**SG Issuer**
**Société Anonyme**

Financial statements, Report of the Executive Board and Corporate Governance Statement, and Report of the réviseur d'entreprises agréé

**As at and for the year ended 31 December 2018**

**16, boulevard Royal**
**L-2449 Luxembourg**
**R.C.S. Luxembourg: B121.363**

**Index**



Functional and presentation currency

Except otherwise indicated, the amounts presented in the financial statements are expressed in thousands of euros (KEUR). The value "0" indicates the presence of a number, which is rounded to zero, while ”-" represents the value nil.

**Executive Board Members**

For the year ended 31 December 2018

Chairman:

**Mr Yves CACCLIN**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

Directors:

**Mr Amaury de BELER**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Alexandre GALLICHE**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Thierry BODSON**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Noël ALISON**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris- La Défense 7, France

**Mr Arnaud SERRES (until 25/06/2018)**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mrs Estelle STEPHEN JASPARD (since 25/06/2018)**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mrs Sophie ROBATCHE-CLAIVE (until 25/10/2018)**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mr Laurent WEIL (since 25/10/2018)**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Supervisory Board Members**

For the year ended 31 December 2018

Chairman:

**Mrs Véronique DE LA BACHELERIE (until 25/06/2018)**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Arnaud JACQUEMIN (since 25/09/2018)**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

Members:

**Mr Olivier FREITAS**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Didier LALLEMAND**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mr Vincent ROBILLARD**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mr Alban ROMANET (until 25/06/2018)**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Gregory CLAUDY (since 01/08/2018)**
Independent Director
225A, rue du Burgknapp, B-6717 Heinstert, Belgium

**Audit Committee Members**

__Chairman:__

**Mr Gregory CLAUDY**
Independent Director
225A, rue du Burgknapp, B-6717 Heinstert, Belgium

__Members:__

**Mr Didier LALLEMAND**
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mr Olivier FREITAS**
Employee of Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

## Management and administration

For the year ended 31 December 2018

**Issuer**
SG Issuer
16, Bd Royal, L-2449 Luxembourg

**Guarantor (if applicable, as specified in the Final Terms)**
Société Générale
29, boulevard Haussmann, F-75009 Paris, France

**Arranger and Dealer**
Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense, France

**Security Trustee and Security Agent Trustee**
BNY Mellon Corporate Trustee Services Limited
One Canada Square, London E14 5AL

**Collateral Custodian**
BNY Mellon (Luxembourg) S.A.
2-4, rue Eugène Ruppert, L-2453 Luxembourg

**Collateral Monitoring Agent**
BNY Mellon London Branch
One Canada Square London E14 5AL

**Custodian Agent, Issuing and Paying Agent, Registrar, Exchange Agent and Transfer Agent**
Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Paying Agents**
Société Générale
29, boulevard Haussmann, F-75009 Paris, France
&
Société Générale, New York Branch
1221, avenue of the Americas, New York NY 10020, United States of America

**Warrant Agent**
Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

**Legal advisers and Réviseur d'entreprises agréé**

For the year ended 31 December 2018

**Legal advisers**
*To the Arranger as to English, French and U.S. laws*
Allen & Overy LLP
52, avenue Hoche, F-75008 Paris, France

*To the Trustee as to English Law*
Allen & Overy LLP
1 Bishops Square, London E1 6AD, United Kingdom

*To the Arranger as to Luxembourg Law*
Allen & Overy Luxembourg
33, avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg

**Réviseur d'entreprises agréé (Independent Auditor)**
Ernst & Young S.A.
35E, Avenue John F. Kennedy, L-1855 Luxembourg

**Report of the Executive Board and Corporate Governance Statement**

For the year ended 31 December 2018

The Directors of the Company (each a « Director », collectively the « Executive Board ») present the financial statements and the Report of the Executive Board and Corporate Governance Statement of the Company for the year ended 31 December 2018.

## 1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The corporate objects of SG Issuer are to issue Notes and Warrants with all types of underlyings including, without restriction, shares, index, interest rate, dividend, credit risk, foreign exchange, commodities, funds, warrants, etc., allowing investors to access to the full pricing capabilities of Société Générale, which proposes an extensive range of investment strategies linked to these various asset classes.

Notes and Warrants issued by the Company can be sold in either Private Placements or Public Offerings.

Notes are mainly debt securities, bonds, certificates. Issuing proceeds raised by the sale of the Notes will be transferred to SG Paris through a fully funded swap, which will perfectly hedge SGIS for the full issue Size.

Warrants are financial products like turbos, inline warrants, daily leverage certificates, etc., which aim to replicate the same financial exposure as buying (call) or selling (put) an asset such as a share or an index, at a predetermined price (strike price) on a predetermined date (expiry) and to offer different pay-off or exposures to investors.
Warrants are sold by SG Issuer mainly to clients in France, Belgium, Luxembourg, UK, Sweden, Finland, Norway, Spain, Hong-Kong, the Netherlands, Italy and Singapore.

Payments in respect of the Notes and Warrants issued by the Company are unconditionally and irrevocably guaranteed by Société Générale.

On request of investors, the Company can issue collateralised Notes or Warrants (“Secured Notes” or “Secured Warrants”) in order to propose an additional layer of protection to investors in case of default of Société Générale.

Notes and Warrants issuances are governed by the Base Prospectus prepared by Société Générale as arranger. The main programmes for Notes are the two Debt Instruments Issuance Programmes, for which the last updates have been approved by the CSSF on 20 June 2018 or the “Programme d'Emission de Titres de Créance” approved by the CSSF on 27 June 2018. Similarly, the main programmes for Warrants are the Issuance Programme approved by the CSSF on 4 July 2018 and the Warrants and Turbo Warrants Issuance Programme approved by the CSSF on 16 July 2018. Two programmes are hosted by SG Frankfurt, Dual Language DIIP dated 24 August 2018 and Dual Language Daily Leveraged Products dated 26 October 2018.
The Hong Kong warrants Programme was last updated on 3 April 2018 and the Singapore warrants Programme was last updated on 21 June 2018.

The state of business of the Company at the closing of the financial year is adequately presented in the financial statements, published herewith. The increase in total assets and liabilities (before impact of the off-setting) is due to the development of the activity of issuing financial instruments.

During the year ended 31 December 2018, 14 678 Notes were issued (among which 228 Secured Notes) and 9 708 Warrants were issued[1]. The profit for the financial year amounts to KEUR 187.

The Company did not exercise any research and development activity, does not have any branch, and did not acquire any own shares.

## 2. RISKS AND UNCERTAINTIES

The risks associated with the investment in the Notes or Warrants depend on several factors. Such factors will vary depending on the characteristics of the Notes or Warrants issued, in particular depending on the underlying type, the maturity, the secured / unsecured status of the Notes or Warrants, the interest rates incurred, the volatility of the underlying.

For each Note, the Company systematically hedges its position by contracting a swap with Société Générale, with strictly identical characteristics. Also, for each Warrant, the Company systematically hedges its position by contracting an option with Société Générale, with strictly identical characteristics.

The legal documentation and the derivative instruments have been put in place in order to make sure that the assets match the liabilities at any time. Therefore, no market risk is supported by the Company. The risk management in relation to the Notes and Warrants is also described in Note 20 hereafter.

## 3. FUTURE DEVELOPMENTS

In the context of the Brexit, the issuer is currently filing an additional debt issuance program (the “DIIP UK”) dedicated to the issuance of notes distributed in the United Kingdom. More globally, the Executive Board expects a further increase in the Notes and Warrants issued.

## 4. SUBSEQUENT EVENTS

There was no subsequent event which could have a significant impact on the financial statements of the Company as at and for the year ended 31 December 2018.

[1] The number of issued Notes and Warrants does not take into account the issuances which have been issued and cancelled during the same financial year-end.

## 5. CORPORATE GOVERNANCE STATEMENT

The Executive Board of the Company is committed to maintaining the standards of corporate governance enforced at the level of the European Union and at level of the Société Générale Group. This statement describes the Company's governance principles and practices.

In compliance with its status, the Company is governed by an Executive Board and supervised by a dedicated Supervisory Board.

### 5.1 Executive Board

The Executive Board supervises and controls the management and operations of the Company and is responsible for the Company system of risk management and internal control.

The Executive Board meetings are held several times during the year when necessary.

The Board has quorum when more than half of its members are present. An opinion supported by more than half of the members present becomes a decision.

Key tasks of the Executive Board:

- Ensures that the supervision of accounting is organized and monitored appropriately
- Reviews and approves the Company's financial statements and condensed interim financial information
- Supervises and controls operative management

### 5.2 Supervisory Board

The Supervisory Board ensures permanently and by all means suited the control of the management of the Company carried out by the Executive Board. However, this supervision has to be translated in no way by an intervention in the management of the Company. The Supervisory Board can mandate advisory committees comprised of members of the Supervisory Board and/or of other non-members to lead different missions. The Supervisory Board can confer these advisory committees of the power or mandates permanently or temporary. These advisory committees cannot have the effect of restricting the powers of the Executive Board.

### 5.3 Audit Committee

The mission of the Audit Committee is to monitor the issues related to the preparation and control of accounting and financial information, to monitor the independence of the statutory auditors, as well as to monitor the efficiency of the internal control, measurement, supervision and risk control systems related to the accounting and financial processes. If needed, it gives recommendations and its opinion to the Supervisory Board.
The first Audit Committee of the Company took place on 25 September 2018, announced its composition and revised the Condensed interim financial information as of 30 June 2018. At least one member of the committee must be independent, which is the case of the Chairman of the Company's Audit Committee. The next audit committee will take place before the approval of the annual accounts 2018.

### 5.4 Internal Audit

The Internal Audit of both SGBT (Luxembourg) and Société Générale Group support the Company's Executive Board in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The objective of Internal Audit is to add value by making recommendations designed to improve the Company's functioning. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.
The central task of Internal Audit is to audit the functioning of SG Issuer on a regular basis and evaluate its internal controls, risk management, and administrative function. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments at the request of management.
Internal Audit does not have any direct authority over the activities it reviews.

### 5.5 Controls of conformity/compliance

First level of controls is related to the execution of the procedures, guidelines and instructions established to ensure the proper and efficient functioning of the Company. They are executed by the involved teams in charge of the production.

The Chief Financial Officer of the Company ensures the coordination of the periodic accounting closing with all the teams involved while performing a second level control of conformity.

### 5.6 New Products Committee

All the new activities and business of the Company are analyzed and authorized by a dedicated New Products Committee (NPC). All involved departments within Société Générale are represented (operations, finance, risk, accounting standards, etc…) to assess the impact for the Company.

### 5.7 Service level agreements

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from the Group's internal control systems.

Service Level Agreements ("SLAs") were signed by the Company with SGBT and with Société Générale. The SLAs govern the relations between the entities as well as their respective obligations. The services supplied by SGBT and Société Générale are listed in the appendices of the agreements (mainly General services, legal services, business continuity management services and financial services from SGBT and operational services – Middle Office and Back Office – from Société Générale).

Luxembourg, 29 April 2019

For the Executive Board

Yves CACCLIN
Chairman of the Executive Board

Alexandre GALLICHE
Member of the Executive Board

Thierry BODSON
Member of the Executive Board

Global Statement for the financial statements

For the year ended 31 December 2018

To the best of our knowledge, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Report of the Executive Board (management report) includes a fair presentation of the development and performance of the business and the position of the Company, together with a description of the main risks and uncertainties that it faces.

Luxembourg, 29 April 2019

Executive Board Member

For the Executive Board

Yves CACCLIN
Chairman of the Executive Board

Alexandre GALLICHE
Member of the Executive Board

Thierry BODSON
Member of the Executive Board

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Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

# Report of the réviseur d'entreprises agréé

To the sole Shareholder of
SG Issuer S.A.
16, boulevard Royal
L-2449 Luxembourg

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of SG Issuer S.A. (the "Company"), which comprise the Statement of Financial Position as at 31 December 2018, the Statement of Profit and Loss and Other Comprehensive Income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and 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 those Regulation, Law and standards are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Company 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 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.

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**Key audit matters**

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

Hedging of financial instruments issued and valuation of financial instruments

*Description*

The activity of the Company consists in issuing Notes and Warrants, which are subscribed by investors. These financial instruments are fully hedged with mirror transactions concluded with Société Générale Paris replicating the financial instruments issued by the Company (see Notes 5 and 8).

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 Company.

*How the matter was addressed in our audit*

All the financial instruments issued by the Company are covered by mirror transactions concluded with Société Générale Paris.

We have tested the controls implemented by the Company in relation with the issuance of financial instruments and the conclusion of mirror transactions with Société Générale 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 have verified the intercompany reconciliation process between the Company and Société Générale, and the intercompany reconciliations performed as at 31 December 2018.

For a sample of financial instruments issued by the Company as at 31 December 2018, we ensured that the Company has contracted the corresponding financial instruments with Société Générale to hedge the market risks.

We have 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 have inquired the Company about the existence of operational errors during the year and, if applicable, the related financial impact.

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## Other information

The Executive Board is responsible for the other information. The other information comprises the information included in the report of the Executive Board and Corporate Governance Statement but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Executive Board and of those charged with governance for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Executive Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Executive Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the 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 financial statements.

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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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Conclude on the appropriateness of Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

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**Report on other legal and regulatory requirements**

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 26 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

The report of the Executive Board is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the report of the Executive Board, is the responsibility of the Executive Board. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the 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 Company in conducting the audit.

**Other matters**

The corporate governance statement includes the information required by article 68ter paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Charles Dequaire

Luxembourg, 29 April 2019

Statement of Profit and Loss and Other Comprehensive Income
For the year ended 31 December 2018
(Expressed in thousands of EUR)

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income | 12 | 1 682 | 1 059 |
| Net gains on financial instruments at fair value through profit or loss | 13 | 66 619 | 91 294 |
| Reversal of impairments | | 1 | - |
| Total revenues | | 68 302 | 92 353 |
| Interest expenses | 12 | (33 035) | (64 279) |
| Personnel expenses | 14 | (320) | (344) |
| Other operating expenses | 15 | (34 696) | (27 625) |
| Total expenses | | (68 051) | (92 248) |
| Profit before tax | | 251 | 105 |
| Income tax | 16 | (64) | (27) |
| Profit for the financial year | | 187 | 78 |
| Total comprehensive income for the financial year | | 187 | 78 |

Statement of Financial Position
As at 31 December 2018
(Expressed in thousands of EUR)

| | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 79 584 | 114 889 |
| Financial assets at fair value through profit or loss | | | |
| - Designated at fair value through profit or loss | 5 | | 44 051 537 |
| - Mandatorily measured at fair value through profit or loss | 5 | 45 062 134 | |
| - Trading derivatives | 5 | 4 168 362 | 3 806 822 |
| Loans and receivables | 6 | 52 570 | 53 661 |
| Total assets | | 49 362 650 | 48 026 909 |
| Financial liabilities at amortised cost | 7 | 96 284 | 110 734 |
| Financial liabilities at fair value through profit or loss | | | |
| - Designated at fair value through profit or loss | 8 | 45 053 728 | 44 048 143 |
| - Trading derivatives | 8 | 4 170 486 | 3 818 679 |
| Other liabilities | 9 | 13 039 | 43 668 |
| Tax liabilities | 16 | 64 | 27 |
| Total liabilities | | 49 333 601 | 48 021 251 |
| Share capital | 10 | 2 000 | 2 000 |
| Share premium | 10 | 25 000 | - |
| Legal reserve | 11 | 200 | 200 |
| Other reserves | 11 | 1 662 | 3 380 |
| Profit for the financial year | | 187 | 78 |
| Total equity | | 29 049 | 5 658 |
| Total equity and liabilities | | 49 362 650 | 48 026 909 |

Impacts of the first time application ("FTA") of IFRS 9 are disclosed in Note 3.1.2.

**Statement of Changes in Equity**

For the year ended 31 December 2018

(Expressed in thousands of EUR)

| | **Share capital** | **Share premium** | *Legal reserve* | *Other unavailable reserves* | *Other available reserves* | **Total reserves** | **Profit for the financial year** | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2016** | **2 000** | - | *200* | *3 382* | *2 275* | **5 857** | **373** | **8 230** |
| Transfer to available reserves | - | - | - | *(1 718)* | *1 718* | - | - | - |
| Allocation of the result of the previous year before dividend distribution | - | - | - | - | *373* | **373** | (373) | - |
| Dividend to the sole shareholder | - | - | - | - | *(2 649)* | ***(2 649)*** | - | (2 649) |
| Capital increase/Allocation to the share premium account | 0 | 67 533 | - | - | - | - | - | 67 533 |
| Reimbursement of the share premium | - | (67 533) | - | - | - | - | - | (67 533) |
| Profit for the financial year 2017 | - | - | - | - | - | - | 78 | 78 |
| **As at 31 December 2017** | **2 000** | **-** | *200* | *1 664* | *1 716** | **3 580*** | **78** | **5 658*** |
| Allocation of the result of the previous year before dividend distribution | - | - | - | - | *78* | **78** | **(78)** | **-** |
| Transfer to available reserves | - | - | - | *(1 664)* | *1 664* | **-** | **-** | **-** |
| Dividend to the sole shareholder | - | - | - | - | *(1 794)* | **(1 794)** | **-** | **(1 794)** |
| IFRS 9 FTA impact (Note 3.1.2) | - | - | - | - | *(2)* | **(2)** | **-** | **(2)** |
| Capital increase/Allocation to the share premium account (Note 10) | 0 | 62 725 | - | - | - | **-** | **-** | **62 725** |
| Reimbursement of the share premium (Note 10) | - | (37 725) | - | - | - | **-** | **-** | **(37 725)** |
| Profit for the financial year 2018 | - | - | - | - | - | **-** | **187** | **187** |
| **As at 31 December 2018** | **2 000** | **25 000** | *200* | - | *1 662* | **1 862** | **187** | **29 049** |

** Difference due to roundings.*

The accompanying Notes are an integral part of these financial statements.

# Statement of Cash Flows
For the year ended 31 December 2018
(Expressed in thousands of EUR)

| | Note | 2018 | 2017 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the financial year | | 187 | 78 |
| Adjustments for: | | | |
| Net (Increase) / decrease in financial assets | | (1 371 046) | 5 305 660 |
| Net Increase / (decrease) in financial liabilities | | 1 405 667 | (5 241 449) |
| (Increase)/decrease in other assets | | - | 3 151 |
| Increase/(decrease) in tax liabilities and other liabilities | | (30 592) | 28 487 |
| Other (IFRS 9 impact) | | (2) | - |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 4 214 | 95 927 |
| FINANCING ACTIVITIES | | | |
| Payment of capital surplus* | 10 | (37 725) | (67 533) |
| Dividend paid | | (1 794) | (2 649) |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | (39 519) | (70 182) |
| Cash and cash equivalents at the beginning of the year | 4 | 114 889 | 89 144 |
| Net increase/(decrease) in cash and cash equivalents | | (35 305) | 25 745 |
| Cash and cash equivalents at the end of the year | | 79 584 | 114 889 |
| Cash flows from interest and dividends | | | |
| Interest paid | | 38 566 | 69 078 |
| Interest received | | 1 682 | 1 279 |
| Dividend received | | - | - |

* KEUR 37 725 represent the share premium reimbursed by the Company to the sole shareholder (see Note 10).

**Notes to the financial statements**
As at 31 December 2018

## 1. Corporate information

SG Issuer (hereafter the "Company" or “SGIS”) is a Luxembourg Company incorporated on 16 November 2006 as a public limited-liability Company (S.A.) for an unlimited period.

Since April 2013, the Company’s corporate objects are to issue debt securities, bonds, certificates, Warrants and any other debt securities or acknowledgements of debts or financial securities, whether or not accompanied by guarantees, with any type of underlying security, including, without limitation, Company stock, any other capital security or security other than capital, index, currency, exchange rate, interest rate, dividend, credit risk, fund unit, investment Company stock, term deposit, life assurance contract, loan, merchandise, term contract, option, Warrants, allocated or unallocated precious metals, unit of account, basket or any other factor or any other type of underlying securities and any combination of the latter.

To that effect, the Company may purchase, hold, dispose of, lend, loan or resell, by any means, including in particular the use of trusts, in trust or repurchase, any type of assets whatever their names and forms and whether or not accompanied by guarantees, in particular financial instruments (financial securities - stocks, fund units, bonds, certificates, Warrants - or financial contracts - swaps, options or other) or any other debt securities, acknowledgements of debts or capital securities, receive or issue monetary loans (including loans convertible into shares of the Company) - within the group of companies to which the Company belongs - and to supply guarantees in any form (actual guarantees such as pledges, securities, mortgages or other - personal guarantees or any other form of guarantee) for their own account, for the account of the group of companies to which the Company belongs or on behalf of third parties.

The Company’s financial year begins on 1 January and ends on 31 December each year.

The Company’s capital is fully owned by Société Générale Bank & Trust S.A. (hereafter “SGBT”), a bank incorporated under Luxembourg law.

The accounts of the Company are included in the consolidated accounts of SGBT, which is the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 11, avenue Emile Reuter, L-2420 Luxembourg.
The accounts of the Company are included in the consolidated accounts of Société Générale (hereafter ”SG” or the “ultimate parent Company”), which is the largest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 29,boulevard Haussmann, 75009 Paris, France.

## 2. Basis of preparation

### 2.1. Statement of compliance

The financial statements of the Company as at and for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").

## 2. Basis of preparation (continued)

### 2.1. Statement of compliance (continued)

The financial statements were authorised for issue by the Supervisory Board on 29 April 2019.

### 2.2. Basis of measurement of financial assets and financial liabilities

Financial assets and financial liabilities linked to the issuance activity of the Company are measured at fair value through profit or loss. All other financial assets and financial liabilities are measured at amortised cost.

### 2.3. Functional and presentation currency

The financial statements are prepared in Euro ("EUR"), which is the Company's functional currency and the currency of its share capital. Unless stated otherwise, the amounts in the financial statements are expressed in thousands of EUR (KEUR).

### 2.4. Use of estimates and judgements

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of figures recorded in the statement of profit and loss, on the unrealised or deferred gains and losses, on the valuation of assets and liabilities in the statement of financial position, and on information disclosed in the notes to the financial statements.

In order to make these assumptions and estimates, the management uses information available at the date of preparation of the 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 Company'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 Company'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 financial statements with substantial management judgment and/or estimates are listed below with respect to judgments/estimates involved.

The use of estimates and judgment mainly concerns the following topics:

- Fair value in the 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 (see Notes 5 and 8);
- the amount of impairment and provisions for credit risk related to financial assets measured at amortised cost (see Note 6).

For the application of IFRS 9, the Company 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 (See 3.4.2.8).

## 2.5. Segmental information

No dedicated management reporting information is presented for SGIS to a chief decision maker; only the annual financial statements are presented to the Executive Board of SGIS in analysing the performance of the Company. The company has only one geographical area related to its revenue, which is France (Société Générale S.A.).

## 3. Significant accounting policies

### 3.1 Changes in accounting policies

#### 3.1.1 New accounting standards applied by the Company as at 1 January 2018

IFRS 9 "Financial Instruments" (see Notes 3.1.1.1.)
IFRS 15 "Revenue from Contracts with Customers" and subsequent clarifications (Note 3.1.1.2.)
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (Note 3.1.1.3)
Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (Note 3.1.1.3)
Annual improvements (2014-2016) (Note 3.1.1.3)
Amendments to IAS 40 "Transfers of Investment Property" (Note 3.1.1.3)
IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (Note 3.1.1.3)
Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (see Note 3.1.1.3)

##### 3.1.1.1 IFRS 9 "FINANCIAL INSTRUMENTS" AND SUBSEQUENT AMENDMENTS

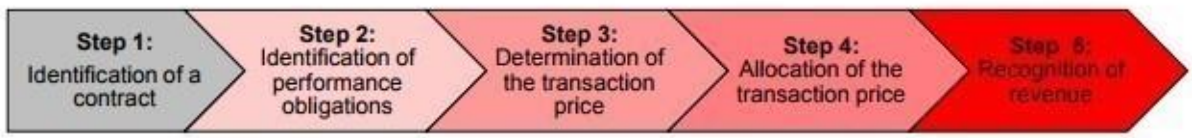
The impacts of the first-time application of IFRS 9 are presented in Note 3.1.2 "First-time application of IFRS 9".

##### 3.1.1.2 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 statement of profit and loss 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 Company 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.

#### 3.1.1.3 Other amendments

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

**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.

**Annual improvements (2014-2016)**

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued an amendment to IAS 28 "Investments in Associates and Joint Ventures". 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.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

### 3.1.2 First time application of IFRS 9 "Financial instruments"

**First time application of IFRS 9**

IFRS 9 replaces IAS 39, defining a new set of rules for measuring and classifying financial assets and liabilities, establishing a new methodology for the credit impairment of financial assets and for determining loss allowances for loan and guarantee commitments, and introducing changes in the treatment of hedging transactions, with the exception of macro-hedging transactions which will be covered by a separate standard currently under review by the IASB. As from 1 January 2018, the Company applies IFRS 9 as adopted by the European Union. The Company did not early apply the provisions of IFRS 9 to previous reporting periods. Consequently, the accounting principles applicable to financial instruments have been amended and the disclosures presented in the notes have been supplemented, in accordance with the amendments to IFRS 7 at the time IFRS 9 was adopted.

The impairment as of 1 January 2018 (First Time Application) amounts to KEUR 2 and has been recorded directly in Equity (deduction of reserves).

As a result of the application of IFRS 9, the Fully Funded Swaps have been reclassified to financial assets mandatorily measured at Fair Value through Profit and Loss ("FVTPL") as these instruments are debt instruments that do not pass de SPPI test.

**Notes to the financial statements**

As at 31 December 2018

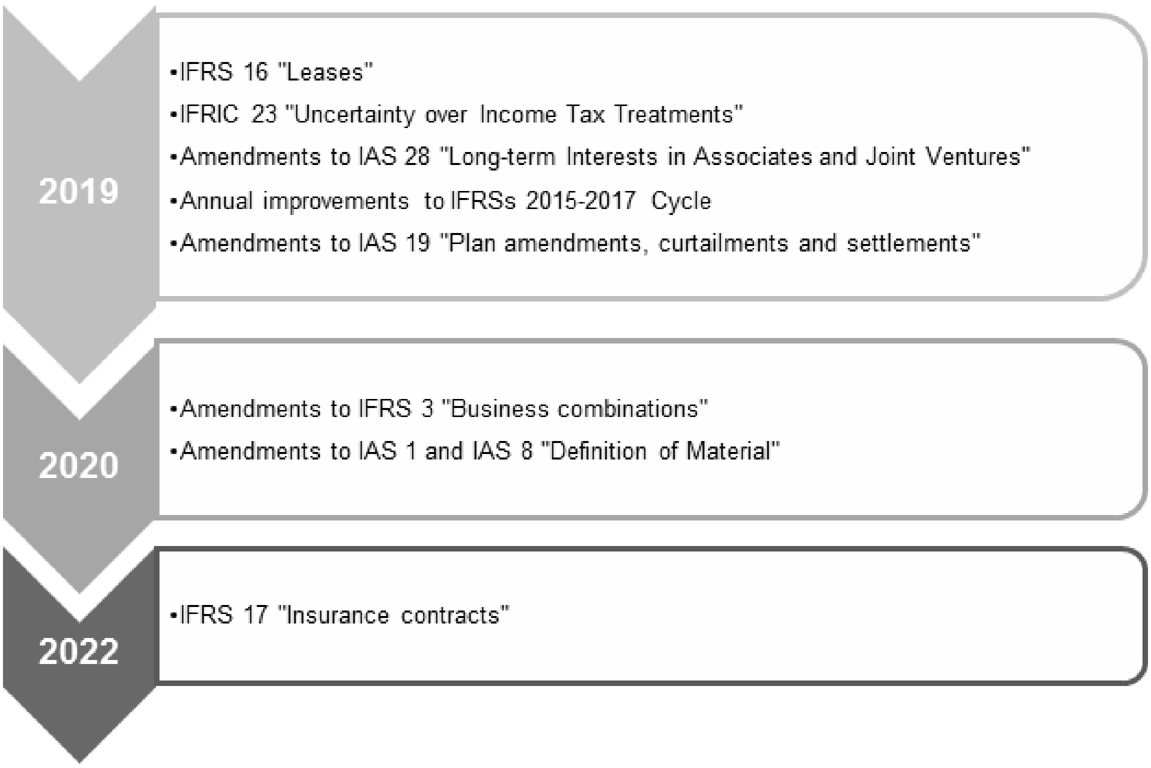
– continued –

| | | Value adjustments | | | |
|---|---|---|---|---|---|
| | **Balance as at 31.12.2017** IAS 39 | Reclassification impact | Credit risk adjustments | Impact on deferred tax | **Balance as at 01.01.2018** IFRS 9 |
| *EUR '000* | | | | | |
| Cash and cash equivalents | 114 889 | - | - | - | 114 889 |
| **Financial assets at fair value through profit or loss** | | | | | |
| - Mandatorily at fair value through profit or loss | - | 44 051 537 | - | - | 44 051 537 |
| - Designated at fair value through profit or loss | 44 051 537 | - 44 051 537 | - | - | - |
| - Trading derivatives | 3 806 822 | - | - | - | 3 806 822 |
| Loans and receivables | 53 661 | - | (3) | - | 53 658 |
| **Total assets** | **48 026 909** | **-** | **(3)** | **-** | **48 026 906** |
| | | | | | |
| Financial liabilities at amortised cost | 110 734 | - | - | - | 110 734 |
| **Financial liabilities at fair value through profit or loss** | | | | | |
| - Designated at fair value through profit or loss | 44 048 143 | - | - | - | 44 048 143 |
| - Classified as Trading derivatives | 3 818 679 | - | - | - | 3 818 679 |
| Other liabilities | 43 668 | - | - | - | 43 668 |
| Tax liabilities | 27 | - | - | (1) | 26 |
| **Total liabilities** | **48 021 251** | **-** | **-** | **(1)** | **48 021 250** |
| | | | | | |
| Share capital | 2 000 | - | - | - | 2 000 |
| Legal reserve | 200 | - | - | - | 200 |
| Other reserves | 3 380 | - | (3) | 1 | 3 378 |
| Profit for the financial year | 78 | - | - | - | 78 |
| **Total equity** | **5 658** | **-** | **(3)** | **1** | **5 656** |

### 3.1.3 <u>Accounting standards, amendments or interpretations to be applied by the Company in the future</u>

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 Company as at 31 December 2018.

These standards are expected to be applied according to the following schedule:




#### 3.1.3.1 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.

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 statement of profit and loss, the lessee will separately recognise the depreciation of the right-of-use assets and the interest expense on lease liabilities.

The Company expects no material effect from this standard.

#### 3.1.3.2 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 Company expects no material effect of this interpretation on equity.

#### 3.1.3.3 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 Company does not expect any material impact from these amendments.

#### 3.1.3.4 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 Company does not expect any material impact from these amendments.

#### 3.1.3.5 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 Company does not expect any material impact from these amendments.

#### 3.1.3.6 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 Company does not expect any material impact from these amendments.

#### 3.1.3.7 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.

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

The Company expects no material effect from this standard.

### 3.2 Foreign currency transactions

Transactions in foreign currencies are initially recorded in EUR at the exchange rate ruling at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates ruling at the reporting date. Foreign exchange differences arising on translation and realized exchange gains and losses are recognised in the statement of comprehensive income in the caption Net gains on financial instruments at fair value through profit or loss and Interest Expenses.

The most important foreign currency positions for the Company are USD, JPY, GBP, HKD and CHF. The following foreign exchange rates were used:

| | **USD** | **JPY** | **GBP** | **HKD** | **CHF** |
|---|---|---|---|---|---|
| **31.12.2018** | 1.1450 | 125.8500 | 0.8945 | 8.9675 | 1.1269 |
| **31.12.2017** | 1.1993 | 135.0100 | 0.8872 | 9.3720 | 1.1702 |

### 3.3 Cash and cash equivalents

Cash and cash equivalents comprise only cash repayable on demand.

## 3.4 Financial instruments

The financial instruments represent the contractual rights or obligations to receive or to pay cash or other financial assets.

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).

### 3.4.1 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.

#### 3.4.1.1 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 two 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 Company 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;

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 Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- Financial liabilities at amortised cost: these include the other non-derivative financial liabilities and are measured at amortized cost.

#### 3.4.1.2 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.

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.

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.

#### 3.4.1.3 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 Company to establish the fair value of financial instruments are detailed in Note 3.4.2.5.

#### 3.4.1.4 Initial recognition

Purchases and sales of financial assets recorded under Financial assets at fair value through profit or loss 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 statement of profit and loss. 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 statement of profit and loss.

#### 3.4.1.5 Offsetting a financial assets and a financial liability

First time application of IFRS 9 did not change the accounting principles applicable to offsetting of financial instruments. Those principles are presented in Note 3.4.2.9.

#### 3.4.1.6 Derecognition of financial assets and liabilities

The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 statement of profit and loss 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 statement of profit and loss on the prepayment date among Interest and similar income.

The Company 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.

#### 3.4.1.7 Derivative financial instruments

First time application of IFRS 9 did not change the accounting principles applicable to derivative financial instruments. Those principles are presented in Note 3.4.2.4.2.

#### 3.4.1.8 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 Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

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 Company 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.

#### 3.4.1.9 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Subsequent to initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less appropriate impairments. Impairments represent the Company’s estimate of losses arising from the failure or inability of third parties to make payments when due.

#### 3.4.1.10 Financial liabilities at amortised cost

The first time application of IFRS 9 did not change the accounting principles applicable to financial liabilities at amortised cost. Those principles are presented in Note 3.4.2.7.

#### 3.4.1.11 Recognition of interest income and expense

Interest income and expense are recognized in the statement of profit and loss 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).

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.

#### 3.4.1.12 Impairments

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not be considered otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a Security. In addition for an investment in an equity security, a significant or prolonged decline in its value below its cost is objective evidence of impairment.

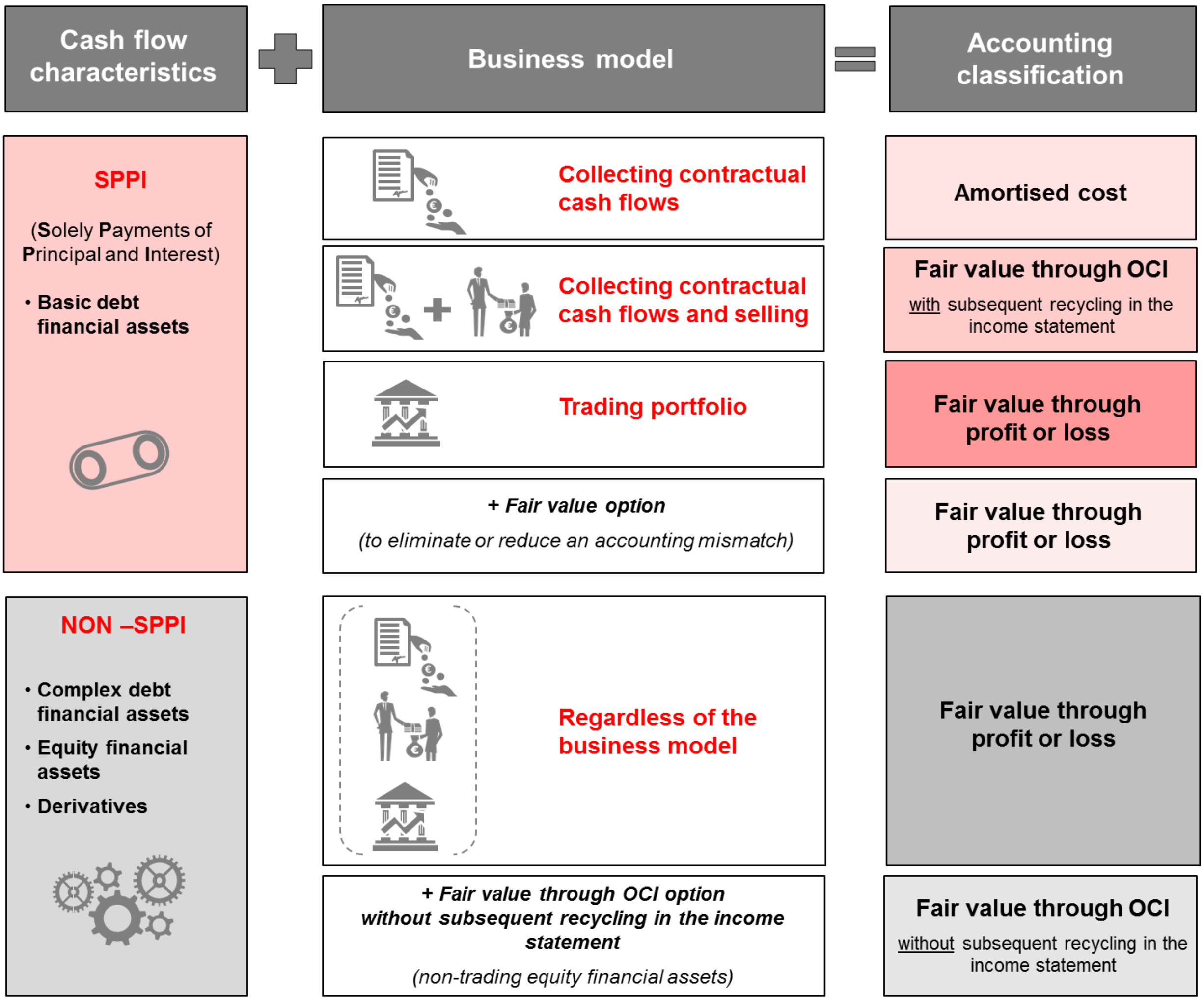
The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

### 3.4.2 Classification and measurement of financial instruments under IFRS 9 (from 1 January 2018)

At initial recognition, financial instruments are classified in the Company 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 overleaf depicts 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.

#### 3.4.2.1 Classification of financial instruments

##### 3.4.2.1.1 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 are mandatorily measured at fair value through profit or loss, regardless of the business model for managing them.

##### 3.4.2.1.2 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 Company 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 Company’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.

#### 3.4.2.1.2.1 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 Company 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.

#### 3.4.2.1.2.2 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. This business model it not used by the Company.

#### 3.4.2.1.2.3 Business model “Trading activities”

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

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 3.4.2.4.2).

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

#### 3.4.2.1.2.4 Application to the Company

The portfolios of financial assets were reviewed to determine, based on the characteristics of their contractual cash flows and on how they are managed (business models), their accounting treatment under IFRS 9. Another objective of this review was to identify the most significant impacts on the information systems.

For the debt instruments held, SGIS has defined its business model as “held to collect” for the Fully Funded Swaps, for Cash and cash equivalents and for Loans and receivables. These assets are acquired in order to collect the contractual cash-flows attached to the assets. No sale has been made in the past years and no sale is anticipated in the future.

The Fully Funded Swaps are economically assimilated to loans with embedded derivatives (the swap embedded in the FFS). This type of financial assets comply with the IFRS definition of debt instruments (fixed maturity, coupon calculated as a rate, no right nor interest/control in an entity). As these financial assets of SGIS contain embedded derivatives that modify the cash flows of the entire contract, the contract does not pass the SPPI test and these financial assets are mandatorily measured at Fair Value through Profit and Loss (“FVTPL”).

Cash and cash equivalents and Loans and receivables are SPPI compliant and are thus measured at amortised cost. Cash and cash equivalents and Loans and receivables are subject to impairment under IFRS 9 and are presented net of impairment.

The Options held, covering the Warrants issued, are Trading derivatives and thus measured at FVTPL.

#### 3.4.2.1.3 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). As at 31 December 2018, no financial assets are designated at fair value through profit or loss.

#### 3.4.2.1.4 Reclassification of financial assets

Reclassification of financial assets is only required in the exceptional event that the Company changes the business model used to manage these assets. For the year ending 31 December 2018, no reclassification of financial assets occurred.

#### 3.4.2.1.5 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 Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

#### 3.4.2.2 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 Company to establish the fair value of financial instruments are detailed in Note 3.4.2.5.

##### 3.4.2.2.1 Initial recognition

Financial assets are recognised on 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 statement of profit and loss.

##### 3.4.2.2.2 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 Company.

##### 3.4.2.2.3 Derecognition

The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 statement of profit and loss 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 statement of profit and loss on the prepayment date among Interest and similar income.

The Company 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.

#### 3.4.2.3 Financial assets and liabilities at fair value through profit or loss

##### 3.4.2.3.1 Trading portfolio

The financial instruments recorded in the trading portfolio are measured at fair value at the statement of financial position date and recognised in the 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 statement of profit and loss 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 3.4.2.4.2 below).

##### 3.4.2.3.2 Financial instruments mandatorily at fair value through profit or loss

Financial assets measured mandatorily at fair value through profit or loss include financial instruments that are not held for trading purposes and do not pass the SPPI test (non-basic or non-SPPI instruments).

These assets are recorded at fair value in the statement of financial position under Financial assets at fair value through profit or loss and changes in the fair value of these instruments are recorded in the statement of profit and loss under Net gains or losses on financial instruments at fair value through profit or loss.

##### 3.4.2.3.3 Financial instruments designated at fair value through profit or loss (fair value option)

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.

The Company has designated at fair value through profit or loss the Notes issued because mirror transactions (Fully Funded Swaps or “FFS”) that hare used to hedges Notes issued are measured mandatorily at fair value through profit and loss.

Changes in the fair value of these instruments (including interest) are recorded in the statement of profit and loss under Net gains or losses on financial instruments at fair value through profit or loss. The Company does not record the share of the changes in fair value that is due to changes in the Company’s own credit risk as this would create an accounting mismatch with the mirrored assets.

The Company issues both secured and unsecured Notes. The Notes are subscribed by the investors through Société Générale Group as a lead manager during the issuance period and as a market maker for a secondary market.
Fully Funded Swaps are financial instruments contracted with Société Générale Group to hedge the Company's exposure to market risk arising from its activities, by replicating each of the Notes issued.

The Company provides the funds received from Note holders to the swap counterparty (Société Générale Group). The swap counterparty agrees to exchange the reimbursement amount, including the return, of the issued Notes.

These financial assets and liabilities are measured at fair value through profit or loss and are recognised in the statement of financial position under "Financial assets/Financial liabilities at fair value through profit or loss".

The impact of the application of IFRS 13 on the Company's financial information (Credit Value Adjustment (CVA) / Debt Value Adjustment (DVA) recognition) have been recorded on a net basis in the statement of financial position, i.e. there is no impact in terms of cash or income (except the margin – Bid/Ask – between the sale of the Note and the purchase of the Fully Funded Swap).

Furthermore, in case of derecognition of a financial liability at fair value through profit or loss using the fair value option before its contractual maturity, gains and losses, if any, related to the Company's own credit risk are booked under Unrealised or deferred gains and losses and then reclassified under Retained earnings at the beginning of the subsequent financial year.

#### 3.4.2.4 Financial derivatives

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 Company 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.

Derivatives instruments may also be used 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). The Company does not use derivatives instruments for hedging purposes.

Contrary to other financial instruments, derivative instruments are always measured at fair value in the statement of financial position, regardless their purpose. The fair value adjustments of trading derivatives are directly recognised in the statement of profit and loss.

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 statement of financial position as financial assets or financial liabilities. They are considered to be trading derivatives by default.

#### 3.4.2.4.1 Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host instrument.

Where the host contract is a financial asset, the entire hybrid contract is measured at fair value through profit or loss because its contractual cash flows do not pass the SPPI test.

Where the host contract is a financial liability and is not measured at fair value through profit or loss, the embedded derivative is separated from the host contract if:

- at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and
- 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 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.

#### 3.4.2.4.2 Trading derivatives

Trading derivatives are recorded in the statement of financial position under Financial assets or liabilities at fair value through profit or loss. Changes in fair value are recorded in the statement of profit and loss under Net gains and losses on financial instruments 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 Company.

The notional amounts of the Warrants issued together with the hedging options purchased are reported Off Balance-Sheet.

The Company reports the premium paid on the derivatives bought and the premium received on the derivatives sold in the statement of financial position under “Financial assets or liabilities at fair value through profit or loss - Held for Trading”.
Subsequent to initial measurement, the Options and the Warrants are measured at fair value through profit or loss.

### 3.4.2.5 Fair value of Financial instruments measured at fair value

The financial assets and liabilities recognised in the Company statement of financial position are measured either at fair value or at amortised cost. In the latter case, the fair value of the instruments is disclosed in the notes (see Note 3.4.2.5.1).

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 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.

#### 3.4.2.5.1 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.

#### 3.4.2.5.2 Fair value hierarchy

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

For information purposes, in the notes to the financial statements, the fair value of financial instruments is classified using a fair value hierarchy 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 statement of financial position 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 statement of financial position 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 Company 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 statement of financial position 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.

**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 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);

- Credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation ("N to default" products in which the buyer of the hedge is compensated as of the Nth default, which are exposed to the credit quality of the issuers comprising the basket and to their correlation, or CDO Bespoke products, which are Collateralised Debt Obligations created specifically for a group of investors and structured according to their needs), as well as products subject to credit spread volatility;
- Commodity derivatives: this category includes products involving unobservable volatility or correlation inputs (i.e. options on commodity swaps or instruments based on baskets of underlyings).

For the years ended 2018 and 2017, the impact of IFRS 13 is fully embedded in the valuation models.

Different calculation methods can exist regarding the CVA-DVA / OCA (Own Credit Adjustment) impact calculation: derived from the yield discounting methodology, other from the Monte-Carlo EPE/ENE (Expected Positive / Negative Exposure).
The methodology applied to SGIS (the same as the SG Group) is the yield discounting methodology.

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

- For unsecured Notes

The fair value for both the Unsecured Notes (liabilities) and the Fully Funded Swap (FFS) (assets) are calculated by discounting the expected future cash flows with the risk free curve. To take the credit adjustment into account, the risk free curve is adjusted with Société Générale (SG) Group's credit spread curve. A dedicated process has been implemented using SG Group and SGIS operational teams' input. This process is fully functional, constantly monitored as of today.

- For secured and Repack Notes

Secured Notes are Notes which are collateralized with assets deposited on segregated or pooled accounts with external custodian (BNY Mellon) and pledged in favor of the Note holders.
Repack Notes are Notes which allow investors to calibrate the funding yield of their structure by selecting a bond (the "Reference Bond") issued by a third-party issuer (the "Reference Bond Issuer").
The collateral assets are composed of eligible securities.
Should SG defaults, the pledge on the assets is to be enforced; the Notes holders are exposed to credit risk of the collateral (external securities). Therefore, as SG and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with SG credit spread. Thus, no additional credit adjustment is needed for the Secured Notes.
The fair value of the Secured Notes and the Repack Notes and the associated FFS is computed, for each accounting period by discounting the expected future cash flows by a composite Repo rate curve.

- For Warrants

For financial instruments recognised at fair value in the statement of financial position, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the statement of financial position date or if the clearing value does not reflect transaction prices.
However, due especially to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Company does not have quoted prices in the markets.

**Deferred margin related to main unobservable inputs**

The company does not apply deferred margin related to its main unobservable inputs as margin on Notes and Warrants issued are offset by a similar margin on Fully Funded Swaps and Options purchased.

### 3.4.2.6 Loans and receivables at amortised cost

Loans and receivables are measured at amortised cost where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a "Hold to Collect" business model.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, and their accrued or earned income is recorded in the statement of profit and loss 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 *Impairments* or *Reversal of impairments* with a corresponding impairment of amortised cost under statement of financial position assets. The applicable impairment rules are described in Note 3.4.2.8.1.

### 3.4.2.7 Debt at amortised cost

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

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*.

The Company recognizes in this caption overdrafts and the convertible bonds with profit participation feature which displays the following future cashflows:

- One fixed rate coupon
- One profit based coupon

### 3.4.2.8 Impairment and provisions

Some financial assets involve credit risk which exposes the Company to a potential loss if the counterparties were to be unable to respect their financial commitments. The Company 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 and receivables measured at amortised cost or fair value through other comprehensive income, the expected credit loss, as assessed by the Company, is recognised in profit or loss together with interest income. On the statement of financial position, 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. No impairment is recognised on cash and cash equivalents. The Company does not have loan commitments or financial guarantees contracts.

### 3.4.2.8.1 Impairment and provisions for credit risk

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 of the financial asset** →

| *Credit risk category* | **Stage 1**<br>Performing assets | **Stage 2**<br>Under-performing or downgraded assets | **Stage 3**<br>Credit-impaired or defaulted assets |
|---|---|---|---|
| ***Transfer criteria*** | Initial recognition of the instrument in stage 1<br>⇨ *Maintained if the credit risk has not increased significantly* | Credit risk on the instrument has increased significantly since initial recognition / 30 days past due | Evidence that the instrument has become credit-impaired / 90 days past due |
| ***Measurement of credit risk*** | 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |
| ***Interest income recognition basis*** | Gross carrying amount of the asset before impairment | Gross carrying amount of the asset before impairment | Net carrying amount of the asset after impairment |

**Exposures classified in Stage 1**

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are 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 Company 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 Company 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 Company 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 statement of financial position date.

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the statement of financial position 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. 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 Company 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 Company;
- 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 Company 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.

**Measurement of depreciation and provision**

Stage 1 exposures are impaired for the amount of credit losses that the Company 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 Company 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.

#### 3.4.2.8.2 Impairments / Reversal of impairments

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

#### 3.4.2.9 Offsetting financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount presented on the statement of financial position when the Company 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 Company recognises in its statement of financial position the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

The financial instruments issued by the Company are subscribed by the investors through Société Générale as a lead manager during the issuance period and as a market maker for a secondary market. The instruments which are unsold are held by Société Générale.

In December 2014, the Company added a new cash netting clause in the legal framework with Société Générale. Personne Morale and acquired a legally enforceable right to offset the recognized amount with the same counterparty (Société Générale). The assets (the Fully Funded Swaps) and the liabilities (the Notes) are settled (and intended to be settled) simultaneously.

In application of IAS 32 - Offsetting a financial asset and a financial liability, the Company proceeds to the accounting netting of the non-sold amounts.

The treatment is applied based on IAS 32 paragraph 42: “A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”

As at 31 December 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5 and Note 9).

### 3.5 Shareholders’ equity

Equity are the resources contributed to the Company by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings).

The statement "Changes in Shareholders' Equity" presents the various changes that affect the components of equity over the reporting period.

### 3.6 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 statement of profit and loss under Interest and similar income and Interest and similar expense for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income) and for all financial instruments mandatorily measured at fair value through profit and loss on 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.

### 3.7 Other operating expenses

The Company 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 15.

### 3.8 Income tax

Income tax 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.

#### 3.8.1 Current tax

Current tax is based on the taxable profit 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 statement of profit and loss.

#### 3.8.2 Deferred tax

Deferred taxes are recognized whenever the Company 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 considering rules established by Luxembourg tax authority.

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 and a realistic projection of tax income or expense, based on their business development outlook: any previously unrecognized deferred tax assets are recorded in the 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 statement of financial position is reduced where a risk of total or partial non-recovery occurs.

Deferred tax were adjusted further to the fiscal law reform on December 2016. The rate of deferred tax applied as of 31 December 2018 is 26.01%, which has not changed since 31 December 2017. The deferred tax rate includes the corporate tax and the municipal tax.

### 3.9 Other commitments linked to secured notes

In relation to each Series of Secured Notes, in order to secure its obligations in respect of such Notes, the Company enters into a pledge agreement which will be governed by the Luxembourg act dated 5 August 2005 on financial collateral arrangements, as amended. Under each Pledge Agreement, the Company will grant first ranking security over the Collateral Assets contained in one or more accounts held by the Company with The BNY Mellon (Luxembourg) S.A. (or such other custodian or account bank as is specified in the applicable Final Terms, pursuant to the terms of a custodian agreement between, inter alia, the Company and the collateral custodian).

The security granted under each Pledge Agreement will be granted either in favour of:

- (i) in the case of English Law Notes, BNY Mellon Corporate Trustee Services Limited or such other security trustee as is specified in the applicable Final Terms as security trustee on behalf of itself and the relevant Noteholders and the other relevant Secured Parties (as defined in the Additional Terms and Conditions for Secured Notes) or,
- (ii) in the case of French Law Notes, directly in favour of the relevant Noteholders and the other relevant Secured Parties as represented by BNY Mellon Corporate Trustee Services Limited or such other security agent as is specified in the applicable Final Terms as security agent.

Following the occurrence of a Secured Note Acceleration Event (as defined in the Additional Terms and Conditions for Secured Notes), all Noteholders whose Notes have become immediately due and payable will first be entitled to claim for any outstanding amounts due to them under the terms of the Guarantee. If neither the Issuer nor the Guarantor (pursuant to the terms of the Guarantee) has paid all amounts due to Noteholders within a period of 3 Collateral Business Days following the occurrence of a Secured Note Acceleration Event, Noteholders may send a notice in writing to the Security Trustee (in the case of English Law Notes) or the Security Agent (in the case of French Law Notes) requesting that the relevant Pledge Agreement be enforced in accordance with the terms of the Base Prospectus.

The Company borrows the securities to be pledged from Société Générale Group. In accordance with IFRS, the securities borrowed are not recognized in the statement of financial position.
The pledged securities are accounted as an off balance-sheet commitment “Securities pledged”. The committed amount is re-measured at each closing to reflect the value of the securities pledged.

## 4. Cash and cash equivalents

Cash and cash equivalents amount to KEUR 79 584 as at 31 December 2018 (31 December 2017: KEUR 114 889) and are mainly composed of cash held with Société Générale Bank & Trust S.A. and Société Générale S.A..
As at 31 December 2018 and 2017, this caption only contains cash that is repayable on demand.

## 5. Financial assets at fair value through profit or loss

| | **31.12.2018**<br>EUR’ 000 | **31.12.2017**<br>EUR' 000 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| - Designated at fair value through profit or loss | | 44 051 537 |
| - Mandatorily at fair value through profit or loss (Fully Funded Swaps) | 45 062 134 | |
| - Trading derivatives (Options) | 4 168 362 | 3 806 822 |
| **Total** | **49 230 496** | **47 858 359** |

As at 31 December 2018, financial assets mandatorily at fair value through profit or loss (Fully Funded Swaps) amount to KEUR 45 062 134 (31 December 2017: KEUR 0) and replicate all the Notes issued by the Company (see Note 3.2 and Note 8). These FFS amounted to KEUR 44 051 537° as at 31 December 2017 and were designated at fair value through profit or loss. Differences between Fully Funded Swaps and Notes arise due to late settlements.

Due to the implementation of IFRS 9, the Fully Funded Swaps have been reclassified from Designated at fair value through profit or loss (IAS 39) to Mandatorily at fair value through profit or loss (IFRS 9).

As at 31 December 2018, Trading derivatives (Options) amount to KEUR 4 168 362 (31 December 2017: KEUR 3 806 822) and replicate all the Warrants issued by the Company (see Note 8). Differences between Options and Warrants arise due to late settlements.

As indicated in Note 3.4.2.9, as at 31 December 2018, the impact of the offsetting of financial assets and financial liabilities (decrease in the statement of financial position) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).

**5. Financial assets at fair value through profit or loss (continued)**

The movements in financial assets at fair value through profit or loss were as follows:

| | Designated at fair value through profit or loss | Trading derivatives | Total |
|---|---|---|---|
| **As at 31 December 2016** | **44 030 973** | **9 133 362** | **53 164 335** |
| Acquisition | 67 965 225 | 61 583 229 | 129 548 454 |
| Cancelled / Liquidation / Maturity / Disposal | (62 800 870) | (61 466 251) | (124 267 121) |
| Change in fair value | 567 557 | 2 001 705 | 2 569 262 |
| Exchange difference | (3 481 366) | (499 756) | (3 981 122) |
| Offsetting of Assets and Liabilities (Change) | (2 229 982) | (6 945 467) | (9 175 449) |
| **As at 31 December 2017** | **44 051 537** | **3 806 822** | **47 858 359** |

| | Mandatorily measured at fair value through profit or loss | Trading derivatives | Total |
|---|---|---|---|
| **As at 1 January 2018** | **44 051 537** | **3 806 822** | **47 858 359** |
| Acquisition | 61 735 479 | 33 911 397 | 95 646 876 |
| Cancelled / Liquidation / Maturity / Disposal | (33 489 422) | (32 708 620) | (66 198 042) |
| Change in fair value | (12 067 577) | (2 686 752) | (14 754 329) |
| Exchange difference | 1 987 248 | 181 090 | 2 168 338 |
| Offsetting of Assets and Liabilities (Change) | (17 155 131) | 1 664 425 | (15 490 706) |
| **As at 31 December 2018** | **45 062 134** | **4 168 362** | **49 230 496** |

**6. Loans and receivables**

As at 31 December 2018 and 2017, loans and receivables only consist in deposits with SGBT, which represent the reinvestment of the Company's share capital, reserves and other available funds (term deposits).

The amount of expected credit loss calculated on loans and receivables in accordance with IFRS 9 is KEUR 2 as at 31 December 2018 (1 January 2018: KEUR 3).

**7. Financial liabilities at amortised cost**

As at 31 December 2018 and 2017, financial liabilities at amortised cost are mainly composed of a convertible bond of KEUR 48 000, issued by the Company and fully subscribed by SGBT, with maturity in 2022. Conversion may occur each year.

On this convertible bond, the Company pays to SGBT both variable interests calculated on Euribor 3M plus a margin (additional spread of 2.05% / total rate of 1.741% as at 31 December 2018) and activity related interests. Activity related interests mean an amount equal to 100% of the activity related profit generated by the Company.

The convertible bond maturity shall be automatically extended by successive periods of one year, unless either the Issuer or the Holder has exercised its right to terminate the bond on the scheduled maturity date. The conversion option belongs to the Holder.

7. Financial liabilities at amortised cost (continued)

As at 31 December 2018 and 2017, the value of the equity component is estimated to be nil.

As at 31 December 2018, the Company also has amounts due to banks related to the Company's bank current accounts for KEUR 16 673 (2017: Nil).

8. Financial liabilities at fair value through profit or loss

| | 31.12.2018 EUR' 000 | 31.12.2017 EUR' 000 |
|---|---|---|
| Financial liabilities at fair value through profit or loss | | |
| - Designated at fair value through profit or loss (Notes) | 45 053 728 | 44 048 143 |
| - Trading derivatives (Warrants) | 4 170 486 | 3 818 679 |
| Total | 49 224 214 | 47 866 822 |

As at 31 December 2018, the Company issued secured and unsecured Notes for a total amount of KEUR 45 053 728 (31 December 2017: KEUR 44 048 143):

- 29 736 unsecured Notes were issued (stock) for a total amount of KEUR 41 584 165 (31 December 2017: 23 135 unsecured Notes were issued (stock) for a total amount of KEUR 37 973 579);
- 871 secured Notes were issued (stock) for a total amount of KEUR 3 469 563 (31 December 2017: 861 secured Notes were issued (stock) for a total amount of KEUR 6 074 564).

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured Notes issued by the Company benefit from additional collateral assets securing the payment due under the Notes terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of Guarantor.
Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Société Générale Group and are pledged in favour of the Notes holders.
As at 31 December 2018, securities deposited at BNY MELLON as collateral for secured issuances amount to

KEUR 3 609 288 (31 December 2017: KEUR 5 369 022).

As at 31 December 2018, the Company also issued Warrants for a total amount of KEUR 4 170 486 (31 December 2017: KEUR 3 818 679). Refer to Note 19 for further details on Off-balance sheet items related to the Warrants activity.

As indicated in Note 3.4.2.9, as at 31 December 2018, the impact of the offsetting (decrease in the statement of financial position) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5).

The movements in financial liabilities at fair value through profit or loss were as follows:

| | Designated at fair value through profit or loss | Trading derivatives | Total |
|---|---|---|---|
| As at 31 December 2016 | 44 023 013 | 9 147 992 | 53 171 005 |
| Acquisition | 67 965 225 | 61 583 229 | 129 548 454 |
| Cancelled / Liquidation / Maturity / Disposal | (62 800 870) | (61 466 251) | (124 267 121) |
| Change in fair value | 572 123 | 1 998 932 | 2 571 055 |
| Exchange difference | (3 481 366) | (499 756) | (3 981 122) |
| Offsetting of Assets and Liabilities (Change) | (2 229 982) | (6 945 467) | (9 175 449) |
| As at 31 December 2017 | 44 048 143 | 3 818 679 | 47 866 822 |

8. Financial liabilities at fair value through profit or loss (continued)

| | Designated at fair value through profit or loss | Trading derivatives | Total |
|---|---|---|---|
| As at 1 January 2018 | 44 048 143 | 3 818 679 | 47 866 822 |
| Acquisition | 62 374 839 | 33 934 907 | 96 309 746 |
| Cancelled / Liquidation / Maturity / Disposal | (33 989 259) | (33 348 931) | (67 338 190) |
| Change in fair value | (12 231 930) | (2 310 924) | (14 542 854) |
| Exchange difference | 2 007 066 | 412 330 | 2 419 396 |
| Offsetting of Assets and Liabilities (Change) | (17 155 131) | 1 664 425 | (15 490 706) |
| As at 31 December 2018 | 45 053 728 | 4 170 486 | 49 224 214 |

Liquidity analysis is included in Note 20.

9. Other liabilities

| | 31.12.2018 EUR' 000 | 31.12.2017 EUR' 000 |
|---|---|---|
| Operating charges payable | 7 138 | 2 058 |
| Other settlement accounts | 5 901 | 41 610 |
| Total | 13 039 | 43 668 |

10. Share capital and share premium

As at 31 December 2017, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., was EUR 2 000 160, divided into 50 004 shares with nominal value of EUR 40 each.

By resolution adopted on 12 January 2018, the Executive Board decided to increase the capital of the Company from EUR 2 000 160 to EUR 2 000 200 by the issue of a new share with a nominal value of EUR 40, subscribed by the sole shareholder. This new share includes a share premium amounting to KEUR 62 725. As per proposition of the Executive Board, the sole shareholder of the Company approved on 15 November 2018 the decision to reimburse KEUR 37 725 of the share premium.

As at 31 December 2018, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., is EUR 2 000 200, divided into 50 005 shares with a nominal value of EUR 40 each.

The Company manages its capital to ensure it will be able to continue as a going concern. The capital may be increased, subject to the approval or the Sole Shareholder, if the Company's activity evolves, incurring specific additional risks.

11. Reserves

Legal reserve
In accordance with the Luxembourg law, the Company is required to allocate a minimum of 5% of its annual net profit to a Legal reserve until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.
As at 31 December 2018, the legal reserve amounts to KEUR 200 (31 December 2017: KEUR 200).

Other reserves
Since 2013, the Company is fiscally integrated in the parent company. SGBT constitutes the Net Wealth Tax reserve for the Company. As a consequence, no additional Net Wealth Tax reserve has been constituted by the Company since 2013.
During the year 2018, the Net Wealth Tax reserve of the year 2012 amounting KEUR 1 664 became available after a period of five years, and has been released (transfer from unavailable reserves to available reserves).

12. Interest income and expenses

| | 2018 EUR' 000 | 2017 EUR' 000 |
|---|---|---|
| Interest income on cash and cash equivalents | 541 | - |
| Interest income on loans and receivables | 1 141 | 1 059 |
| Total interest income | 1 682 | 1 059 |
| Interest expenses on financial liabilities at amortised cost | (32 435) | (63 561) |
| Interest expenses on financial liabilities at fair value through P&L | (600) | (718) |
| Total interest expenses | (33 035) | (64 279) |
| Net interest margin | (31 353) | (63 220) |

13. Net gains on financial instruments at fair value through profit or loss

| | 2018 EUR' 000 | 2017 EUR' 000 |
|---|---|---|
| Net gain on financial instruments mandatorily at fair value through profit or loss | 61 016 | 86 439 |
| Net gain on trading instruments | 5 676 | 5 044 |
| Net change in fair value | (73) | (189) |
| Total | 66 619 | 91 294 |

14. Personnel expenses

| | 2018 EUR' 000 | 2017 EUR' 000 |
|---|---|---|
| Wages and salaries | (243) | (292) |
| Social charges and associated costs | (60) | (52) |
| Recharge of personnel expenses from related parties | (17) | - |
| Total | (320) | (344) |

The Company had 3 full-time equivalent during the year ended 31 December 2018 (2017: 3).

The annual cost of pension is calculated and invoiced by SGBT, the parent company, based on SGBT's group total cost of pensions and according to the number of the Company's full time equivalent employees.

15. Other operating expenses

| | 2018 EUR' 000 | 2017 EUR' 000 |
|---|---|---|
| Issues fees | (27 425) | (25 169) |
| Other operating charges | (7 271) | (2 456) |
| Total | (34 696) | (27 625) |

Issues fees mainly consist of Listing fees, Collateral monitoring agent fees, Maintenance of registers fees, trading fees.
Other operating charges are mainly composed of operating costs related to the Company (including audit fees) as well as activities outsourced to Société Générale S.A. and Société Générale Bank & Trust S.A..

15. Other operating expenses (continued)

Remuneration of the Réviseur d'entreprises agréé

The fees paid by the Company to its Réviseur d'entreprises agréé were as follows:

| | 2018<br>EUR' 000 | 2017<br>EUR' 000 |
|---|---|---|
| Statutory audit of the financial statements and review of the semi-annual financial statements | 281 | 253 |

16. Taxation

The Company is liable for all taxes applicable to Luxembourg commercial companies.

Since 2007, the Company is part of a tax integration group led by SGBT, as authorised by the article 164 bis LIR and has concluded a Tax Sharing Agreement (the "Agreement") with SGBT. Under the Agreement, the Company pays to SGBT, with respect to each financial year, an amount equal to the tax which would be levied on the profits of the Company in the absence of any tax consolidation with the Parent.

For the year ended 31 December 2018, the theoretical tax rate is 26.01% (2017: 27.08%) while the actual tax rate of the Company is the one from the tax integration Group to which it belongs, as explained above.

Refer to Note 11 for further information on Net Wealth Tax.

17. Related parties

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at 31 December 2018 and 2017 are presented below. Related parties are considered to be a party that has the ability to control the Company or exercise significant influence over the Company in making financial or operational decisions. The Company has a related party relationship with its direct parent company (SGBT), its ultimate parent company (SG) and with its Executive Board Members, Supervisory Board Members and Executive Officers.

The issued Notes are sold to Société Générale as market maker, such Notes being expected to be subscribed in fine by third party investors, either for their own account or via distribution network. Moreover, all Notes are guaranteed by Société Générale.

Also, the Company borrows securities from Société Générale, which serve as collateral for the secured Notes issued by the Company.

**17. Related parties (continued)**

| As at 31 December 2018<br>EUR' 000 | Société Générale (Ultimate Parent Company) | SGBT (Parent Company) |
|---|---|---|
| Cash and cash equivalents | 73 336 | 1 008 |
| **Financial assets at fair value through profit or loss** | | |
| - Mandatorily at fair value through profit or loss | 45 062 134 | - |
| - Trading derivatives | 4 168 362 | - |
| Loans and receivables | - | 52 570 |
| **Total assets** | **49 303 832** | **53 578** |
| | | |
| Financial liabilities at amortised cost | - | 79 611 |
| **Financial liabilities at fair value through profit or loss** | | |
| - Designated at fair value through profit or loss | -* | - |
| - Trading derivatives | -* | - |
| Other liabilities | 12 913 | - |
| Tax liabilities | - | 64 |
| **Total liabilities** | **12 913** | **79 675** |
| | | |
| Interest income | 1 604 | 78 |
| Net gains on financial instruments at fair value through profit or loss | 66 692 | - |
| **Total revenue** | **68 296** | **78** |
| | | |
| Interest expenses | (600) | (32 435) |
| Personnel expenses | - | (320) |
| Other operating charges | (4 559) | (28 022 ) |
| **Total expenses** | **(5 159 )** | **(60 777 )** |
| | | |
| **Total comprehensive income for the year** | **63 137** | **(60 699 )** |
| | | |
| **Financial commitments** | **2 790 111** | **-** |
| **Financial commitments-collateral to be returned** | **3 609 288** | **-** |

*The financial liabilities at fair value through profit or loss appearing on the statement of financial position are the financial instruments issued by the Company and subscribed by investors, who are not related parties.

## 17. Related parties (continued)

| As at 31 December 2017<br>EUR' 000 | Société Générale (Ultimate Parent Company) | SGBT (Parent Company) |
|---|---|---|
| Cash and cash equivalents | 99 505 | 4 366 |
| **Financial assets at fair value through profit or loss** | | |
| - Designated at fair value through profit or loss | 44 051 537 | - |
| - Trading derivatives | 3 806 822 | - |
| Loans and receivables | | 53 661 |
| Other assets | - | - |
| **Total assets** | **47 957 864** | **58 027** |
| Financial liabilities at amortised cost | - | 110 734 |
| **Financial liabilities at fair value through profit or loss** | | |
| - Designated at fair value through profit or loss | -* | - |
| - Trading derivatives | -* | - |
| Other liabilities | 43 668 | - |
| Tax liabilities | - | 27 |
| **Total liabilities** | **43 668** | **110 761** |
| Interest income | 1 042 | 17 |
| Net gains on financial instruments at fair value through profit or loss | 91 483 | - |
| **Total revenue** | **92 525** | **17** |
| Interest expenses | (718) | (63 561) |
| Personnel expenses | - | (344) |
| Other operating charges | (1 029) | (25 575) |
| **Total expenses** | **(1 747)** | **(89 480)** |
| **Total comprehensive income for the year** | **90 778** | **(89 463)** |
| **Financial commitments** | **1 967 092** | **-** |
| **financial commitments-collateral to be returned** | **5 369 022** | **-** |

*****The financial liabilities at fair value through profit or loss appearing on the statement of financial position are the financial instruments issued by the Company and subscribed by investors, who are not related parties.

## 18. Remuneration, advances and loans granted to members of the administrative or supervisory body

The independent director of the company, appointed 25th of June 2018, earned a remuneration of EUR 7 000 for his services related to the year ended 31st December 2018.

As at 31 December 2018 and 2017, no other payment, advance or loans were given to members of the administrative or supervisory body.

## 19. Off-Balance Sheet

As at 31 December 2018, financial instruments to be issued (commitment taken before 31 December 2018 with value date after 31 December 2018) amounted to KEUR 2 790 111 (31 December 2017: KEUR 1 967 092)

All the financial instruments issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the financial instruments are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured Notes issued by the Company benefit from additional collateral assets securing the payment due under the Notes terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of Guarantor.
Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Société Générale Group and are pledged in favour of the Notes holders.
As at 31 December 2018, securities deposited at BNY MELLON as collateral for secured issuances amount to KEUR 3 609 288 (31 December 2017: KEUR 5 369 022).

All the warrants issued are fully hedged by concluding identically equipped OTC options with Société Générale.

## 19. Off-Balance Sheet (continued)

The warrants issued as at 31 December 2018 and 2017 break down as follows:

| Warrant Type | Category of Underlying | Type of Underlying | Option Type | 31/12/2018 Quantity | 31/12/2018 Notional (000 EUR) | 31/12/2018 Fair Value (000 EUR) | 31/12/2017 Quantity | 31/12/2017 Notional (000 EUR) | 31/12/2017 Fair Value (000 EUR) |
|---|---|---|---|---|---|---|---|---|---|
| Basket warrant | Basket | Index | Call | 2 | 15 581 | 14 584 | - | - | - |
| | | Equity | Call | 4 | 3 144 | 4 350 | - | - | - |
| Commodity Future Warrant | Future | Mutual Fund | Put | 4 | 7 138 | 6 | - | - | - |
| | | Commodity Future | Call | 76 | 381 303 | 11 361 | 124 | 3 929 490 | 113 677 |
| | | | Put | 148 | 439 664 | 119 532 | 49 | 116 224 | 4 950 |
| Commodity Warrant | Commodity | Mutual Fund | Call | 63 | 161 967 | 40 489 | 68 | 152 538 | 14 835 |
| | | | Put | 80 | 240 430 | 27 319 | 57 | 116 801 | 8 458 |
| | | Precious metals | Call | 12 | 24 767 | 3 657 | - | - | - |
| | | | Put | 14 | 34 545 | 2 235 | - | - | - |
| Currency Warrant | Currency | Currency | Call | 201 | 159 308 | 36 455 | 176 | 5 749 702 | 161 010 |
| | | | Put | 253 | 176 373 | 65 947 | 125 | 2 326 562 | 12 462 |
| Equity Warrant | Equity | American Depositary Receipt | Call | 21 | 25 218 | 1 | 7 | 14 641 | 166 |
| | | | Put | 18 | 17 817 | 0 | 5 | 8 547 | 212 |
| | | Ordinary Share | Call | 4 654 | 26 923 067 | 596 199 | 5 348 | 35 182 893 | 1 462 682 |
| | | | Put | 3 487 | 11 659 558 | 790 924 | 3 055 | 10 967 356 | 593 243 |
| | | Other Certificate | Call | 1 | 300 | 0 | - | - | - |
| | | | Put | 8 | 4 894 | 459 | - | - | - |
| | | Other Receipt | Call | 2 | 2 442 | 0 | 13 | 31 697 | 10 |
| | | | Put | 2 | 1 252 | 0 | 8 | 9 082 | 12 |
| | | Own Share | Call | 92 | 193 993 | 3 526 | 75 | 168 342 | 15 630 |
| | | | Put | 82 | 112 290 | 28 196 | 68 | 139 146 | 25 386 |
| | | Preference | Call | 23 | 35 672 | 331 | 18 | 65 500 | 520 |
| | | | Put | 29 | 41 791 | 888 | 18 | 60 975 | 281 |
| REIT | REIT | REIT | Call | 42 | 148 254 | 908 | 67 | 180 994 | 9 177 |
| | | | Put | 35 | 35 074 | 3 453 | 41 | 87 367 | 3 814 |

**Notes to the financial statements**

As at 31 December 2018

– continued –

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Index Warrant | Index | Index | Call | 1 354 | 51 887 633 | 1 066 292 | 1 616 | 38 031 494 | 1 040 113 |
| | | | Put | 1 451 | 30 468 115 | 1 333 566 | 774 | 16 914 221 | 337 459 |
| Fund Warrant | Fund | Mutual Fund | Call | 196 | 1 171 799 | 19 733 | 179 | 1 282 982 | 14 451 |
| | | | Put | 10 | 137 095 | 75 | 4 | 35 083 | 130 |
| **Total Call** | | | | **6 743** | **81 134 448** | **1 797 886** | **7 691** | **84 790 273** | **2 832 271** |
| **Total Put** | | | | **5 621** | **43 376 036** | **2 372 600** | **4 204** | **30 781 364** | **986 407** |
| **Total Warrants** | | | | **12 364** | **124 510 484** | **4 170 486** | **11 895** | **115 571 637** | **3 818 678** |

**20. <u>Risk Management</u>**

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from Société Générale internal control systems.

For any further information on the risks relating to the Group, investors and/or Noteholders should refer to the "Risk and Capital Adequacy" section of the Registration Document (http://www.societegenerale.com).

***Market risk***

Market risk is the risk that changes in market prices, such as interest rates, securities prices, and foreign exchange rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company issues Notes and Warrants. The Notes are systematically hedged with Fully Funded Swaps concluded with Société Générale, with strictly identical characteristics. In the same way, the Warrants issued are hedged with Options concluded with Société Générale, with strictly identical characteristics.

The risks associated with the investment in the Notes and Warrants depend on several factors. Such factors will vary depending on the characteristics of the Notes and Warrants issued, in particular depending on the underlying, the maturity of the Notes, the secured / unsecured status of the Notes, the interest rates incurred, the volatility of the underlying, etc.

The main risks in relation to investments in Notes and Warrants issued by the Company are described in the Base Prospectus under the section "Risk Factor".

Because of its structure (perfect match between the assets and the liabilities), the impact of an immediate change of a market parameter would have no consequence on the net profit of the Company.

The Company is also exposed to structural interest rate risk, namely through the following transactions: reinvestment of available equity by participating interests or loans to the Company's treasury (SGBT) with hedged interest rate risk. The structural interest rate risk is monitored via the sensitivity of the economic value of the positions measured through modified duration.

Modified duration is calculated based on the change in the net present value of positions subsequent to a 1% change in the rate curve. Exposure monitoring is based on the determination of modified duration over the short (up to one year), medium (one to five years) and long (more than five years) term.

**20. Risk Management (continued)**

***Credit risk***

Credit risk is the risk that a third party will not be able to meet its contractual obligation.

The Company only contracts financial instruments with its parent companies, SGBT and Société Générale. Therefore, the credit risk of the Company is limited to the credit risk on SGBT and Société Générale. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred.
As at 31 December 2018 and 2017, no financial assets were past due or impaired.

All the Notes and Warrants issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the instruments issued by the Company are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

As at 31 December 2018, the rating of Société Générale is A from Standard & Poor's and A1 from Moody's.

***Interest rate risk***

Interest rate risk is the risk that changes in market interest rates may adversely affect the value of the assets and liabilities of the Company. Due to the financial instruments contracted by the Company with Société Générale to hedge the financial instruments issued, the Company is not significantly exposed to interest rate risk.

***Liquidity risk***

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due.
The Company does not face any liquidity risk thanks to the perfect replication between the contractual obligations of i) the financial instruments issued by the Company and ii) the financial assets held for hedging by the Company.

***Sensitivity of the Fair Value measurement to changes in unobservable parameters for Level 3 instruments***

According to the fair value hierarchy established by IFRS 13, Level 3 (L3) comprises products valued using inputs that are not based on observable market data (referred to as unobservable inputs).
For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for Notes or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions as at the statement of financial position date. These valuation models are validated independently by the experts from the Market Risk Department of the Group's Risk Division.
Furthermore, the parameters used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of GBIS (Global Banking and Investor Solutions), in accordance with the methodologies defined by the Market Risk Department.

The Notes and the related Fully Funded Swaps are classified as Level 3 when the valuation of the associated embedded derivatives (underlyings of the Notes) is also based on unobservable market data.

## 20. Risk Management (continued)

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.

### a. Estimates of main unobservable inputs as at 31 December 2018:

| Type of underlyings | Assets In million EUR | Liabilities In million EUR | Main products | Valuation techniques used | Significant unobservable inputs | Range of unobservable inputs Min & Max |
|---|---|---|---|---|---|---|
| Equity / funds | 16 639 | 16 638 | Derivatives on funds, equities or baskets of stocks derivatives on funds, equities or baskets of stocks | Various option models on funds, equities or baskets on stocks | Equity volatilities | [6.7% ; 48.1%] |
| | | | | | Equity dividends | [0.0% ; 20.9%] |
| | | | | | 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 | [-41.1% ; 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 | Correlations | [64.40% ; 88.9%] |
| Credit | 4 490 | 4 489 | Collateralized Debt Obligations and index tranches | Recovery and base correlation projection models | Time to default correlations | [0% ; 100%] |
| | | | | | Recovery rate variance for single name underlyings | [0% ; 100%] |
| | | | Other credit derivatives | Credit default models | Time to default correlations | [0% ; 100%] |
| | | | | | Quanto correlations | [-50% ; 40%] |
| | | | | | Credit spreads | [0 bps ; 1 000 bps] |
| Commodity | 41 | 41 | Derivatives on commodities baskets | Option models on commodities | Commodities correlations | [10.6% ; 95.8%] |

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments.
However, by its very nature, and considering mirror transactions are concluded with Société Générale to hedge the financial liabilities issued by the Company, the Company has no market risk exposure. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit or net equity of the Company.

### b. Analysis per remaining maturities

As at 31 December 2018, analysis per remaining maturities is as follows:

| 31.12.2018 - EUR' 000 | < 3 months | From 3 months to 1 year | From 1 to 5 years | > 5 years | Without fixed maturity | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 79 584 | - | - | - | - | 79 584 |
| **Financial assets at fair value through profit or loss** | | | | | | |
| - *Mandatorily at fair value through profit or loss* | 2 659 566 | 7 215 881 | 20 045 169 | 15 141 518 | - | 45 062 134 |
| - *Trading derivatives* | 682 685 | 1 033 560 | 508 253 | 1 943 864 | - | 4 168 362 |
| Loans and receivables | 189 | 828 | 50 553 | 1 000 | - | 52 570 |
| **Total assets** | **3 422 024** | **8 250 269** | **20 603 975** | **17 086 382** | **-** | **49 362 650** |
| **Financial liabilities at amortised cost** | 16 673 | 31 611 | 48 000 | - | - | 96 284 |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| - *Designated at fair value through profit or loss* | 2 648 107 | 7 216 548 | 20 037 056 | 15 152 017 | - | 45 053 728 |
| - *Trading derivatives* | 684 009 | 1 029 500 | 514 100 | 1 942 877 | - | 4 170 486 |
| Other liabilities | 13 039 | - | - | - | - | 13 039 |
| Tax liabilities | 64 | - | - | - | - | 64 |
| **Total liabilities** | **3 361 892** | **8 277 659** | **20 599 156** | **17 094 894** | **-** | **49 333 601** |

As at 31 December 2017 analysis per remaining maturities is as follows:

| 31.12.2017 - EUR' 000 | < 3 months | From 3 months to 1 year | From 1 to 5 years | > 5 years | Without fixed maturity | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 114 889 | - | - | - | - | 114 889 |
| **Financial assets at fair value through profit or loss** | | | | | | |
| - *Designated at fair value through profit or loss* | 1 608 901 | 5 921 371 | 19 240 396 | 17 280 869 | - | 44 051 537 |
| - *Trading derivatives* | 561 449 | 1 137 999 | 856 423 | 1 250 951 | - | 3 806 822 |
| Loans and receivables | - | 884 | 51 182 | 1 595 | - | 53 661 |
| Other assets | - | - | - | - | - | - |
| **Total assets** | **2 285 239** | **7 060 254** | **20 148 001** | **18 533 415** | **-** | **48 026 909** |
| **Financial liabilities at amortised cost** | - | 62 734 | - | 48 000 | - | 110 734 |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| - *Designated at fair value through profit or loss* | 1 608 901 | 5 921 377 | 19 240 396 | 17 277 469 | - | 44 048 143 |
| - *Trading derivatives* | 561 449 | 1 137 999 | 856 423 | 1 262 808 | - | 3 818 679 |
| Other liabilities | 43 668 | - | - | - | - | 43 668 |
| Tax liabilities | 27 | - | - | - | - | 27 |
| **Total liabilities** | **2 214 045** | **7 122 110** | **20 096 819** | **18 588 277** | **-** | **48 021 251** |

## 20. Risk Management (continued)

### c. The fair values together with the carrying amounts shown in the statement of financial position are as follows:

| 31.12.2018 - EUR' 000 | Carrying amount | Fair value |
|---|---|---|
| Cash and cash equivalents | 79 584 | 79 584 |
| **Financial assets at fair value through profit or loss** | | |
| - *Mandatorily at fair value through profit or loss* | 45 062 134 | 45 062 134 |
| - *Trading derivatives* | 4 168 362 | 4 168 362 |
| Loans and receivables * | 52 570 | 54 993 |
| **Total assets** | **49 362 650** | **49 365 072** |
| | | |
| **Financial liabilities at amortised cost *** | 96 284 | 98 451 |
| **Financial liabilities at fair value through profit or loss** | | |
| - *Designated at fair value through profit or loss* | 45 053 728 | 45 053 728 |
| - *Trading derivatives* | 4 170 486 | 4 170 486 |
| Other liabilities | 13 039 | 13 039 |
| Tax liabilities | 64 | 64 |
| **Total liabilities** | **49 333 601** | **49 335 768** |

| 31.12.2017 - EUR' 000 | Carrying amount | Fair value |
|---|---|---|
| Cash and cash equivalents | 114 889 | 114 889 |
| **Financial assets at fair value through profit or loss** | | |
| - *Designated at fair value through profit or loss* | 44 051 537 | 44 051 537 |
| - *Trading derivatives* | 3 806 822 | 3 806 822 |
| Loans and receivables * | 53 661 | 57 087 |
| **Total assets** | **48 026 909** | **48 030 335** |
| | | |
| **Financial liabilities at amortised cost *** | 110 734 | 114 318 |
| **Financial liabilities at fair value through profit or loss** | | |
| - *Designated at fair value through profit or loss* | 44 048 143 | 44 048 143 |
| - *Trading derivatives* | 3 818 679 | 3 818 679 |
| Other liabilities | 43 668 | 43 668 |
| Tax liabilities | 27 | 27 |
| **Total liabilities** | **48 021 251** | **48 024 835** |

* For Loans and receivables and Financial liabilities at amortised cost, the fair values are calculated by discounting the expected future cash flows under a EUR risk free curve adjusted with SG Group credit spread curve (EUR swap curve from Bloomberg and SG credit spread curve provided by Risk department Paris).
Determining fair value is dependent on many factors and can be an estimate of what value may be obtained in the open market at any point in time.

## 20. Risk Management (continued)

### d. The fair value hierarchy of IFRS 13

As at 31 December 2018, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

| **31.12.2018 - EUR' 000** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ***Financial assets at fair value through profit or loss*** | | | | |
| ***- Mandatorily at fair value through profit or loss*** | **-** | **20 606 194** | **24 455 940** | **45 062 134** |
| *Commodities instruments* | - | 1 160 486 | 40 872 | 1 201 358 |
| *Credit derivatives/securities* | - | 1 509 044 | 4 490 176 | 5 999 220 |
| *Equity and index securities* | - | 15 226 349 | 15 031 332 | 30 257 681 |
| *Foreign exchange instruments/securities* | - | 793 456 | 779 644 | 1 573 100 |
| *Interest rate instruments/securities* | - | 1 626 581 | 2 624 148 | 4 250 729 |
| *Other financial instruments* | - | 290 278 | 1 489 768 | 1 780 046 |
| **- Trading derivatives** | **-** | **4 050 694** | **117 668** | **4 168 362** |
| *Equity and Index instruments* | - | 3 573 416 | 94 142 | 3 667 557 |
| *Other financial instruments* | - | 477 278 | 23 526 | 500 805 |
| ***Financial liabilities at fair value through profit or loss*** | | | | |
| **- Designated at fair value through profit or loss** | **-** | **20 599 491** | **24 454 237** | **45 053 728** |
| *Commodities instruments* | - | 1 160 486 | 40 872 | 1 201 358 |
| *Credit derivatives/securities* | - | 1 508 480 | 4 488 869 | 5 997 349 |
| *Equity and index securities* | - | 15 221 303 | 15 031 014 | 30 252 317 |
| *Foreign exchange instruments/securities* | - | 792 379 | 779 568 | 1 571 947 |
| *Interest rate instruments/securities* | - | 1 626 565 | 2 624 147 | 4 250 712 |
| *Other financial instrument* | - | 290 278 | 1 489 767 | 1 780 045 |
| **- Trading derivatives** | **-** | **4 052 818** | **117 668** | **4 170 486** |
| *Equity and Index instruments* | - | 3 574 563 | 94 142 | 3 668 705 |
| *Other financial instruments* | - | 478 255 | 23 526 | 501 781 |

| **31.12.2017 - EUR' 000** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ***Financial assets at fair value through profit or loss*** | | | | |
| ***- Designated at fair value through profit or loss*** | **-** | **19 358 047** | **24 693 490** | **44 051 537** |
| *Commodities instruments* | - | 744 077 | 147 457 | 891 534 |
| *Credit derivatives/securities* | - | 1 524 341 | 3 747 361 | 5 271 702 |
| *Equity and index securities* | - | 14 729 634 | 17 069 248 | 31 798 882 |
| *Foreign exchange instruments/securities* | - | 827 707 | 976 913 | 1 804 620 |
| *Interest rate instruments/securities* | - | 1 391 464 | 1 497 472 | 2 888 936 |
| *Other financial instruments* | - | 140 824 | 1 255 039 | 1 395 863 |
| **- Trading derivatives** | **-** | **3 739 487** | **67 335** | **3 806 822** |
| *Equity and Index Instruments* | - | 3 424 272 | 56 290 | 3 480 562 |
| *Other financial instruments* | - | 315 215 | 11 045 | 326 260 |
| ***Financial liabilities at fair value through profit or loss*** | | | | |
| **- Designated at fair value through profit or loss** | **-** | **19 354 653** | **24 693 490** | **44 048 143** |
| *Commodities instruments* | - | 743 946 | 147 457 | 891 403 |
| *Credit derivatives/securities* | - | 1 524 073 | 3 747 361 | 5 271 434 |
| *Equity and index securities* | - | 14 727 053 | 17 069 248 | 31 796 301 |
| *Foreign exchange instruments/securities* | - | 827 562 | 976 913 | 1 804 475 |
| *Interest rate instruments/securities* | - | 1 391 220 | 1 497 472 | 2 888 692 |
| *Other financial instruments* | - | 140 799 | 1 255 039 | 1 395 838 |
| **- Trading derivatives** | **-** | **3 751 344** | **67 335** | **3 818 679** |
| *Equity and Index instruments* | - | 3 435 129 | 56 290 | 3 491 419 |
| *Other financial instruments* | - | 316 215 | 11 045 | 327 260 |

The movements in level 3 financial liabilities at fair value through profit or loss were as follows:

| | **Level 3 (2018)** | | **Level 3 (2017)** | |
|---|---|---|---|---|
| | Financial liabilities at fair value through profit or loss | | Financial liabilities at fair value through profit or loss | |
| **EUR' 000** | *Designated at fair value through P&L* | *Trading derivatives* | *Designated at fair value through P&L* | *Trading derivatives* |
| **Balance as at 1 January** | **24 693 490** | **67 335** | **22 531 600** | **93 125** |
| Acquisition * | 28 458 083 | 92 966 | 19 985 859 | 41 973 |
| Change in fair value | (7 233 436) | (29 060) | (946 823) | 12 275 |
| Reimbursements | (11 466 505) | (43 193) | (9 770 252) | (76 204) |
| Transfer from L2 to L3 | 199 934 | 4 171 | 129 107 | 2 314 |
| Transfer from L3 to L2 | (2 462 082) | (32 056) | (537 441) | - |
| Offsetting of the assets and liabilities | (7 735 247) | 57 505 | (6 698 560) | (6 148) |
| **Balance as at 31 December** | **24 454 237** | **117 668** | **24 693 490** | **67 335** |

* This amount includes new tranches of existing notes issued.

## 20. Risk Management (continued)

**The following table describes the variation in Level 3 by financial instruments:**

| **Financial liabilities at fair value through profit or loss** | **Balance at 01.01.2018** | Acquisitions | Change in fair value | Reimbursements | Transfers from L2 to L3 | Transfers from L3 to L2 | Offsetting of the assets and liabilities | **Balance 31.12.2018** |
|---|---|---|---|---|---|---|---|---|
| ***Designated at fair value through P&L*** | **24 693 490** | **28 458 083** | **(7 233 436)** | **(11 466 505)** | **199 934** | **(2 462 082)** | **(7 735 247)** | **24 454 237** |
| Equity and index instrument | 17 069 248 | 22 352 365 | (7 192 083) | (10 041 545) | 151 224 | (1 917 271) | (5 390 924) | 15 031 014 |
| Commodity instruments | 147 457 | 4 437 | 563 157 | (680 025) | - | (7 295) | 13 141 | 40 872 |
| Credit derivatives | 3 747 361 | 2 548 980 | (426 996) | (247 012) | 40 577 | (363 987) | (810 054) | 4 488 869 |
| Foreign exchange instruments | 976 913 | 258 965 | (66 035) | (471 723) | 8 133 | (52 072) | 125 387 | 779 568 |
| Interest rate instruments | 1 497 472 | 2 490 814 | (19 858) | (143 937) | - | (101 082) | (1 099 262) | 2 624 147 |
| Others financial instruments | 1 255 039 | 802 522 | (91 621) | 117 737 | - | (20 375) | (573 535) | 1 489 767 |
| ***Trading derivatives*** | **67 335** | **92 966** | **(29 060)** | **(43 193)** | **4 171** | **(32 056)** | **57 505** | **117 668** |
| Equity and index instruments | 56 290 | 88 929 | (17 709) | (60 915) | 4 171 | (32 056) | 55 432 | 94 142 |
| Other financial instruments | 11 045 | 4 037 | (11 351) | 17 722 | - | - | 2 073 | 23 526 |

### Transfers from Level 3 to Level 2

As described in Note 3.4.2.5 ”Fair Value of the financial instruments”, the consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For high maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.

### Transfers from Level 2 to Level 3

Transfers from Level 2 to Level 3 can occur in case of a modification within a parameter (no longer linked to the deal, modification of the observability rule of the parameter, etc…).

**20. Risk Management (continued)**

***Operational risk***

Operational risk is the risk of loss or fraud caused by defects or failures in internal procedures or systems, human error or external events, including IT risk and management risk. Particular attention is paid to compliance risk, which receives enhanced monitoring.

The Company participates in the effort to strengthen the management and monitoring of operational risk led by the Société Générale Group. This effort is guided by the Operational Risk Department, which reports to the Société Générale Group Risk Department, and is relayed by different Group operational risk monitoring units responsible for implementing the policies and directives issued by the Société Générale Group and monitoring and controlling operational risks.

The monitoring arrangement mainly relies on four processes supervised by the operational risk departments: periodic risk and control self-assessment (RCSA), collecting internal data on losses due to operational errors with exhaustive real-time reporting of incidents, pattern analyses, and permanent control system.
These procedures are supplemented by a crisis management unit and a business continuity plan.

**21. Subsequent events**

By resolutions adopted on 15 January 2019, the Executive Board decided to increase the capital of the Company from EUR 2 000 200 to EUR 2 000 240 by the issue of one new share with a nominal value of EUR 40, subscribed by the only shareholder.
After this increase, the subscribed and fully paid share capital is EUR 2 000 240, divided into 50 006 shares with a nominal value of EUR 40 each.
Such increase resulted in an allocation of EUR 32 149 041 to the share premium account.

There were no other subsequent events, which would require an adjustment to or additional disclosure in the financial statements as at and for the year ended 31 December 2018.