loans with the EBA definition.

Restructured debt does not include commercial renegotiations involving customers for which the Group has agreed to renegotiate the debt in order to retain or develop a business relationship, in accordance with credit approval rules in force and without giving up any of the principal or accrued interest.

Any situation leading to debt restructuring entails placing the customers 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 Group remains uncertain of their ability to meet their future commitments and for a minimum of one year.

(in EUR thousand)	**31 December 2018**	**31 December 2017**
Non-performing restructured debt	7 650	-
Performing restructured debt	6 118	10 616
Total	**13 768**	**10 616**

Note 9.2. Market risk

9.2.1. GENERAL

Market risk is defined as the risk of loss due to unfavorable movements in market factors, such as interest rates, share prices or currency exchange rates, impacting the value of the Group’s proprietary positions.

Although the primary responsibility of the monitoring of risks lies down with the managers of the trading rooms (Front Office), the organization of the supervision relies on the independent structures, which, in particular, are in charge of:

- the calculation, on a daily basis, of market risks based on a formal and secure procedure;
- the daily monitoring of compliance with the limits notified for each activity;
- the preparation of a daily report on the use of the limits, sent to the general management of the entities concerned, to the front office and to the SGBT Group’s market risk department.

The Group’s market risk assessment is based on three main daily indicators, which are used to define exposure limits:

- **the Value at Risk (VaR) 1** day at 99% in accordance with the internal regulatory model, a composite indicator enabling the day-to-day monitoring of the market risks. The method used is based on “historical simulations”, which implicitly take into account the correlations among all the different markets;
- **the stress testing,** based on ten-year risk indicators. Stress testing makes it possible to limit exposure to systemic risks and to cases of exceptional market shock. A stress test estimates the loss resulting from an extreme shift in market prices over a period corresponding to the time required to unwind or hedge the positions affected (5 to 20 days for most trading positions). This estimate uses historical scenarios as well as theoretical scenarios that are regularly reviewed and updated by the SGBT Group Risk Division. At the end of the most recent review, the stress test used 18 scenarios (3 historical and 15 theoretical);
- **additional indicators** (in sensitivity, nominal, holding or modify duration, etc.) enable to ensure consistency between the overall risk limits and the operational thresholds used by the Front Office. These limits also allow mitigating the risks which would only partially be caught by the “VaR” or stress testing.

The Group is also exposed to structural interest rate risk, primarily through proprietary transactions:

- participating interests and related financing transactions;
- replacement of available equity by participating interests or loans to the Group’s treasury with hedged interest rate risk;
- property, plant and equipment, provisions, accruals and deferred tax.

With regard to structural interest rate risk management, governance within the Group is based on the following core principles:

- the general policy and company-wide management standards are approved by the ultimate parent SGBT Group's Executive Committee and translated into detailed management standards by the SGBT Group's Finance Division (DEVL);
- decentralization of risk management at entity level, controlled by enforcing the limits approved by the Finance Committee of SGBT Group;
- close monitoring by the SGBT Group's Finance Division (DEVL) of the application of standards and interest rate risk management by the different entities;
- SGBT Group's Finance Division's (DEVL) standards and procedures set out precise guidelines for the implementation of risk policy and management and the rules on the investment of equity applicable to the various entities.

Compliance with these standards and procedures is enforced through a structural interest rate risk manager working in the Finance Division, who is responsible for:

- generating a quarterly report on the term to maturity of assets and liabilities;
- monitoring the modified duration of the economic value of positions.

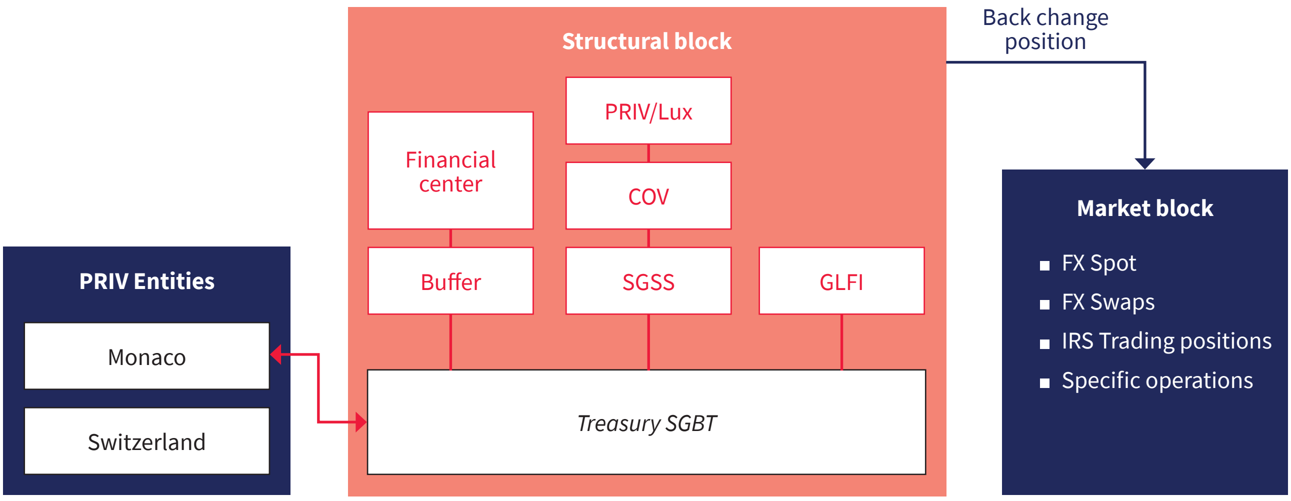
The ***quarterly report*** analyses all fixed-rate asset and liability items recognized on the consolidated statement of financial position to capture exposure to gap risk arising from maturity mismatches between fixed-rate flows on the asset and liability sides of the consolidated statement of financial position. The maturities and amortization of outstanding loans are determined based on contractual terms or models reflecting the historical performance of the customer as well as the conventional assumptions underlying some aggregates.

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 term (up to one year), medium term (one to five years) and long term (more than five years).

The analysis of fair value is presented in Note 10.

9.2.2. INTEREST RATE RISK

Structural interest rate risk is measured within the scope of structural activities (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 aim is to ensure the risk is managed by reducing the Group's exposure to structural interest rate risk as far as possible.

To this end, the Group and its entities are subject to sensitivity limits validated by the Finance Committee. Sensitivity is defined as the variation in the net present value of future (maturities covering more than 20 years) residual fixed-rate positions (surplus or deficit) for a shock in the yield curve (i.e. this sensitivity does not relate to the sensitivity of the annual net interest margin).

Since Q2 2018, the +100 bps scenario has been replaced by:

- 2 business-as-usual scenarios:
  - parallel shift of +10 bps;
  - parallel shift of -10 bps.
- 2 stressed scenarios (similar to the ones used to manage interest rate risk in market activities):
  - rise of short-term rates;
  - rise of long-term rates.

At SGBT level, limits and thresholds for these new scenarios are defined as below:

31 December 2018

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
TTS	+10 bps pilotage	Threshold	(8,20)	(8,20)	(8,20)	(8,20)
TTS	+10 bps pilotage	Limit	(10,25)	(10,25)	(10,25)	(10,25)
TTS	-10 bps pilotage	Threshold	(8,20)	(8,20)	(8,20)	(8,20)
TTS	-10 bps pilotage	Limit	(10,25)	(10,25)	(10,25)	(10,25)
TTS	NIRDOWN pilotage	Threshold	-	-	-	(309,03)
TTS	NIRDOWN pilotage	Limit	-	-	-	(386,28)
TTS	NIRUP pilotage	Threshold	-	-	-	(859,75)
TTS	NIRUP pilotage	Limit	-	-	-	(1 074,69)

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
EUR	+10 bps pilotage	Threshold	(7,60)	(7,60)	(7,60)	(7,60)
EUR	+10 bps pilotage	Limit	(9,50)	(9,50)	(9,50)	(9,50)
EUR	-10 bps pilotage	Threshold	(7,60)	(7,60)	(7,60)	(7,60)
EUR	-10 bps pilotage	Limit	(9,50)	(9,50)	(9,50)	(9,50)
EUR	NIRDOWN pilotage	Threshold	-	-	-	(61,10)
EUR	NIRDOWN pilotage	Limit	-	-	-	(76,38)
EUR	NIRUP pilotage	Threshold	-	-	-	(86,75)
EUR	NIRUP pilotage	Limit	-	-	-	(108,44)

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
USD	+10 bps pilotage	Threshold	(0,60)	(0,60)	(0,60)	(0,60)
USD	+10 bps pilotage	Limit	(0,75)	(0,75)	(0,75)	(0,75)
USD	-10 bps pilotage	Threshold	(0,60)	(0,60)	(0,60)	(0,60)
USD	-10 bps pilotage	Limit	(0,75)	(0,75)	(0,75)	(0,75)
USD	NIRDOWN pilotage	Threshold	-	-	-	(3,45)
USD	NIRDOWN pilotage	Limit	-	-	-	(4,31)
USD	NIRUP pilotage	Threshold	-	-	-	(4,88)
USD	NIRUP pilotage	Limit	-	-	-	(6,09)

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
AGGREGATE	+10 bps pilotage	Threshold	(6,15)	(6,15)	(6,15)	(6,15)
AGGREGATE	+10 bps pilotage	Limit	(7,69)	(7,69)	(7,69)	(7,69)
AGGREGATE	-10 bps pilotage	Threshold	(6,15)	(6,15)	(6,15)	(6,15)
AGGREGATE	-10 bps pilotage	Limit	(7,69)	(7,69)	(7,69)	(7,69)
AGGREGATE	NIRDOWN pilotage	Threshold	-	-	-	(231,77)
AGGREGATE	NIRDOWN pilotage	Limit	-	-	-	(289,71)
AGGREGATE	NIRUP pilotage	Threshold	-	-	-	(644,81)
AGGREGATE	NIRUP pilotage	Limit	-	-	-	(806,02)

PERIMETER AND RISK TOLERANCE

Assets and liabilities of the PRIV entities consolidated by SGBT Luxembourg are backed against SGBT treasury desk.

This may be illustrated as follows for Monaco and Switzerland:

- SGPB Monaco backs all its operations deal by deal against SGBT treasury desk (same liquidity profile and interest rate conditions);
- SGPB Switzerland also backs each of its term operations against SGBT treasury desk and replaces its overnight surplus on a daily basis.

On top of that, except SGBT Luxembourg, the other main entities within SGBT consolidated perimeter (SGIS, SG CMF, SG FD) are backed either against SGBT Luxembourg generating no structural risk within the entity itself or against SG Paris' treasury desk.

Therefore, given this setup, SGBT Luxembourg is the only entity exposed significantly to structural interest rate risk.

MEASUREMENT AND MONITORING OF STRUCTURAL INTEREST RATE RISKS

The Group uses several indicators to measure its overall interest rate risk. The two most important indicators are:

- interest rate gap analysis (the difference between outstanding fixed-rate assets and liabilities by interest rate refixing date): the schedule of fixed rate positions is the main indicator for assessing the characteristics of the necessary hedging operations. It is calculated on a static basis by major currencies;
- net present value sensitivity: an additional summary indicator used to set limits for the entities. It is calculated as the sensitivity of the net present value of the consolidated statement of financial position to variations in interest rates. This measurement is calculated for all currencies;

The following observations can be made with regards to the structural interest risk.

Within SGBT, the outstanding amounts of customer loans are generally considered to be fixed-rate. Macro hedging is set up mainly through the use of interest rate swap in order to maintain net present value within the limits.

As at 31 December 2018, the sensitivity of SGBT for a 0.1% parallel increase in the yield curve was EUR -1.57 million (2017: EUR 24.5 million).

- bonds are micro-hedged and therefore present no residual interest rate risk;
- transactions with customers and financial institutions are macro-hedged and therefore present a low interest rate risk. The majority of fixed-rate transactions with customers are loans from PRIV (private banking customers) entity and loans form ALD leasing entity;
- equity owned funds which have a straight-line depreciation on ten years are macro-hedged in order to maintain net present value within the limits;
- structured finance (GLFI) activities within SGBT's statement of financial position are micro hedged and present no residual interest rate risk.

Interest rate risk is also monitored daily by the treasury department.

INTEREST RATE GAP ANALYSIS

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

Assets and liabilities are analyzed separately, without any a priori matching. The maturities of outstanding assets and liabilities are determined based on the contractual terms of transactions, conventional assumptions (particularly for sight deposits, regulated savings accounts, early loan repayments, and shareholders' equity).

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

(in EUR million)	1 year	3 years	5 years	7 years
Amount of gap (31.12.2018)	(1 838)	(384)	166	237
Amount of gap (31.12.2017)	3 628	3 120	1 768	918

MEASUREMENT OF THE GROUP'S SENSITIVITY FOR BUSINESS-AS-USUAL AND STRESSED SCENARIOS, INDICATED BY MATURITY

Once the Group has identified its fixed-rate positions (surplus or deficit), it calculates the sensitivity to interest rate variations. This sensitivity is defined as the variation in the net present values of the fixed-rate positions for a shock in the yield curve for the four different scenarios below:

- 2 business-as-usual scenarios:
  - – parallel shift of +10 bps;
  - – parallel shift of -10 bps.
- 2 stressed scenarios (similar to the ones used to manage interest rate risk in market activities):
  - – rise of short-term rates;
  - – rise of long-term rates.

The result of the Group's sensitivity analysis for the four different scenarios is as follows:

31 December 2018

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
TTS	+10 bps pilotage	Sensitivity	0,44	(4,20)	2,20	(1,57)
TTS	-10 bps pilotage	Sensitivity	(0,37)	4,19	(2,28)	1,53
TTS	NIRDOWN pilotage	Sensitivity	-	-	-	8,21
TTS	NIRUP pilotage	Sensitivity	-	-	-	(13,75)

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
EUR	+10 bps pilotage	Sensitivity	0,34	(3,57)	2,41	(0,82)
EUR	-10 bps pilotage	Sensitivity	(0,28)	3,54	(2,50)	0,76
EUR	NIRDOWN pilotage	Sensitivity	-	-	-	4,16
EUR	NIRUP pilotage	Sensitivity	-	-	-	(9,22)

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
USD	+10 bps pilotage	Sensitivity	0,14	(0,00)	(0,12)	0,02
USD	-10 bps pilotage	Sensitivity	(0,14)	0,00	0,12	(0,02)
USD	NIRDOWN pilotage	Sensitivity	-	-	-	(0,20)
USD	NIRUP pilotage	Sensitivity	-	-	-	0,27

IN Meur	Scenario	Description	Short-term	Mid-term	Long-term	Global
AGGREGATE	+10 bps pilotage	Sensitivity	(0,09)	(0,63)	(0,10)	(0,81)
AGGREGATE	-10 bps pilotage	Sensitivity	(0,05)	(0,00)	(0,00)	(0,04)
AGGREGATE	NIRDOWN pilotage	Sensitivity	-	-	-	(0,27)
AGGREGATE	NIRUP pilotage	Sensitivity	-	-	-	(5,17)

Through 2018, the Group maintained its overall sensitivity to interest rate risk below the limits.

MEASUREMENT OF THE GROUP'S SENSITIVITY ON NET INTEREST MARGIN ("NIM")

The Group analyses the sensitivity of earnings to variations in market interest rates using stress tests on the net interest margin. Since the end of 2017, the NIM calculation has been largely improved and automated. Four new regulatory scenarios have been added.

At 31 December 2018 and 31 December 2017, the Group's net interest margin sensitivity was as follows for a 100bp parallel increase and decrease and new scenarios at a 1-year time horizon:

(in EUR million)	31 December 2018	31 December 2017
Parallel increase in interest rates of 100 bp	75	24
Parallel decrease in interest rates of 100 bp	(15)	(22)
Parallel increase in interest rates of 200 bp	143	-
Parallel decrease in interest rates of 200 bp	(29)	-
Flattening in interest rates	162	-
Steepening decrease in interest rates	(39)	-

9.2.3. CURRENCY RISK

Structural exchange risk is the risk that a loss occurs due to an unfavourable movement of the exchange rate that would affect the Group due to existing opened positions in foreign currencies.

STRUCTURAL EXCHANGE RATE RISK IS MAINLY CAUSED BY:

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

OBJECTIVE OF THE GROUP

The Group's policy consists in calibrating the hedging of its net investments in foreign entities in such a way as to reduce the sensitivity of its Common Equity Tier 1 ratio to fluctuations in exchange rates as far as possible. To this end, it enters into hedging transactions to maintain a currency exposure reducing such sensitivity to within limits. The Group quantifies its exposure to structural foreign exchange rate risks by analyzing all assets and liabilities denominated in foreign currencies.

PERIMETER AND RISK TOLERANCE

Assets and liabilities of the PRIV entities consolidated by SGBT Luxembourg are backed against SGBT treasury desk. This may be illustrated as follows for Monaco and Switzerland:

- SGPB Monaco backs all its operations unitarily against SGBT treasury desk (same liquidity profile and interest rate conditions);
- SGPB Switzerland also backs each of its term operations against SGBT treasury desk and replaces its overnight surplus on a daily basis.

On top of that, except SGBT Luxembourg, the other main entities within SGBT consolidated perimeter (SGIS, SG CMF, SG FD) are backed either against SGBT Luxembourg generating no structural risk within the entity itself or against SG Paris treasury desk.

Therefore, given this setup, SGBT Luxembourg is the only entity significantly exposed to structural interest rate and foreign exchange risks.

BREAKDOWN OF BANK ASSET AND LIABILITIES IN CURRENCY

As at 31 December 2018 and 2017, the breakdown of total asset and liabilities in currencies is as follows:

	31 December 2018		31 December 2017	
(in EUR thousand)	Assets	Liabilities and equity	Assets	Liabilities and equity
EUR	50 114 823	80 421 483	60 775 001	63 354 206
USD	28 478 566	13 217 703	17 317 049	17 096 255
GBP	4 336 550	2 325 999	3 440 373	3 256 236
JPY	5 257 282	576 461	6 350 653	6 350 554
AUD	656 427	212 893	475 205	460 696
CZK	787 895	350 519	378 753	376 051
RUB	10 506	6 600	27 328	17 452
RON	17 814	1 777	12 059	9 727
Others	11 617 346	4 163 774	7 349 991	5 205 235
Total	**101 277 209**	**101 277 209**	**96 126 412**	**96 126 412**

MEASUREMENT AND MONITORING OF STRUCTURAL FOREIGN EXCHANGE RATE RISKS

The Group settles many forward foreign exchange transactions that are systematically backed by spot transactions. The residual position on those operations corresponds to interests of the currency in which the forward operation has been concluded and therefore represents an interest rate position monitored by the treasury desk.

The structural currency risk is monitored through monitoring process of the market currency risk. Those monitoring processes cover both natures of currency risks. Please refer to Note 9.2.4.2.1. for more details on those risk monitoring processes.

SENSITIVITY OF THE PROFIT OF THE GROUP TO A 10% CURRENCY CHANGE

The table below presents the impact on the Group profit of a 10% currency depreciation or appreciation as at 31 December 2018 and 2017:

	31 December 2018		31 December 2017	
(in EUR thousand)	Effect on the profit of a 10% currency appreciation	Effect on the profit of a 10% currency depreciation	Effect on the profit of a 10% currency appreciation	Effect on the profit of a 10% currency depreciation
EUR	-	-	-	-
USD	(23)	28	12	(16)
GBP	-	-	-	1
JPY	1	(1)	(8)	10
AUD	(73)	88	2	(2)
CZK	-	1	5	(6)
RUB	(2)	3	-	-
RON	-	-	(1)	1
Others	1	(1)	10	(13)
Total	**(96)**	**118**	**20**	**(25)**

9.2.4. MEASUREMENT OF MARKET RISK AND DEFINITION OF LIMITS

9.2.4.1. STANDALONE SGBT

9.2.4.1.1. Market risk

The Group's policy with regards to monitoring of market rates consists in limiting every market activity. Limits are notified to the Societe Generale Group risk management following an agreement with the management and the business.

In the Group, market activities are held according with the principle of segregation of duties. Front office functions are separated from the administrative and control functions. The evaluation of the market risk mainly relies on combination of two daily indicators:

- the 99% value-at-risk;
- the Stress-test measures.

99% VALUE-AT-RISK

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 Group's positions (i.e. interest rates, share prices;
- exchange rates, commodity prices, volatility, credit spreads, etc.);
- definition of 260 scenarios corresponding to one-day variations in these market parameters over a rolling one-year period;
- application of these 260 scenarios to the market parameters of the day;
- revaluation of daily positions, on the basis of the 260 sets of adjusted market parameters.

Within the framework described above, the one-day 99% Value-at-Risk corresponds to the average of the second and third largest losses computed.

The day-to-day follow-up of the 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 losses 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.

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 inhouse methods.

The relevance of the model is checked through ongoing backtesting in order to verify whether the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval.

Daily consolidated income statement used for back testing includes in particular the change in value of the portfolio (book value) and the impact of new transactions and of transactions modified during the day (including their sales margins), refinancing costs, the various related commissions (brokerage fees, custody fees, etc.), as well as provisions and parameter adjustments made for market risk.

	31 December 2018		31 December 2017	
	VaR (ten-day, 99%)	VaR (one-day, 99%)	VaR (ten-day, 99%)	VaR (one-day, 99%)
Period Start	1 January 2018	1 January 2018	1 January 2017	1 January 2017
Maximum value	299 953	94 854	5 766	1 823
Average value	28 206	8 919	69 250	20 623
Minimum value	2 761	873	2 834 004	896 191
Period End	31 December 2018	31 December 2018	31 December 2017	31 December 2017

Over 2018, the VaR levels (one-day 99%) remained low overall (EUR 8 919) way under the limit determined by the head office (EUR 500 000). The VaR level of the one-day 99% never reached the limit over 2018:

STRESS-TEST

Alongside the internal VaR model, Societe Generale monitors its exposure using stress test simulations to take into account exceptional market occurrences. A stress test estimates the loss resulting from an extreme change in market parameters over a period corresponding to the time required to unwind or hedge the positions affected.

The initial statistical approach on a decennial risk (hence a confidence interval of 99.96%) equals to a crisis in the financial market supposed to occur once every 10 years.

Stress-test risk measurement is built on the following principles:

- historical stress tests: this method consists of an analysis of the major economic crises that have affected the financial markets since 1995 (date from which the financial markets have become global and subject to increased regulatory requirements): the changes in the prices of financial assets (equities, interest rates, exchange rates, credit spreads, etc.) during each of these crises have been analysed in order to define scenarios for potential variations in these risk factors which, when applied to the Group's trading positions, could generate significant losses;
- 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;
- risks are calculated daily for each market activity of the Group, all products included. A limit in "stress-test" is set for the global activity of the Group;
- different Stress test scenarios are subject to regular review and improvements from teams of economists of the Societe Generale Group.

The global limit in stress-test amounts to EUR 1 million as of 31 December 2018 (EUR 1 million as of 31 December 2017) taking into account both rate and change activity.

The results of the stress test during 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
	Value in EUR	Value in EUR
Period Start	1 January 2018	1 January 2017
Maximum value	482 630	3 653 223
Average value	37 420	68 115
Minimum value	6 735	602
Period End	31 December 2018	31 December 2017

Over 2018, the stress test levels remained low overall (EUR 37 420) way under the limit determined by the head office (EUR 1 000 000). The stress test level did not reach the limit over 2018.

9.2.4.1.2. Monitoring of foreign currency risk exposure

MONITORING OF LIMITS

The Group sets an overnight global limit to EUR 5 million that breaks down as follows (no change compared to 2017):

Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR
AUD	+/-4.0	NZD	+/-1.0	PLN	+/-0.5	HUF	+/-0.20	RON	+/-0.20
CHF	+/-4.0	SEK	+/-1.0	RUB	+/-0.5	IDR	+/-0.20	RSD	+/-0.20
EUR	+/-4.0	SGD	+/-1.0	TRY	+/-0.5	ILS	+/-0.20	SAR	+/-0.20
GBP	+/-4.0	BRL	+/-0.5	TWD	+/-0.5	INR	+/-0.20	THB	+/-0.20
JPY	+/-4.0	CNY	+/-0.5	ZAR	+/-0.5	MYR	+/-0.20	ARS	+/-0.10
USD	+/-4.0	CZK	+/-0.5	AED	+/-0.20	OMR	+/-0.20	BGN	+/-0.10
CAD	+/-1.0	HKD	+/-0.5	BHD	+/-0.20	PEN	+/-0.20	ISK	+/-0.10
DKK	+/-1.0	KRW	+/-0.5	COP	+/-0.20	PHP	+/-0.20		
NOK	+/-1.0	MXN	+/-0.5	EGP	+/-0.20	QAR	+/-0.20		

As at 31 December 2018 and 2017, the opened positions are as follows:

31 December 2018

Fx position in EUR

	Short position	Long position
AED	-	1 250
ARS	(58)	-
AUD	-	792 049
BGN	(9 664)	-
CAD	-	44 991
CHF	(2 633)	-
CNY	(3 738)	-
CZK	-	4 750
DKK	-	48 641
EUR	(128 240)	-
GBP	-	999
HKD	-	112 309
HUF	(57 612)	-
IDR	-	-
ILS	-	4 562
ISK	-	476
JPY	(7 678)	-
LVL	-	-
MXN	-	35 064
NOK	(168 396)	-
NZD	(850)	-
PLN	(13 316)	-
QAR	-	125
RON	-	2 134
RUB	-	25 243
SEK	-	15 640
SGD	(16 413)	-
THB	-	116
TRY	(5 005)	-
USD	-	247 241
ZAR	-	8 505
	(1 344 096)	**1 344 096**

31 December 2017

Fx position in EUR

	Short position	Long position
AED	(18 285)	-
ARS	(110)	-
AUD	-	415
BGN	-	11 190
CAD	(44 724)	-
CHF	(123 542)	-
CNY	-	10 254
CZK	(787)	-
DKK	-	1 993
EUR	-	304 698
GBP	(52 130)	-
HKD	(39)	-
HUF	-	22 278
ILS	(1 111)	-
ISK	-	639
JPY	-	5 783
LVL	-	-
NOK	(24 310)	-
NZD	-	4 343
PLN	-	17 991
QAR	-	114
RON	-	11 621
RUB	-	14 793
SEK	(25 066)	-
SGD	(192)	-
THB	(8 035)	-
TRY	-	10 425
USD	(125 240)	-
ZAR	(2 229)	-
	(425 801)	**425 801**

Since November 2015, the FX position is monitored on a daily basis on the Trading Book perimeter only which explains why the FX levels are close to 0.

IMPACT OF CURRENCY RATE DEPRECIATION ON EQUITY TIER 1 RATIO AND PROFIT

The foreign exchange position is hedged on a daily basis with marginal overnight open positions and no structural FX position remaining at SGBT level. Considering this, no additional capital charge is deemed necessary to cover this risk and no significant impact is to be considered on profit.

9.2.4.2. OTHER ENTITIES SIGNIFICANTLY EXPOSED TO MARKET RISK

9.2.4.2.1. Societe Generale Private Banking (Suisse) S.A.

MEASURES AND MONITORING OF RISKS

Societe Generale Private Banking Suisse S.A. manages all of its positions through a system based on limits. Those limits are mainly set in terms of positions. On an accounting level, the evaluation of the trading portfolio positions is performed daily at the market price.

RISK MANAGEMENT

Monitoring of market risk of Societe Generale Private Banking Suisse S.A. is the responsibility of the Risk management, the control of the forex activity and of the bonds positions is managed daily in relation to the overnight limits. Such control is performed by the department responsible for market and counterparties risk, who then reports daily to the Chief Executive Officer, the Chief Operating Officer and the Chief Risk Officer. The Societe Generale Group is informed on those exposures on a weekly basis. Such report contains the market value of the bond positions, the forex positions and the commodities positions, the utilization, the limits applied and the result.

RISKS MONITORING AND REPORTING

Positions for own account are limited to:

- some forex operations and on forex derivatives (spot, swap forwards) and on commodities. Daily limits are as follows: Forex: EUR 5 million, Commodities: EUR 1 million;
- long positions towards head office (Paris) or other credit institutions allowed by Group policy;
- overnight placings;
- positions from client portfolios following execution errors or commercial gestures from Societe Generale Private Banking Suisse S.A.

Maximum amount of funds / hedge funds that can be held in trading book is of EUR 9 million. Such position should be explained in detail by the Back Office to the Risk Management department, validated by the Chief Commercial Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Compliance Officer.

Follow-up of client bonds positions in the trading portfolio is performed jointly by the investment and risk teams.

When shares or shares of funds are taken in the trading portfolio, Management is informed.

Limits definition is evaluated following a risk appetite estimate from the business line, and validated by the Management.

Exposure towards those limits as at 31 December 2018 and 2017 are as follows:

31 December 2018

Limit	Limit amount (in EUR)	Position (in EUR)
Forex	5 000 000	1 273 722
Commodities	1 000 000	38 157
Funds / Hedge Funds	9 000 000	1 522 127

31 December 2017

Limit	Limit amount (in EUR)	Position (in EUR)
Forex	5 000 000	1 185 448
Commodities	1 000 000	37 885
Funds / Hedge Funds	9 000 000	1 565 454

9.2.4.2.2. Societe Generale Private Banking (Monaco) S.A.M.

Societe Generale Private Banking Monaco S.A.M. does not have any management and monitoring capability in relation to market risk. It backs systematically each operation with its head office SGBT Luxembourg. It therefore does not manage any open position on derivatives. Clients of Societe Generale Private Banking Monaco S.A.M. perform operations on derivatives. Even though the market risk does not exist, the counterparty risk exists on such operation.

For those operations, clients systematically sign a derivative product convention. If the maturity of the positions is short, the potential risk is collateralized by the client investment portfolio. Otherwise, a cash collateral is systematically required to cover the position. Such position is accounted for 25 to 30% of the position, representing the extreme volatility risk of the position.

Note 9.3. Liquidity risk

SGBT measures and oversees liquidity risk using gaps (static and stressed), based on "asset-liability" scenarios, and using regulatory liquidity ratios (LCR and NSFR).

Liquidity risks reflect a mismatch between statement of financial position's assets and liabilities over the short, medium or long term.

Funding requirements or surpluses are measured by the liquidity gap, governed by thresholds and limits defined by the Societe Generale Group Finance Committee.

Threshold breaches are subject to action plans aimed at resolving and preventing the recurrence of the breach.

The Group oversees its cash management within this framework. Changes in the structure of the statement of financial position and its run-off are managed by the ALM (Asset and Liability Management) unit and monitored by the ALM Committee, which in turn determines the refinancing requirements of the Group's entities.

SGBT Group is required to report the liquidity ratios defined by the CRD4. The ALM unit is currently responsible for producing and analysing the CRD4 liquidity ratios (LCR and NSFR) of SGBT Group and sub-group via a process coordinated with Societe Generale Group.

It submits the LCR monthly and the NSFR quarterly to the CSSF and BCL. The ALM unit is also in charge of oversight and projections of the short-term LCR.

The ALM Committee, chaired by the Chief Executive Officer of SGBT, meets once a month and supervise and validate the Group's liquidity position, based on the associated metrics produced.

9.3.1. BREAKDOWN OF FINANCIAL ASSETS BY CONTRACTUAL MATURITY

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	4 941 281	17 919	95 202	119 053	-	**5 173 455**
Financial assets at fair value through profit or loss	3 949 322	8 233 043	20 512 565	17 114 960	-	**49 809 890**
Hedging derivatives	4 161	-	-	-	-	**4 161**
Financial assets at fair value through other comprehensive income	3 603 834	(43 065)	(96 512)	(125 715)	-	**3 338 542**
Securities at amortized cost	1 099 419	1 521 939	3 012 549	8 571	-	**5 642 478**
Loans and advances to credit institutions	4 429 511	1 416 013	2 808 676	1 364 741	-	**10 018 941**
Loans and advances to customers	5 206 301	5 128 123	13 827 195	1 641 135	-	**25 802 754**
Investments of insurance activities	19 737	40 299	220 886	198 737	-	**479 659**
Total	**23 253 566**	**16 314 271**	**40 380 561**	**20 321 482**	**-**	**100 269 880**

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	5 323 539	30 345	70 645	88 295	-	**5 512 824**
Financial assets at fair value through profit or loss	2 460 510	7 003 809	19 938 628	18 456 032	-	**47 858 979**
Hedging derivatives	14 949	-	-	-	-	**14 949**
Available-for-sale financial assets	2 959 863	67 750	377 883	455 885	-	**3 861 381**
Loans and advances to credit institutions	3 505 962	1 033 698	3 262 850	1 509 901	-	**9 312 411**
Loans and advances to customers	7 571 303	5 388 320	13 639 638	1 941 148	-	**28 540 409**
Held-to-maturity financial assets	51 683	-	-	-	-	**51 683**
Total	**21 887 809**	**13 523 922**	**37 289 644**	**22 451 261**	**-**	**95 152 636**

9.3.2. BREAKDOWN OF FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Financial liabilities at fair value through profit or loss	3 720 127	8 243 433	20 544 638	17 153 012	-	**49 661 210**
Hedging derivatives	225 004	-	-	-	-	**225 004**
Amounts due to credit institutions	5 326 345	4 472 744	8 699 838	1 227 342	-	**19 726 269**
Amounts due to customers	10 293 620	5 567 865	7 898 271	2 108 509	-	**25 868 265**
Debt securities issued	111 444	309 004	38 142	1 715	-	**460 305**
Subordinated debts	1	400 248	-	-	-	**400 249**
Total	**19 676 541**	**18 993 294**	**37 180 889**	**20 490 578**	**-**	**96 341 302**

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Insurance contract liabilities	106	30 986	122 474	92 558	-	**246 124**
Insurance company underwriting reserves						

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Financial liabilities at fair value through profit or loss	2 367 481	7 003 831	19 938 692	18 464 487	-	**47 774 491**
Hedging derivatives	253 499	-	-	-	-	**253 499**
Amounts due to credit institutions	4 636 437	5 165 487	8 668 305	1 440 535	27	**19 910 791**
Amounts due to customers	10 281 573	3 165 931	6 484 706	2 774 064	-	**22 706 274**
Debt securities issued	66 591	413 754	25 385	-	-	**505 730**
Subordinated debts	-	-	400 154	-	-	**400 154**
Total	**17 605 581**	**15 749 003**	**35 517 242**	**22 679 086**	**27**	**91 550 939**

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Insurance company underwriting reserves	1	30 667	122 668	78 227	-	**231 563**

9.3.3. BREAKDOWN OF COMMITMENTS BY CONTRACTUAL MATURITY

9.3.3.1. COMMITMENTS GRANTED

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	3 070 805	27 044	641 568	2 229 970	**5 969 387**
Guarantee commitments	1 203 143	52 321	20 758	2 424	**1 278 646**
Securities commitments	15 227	18 253	146 800	2 624 819	**2 805 099**
Total	**4 289 176**	**97 617**	**809 125**	**4 875 214**	**10 053 132**
Financing commitments	2 948 301	13 102	539 588	813 910	**4 314 901**
Guarantee commitments	900 834	25 338	31 423	665	**958 260**
Securities commitments	126 650	12 037	1 728 981	225 698	**2 093 366**
Other commitments	8 620	-	-	-	**8 620**
Total	**3 984 405**	**50 477**	**2 299 992**	**1 040 273**	**7 375 147**

9.3.3.2. FIDUCIARY

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Fiduciary	8 114 381	347 256	1 316 611	18 299	**9 796 547**
Total	**8 114 381**	**347 256**	**1 316 611**	**18 299**	**9 796 547**
Fiduciary	2 833 773	180 953	612 637	-	**3 627 363**
Total	**2 833 773**	**180 953**	**612 637**	**-**	**3 627 363**

9.3.3.3. COMMITMENTS RECEIVED

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	2 091 712	-	53 050	-	**2 144 762**
Guarantee commitments	10 082 446	86 026	12 866	1 181	**10 182 519**
Securities commitments	14 158	824	-	-	**14 982**
Other commitments	1 331 448	-	-	-	**1 331 448**
Total	**13 519 764**	**86 850**	**65 916**	**1 181**	**13 673 711**

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	1 399 362	-	70 317	(30 988)	**1 438 691**
Guarantee commitments	714 513	508 175	48 881	9 151 140	**10 422 709**
Securities commitments	126 274	-	-	-	**126 274**
Other commitments	936 461	-	47 922	-	**984 383**
Total	**3 176 610**	**508 175**	**167 120**	**9 120 152**	**12 972 057**

9.3.3.4. DERIVATIVE FINANCIAL ASSETS (NOTIONAL AMOUNTS)

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate instruments	1 873 873	2 415 592	5 348 088	2 611 800	**12 249 353**
Foreign exchange instruments	23 806 369	2 863 635	1 298 506	1 615 377	**29 583 887**
Equity and index instruments	64 931 181	25 468 434	11 015 008	21 363 619	**122 778 242**
Commodity instruments	850 702	807 821	-	-	**1 658 523**
Other forward financial instruments	122 838	16 123	-	-	**138 961**
Total	**91 584 963**	**31 571 605**	**17 661 602**	**25 590 796**	**166 408 966**

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate instruments	1 530 034	1 256 594	5 332 336	3 441 353	**11 560 317**
Foreign exchange instruments	33 953 609	7 282 065	370 060	675 649	**42 281 383**
Equity and index instruments	32 447 667	43 646 252	12 372 148	17 394 723	**105 860 790**
Commodity instruments	135 999	153 594	18 552	419 311	**727 456**
Other forward financial instruments	2 248	-	1 087	-	**3 335**
Total	**68 069 557**	**52 338 505**	**18 094 183**	**21 931 036**	**160 433 281**

9.3.3.5. DERIVATIVE FINANCIAL LIABILITIES

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate instruments	1 885 650	2 293 793	5 348 173	2 611 484	**12 139 100**
Foreign exchange instruments	24 952 792	2 791 442	978 752	895 741	**29 618 727**
Equity and index instruments	32 159 421	68 336 969	11 179 404	10 057 594	**121 733 388**
Commodity instruments	1 483 695	-	-	-	**1 483 695**
Total	**60 481 558**	**73 422 204**	**17 506 329**	**13 564 819**	**164 974 910**

31 December 2017

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate instruments	1 530 782	1 267 659	5 332 331	3 614 206	**11 744 978**
Foreign exchange instruments	32 927 949	8 207 559	360 929	675 504	**42 171 941**
Equity and index instruments	32 113 098	43 691 247	11 752 548	16 387 868	**103 944 761**
Commodity instruments	973 717	140 803	18 552	255 102	**1 388 174**
Total	**59 159 134**	**53 307 268**	**17 464 360**	**20 932 680**	**159 249 855**

Note 9.4. Operational risk

Operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures, human error or external events, including IT risk and management risk. Particular attention is paid to the risk of compliance which is the subject of enhanced structural organization.

The Group is engaged in the process of strengthening the control and steering the operational risks implemented by the SGBT Group. This approach is steered by the operational risks department, attached to the SGBT Group's risk management division, and is relayed by the different units monitoring operational risks responsible for implementing the Group's policies and directives and for monitoring and steering the operational risks.

The valuation of operational risk is based on the advanced assessment approaches deployed under the Basel II reforms. The AMA *(Advanced Measurement Approach)* is used to calculate the regulatory capital requirement for operational risk.

Although the primary responsibility for controlling operational risks lays down with all department managers, within the business lines and support functions, who must promote the culture of operational risks within their teams on a daily basis, the follow-up organization relies mainly on 3 processes supervised by the operational risk departments and consolidated within the SGBT Group:

i. the periodic self-assessment of the risks and controls *(Risk and Control Self-Assessment- RCSA)* which aims to:
   - identify and measure the operational risks inherent in each of the Group's businesses;
   - assess the quality of prevention and control systems in place to reduce these risks and thereby measure exposure to the latent risks with which each of the Group's businesses must contend;
   - implement corrective action plans.

ii. the gathering of internal data relating to losses associated with operational risks with a comprehensive declaration and on an *ad-hoc* basis, providing all the information necessary for analysis and monitoring, this data being relayed to the senior management. The approach closely follows the formulation and follow-up of corrective actions that have to be subject to a degree of criticality, a deadline and the appointment of a manager;

iii. analyses of scenarios targeting particularly sensitive functions and processes within the Group. These are assessments of severe operational risks which the Group may face under certain conditions. These analyses aim to assess rarely occurring but extremely severe potential losses.

NOTE 10 FAIR VALUE

Note 10.1. Analysis of financial assets and liabilities at fair value

Level 1 (L1) Valuation based on quoted prices in active markets for identical assets or liabilities

Level 2 (L2) Valuation using inputs other than quoted in level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 (L3) Valuation using inputs that are not based on observable market data

FINANCIAL ASSETS AT FAIR VALUE

	31 December 2018				31 December 2017			
(in EUR thousand)	**(L1)**	**(L2)**	**(L3)**	**Total**	**(L1)**	**(L2)**	**(L3)**	**Total**
Trading portfolio	5 566	4 591 535	117 668	**4 714 769**	24 956	3 630 933	67 335	**3 723 224**
Financial assets measured mandatorily at fair value through profit or loss	15 288	20 623 893	24 455 940	**45 095 121**				
Financial assets measured using fair value option through profit or loss	-	-	-	**-**	83 325	19 358 940	24 693 490	**44 135 755**
Hedging derivatives	-	4 161	-	**4 161**	-	14 949	-	**14 949**
Financial assets at fair value through other comprehensive income	3 338 542	-	-	**3 338 542**				
Available-for-sale financial assets					3 395 356	466 025	-	**3 861 381**
Total	**3 359 396**	**25 219 589**	**24 573 608**	**53 152 593**	**3 503 637**	**23 470 847**	**24 760 825**	**51 735 309**

As at 31 December 2018, the fair value hierarchy of financial assets by instrument type is as follows:

	31 December 2018			
(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	**5 566**	**4 591 535**	**117 668**	**4 714 769**
Bonds and other debt securities	-	-	-	**-**
Shares and other equity instruments	5 566	-	-	**5 566**
Loans, receivables and repurchase agreements	-	88 747	-	**88 747**
Trading derivatives	-	4 502 788	117 668	**4 620 456**
o/w Interest rate instruments	-	*121 835*	-	***121 835***
o/w Foreign exchange instruments	-	*163 269*	-	***163 269***
o/w Equity and index instruments	-	*3 732 262*	*117 668*	***3 849 930***
o/w Commodity instruments	-	*485 422*	-	***485 422***
Financial assets measured mandatorily at fair value through profit or loss	**15 288**	**20 623 893**	**24 455 940**	**45 095 121**
Bonds and other debt securities	-	5 178	-	**5 178**
Shares and other equity instruments	15 288	12 522	-	**27 810**
Loans and receivables	-	20 606 193	24 455 940	**45 062 133**
Financial assets measured using fair value option through profit or loss	**-**	**-**	**-**	**-**
Hedging derivatives	**-**	**4 161**	**-**	**4 161**
Interest rate instruments	-	4 125	-	**4 125**
Equity and index instruments	-	6	-	**6**
Other financial assets	-	30	-	**30**
Financial assets at fair value through other comprehensive income	**3 338 542**	**-**	**-**	**3 338 542**
Debt instruments	3 338 542	-	-	**3 338 542**
Total financial assets at fair value	**3 359 396**	**25 219 589**	**24 573 608**	**53 152 593**

FINANCIAL LIABILITIES AT FAIR VALUE

	31 December 2018				31 December 2017			
(in EUR thousand)	(L1)	(L2)	(L3)	Total	(L1)	(L2)	(L3)	Total
Trading portfolio	-	4 488 929	117 668	**4 606 597**	-	3 658 662	67 335	**3 725 997**
Financial liabilities measured using fair value option through profit or loss	-	20 600 376	24 454 237	**45 054 613**	-	19 355 004	24 693 490	**44 048 494**
Hedging derivatives	-	225 004	-	**225 004**	-	253 499	-	**253 499**
Total	**-**	**25 314 309**	**24 571 905**	**49 886 214**	**-**	**23 267 165**	**24 760 825**	**48 027 990**

As at 31 December 2018, the fair value hierarchy of financial liabilities by instrument type is as follows:

	31 December 2018			
(in EUR thousand)	**(L1)**	**(L2)**	**(L3)**	**Total**
Trading portfolio	**-**	**4 488 929**	**117 668**	**4 606 597**
Other trading liabilities	-	730	-	**730**
Transaction derivatives	-	4 488 199	117 668	**4 605 867**
o/w Interest rate instruments	*-*	*265 652*	*-*	***265 652***
o/w Foreign exchange instruments	*-*	*154 108*	*-*	***154 108***
o/w Equity and index instruments	*-*	*3 841 527*	*117 668*	***3 959 195***
o/w Commodity instruments	*-*	*226 894*	*-*	***226 894***
o/w Other forward financial instruments	*-*	*18*	*-*	***18***
Financial liabilities at fair value through profit or loss	**-**	**20 600 376**	**24 454 237**	**45 054 613**
Hedging derivatives	**-**	**225 004**	**-**	**225 004**
Interest rate instruments	-	224 382	-	**224 382**
Other financial instruments	-	622	-	**622**
Total financial liabilities at fair value	**-**	**25 314 309**	**24 571 905**	**49 886 214**

Note 10.2. Transfers between level 1 and level 2

No transfers from level 1 to level 2 and from level 2 to level 1 in 2018 and 2017 were identified.

Note 10.3. Level 3 reconciliation

Transfers from Level 3 to Level 2 and from Level 2 to Level 3

As described in Note 2.3.3.7. Fair value of Financial instruments not measured at amortised cost, 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 are determined at the end of each month and occur in case of a modification within a parameter (no longer linked to the deal, modification of the observability rule of the parameter, etc.).

	Level 3 (2018)	
	Financial assets at fair value	
(in EUR thousand)	Financial assets measured mandatorily at fair value through profit or loss	Trading portfolio
Balance as at 1 January	**24 693 490**	**67 335**
Acquisitions	28 458 083	92 966
Change in fair value	(7 231 733)	(29 060)
Disposals / redemptions	(11 466 505)	(43 193)
Transfer from L2 to L3	199 934	4 171
Transfer from L3 to L2	(2 462 082)	(32 056)
Offsetting of assets and liabilities	(7 735 247)	57 505
Balance as at 31 December	**24 455 940**	**117 668**

	Level 3 (2017)	
	Financial assets at fair value	
(in EUR thousand)	Financial assets designated at fair value through profit or loss	Trading portfolio
Balance as at 1 January	**22 531 600**	**93 126**
Acquisitions	19 985 859	41 972
Change in fair value	(946 823)	12 275
Disposals / redemptions	(9 770 252)	(76 204)
Transfer from L2 to L3	129 107	2 314
Transfer from L3 to L2	(537 441)	-
Offsetting of assets and liabilities	(6 698 560)	(6 148)
Balance as at 31 December	**24 693 490**	**67 335**

	Level 3 (2018)	
	Financial liabilities at fair value	
(in EUR thousand)	Financial liabilities measured using fair value option through profit or loss	Trading portfolio
Balance as at 1 January	**24 693 490**	**67 335**
Acquisitions	28 458 083	92 966
Change in fair value	(7 233 436)	(29 060)
Redemptions	(11 466 505)	(43 193)
Transfer from L2 to L3	199 934	4 171
Transfer from L3 to L2	(2 462 082)	(32 056)
Offsetting of assets and liabilities	(7 735 247)	57 505
Balance as at 31 December	**24 454 237**	**117 668**

	Level 3 (2017)	
	Financial liabilities at fair value	
(in EUR thousand)	Financial liabilities measured using fair value option through profit or loss	Trading portfolio
Balance as at 1 January	**22 531 600**	**93 126**
Acquisitions	19 985 859	41 972
Change in fair value	(946 823)	12 275
Redemptions	(9 770 252)	(76 204)
Transfer from L2 to L3	129 107	2 314
Transfer from L3 to L2	(537 441)	-
Offsetting of assets and liabilities	(6 698 560)	(6 148)
Balance as at 31 December	**24 693 490**	**67 335**

Note 10.4. Valuation methods of financial instruments measured at fair value

For financial instruments recognized at fair value on the consolidated statement of financial position, fair value is determined primarily based on the prices quoted in an active market. These prices can be adjusted if none are available on the consolidated statement of financial position 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 do 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 consolidated 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 inputs 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.

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. For certain intra group deals, collateral is required to be posted by the counterparty for the derivatives representing a liability position. The collateral is posted to mitigate the counterparty risk.

CVA is determined based on the Group entity's positive expected exposure to the counterparty, the counterparty's probability of default (conditional to the entity not defaulting) and 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.

Observable data must be: independent, available, publically 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 high 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 INSTRUMENTS

For listed shares, fair value is taken to be the quoted price on the consolidated statement of financial position 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 consolidated statement of financial position 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 consolidated statement of financial position includes 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 consolidated statement of financial position 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).

Note 10.5. Estimates of main unobservable inputs & sensitivity of fair value 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.

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.

The following table provides the valuation of level 3 instruments on the consolidated statement of financial position and the range of values of the most significant unobservable inputs by main product type:

Type of underlyings	Assets (MEUR)	Liabilities (MEUR)	Main underlying products	Valuation techniques used	Significant unobservable inputs	Range of unobservable inputs Min & Max
Equity / funds	16 639	16 638	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	[6.7%; 48.1%]
					Equity dividends	[0.0%; 20.9%]
					Unobservable correlations	[-77.5%; 98.0%]
					Hedge funds volatilities	[8.53%; 20%]
					Mutual funds volatilities	[1.5%; 42.2%]
Rates and Forex	3 404	3 404	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[-41.09%; 85%]
			Forex derivatives	Forex option pricing models	Forex volatilities	[1.0%; 32.0%]
			Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayement modeling	Constant prepayment rates	[0.0%; 45%]
			Inflation instruments and derivatives	Inflation pricing models	Inflation / inflation correlations	[64.40%; 88.9%]
Credit	4 490	4 489	Collateralized Debt Obligations and index tranches	Recovery and base correlation projectionmodels	Time to default correlations	[0%; 100%]
					Recovery rate variance for single name underlyings	[0%; 100%]
			Other credit derivatives (N to default, etc.)	Credit default models	Time to default correlations	[0%; 100%]
					Quanto correlations	[-50%; 40%]
					Unobservable credit spreads	[0 bps; 1 000 bps]
Commodity	41	41	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	[10.60%; 95.84%]

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments.

However, by its very nature, the Group 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 Group.

Note 10.6. Fair value of financial instruments measured at amortized cost

The Group considers that the fair value of the financial instruments measured at amortized cost approximates the carrying amounts as at 31 December 2018 and 31 December 2017.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios).

SGBT Group has fully complied with all its externally imposed capital requirements over the reported period.

Note 11.1. Capital management

As part of managing its capital, 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;
- adequate allocation of capital to the various business lines 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.

As at 31 December 2018, the Group's Common Equity Tier 1 ratio was 20.07% (2017: 19.59%).

11.1.1. LEVERAGE RATIO MANAGEMENT

The Group steers its leverage effect according to the CRR leverage ratio rules, as amended by the delegated act of 10th October 2014.

Steering 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 business lines is contained under the Finance Division's control.

At the end of 2018, sustained by the higher Common Equity Tier 1 capital and additional Tier 1 capital, and the control of the Group's leverage exposure, the Group leverage ratio was 2.21% (2.24% fully phased-in).

At the end of 2017, sustained by the higher Common Equity Tier 1 capital and additional Tier 1 capital, and the control of the Group's leverage exposure, the Group leverage ratio was 2.11% (2.17% fully phased-in).

Return on assets (i.e. Net Income divided by the total consolidated statement of financial position per consolidated financial statements) for the Group stood at 0.29% as at 31 December 2018 and 2017.

11.1.2. LARGE EXPOSURES

The CRR (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such, the SGBT 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%).

Note 11.2. Regulatory capital

Reported according to international financial reporting standards (IFRS), Societe Generale's regulatory capital consists of the following components.

11.2.1. 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 interest limited by CRR/CRD4.

Deductions from Common Equity Tier 1 capital essentially involve the following:

- estimated dividend payment;
- goodwill and intangible assets, net of associated deferred tax liabilities;
- unrealized capital gains and losses on cash flow hedging;
- income on own credit risk;
- deferred tax assets on tax loss carry forwards;
- 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 loss on equity portfolio exposures;
- value adjustments resulting from the requirements of prudent valuation;
- securitization exposures weighted at 1,250%, where these positions are not included in the calculation of total risk weighted exposures.

11.2.2. 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 Group, and have the following features:

- these instruments are perpetual and constitute unsecured, deeply subordinated obligations. They rank junior to all other obligations of the Group, 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 interest beyond the minimum T1 requirement in the entities concerned.

11.2.3. TIER 2 CAPITAL

Tier 2 capital includes:

- undated deeply subordinated notes;
- dated subordinated notes;
- any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the IRB approach and (ii) expected losses, up to 0.6% of the total credit risk-weighted assets using the IRB approach;
- value adjustments for general 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;
- share of non-controlling interest in excess of the minimum capital requirement in the entities concerned.

SGBT is benefiting from a favorable assessment by the rating agency Standard & Poor's with regard to the Group's financial stability: A-1 in the short term, A in the long term (confirmed in October 2018).

The Group's capital, on a consolidated basis, is made of:

- core Tier I capital: EUR 2 560 million (2017: 2 467 million);
- additional eligible capital: EUR 360 million (2017: 360 million).

The Group has not issued any hybrid securities or subordinated borrowings not eligible for prudential capital.

In the new Basel III referential, the Group's Tier I ratio stands at 20.07% (20.39% fully phased-in) as of 31 December 2018 (2017: 19.59%, (20.18% fully phased-in)), the ratio including the Tier II eligible capital stands at 22.89% as of 31 December 2018 (2017: 22.44%).

(in EUR million)	**31 December 2018**	**31 December 2017**
Counterparty risk	10 665	10 178
Market risk	1	163
Operational risk	1 821	1 985
CVA Risk	271	270
Total	**12 758**	**12 596**
Additional RWA at floor level	-	-
RWA	**12 758**	**12 596**
Tier I base capital	2 560	2 467
Tier II additional capital	360	360
Tier I ratio excluding floor effect	**20.07%**	**19.59%**
CET 1 ratio	**20.07%**	**19.59%**
Solvency ratio	**22.89%**	**22.44%**

NOTE 12 EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

On 27 January 2019, the OFAC removed a client of the Group from its sanction list. This client had loan with the Group and was considered defaulted since the first quarter 2018. The situation of the client was reviewed and the MEUR 12 impairment of the loan was totally reversed during the first semester 2019.

On 25 April 2019, the Luxembourg Parliament voted to approve the 2019 Budget Law which reduces the corporate income tax rate from 18% applicable to financial year 2018 to 17% for the financial year 2019. This results in an overall effective corporate tax rate of 24.94% for corporates in Luxembourg City for financial year 2019 as compared to 26.01% for financial year 2018. The differed tax calculated as at 31 December 2018 is based on the 2018 tax rate.

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