DOCUMENT DATED 5 NOVEMBER 2018

If you are in doubt as to any aspect of this Addendum, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") takes no responsibility for the contents of this Addendum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Addendum. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of SG Issuer, Société Générale, the Index, the Shares or the Warrants.

Addendum to Base Listing Document
relating to Warrants to be issued by

SG Issuer

(incorporated in Luxembourg with limited liability)

unconditionally and irrevocably guaranteed by

Société Générale

(incorporated in France)

This Addendum is published in respect of warrants to be issued from time to time by SG Issuer (the "**Issuer**") and unconditionally and irrevocably guaranteed by Société Générale (the "**Guarantor**"). The Warrants include European style cash settled call warrants on single equities ("**European Style Cash Settled Call Warrants**"), European style cash settled basket call warrants on a basket of equities ("**European Style Cash Settled Basket Call Warrants**"), European style index call warrants on indices ("**European Style Index Call Warrants**"), European style cash settled long/short certificates on indices (the "**Index Certificates**"), European style cash settled long/short certificates on single equities (the "**Single Equity Certificates**"), European style cash settled put warrants on single equities ("**European Style Cash Settled Put Warrants**"), European style cash settled basket put warrants on a basket of equities ("**European Style Cash Settled Basket Put Warrants**"), European style index put warrants on indices ("**European Style Index Put Warrants**") and such other warrants to be issued from time to time by the Issuer (together the "**Warrants**" save that where the context requires references to the "**Warrants**" shall mean the European Style Cash Settled Call Warrants, European Style Cash Settled Basket Call Warrants, European Style Index Call Warrants, Index Certificates, Single Equity Certificates, European Style Cash Settled Put Warrants, European Style Cash Settled Basket Put Warrants, European Style Index Put Warrants or such other warrants to be issued from time to time by the Issuer, as the case may be).

This Addendum is published in connection with a listing of the Single Equity Certificates on the SGX-ST for the purpose of providing the terms and conditions of the Single Equity Certificates, and includes particulars given in compliance with the SGX-ST Listing Rules in respect of structured warrants for the purpose of giving information with regards to the Issuer and the Guarantor. The additional terms relating to each series of Warrants (including the Single Equity Certificates) will be set out in a supplemental listing document (each a "**Supplemental Listing Document**") which will be supplemental to, and should be read in conjunction with the base listing document dated 21 June 2018 (the "**Base Listing Document**") and this Addendum.

The information in this Addendum does not take into account the investment objectives or financial position of any particular investor. Accordingly, nothing in this Addendum should be construed as a recommendation or invitation by the Issuer, the Guarantor, or any associate of theirs or any other person concerning investment in the Warrants, the shares or any other security underlying the Warrants.

The Warrants constitute general unsecured obligations of the Issuer and of no other person, and the guarantee dated 21 June 2018 and entered into by the Guarantor (the "Guarantee") constitutes general unsecured obligations of the Guarantor and of no other person, and if you purchase the Warrants, you are relying upon the creditworthiness of the Issuer and the Guarantor and have no rights under the Warrants against, if applicable, the company which has issued the underlying securities, the sponsor of the underlying indices or any companies forming part of any indices to which the Warrants relate.

The Guarantor is rated A1 by Moody's Investors Service, Inc. and A by S&P Global Ratings. For confirmation of the ratings, please refer to the relevant Supplemental Listing Document.

The Issuer is regulated by the Luxembourg Commission de Surveillance du Secteur Financier on a consolidated basis and the Guarantor is regulated by, *inter alia*, the Autorité des Marchés Financiers, the Autorité de Contrôle Prudentiel et de Résolution and the European Central Bank.

The Issuer accepts full responsibility for the information contained in the Base Listing Document and this Addendum in relation to itself and the Warrants. The Guarantor accepts full responsibility for the accuracy of the information contained in the Base Listing Document and this Addendum in relation to itself, its subsidiaries and affiliates. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in the Base Listing Document and this Addendum for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the delivery of the Base Listing Document and this Addendum nor any sale made hereunder shall create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof. No person has been authorised to give any information or to make any representation other than those contained in the Base Listing Document, this Addendum and the relevant Supplemental Listing Document in connection with the offering of the Warrants, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Guarantor or the Placing Agent.

This Addendum does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Warrants or other securities of the Issuer or the Guarantor, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration Warrants or other securities of the Issuer or the Guarantor. The distribution of this Addendum and the offering of the Warrants may, in certain jurisdictions, be restricted by law. The Issuer and the Guarantor require persons into whose possession this Addendum comes to inform themselves of and observe all such restrictions. Neither the Issuer nor the Guarantor assumes any fiduciary responsibility or liability for any consequences financial or otherwise arising from the subscription or acquisition of the Warrants. An investor should make its own appraisal of the risks and should consult to the extent necessary its own legal, financial, tax, accounting and other professional advisors in this respect prior to any subscription or acquisition of the Warrants.

The Warrants and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended or any state securities law, and trading in the Warrants has not been approved by the United States Commodity Futures Trading Commission (the "**CFTC**") under the United States Commodity Exchange Act of 1936, as amended. Accordingly, Warrants, or interests thereon, may not at any time be offered, sold, resold, traded, pledged, exercised, redeemed, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, nor may any U.S. person at any time trade or maintain a position in the Warrants. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Warrants, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, may constitute a violation of United States law governing commodities trading. Consequently, any offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery made, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. person will not be recognised. A further description of certain restrictions on offering and sale of the Warrants and distribution of the Base Listing Document and this Addendum is given in the section headed "**Sales Restrictions**" on page 83 of the Base Listing Document.

The Issuer has undertaken, in respect of each series of Warrants, until the Expiry Date (as defined in the applicable Supplemental Listing Document) to make available for inspection by holders of Warrants at the registered office of Société Générale, Singapore Branch at 8 Marina Boulevard, #12-01 Marina Bay Financial Centre Tower 1, Singapore 018981, a copy of the latest publicly available audited financial statements and the latest issued annual report and interim report (if any) of the Issuer and the Guarantor and the Base Listing Document and this Addendum.

The Issuer, the Guarantor and/or or any of their affiliates may repurchase Warrants at any time and any Warrant which is repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumption as to the number of Warrants in issue at any time.

This Addendum is a supplement to and should be read in conjunction with the Base Listing Document. Please note that the Base Listing Document may from time to time be amended or updated. Prospective investors in the Warrants should ask the Issuer if any additional addenda to the Base Listing Document or any later Base Listing Document have been issued.

None of the Base Listing Document, the Addendum or any other information supplied in connection with the Warrants is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of the Base Listing Document, the Addendum or any other information supplied in connection with the Warrants, should purchase any of the Warrants. Each investor contemplating purchasing or holding any of the Warrants should make its own independent investigation of the financial condition and affairs of the Issuer and its own appraisal of the Issuer's creditworthiness.

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The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Certificates may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Certificates. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED LONG/SHORT CERTIFICATES ON SINGLE EQUITIES

1. Form, Status and Guarantee, Transfer and Title

(a) *Form*. The Certificates (which expression shall, unless the context otherwise requires, include any further certificates issued pursuant to Condition 11) are issued subject to and with the benefit of:-

(i) a master instrument by way of deed poll (the "**Master Instrument**") dated 21 June 2018, made by SG Issuer (the "**Issuer**") and Société Générale (the "**Guarantor**"); and

(ii) a warrant agent agreement (the "**Master Warrant Agent Agreement**" or "**Warrant Agent Agreement**") dated any time before or on the Closing Date, made between the Issuer and the Warrant Agent for the Certificates.

Copies of the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The holders of the Certificates (the "**Certificate Holders**") are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement.

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

The due and punctual payment of any amounts due by the Issuer in respect of the Certificates issued by the Issuer is unconditionally and irrevocably guaranteed by the Guarantor as provided in the Guarantee (each such amount payable under the Guarantee, a "**Guarantee Obligation**").

The Guarantee Obligations will constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor ranking as senior preferred obligations as provided for in Article L. 613-30-3 I 3° of the French Code *Monétaire et Financier* (the "**Code**").

Such Guarantee Obligations rank and will rank equally and rateably without any preference or priority among themselves and:

(i) *pari passu* with all other direct, unconditional, unsecured and unsubordinated obligations of the Guarantor outstanding as of the date of the entry into force of the law no. 2016-1691 (the "**Law**") on 11 December 2016;

(ii) *pari passu* with all other present or future direct, unconditional, unsecured and senior preferred obligations (as provided for in Article L. 613-30-3 I 3° of the Code) of the Guarantor issued after the dat of the entry into force of the Law on 11 December 2016;

(iii) junior to all present or future claims of the Guarantor benefiting from the statutorily preferred exceptions; and

(iv) senior to all present and future senior non-preferred obligations (as provided for in Article L.613-30-3 I 4° of the Code) of the Guarantor.

In the event of the failure of the Issuer to promptly perform its obligations to any Certificate Holder under the terms of the Certificates, such Certificate Holder may, but is not obliged to, give written notice to the Guarantor at Société Générale, Tour Société Générale, 75886 Paris Cedex 18, France marked for the attention of SEGL/JUR/OMF - Market Transactions & Financing.

(c) *Transfer*. The Certificates are represented by a global warrant certificate ("**Global Warrant**") which will be deposited with The Central Depository (Pte) Limited ("**CDP**"). Certificates in definitive form will not be issued. Transfers of Certificates may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Certificates, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.

(d) *Title*. Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Certificates shall be treated by the Issuer, the Guarantor and the Warrant Agent as the holder and absolute owner of such number of Certificates, notwithstanding any notice to the contrary. The expression "**Certificate Holder**" shall be construed accordingly.

(e) *Bail-In*. By the acquisition of Certificates, each Certificate Holder (which, for the purposes of this Condition, includes any current or future holder of a beneficial interest in the Certificates) acknowledges, accepts, consents and agrees:

(i) to be bound by the effect of the exercise of the Bail-In Power (as defined below) by the Relevant Resolution Authority (as defined below) or the Regulator (as defined below), which may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the Amounts Due (as defined below), on a permanent basis;

(B) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the Certificate Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the Conditions of the Certificates, in which case the Certificate Holder agrees to accept in lieu of its rights under the Certificates any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Certificates; and/or

(D) the amendment or alteration of the expiration of the Certificates or amendment of the amounts payable on the Certificates, or the date on which the amounts become payable, including by suspending payment for a temporary period; and

(ii) that the terms of the Certificates are subject to, and may be varied, if necessary, to give effect to, the exercise of the Bail-In Power by the Relevant Resolution Authority or the Regulator.

"**Amounts Due**" means any amounts due by the Issuer under the Certificates.

"**Bail-In Power**" means any power existing from time to time under any laws, regulations, rules or requirements in effect in France, relating to the transposition of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (as amended from time to time, the "**BRRD**"), including without limitation pursuant to French decree-law No. 2015-1024 dated 20 August 2015 (*Ordonnance portant diverses dispositions d'adaptation de la législation au droit de l'Union européenne en matière financière*) (as amended from time to time, the "**20 August 2015 Decree Law**"), Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (as amended from time to time, the "**Single Resolution Mechanism Regulation**"), or otherwise arising under French law, and in each case the instructions, rules and standards created thereunder, pursuant to which the obligations of a Regulated Entity (or an affiliate of such Regulated Entity) can be reduced (in part or in whole), cancelled, suspended, transferred, varied or otherwise modified in any way, or securities of a Regulated

Entity (or an affiliate of such Regulated Entity) can be converted into shares, other securities, or other obligations of such Regulated Entity or any other person, whether in connection with the implementation of a bail-in tool following placement in resolution or otherwise.

"**Regulated Entity**" means any entity referred to in Section I of Article L.613-34 of the French *Code monétaire et financier* as modified by the 20 August 2015 Decree Law, which includes certain credit institutions, investment firms, and certain of their parent or holding companies established in France.

"**Relevant Resolution Authority**" means the *Autorité de contrôle prudentiel et de résolution* (the ACPR), the Single Resolution Board established pursuant to the Single Resolution Mechanism Regulation, and/or any other authority entitled to exercise or participate in the exercise of any Bail-in Power from time to time (including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the Single Resolution Mechanism Regulation).

"**Regulator**" means the European Central Bank and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

No repayment or payment of the Amounts Due will become due and payable or be paid after the exercise of the Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Issuer unless, at the time such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations in effect in France and the European Union applicable to the Issuer or other members of its group.

Upon the exercise of any Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Certificates, the Issuer will provide a written notice to the Certificate Holders in accordance with Condition 9 as soon as practicable regarding such exercise of the Bail-in Power. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Bail-in Power nor the effects on the Certificates described above.

Neither a cancellation of the Certificates, a reduction, in part or in full, of the Amounts Due, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Issuer, nor the exercise of any Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Certificates will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Certificate Holder to any remedies (including equitable remedies) which are hereby expressly waived.

If the Relevant Resolution Authority or the Regulator exercises the Bail-in Power with respect to less than the total Amounts Due, unless otherwise instructed by the

Issuer or the Relevant Resolution Authority or the Regulator, any cancellation, write-off or conversion made in respect of the Certificates pursuant to the Bail-in Power will be made on a pro-rata basis.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Certificate Holder. No expenses necessary for the procedures under this Condition, including, but not limited to, those incurred by the Issuer, shall be borne by any Certificate Holder.

2. Certificate Rights and Exercise Expenses

(a) *Certificate Rights*. Every Certificate entitles each Certificate Holder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The "**Cash Settlement Amount**", in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to the Closing Level multiplied by the Notional Amount per Certificate.

The "**Closing Level**", in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:

$$\left(\frac{\text{Final Reference Level} \times \text{Final Exchange Rate}}{\text{Initial Reference Level} \times \text{Initial Exchange Rate}} - \text{Strike Level}\right) \times \text{Hedging Fee Factor}$$

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Exchange Business Day on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Exchange Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:-

(i) that fifth Exchange Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the Final Reference Level on the basis of its good faith estimate of the Final Reference Level that would have prevailed on that fifth Exchange Business Day but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence on the Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Underlying Stock requested by the Company if that suspension is, in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the

Relevant Stock Exchange in the Underlying Stock if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption is, in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion or terrorism.

(b) *Exercise Expenses*. Certificate Holders will be required to pay all charges which are incurred in respect of the exercise of the Certificates (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Certificate Holders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Certificate Holders in accordance with Condition 4.

(c) No Rights. The purchase of Certificates does not confer on the Certificate Holders any right (whether in respect of voting, dividend or other distributions in respect of the Underlying Stock or otherwise) which the holder of an Underlying Stock may have.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Certificates shall be deemed to expire at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day (as defined below), the immediately preceding Business Day.

4. Exercise of Certificates

(a) *Exercise*. Certificates may only be exercised on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, in accordance with Condition 4(b).

(b) *Automatic Exercise*. Certificate Holders shall not be required to deliver an exercise notice. Exercise of Certificates shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates shall be deemed to have been automatically exercised at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Certificates shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Certificate Holders shall not be entitled to receive any payment from the Issuer in respect of the Certificates.

(c) *Settlement*. In respect of Certificates which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Certificate Holder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Expiry Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Certificate Holder only (or, in the case of joint Certificate Holders, the first-named Certificate Holder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Certificate Holder and posted to the Certificate Holder's address appearing in the records maintained by CDP (or, in the case of joint Certificate Holders, to the address of the first-named Certificate Holder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

(d) *CDP not liable*. CDP shall not be liable to any Certificate Holder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Certificates or otherwise pursuant to or in connection with these Conditions.

(e) *Business Day*. In these Conditions, a "**Business Day**" shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

(a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Certificates are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Certificate Holders in accordance with Condition 9.

(b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Certificate Holders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Certificate Holders.

6. Adjustments

(a) *Potential Adjustment Event*. Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Underlying Stock and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the

Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Underlying Stock are traded.

(b) *Definitions*. "**Potential Adjustment Event**" means any of the following:

(i) a subdivision, consolidation, reclassification or other restructuring of the Underlying Stock (excluding a Merger Event) or a free distribution or dividend of any such Underlying Stock to existing holders by way of bonus, capitalisation or similar issue;

(ii) a distribution or dividend to existing holders of the Underlying Stock of (1) such Underlying Stock, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Underlying Stock, or (3) share capital or other securities of another issuer acquired by the Company as a result of a "spin-off" or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;

(iii) an extraordinary dividend;

(iv) a call by the Company in respect of the Underlying Stock that is not fully paid;

(v) a repurchase by the Company of the Underlying Stock whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;

(vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a "poison pill" being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or

(vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Underlying Stock.

(c) *Merger Event, Tender Offer, Nationalisation and Insolvency*. If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Underlying Stock, the Issuer may take any action described below:

(i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Underlying Stock traded on that options exchange;

(ii) cancel the Certificates by giving notice to the Certificate Holders in accordance with Condition 9. If the Certificates are so cancelled, the Issuer will pay an amount to each Certificate Holder in respect of each Certificate held by such Certificate Holder which amount shall be the fair market value of a Certificate taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Certificate Holders in accordance with Condition 9; or

(iii) following any adjustment to the settlement terms of options on the Underlying Stock on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the "**Option Reference Source**") make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Underlying Stock are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Certificate Holders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Certificate Holders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

(d) *Definitions*. "**Insolvency**" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Underlying Stock of that Company is required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Underlying Stock of that Company become legally prohibited from transferring them. "**Merger Date**" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. "**Merger Event**" means, in respect of the Underlying Stock, any (i) reclassification or change of such Underlying Stock that results in a transfer of or an irrevocable commitment to transfer all of such Underlying Stock outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Underlying Stock outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Underlying Stock of the Company that results in a transfer of or an irrevocable commitment to transfer all such Underlying Stock (other than such Underlying Stock owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Underlying Stock outstanding but results in the outstanding Underlying Stock (other than Underlying Stock owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Underlying Stock immediately following such event, in each case if the Merger Date is on or before the Valuation Date. "**Nationalisation**" means that all the Underlying Stock or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. "**Tender Offer**" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.

(e) *Other Adjustments*. Except as provided in this Condition 6 and Conditions 10 and 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Certificates and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is considered by the Issuer not to be materially prejudicial to the Certificate Holders generally (without considering the circumstances of any individual Certificate Holder or the tax or other consequences of such adjustment or amendment in any particular jurisdiction).

(f) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Certificate Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Certificate Holders; Modification

(a) *Meetings of Certificate Holders*. The Master Warrant Agent Agreement or Warrant Agent Agreement contains provisions for convening meetings of the Certificate Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Warrant Agent Agreement or Warrant Agent Agreement) of a modification of the provisions of the Certificates or of the Master Warrant Agent Agreement or Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Certificate Holders.

Such a meeting may be convened by the Issuer or by Certificate Holders holding not less than ten per cent. of the Certificates for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Certificates for the time being remaining unexercised, or at any adjourned meeting, two or more persons being or representing Certificate Holders whatever the number of Certificates so held or represented.

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

An Extraordinary Resolution passed at any meeting of the Certificate Holders shall be binding on all the Certificate Holders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

(b) *Modification*. The Issuer may, without the consent of the Certificate Holders, effect (i) any modification of the provisions of the Certificates or the Master Instrument which is not materially prejudicial to the interests of the Certificate Holders or (ii) any modification of the provisions of the Certificates or the Master Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Certificate Holders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

(a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Certificate Holder or to which a Certificate Holder is entitled or which the Issuer shall have agreed to deliver to a Certificate Holder may be delivered by hand or sent by post addressed to the Certificate Holder at his address appearing in the records maintained by CDP or, in the case of joint Certificate Holders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Certificate Holder.

(b) *Notices.* All notices to Certificate Holders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Certificate, give notice of the date of expiry of such Certificate in the manner prescribed above.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Certificates will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Certificate Holders, to create and issue further certificates so as to form a single series with the Certificates, subject to the approval of the SGX-ST.

12. Delisting

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

(b) *Issuer's Determination*. The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Certificate Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Certificate Holders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination

(a) *Early Termination for Illegality and Force Majeure, etc.* If the Issuer determines that a Regulatory Event (as defined below) has occurred and, for reasons beyond its control, the performance of its obligations under the Certificates has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Certificates for any reason, the Issuer may in its discretion and without obligation terminate the Certificates early in accordance with Condition 13(c).

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

For the purposes of this Condition:

"**Regulatory Event**" means, following the occurrence of a Change in Law (as defined below) with respect to the Issuer and/or Société Générale as Guarantor or in any other capacity (including without limitation as hedging counterparty of the Issuer, market maker of the Certificates or direct or indirect shareholder or sponsor of the Issuer) or any of its affiliates involved in the issuer of the Certificates (hereafter the "**Relevant Affiliates**" and each of the Issuer, Société Générale and the Relevant Affiliates, a "**Relevant Entity**") that, after the Certificates have been issued, (i) any Relevant Entity would incur a materially increased (as compared with circumstances existing prior to such event) amount of tax, duty, liability, penalty, expense, fee, cost or regulatory capital charge however defined or collateral requirements for performing its obligations under the Certificates or hedging the Issuer's obligations under the Certificates, including, without limitation, due to clearing requirements of, or the absence of, clearing of the transactions entered into in connection with the issue of, or hedging the Issuer's obligation under, the Certificates, (ii) it is or will become for any Relevant Entity impracticable, impossible (in each case, after using commercially reasonable efforts), unlawful, illegal or otherwise prohibited or contrary, in whole or in part, under any law, regulation, rule, judgement, order or directive of any governmental, administrative or judicial authority, or power, applicable to such Relevant Entity (a) to hold, acquire, issue, reissue, substitute, maintain, settle, or as the case may be, guarantee, the Certificates, (b) to acquire, hold, sponsor or dispose of any asset(s) (or any interest thereof) of any other transaction(s) such Relevant Entity may use in connection with the issue of the Certificates or to hedge the Issuer's obligations under the Certificates, (c) to perform obligations in connection with, the Certificates or any contractual arrangement entered into between the Issuer and Société Générale or any Relevant Affiliate (including without limitation to hedge the Issuer's obligations under the Certificates) or (d) to hold, acquire, maintain, increase, substitute or redeem all or a substantial part of its direct or indirect shareholding in the Issuer's capital or the capital of any Relevant Affiliate or to directly or indirectly sponsor the Issuer or any Relevant Affiliate, or (iii) there is or may be a material adverse effect on a Relevant Entity in connection with the issue of the Certificates.

"**Change in law**" means (i) the adoption, enactment, promulgation, execution or ratification of any applicable new law, regulation or rule (including, without limitation, any applicable tax law, regulation or rule) after the Certificates have been issued, (ii) the implementation or application of any applicable law, regulation or rule (including, without limitation, any applicable tax law, regulation or rule) already in force when the Certificates have been issued but in respect of which the manner of its implementation or application was not known or unclear at the time, or (iii) the change of any applicable law, regulation or rule existing when the Certificates are issued, or the change in the interpretation or application or practice relating thereto, existing when the Certificates are issued of any applicable law, regulation or rule, by any competent court, tribunal, regulatory authority or any other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any additional or alternative court, tribunal, authority or entity, to that existing when the Certificates are issued).

(b) *Early Termination for other reasons.* The Issuer reserves the right (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to terminate the Certificates in accordance with Condition 13(c) where an event or events occur which it believes in its sole discretion should, in the context of the issue of the Certificates and the obligations of the Issuer, give rise to such termination provided that such termination (i) is considered by the Issuer not to be materially prejudicial to the interests of Certificate Holders generally (without considering the circumstances of any individual Certificate Holder or the tax or other consequences of such termination in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such termination is approved by the SGX-ST.

(c) *Termination*. If the Issuer terminates the Certificates early, then the Issuer will give notice to the Certificate Holders in accordance with Condition 9. The Issuer will, if and to the extent permitted by applicable law, pay an amount to each Certificate Holder in respect of each Certificate held by such holder equal to the fair market value of a Certificate notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Certificate Holders in accordance with Condition 9.

14. Governing Law

The Certificates, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and the Guarantor and each Certificate Holder (by its purchase of the Certificates) shall be deemed to have submitted for all purposes in connection with the Certificates, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore. The Guarantee shall be governed by and construed in accordance with Singapore law.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

SUPPLEMENTAL INFORMATION ABOUT THE ISSUER

Condensed Interim Financial Information

The information set out in Appendix I of this document relates to the reviewed condensed interim financial information relating to the financial performance of the Issuer as at and for the six-month period ended 30 June 2018.

SUPPLEMENTAL INFORMATION ABOUT THE GUARANTOR

Financial Statements

The Guarantor's unaudited consolidated financial statements as at 30 June 2018 have been reproduced and appended as Appendix II of this document.

Further information relating to the Guarantor may be obtained at the website of Société Générale at www.societegenerale.com.

APPENDIX I

REPRODUCTION OF THE REVIEWED CONDENSED INTERIM FINANCIAL INFORMATION OF THE ISSUER AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

The information set out below is a reproduction of the reviewed condensed interim financial information of the Issuer as at and for the six-month period ended 30 June 2018.

SG Issuer
Société Anonyme

Condensed interim financial information and Report of the Réviseur d'entreprises agréé on review of condensed interim financial information

As at and for the six-month period ended 30 June 2018

33, boulevard Prince Henri

L-1724 Luxembourg

R.C.S. Luxembourg: B121.363

Index

Functional and presentation currency:

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

Executive Board Members
For the interim period ended 30 June 2018

Chairman:

Mr Yves CACCLIN

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Directors:

Mrs Sophie ROBATCHE-CLAIVE

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Amaury de BELER

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Alexandre GALLICHE

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Thierry BODSON

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Arnaud SERRES (until 25/06/2018)

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Noël ALISON

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mrs Estelle STEPHEN JASPARD (since 25/06/2018)

Employee of Société Générale

189, rue d'Aubervilliers, F-75886 Paris Cedex 18, France

Supervisory Board Members
For the interim period ended 30 June 2018

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 25/06/2018)

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Members:

Mr Didier LALLEMAND

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Vincent ROBILLARD

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Olivier FREITAS

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Alban ROMANET (until 25/06/2018)

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Gregory CLAUDY (since 25/06/2018)

External Administrator

225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Audit Committee Members

Chairman:

Mr Gregory CLAUDY

External Administrator

225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Members:

Mr Didier LALLEMAND

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Olivier FREITAS

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Management and administration

For the interim period ended 30 June 2018

Issuer
SG Issuer
33, boulevard Prince Henri, L-1724 Luxembourg

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

Arranger and Dealer
Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Security Trustee and Security Agent Trustee
Bank of New York MELLON Corporate Trustee Services Limited
One Canada Square, London E14 5AL

Collateral Custodian
The Bank of New York MELLON (Luxembourg) S.A.
2-4, rue Eugène Ruppert, L-2453 Luxembourg

Collateral Monitoring Agent
The Bank of New York MELLON London Branch
One Canada Square London E14 5AL

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

Paying Agents
Société Générale
29, boulevard Haussmann, F-75009 Paris, France

Société Générale, New York Branch
1221, avenue of the Americas, New York NY 10020, United States of America

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

Legal advisers
To the Arranger as to English, French and U.S. law
Allen & Overy LLP
Edouard VII
26, boulevard des Capucines, F-75009 Paris, France

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

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

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

Report of the Executive Board and Corporate Governance Statement

The Directors of the Company (each a « Director », collectively the « Executive Board ») present the condensed interim financial information and the Report of the Executive Board of the Company for the period from 1 January 2018 to 30 June 2018.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

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

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

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

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

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

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

Notes and Warrants issuances are governed by the Base Prospectus prepared by Société Générale as arranger. The main programmes for Notes are the two Debt Instruments Issuance Programmes, for which the last updates have been approved by the CSSF on 20 June 2018 or the “Programme d'Emission de Titres de Créance” approved by the CSSF on 27 June 2018. Similarly, the main programmes for Warrants are the Issuance Programme approved by the CSSF on 4 July 2018 and the Warrants and Turbo Warrants Issuance Programme approved by the CSSF on 16 July 2018. Two programmes are hosted by SG Frankfurt, Dual Language DIIP dated 24 August 2018 and Dual Language Daily Leveraged Products dated 27 October 2017. The Hong Kong warrants programme was last updated on 3 April 2018 and the Singapore warrants programme was last updated on 21 June 2018

The state of business of the Company at the closing of the six-month period ended 30 June 2018 is adequately presented in the Statement of financial position and Statement of comprehensive income.

The increase in total assets and liabilities (before impact of offsetting – see Note 3.2.3) is mainly due to the development of the activity of issuing financial instruments.

The net profit for the period from 1 January 2018 to 30 June 2018 amounts to KEUR 126.

The Company has no branch.

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

2. RISKS AND UNCERTAINTIES

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

For each Note, the Company systematically hedges its position by contracting a swap with Société Générale, with strictly identical characteristics. Also, for each Warrant, the Company systematically hedges its position by contracting an option with Société Générale, with strictly identical characteristics.
The legal documentation and the derivatives instruments have been put in place in order to make sure that the assets match the liabilities at any time. Therefore, no market risk is supported by the Company. The risk management in relation to the Notes and Warrants is also described in Note 9 hereafter.

3. FUTURE DEVELOPMENTS

The Executive Board does not anticipate any major changes during the second semester 2018 but expects a further increase in the Notes and Warrants issued.

4. SUBSEQUENT EVENTS

There was no subsequent event which could have a significant impact on the condensed interim financial information of the Company as at and for the six-month period ended 30 June 2018.

5. CORPORATE GOVERNANCE STATEMENT

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

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

5.1 Executive Board

The Executive Board supervises and controls the management and operations of the Company and is responsible for the Company system of risk management and internal control.
The Executive Board meetings are held several times during the year when necessary.

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

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

5.2 Supervisory Board

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

5.3 Audit Committee

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

5.4 Internal Audit

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

5.5 Controls of conformity/compliance

First level of controls is related to the execution of the procedures, guidelines and instructions established to ensure the proper and efficient functioning of the Company. They are executed by the involved teams in charge of the production.
The Chief Financial Officer of the Company ensures the coordination of the periodic accounting closing with all the teams involved while performing a second level control of conformity.

5.6 New Products Committee

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

5.7 Service level agreements

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

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

Luxembourg, 27 September 2018

For the Executive Board

Amaury de BELER

Member of the Executive Board

Alexandre GALLICHE

Member of the Executive Board

Thierry BODSON

Member of the Executive Board

SG Issuer

Société Anonyme

Global Statement

for the condensed interim financial information as at 30 June 2018

To the best of our knowledge, the condensed interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and gives a true and fair view of the financial position and performance of SG Issuer as at and for the six-month period ended 30 June 2018. The condensed interim financial information comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

To the best of our knowledge, the management report includes a fair review of the development and performance of the Company, and a description of the principal risks and uncertainties that the Company faces.

Luxembourg, 27 September 2018

Amaury de BELER

Member of the Executive Board

Alexandre GALLICHE

Member of the Executive Board

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Member of the Executive Board

Building a better
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To the sole Shareholder of
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Report on review of condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim financial information of SG Issuer S.A. as of 30 June 2018, which comprise the interim statement of financial position as at 30 June 2018 and the related interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows for the six-month period then ended and explanatory notes. The Executive Board is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union ("IAS 34"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Charles Dequaire

Luxembourg, 28 September 2018

SG Issuer
Société Anonyme

Statement of comprehensive income
For the six-month period ended 30 June 2018
(Expressed in thousands of EUR)

	Note	30.06.2018	31.12.2017	30.06.2017
Interest income		609	1 059	658
Net gains from financial instruments at fair value through profit or loss		29 151	91 294	53 983
Total revenues		29 760	92 353	54 641
Interest expenses	6	(11 521)	(64 279)	(41 028)
Personnel expenses		(104)	(344)	(121)
Other operating charges		(17 987)	(27 625)	(13 471)
Total expenses		(29 612)	(92 248)	(54 620)
Profit before tax		148	105	21
Income tax	13	(22)	(27)	(4)
Profit for the financial period/year		126	78	17
Total comprehensive income for the period/year		126	78	17

The accompanying notes are an integral part of this condensed interim financial information.

SG Issuer
Société Anonyme

Statement of financial position
As at 30 June 2018
(Expressed in thousands of EUR)

	Note	30.06.2018	31.12.2017
Cash and cash equivalents	4	69 221	114 889
Financial assets at fair value through profit or loss			
- *Mandatorily measured at fair value through profit or loss (Fully Funded Swaps)*	5	45 300 532	44 051 537
- *Held for Trading (Options)*	5	3 726 108	3 806 822
Loans and receivables at amortised cost	6	53 999	53 661
Total assets		49 149 860	48 026 909
Financial liabilities at amortised cost	7	59 048	110 734
Financial liabilities at fair value through profit or loss			
- *Designated at fair value through profit or loss (Notes)*	8	45 275 231	44 048 143
- *Held for Trading (Warrants)*	8	3 728 893	3 818 679
Other liabilities		19 953	43 668
Tax liabilities	13	22	27
Total liabilities		49 083 147	48 021 251
Share capital	11	2 000	2 000
Share premium	11	62 725	-
Legal reserve	12	200	200
Other reserves	12	1 662	3 380
Retained earnings		0	0
Profit for the financial period/year		126	78
Total equity		66 713	5 658
Total equity and liabilities		49 149 860	48 026 909

The accompanying notes are an integral part of this condensed interim financial information.

SG Issuer
Société Anonyme

Statement of changes in equity
For the six-month period ended 30 June 2018
(Expressed in thousands of EUR)

	Share capital	Share premium	Legal reserve	Other reserves (unavailable)	Other reserves (available)	Total reserves	Retained earnings	Profit for the financial year/period	Total equity
As at 31 December 2016	2 000	-	200	3 382	2 240	5 822	35	373	8 230
Transfer from reserves to retained earnings	-	-	-	(2)	(2 240)	(2 242)	2 242	-	-
Allocation of the result of the previous year before dividend distribution	-	-	-	-	-	-	373	(373)	-
Dividend to the sole shareholder	-	-	-	-	-	-	(2 649)	-	(2 649)
Capital increase / Allocation to the capital surplus account	0	67 533	-	-	-	-	-	-	67 533
Reimbursement of the capital surplus	-	(67 533)	-	-	-	-	-	-	(67 533)
Profit for the period from 1 January 2017 to 30 June 2017	-	-	-	-	-	-	-	17	17
As at 30 June 2017	2 000	-	200	3 380	-	3 580	0*	17	5 597*
Transfer from unavailable reserves to available reserves	-	-	-	(1 716)	1 716	-	-	-	-
Allocation of the result of the previous year before dividend distribution	-	-	-	-	-	-	-	-	-
Dividend to the sole shareholder	-	-	-	-	-	-	-	-	-
Capital increase / Allocation to the capital surplus account	-	-	-	-	-	-	-	-	-
Reimbursement of the capital surplus	-	-	-	-	-	-	-	-	-
Profit for the period from 1 July 2017 to 31 December 2017	-	-	-	-	-	-	-	61	61
As at 31 December 2017	2 000	-	200	1 664	1 716	3 580	0	78	5 658
Impact of First Time Application of IFRS 9	-	-	-	-	(2)	(2)	-	-	(2)
Transfer from reserves to retained earnings	-	-	-	(2)	(1 714)	(1 716)	1 716	-	-
Allocation of the result of the previous year before dividend distribution	-	-	0	-	-	-	78	(78)	-
Dividend to the sole shareholder	-	-	-	-	-	-	(1 794)	-	(1 794)
Capital increase / Allocation to the capital surplus account	0	62 725	-	-	-	-	-	-	62 725
Profit for the period from 1 January 2018 to 30 June 2018	-	-	-	-	-	-	-	126	126
As at 30 June 2018	2 000	62 725	200	1 662	0	1 862	0	126	66 713

** Differences due to roundings.*

The accompanying notes are an integral part of this condensed interim financial information.

SG Issuer
Société Anonyme

Statement of cash flows
For the six-month period ended 30 June 2018
(Expressed in thousands of EUR)

	Note	30.06.2018	30.06.2017
OPERATING ACTIVITIES			
Profit for the financial period		126	17
Adjustment for:			
IFRS 9 impact		(2)	-
Net (Increase)/decrease in financial assets		(1 168 619)	408 490
Net Increase/(decrease) in financial liabilities		1 148 341*	(362 407)
(Increase)/decrease in other assets		-	(15 892)
Increase/(decrease) in other liabilities		(23 720)	(12 895)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(43 874)	17 313
FINANCING ACTIVITIES			
Payment of capital surplus**		-	(67 533)
Dividend paid		(1 794)	(2 649)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(1 794)	(70 182)
Cash and cash equivalents at the beginning of the year	4	114 889	89 144
Net increase/(decrease) in cash and cash equivalents		(45 668)	(52 869)
Cash and cash equivalents at the end of the period		69 221	36 275
Cash flows from interest and dividends			
Interest paid		415	68 489
Interest received		609	787
Dividend received		-	-

** The amount of KEUR 1 148 340 includes the 2017 activity related interests amounting to KEUR 62 725, which are payable to SGBT and which have been allocated to the Share premium (see Note 6 and Note 11).*

*** KEUR 67 533 represent the 2016 activity related interests paid by the Company to SGBT (see Note 6).*

1. Corporate information

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

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

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

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

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

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

2. Basis of preparation

2.1. Statement of compliance

The financial statements of the Company as at 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").
The condensed interim financial information as at and for the six-month period ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").

2. Basis of preparation (continued)

2.1. Statement of compliance (continued)

The condensed interim financial information as at and for the six-month period ended 30 June 2018 has been approved by the Executive Board on 27 September 2018.

2.2. Basis of measurement of financial assets and financial liabilities

Financial assets and financial liabilities linked to the activity of the Company are measured at fair value through profit or loss. All other financial assets and financial liabilities are measured at amortised cost (see Note 3.2).

2.3. Functional and presentation currency

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

2.4. Use of estimates and judgements

The preparation of condensed interim financial information in conformity with IFRSs requires to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
The information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the condensed interim financial information is included in Note 3.

2.5. Segment information

The financing activities of the Company are managed as one single business. Thus there is no segmental information in the condensed interim financial information.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in this condensed interim financial information.

3.1. Foreign currency transactions

Transactions in foreign currencies are initially recorded in EUR at the exchange rate ruling at the date of the transaction.
Assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates ruling at the reporting date. Foreign exchange differences arising on translation and realized exchange gains and losses are recognised in the statement of comprehensive income.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities

First application of IFRS 9

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

Classification and measurement of financial assets and financial liabilities

Under IFRS 9, financial assets are classified in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income), based on their contractual cash flow characteristics and the Company's business model for managing these assets.

The classification is based on both Company's business model for managing the financial assets and contractual cash flow characteristics of the financial asset. Thus, a debt instrument shall be measured:

- at amortized cost if all the following conditions are met:
  - The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows,
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- at Fair Value through Other Comprehensive Income (FVTOCI) if all the following conditions are met:
  - The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets,
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument that does not meet the conditions to be measured at amortized cost or at Fair Value through OCI must be measured at Fair Value through Profit or Loss (FVTPL).

Financial assets that contain embedded derivatives that modify the cash flows of the host contract will not pass the SPPI test, so that such instruments will mandatorily (not an option anymore) fall into the category of financial assets that are measured at FVTPL.

IFRS 9 also precludes the separation of embedded derivatives that are embedded in financial assets (separation remains possible for non-financial assets). Bifurcation remains applicable for financial liabilities.

IFRS 9 reiterates the rules for classifying and measuring financial liabilities as they appear in IAS 39, without modification. The only exception applies to financial liabilities that the Company elects to measure using the fair value option through profit or loss, in which case the portion of the fair value changes attributable to changes in own credit risk is recorded under “Unrealised or deferred gains and losses” without subsequent reclassification to profit or loss (other changes continue to be taken to profit or loss), unless an accounting mismatch would arise.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

The application of the fair value option will therefore remain applicable only when it will contribute to eliminate or significantly reduce an accounting mismatch.

IFRS 9 also lays down the principles for recognising renegotiations of financial liabilities that do not result in derecognition. The application of IFRS 9 does not change the scope of financial liabilities that the Company elects to measure using the fair value option.

Credit risk / Expected Credit Loss model

IFRS 9 has replaced the incurred loss model provided for in IAS 39 with an expected credit loss (ECL) model. Under this model, impairments/loss allowances are recorded at initial recognition of the financial assets rather than on the basis of objective evidence of impairment (trigger event).
The scope of application and principles governing the impairment for credit risk are further detailed below.

Application to the Company

- Classification and Measurement of financial assets

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

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

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

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

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

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

➡ Impairment of financial assets (IFRS 9 Phase 2)

IFRS 9 Phase 2 requires that expected credit losses should be calculated and accounted for on all financial assets measured at amortized cost. Expected credit losses should be calculated according to the following methodology:

- In the absence of significant increase in credit risk compared to origination, credit risk is calculated according to the expected losses over one year.
- In case of significant increase in credit risk compared to origination without default, credit risk is calculated according to the expected losses over the lifetime of the contract, interests are calculated on the gross accounting value before depreciation.
- On defaulting assets, credit risk is calculated according to the expected losses over the lifetime of the contact, interests are calculated on the gross accounting value after depreciation.

SGIS decided to capitalize on SG Group tools to define a calculation methodology regarding impairment. The Group has set up a framework methodology defining the rules for assessing the deterioration of credit risk and for determining 12-month and lifetime expected credit losses, factoring in macroeconomic projections reflecting the credit cycle.

All assets are out of scope for Phase 2, except Cash and cash equivalents and Loans and receivables.
The impairment as of 1 January 2018 (First Time Application) amounts to KEUR 2 and has been recorded directly in Equity (deduction of reserves).

➡ Classification and Measurement of financial liabilities

IFRS 9 has no impact regarding the Classification and Measurement of financial liabilities.

The Company classifies its financial liabilities into the following categories, as appropriate:

- Financial liabilities at fair value through profit or loss
  - Designated at fair value through profit or loss
  - Held for Trading
- Financial liabilities at amortised cost

➡ Other principles of IFRS 9:

Financial assets and liabilities are initially recognised at fair value plus directly attributable transaction costs. However, when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

The Company initially recognises receivables at the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position, when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously (see Note 3.2.3).

Retrospective application

The first-time application of IFRS 9 at 1 January 2018 is retrospective in terms of “Classification and Measurement” and “Credit risk”; however, the transitional provisions of IFRS 9 provide the option, taken by the Company, of not restating comparative data for previous financial years.
Consequently, for financial instruments, the data as of 31 December 2017, which are presented in comparison with the data as of 30 June 2018, comply with the provisions of IAS 39 as adopted by the European Union.
Differences in the measurement of financial assets and liabilities resulting from the first-time application of IFRS 9 at 1 January 2018 are taken directly to Equity at that date.

3.2.1. Financial assets mandatorily at fair value through profit or loss and Financial liabilities designated at fair value through profit or loss

According to IFRS 9, these financial assets and liabilities respectively include:
- Fully Funded Swaps (“FFS”) used to hedge Notes issued (Financial assets mandatorily measured at fair value through profit and loss);
- Notes issued by the Company (Financial liabilities designated at fair value through profit and loss).

The Company issues both secured and unsecured Notes. The Notes are subscribed by the investors through Société Générale Group as a lead manager during the issuance period and as a market maker for a secondary market.

Fully Funded Swaps are financial instruments contracted with Société Générale Group to hedge the Company’s exposure to market risk arising from its activities, by replicating each of the Notes issued.

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

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

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

Revenues and expenses, including changes in fair value, are recorded in the statement of comprehensive income for the period under "Net gains from financial instruments at fair value through profit or loss".

3. Significant accounting policies (continued)

3.2.2. Financial assets and liabilities Held for Trading

These assets and liabilities respectively include:
- Options purchased in order to hedge the issued warrants;
- Warrants issued by the Company.

The notional amounts of the Warrants together with the hedging options are reported Off Balance-Sheet.
The Company reports the premium paid on the derivatives bought and the premium received on the derivatives sold in the statement of financial position under “Financial assets or liabilities at fair value through profit or loss - Held for Trading”.
Subsequent to initial measurement, the Options and the Warrants are measured at fair value through profit or loss. Revenues and expenses including changes in fair values are recorded in the statement of comprehensive income for the period under “Net gains from financial instruments at fair value through profit or loss”.

3.2.3. Offsetting a financial asset and a financial liability

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

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

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

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

(a) currently has a legally enforceable right to set off the recognized amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”

As at 30 June 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5 and Note 8).

3. Significant accounting policies (continued)

3.2.4. Loans and receivables at amortised cost

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

Subsequent to initial measurement, Loans and receivables are measured at amortised cost using the effective interest rate method and are presented net of impairments determined in accordance with IFRS 9.

3.2.5. Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial measurement, these financial liabilities are measured at amortised cost using the effective interest rate method.

The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method.

3.3. Fair Value of the financial instruments

IFRS 13 “Fair value measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair market value for the financial instruments measured at fair value through profit or loss is primarily determined based on quoted prices in an active market. These prices may be adjusted if they are not available at the closing date. If the market for a financial instrument is not active, its fair value is determined by valuation techniques (internal models recovery) using valuation parameters based on existing market conditions at the balance sheet date and that are influenced by assumptions used, such as the amount and timing of estimated future cash flows, the discount rate and the volatility of the underlying assets.

IFRS 13 does not change when the fair value is required to be used but specifies how to measure fair value of financial and non-financial assets and liabilities when required or permitted by IFRS and adds information to be disclosed in the Notes to condensed interim financial information.

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

- For unsecured Notes

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

3. Significant accounting policies (continued)

3.3. Fair Value of the financial instruments (continued)

- For Secured and Repack Notes

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

- For Warrants

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

A financial instrument is considered as quoted on a deep market if prices are easily and regularly available through a stock exchange, through a broker, a trader, a business sector, a department of evaluation of the prices or with a regulatory agency and if these prices represent real transactions occurring regularly on the market in conditions of normal competition.

The assessment of the inactive aspect of a market leans on indicators such as the significant decrease of the volume of transactions and the level of activity on the market, strong dispersal of the available prices within time and among the various market participants mentioned above or the age of the last transactions observed on the market in conditions of normal competition.

However, mainly because of the many features of financial instruments traded on the OTC financial markets, a large number of financial products processed by the Group are not subject to a direct quotation on the markets.

For these products, the fair value is determined using valuation techniques commonly used by market participants to assess financial instruments such as discounted future cash flows for swaps or the Black & Scholes model for some options and using valuation parameters for which the estimate value is based on market conditions existing at the end of the period. Prior to their use, these valuation models are validated by independent experts of the Market Risk Department among the Group Risk Management who complete this a priori validation by a posteriori checks. Also, the parameters used in valuation models, whether they come from observable markets or not, are carefully monitored on a monthly basis by experts from the Market Risk Department among the Group Risk Management and supplemented if needed by the necessary reserves (including liquidity and bid-ask).

3. Significant accounting policies (continued)

3.3. Fair Value of the financial instruments (continued)

For purposes of information, the financial instruments at fair value on the statement of financial position are presented regarding a hierarchy of fair value that reflects the importance of data used for valuations.

The fair value hierarchy consists in the following levels:

- Level 1 (L1): instruments valued by price (unadjusted) quoted on active markets for identical assets or liabilities;
- Level 2 (L2): instruments valued using data other than quoted prices listed on the Level 1 and that are observable for the asset or liability in question, either directly (i.e. prices) or indirectly (i.e. data derived from price);
- Level 3 (L3): instruments for which the data used for the valuation are not based on observable market data (unobservable inputs). Indeed, Instruments quoted in an insufficiently liquid market and those traded on the OTC market belong to this level. Prices published by an external source and derived from the valuation of similar instruments are considered as data derived from prices.

The observed data must meet the following characteristics: non-owners (independent data), available, publicly broadcast, based on consensus of the market participants and supported by close of day transaction prices.

For instance consensus data (eg. Markit,...) provided by external counterparties are considered observable if the underlying market is liquid and prices provided are confirmed by actual transactions. For long maturities, the consensus data are considered non observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.

In case of specific market power leading to the absence of reference data for normal value of a financial instrument, the Risk Management may be required to implement a new model based on the available relevant data, such as methods used by other market participants.
These instruments are mainly those for which the sales margin is not immediately recognised in profit or loss (derivatives with higher maturities than the ones usually traded) when their valuation is not based on observable data. Unobservable parameters are carefully assessed, particularly in a depressed economic environment and market. By their very nature, unobservable parameters imply a degree of uncertainty in their valuation. However, given the structure of the Company (perfect match between assets and liabilities in terms of market and credit risk), a variation in the assessment of a financial instrument classified in level 3 would have no impact on the result of the Company.

3. Significant accounting policies (continued)

3.4. Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commission paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.5. Current taxes / Deferred taxes

The Company is subject to Luxembourg tax laws and regulations and is liable for all taxes applicable to Luxembourg commercial companies (see Note 13).
Deferred tax, if any, is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the condensed interim financial information. It also arises on temporary differences stemming from tax losses carried forward. Considering the structure of the Company and the mirroring of the assets and liabilities at FVTPL, no deferred taxes are accounted for by the Company.

3.6. Other commitments linked to secured notes

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

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

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

3. Significant accounting policies (continued)

3.6. Other commitments linked to secured notes (continued)

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

The Company borrows the securities to be pledged from Société Générale Group. In accordance with IFRS, the securities borrowed are not recognized in the statement of financial position.

The pledged securities are accounted in the Company condensed interim financial information as an off balance-sheet commitment “Securities pledged”. The committed amount is re-measured at each closing to reflect the value of the securities pledged.

3.7. IFRS 15 – Revenue from contracts with customers

This standard supersedes IAS 18 and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has performed a review of the accounting treatments applied for the recognition of revenues and has assessed that they comply with the treatments provided by IFRS 15.

3.8. Standards issued but not yet effective

IASB publishes accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 30 June 2018. They are required to be applied from annual periods beginning on 1 January 2019 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Company as at 30 June 2018.

3. Significant accounting policies (continued)

3.8 Standards issued but not yet effective (continued)

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

2019	•IFRS 16 « Leases» •IFRIC 23 « Uncertainty over Income Tax Treatments» •Amendements to IAS 28 « Long-term Interests in Associates and Joint Ventures» •Annual improvements to IFRSs 2015-2017 Cycle •Amendements to IAS 19 « Plan Amendments, Curtailment or Settlement »
2021	•IFRS 17 « Insurance contracts »

The Company intends to adopt these standards, if applicable, when they become effective. The company does not plan to adopt those standards and interpretations early.

4. Cash and cash equivalents

Cash and cash equivalents amount to KEUR 69 221 as at 30 June 2018 (31 December 2017: KEUR 114 889) and are mainly composed of cash held with Société Générale Bank & Trust and Société Générale.
Bank overdrafts, which form an integral part of the Company's cash management, are deducted from Cash and cash equivalents.

5. Financial assets at fair value through profit or loss

	30.06.2018 EUR' 000	31.12.2017 EUR' 000
Financial assets at fair value through profit or loss		
- Mandatorily at fair value through profit or loss (Fully Funded Swaps)	45 300 532	44 051 537
- Held for Trading (Options)	3 726 108	3 806 822
Total	49 026 640	47 858 359

As at 30 June 2018, financial assets mandatorily at fair value through profit or loss (Fully Funded Swaps) amount to KEUR 45 300 532 (31 December 2017: KEUR 44 051 537) and replicate all the Notes issued by the Company (see Note 3.2 and Note 9).

As at 30 June 2018, financial assets Held for Trading (Options) amount to KEUR 3 726 108 (31 December 2017: KEUR 3 806 822) and replicate all the Warrants issued by the Company (see Note 3.2 and Note 9).

As indicated in Note 3.2.3, as at 30 June 2018, the impact of the offsetting of financial assets and financial liabilities (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).

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

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

	Mandatorily at fair value through profit or loss	Held for Trading	Total
As at 31 December 2016	44 030 973	9 133 362	53 164 335
Acquisition	37 145 549	32 574 172	69 719 721
Maturity/Disposal/Liquidation/Cancellation	(27 460 147)	(32 857 905)	(60 318 052)
Change in fair value	1 245 524	6 723 620	7 969 144
Exchange difference	(1 946 620)	(292 323)	(2 238 943)
Offsetting of Assets and Liabilities (Change)	(6 842 711)	(8 697 382)	(15 540 093)
As at 30 June 2017	46 172 568	6 583 544	52 756 112
Acquisition	30 819 676	29 009 057	59 828 733
Maturity/Disposal/Liquidation/Cancellation	(35 340 723)	(28 608 346)	(63 949 069)
Change in fair value	(677 967)	(4 721 915)	(5 399 882)
Exchange difference	(1 534 746)	(207 433)	(1 742 179)
Offsetting of Assets and Liabilities (Change)	4 612 729	1 751 915	6 364 644
As at 31 December 2017	44 051 537	3 806 822	47 858 359
Acquisition	31 615 388	34 831 815	66 447 203
Maturity/Disposal/Liquidation/Cancellation	(15 594 453)	(32 877 694)	(48 472 147)
Change in fair value	(2 247 871)	(2 054 287)	(4 302 158)
Exchange difference	1 144 519	63 069	1 207 588
Offsetting of Assets and Liabilities (Change)	(13 668 588)	(43 617)	(13 712 205)
As at 30 June 2018	45 300 532	3 726 108	49 026 640

6. Loans and receivables at amortised cost

As at 30 June 2018 and 31 December 2017, loans and receivables only consist in deposits with SGBT, which represent the replacement of the Company’s share capital, reserves and other available funds.

7. Financial liabilities at amortised cost

As at 30 June 2018 and 31 December 2017, financial liabilities at amortised cost are mainly composed of a convertible bond of KEUR 48 000, issued by the Company and fully subscribed by SGBT, with maturity in 2022. The convertible bond has been issued following the reimbursement of a previously existing loan. Similar conditions have been maintained in the bond issued, to strictly achieve this change of format. Conversion may occur each year.

On this convertible bond, the Company pays to SGBT both variable interests calculated on Euribor 3M plus a margin (1.726% as at 30 June 2018) and activity related interests. Activity related interests mean an amount equal to 100% of the activity related profit generated by the Company.

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

As at 30 June 2018 and 31 December 2017, the value of the equity component is estimated to be nil.

8. Financial liabilities at fair value through profit or loss

	30.06.2018 EUR' 000	31.12.2017 EUR' 000
Financial liabilities at fair value through profit or loss		
- Designated at fair value through profit or loss (Notes)	45 275 231	44 048 143
- Held for Trading (Warrants)	3 728 893	3 818 679
Total	49 004 124	47 866 822

As at 30 June 2018, the Company issued secured and unsecured Notes for a total amount of KEUR 45 275 231 (31 December 2017: KEUR 44 048 143):

- 916 secured Notes were issued (stock) for a total amount of KEUR 5 053 211 (31 December 2017: 861 secured Notes were issued (stock) for a total amount of KEUR 6 074 564);
- 26 837 unsecured Notes were issued (stock) for a total amount of KEUR 40 222 020 (31 December 2017: 23 135 unsecured Notes were issued (stock) for a total amount of KEUR 37 973 579).

Secured Notes are collateralized with collateral assets borrowed by the Company from Société Générale for KEUR 3 732 574 (31 December 2017: KEUR 5 369 022).

As at 30 June 2018, the Company also issued Warrants for a total amount of KEUR 3 728 893 (31 December 2017: KEUR 3 818 679). Refer to Note 10 for further details on Off-balance sheet items related to the Warrants activity.

As indicated in Note 3.2.3, as at 30 June 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding fully funded swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).

Liquidity analysis is included in Note 9.

9. Risk Management

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

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

Market risk

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

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

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

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

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

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

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

Credit risk

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

The Company only contracts financial instruments with its parent companies, SGBT and Société Générale. Therefore, the credit risk of the Company is limited to the credit risk on SGBT and Société Générale. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred.
As at 30 June 2018 and 31 December 2017, no financial assets were past due or impaired.

9. Risk Management (continued)

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

As at 30 June 2018, the rating of Société Générale is A from Standard & Poor's and A2 from Moody's.

Interest rate risk

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

Liquidity risk

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

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

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

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

9. Risk Management (continued)

The main L3 underlyings of the Notes issued by the Company are:

- equity derivatives: options with long maturities and/or incorporating bespoke pay offs mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc). In the absence of market depth and of an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e g extrapolation from observable data, historical analysis),
- interest rate derivatives: exotic options, products sensitive to correlation between different interest rates, different exchange rates, between interest rates and exchange rates or, for quanto products for example (in which the instrument is settled in a currency different from the one of the underlying); they are liable to be classified as L3 because the valuation parameters are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (eg. exchange rate correlations are deemed unobservable for the USD/JPY),
- credit derivatives: L3 credit derivatives mainly include single name or baskets of instruments exposed to time to default correlation.

On each element of an identified list of unobservable parameters, it comes to determining the uncertainty of marking, and cross sensitivities with this uncertainty for a confidence interval of the value of the positions.

In parallel, marking the levels of each of these parameters is collected and reported in the note.

The methods for determining the level of uncertainty, as well as calculating the confidence interval from sensibilities depend on each parameter.

9. Risk Management (continued)

a. The following table (source: Société Générale Group) provides the valuation of L3 instruments and the most significant unobservable inputs by main types of underlying:

Cash instrument and derivatives	Main products	Valuation techniques used	Significant unobservable inputs	Range of inputs min & max
Equity / funds	Simple and complex instruments or derivatives on funds, equities or baskets on stocks	Various option models on funds, equities or baskets on stocks	Equity volatilities	[4.4% ; 76.3%]
			Equity dividends	[0.0% ; 19.8%]
			Unobservable correlations	[-100% ;100%]
			Hedge funds volatilities	[8.3% ; 20.0%]
			Mutual funds volatilities	[1.5% ; 53.3%]
Rates and Forex	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[-10.89% ; 90%]
	Forex derivatives	Forex option pricing models	Forex volatilities	[1.0% ; 29%]
	Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayment modelling	Constant prepayment rates	[0.0% ; 45%]
	Inflation instruments and derivatives	Inflation pricing models	Inflation / inflation correlations	[64.4% ; 88.9%]
Credit	Collateralized Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	[0% ; 100%]
			Recovery rate variance for single name underlyings	[0% ; 100%]
	Other credit derivatives	Credit default models	Time to default correlations	[0% ; 100%]
			Quanto correlations	[-50% ; 40%]
			Unobservable credit spreads	[0 bps ; 1 000 bps]
Commodity	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	[5.7% ; 97.64%]

9. Risk Management (continued)

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments.

However, by its very nature, the Company has no market risk exposure; all market risks are indeed perfectly hedged. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit of the Company.

b. Analysis per remaining maturities

As at 30 June 2018, analysis per remaining maturities is as follows:

30.06.2018 - EUR' 000	< 3 months	From 3 months to 1 year	From 1 to 5 years	> 5 years	Without fixed maturity	Total
Cash and cash equivalents	69 221	-	-	-	-	69 221
Financial assets at fair value through profit or loss						
- *Mandatorily at fair value through profit or loss*	2 046 210	7 075 070	19 217 400	16 961 852	-	45 300 532
- *Held for Trading*	618 003	968 055	783 082	1 356 968	-	3 726 108
Loans and receivables	-	828	52 171	1 000	-	53 999
Total assets	2 733 434	8 043 953	20 052 653	18 319 820	-	49 149 860
Financial liabilities at amortised cost	-	11 048	48 000	-	-	59 048
Financial liabilities at fair value through profit or loss						
- *Designated at fair value through profit or loss*	2 046 210	7 075 070	19 217 400	16 936 551	-	45 275 231
- *Held for Trading*	618 003	968 055	783 082	1 359 753	-	3 728 893
Other liabilities	19 929	-	-	-	-	19 929
Tax liabilities	22	-	-	-	-	22
Total liabilities	2 684 164	8 054 173	20 048 482	18 296 304	-	49 083 123

9. Risk Management (continued)

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

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

9. Risk Management (continued)

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

30.06.2018 - EUR' 000	Carrying amount	Fair value
Cash and cash equivalents	69 221	69 221
Financial assets at fair value through profit or loss		
- *Mandatorily at fair value through profit or loss*	45 300 532	45 300 532
- *Held for Trading*	3 726 108	3 726 108
Loans and receivables *	53 999	55 595
Total	49 149 860	49 151 456
Financial liabilities at amortised cost *	59 048	61 790
Financial liabilities at fair value through profit or loss		
- *Designated at fair value through profit or loss*	45 275 231	45 275 231
- *Held for Trading*	3 728 893	3 728 893
Other liabilities	19 929	19 929
Tax liabilities	22	22
Total	49 083 123	49 085 865

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

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

9. Risk Management (continued)

d. The fair value hierarchy of IFRS 13

As at 30 June 2018, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

30.06.2018 - EUR' 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- *Mandatorily at fair value through profit or loss*	-	20 813 397	24 487 135	45 300 532
- *Held for Trading*	-	3 639 659	86 449	3 726 108
Financial liabilities at fair value through profit or loss				
- *Designated at fair value through profit or loss*	-	20 788 096	24 487 135	45 275 231
- *Held for Trading*	-	3 642 444	86 449	3 728 893

31.12.2017 - EUR' 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- *Mandatorily at fair value through profit or loss*	-	19 358 047	24 693 490	44 051 537
- *Held for Trading*	-	3 739 487	67 335	3 806 822
Financial liabilities at fair value through profit or loss				
- *Designated at fair value through profit or loss*	-	19 354 653	24 693 490	44 048 143
- *Held for Trading*	-	3 751 344	67 335	3 818 679

The following table describes the transfers between Level 2 and Level 3 of the fair value hierarchy

	Level 3 (30.06.2018)		Level 3 (30.06.2017)	
	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value through profit or loss	
EUR' 000	*Designated at fair value through P&L*	*Held for Trading*	*Designated at fair value through P&L*	*Held for Trading*
Balance as at 1 January	24 693 490	67 335	22 531 600	93 125
Acquisitions*	15 458 244	35 467	13 773 957	143 292
Change in fair value	(2 005 843)	(12 088)	(18 752)	(86 624)
Reimbursements/Other	(4 464 912)	(7 380)	(7 303 792)	(52 671)
Transfers from L2 to L3	178 588	2 154	943 707	33 608
Transfers from L3 to L2	(1 920 181)	(28 815)	(120 741)	-
Offsetting of the assets and liabilities	(7 452 251)	29 776	(5 072 033)	(21 616)
Balance as at 30 June	24 487 135	86 449	24 733 946	109 116

* Acquisitions include new tranches of existing notes issued.

9. Risk Management (continued)

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

Financial liabilities at fair value through profit or loss	Balance at 01.01.2018	Acquisitions	Change in fair value	Reimbursements/ Other	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	Balance 30.06.2018
Designated at fair value through P&L	24 693 490	15 458 244	(2 005 843)	(4 464 912)	178 588	(1 920 181)	(7 452 251)	24 487 135
Equity and index instrument	17 069 248	12 409 903	(1 566 364)	(4 785 914)	162 668	(1 596 403)	(5 503 829)	16 189 309
Commodity instruments	147 457	6 823	66 588	(130 202)	-	-	10 565	101 231
Credit derivatives	3 747 361	1 097 463	(252 934)	44 450	7 787	(288 815)	(374 176)	3 981 136
Foreign exchange instruments	976 913	60 419	(138 740)	254 167	8 133	(24 531)	(505 858)	630 503
Interest rate instruments	1 497 472	971 182	(74 591)	(42 243)	-	(8 067)	(360 792)	1 982 961
Other financial instruments	1 255 039	912 454	(39 802)	194 830	-	(2 365)	(718 161)	1 601 995
Held for Trading	67 335	35 467	(12 088)	(7 380)	2 154	(28 815)	29 776	86 449
Equity and index instruments	56 290	33 497	(3 661)	(7 337)	2 154	(28 815)	28 699	80 827
Other financial instruments	11 045	1 970	(8 427)	(43)	-	-	1 077	5 622

Financial liabilities at fair value through profit or loss	Balance at 01.01.2017	Acquisitions	Change in fair value	Reimbursements/ Other	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	Balance 31.12.2017
Designated at fair value through P&L	22 531 600	19 985 859	(946 823)	(9 770 252)	129 107	(537 441)	(6 698 560)	24 693 490
Equity and index instrument	16 135 481	158 144	(565 978)	1 511 072	1 938	(823)	(170 586)	17 069 248
Commodity instruments	190 969	1 377 604	(80 979)	(638 802)	29 655	3 730	(734 720)	147 457
Credit derivatives	3 446 076	15 949 899	6 911	(11 286 063)	94 846	(499 662)	(3 964 646)	3 747 361
Foreign exchange instruments	564 059	751 558	(191 663)	24 731	2 668	(2 153)	(172 287)	976 913
Interest rate instruments	1 618 573	794 291	(69 428)	(328 751)	-	(1 063)	(516 150)	1 497 472
Other financial instruments	576 442	954 363	(45 686)	947 561	-	(37 470)	(1 140 171)	1 255 039
Held for Trading	93 125	41 973	12 275	(76 204)	2 314	-	(6 148)	67 335
Equity and index instruments	73 101	25 672	17 559	(56 208)	2 314	-	(6 148)	56 290
Other financial instruments	20 024	16 301	(5 284)	(19 996)	-	-	-	11 045

9. Risk Management (continued)

Transfers from Level 3 to Level 2 and from Level 2 to Level 3

As described in Note 3.3 “Fair Value of the financial instruments”, the consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For high maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.
Transfers from Level 2 to Level 3 can occur in case of a modification within a parameter (no longer linked to the deal, modification of the observability rule of the parameter, etc…).

Operational risk

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

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

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

10. Off-balance sheet

As at 30 June 2018, financial instruments to be issued (engagement taken before 30 June 2018 with value date after 30 June 2018) amount to KEUR 3 156 211 (31 December 2017: KEUR 1 967 092).

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

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured Notes issued by the Company benefit from additional collateral assets securing the payment due under the Notes terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of Guarantor.
Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Société Générale Group and are pledged in favour of the Notes holders.
As at 30 June 2018, securities deposited at BNY Mellon as collateral for secured issuances amount to KEUR 3 732 574 (31 December 2017: KEUR 5 369 022).

10. Off-balance sheet (continued)

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

The warrants issued as at 30 June 2018 and 31 December 2017 break down as follows:

Warrant Type	Category of Underlying	Type of Underlying	Option Type	30/06/2018 Quantity	30/06/2018 Volume (000 EUR)	31/12/2017 Quantity	31/12/2017 Volume (000 EUR)
Commodity Future Warrant	Future	Commodity Future	Call	151	995 579	124	3 929 490
			Put	83	255 487	49	116 224
Commodity Warrant	Commodity	Mutual Fund	Call	49	122 584	68	152 538
			Put	56	149 140	57	116 801
Currency Warrant	Currency		Call	214	259 223	176	5 749 702
			Put	220	231 628	125	2 326 562
Equity Warrant	Equity	American Depositary Receipt	Call	21	39 872	7	14 641
			Put	20	33 914	5	8 547
		Ordinary Share	Call	4 732	34 095 949	5 348	35 182 893
			Put	3 027	10 373 645	3 055	10 967 356
		Other Receipt	Call	12	11 688	13	31 697
			Put	9	5 493	8	9 082
		Own Share	Call	100	198 754	75	168 342
			Put	102	161 394	68	139 146
		Preference	Call	20	35 072	18	65 500
			Put	33	44 846	18	60 975
		REIT	Call	33	97 369	67	180 994
			Put	20	28 773	41	87 367
Index Warrant	Index	Index	Call	1 657	42 734 744	1 616	38 031 494
			Put	1 252	26 812 535	774	16 914 221
Fund Warrant	Fund	Mutual Fund	Call	48	1 088 517	179	1 282 982
			Put	5	50 181	4	35 083
Total Call			Call	7 037	79 679 351	7 691	84 790 273
Total Put			Put	4 827	38 147 036	4 204	30 781 364
Total				11 864	117 826 387	11 895	115.571.637

11. Share capital and Share premium

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

By resolution adopted on 12 January 2018, the Executive Board decided to increase the capital of the Company, effective 15 January 2018, from EUR 2 000 160 to EUR 2 000 200 by the issue of a new share with a nominal value of EUR 40, subscribed by the sole shareholder. In the context of the capital increase, the 2017 activity related interests amounting to KEUR 62 725 have been allocated to the Share premium.

As at 30 June 2018, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., is EUR 2 000 200, divided into 50 005 shares with nominal value of EUR 40 each.

The Company manages its capital to ensure it will be able to continue as a going concern. The capital structure consists in issued capital, reserves and retained earnings.

The capital amount may be increased, subject to the approval or the Sole Shareholder, if the Company's activity evolves, incurring specific additional risks.

12. Reserves

Legal reserve

In accordance with the Luxembourg law, the Company is required to allocate a minimum of 5% of its annual net profit to a Legal reserve until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.
As at 30 June 2018, the legal reserve amounts to KEUR 200 (31 December 2017: KEUR 200).

Other reserves

As at 30 June 2018, other reserves include temporarily unavailable reserves amounting to KEUR 1 662 (Net Wealth Tax reserve), which correspond to five times the reduction in the Net Wealth Tax for the respective years for which the Net Wealth Tax has been reduced (31 December 2017: KEUR 1 664).
If the amount of the NWT reserve is not maintained for a five year period (for a reason other than a change in capital), the Company's NWT liability will be increased by the amount of the NWT reduction for the years concerned. The Company decided to keep this reserve in accordance with the above.

13. Taxation

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

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

For the period ended 30 June 2018, the theoretical tax rate is 26.01% (2017: 27.08%) while the actual tax rate of the Company is the one from the tax integration Group to which it belongs, as explained above.

Refer to Note 12 for further information on Net Wealth Tax.

14. Subsequent events

There was no subsequent event which could have a significant impact on the condensed interim financial information as at 30 June 2018.

APPENDIX II

REPRODUCTION OF THE GUARANTOR’S UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

The information set out below is a reproduction of the Guarantor’s unaudited consolidated financial statements as at 30 June 2018.

SOCIETE GENERALE

30.06.2018 | CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited figures)

CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET - ASSETS

(In millions of euros)		30.06.2018	01.01.2018	31.12.2017
Cash, due from central banks		85,456	114,404	114,404
Financial assets at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	382,656	369,112	419,680
Hedging derivatives	Notes 3.2 and 3.4	12,024	12,718	13,641
Financial assets at fair value through other comprehensive income	Notes 3.3 and 3.4	57,335	50,468	
Available-for-sale financial assets				139,998
Securities at amortised cost	Notes 3.5, 3.8 and 3.9	11,428	11,592	
Due from banks at amortised cost	Notes 3.5, 3.8 and 3.9	63,783	53,656	60,866
Customer loans at amortised cost	Notes 3.5, 3.8 and 3.9	427,296	417,391	425,231
Revaluation differences on portfolios hedged against interest rate risk		504	663	663
Investments of insurance activities	Note 4.3	149,134	147,611	
Held-to-maturity financial assets				3,563
Tax assets		5,479	6,292	6,001
Other assets	Note 4.4	67,548	60,449	60,562
Non-current assets held for sale	Note 2.3	4,313	13	13
Investments accounted for using the equity method		655	659	700
Tangible and intangible fixed assets		25,537	24,200	24,818
Goodwill	Note 2.2	4,874	4,988	4,988
Total		**1,298,022**	**1,274,216**	**1,275,128**

CONSOLIDATED BALANCE SHEET - LIABILITIES

(In millions of euros)		30.06.2018	01.01.2018	31.12.2017
Due to central banks		9,956	5,604	5,604
Financial liabilities at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	373,147	368,550	368,705
Hedging derivatives	Note 3.2 and 3.4	6,438	6,146	6,750
Debt securities issued	Notes 3.6 and 3.9	101,658	103,235	103,235
Due to banks	Notes 3.6 and 3.9	89,783	88,621	88,621
Customer deposits	Notes 3.6 and 3.9	415,101	410,633	410,633
Revaluation differences on portfolios hedged against interest rate risk		5,481	6,020	6,020
Tax liabilities		1,153	1,608	1,662
Other liabilities	Note 4.4	76,293	69,139	69,139
Non-current liabilities held for sale	Note 2.3	4,042	-	-
Underwriting reserves of insurance companies				130,958
Insurance contracts related liabilities	Note 4.3	132,258	131,717	
Provisions	Note 8.3	5,356	6,345	6,117
Subordinated debts	Note 3.9	13,993	13,647	13,647
Total liabilities		**1,234,659**	**1,211,265**	**1,211,091**
Shareholders' equity				
Shareholders' equity, Group share				
Issued common stocks, equity instruments and capital reserves		29,585	29,427	29,427
Retained earnings		28,542	27,698	27,791
Net income		2,006	2,806	2,806
Sub-total		**60,133**	**59,931**	**60,024**
Unrealised or deferred capital gains and losses		(1,174)	(1,503)	(651)
Sub-total equity, Group share		**58,959**	**58,428**	**59,373**
Non-controlling interests		4,404	4,523	4,664
Total equity		**63,363**	**62,951**	**64,037**
Total		**1,298,022**	**1,274,216**	**1,275,128**

CONSOLIDATED INCOME STATEMENT

(In millions of euros)		1st half of 2018 [(1)]	2017	1st half of 2017
Interest and similar income	Note 3.7	10,919	23,679	12,125
Interest and similar expense	Note 3.7	(5,467)	(13,263)	(6,870)
Fee income	Note 4.1	4,489	10,504	5,338
Fee expense	Note 4.1	(1,787)	(3,681)	(1,885)
Net gains and losses on financial transactions		2,878	5,826	3,037
o/w net gains and losses on financial instruments at fair value through profit or loss		*2,856*	*5,113*	*2,669*
o/w net gains and losses on available-for-sale financial assets			*713*	*368*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	*Note 3.3*	*24*		
o/w net gains and losses from the derecognition of financial assets at amortised cost		*(2)*		
Net income from insurance activities	Note 4.3	859		
Income from other activities	Note 4.2	5,325	22,045	12,298
Expenses from other activities	Note 4.2	(4,468)	(21,156)	(12,370)
Net banking income		**12,748**	**23,954**	**11,673**
Personnel expenses	Note 5	(4,785)	(9,749)	(4,742)
Other operating expenses	Note 8.2	(3,860)	(7,083)	(3,590)
Amortisation, depreciation and impairment of tangible and intangible fixed assets		(487)	(1,006)	(481)
Gross operating income		**3,616**	**6,116**	**2,860**
Cost of risk	Note 3.8	(378)	(1,349)	(368)
Operating income		**3,238**	**4,767**	**2,492**
Net income from investments accounted for using the equity method		29	92	50
Net income/expense from other assets		(41)	278	245
Value adjustments on goodwill		-	1	1
Earnings before tax		**3,226**	**5,138**	**2,788**
Income tax	Note 6	(886)	(1,708)	(691)
Consolidated net income		**2,340**	**3,430**	**2,097**
Non-controlling interests		334	624	292
Net income, Group share		**2,006**	**2,806**	**1,805**
Earnings per ordinary share	Note 7.2	**2.22**	**2.92**	**1.94**
Diluted earnings per ordinary share	Note 7.2	**2.22**	**2.92**	**1.94**

(1) The presentation of the Group's consolidated income statement is modified as from 2018 following the transition to IFRS 9:

- *income and expenses from insurance activities are grouped on a specific line item within the "Net banking income" (see Note 1, paragraph 4);*
- *the line item "Cost of risk" is now exclusively dedicated to credit risk (see Note 3.8);*
- *fair value changes of financial liabilities designated to be measured at fair value through profit or loss (using the fair value option) attributable to changes in own credit risk are now recorded under "Unrealised or deferred gains and losses" (see Note 3.1).*

STATEMENT OF NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Net income	**2,340**	**3,430**	**2,097**
Unrealised or deferred gains and losses that will be reclassified subsequently into income	**128**	**(2,371)**	**(1,525)**
Translation differences	346	(2,088)	(1,339)
Revaluation of debt instruments at fair value through other comprehensive income	(129)		
Revaluation differences	*(121)*		
Reclassified into income	*(8)*		
Revaluation of available-for-sale financial assets[(1)]	(4)	(218)	(146)
Revaluation differences	*(4)*	*69*	*10*
Reclassified into income	-	*(287)*	*(156)*
Revaluation of hedging derivatives	(130)	(100)	(43)
Revaluation differences	*(164)*	*(94)*	*(39)*
Reclassified into income	*34*	*(6)*	*(4)*
Unrealised gains and losses of entities accounted for using the equity method	1	(20)	(20)
Others	9	-	-
Tax related	35	55	23
Unrealised or deferred gains and losses that will not be reclassified subsequently into income	**146**	**19**	**39**
Actuarial gains and losses on defined benefit plans	57	42	57
Revaluation of own credit risk of financial liabilities at fair value through profit or loss	141		
Revaluation of equity instruments at fair value through other comprehensive income	1		
Unrealised gains and losses of entities accounted for using the equity method	(3)	-	-
Tax related	(50)	(23)	(18)
Total unrealised or deferred gains and losses	**274**	**(2,352)**	**(1,486)**
Net income and unrealised or deferred gains and losses	**2,614**	**1,078**	**611**
o/w Group share	*2,334*	*504*	*347*
o/w non-controlling interests	*280*	*574*	*264*

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.

CHANGES IN SHAREHOLDERS' EQUITY

(In millions of euros)	Capital and associated reserves: Issued common stocks	Issuing premium and capital reserves	Elimination of treasury stock	Other equity instruments	Total	Retained earnings	Net income, Group share
Shareholders' equity at 1 January 2017	**1,010**	**20,277**	**(371)**	**9,680**	**30,596**	**29,687**	**-**
Increase in common stock					-		
Elimination of treasury stock			66		66	(22)	
Issuance / Redemption of equity instruments				(651)	(651)	67	
Equity component of share-based payment plans		24			24		
1st half of 2017 dividends paid					-	(2,118)	
Effect of acquisitions and disposals on equity investment with no effect on entity control					-	447	
Sub-total of changes linked to relations with shareholders	**-**	**24**	**66**	**(651)**	**(561)**	**(1,626)**	
Unrealised or deferred gains and losses					-	38	
1st half of 2017 Net income for the period					-		1,805
Change in equity of associates and joint ventures accounted for using the equity method					-		
Other changes					-	(2)	
Sub-total	**-**	**-**	**-**	**-**	**-**	***36***	***1,805***
Shareholders' equity at 30 June 2017	**1,010**	**20,301**	**(305)**	**9,029**	**30,035**	**28,097**	**1,805**
Increase in common stock		8			8		
Elimination of treasury stock			(188)		(188)	(7)	
Issuance / Redemption of equity instruments				(463)	(463)	131	
Equity component of share-based payment plans		35			35		
2nd half of 2017 dividends paid					-	(382)	
Effect of acquisitions and disposals on non-controlling interests					-	(28)	
Sub-total of changes linked to relations with shareholders	**-**	***43***	***(188)***	***(463)***	***(608)***	***(286)***	
Unrealised or deferred gains and losses					-	(19)	
2nd half of 2017 Net income for the period					-		1,001
Change in equity of associates and joint ventures accounted for using the equity method					-		
Other changes					-	(1)	
Sub-total	**-**	**-**	**-**	**-**	**-**	**(20)**	**1,001**
Shareholders' equity at 31 December 2017	**1,010**	**20,344**	**(493)**	**8,566**	**29,427**	**27,791**	**2,806**
Appropriation of net income						2,806	(2,806)
IFRS 9 First time application (see Note 1)						(93)	
Shareholders' equity at 1 January 2018	**1,010**	**20,344**	**(493)**	**8,566**	**29,427**	**30,504**	**-**
Increase in common stock					-		
Elimination of treasury stock (see Note 7.1)			(257)		(257)	(37)	
Issuance / Redemption of equity instruments (see Note 7.1)				392	392	116	
Equity component of share-based payment plans		24			24		
1st half of 2018 dividends paid (see Note 7.2)					-	(2,075)	
Effect of acquisitions and disposals on non-controlling interests					-	40	
Sub-total of changes linked to relations with shareholders	**-**	***24***	***(257)***	***392***	***159***	***(1,956)***	**-**
Unrealised or deferred gains and losses					-		
1st half of 2018 Net income for the period					-		2,006
Change in equity of associates and joint ventures accounted for using the equity method					-		
Other changes					-	(7)	
Sub-total	**-**	**-**	**-**	**-**	**-**	***(7)***	***2,006***
Shareholders' equity at 30 June 2018	**1,010**	**20,368**	**(750)**	**8,958**	**29,586**	**28,541**	**2,006**

Unrealised or deferred gains and losses				Non-controlling interests				
that will be reclassified subsequently into income	that will not be reclassified subsequently into income	Total	Shareholders' equity, Group share	Capital and reserves	Other equity instruments issued by subsidiaries	Unrealised or deferred gains and losses	Total	Total consolidated shareholders' equity
1,670	**-**	**1,670**	**61,953**	**2,920**	**800**	**33**	**3,753**	**65,706**
			-				-	-
			44				-	44
			(584)				-	(584)
			24				-	24
			(2,118)	(271)			(271)	(2,389)
			447	640			640	1,087
-	-	-	***(2,187)***	***369***	-	-	***369***	***(1,818)***
(1,483)	-	(1,483)	(1,445)			(28)	(28)	(1,473)
			1,805	292			292	2,097
(13)	-	(13)	(13)				-	(13)
			(2)				-	(2)
(1,496)	-	***(1,496)***	***345***	***292***		***(28)***	***264***	***609***
174		**174**	**60,111**	**3,581**	**800**	**5**	**4,386**	**64,497**
			8				-	8
			(195)				-	(195)
			(332)				-	(332)
			35				-	35
			(382)	(5)			(5)	(387)
			(28)	(26)			(26)	(54)
			(894)	**(31)**	**-**	**-**	**(31)**	***(925)***
(824)	-	(824)	(843)	(1)		(21)	(22)	(865)
			1,001	332			332	1,333
(1)	-	(1)	(1)				-	(1)
			(1)	(1)			(1)	(2)
(825)	-	***(825)***	***156***	***330***	-	***(21)***	***309***	***465***
(651)	**-**	**(651)**	**59,373**	**3,880**	**800**	**(16)**	**4,664**	**64,037**
(393)	(459)	(852)	(945)	(112)		(29)	(141)	(1,086)
(1,044)	**(459)**	**(1,503)**	**58,428**	**3,768**	**800**	**(45)**	**4,523**	**62,951**
			-				-	-
			(294)				-	(294)
			508				-	508
			24				-	24
			(2,075)	(397)			(397)	(2,472)
			40	(4)			(4)	36
-	***-***	***-***	***(1,797)***	***(401)***	***-***	***-***	***(401)***	***(2,198)***
183	148	331	331			(55)	(55)	276
			2,006	334			334	2,340
	(2)	(2)	(2)	3			2	-
			(7)				-	(7)
183	***146***	***329***	***2,328***	***337***	***-***	***(55)***	***282***	***2,610***
(861)	**(313)**	**(1,174)**	**58,959**	**3,704**	**800**	**(100)**	**4,404**	**63,363**

CASH FLOW STATEMENT

(In millions of euros)	1st half of 2018	2017	1st half of 2017*
Net income (I)	**2,340**	**3,430**	**2,097**
Amortisation expense on tangible and intangible fixed assets (including operational leasing)	2,248	4,283	2,051
Net allocation to provisions	230	108	(1,299)
Net income/loss from investments accounted for using the equity method	(27)	(92)	(50)
Change in deferred taxes	315	673	15
Net income from the sale of long-term assets and subsidiaries	(48)	(110)	(51)
Other changes	1,034	4,367	3,095
Non-cash items included in net income and others adjustments not including income on financial instruments at fair value through profit or loss (II)	**3,752**	**9,229**	**3,761**
Income on financial instruments at fair value through profit or loss	6,148	(5,113)	(2,669)
Interbank transactions	(6,633)	5,200	1,397
Customer transactions	6,513	(4,996)	(8,268)
Transactions related to other financial assets and liabilities	(32,486)	22,876	24,774
Transactions related to other non-financial assets and liabilities	1,385	(2,228)	(907)
Net increase/decrease in cash related to operating assets and liabilities (III)	**(25,073)**	**15,739**	**14,327**
Net cash inflow (outflow) related to operating activities (A) = (I) + (II) + (III)	**(18,981)**	**28,398**	**20,185**
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long term investments	(5,052)	(280)	(526)
Net cash inflow (outflow) related to tangible and intangible fixed assets	(3,546)	(5,928)	(1,676)
Net cash inflow (outflow) related to investment activities (B)	**(8,598)**	**(6,208)**	**(2,202)**
Cash flow from/to shareholders	(2,443)	(3,836)	(3,172)
Other net cash flows arising from financing activities	190	(331)	(145)
Net cash inflow (outflow) related to financing activities (C)	**(2,253)**	**(4,167)**	**(3,317)**
Net inflow (outflow) in cash and cash equivalents (A) + (B) + (C)	**(29,832)**	**18,023**	**14,666**
Cash, due from central banks (assets)	114,404	96,186	96,186
Due to central banks (liabilities)	(5,604)	(5,238)	(5,238)
Current accounts with banks (see Notes 3.5 and 4.3)	22,159	24,639	24,639
Demand deposits and current accounts with banks (see Note 3.6)	(11,686)	(14,337)	(14,337)
Cash and cash equivalents at the start of the year	**119,273**	**101,250**	**101,250**
Cash, due from central banks (assets)	85,456	114,404	112,396
Due to central banks (liabilities)	(9,956)	(5,604)	(7,339)
Current accounts with banks (see Notes 3.5 and 4.3)	27,155	22,159	24,624
Demand deposits and current accounts with banks (see Note 3.6)	(13,214)	(11,686)	(13,765)
Cash and cash equivalents at the end of the year	**89,441**	**119,273**	**115,916**
Net inflow (outflow) in cash and cash equivalents	**(29,832)**	**18,023**	**14,666**

** Amounts restated compared to the 30 June 2017 consolidated financial statements, following a change in the balance sheet presentation of premiums to be received / to be paid on options*

2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING PRINCIPLES

1. INTRODUCTION

ACCOUNTING STANDARDS

The condensed interim consolidated financial statements for the Societe Generale Group ("the Group") for the six-month period ending 30 June 2018 were prepared and are presented in accordance with IAS (International Accounting Standard) 34 "Interim Financial Reporting".

These notes should be read in conjunction with the audited consolidated financial statements for the year ending 31 December 2017 included in the Registration document for the year 2017.

The most significant change made to the accounting principles is the application of IFRS 9 "Financial Instruments" as from 1 January 2018.

As the Group's activities are neither seasonal nor cyclical in nature, its first half results were not affected by these factors.

FINANCIAL STATEMENTS PRESENTATION

As the IFRS accounting framework does not specify a standard model, the format of the condensed financial statements used to present the data for financial year 2018 is consistent with the format of financial statements proposed by the French Accounting Standard Setter, the *Autorité des Normes Comptables* (ANC), under Recommendation No. 2017-02 of 2 June 2017. The presentation of the comparative data relative to financial year 2017 has not been modified and complies with the provisions of ANC Recommendation No. 2013-04 of 7 November 2013.

The disclosures provided in the notes to the interim consolidated financial statements relate to events and transactions that are significant to an understanding of the changes in financial position and performance of the Group during the first half of 2018. The disclosures provided in these notes focus on information that is both relevant and material to the financial statements of the Societe Generale Group, its activities and the circumstances in which it conducted its operations over the period.

PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is the euro.

The figures presented in the financial statements and in the notes are expressed in millions of euros, unless otherwise specified. The effect of rounding can generate discrepancies between the figures presented in the financial statements and those presented in the notes.

2. NEW ACCOUNTING STANDARDS APPLIED BY THE GROUP AS OF 1 JANUARY 2018

IFRS 9 "Financial Instruments" (see paragraph 4)

IFRS 15 "Revenue from Contracts with Customers" and subsequent clarifications

Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (see paragraph 4)

Annual improvements (2014-2016)

Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

Amendments to IAS 40 "Transfers of Investment Property"

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (see paragraph 4)

IFRS 9 « Financial instruments », subsequent amendments and amendments to IFRS 4 related to the application of IFRS 9 by insurance companies

The impacts of the first-time application of IFRS 9 are presented in paragraph 4 *"First-time application of IFRS 9" "Financial Instruments"* below.

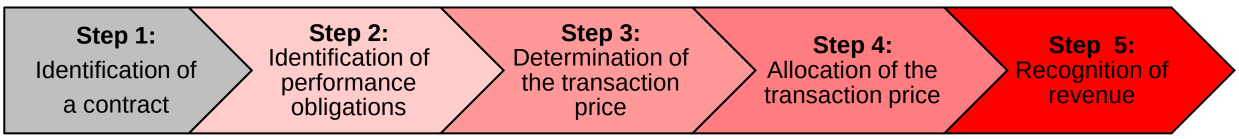
The application of the other standards, amendments, improvements and interpretations presented below has no material impact on the net income and shareholders' equity of the Group.

IFRS 15 "Revenue from contracts with customers" and subsequent clarifications

This standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and their interpretations and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To apply this core principle, IFRS 15 provides a five-step model from the identification of the contract with the customer until the recognition of the related revenue when the performance obligation is fulfilled:



In the Group, the contracts that are the most concerned by the new standard are:

- banking services contracts that lead to the recognition of fee income (packages of banking services, fees related to asset management or to loan syndication, etc.);
- contracts for services linked to leasing activities (such as maintenance services for operational vehicle leasing and fleet management);
- real estate development transactions.

The Group has performed a review of the accounting treatments applied in prior periods for the recognition of revenues generated by contracts with customers and has assessed that they comply with the treatments provided by IFRS 15.

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

IASB publishes accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 30 June 2018. They are required to be applied from annual periods beginning on 1 January 2019 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Group as at 30 June 2018.

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

2019

- IFRS 16 "Leases" [Adopted by EU] (see paragraph 5)
- IFRIC 23 "Uncertainty over Income Tax Treatments"
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"
- Annual improvements (2015-2017 cycle)
- Amendments to IAS 19 "Plan amendments, curtailments and settlements"

2021

- IFRS 17 "Insurance contracts"

IFRS 16 "LEASES"

IFRS 16 is presented in paragraph 5 "Preparation for the first-time-application of IFRS 16 Leases" below.

IFRIC 23 "UNCERTAINTY OVER INCOME TAX TREATMENTS"

Issued by IASB on 7 June 2017

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.

AMENDMENTS TO IAS 28 "LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES"

Issued by IASB on 12 October 2017

The amendments clarify that IFRS 9 "Financial Instruments" shall be applied to financial instruments that form part of the net investment in an associate or a joint venture but to which the equity method is not applied.

ANNUAL IMPROVEMENTS (2015-2017)

Issued by IASB on 12 December 2017

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

AMENDMENTS TO IAS 19 "PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT"

Issued by IASB on 7 February 2018

These amendments clarify how pension expenses are determined in the event of amendment, curtailment or settlement of defined benefit pension plans. In these cases, IAS 19 currently calls for the net cost of the defined benefit asset or liability to be remeasured.

The amendments require the entity to use the updated actuarial assumptions from this remeasurement to determine past service cost and net interest.

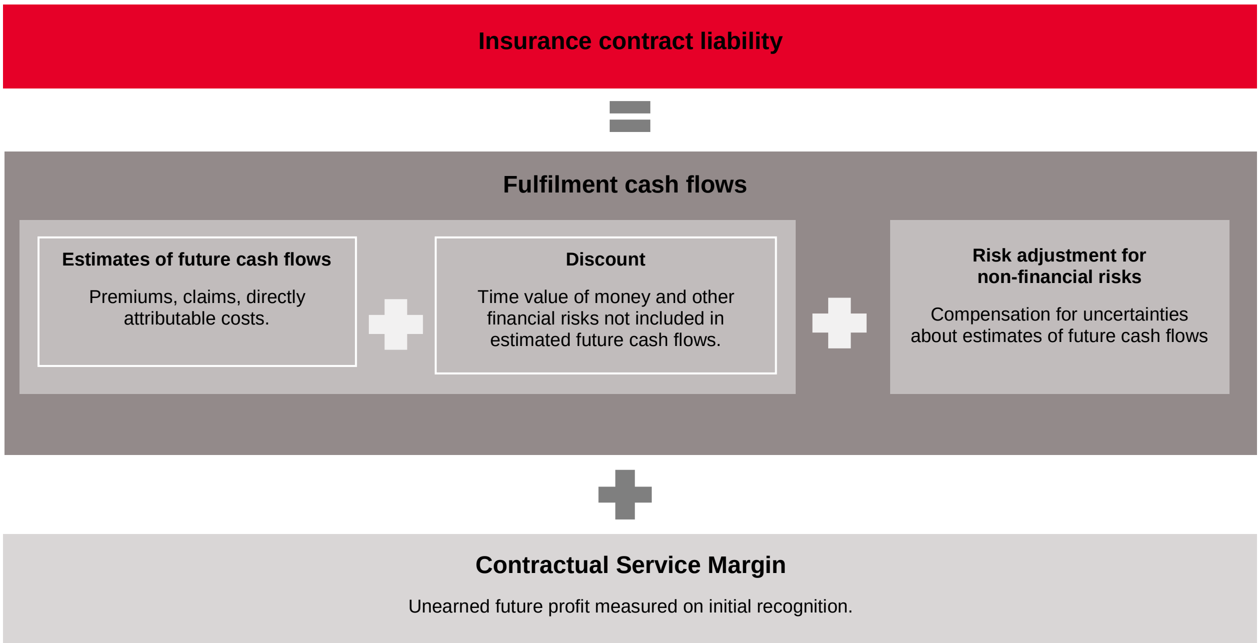
IFRS 17 "INSURANCE CONTRACTS"

Issued by IASB on 18 May 2017

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

IFRS 17 provides new rules for the recognition, measurement, presentation and disclosure of insurance contracts that belong to its application scope (insurance contracts issued, reinsurance contracts held and investment contracts issued with discretionary participation features). The underwriting reserves currently recognised among liabilities in the balance sheet will be replaced by a current value measurement of insurance contracts.

The general model provided for the measurement of insurance contracts in the balance sheet will be based on a building-blocks approach: a current estimate of future cash flows, a risk adjustment, and a contractual service margin.



Positive contractual service margins will be recognised as income over the duration of the insurance service, whereas negative margins will be immediately recognised as expense, as soon as the insurance contract is identified as onerous.

The general model will be the default measurement model for all insurance contracts.

However IFRS 17 also provides a mandatory alternative model for insurance contracts with direct participation features. Under this model, called "variable fee approach", the measurement of the insurance contract liability shall take into account the obligation to pay to policyholders a substantial share of the fair value returns on the underlying items, less a fee for future services provided by the insurance contract (changes in the fair value of underlying items due to policyholders are then recognised as an adjustment of the contractual service margin).

A simplified measurement (premium allocation approach) is also allowed by the standard under conditions for short-term contracts (12 months or less) and contracts for which the result of premium allocation approach is closed to the general approach.

These measurement models will have to be applied to homogeneous portfolios of insurance contracts. The level of aggregation of these portfolios will be assessed considering:

- contracts that are subject to similar risks and managed together;
- the year during which contracts are issued; and
- at initial recognition, contracts that are onerous, contracts that have no significant possibility of becoming onerous subsequently, and the remaining contracts.

4. FIRST APPLICATION OF IFRS 9 "FINANCIAL INSTRUMENTS"

IFRS 9 replaces IAS 39, defining a new set of rules for measuring and classifying financial assets and liabilities, establishing a new methodology for the credit impairment of financial assets and for determining loss allowances for loan and guarantee commitments, and introducing changes in the treatment of hedging transactions, with the exception of macro-hedging transactions which will be covered by a separate standard currently under review by the IASB.

As from 1 January 2018, the Group applies IFRS 9 as adopted by the European Union on 22 November 2016. The Group did not early apply the provisions of IFRS 9 to previous reporting periods. Consequently, the accounting principles applicable to financial instruments have been amended and the disclosures presented in the notes to the consolidated financial statements have been updated, in accordance with the amendments to IFRS 7 issued with IFRS 9.

In accordance with the recommendations provided by the market authorities (ESMA and AMF), the Group elected to early apply, at 1 January 2018, the amendment to IFRS 9 "Prepayment Features with Negative Compensation", issued by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018.

IFRS 9 ACCOUNTING PRINCIPLES

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Under IFRS 9, financial assets are classified among three categories (Amortised cost, Fair value through profit or loss, and Fair value through other comprehensive income), based on their contractual cash flow characteristics and the entity's business model for managing these assets.

IFRS 9 carries forward the rules for classifying and measuring financial liabilities as they appear in IAS 39, without modification. The only exception applies to financial liabilities designated to be measured at fair value through profit or loss (using the fair value option), in which case the portion of the fair value changes attributable to changes in own credit risk is recorded under "*Unrealised or deferred gains and losses*" without subsequent reclassification into profit or loss (changes attributable to other factors will continue to be recognised in profit or loss). The scope of financial liabilities designated by the Group to be measured at fair value through profit or loss is not modified by IFRS 9. IFRS 9 also details how to recognise modifications of the terms of financial liabilities that do not result in derecognition.

The principles for the classification and measurement of financial instruments are detailed in Note 3.

CREDIT RISK

IFRS 9 has replaced the incurred loss model provided for in IAS 39 with an expected credit loss (ECL) model. Under this model, impairments and provisions for credit risk are recorded at the initial recognition of the financial assets and of loan and guarantee commitments without waiting for the occurrence of objective evidence of impairment (trigger event).

The application scope and accounting principles for recognising impairment and provisions for credit risk are detailed in Note 3.8.

HEDGE ACCOUNTING

In accordance with the transitional measures provided by IFRS 9, the Group has elected to continue recognising hedging transactions under IAS 39 as adopted by the European Union.

However, additional disclosures will also be provided in the notes to the 31 December 2018 consolidated financial statements pursuant to amendments to IFRS 7.

TRANSITION REQUIREMENTS

The first-time application of IFRS 9 at 1 January 2018 is retrospective in terms of "Classification and measurement" and "Credit risk"; however, the transitional provisions of IFRS 9 provide the option, taken by the Group, of not restating comparative data for previous financial years.

Consequently, for financial instruments, the data for financial year 2017 which are presented in comparison with the data for financial year 2018 comply with the provisions of IAS 39 as adopted by the European Union.

Differences in the measurement of financial assets and liabilities resulting from the first-time application of IFRS 9 at 1 January 2018 are recorded directly in equity at that date.

As permitted by the amendment to IFRS 4 “Applying IFRS 9, Financial Instruments, with IFRS 4, Insurance Contracts”, as adopted by the European Union on 3 November 2017, the Group has elected to defer the application of IFRS 9 and continue applying IAS 39, as adopted by the European Union, for its insurance subsidiaries (see Note 4.3).

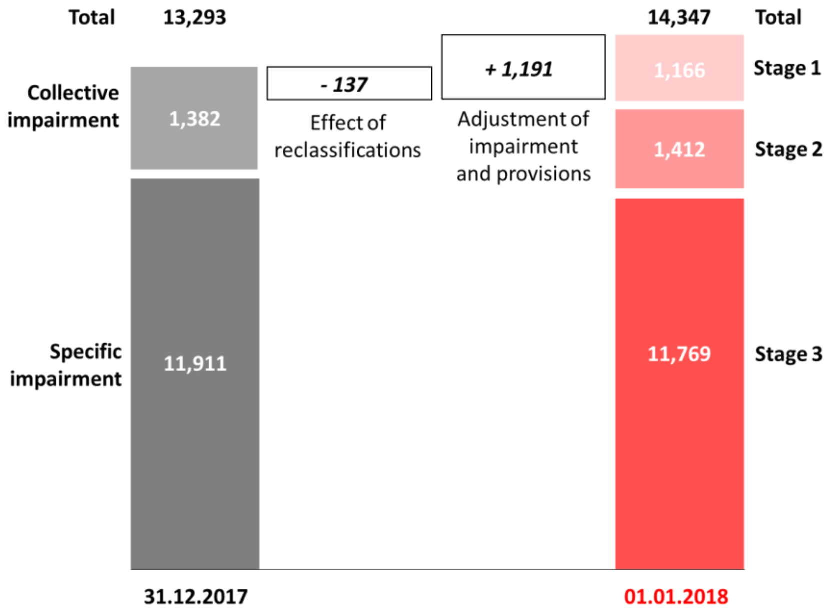
According to ANC’s Recommendation No. 2017-02 of 2 June 2017, a separate line was added to the income statement under *Net banking income* for clarification purposes. The following table present the 1st half of 2018 data prior to this reclassification:

(In millions of euros)	**1st half of 2018 before reclassification**	**2017**	**1st half of 2017**
Interest and similar income	11,987	23,679	12,125
Interest and similar expense	(6,626)	(13,263)	(6,870)
Fee income	5,333	10,504	5,338
Fee expense	(1,928)	(3,681)	(1,885)
Net gains and losses from financial transactions	2,925	5,826	3,037
o/w net gains and losses on financial instruments at fair value through profit or loss	*2,767*	*5,113*	*2,669*
o/w net gains and losses on available-for-sale financial assets	*136*	*713*	*368*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	*24*		
o/w net gains and losses from the derecognition of financial assets at amortised cost	*(2)*		
Income from other activities	12,045	22,045	12,298
Expenses from other activities	(10,988)	(21,156)	(12,370)
Net banking income	**12,748**	**23,954**	**11,673**

IMPACTS ON IMPAIRMENT AND PROVISIONS

ADJUSTMENT OF CREDIT RISK IMPAIRMENT AND PROVISIONS AT FIRST TIME APPLICATION

The following diagram presents the adjustments recorded on credit risk impairment and provisions between the situation as at 31 December 2017 established in compliance with IAS 39 and the situation as at 1 January 2018, established in compliance with IFRS 9.



The increase of impairment and provisions for credit risk is mainly due to the transition from a model based on the recognition of incurred losses to a model based on the recognition of expected losses.

There is a direct match between specific impairment and provisions under IAS 39 and Stage 3 impairment and provisions under IFRS 9 with the exception of impairment on financial assets that are measured at fair value through profit or loss either because they do not satisfy the SPPI criteria under IFRS 9 (reclassified outstandings: EUR 643 million) or they have been reclassified in the trading portfolio regarding their business model (reclassified outstandings: EUR 644 million). Indeed, the definition of default exposure remains unchanged between the two standards. After an in-depth analysis of methods used to estimate future recoverable cash flows, we found that a large portion of cash flow estimates already include a prospective feature. In cases where the loss assessment method was based on a statistical method, the link between credit losses and macro-economic variables is not relevant.

Moreover, no outstanding has been classified as purchased or originated credit-impaired assets.

However, impairments on groups of homogeneous assets have been replaced by expected credit loss impairments at one year or at maturity:

- outstandings on counterparties with a weakened financial situation since the initial recognition of those financial assets but without any objective evidence of impairment identified individually (watchlist outstanding) have been partly included in the Stage 2 category with expected credit loss impairment calculated at maturity;
- outstandings on counterparties of economic sectors considered as in crisis following loss triggering events on outstandings on geographical sectors or on countries for which a deterioration of the credit risk has been observed, have been allocated to Stage 1 (expected credit loss impairment at one year) and Stage 2 categories (expected credit loss impairment at maturity) depending on their individual credit risk and taking into account the deterioration of the sector or country between the granting date of the loan and the reporting date.

As a result, the net increase related to the transition to IFRS 9 is limited to EUR 1,054 million and is mainly due to one year expected credit loss impairments and provisions.

BREAKDOWN OF IMPAIRMENT AND PROVISIONS BY ITEM OF THE BALANCE SHEET

(In millions of euros)	Balance as of 31.12.2017 IAS 39 / IAS 37			Reclassification effects	Adjustment of credit risk impairment / provisions IFRS 9	Balance as of 01.01.2018 IFRS 9			
	Specific assessment	Collective assessment	Total			Stage 1	Stage 2	Stage 3	Total
Impairment of financial assets	**11,565**	**1,311**	**12,876**	**(137)**	**925**	**997**	**1,244**	**11,423**	**13,664**
Impairment of financial assets at amortised cost	11,460	1,311	12,771	(47)	925	992	1,244	11,413	13,649
Customer loans at amortised cost	*11,214*	*1,311*	*12,525*	*(52)*	*888*	*982*	*1,217*	*11,162*	*13,361*
Due from banks at amortised cost	*25*		*25*		*4*	*4*		*25*	*29*
Securities at amortised cost				*5*	*6*	*6*		*5*	*11*
Held-to-maturity financial assets									
Other assets	*221*		*221*		*27*		*27*	*221*	*248*
Impairment of financial assets at fair value through other comprehensive income	105	-	105	(90)	-	5	-	10	15
Available-for-sale financial assets	*105*		*105*	*(105)*					
Financial assets at fair value through other comprehensive income				*15*		*5*		*10*	*15*
Provision for credit risk on commitments	**346**	**71**	**417**	**-**	**266**	**169**	**168**	**346**	**683**
Total impairment / provisions	**11,911**	**1,382**	**13,293**	**(137)**	**1,191**	**1,166**	**1,412**	**11,769**	**14,347**

IMPACT ON BALANCE SHEET

RECONCILIATION OF THE ASSET SIDE BETWEEN IAS 39 AND IFRS 9

To determine the classification under IFRS 9 of financial assets recognised on balance sheet as at 31 December 2017, the Group performed a detailed analysis of:

- the characteristics of contractual cash flows based on facts and circumstances at the date of initial recognition of the instruments;
- the business models of its financial assets based on facts and circumstances at 1 January 2018.

Moreover, the Group implemented a new expected credit loss model to estimate impairment on financial assets measured at amortised cost or at fair value through other comprehensive income and on receivables classified among O*ther assets* (operating lease receivable and sundry debtors in particular) and to estimate provisions on financial guarantee and loan commitments.

The carrying amount of investments accounted for using the equity method has been adjusted according to IFRS 9 impacts on the financial assets held by those entities.

The following tables reconcile the asset side of the balance sheet as at 31 December 2017, prepared in compliance with IAS 39, and the asset side of the balance sheet as at 1 January 2018, prepared in compliance with IFRS 9.

(In millions of euros)	Balances at 31.12.2017 IAS 39	Reclassifications: of investments of insurance activities A	of available-for-sale financial assets B	of held-to-maturity financial assets C	of non-SPPI loans and receivables D	of loans and receivables regarding their business model E	Others F	Reclassified balances
Cash, due from central banks	114,404	-	-	-	-	-	-	114,404
Financial assets at fair value through profit or loss	419,680	(54,598)	2,422	-	643	644	537	369,328
Hedging derivatives	13,641	(420)	-	-	-	-	(503)	12,718
Financial assets at fair value through other comprehensive income	N/A	-	49,874	485	-	80	-	50,439
Available-for-sale financial assets	139,998	(84,731)	(55,267)	-			-	-
Securities at amortised cost	N/A	-	2,971	3,078	-		5,650	11,699
Due from banks at amortised cost	60,866	(7,103)	-	-	(5)	(80)	(18)	53,660
Customer loans at amortised cost	425,231	(141)	-	-	(638)	(644)	(5,580)	418,228
Revaluation differences on portfolios hedged against interest rate risk	663	-	-	-	-	-	-	663
Investments of insurance activities	N/A	147,611	-	-	-	-	-	147,611
Held-to-maturity financial assets	3,563	-	-	(3,563)	-		-	-
Tax assets	6,001	-	-	-	-	-	-	6,001
Other assets	60,562	-	-	-	-	-	(86)	60,476
Non-current assets held for sale	13	-	-	-	-	-	-	13
Investments accounted for using the equity method	700	-	-	-	-	-	-	700
Tangible and intangible fixed assets	24,818	(618)	-	-	-	-	-	24,200
Goodwill	4,988	-	-	-	-	-	-	4,988
Total	**1,275,128**	**-**	**-**	**-**	**-**	**-**	**-**	**1,275,128**

(In millions of euros)	Reclassified balances	Value adjustments: Reclassification effects G	Depreciations for credit risk H	Change in deferred taxes I	Balances at 01.01.2018 IFRS 9 (1)
Cash, due from central banks	114,404	-	-	-	114,404
Financial assets at fair value through profit or loss	369,328	(216)	-	-	369,112
Hedging derivatives	12,718	-	-	-	12,718
Financial assets at fair value through other comprehensive income	50,439	29	-	-	50,468
Available-for-sale financial assets	-	-	-	-	-
Securities at amortised cost	11,699	(100)	(7)	-	11,592
Due from banks at amortised cost	53,660	-	(4)	-	53,656
Customer loans at amortised cost	418,228	50	(887)	-	417,391
Revaluation differences on portfolios hedged against interest rate risk	663	-	-	-	663
Investments of insurance activities	147,611	-	-	-	147,611
Held-to-maturity financial assets	-	-	-	-	-
Tax assets	6,001	-	-	291	6,292
Other assets	60,476	-	(27)	-	60,449
Non-current assets held for sale	13	-	-	-	13
Investments accounted for using the equity method	700	(45)	-	4	659
Tangible and intangible fixed assets	24,200	-	-	-	24,200
Goodwill	4,988	-	-	-	4,988
Total	**1,275,128**	**(282)**	**(925)**	**295**	**1,274,216**

(1) Except for insurance subsidiaries (see Note 4.3)

DESCRIPTION OF RECLASSIFICATIONS

Identification of insurance investments *(column A)*

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

Reclassification of available-for-sale and held-to-maturity financial assets *(columns B and C)*

Applying IFRS 9 causes the disappearance of the accounting categories *Available-for-sale financial assets* and *Held-to-maturity financial assets*. Consequently, except for instruments grouped in the line *Investments of insurance activities*, instruments previously included in those categories have been reclassified in the new IFRS 9 accounting categories according to the characteristics of their contractual cash flows and their business model.

As of 31 December 2017, except for investments of insurance activities, available-for-sale financial assets included debt securities (bonds and equivalent securities) for EUR 53,464 million and equity securities (shares and equivalent securities) for EUR 1,803 million.

- Debt securities are mainly held as part of the cash management activities for the Bank's own account and as part of the management of HQLA (High Quality Liquid Assets) portfolios included in the liquidity buffer. Those securities, whose contractual cash flows are SPPI, are primarily classified as *Financial assets at fair value through other comprehensive income* for EUR 49,584 million in compliance with their business model which implies regular sales of assets from liquidity buffer portfolios. The business model implying collecting contractual cash flows is only marginally applied by some subsidiaries for their HQLA portfolios which have therefore been classified as *Securities at amortised cost* for EUR 2,971 million;
- The other debt securities belong mainly to residual portfolios of securitisation assets managed in run-off which have therefore been classified as *Financial assets at fair value through profit or loss* for EUR 895 million;
- Equity securities have been classified by default as *Financial assets at fair value through profit or loss* for EUR 1,513 million. The option to measure shares at fair value through other comprehensive income without later reclassification through profit or loss has been chosen in a very few cases by the Group (EUR 290 million).

Financial assets previously classified as *Held-to-maturity financial assets* included exclusively debt securities with SPPI contractual cash flows. Those securities are held for the management of the Group liquidity buffer which implies collecting their contractual cash flows. Consequently, they have been classified as *Securities at amortised cost* for EUR 3,078 million. Marginally, some long-term securities have been classified as *Financial assets at fair value through other comprehensive income* considering their specific business model which can imply selling assets (EUR 485 million).

Marginal amount of non-SPPI loans and receivables *(column D)*

The amount of loans and receivables that have been reclassified among *Financial assets at fair value through profit or loss* due to the non-SPPI characteristics of their contractual cash flows is limited: EUR 643 million. Those instruments are mainly loans that include prepayment features with compensation that do not reflect the effect of changes in the benchmark interest rate.

Limited impact of reclassifications related to the business model *(column E)*

Loans and receivables to customers reclassified as *Financial assets at fair value through profit or loss* for EUR 644 million include mainly:

- the portion of syndicated loans that are not intended to be kept by the Group and that have been identified since their origination as to be sold in the short term on the secondary market; and

- residual outstandings of CDO (Collateralised Debt Obligations) tranches and ABS (Asset Backed Securities) tranches presented among loans and receivables since their reclassification in 2008 and that are intended to be sold through an organised and pre-determined disposal program.

Other reclassifications *(column F)*

Hedging derivative instruments, for which the hedged financial asset has been reclassified as *Financial assets at fair value through profit or loss,* have been de-designated and reclassified as trading instruments for an amount of EUR 503 million on the asset side. Moreover, bonds which were considered to be loans and receivables under IAS 39 as those instruments are unquoted, have been reclassified as *Securities at amortised cost* for an amount of EUR 5,612 million.

DESCRIPTION OF VALUE ADJUSTMENTS

Limited effects of reclassifications *(column G)*

The balance sheet value of financial assets, which have been reclassified according to IFRS 9, has been adjusted based on their new measurement method. Those adjustments include EUR 137 million of credit risk impairment reversal on financial assets reclassified as *Financial assets at fair value through profit or loss*.

Increase in credit risk impairment *(column H)*

The application of the new accounting model for credit risk causes an adjustment of impairment related to financial assets measured at amortised cost (increase of EUR 925 million). This adjustment concerns mainly loans to customers. The analysis of those adjustments is presented in section “Impact on impairment and provisions”.

Tax effects *(column I)*

The tax effects of those adjustments has changed the amounts of deferred tax assets and liabilities in the Group balance sheet.

RECONCILIATION OF THE LIABILITY SIDE BETWEEN IAS 39 AND IFRS 9

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

		Reclassifications			Value adjustments			
(In millions of euros)	**Balances at 31.12.2017 IAS 39**	of insurance liabilities	of own credit adjustment	Others	Reclassifications effects	Depreciations and provisions for credit risks	Change in deferred taxes	**Balances at 01.01.2018 IFRS 9 [1]**
		A	**B**	**C**	**D**	**E**	**F**	
Due to central banks	5,604	-	-	-	-	-	-	5,604
Financial liabilities at fair value through profit or loss	368,705	(759)	-	604	-	-	-	368,550
Hedging derivatives	6,750	-	-	(604)	-	-	-	6,146
Debt securities issued	103,235	-	-	-	-	-	-	103,235
Due to banks	88,621	-	-	-	-	-	-	88,621
Customer deposits	410,633	-	-	-	-	-	-	410,633
Revaluation differences on portfolios hedged against interest rate risk	6,020	-	-	-	-	-	-	6,020
Tax liabilities	1,662	-	-	-	-	-	(54)	1,608
Other liabilities	69,139	-	-	-	-	-	-	69,139
Non-current liabilities held for sale	-	-	-	-	-	-	-	-
Underwriting reserves of insurance companies	130,958	(130,958)	-	-	-	-	-	-
Liabilities related to insurance companies	N/A	131,717	-	-	-	-	-	131,717
Provisions	6,117	-	-	-	(38)	266	-	6,345
Subordinated debt	13,647	-	-	-	-	-	-	13,647
Total liabilities	**1,211,091**	**-**	**-**	**-**	**(38)**	**266**	**(54)**	**1,211,265**
SHAREHOLDERS' EQUITY	-	-	-	-	-	-	-	-
Shareholders' equity, Group share	-	-	-	-	-	-	-	-
Issued common stocks, equity instruments and capital reserves	29,427	-	-	-	-	-	-	29,427
Retained earnings	27,791	-	724	-	113	(1,031)	101	27,698
Net income	2,806	-	-	-	-	-	-	2,806
Sub-total	**60,024**	**-**	**724**	**-**	**113**	**(1,031)**	**101**	**59,931**
Unrealised or deferred capital gains and losses	(651)	-	(724)	-	(329)	5	196	(1,503)
Sub-total equity, Group share	**59,373**	**-**	**-**	**-**	**(216)**	**(1,026)**	**297**	**58,428**
Non-controlling interests	4,664	-	-	-	(28)	(165)	52	4,523
Total equity	**64,037**	**-**	**-**	**-**	**(244)**	**(1,191)**	**349**	**62,951**
Total	**1,275,128**	**-**	**-**	**-**	**(282)**	**(925)**	**295**	**1,274,216**

(1) Except for insurance subsidiaries (see Note 4.3)

DESCRIPTION OF RECLASSIFICATIONS

Identification of liabilities related to insurance contracts *(column A)*

Following the decision of the Group to defer the application of IFRS 9 for its insurance subsidiaries, liabilities related to insurance contracts (underwriting reserves of insurance companies and derivatives instruments) have been grouped in a specific line of the balance sheet (*Insurance contracts related to liabilities*).

OCA (Own Credit Adjustment) *(column B)*

Revaluation differences on financial liabilities designated at fair value through profit or loss using the fair value option, and related to the Group's own credit risk (also called OCA) are now recorded among *Unrealised or deferred capital gains and losses*, without subsequent reclassification in profit or loss. The cumulated differences as at 31 December 2017 amount to EUR - 724 million.

Other reclassifications *(column C)*

Hedging derivative instruments for which the hedged financial asset has been reclassified as *Financial assets at fair value through profit or loss* have been de-designated and reclassified as trading instruments for an amount of EUR 604 million on the liability side.

DESCRIPTION OF VALUE ADJUSTMENTS

Limited increase in provisions for credit risk *(column E)*

The application of the new accounting model for credit risk causes an adjustment of provisions on guarantee and loan commitments for an amount of EUR 266 million in addition to an adjustment of impairment on the asset side. The analysis of those adjustments is presented in the section "*Impact on impairment and provisions*".

Tax effects (*column F*)

The tax effects of those adjustments has changed the amounts of deferred tax assets and liabilities in the Group's balance sheet.

Equity *(columns D, E and F)*

The value adjustments recorded as at 1 January 2018 on Group assets and liabilities in compliance with IFRS 9 have been recorded with a corresponding entry in equity. Those adjustments are mainly due to the application of the new accounting model for credit risk (EUR -1,191 million).

Moreover, adjustments of impairment on debt financial assets at fair value through other comprehensive income have been reclassified from *Unrealised or deferred capital gains and losses* to *Retained earnings* (EUR 5 million).

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

This new standard will supersede the existing standard, IAS 17 and modify the accounting requirements for leases, more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

ACCOUNTING TREATMENTS PROVIDED BY IFRS 16

For all lease agreements, the lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In its income statement, the lessee will separately recognise the depreciation of the right-of-use assets and the interest expense on lease liabilities. This treatment is currently applied by lessees to finance-lease transactions and it will then be extended to operating leases as well:

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

The Group, as lessee, currently records its leases as operating leases and recognises lease payments as income according to the straight line method over the term of the lease, in compliance with IAS 17.

Most lease payments (nearly 80%) concern property leases concluded for the rental of retail spaces (branch offices in the retail banking networks in France or abroad) and office buildings (used by some departments belonging to Group headquarters in France and local headquarters of the main overseas subsidiaries, and in some locations on the main international financial markets: London, New York, Hong Kong). In France, commercial leases are generally enforceable for a term of 9 years, with an initial 3-year non-cancellation period.

The other lease payments concern mostly leasing of IT equipment and, very incidentally, vehicle leasing.

ORGANISATION OF THE IFRS 16 STANDARD IMPLEMENTATION PROGRAMME

Starting in the 4th quarter of 2016, the Group began a framework project for the implementation transition of its information systems and processes, and to define the lease contracts to be included in the scope of this new standard.

To that end, a project structure was established by the Finance Division and the Group Resources Division.

Since the beginning of 2017, the Group has:

- collected data on leases for real estate assets and begun collecting data on contracts covering IT equipment and auto leases in order to establish a Group lease database;
- developed an in-house calculation and operation tool for the lease database, which can be used to generate the data required to recognise leases in the financial statements in accordance with IFRS 16.

At this point in the implementation of IFRS 16, the quantified impacts of its application on the Group's financial statements cannot be reasonably estimated.

6. USE OF ESTIMATES AND JUDGMENT

When applying the accounting principles disclosed in the following notes for the purpose of preparing the Group's consolidated financial statements, the Management makes assumptions and estimates that may have an impact on the figures recorded in the income statement, on the valuation of assets and liabilities in the balance sheet, and on the information disclosed in the notes to the consolidated financial statements.

In order to make these assumptions and estimates, the Management uses the information available at the date of preparation of the consolidated financial statements and can exercise its judgment. By their 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.

These estimates are notably used in the fair value measurement of financial instruments and the measurement of asset impairment, provisions recognised as liabilities in the balance sheet (in particular, provisions for disputes in a complex legal setting), deferred tax assets recognised in the balance sheet and goodwill, as well as the assessment of controls for determining the scope of consolidated entities (especially for structured entities).

For the application of IFRS 9, the Group has expanded the use of estimates and judgement in analysing the contractual cash flow characteristics of financial assets, assessing the increase in credit risk observed since the initial recognition of financial assets, and measuring the amount of expected credit losses on these same financial assets.

The United Kingdom has organised on 23 June 2016 a referendum in which a majority of British citizens voted to leave the European Union (Brexit). Negotiations are in progress to redefine the economic relationships between the United Kingdom and the European Union. The Group closely follows the progress of the discussions and their consequences in the short, medium and long term. If needed, the Group takes these consequences into account when making assumptions and estimates for preparing its consolidated financial statements.

NOTE 2 - CONSOLIDATION

NOTE 2.1 - CONSOLIDATION SCOPE

The consolidation scope includes subsidiaries and structured entities under the Group’s exclusive control, joint arrangements (joint ventures and joint operations) and associates whose financial statements are significant relative to the Group’s consolidated financial statements, notably regarding Group consolidated total assets and gross operating income.

There is no significant change to the consolidation scope at 30 June 2018, compared with the scope applicable at the closing date of 31 December 2017.

NOTE 2.2 - GOODWILL

The table below shows the changes in the net values of goodwill recorded by the Cash-Generating Units (CGUs) in the first half of 2018:

(In millions of euros)	**Net book value at 31.12.2017**	**Acquisitions and other increases**	**Disposals and other decreases[1]**	**Transfers[2]**	**Net book value at 30.06.2018**
French Retail Banking	**815**			**(18)**	**797**
Societe Generale Network	304			(18)	286
Crédit du Nord	511				511
International Retail Banking & Financial Services	**3,209**	**9**	**(123)**		**3,095**
Europe	1,787		(123)		1,664
Russia	-				-
Africa, Mediterranean Basin and Overseas [3]	231				231
Insurance	335				335
Equipment and Vendor Finance	335				335
Auto Leasing Financial Services	521	9			530
Global Banking and Investor Solutions	**964**			**18**	**982**
Global Markets and Investor Services	501				501
Financing and Advisory	39			18	57
Asset and Wealth Management	424				424
TOTAL	**4,988**	**9**	**(123)**	**-**	**4,874**

(1) The goodwill for the Albanian and Bulgarian retail banks (Banka SG Albania and SG Express Bank) has been reclassified to "Non-current assets held for sale" (See Note 2.3).

(2) Since 1st January 2018, the activity Global Transaction and Payment Services has been transferred from French Retail Banking to Global Banking and Investor Solutions.

(3) The CGU "Africa, Asia, Mediterranean Basin and Overseas" has been renamed "Africa, Mediterranean Basin and Overseas" without consequences on the amount of goodwill.

NOTE 2.3 - NON-CURRENT ASSETS HELD FOR SALE AND RELATED DEBT

ACCOUNTING PRINCIPLES

A non-current asset or group of assets and liabilities is deemed to be “held for sale” if its carrying value will primarily be recovered through a sale and not through its continuing use. For this classification to apply, the asset or group of assets and liabilities must then be immediately available-for-sale in its present condition and it must be highly probable that the sale will occur within twelve months.

For this to be the case, the Group must be committed to a plan to sell the asset (or disposal group if assets and liabilities) and have begun actively searching for a buyer. Furthermore, the asset or group of assets and liabilities must be measured at a price that is reasonable in relation to its current fair value.

Assets and liabilities into this category are classified as *Non-current assets held for sale* and *Non-current liabilities held for sale*, with no netting.

If the fair value less selling costs of non-current assets and groups of assets and liabilities held for sale is less that their net carrying value, an impairment is then recognized in profit or loss. Moreover, *Non-current assets held for sale* are no longer amortised or depreciated.

(In millions of euros)	30.06.2018	31.12.2017
Assets	**4,313**	**13**
Fixed assets and Goodwill	144	6
Financial assets	3,458	7
Financial assets at fair value through profit or loss	*68*	*7*
Financial assets at fair value through equity	*522*	-
Due from banks	*97*	-
Customer loans	*2,771*	-
Other assets	711	-
Liabilities	**4,042**	**-**
Allowances	15	-
Financial liabilities	3,974	-
Financial liabilities at fair value through profit or loss	*1*	-
Due to banks	*208*	-
Customer deposits	*3,765*	-
Other liabilities	53	-

The *Non-current assets held for sale* and *Non-current liabilities held for sale* items mainly encompass the assets and liabilities of the Group’s Albanian and Bulgarian retail banking arms (SG Albania and SG Express Bank respectively).

The principle applied whereby some non-current assets held for sale (mostly goodwill and fixed assets) are assessed at their lowest accounting value and lowest net fair value for the disposal costs means that all or part of any expected capital loss from the sale of an asset group can be allocated as soon as these assets are reclassified under *Non-current assets held for sale*. In this context, the impairment cost recognised by the Group at 30 June 2018 was limited to EUR -27 million under *Net gains or losses from other assets*.

On 30 July 2018, the Group reached an agreement to sell Societe Generale Private Banking NV/SA. The contribution of this entity to the Group’s balance sheet is limited (EUR 515 million among *Customer loans at amortised cost* and EUR 993 million among *Customer deposits*). The sale will not lead to any loss in the Group’s consolidated statements. As at 30 June 2018, it was not highly probable that the sale could occur within twelve months; negotiations have been subsequently accelerated until succeeding at the late end of July. Accordingly, in the interim consolidated financial statements for the six-month period ending 30 June 2018, the entity’s assets and liabilities remain presented in their original categories.

NOTE 3 - FINANCIAL INSTRUMENTS

MAKING IT SIMPLE

The financial instruments represent the contractual rights or obligations to receive or to pay cash or other financial assets. The Group's banking activities generally take the form of financial instruments covering a broad spectrum of assets and liabilities, such as loans, investment portfolios (equity, bonds, etc.), deposits, regulated savings accounts, debt securities issued and derivative instruments (swaps, options, forward contracts, credit derivatives, etc.).

In the financial statements, the classification and valuation of financial assets and liabilities depend on their contractual characteristics and the way the entity manages those financial instruments.

However, this distinction is not applicable to derivative instruments, which are always measured at fair value in the balance sheet, no matter what their purpose is (market activities or hedging transactions).

ACCOUNTING PRINCIPLES

CLASSIFICATION OF FINANCIAL ASSETS

At initial recognition, financial instruments are classified in the Group balance sheet in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income) that determine their accounting treatment and subsequent measurement method. Classification is based on their contractual cash flow characteristics and the entity's business model for managing the assets.

Cash flow characteristics	Business model	Accounting classification
SPPI (Solely Payments of Principal and Interest) • **Basic debt financial assets**	**Collecting contractual cash**	**Amortised cost**
	Collecting contractual cash flows and selling	**Fair *value* through OCI** with subsequent recycling in the income statement
	Trading portfolio	**Fair value through profit or loss**
	+ Fair value option *(to eliminate or reduce an accounting mismatch)*	**Fair value through profit or loss**
NON –SPPI • **Complex debt financial assets** • **Equity financial assets** • **Derivatives**	**Regardless of the business model**	**Fair value through profit or loss**
	+ Fair value through OCI option *without subsequent recycling in the income statement(non-trading equity financial assets)*	**Fair value through OCI** without subsequent recycling in the income statement

The accounting principles for classifying financial assets require the entity to analyse the contractual cash flows generated by the financial instruments and to analyse the business model for managing the financial instruments.

Analysis of contractual cash flow characteristics

The aim of the analysis of contractual cash flow characteristics is to limit 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 is not inconsistent with this definition.

All financial assets that are not basic will be mandatorily measured at fair value through profit or loss, regardless of the business model for managing them.

Derivatives qualifying as hedging instruments for accounting purposes are recorded on a separate line in the balance sheet (see Note 3.2).

The Group can make the irrevocable decision to classify and measure an investment in an equity instrument that is not held for trading purposes at fair value through other comprehensive income. Subsequently, the profit or loss accumulated in other comprehensive income will never be reclassified to profit or loss (only dividends from those investments will be recognised as income).

Guarantee deposits paid, trade receivables and operating lease receivables are presented among *Other assets* (see Note 4.4).

Analysis of the business model

The business model represents how the financial instruments are managed in order to generate cash flows and income.

The Group uses several business models in the course of exercising its different business lines. Business models are assessed on how groups of financial instruments are managed together to achieve a particular business objective. The business model is not assessed on an instrument-by-instrument basis, but at a portfolio level, considering relevant evidence such as:

- how the performance of the portfolio is evaluated and reported to the Group’s management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- sales of assets realised or expected (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, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

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).

CLASSIFICATION OF FINANCIAL LIABILITIES

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

- *Financial liabilities at fair value through profit or loss*: these are financial liabilities held for trading purposes, which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- *Debts*: these include the other non-derivative financial liabilities and are measured at amortised cost.

Derivative financial assets and liabilities qualifying as hedging instruments are carried on separate lines of the balance sheet (see Note 3.2).

Guarantee deposits received and trade payables are presented among *Other liabilities* (see Note 4.4).

RECLASSIFICATION OF FINANCIAL ASSETS

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

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods used by the Group to establish the fair value of financial instruments are detailed in Note 3.4.

INITIAL RECOGNITION

Financial assets are recognised on the balance sheet:

- at the settlement/delivery date for securities;
- at the trade date for derivatives;
- at the disbursement date for loans.

For instruments measured at fair value, changes in fair value between the trade date and the settlement-delivery date are recorded under profit or loss or under other comprehensive income, depending on the accounting classification of the financial assets in question. The trade date is the date on which the contractual commitment becomes binding and irrevocable for the Group.

When initially recognised, financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or issuance, except for financial instruments recognised at fair value through profit or loss, for which these costs are booked directly to the income statement.

If the initial fair value is based on observable market data, any difference between the fair value and the transaction price, i.e. the sales margin, is immediately recognised in the income statement. However, if valuation inputs are not observable or if the valuation models are not recognised by the market, the recognition of the sales margin is then generally deferred in the income statement. For some instruments, due to their complexity, this margin is recognised at their maturity or upon disposal in the event of early sale. When valuation inputs become observable, any portion of the sales margin that has not yet been recorded is recognised in the income statement at that time (see Note 3.4.7).

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The Group derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows on the asset expire or when the Group has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to ownership of the asset.

The Group also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party ("pass-through agreement") and for which it has transferred substantially all the risks and rewards.

Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the income statement for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the income statement on the prepayment date among *Interest and similar income*.

The Group 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.

ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

The Group has established procedures for determining if financial assets pass the SPPI test at initial recognition (allocation of loans, acquisition of securities, etc.).

All contractual terms shall be analysed, particularly those that could change the timing or amount of contractual cash flows. A contractual term that permits the borrower or the lender to prepay or to return the debt instrument to the issuer before maturity remains consistent with SPPI cash flows, provided the prepayment amount primarily represents the principal remaining due and accrued but unpaid contractual interest, which may include a reasonable compensation. Such compensation can be either positive or negative which is not inconsistent with SPPI cash flows.

The prepayment compensation is considered as reasonable especially when:

- the amount is calculated as a percentage of the outstanding amount of the loan and is capped by regulations (in France, for example, compensation for the prepayment of mortgage loans by individuals is legally capped at an amount equal to six months of interest or 3% of the principal outstanding), or is limited by competitive market practices;
- the amount is equal to the difference between contractual interest that should have been received until the maturity of the loan and the interest that would be obtained by the reinvestment of the prepaid amount at a rate that reflects the relevant benchmark interest rate.

Some loans are prepayable at their current fair value, while others can be prepayable at an amount that includes the fair value cost to terminate an associated hedging swap. It is possible to consider such prepayment amounts as SPPI provided that they reflect the effect of changes in the relevant benchmark interest rate.

Basic financial assets (SPPI) are debt instruments which mainly include:

- fixed-rate loans,
- variable-rate loans that can include caps or floors,
- fixed or variable-rate debt securities (government or corporate bonds, other negotiable debt securities),
- securities purchased under resale agreements (reverse repos),
- guarantee deposits paid,
- trade receivables.

Contractual terms that would introduce exposure to risks or volatility in the contractual cash flows that would be unrelated to a basic lending arrangement (such as exposure to changes in equity prices or stock indexes for instance, or leverage features) could not be considered as being SPPI, except if their effect on the contractual cash flow remains minimum.

Non-basic financial assets (non-SPPI) mainly include:

- derivative instruments,
- shares and other equity instruments held by the entity,
- equity instruments issued by mutual funds,
- debt financial assets that can be converted or redeemed into a fixed number of shares (convertible bonds, equity-linked securities, etc.).

When the time value component of interest can be modified according to the contractual term of the instrument, it may be necessary to compare the contractual cash flow with the cash flow that would arise from a benchmark instrument. For instance, that is the case when an interest rate is periodically reset, but the frequency of that reset does not match the term of the interest rate (such as an interest rate reset every month to a one-year rate), or when the interest rate is periodically reset to an average of short- and long-term interest rates.

If the difference between undiscounted contractual cash flows and undiscounted benchmark cash flows is or may become significant, then the instrument is not considered basic.

Depending on the contractual terms, the comparison with benchmark cash flow may be performed through a qualitative assessment; but in other cases, a quantitative test is required. The difference between contractual and benchmark cash flows has to be considered in each reporting period and cumulatively over the life of the instrument. When performing this benchmark test, the entity considered factors that could affect future undiscounted contractual cash flows: using the yield curve at the date of the initial assessment is not enough, and the entity also has to consider whether the curve could change over the life of the instrument according to reasonably possible scenarios.

Within the Group, the financial instruments concerned by a benchmark test include, for instance, variable-rate housing loans for which interest rates are reset every year based on the twelve-month Euribor average observed over the two months previous to the reset. Another example is loans granted to real estate professionals for which interest is revised quarterly based on the one-month Euribor average observed over the three months previous to the reset. Following the benchmark analysis performed by the Group, it has been concluded that these loans are basic.

Furthermore, a specific analysis of contractual cash flow is required when financial assets are instruments issued by a securitisation vehicle or a similar entity that prioritises payments to holders using multiple contractually-linked instruments that create concentrations of credit risk (tranches). When assessing whether contractual cash flows are SPPI or not, the entity must analyse the contractual terms, as well as the credit risk of each tranche and the exposure to credit risk in the underlying pool of financial instruments. To that end, the entity must apply a “look-through approach” to identify the underlying instruments that are creating the cash flows.

COMPARATIVE DATA

The comparative data for balance sheet items and commitments associated with financial instruments presented throughout Note 3 are the balances at 1 January 2018. These amounts constitute the balances at 31 December 2017, corrected for reclassifications and value adjustments resulting from the first-time application of IFRS 9.

The comparative data at 31 December 2017, and the accounting policies applicable to these comparative data, are available in the consolidated financial statements for financial year 2017, presented in the chapter 6 of the 2018 Registration Document of the Societe Generale Group.

Furthermore, the Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. As of 1 January 2018, the financial assets and liabilities of these subsidiaries, and the related income, are presented on separate lines in the balance sheet (*Investments of insurance activities* and *Insurance contracts related liabilities*) and in the income statement (*Net income from insurance activities*). Consequently, the data for financial year 2018 presented in Note 3 exclude the financial instruments of insurance subsidiaries (the data for insurance subsidiaries are presented in Note 4.3).

NOTE 3.1 - FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

OVERVIEW OF IFRS 9 TRANSITION (see comments in Note 1)

(In millions of euros)	Balance at 31.12.2017 IAS 39	Reclassifications: of investments and liabilities related to insurance activities	Reclassifications: of available-for-sale financial assets	Reclassifications: of non-SPPI loans and receivables	Reclassifications: of loans and receivables regarding the business model	Reclassifications: Other	Value adjustments	Balance at 01.01.2018 IFRS 9
Financial assets at fair value through profit or loss								
Trading portfolio	342,616	(699)	737	-	644	586	(47)	343,837
Financial assets mandatorily at fair value through profit or loss	N/A	-	1,685	19,992	-	61	(169)	21,569
Financial assets at fair value through profit or loss using the fair value option	77,064	(53,899)	-	(19,349)	-	(110)	-	3,706
Total	**419,680**	**(54,598)**	**2,422**	**643**	**644**	**537**	**(216)**	**369,112**
Financial liabilities at fair value through profit or loss								
Trading portfolio	288,689	(759)	-	-	-	604	-	288,534
Financial liabilities at fair value through profit or loss using the fair value option	80,016	-	-	-	-	-	-	80,016
Total	**368,705**	**(759)**	**-**	**-**	**-**	**604**	**-**	**368,550**

OVERVIEW OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.06.2018		01.01.2018	
(In millions of euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading portfolio	356,760	295,002	343,837	288,534
Financial assets mandatorily at fair value through profit or loss	22,800		21,569	
Financial instruments using fair value option through profit or loss	3,096	78,145	3,706	80,016
Total	**382,656**	**373,147**	**369,112**	**368,550**
o/w securities purchased/sold under resale/repurchase agreements	*124,552*	*103,402*	*101,414*	*105,737*

1. TRADING PORTFOLIO

ACCOUNTING PRINCIPLES

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

This portfolio also includes, among other trading assets, physical commodities that are held by the Group as part of its market-maker activity on commodity derivative instruments.

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 3.2).

The financial instruments recorded in the trading portfolio are measured at fair value at the balance sheet date and recognised in the balance sheet under *Financial assets or liabilities at fair value through profit or loss*. Changes in their fair value and revenues associated which those instruments are recorded in the income statement as *Net gains and losses on financial instruments at fair value through profit or loss.*

TRADING ACTIVITIES

Financial assets held for trading are:

- acquired with the intention of selling them in the short term; or
- held for market-making purposes; or
- acquired for the purposes of the specialised management of a trading portfolio, including derivative financial instruments, securities or other financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Global market activities

The trading business model is applied by Global Banking and Investor Solutions to manage its global market activities.

It is also applied for managing syndicated loan commitments and loans that are not intended to be kept by the Group and that have been identified since their origination as to be sold in the short term (within 6 to 12 months) on the secondary market, as well as for loans originated by the Group through originate-to-distribute activities and that are expected to be sold shortly.

Financial assets held in run-off portfolios are also monitored based on their fair value. Although those portfolios are not related to market activities, those assets are presented amongst the trading portfolio and are measured at fair value through profit or loss.

These financial assets include tranches of CDOs (Collateralised Debt Obligations) or ABS (Asset-Backed Securities) in which the Group still holds residual lines subject to gradual disposals. In 2008, these financial assets had been reclassified to *Loans and receivables* and were transferred to *Financial assets at fair value through profit or loss* at 1 January 2018 as a result of the first-time application of IFRS 9.

The trading portfolio includes all the financial assets held for trading purposes regardless of the characteristics of their contractual cash flows. Only non-SPPI financial assets that are not held for trading are classified amongst *Financial assets measured mandatorily at fair value through profit or loss* (see section 2 below).

ASSETS

(In millions of euros)	30.06.2018	01.01.2018
Bonds and other debt securities	34,760	28,006
Shares and other equity securities	65,287	80,059
Loans and securities purchased under resale agreements	126,390	101,110
Trading derivatives (1)	130,006	134,291
Other trading assets	317	371
Total	**356,760**	**343,837**
o/w securities lent	*15,890*	*15,807*

(1) See Note 3.2 Financial derivatives

LIABILITIES

(In millions of euros)	30.06.2018	01.01.2018
Amounts payable on borrowed securities	46,662	34,844
Bonds and other debt instruments sold short	8,805	5,416
Shares and other equity instruments sold short	1,331	1,002
Borrowings,securities sold under repurchase agreements	102,282	104,090
Trading derivatives [(1)]	134,483	142,369
Other trading liabilities	1,439	813
Total	**295,002**	**288,534**

(1) See Note 3.2 Financial derivatives

2. FINANCIAL INSTRUMENTS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING PRINCIPLES

Financial assets measured mandatorily at fair value through profit or loss include:

- loans, bonds and bond equivalents that are not held for trading purposes and do not pass the SPPI test (non-basic or non-SPPI instruments).
- shares and share equivalents that are not classified in any other sub-category: trading book at fair value through profit or loss, instruments designated by the Group at fair value through other comprehensive income without subsequent reclassification to profit or loss.

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

BREAKDOWN OF FINANCIAL ASSETS MEASURED MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(In millions of euros)	30.06.2018	01.01.2018
Bonds and other debt securities	157	159
Shares and other equity securities	1,813	1,560
Loans and securities purchased under resale agreements	20,830	19,850
Total	**22,800**	**21,569**

The loans and receivables recorded in the balance sheet under *Financial assets at fair value through profit or loss* are mainly loans that include prepayment features with compensation that do not reflect the effect of changes in the benchmark interest rate.

Until 31 December 2017, almost all these loans were classified as *Financial assets measured at fair value option through profit or loss* in order to eliminate or significantly reduce accounting mismatches with hedging derivatives that were not accounted for as hedging instruments, or in order to avoid the separate recognition of embedded derivatives.

At 1 January 2018, only EUR 643 million had been reclassified from *Loans and receivables* into *Financial assets mandatorily measured at fair value through profit or loss*.

3. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS USING THE FAIR VALUE OPTION

ACCOUNTING PRINCIPLES

In addition to financial assets and liabilities held for trading, and financial assets measured mandatorily at fair value through profit or loss, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in the fair value of these instruments are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*.

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

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

- to eliminate or reduce discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

The Group thus recognises some structured bonds issued by Societe Generale Corporate and Investment Banking at fair value through profit or loss. These issues are purely commercial and the associated risks are hedged on the market using financial instruments managed in trading portfolios. By using the fair value option, the Group can ensure consistency between the accounting treatment of these bonds and that of the derivatives hedging the associated market risks, which have to be carried at fair value.

Furthermore, in order to simplify their accounting treatment by avoiding the separate recognition of embedded derivatives, the Group applies the fair value option to convertible bonds that are not held for trading purposes.

ASSETS

(In millions of euros)	30.06.2018	01.01.2018
Bonds and other debt securities	1,046	1,045
Loans and securities purchased under resale agreements	1,511	2,119
Other financial assets	-	-
Separate assets for employee benefits plans	539	542
Total	**3,096**	**3,706**

LIABILITIES

Financial liabilities measured at fair value through profit or loss in accordance with the fair value option predominantly consist of structured bonds issued by the Societe Generale group.

Changes in fair value attributable to own credit risk generated a gain of EUR 141 million at 30 June 2018, which was recognised in other comprehensive income. Up to this date, the total gains and losses attributable to own credit risk amounted to EUR -583 million (see “Statement of net income and unrealised or deferred gains and losses” and “Changes in shareholders’ equity”).

At 31 December 2017, changes in fair value attributable to own credit risk were recognised in the income statement.

The revaluation differences attributable to the Group’s issuer credit risk are determined using valuation models taking into account the Societe Generale group’s most recent financing terms and conditions on the markets and the residual maturity of the related liabilities.

At 30 June 2018, the difference between the fair value of financial liabilities measured using the fair value option through profit or loss (EUR 78,145 million versus EUR 80,016 million at 31 December 2017) and their amount redeemable at maturity (EUR 78,483 million versus EUR 79,597 million at 31 December 2017) stood at EUR -338 million (EUR 419 million at 31 December 2017).

NOTE 3.2 - FINANCIAL DERIVATIVES

MAKING IT SIMPLE

Derivative instruments are financial instruments for which the value changes according to that of an underlying item and can be accompanied by a leverage effect. The items underlying these instruments are various (interest rates, exchange rates, equity, indexes, commodities, credit rating, etc.), as are their forms (forward contracts, swaps, calls and puts, etc.).

The Group may use these derivative instruments for its market activities to provide its customers with solutions to meet their risk management or revenue optimisation needs. In that case, they are accounted for as trading derivatives.

The Group may also use derivative instruments to manage and hedge its own risks. In which case, they are qualified as hedging derivatives. Hedging transactions can concern individual items or transactions (micro-hedging relationships) or portfolios of financial assets and liabilities that can generate a structural interest-rate risk (macro-hedging relationships).

Contrary to other financial instruments, derivative instruments are always measured at fair value in the balance sheet, regardless of their purpose (market activities or hedging transactions). The fair value adjustments of trading derivatives are directly recognised in the income statement. However, the accounting method used on hedging transactions aims to neutralise in the income statement the effects of the revaluation of *Hedging derivatives*, for as long as the hedge is effective.

ACCOUNTING PRINCIPLES

Derivatives are financial instruments meeting the following three criteria:

- their value changes in response to the change of the underlying (interest rate, foreign exchange rate, share price, index of prices, commodity price, credit rating etc.);
- they require little to no initial investment;
- they are settled at a future date.

All financial derivatives are recognised at fair value in the balance sheet as financial assets or financial liabilities. They are considered to be trading derivatives by default, unless they are designated as hedging instruments for accounting purposes.

SPECIAL CASE - FINANCIAL DERIVATIVES HAVING SOCIETE GENERALE SHARES AS THEIR UNDERLYING INSTRUMENT

Financial derivatives having Societe Generale shares or shares in Group subsidiaries as their underlying instrument and whose liquidation entails the payment of a fixed amount in cash (or another financial asset) against a fixed number of Societe Generale shares (other than derivatives) are qualified as equity instruments. These instruments, and any related premiums paid or received, are recognised directly in equity, and are not subject to any subsequent reevaluation. For sales of put options on Societe Generale shares, a debt is recognised for the present value of the strike price as a contra entry of the equity.

Other financial derivatives having Societe Generale shares as their underlying instrument are recorded in the balance sheet at fair value in the same manner as derivatives with other underlying instruments.

EMBEDDED DERIVATIVES

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

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

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

- at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; and
- it would meet the definition of a derivative.

Once separated, the derivative is recognised at fair value in the balance sheet under *Financial assets* or *Financial liabilities at fair value through profit or loss* under the aforementioned conditions. The host contract is classified as a financial liability and measured in accordance with its accounting category.

1. TRADING DERIVATIVES

Trading derivatives are recorded in the balance sheet under *Financial assets or liabilities at fair value through profit or loss*. Changes in fair value are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*.

Changes in the fair value of financial derivatives involving counterparties which have subsequently defaulted are recorded under *Net gains and losses on financial instruments at fair value through profit or loss* until the termination date of these instruments. At this termination date, receivables and debts on these counterparties are recognised at fair value in the balance sheet. Any further impairment of these receivables is recognised under *Cost of risk* in the income statement.

BREAKDOWN OF TRADING DERIVATIVES

	30.06.2018		01.01.2018	
(In millions of euros)	Assets	Liabilities	Assets	Liabilities
Interest rate instruments	81,906	81,779	89,508	92,183
Foreign exchange instruments	18,309	18,725	16,553	17,797
Equities & index instruments	21,456	24,074	19,959	22,732
Commodities instruments	6,356	6,681	5,948	6,070
Credit derivatives	1,789	2,309	2,245	2,562
Other forward financial instruments	190	915	78	1,025
Total	**130,006**	**134,483**	**134,291**	**142,369**

The Group uses credit derivatives in the management of its Corporate credit portfolio, primarily to reduce individual, sector and geographic concentration and to implement a proactive risk and capital management approach. All credit derivatives, regardless of their purpose, are measured at fair value through profit or loss and cannot be qualified as hedging instruments for accounting purposes. Accordingly, they are recognised at fair value among trading derivatives.

2. HEDGING DERIVATIVES

According to the transitional provisions of IFRS 9, the Group made the choice to maintain the IAS 39 provisions related to hedge accounting. Consequently, equity instruments do not qualify for hedge accounting regardless of their accounting category.

ACCOUNTING PRINCIPLES

In order to be hedged against certain market risks, the Group sets up hedging derivatives. From an accounting standpoint, the Group designates the hedging transaction as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation, depending on the risk and on the hedged item.

To designate an instrument as a hedging derivative, the Group must document the hedging relationship in detail, from the inception of the hedge. This documentation specifies the asset, liability, or future transaction hedged, the risk to be hedged and the associated risk management strategy, the type of financial derivative used and the valuation method that will be used to measure its effectiveness.

A derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk. This effectiveness is verified when changes in the fair value or cash flows of the hedged instrument are almost entirely offset by changes in the fair value or cash flows of the hedging instrument, with the expected ratio between the two changes ranging from 80% to 125%. Effectiveness shall be assessed both when the hedge is first set up and throughout its life. Effectiveness is measured each quarter prospectively (expected effectiveness over the future periods) and retrospectively (effectiveness measured on past periods). Where the effectiveness falls outside the range specified above, hedge accounting is discontinued.

Hedging derivatives are recognised in the balance sheet under *Hedging derivatives*.

FAIR VALUE HEDGES

The purpose of these hedges is to protect the Group against an adverse fluctuation in the fair value of an instrument which could affect profit or loss if the instrument were derecognised from the balance sheet.

Changes in the fair value of the hedging derivative are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*; for interest rate derivatives, however, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest and similar income / expense* symmetrically as accrued interest income and expenses related to the hedged item.

In the balance sheet, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*. To the extent that the hedge is highly effective, changes in the fair value of the hedged item and changes in the fair value of the hedging derivative are accurately offset through profit or loss, the difference corresponding to an ineffectiveness gain or loss.

Prospective effectiveness is assessed via a sensitivity analysis based on probable market trends or via a regression analysis of the statistical relationship (correlation) between certain components of the hedged item and the hedging instrument. Retrospective effectiveness is assessed by comparing any changes in the fair value of the hedging instrument with any changes in the fair value of the hedged item.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is terminated or sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value attributable to the hedged risk and the cumulative adjustments previously recognised under hedge accounting are amortised over its remaining life. Hedge accounting is also discontinued if the hedged item is sold prior to maturity or redeemed early. In this case, revaluation differences are recorded in net income.

CASH FLOW HEDGES

The purpose of interest rate cash flow hedges is to protect against changes in future cash flows associated with a financial instrument on the balance sheet (loans, securities or floating-rate notes) or with a highly probable future transaction (future fixed rates, future prices, etc.). The purpose of these hedges is to protect the Group against adverse fluctuations in the future cash-flows of an instrument or transaction that could affect profit or loss.

The effective portion of changes in the fair value of hedging derivatives is booked to *Unrealised or deferred gains and losses*, while the ineffective portion is recognised in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*. For interest rate derivatives, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest and similar income / expense* at the same time as accrued interest income and expenses related to the hedged item.

The effectiveness of the hedge is assessed using the hypothetical derivative method, which consists in i) creating a hypothetical derivative bearing exactly the same characteristics as the instrument being hedged (in notional terms, in terms of the date on which the rates are reset, in terms of the rates themselves, etc.), but which moves in the opposite direction and whose fair value is nil when the hedge is set up, then ii) comparing the expected changes in the fair value of the hypothetical derivative with those of the hedging instrument (sensitivity analysis) or performing a regression analysis on the prospective effectiveness of the hedge.

Amounts directly recognised in equity in respect of the revaluation of cash flow hedging derivatives are subsequently reclassified to *Interest and similar income / expense* in the income statement at the same time as the cash flows being hedged.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognised directly in equity are reclassified under *Interest income and expense* in the income statement over the periods during which interest income is affected by cash flows arising from the hedged item. If the hedged item is sold or redeemed earlier than expected or if the hedged forecast transaction ceases to be highly probable, unrealised gains and losses recognised in equity are immediately reclassified in the income statement.

HEDGING OF A NET INVESTMENT IN A FOREIGN OPERATION

The purpose of a hedge of a net investment in a foreign company is to protect against exchange rate risk.

The hedged item is an investment in a country whose currency differs from the Group's functional currency. The hedge therefore serves to protect the net position of a foreign subsidiary or branch against an exchange rate risk linked to the entity's functional currency.

The effective portion of the changes in the fair value of a hedging derivative designated for accounting purposes as a hedge of a net investment is recognised in equity under *Unrealised or deferred gains and losses,* while the ineffective portion is recognised in the income statement.

MACRO-FAIR VALUE HEDGES

In this type of hedge, interest rate derivatives are used to globally hedge against structural interest rate risks usually arising from Retail Banking activities. When accounting for these transactions, the Group applies the IAS 39 "carve-out" standard as adopted by the European Union, which facilitates:

- the application of fair value hedge accounting to macro-hedges used for asset-liability management, including customer demand deposits in the fixed-rate positions being hedged.
- the performance of effectiveness tests required by IAS 39 as adopted by the European Union.

The accounting treatment of financial derivatives designated as macro-fair value hedges is similar to that of other fair value hedging instruments. Changes in the fair value of the portfolio of macro-hedged instruments are reported on a separate line in the balance sheet under *Revaluation differences on portfolios hedged against interest rate risk* through profit or loss.

BREAKDOWN OF HEDGING DERIVATIVES

	30.06.2018		01.01.2018	
(In millions of euros)	Assets	Liabilities	Assets	Liabilities
Fair value hedge				
Interest rate instruments	11,774	6,160	12,403	5,974
Foreign exchange instruments	30	3	53	4
Equity and index instruments	1	9	-	-
Cash flow hedge				
Interest rate instruments	32	177	49	103
Foreign exchange instruments	185	76	204	61
Equity and index instruments	2	13	9	4
Total	**12,024**	**6,438**	**12,718**	**6,146**

The Group sets up hedging relationships recognised for accounting purposes as fair value hedges in order to protect its fixed-rate financial assets and liabilities (primarily loans/borrowings, securities issued and fixed-rate securities) against changes in long-term interest rates. The hedging instruments used mainly consist of interest rate swaps.

Through some of its Corporate and Investment Banking operations, the Group is exposed to future cash flow changes in its short and medium-term funding requirements, and sets up hedging relationships recognised for accounting purposes as cash flow hedges. Highly probable funding requirements are determined using historic data established for each activity and representative of balance sheet outstandings. These data may be increased or decreased with changes in management methods.

NOTE 3.3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

OVERVIEW OF IFRS 9 TRANSITION (see comments on Note 1)

(In millions of euros)	**Balance at 31.12.2017 IAS 39**	Reclassifications: of available-for-sale financial assets	Reclassifications: of held-to-maturity financial assets	Reclassifications: of loans and receivables regarding the business model	**Value adjustments**	**Balances at 01.01.2018 IFRS 9**
Bonds and other debt securities	N/A	49,584	485	80	29	50,178
Loans and securities purchased under resale agreements	N/A	-	-	-	-	-
Sub-total debt instruments	**N/A**	**49,584**	**485**	**80**	**29**	**50,178**
Shares and other equity securities	N/A	290	-	-	-	290
Total financial assets at fair value through other comprehensive income	**N/A**	**49,874**	**485**	**80**	**29**	**50,468**

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(In millions of euros)	**30.06.2018**	**01.01.2018**
Bonds and other debt securities	57,043	50,178
Loans and securities purchased under resale agreements	-	-
Sub-total debt instruments	**57,043**	**50,178**
Shares and other equity securities	292	290
Total	**57,335**	**50,468**
o/w securities lent	*622*	*27*

1. DEBT INSTRUMENTS

ACCOUNTING PRINCIPLES

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

Accrued or earned income on debt instruments is recorded in profit or loss based on the effective interest rate, under *Interest and similar income*.

At the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under *Unrealised or deferred gains and losses*, except for foreign exchange differences on money market instruments denominated in local currencies, which are recorded in profit or loss. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Cost of risk* with a corresponding entry to *Unrealised or deferred gains and losses.* The applicable impairment rules are described in Note 3.8.

BUSINESS MODEL "HOLD TO COLLECT AND SALE "

The objective of this business model is to realise cash flows by both collecting contractual payments and selling financial assets. In this type of business model, the sales of financial assets are not incidental or exceptional, but they are integral to achieving the business' objectives.

Cash management

Within the Group, the "hold to collect and sale" business model is mainly applied by cash management activities for managing HQLA securities (High Quality Liquid Assets) included in the liquidity reserve. Only a few subsidiaries apply a "hold to collect" business model for managing their HQLA securities.

CHANGES OF THE CARRYING AMOUNT

(In millions of euros)	2018
Balance on 1st January	**50,178**
Acquisitions	23,184
Disposals / redemptions	(15,793)
Transfers further to redeployment towards (or from) another accounting category	-
Change in scope and others	(757)
Changes in fair value during the period	(265)
Change in related receivables	18
Translation differences	478
Balance on 30th June	**57,043**

BREAKDOWN OF UNREALISED GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY AND THAT WILL BE RECLASSIFIED SUBSEQUENTLY INTO INCOME

(In millions of euros)	30.06.2018
Unrealised gains	567
Unrealised losses	(229)
Total	**338**

2. EQUITY INSTRUMENTS

ACCOUNTING PRINCIPLES

Equity instruments (shares and share equivalents) that are not held for trading purposes can be initially designated by the Group to be measured at fair value through other comprehensive income. This option, made instrument by instrument, is irrevocable.

These equity instruments are then measured at fair value and changes in fair value, excluding dividends, are recognised under *Unrealised or deferred gains and losses* with no subsequent reclassification to profit or loss. If the instruments are sold, the associated unrealised or deferred gains and losses are reclassified to *Retained earnings* at the opening of the next financial year. Only dividend income, if it is considered as a return on investment, are recorded in the income statement under *Net gains or losses on financial assets at fair value through other comprehensive income.*

The Group has chosen only in a very few cases to designate equity instruments to be measured at fair value through other comprehensive income.

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

(In millions of euros)	1st half of 2018
Realised gains and losses on sale of debt instruments	3
Dividends incomes on financial assets at fair value through other comprehensive income	21
Total	**24**

NOTE 3.4 - FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

MAKING IT SIMPLE

The financial assets and liabilities recognised in the Group balance sheet are measured either at fair value or at amortised cost. In the latter case, the fair value of the instruments is disclosed in the notes (see Note 3.9).

If an instrument is quoted on an active market, its fair value is equal to its market price.

But many financial instruments are not listed (for example, most customer loans and deposits, interbank debts and claims, etc.), or are only negotiable on illiquid markets or over-the-counter markets (which is the case for many derivative instruments).

In such situations, the fair value of the instruments is calculated using measurement techniques or valuation models. Market parameters are included in these models and must be observable; otherwise they are determined based on internal estimates. The models and parameters used are subject to independent validations and internal controls.

ACCOUNTING PRINCIPLES

DEFINITION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market input based on assumptions that market operators would use to set the price of the instrument in question.

FAIR VALUE HIERARCHY

For information purposes, in the notes to the consolidated financial statements, the fair value of financial instruments is classified using a fair value hierarchy that reflects the observability level of the inputs used. The fair value hierarchy is composed of the following levels:

Level 1 (L1): instruments valued on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 1 instruments carried at fair value on the balance sheet include in particular shares listed in an active market, government or corporate bonds priced directly by external brokers/dealers, derivatives traded on organised markets (futures, options), and units of funds (including UCITS) whose net asset value is available on the balance sheet date.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and if they reflect actual and regular market transactions on an arm's length basis.

Determining whether a market is inactive requires the use of indicators such as a sharp decline in trading volume and the level of activity in the market, a sharp disparity in prices over time and among the various above-mentioned market participants, or the fact that the latest transactions conducted on an arm's length basis did not take place recently enough.

Where a financial instrument is traded in several markets to which the Group has immediate access, its fair value is represented by the market price at which volumes and activity levels are highest for the instrument in question.

Transactions resulting from involuntary liquidations or distressed sales are usually not taken into account to determine the market price.

Level 2 (L2): instruments valued using inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

These are instruments measured using a financial model based on observable market inputs. Prices published by an external source derived from the valuation of similar instruments are considered as data derived from prices.

Level 2 instruments include in particular non derivative financial instruments carried at fair value on the balance sheet that are not directly quoted or do not have a quoted price on a sufficiently active market (e.g. corporate bonds, repos transactions, mortgage-backed securities, units of funds), and firm derivatives and options traded over-the-counter: interest rate swaps, caps, floors, swaptions, equity options, index options, foreign exchange options, commodity options and credit derivatives. The maturities of these instruments are linked to ranges of terms commonly traded in the market, and the instruments themselves can be simple or offer a more complex remuneration profile (e.g. barrier options, products with multiple underlying instruments), with said complexity remaining limited however. The valuation techniques used in this category are based on common methods shared by the main market participants.

This category also includes the fair value of loans and receivables at amortised cost granted to counterparties whose credit risk is quoted via Credit Default Swap (see Note 3.9).

Level 3 (L3): instruments valued using inputs that are not based on observable market data (referred to as unobservable inputs).

Level 3 instruments carried at fair value on the balance sheet are valued based on financial models with unobservable market inputs or observable inputs that are not quoted on active markets. For the Group, those instruments match with the instruments for which the sales margin is not immediately recognised in profit or loss (see Note 3.4.7).

Accordingly, Level 3 financial instruments include derivatives with longer maturities than those usually traded and/or with specifically-tailored return profiles, structured debts including embedded derivatives valued based on a method using unobservable inputs or long term equity investments valued based on a corporate valuation method, which is the case for unlisted companies or companies listed on an insufficiently liquid market.

The main L3 complex derivatives are:

- Equity derivatives: options with long maturities and/or incorporating bespoke remuneration mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e.g. extrapolation from observable data, historical analysis). Hybrid equity instruments (i.e. having at least one non-equity underlying instrument) are also classified as L3 insofar as correlations between the different underlyings are generally unobservable;
- Interest rate derivatives: long-term and/or exotic options, products sensitive to correlation between different interest rates, different exchange rates, or between interest rates and exchange rates, for example for quanto products (in which the instrument is settled in a currency different from the currency of the underlying); they are liable to be classified as L3 because the valuation inputs are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (e.g. exchange rate correlations are deemed unobservable for the USD/JPY);
- Credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation ("N to default" products in which the buyer of the hedge is compensated as of the N^{th} 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).

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE

	30.06.2018				01.01.2018			
(In millions of euros)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading portfolio	**90,038**	**136,202**	**514**	**226,754**	**97,222**	**112,077**	**247**	**209,546**
Bonds and other debt securities	31,603	2,844	313	34,760	25,225	2,612	169	28,006
Shares and other equity securities	58,435	6,851	1	65,287	71,997	8,061	1	80,059
Loans and securities purchased under resale agreements	-	126,190	200	126,390	-	101,033	77	101,110
Other trading assets	-	317	-	317	-	371	-	371
Trading derivatives	**136**	**126,546**	**3,325**	**130,006**	**38**	**131,670**	**2,583**	**134,291**
Interest rate instruments	21	79,459	2,426	81,906	19	87,663	1,826	89,508
Foreign exchange instruments	-	18,099	210	18,309	16	16,411	126	16,553
Equity and index instruments	-	21,021	435	21,456	-	19,535	424	19,959
Commodity instruments	-	6,288	68	6,356	-	5,888	60	5,948
Credit derivatives	-	1,610	179	1,789	-	2,108	137	2,245
Other forward financial instruments	115	68	7	190	3	65	10	78
Financial assets measured mandatorily at fair value through profit or loss	**139**	**19,463**	**3,198**	**22,800**	**151**	**18,782**	**2,636**	**21,569**
Bonds and other debt securities	23	45	89	157	2	67	90	159
Shares and other equity securities	116	257	1,440	1,813	149	200	1,211	1,560
Loans and securities purchased under resale agreements	-	19,161	1,669	20,830	-	18,515	1,335	19,850
Financial assets measured using fair value option through profit or loss	**861**	**2,026**	**209**	**3,096**	**848**	**2,667**	**191**	**3,706**
Bonds and other debt securities	861	185	-	1,046	848	197	-	1,045
Loans and securities purchased under resale agreements	-	1,302	209	1,511	-	1,928	191	2,119
Other financial assets	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	539	-	539	-	542	-	542
Hedging derivatives	**-**	**12,024**	**-**	**12,024**	**-**	**12,718**	**-**	**12,718**
Interest rate instruments	-	11,806	-	11,806	-	12,452	-	12,452
Foreign exchange instruments	-	215	-	215	-	257	-	257
Equity and index instruments	-	3	-	3	-	9	-	9
Financial assets measured at fair value through other comprehensive income	**48,039**	**9,002**	**294**	**57,335**	**48,045**	**2,130**	**293**	**50,468**
Bonds and other debt securities	48,039	9,002	2	57,043	48,045	2,130	3	50,178
Shares and other equity securities	-	-	292	292	-	-	290	290
Loans and receivables	-	-	-	-	-	-	-	-
Total financial assets at fair value	**139,213**	**305,262**	**7,540**	**452,015**	**146,304**	**280,044**	**5,950**	**432,298**

2. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

	30.06.2018				01.01.2018			
(In millions of euros)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading portfolio	**10,186**	**150,331**	**2**	**160,519**	**6,755**	**139,410**	**-**	**146,165**
Amounts payable on borrowed securities	51	46,611	-	46,662	337	34,507	-	34,844
Bonds and other debt instruments sold short	8,804	1	-	8,805	5,416	-	-	5,416
Shares and other equity instruments sold short	1,331	-	-	1,331	1,002	-	-	1,002
Borrowings and securities sold under repurchase agreements	-	102,280	2	102,282	-	104,090	-	104,090
Other trading liabilities	-	1,439	-	1,439	-	813	-	813
Trading derivatives	**614**	**129,700**	**4,169**	**134,483**	**16**	**137,181**	**5,172**	**142,369**
Interest rate instruments	14	78,907	2,858	81,779	-	88,366	3,817	92,183
Foreign exchange instruments	501	18,083	141	18,725	1	17,742	54	17,797
Equity and index instruments	-	23,257	817	24,074	-	21,844	888	22,732
Commodity instruments	-	6,644	37	6,681	-	6,048	22	6,070
Credit derivatives	-	1,993	316	2,309	-	2,171	391	2,562
Other forward financial instruments	99	816	-	915	15	1,010	-	1,025
Financial liabilities measured using fair value option through profit or loss	**354**	**38,749**	**39,042**	**78,145**	**334**	**41,008**	**38,674**	**80,016**
Hedging derivatives	**-**	**6,438**	**-**	**6,438**	**-**	**6,146**	**-**	**6,146**
Interest rate instruments	-	6,337	-	6,337	-	6,077	-	6,077
Foreign exchange instruments	-	79	-	79	-	65	-	65
Equity and index instruments	-	22	-	22	-	4	-	4
Total financial liabilities at fair value	**11,154**	**325,218**	**43,213**	**379,585**	**7,105**	**323,745**	**43,846**	**374,696**

3. VARIATION IN LEVEL 3 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AT FAIR VALUE

(In millions of euros)	Balance at 01.01.2018	Acquisitions	Disposals / redemptions	Transfer to Level 2	Transfer from Level 2	Gains and losses	Translation differences	Change in scope and others	Balance at 30.06.2018
Trading portfolio	**247**	**557**	**(317)**	**-**	**-**	**(1)**	**28**	**-**	**514**
Bonds and other debt securities	169	199	(71)	-	-	(8)	24	-	313
Shares and other equity securities	1	-	-	-	-	-	-	-	1
Loans and securities purchased under resale agreements	77	358	(246)	-	-	7	4	-	200
Other trading assets	-	-	-	-	-	-	-	-	-
Trading derivatives	**2,583**	**54**	**(4)**	**(72)**	**361**	**329**	**74**	**-**	**3,325**
Interest rate instruments	1,826	-	-	(56)	357	262	37	-	2,426
Foreign exchange instruments	126	20	(4)	(1)	1	39	29	-	210
Equity and index instruments	424	23	-	(15)	3	(8)	8	-	435
Commodity instruments	60	11	-	-	-	(3)	-	-	68
Credit derivatives	137	-	-	-	-	42	-	-	179
Other forward financial instruments	10	-	-	-	-	(4)	-	-	7
Financial assets measured mandatorily at fair value through profit or loss	**2,636**	**741**	**(159)**	**(58)**	**23**	**(22)**	**43**	**(6)**	**3,198**
Bonds and other debt securities	90	3	(1)	-	-	-	-	(3)	89
Shares and other equity securities	1,211	138	(158)	(40)	23	252	5	9	1,440
Loans and securities purchased under resale agreements	1,335	600	-	(18)	-	(274)	38	(12)	1,669
Financial assets measured using fair value option through profit or loss	**191**	**-**	**-**	**-**	**-**	**6**	**-**	**12**	**209**
Bonds and other debt securities	-	-	-	-	-	-	-	-	-
Loans, receivables and securities purchased under resale agreements	191	-	-	-	-	6	-	(12)	209
Other financial assets	-	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	-	-	-	-	-	-	-	-
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-	-
Financial assets measured at fair value option through other comprehensive income	**293**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**294**
Debt instruments	3	-	-	-	-	-	-	(1)	2
Equity instruments	290	-	-	-	-	-	-	2	292
Loans and receivables	-	-	-	-	-	-	-	-	-
Total financial assets at fair value	**5,950**	**1,352**	**(480)**	**(130)**	**384**	**312**	**145**	**7**	**7,540**

FINANCIAL LIABILITIES AT FAIR VALUE

(In millions of euros)	Balance at 01.01.2018	Issues	Redemptions	Transfer to Level 2	Transfer from Level 2	Gains and losses	Translation differences	Balance at 30.06.2018
Trading portfolio	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Amounts payable on borrowed securities	-	-	-	-	-	-	-	-
Bonds and other debt instruments sold short	-	-	-	-	-	-	-	-
Shares and other equity instruments sold short	-	-	-	-	-	-	-	-
Borrowings and securities sold under repurchase agreements	-	2	-	-	-	-	-	2
Other trading liabilities	-	-	-	-	-	-	-	-
Trading derivatives	**5,172**	**332**	**(26)**	**(304)**	**547**	**(1,647)**	**95**	**4,169**
Interest rate instruments	3,817	31	-	(192)	539	(1,416)	79	2,858
Foreign exchange instruments	54	29	-	(1)	3	55	1	141
Equity and index instruments	888	270	(26)	(111)	5	(225)	16	817
Commodity instruments	22	2	-	-	-	13	-	37
Credit derivatives	391	-	-	-	-	(74)	(1)	316
Other forward financial instruments	-	-	-	-	-	-	-	-
Financial liabilities measured using fair value option through profit or loss	**38,674**	**11,257**	**(8,616)**	**(1,086)**	**468**	**(2,379)**	**724**	**39,042**
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-
Total financial liabilities at fair value	**43,846**	**11,591**	**(8,642)**	**(1,390)**	**1,015**	**(4,026)**	**819**	**43,213**

4. VALUATION METHODS OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ON THE BALANCE SHEET

For financial instruments recognised at fair value on the balance sheet, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the balance sheet date or if the clearing value do not reflect transaction prices.

However, due notably to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Group do not have quoted prices in the markets.

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for swaps or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions at the balance sheet date. These valuation models are validated independently by the experts from the Market Risk Department of the Group's Risk Division.

Furthermore, the inputs used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of Market Activities, in accordance with the methodologies defined by the Market Risk Department.

If necessary, these valuations are supplemented by additional reserves (such as bid-ask spreads and liquidity) determined reasonably and appropriately after an analysis of the available information.

Derivatives and security financing transactions are subject to a Credit Valuation Adjustment (CVA) or Debt Valuation Adjustment (DVA). The Group includes all clients and clearing houses in this adjustment, which also reflects the netting agreements existing for each counterparty.

The CVA is determined on the basis of the Group entity's expected positive exposure to the counterparty, the counterparty's probability of default and the amount of the loss given default. The DVA is determined symmetrically based on the negative expected exposure. These calculations are carried out over the life of the potential exposure, with a focus on the use of relevant and observable market data.

Similarly, an adjustment to take into account the costs or profits linked to the financing of these transactions (FVA, Funding Value Adjustment) is also performed.

Observable data must be: independent, available, publicly distributed, based on a narrow consensus and/or backed up by transaction prices.

For example, consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For long maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of equity options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable inputs.

In the event of unusual tensions on the markets, leading to a lack of the usual reference data used to measure a financial instrument, the Risk Division may implement a new model in accordance with pertinent available data, similar to methods used by other market players.

SHARES AND OTHER EQUITY SECURITIES

For listed shares, fair value is taken to be the quoted price on the balance sheet date. For unlisted shares, fair value is determined depending on the type of financial instrument and according to one of the following methods:

- valuation based on a recent transaction involving the issuing company (third party buying into the issuing company's capital, appraisal by a professional valuation agent, etc.);
- valuation based on a recent transaction in the same sector as the issuing company (income multiple, asset multiple, etc.);
- proportion of net asset value held.

For unlisted securities in which the Group has significant holdings, valuations based on the above methods are supplemented by a discounted future cash flow valuation based on business plans or on valuation multiples of similar companies.

DEBT INSTRUMENTS HELD IN PORTFOLIO, ISSUES OF STRUCTURED SECURITIES MEASURED AT FAIR VALUE AND FINANCIAL DERIVATIVES

The fair value of these financial instruments is determined based on the quoted price on the balance sheet date or prices provided by brokers on the same date, when available. For unlisted financial instruments, fair value is determined using valuation techniques. Concerning liabilities measured at fair value, the on-balance sheet amounts include changes in the Group's issuer credit risk.

OTHER DEBTS

For listed financial instruments, fair value is taken as their closing quoted price on the balance sheet date. For unlisted financial instruments, fair value is determined by discounting future cash flows to present value at market rates (including counterparty risks, non-performance and liquidity risks).

CUSTOMER LOANS

The fair value of loans and receivables is calculated, in the absence of an actively traded market for these loans, by discounting the expected cash flows to present value at a discount rate based on interest rates prevailing on the market at the reporting date for loans with broadly similar terms and maturities. These discount rates are adjusted for borrower credit risk.

5. ESTIMATES OF MAIN UNOBSERVABLE INPUTS

The following table provides the valuation of Level 3 instruments on the balance sheet and the range of values of the most significant unobservable inputs by main product type.

(In millions of euros)	Value in balance sheet					
Cash instruments and derivatives [(1)]	**Assets**	**Liabilities**	**Main products**	**Valuation techniques used**	**Significant unobservable inputs**	**Range of inputs min & max**
Equities/funds	904	29,054	Simple and complex instruments or derivatives on funds, equities or baskets of stocks	Various option models on funds, equities or baskets of stocks	Equity volatilities	4.4% ; 76.3%
					Equity dividends	0.0% ; 19.8%
					Correlations	-100.0% ;100.0%
					Hedge fund volatilities	8.3% ; 20.0%
					Mutual fund volatilities	1.5% ; 53.3%
Rates and Forex	4,923	13,806	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	-10.89% ; 90%
			Forex derivatives	Forex option pricing models	Forex volatilities	1.0% ; 29.0%
			Interest rate derivatives whose notional is indexed to prepayment behaviour on European underlying assets	Prepayment modelling	Constant prepayment rates	0.0% ; 45%
			Inflation instruments and derivatives	Inflation pricing models	Correlations	64.4% ; 88.9%
Credit	179	316	Collateralised Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	0% ; 100%
					Recovery rate variance for single name underlyings	0% ; 100%
			Other credit derivatives	Credit default models	Time to default correlations	0% ; 100%
					Quanto correlations	-50% ; 40%
					Credit spreads	0 bps ; 1 000 bps
Commodities	68	37	Derivatives on commodities baskets	Models on commodities options	Commodities correlations	5.70% ; 97.64%
Long term equity investments	1,466	-	Securities held for strategic purposes	Net Book Value / Recent transactions	Non applicable	-
TOTAL	**7,540**	**43,213**				

(1) Hybrid instruments are broken down by main unobservable inputs.

6. SENSITIVITY OF FAIR VALUE FOR LEVEL 3 INSTRUMENTS

Unobservable inputs are assessed carefully, particularly in this persistently uncertain economic environment and market. However, by their very nature, unobservable inputs inject a degree of uncertainty into the valuation of Level 3 instruments.

To quantify this, fair value sensitivity was estimated at 30 June 2018 on instruments whose valuation requires certain unobservable inputs. This estimate was based either on a "standardised" variation in unobservable inputs, calculated for each input on a net position, or on assumptions in line with the additional valuation adjustment policies for the financial instruments in question.

The "standardised" variation is:

- either the standard deviation of consensus prices (TOTEM, etc.) used to measure an input nevertheless considered as unobservable; or
- the standard deviation of historic data used to measure the input.

SENSITIVITY OF LEVEL 3 FAIR VALUE TO A REASONABLE VARIATION IN UNOBSERVABLE INPUTS

	30.06.2018		31.12.2017	
(In millions of euros)	Negative impact	Positive impact	Negative impact	Positive impact
Shares and other equity instruments and derivatives	**(12)**	**89**	**(5)**	**88**
Equity volatilities	0	18	0	18
Dividends	0	6	0	6
Correlations	(12)	57	(5)	59
Hedge Fund volatility	0	0	0	0
Mutual Fund volatility	0	8	0	6
Rates or Forex instruments and derivatives	**(7)**	**46**	**(6)**	**50**
Correlations between exchange rates and/or interest rates	(4)	43	(4)	45
Forex volatilities	(2)	2	(1)	2
Constant prepayment rates	0	0	0	0
Inflation / inflation correlations	(1)	1	(1)	2
Credit instruments and derivatives	**(6)**	**18**	**(2)**	**6**
Time to default correlations	(4)	8	(1)	1
Recovery rate variance for single name underlyings	0	0	0	0
Quanto correlations	(2)	10	0	4
Credit spreads	0	0	(1)	1
Commodity derivatives	**0**	**1**	**0**	**1**
Commodities correlations	0	1	0	1
Long term securities valued using internal models	**NA**	**NA**	**NA**	**NA**

It should be noted that, given the already conservative valuation levels, this sensitivity is higher for a favourable impact on results than for an unfavourable impact. Moreover, the amounts shown above illustrate the uncertainty of the valuation as of the computation date on the basis of a reasonable variation in inputs. Future variations in fair value or consequences of extreme market conditions cannot be deduced or forecast from these estimates.

7. DEFERRED MARGIN RELATED TO MAIN UNOBSERVABLE INPUTS

The remaining amount to be recorded in the income statement, resulting from the difference between the transaction price and the amount determined at this date using valuation techniques, minus the amounts recorded in the income statement after initial recognition, is shown in the table below. This amount is recorded in the income statement over time, or when the inputs become observable.

(In millions of euros)	2018	2017
Deferred margin at 1st January	**1,281**	**1,142**
Deferred margin on new transactions during the period	450	880
Margin recorded in the income statement during the period	(380)	(741)
o/w amortisation	*(200)*	*(316)*
switch to observable inputs	*(18)*	*(50)*
disposed, expired or terminated	*(162)*	*(375)*
Deferred margin at end of the period	**1,351**	**1,281**

NOTE 3.5 - LOANS, RECEIVABLES AND SECURITIES AT AMORTISED COST

OVERVIEW OF IFRS 9 TRANSITION (See comments on Note 1)

(In millions of euros)	**Balance at 31.12.2017 IAS 39**	Reclassifications: of insurance activities investments	Reclassifications: of available-for-sale financial assets	Reclassifications: of held-to-maturity financial assets	Reclassifications: of non-SPPI loans and receivables	Reclassifications: of loans and receivables regarding the business model	Reclassifications: Others	Value adjustment: Reclassification effects	Value adjustment: Recognition of credit risk impairment based on IFRS 9	**Balance at 01.01.2018 IFRS 9**
Securities at amortised cost	N/A	-	2,971	3,078	-	-	5,650	(100)	(7)	11,592
Due from banks at amortised cost	60,866	(7,103)	-	-	(5)	(80)	(18)	-	(4)	53,656
Customer loans at amortised cost	425,231	(141)	-	-	(638)	(644)	(5,580)	50	(887)	417,391
Total	**486,097**	**(7,244)**	**2,971**	**3,078**	**(643)**	**(724)**	**52**	**(50)**	**(898)**	**482,639**

OVERVIEW

(In millions of euros)	30.06.2018 Carrying amount	30.06.2018 o/w impairment	01.01.2018 Carrying amount	01.01.2018 o/w impairment
Due from banks	63,783	(29)	53,656	(29)
Customer loans	427,296	(12,651)	417,391	(13,361)
Securities	11,428	(10)	11,592	(11)
Total	**502,507**	**(12,690)**	**482,639**	**(13,401)**

ACCOUNTING PRINCIPLES

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

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, and their accrued or earned income is recorded in the income statement under *Interest and similar income*. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Cost of risk* with a corresponding impairment of amortised cost under balance sheet assets. The applicable impairment rules are described in Note 3.8.

Loans issued by the Group may be subject to renegotiations for commercial reasons, where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which the Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans in the balance sheet at this same date. The new loans are subject to the SPPI test to determine how they are classified in the balance sheet. If a loan qualifies as SPPI, the renegotiation fees received are included in the effective interest rate of the new instrument.

Customer loans at amortised cost include lease receivables where they are classified as finance leases. Leases granted by the Group are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Otherwise, they are classified as operating leases (see Note 4.2).

These finance lease receivables represent the Group’s net investment in the lease, calculated as the present value of the minimum payments to be received from the lessee, plus any unguaranteed residual value, discounted at the interest rate implicit in the lease. In the event of a subsequent reduction in the estimated unguaranteed residual value used to calculate the lessor’s investment in the finance lease, the present value of this reduction is recognised as a loss under *Expenses from other activities* in the income statement and as a reduction of finance lease receivables on the asset side of the balance sheet.

BUSINESS MODEL “HOLD TO COLLECT “

Under this model, financial assets are managed to realise cash flows by collecting contractual payments over the life of the instrument.

To achieve the objective of this business model, it is not necessary for the entity to hold all the instruments until maturity. Selling assets remains consistent with a business model whose objective is to collect contractual cash flows in the following cases:

- the financial asset is sold following an increase in the asset’s credit risk; or
- the sale of the financial asset occurs close to its maturity and the proceeds from the sale are similar to the amount to be collected from the remaining contractual cash flows.

Other sales can also be consistent with the objective of collecting contractual cash flows, provided they are infrequent (even if significant in value) or insignificant in value, both individually and in aggregate terms (even if frequent). Such other sales include sales made to manage credit concentration risk (without an increase in the asset’s credit risk). The Group has set up procedures for reporting and analysing all significant projected sales of financial assets held for collecting contractual cash flows, as well as a periodic review of sales that have occurred.

Financing activities

Within the Group, the “hold to collect” business model is mainly applied by financing activities managed by French Retail Banking, International Retail Banking and Financial Services and by Global Banking and Investor Solutions, except for the part of syndicated loans that is expected to be sold.

1. DUE FROM BANKS

(In millions of euros)	30.06.2018	01.01.2018
Current accounts	26,065	21,066
Deposits and loans	19,603	15,842
Subordinated and participating loans	131	133
Securities purchased under resale agreements	17,904	16,523
Related receivables	86	94
Due from banks before impairment	**63,789**	**53,658**
Credit loss impairment	(29)	(29)
Revaluation of hedged items	23	27
Net due from banks	**63,783**	**53,656**

2. CUSTOMER LOANS

(In millions of euros)	30.06.2018	01.01.2018
Overdrafts	22,136	20,239
Other customer loans	363,413	356,662
Lease financing agreements	31,482	30,310
Related receivables	1,798	2,183
Securities purchased under resale agreements	20,771	21,004
Customer loans before impairment	**439,600**	**430,398**
Credit loss impairment	(12,651)	(13,361)
Revaluation of hedged items	347	354
Customer loans	**427,296**	**417,391**

BREAKDOWN OF OTHER CUSTOMER LOANS

(In millions of euros)	30.06.2018	01.01.2018
Trade notes	9,777	10,173
Short-term loans	113,862	108,005
Export loans	11,382	10,395
Equipment loans	54,566	53,983
Housing loans	126,185	124,324
Loans secured by notes and securities	86	89
Other loans	47,555	49,693
Other customer loans	**363,413**	**356,662**

3. SECURITIES

(In millions of euros)	30.06.2018	01.01.2018
Government securities	5,932	5,623
Negociable certificates, bonds and other debt securities	5,411	5,851
Related receivables	83	109
Securities before impairment	**11,426**	**11,583**
Impairment	(10)	(11)
Revaluation of hedged items	12	20
Securities	**11,428**	**11,592**

NOTE 3.6 - DEBTS

The balance sheet value of financial liabilities at amortised cost was not impacted by the first-time application of IFRS 9.

ACCOUNTING PRINCIPLES

Debts include non-derivative financial liabilities that are not measured at fair value through profit or loss.

They are recognised in the balance sheet according to the type of instrument and counterparty, under *Due to banks, Customer deposits, Debt securities issued or Subordinated debt.*

Subordinated debts are all dated or undated borrowings, whether or not in the form of debt securities, which in the event of the liquidation of the borrowing company may only be redeemed after all other creditors have been paid.

Debts are initially recognised at cost, measured as the fair value of the amount borrowed net of transaction fees. These liabilities are measured at period-end at amortised cost using the effective interest rate method. As a result, issue or redemption premiums on bonds are amortised over the lifetime of the instruments concerned. Accrued or paid expenses are recorded in profit or loss under *Interest and similar expense*.

The Group's obligations arising from mortgage savings accounts and plans are recorded under *Customer deposits – Regulated savings accounts*. A provision may be recorded in respect of CEL mortgage savings accounts and PEL mortgage savings plans (see Note 8.3).

1. DUE TO BANKS

(In millions of euros)	**30.06.2018**	**31.12.2017**
Demand deposits and current accounts	13,214	11,686
Overnight deposits and borrowings and others	2,805	2,145
Term deposits	67,247	68,265
Related payables	127	127
Revaluation of hedged items	131	147
Securities sold under repurchase agreements	6,259	6,251
Total	**89,783**	**88,621**

2. CUSTOMER DEPOSITS

(In millions of euros)	30.06.2018	31.12.2017
Regulated savings accounts	93,880	92,023
Demand	*68,625*	*66,515*
Term	*25,255*	*25,508*
Other demand deposits [1]	226,704	216,102
Other term deposits [1]	78,118	85,454
Related payables	820	381
Revaluation of hedged items	234	268
Total customer deposits	**399,756**	**394,228**
Securities sold to customers under repurchase agreements	15,345	16,405
Total	**415,101**	**410,633**

(1) Including deposits linked to governments and central administrations.

3. DEBT SECURITIES ISSUED

(In millions of euros)	30.06.2018	31.12.2017
Term savings certificates	664	515
Bond borrowings	22,726	22,470
Interbank certificates and negotiable debt instruments	76,989	78,485
Related payables	476	770
Revaluation of hedged items	803	995
Total	**101,658**	**103,235**
o/w floating-rate securities	*30,251*	*30,762*

NOTE 3.7 - INTEREST INCOME AND EXPENSE

MAKING IT SIMPLE

Interest is compensation for a financial service, consisting in a lender making a certain amount of cash available to a borrower for an agreed period of time. Such compensated financing arrangements can be loans, deposits or securities (bonds, negotiable debt securities, etc.).

This compensation is a consideration for the time value of money, plus the credit risk, liquidity risk and administrative costs, borne by the lender for the duration of the financing agreement. The interest can also include a margin used by the lending bank to remunerate equity instruments (such as ordinary shares) that are required by prudential regulation to be issued in relation to the amount of financing granted, so as to guarantee its own solvency.

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

ACCOUNTING PRINCIPLES

Interest income and expense are recorded in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income).

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.

Moreover, except for those related to employee benefits, provisions recognised as balance sheet liabilities generate interest expenses that are calculated using the same risk-free interest rate as that used to discount the expected outflow of resources.

(In millions of euros)	1st half of 2018 [1]			2017			1st half of 2017		
	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	**6,658**	**(3,226)**	**3,432**	**13,830**	**(8,829)**	**5,001**	**6,977**	**(4,421)**	**2,556**
Central banks	289	(73)	216	389	(217)	172	153	(94)	59
Bonds and other debt securities	144	(909)	(765)		(1,902)	(1,902)		(967)	(967)
Due from/to banks [2]	402	(494)	(92)	1,219	(1,158)	61	591	(550)	41
Customer loans and deposits	5,518	(1,348)	4,170	11,698	(4,847)	6,851	5,965	(2,419)	3,546
Subordinated debt	-	(279)	(279)	-	(581)	(581)	-	(291)	(291)
Securities lending/borrowing	5	(5)	-	14	(20)	(6)	9	(14)	(5)
Securities purchased/sold under resale/repurchase agreements and borrowings secured by notes and securities	300	(118)	182	510	(104)	406	259	(86)	173
Financial instruments at fair value through profit or loss	**233**	**-**	**233**						
Hedging derivatives	**3,206**	**(2,241)**	**965**	**6,164**	**(4,434)**	**1,730**	**3,268**	**(2,449)**	**819**
Financial instruments at fair value through other comprehensive income	**269**	**-**	**269**						
Available-for-sale financial assets				**2,424**	**-**	**2,424**	**1,220**	**-**	**1,220**
Held-to-maturity financial assets				**141**	**-**	**141**	**90**	**-**	**90**
Lease financing agreements	**553**	**-**	**553**	**1,120**	**-**	**1,120**	**570**	**-**	**570**
Real estate lease financing agreements	97	-	97	199	-	199	102	-	102
Non-real estate lease financing agreements	456	-	456	921	-	921	468	-	468
Total Interest income and expense	**10,919**	**(5,467)**	**5,452**	**23,679**	**(13,263)**	**10,416**	**12,125**	**(6,870)**	**5,255**
o/w interest income from impaired financial assets	*181*	-	-	*519*	-	-	*341*	-	-

(1) As of the financial year 2018, income and expense for the Group's insurance business will be shown on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1, paragraph 4).

(2) In 2016, the European Central Bank (ECB) initiated a programme of Targeted Longer-Term Refinancing Operations (TLTRO) whereby participating banks' interest rates are linked to their lending performance. Banks whose stock of loans increased by at least 2.5 % over the benchmark period (January 2016 – January 2018) will enjoy lower interest rates over the entire term of the operation, the rate in question being equal to the Eurosystem's deposit facility rate. During the second quarter of 2018, having ascertained that the lending targets were met, the ECB notified the eligible banks that the reduced interest rate would apply. For Societe Generale group, this rate reduction has led to an adjustment of the accounting value of its debt to the ECB and to the recognition of a profit equal to the difference between the discounted value (computed at the initial interest rate) of the updated contractual cash-flows following the rate reduction and the accounting value of the debt prior to the rate change. This profit amounts to EUR 60 million and is recorded under Interest expense in the first half of 2018.

These interest expenses include the refinancing cost of financial instruments at fair value through profit or loss, which results are classified in net gains or losses on these instruments. Given that income and expenses booked in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole.

NOTE 3.8 - IMPAIRMENT AND PROVISIONS

MAKING IT SIMPLE

Some financial assets (loans, debt securities) involve credit risk which exposes the Group to a potential loss if the borrower, the counterparty or the securities issuer were to be unable to respect their financial commitments. The bank is remunerated for bearing this risk by a portion of the contractual interest that it receives on those assets ; this is known as the credit margin.

This potential loss, or expected credit loss, is recognised in profit or loss without waiting for the occurrence of a default event on a specific counterparty.

For loans, receivables and debt securities measured at amortised cost or fair value through other comprehensive income, the expected credit loss, as assessed by the Group, is recognised in profit or loss together with interest income. On the balance sheet, this potential loss is recognised as an impairment that reduces the carrying amount of assets measured at amortised cost. Impairments are written-back in case of a subsequent decrease of credit risk.

Potential losses recognised in profit or loss represent initially the credit losses expected by the Group over the year to come. Subsequently, the amount is increased by the expected loss at maturity of the instrument in case of significant increase of risk.

For financial assets measured at fair value through profit or loss (including instruments held by global markets activities), their fair value already includes the expected credit loss, as assessed by the market participant, over the residual lifetime of the instrument.

ACCOUNTING PRINCIPLES

Debt instruments classified as financial assets at amortised cost or as financial assets at fair value through other comprehensive income, operating lease receivables, customer receivables and income to be received included amongst *Other assets*, and also loan commitments and guarantees given, are systematically subject to impairment or a loss allowance for expected credit losses. These impairments and loss allowances are recognised when the loans are granted, the commitments undertaken or the debt securities purchased, without waiting for objective evidence of impairment to occur.

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

Observed deterioration of credit risk since initial recognition of the financial asset

Credit risk category	**Stage 1** Performing assets	**Stage 2** Deteriorated assets	**Stage 3** Credit-impaired assets
Transfer criteria	Initial recognition of the instrument in stage 1 ⇨ *Maintained if the credit risk has not increased significantly*	Credit risk on the instrument has increased significantly since initial recognition/30 days past due	Evidence that the instrument is 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

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are underperforming/credit-impaired on acquisition. Stage 1 exposures are impaired for the amount of credit losses that the Group expects to incur within 12 months (12-month expected credit loss), 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.

Purchased or originated credit-impaired assets are subject to a specific accounting treatment, which consists in recognising the change in estimated recoverable cash flows on the instrument, discounted at the initial effective interest rate and adjusted for credit risk.

To identify Stage 2 exposures, the Group assesses the significant increase in credit risk by examining all available past and forward-looking data (behavioural scores, loan to value indicators, macroeconomic forecast scenarios, etc.). The credit rating in force is the main criterion for determining if a given exposure should be transferred to Stage 2. In the event the credit rating has been significantly downgraded since initial recognition, a loss allowance equal to lifetime expected credit loss is recorded. Significant increases in credit risk are assessed on a portfolio basis according to default probability curves defined to calculate loss allowances under IFRS 9. The thresholds for significant increases in credit risk are reviewed once a year. In addition, if a counterparty is deemed to be sensitive at the reporting date (placed on the watch list), a loss allowance is recorded for all contracts with that counterparty at the reporting date. Exposures originated after the counterparty is placed on the Watch List are classified in Stage 1. Finally, a rebuttable presumption of a significant increase in credit risk is made where payment on an asset is more than 30 days past due.

To identify Stage 3 exposures (doubtful outstandings), the Group determines whether or not there is objective evidence of impairment (default event):

- a significant deterioration in the counterparty's financial situation creates a strong probability that it will not be able to meet all of its commitments and thus represents a risk of loss for the Group;
- concessions are granted to the clauses of the loan agreement, in light of the borrower's financial difficulties, that would not have been granted in other circumstances;
- payments more than 90 days past due (with the exception of restructured loans during the probation period, which are deemed subject to impairment as of the first missed payment), whether or not a collection procedure is instigated;

- or, even in the absence of missed payments, the existence of probable credit risk or litigious proceedings (bankruptcy, court-ordered settlement or compulsory liquidation).

The Group applies the impairment contagion principle to all of the defaulting counterparty's exposures. When a debtor belongs to a group, the impairment contagion principle may also be applied to all of the group's exposures.

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Group expects to incur over the life of the exposures (lifetime expected credit loss), 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 maturity.

Irrespective of the stage in which the exposures are classified, cash flows are discounted using the initial effective interest rate of the financial asset. The amount of impairment is included in the net carrying amount of the credit impaired financial asset. Impairment allocations/reversals are recorded in profit or loss under *Cost of risk*.

For operating leases and trade receivables, the Group uses the "simplified" approach, under which impairments are calculated as lifetime expected credit losses at initial recognition, regardless of any changes in the counterparty's credit risk.

Loans issued by the Group may be subject to restructuring with the aim of securing the collection of the principal and interest by adjusting the contractual terms of the loan (e.g. reduced interest rate, rescheduled loan payments, partial debt forgiveness or additional collateral). Assets may only qualify for restructuring where the borrower is experiencing financial difficulties or insolvency (whether the borrower has already become insolvent or is certain to become insolvent if the loan is not restructured).

Where they still pass the SPPI test, restructured loans are still recorded in the balance sheet and their amortised cost prior to impairment is adjusted for a discount representing the negative difference between the present value of the new contractual cash flows resulting from the restructuring of the loan and the amortised cost prior to impairment less any partial debt forgiveness. This discount, representing earnings foregone, is booked to *Cost of risk* in the income statement. As a result, the associated interest income is still subsequently recognised at the initial effective interest rate of the loans. Post-restructuring, these assets are systematically classified in Stage 3 for impairment (credit-impaired exposures), as the borrowers are deemed to be in default. Stage 3 classification is maintained for at least one year, or longer if the Group is uncertain that the borrowers will be able to meet their commitments. Once the loan is no longer classified in stage 3, the assessment of the significant increase of credit risk will be performed by comparing the credit risk level at the closing date and the level at the initial recognition date of the loan before restructuring.

Where they no longer pass the SPPI test, restructured loans are derecognised and the new loans, contractualised under the restructured terms and conditions, replace the derecognised loans in the balance sheet at that same date. The new loans are classified as *Financial assets measured mandatorily at fair value through profit or loss*.

ESTIMATION OF EXPECTED CREDIT LOSSES

The methodology for calculating Stage 1 and 2 expected credit losses is based on the Basel framework, which served as the basis for determining the methods for setting calculation inputs (probability of default and loss given default for exposures under the A-IRB and F-IRB approaches, and the provisioning rate for exposures under the standardised method). Group portfolios have been segmented to ensure that they are consistent in terms of risk characteristics and to ensure better correlation with global and local macroeconomic variables. This segmentation factors in all specific characteristics associated with the Group's activities. This new segmentation is consistent or equivalent to the segmentation defined in the Basel framework in order to ensure the uniqueness of past data on defaults and losses.

The forward-looking expected credit loss approach (12-month/lifetime) is based first and foremost on the incorporation of economic forecasts in probability of default. The main macroeconomic variables used are French GDP growth, United States of America GDP growth, and GDP growth in emerging and developed countries. For entities in the international network, the main variable used is the economic growth of the entity's country of establishment.

IFRS 9 expected credit losses are calculated using the probabilised average of 3 macroeconomic scenarios, established by Group economists for all entities of the Group (base scenarios and current stress scenarios, plus an optimistic scenario). The probabilities used are based on past observations, spanning a 25-year period, of differences in outcome between the base scenario and the actual scenario (positive and negative differences). The method is not based on expert opinion; rather it is intended to be replicated over time and updated each quarter. The method is supplemented with a sector adjustment that increases or decreases expected credit loss in an effort to better anticipate defaults or recoveries in certain cyclical sectors. Lastly, on an ancillary basis, loss allowances based on expert opinions that increase or decrease expected credit loss have been retained to factor in future risks which cannot be modelled (mainly legislative or regulatory changes). These inputs are updated at each reporting date.

RECONCILIATION OF IMPAIRMENT AND PROVISIONS BETWEEN IAS 39 AND IFRS 9

The impacts of the IFRS 9 transition on impairments and provisions for credit risk are presented in Note 1.

OVERVIEW OF IMPAIRMENT AND PROVISIONS

(In millions of euros)	30.06.2018	01.01.2018
Impairment of financial assets at fair value through other comprehensive income	**14**	**15**
Impairment of financial assets at amortised cost	**12,847**	**13,649**
Loans and receivables at amortised cost	*12,690*	*13,401*
Other assets at amortised cost [(1)]	*157*	*248*
Provisions on Financing commitments	253	281
Provisions on Guarantee commitments	374	402
Total credit loss impairment	**627**	**683**

(1) o/w EUR 131 million of impairment on operating lease receivables as at 30 June 2018, measured using the simplified approach (vs. EUR 132 million as at 1 January 2018); those receivables are presented among miscellaneous receivables (see Note 4.4).

1. IMPAIRMENT OF FINANCIAL ASSETS

BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

(In millions of euros)	Asset impairments at 01.01.2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Asset impairments at 30.06.2018
Financial assets at Fair value through other comprehensive income							
Impairment on performing outstandings (Stage 1)	5	3	(2)	**1**		-	**6**
Impairment on under-performing outstandings (Stage 2)	-	-	-	**-**		-	**-**
Impairment on doubtful outstandings (Stage 3)	10	-	-	**-**	(1)	(1)	**8**
Total	**15**	**3**	**(2)**	**1**	**(1)**	**(1)**	**14**
Financial assets at amortised cost							
Impairment on performing outstandings (Stage 1)	992	413	(419)	**(6)**		(20)	**966**
Impairment on under-performing outstandings (Stage 2)	1,244	614	(694)	**(80)**		(41)	**1,123**
Impairment on doubtful outstandings (Stage 3)	11,413	2,559	(2,068)	**491**	(832)	(314)	**10,758**
Total	**13,649**	**3,586**	**(3,181)**	**405**	**(832)**	**(375)**	**12,847**
o/w Lease financing and similar agreements							
Impairment on performing outstandings (Stage 1)	80	23	(29)	**(6)**		-	**74**
Impairment of under-performing outstandings (Stage 2)	101	39	(51)	**(12)**		(1)	**88**
Impairment of doubtful outstandings (Stage 3)	661	200	(186)	**14**	(43)	2	**634**
Total	**842**	**262**	**(266)**	**(4)**	**(43)**	**1**	**796**

VARIATION OF DEPRECIATIONS ACCORDING TO CHANGES IN THE CARRYING AMOUNT OF FINANCIAL ASSETS

(In millions of euros)	Amount at 01.01.2018	Production & Acquisition	Derecognition (among which debt waivers) and repayments	Transfer between stages of impairment	Other variations	Amount at 30.06.2018
Financial assets at Fair value through other comprehensive income						
Impairment on performing outstandings (Stage 1)	5				1	**6**
Impairment on under-performing outstandings (Stage 2)						**-**
Impairment on doubtful outstandings (Stage 3)	10				(2)	**8**
Total	**15**	**-**	**-**	**-**	**(1)**	**14**
Financial assets at amortised cost						
Impairment on performing outstandings (Stage 1)	992	295	(340)	(138)	157	**966**
Impairment on under-performing outstandings (Stage 2)	1,244	172	(372)	125	(46)	**1,123**
Impairment on doubtful outstandings (Stage 3)	11,413	723	(2,372)	175	819	**10,758**
Total	**13,649**	**1,190**	**(3,084)**	**162**	**930**	**12,847**
Of which lease financing and similar agreements						
Impairment on performing outstandings (Stage 1)	80	14	(19)	(8)	7	**74**
Impairment on under-performing outstandings (Stage 2)	101	5	(32)	12	2	**88**
Impairment on doubtful outstandings (Stage 3)	661	4	(247)	5	211	**634**
Total	**842**	**23**	**(298)**	**9**	**220**	**796**

2. PROVISIONS

BREAKDOWN OF PROVISIONS

(In millions of euros)	Amount at 01.01.2018	Allocations	Write-backs available	Net impairment losses	Write-backs used	Currency and scope effects	Amount at 30.06.2018
Financing commitments							
Provisions on performing outstandings (Stage 1)	117	55	(69)	**(14)**		(1)	**102**
Provisions on under-performing outstandings (Stage 2)	107	75	(93)	**(18)**		6	**95**
Provisions on doubtful outstandings (Stage 3)	57	34	(82)	**(48)**		47	**56**
Total	**281**	**164**	**(244)**	**(80)**	**-**	**52**	**253**
Guarantee commitments							
Provisions on performing outstandings (Stage 1)	52	25	(23)	**2**		(1)	**53**
Provisions on under-performing outstandings (Stage 2)	61	20	(24)	**(4)**		15	**72**
Provisions on doubtful outstandings (Stage 3)	289	58	(51)	**7**		(47)	**249**
Total	**402**	**103**	**(98)**	**5**	**-**	**(33)**	**374**

VARIATIONS OF PROVISIONS ACCORDING TO CHANGES IN THE AMOUNT OF FINANCING AND GUARANTEE COMMITMENTS

(In millions of euros)	Amount at 01.01.2018	Production	Derecognition	Transfer between stages of impairment	Other variations	Amount at 30.06.2018
Financing commitments						
Provisions on performing outstandings (Stage 1)	117	29	(59)	(6)	21	102
Provisions on under-performing outstandings (Stage 2)	107	10	(54)	12	20	**95**
Provisions on doubtful outstandings (Stage 3)	57	10	(38)	1	26	**56**
Total	**281**	**49**	**(151)**	**7**	**67**	**253**
Guarantee commitments						
Provisions on performing outstandings (Stage 1)	52	9	(14)	(5)	11	**53**
Provisions on under-performing outstandings (Stage 2)	61	4	(15)	5	17	**72**
Provisions on doubtful outstandings (Stage 3)	289	5	(59)	5	9	**249**
Total	**402**	**18**	**(88)**	**5**	**37**	**374**

3. COST OF RISK

ACCOUNTING PRINCIPLES

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

The Group proceed to a write off by recognising a loss on the bad loan and a reversal of impairment in *Cost of risk* when a debt is forgiven or when there are no longer any hopes of future recovery. The lack of future hopes of recovery is documented when a certificate issued as proof that the debt is uncollectable is delivered by the relevant authority or when strong circumstantial evidences are identified (years in default, provisions at 100%, lack of recent recoveries, specificities of the case). According to this policy, the Group doesn't proceeds to partial write off of its bad loans.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. In case of recoveries on an exposure previously written-off, such recoveries are recognised as *Amounts recovered on bad loans* on the year of collection.

(In millions of euros)	1st half of 2018 [1]	2017	1st half of 2017
Credit risk	(378)	(918)	(461)
Net allocation to impairment losses	(406)	(1,034)	(487)
On financial assets at fair value through other comprehensive income	*(1)*		
On financial assets at amortised cost	*(405)*		
Net allocations to provisions	75	9	(86)
On financing commitments	*80*		
On guarantee commitments	*(5)*		
Losses not covered on bad loans	(130)	(151)	(57)
Amounts recovered on bad loans	83	258	169
Other risks		(431)	93
Total	**(378)**	**(1,349)**	**(368)**

(1) As from financial year 2018, Cost of risk only includes profit or loss items related to the recognition of credit risk, within the meaning of IFRS 9, including the share related to investments of insurance companies (changes in loss allowances and impairments covering credit losses, losses on irrecoverable loans and amounts recovered on previously impaired loans). As a result, changes in provisions for disputes that were previously recorded under Cost of risk now impact, depending on the type of dispute, Personnel expenses, Other administrative expenses, Interest and similar income, Interest and similar expense or Income tax.

NOTE 3.9 - FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

ACCOUNTING PRINCIPLES

DEFINITION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market inputs based on assumptions that market operators would use to set the price of the instrument in question.

For financial instruments that are not recognised at fair value on the balance sheet, the figures disclosed in this note and broken down according to the fair value hierarchy described in Note 3.4 should not be taken as an estimate of the amount that would be realised if all such financial instruments were to be settled immediately.

The fair value of financial instruments includes accrued interest as applicable.

1. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	30.06.2018	
(In millions of euros)	**Carrying amount**	**Fair value**
Due from banks	63,783	63,821
Customer loans	427,296	428,971
Securities	11,428	11,854
Total	**502,507**	**504,646**

2. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	30.06.2018	
(In millions of euros)	**Carrying amount**	**Fair value**
Due to banks	89,783	89,664
Customer deposits	415,101	415,299
Debt securities issued	101,658	102,397
Subordinated debts	13,993	14,073
Total	**620,535**	**621,433**

3. VALUATION METHODS OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

LOANS, RECEIVABLES AND LEASE FINANCING AGREEMENTS

The fair value of loans, receivables and lease financing transactions for large corporates and banks is calculated, in the absence of an actively traded market for these loans, by discounting expected cash flows to present value based on the market rates (the benchmark maturity yield published by the Banque de France and the zero-coupon yield) prevailing on the balance sheet date for loans with broadly similar terms and maturities. These discount rates are adjusted for borrower credit risk.

The fair value of loans, receivables and lease financing transactions for retail banking customers, essentially comprised of individuals and small or medium-sized companies, is determined, in the absence of an actively traded market for these loans, by discounting the associated expected cash flows to present value at the market rates prevailing on the balance sheet date for similar types of loans and similar maturities.

For all floating-rate loans, receivables and lease financing transactions and fixed-rate loans with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value net of impairment, assuming there has been no significant change in credit spreads on the counterparties in question since they were recognised in the balance sheet.

DEBTS

The fair value of debts, in the absence of an actively traded market for these liabilities, is taken to be the same as the value of future cash flows discounted to present value at the market rates prevailing on the balance sheet date.

When the debt is a listed instrument, its fair value is its market value.

For floating-rate deposits, demand deposits and borrowings with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value. Similarly, the individual fair value of demand deposit accounts is equal to their book value.

NOTE 4 - OTHER ACTIVITIES

The first-time application of IFRS 15 has no impact on the accounting principles applicable to *Fee income and expense* and *Income and expense from other activities*.

NOTE 4.1 - FEE INCOME AND EXPENSE

	1st half of 2018 (1)			2017			1st half of 2017		
(In millions of euros)	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net
Transactions with banks	**70**	**(89)**	**(19)**	**133**	**(168)**	**(35)**	**67**	**(81)**	**(14)**
Transactions with customers	**1,557**	**-**	**1,557**	**2,971**	**-**	**2,971**	**1,489**	**-**	**1,489**
Financial instruments operations	**1,164**	**(1,171)**	**(7)**	**2,416**	**(2,240)**	**176**	**1,288**	**(1,164)**	**124**
Securities transactions	259	(479)	(220)	596	(959)	(363)	321	(453)	(132)
Primary market transactions	81		81	208		208	104		104
Foreign exchange transactions and financial derivatives	824	(692)	132	1,612	(1,281)	331	863	(711)	152
Loan and guarantee commitments	**373**	**(39)**	**334**	**748**	**(62)**	**686**	**374**	**(34)**	**340**
Services	**1,180**	**-**	**1,180**	**3,934**	**-**	**3,934**	**1,972**	**-**	**1,972**
Asset management fees	313		313	1,427		1,427	699		699
Payment instruments fees	412		412	813		813	395		395
Insurance products fees	114		114	820		820	412		412
Underwriting fees of UCITS	40		40	176		176	86		86
Other services	301		301	698		698	380		380
Others	**145**	**(488)**	**(343)**	**302**	**(1,211)**	**(909)**	**148**	**(606)**	**(458)**
Total	**4,489**	**(1,787)**	**2,702**	**10,504**	**(3,681)**	**6,823**	**5,338**	**(1,885)**	**3,453**

(1) As of the financial year 2018, income and expense for the Group's insurance business will be shown on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1, paragraph 4).

NOTE 4.2 - INCOME AND EXPENSE FROM OTHER ACTIVITIES

	1st half of 2018			2017			1st half of 2017		
(In millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Real estate development	33	(1)	32	93	(4)	89	42	(2)	40
Real estate leasing	22	(13)	9	67	(68)	(1)	30	(40)	(10)
Equipment leasing	4,960	(3,283)	1,677	9,158	(6,447)	2,711	4,363	(3,086)	1,277
Other activities(1)	310	(1,171)	(861)	12,727	(14,637)	(1,910)	7,863	(9,242)	(1,379)
o/w insurance activities				*12,346*	*(12,052)*	*294*	*6,629*	*(6,461)*	*168*
Total	**5,325**	**(4,468)**	**857**	**22,045**	**(21,156)**	**889**	**12,298**	**(12,370)**	**(72)**

(1) As of the financial year 2018, income and expense for the Group's insurance business will be shown on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1, paragraph 4).

NOTE 4.3 – INSURANCE ACTIVITIES

MAKING IT SIMPLE

Insurance activities (life insurance, personal protection and non-life insurance) add to the range of products included in the banking services offered to Group customers.

These activities are carried out by dedicated subsidiaries, subject to regulations specific to the insurance sector.

The rules for measuring and accounting for risks associated with insurance contracts are specific to the Insurance sector. Equally, the income and expense disclosed in this note for the Group's insurance business are shown in line with the sector's standard format (classification on the basis of function).

DEFERRED APPLICATION OF IFRS 9 BY INSURANCE SUBSIDIARIES

The amendments to IFRS 4 (Applying IFRS 9, "Financial Instruments", with IFRS 4, Insurance Contracts) allow entities having insurance as their primary activity to delay the application of IFRS 9 until 1 January 2021, meaning they may continue applying the current standard, IAS 39. The European Commission also extended the deferral option to allow financial conglomerates falling within the scope of Directive 2002/87/EC to elect that all their entities operating in the insurance sector within the meaning of that Directive will defer the effective date of IFRS 9 until 1 January 2021.

The Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. The Group has made the necessary arrangements to forbid all transfers of financial instruments between its insurance sector and any other sector in the Group that would lead to a derecognition of the instrument by the seller, except for transfers of financial instruments measured at fair value through profit or loss by both sectors involved in such transfers.

Starting in financial year 2018, insurance activities are presented on separate lines in the consolidated financial statements for clarification purposes: *Investments of insurance activities* under balance sheet assets, *Insurance contracts related liabilities* under balance sheet liabilities, and *Net income from insurance activities* under *Net banking income* in the income statement.

The main subsidiaries concerned are Sogecap, Antarius, Sogelife, Oradea Vie, Komercni Pojistovna A.S. and Sogessur.

1. INSURANCE CONTRACTS RELATED LIABILITIES

ACCOUNTING PRINCIPLES

UNDERWRITING RESERVES OF INSURANCE COMPANIES

Underwriting reserves correspond to the commitments of insurance companies with respect to policyholders and the beneficiaries of policies.

In accordance with IFRS 4 on insurance policies, life and non-life underwriting reserves continue to be measured under the same local regulations.

Risks covered by non-life insurance policies are principally linked to home, car and accident protection guarantees. Underwriting reserves comprise reserves for unearned premiums (share of premium income relating to subsequent financial years) and for outstanding claims.

Risks covered by life insurance policies are principally death, invalidity and incapacity for work. Life insurance underwriting reserves mainly comprise actuarial reserves, which correspond to the difference between the present value of commitments falling to the insurer and those falling to the policyholder, and the reserve for claims incurred but not settled.

In life insurance products:

- Underwriting reserves of life insurance contracts invested in EUR-denominated vehicles with profit-sharing clauses consist primarily of mathematical provisions and provisions for profit-sharing.
- Underwriting reserves of life insurance contracts invested in unit-linked vehicles or with a significant insurance clause (mortality, invalidity, etc.) are measured at the inventory date according to the realisation value of the assets underlying these contracts.

Under the principles defined in IFRS 4, and in compliance with local regulations applicable with respect thereto, life insurance policies with discretionary profit-sharing features are subject to “mirror accounting”, whereby any changes in the value of financial assets liable to affect policyholders are recorded in *Deferred profit-sharing.* This reserve is calculated to reflect the potential rights of policyholders to unrealised gains on financial instruments measured at fair value or their potential share of unrealised losses.

To demonstrate the recoverability of the deferred profit-sharing asset in the event of an unrealised net loss, two approaches are verified by the Group in order to show that the liquidity requirements caused by an unfavourable economic environment would not require assets to be sold in the event of unrealised losses:

- the first approach consists in simulating deterministic (“standardised” or extreme) stress scenarios. This is used to show that in these scenarios no significant losses would be realised on the assets existing at the balance sheet date for the scenarios tested;
- the aim of the second approach is to ensure that in the long or medium term, the sale of assets to meet liquidity needs would not generate any significant losses. The approach is verified considering projections based on extreme scenarios.

A liability adequacy test is also carried out quarterly using a stochastic model based on parameter assumptions consistent with those used for the MCEV (Market Consistent Embedded Value). This test takes into account all of the future cash flows from policies, including management charges, fees and policy options and guarantees.

CLASSIFICATION OF FINANCIAL LIABILITIES

At initial recognition, financial liabilities resulting from the Group’s insurance activities are classified in the following accounting categories:

- financial liabilities measured at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that do not qualify as hedging instruments, as well as non-derivative financial liabilities initially designated by the Group at fair value through profit or loss (fair value option). These financial liabilities mainly comprise investment contracts without discretionary profit-sharing clauses and with no insurance component, that do not meet the definition of an insurance contract under IFRS 4 (unit-linked insurance contracts only) and are thus governed by IAS 39;
- financial liabilities measured at amortised cost: other non-derivative financial liabilities, which are measured at amortised cost.

These financial liabilities are recorded in the balance sheet under *Debts* and *Financial liabilities measured at fair value through profit or loss,* except for derivative liabilities and revaluation differences on portfolios hedged against interest rate risk, which are recorded under *Insurance contracts related liabilities.*

BREAKDOWN OF INSURANCE CONTRACTS RELATED LIABILITIES

(In millions of euros)	30.06.2018	01.01.2018
Underwriting reserves of insurance companies	131,654	130,958
Financial liabilities of insurance activities	604	759
Total	**132,258**	**131,717**

UNDERWRITING RESERVES OF INSURANCE COMPANIES

(In millions of euros)	30.06.2018	01.01.2018
Underwriting reserves for unit-linked policies	30,681	29,643
Life insurance underwriting reserves	89,798	89,563
Non-life insurance underwriting reserves	1,354	1,332
Deferred profit-sharing booked in liabilities	9,821	10,420
Total	**131,654**	**130,958**
Attributable to reinsurers	(685)	(731)
Underwriting reserves of insurance companies (including provisions for deferred profit-sharing) net of the share attributable to reinsurers	**130,969**	**130,227**

STATEMENT OF CHANGES IN UNDERWRITING RESERVES

(In millions of euros)	Underwriting reserves for unit-linked policies	Life insurance underwriting reserves	Non-life insurance underwriting reserves
Reserves at 1 January 2018 (except provisions for deferred profit-sharing)	**29,643**	**89,563**	**1,332**
Allocation to insurance reserves	795	879	18
Revaluation of unit-linked policies	(103)	-	-
Charges deducted from unit-linked policies	-	-	-
Transfers and allocation adjustments	614	(620)	-
New customers	14	-	-
Profit-sharing	59	57	-
Others	(341)	(81)	4
Reserves at 30 June 2018 (except provisions for deferred profit-sharing)	**30,681**	**89,798**	**1,354**

In accordance with IFRS 4 and Group accounting standards, the Liability Adequacy Test (LAT) was performed at 30 June 2018. This test assesses whether recognised insurance liabilities are adequate, using current estimates of future cash flows under insurance policies. The result of the test at 30 June 2018 was positive.

UNDERWRITING RESERVES BY REMAINING MATURITY

(In millions of euros)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	30.06.2018
Underwriting reserves of insurance companies	13,951	9,375	36,837	71,491	**131,654**

2. INVESTMENTS OF INSURANCE ACTIVITIES

ACCOUNTING PRINCIPLES

CLASSIFICATION OF FINANCIAL ASSETS

At initial recognition, financial assets of Group's insurance activities are classified under the following accounting categories:

- *Financial assets measured at fair value through profit or loss*: financial instruments held for trading (see definition in Note 3.1), including by default derivative assets that do not qualify as hedging instruments, as well as non-derivative financial assets initially designated by the Group at fair value through profit or loss (fair value option). In particular, the Group measures at fair value by option financial assets held to guarantee the unit-linked policies to ensure that their accounting treatment matches that of the corresponding insurance liabilities.
- *Loans and receivables*: non-derivative fixed- or determinable-income financial assets that are not quoted on an active market and are not held for trading purposes or held for sale from the time of their acquisition or issuance, nor initially designated at fair value through profit or loss (fair value option). They are measured at amortised cost and may be subject to impairment for credit risk where there is objective evidence of impairment on an individual or collective basis.
- *Held-to-maturity financial assets*: non-derivative fixed- or determinable-income assets with a fixed maturity which are quoted on an active market and which the Group has the intention and ability to hold to maturity. They are measured at amortised cost and may be subject to impairment, if applicable, where there is objective evidence of impairment on an individual basis. Amortised cost includes premiums, discounts and transaction costs.
- *Available-for-sale financial assets*: non-derivative financial assets held for an indefinite period and which the Group may sell at any time. By default, these are financial assets which are not classified in one of the three above categories. These instruments are measured at fair value through other comprehensive income under Unrealised or deferred gains and losses. Accrued or earned income on debt securities is recorded in profit or loss based on the effective interest rate, while income from equity securities is recorded under Dividend income. Finally, where there is objective evidence of impairment on an individual basis, the unrealised loss previously accumulated in other comprehensive income is reclassified to profit or loss under *Net income from insurance activities*.

All these categories are presented in the balance sheet under *Investments of insurance activities,* which also includes investment property held by insurance entities and hedging derivatives measured as required by the accounting principles presented in Note 3.2.

For debt instruments, objective evidence of impairment on an individual basis includes:

- a significant deterioration in the counterparty's financial situation creating a strong probability that it will not be able to meet all of its commitments and thus represents a risk of loss for the Group;
- concessions 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 company liquidation.

Furthermore, for financial assets classified as *Loans and receivables*, where there is no objective evidence of impairment on an individual basis, the Group creates portfolios of assets presenting similar credit risk characteristics and subjects the entire portfolio to an impairment test. In a portfolio of homogeneous assets, as soon as a credit risk is incurred on a group of financial instruments, impairment is recognised without waiting for the risk to individually affect one or more receivables.

Finally for equity instruments classified as *Available-for-sale financial assets*, a significant or prolonged decrease in fair value below their purchase price constitutes objective evidence of impairment.

The accounting principles governing fair value, initial recognition of financial instruments, derecognition of financial instruments, derivatives, interest income and expense, transferred financial assets and clearing of financial instruments are identical to those described in Note 3 “Financial instruments”.

OVERVIEW OF INVESTMENTS OF INSURANCE ACTIVITIES

(In millions of euros)	30.06.2018	01.01.2018
Financial assets at fair value through profit or loss (trading portfolio)	1,705	1,765
Debt instruments	*200*	*200*
Equity instruments	*38*	*38*
Trading derivatives	*1,467*	*1,527*
Other assets	-	-
Financial assets at fair value through profit or loss (fair value option)	57,288	55,414
Bonds and other debt instruments	*27,387*	*27,174*
Shares and other equity instruments	*29,644*	*27,986*
Loans and securities purchased under resale agreement	*257*	*254*
Hedging derivatives	419	438
Available-for-sale financial assets	86,300	86,509
Debt instruments	*72,520*	*72,973*
Equity instruments	*13,780*	*13,536*
Due from banks[2]	8,973	9,195
Customer loans	132	141
Held-to-maturity financial assets	-	-
Revaluation differences on portfolios hedged against interest rate risk	-	-
Real estate investments	613	618
Total investments of insurance activities before elimination of intercompany transactions	**155,430**	**154,080**
Elimination of intercompany transactions	(6,296)	(6,469)
Total investments of insurance activities after elimination of intercompany transactions [1]	**149,134**	**147,611**

(1) Investments in other Group companies that are made in representation of unit-linked liabilities are kept in the Group's consolidated balance sheet without any significant impact thereon.

(2) o/w EUR 1,090 million of current accounts at 30 June 2018 (after elimination of intercompany transactions) vs. EUR 1,093 million at 1 January 2018.

The following tables show the carrying amounts after eliminating intercompany transactions.

ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

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

	30.06.2018		
(In millions of euros)	**Basic instruments except trading transactions and fair value option**	**Other instruments**	**Total**
Available-for-sale financial assets	68,010	16,587	84,597
Due from banks	3,835	3,258	7,093
Customer loans	132	-	132

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	30.06.2018			
(In millions of euros)	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading portfolio	38	424	-	462
Financial assets at fair value through profit or loss using the fair value option	50,479	5,007	343	55,829
Hedging derivatives	-	409	-	409
Available-for-sale financial assets	79,034	5,487	76	84,597
Total financial assets at fair value	**129,551**	**11,327**	**419**	**141,297**

	31.12.2017			
(In millions of euros)	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading portfolio	38	661	-	699
Financial assets at fair value through profit or loss using the fair value option	49,805	3,764	331	53,900
Hedging derivatives	-	420	-	420
Available-for-sale financial assets	79,841	4,814	76	84,731
Total financial assets at fair value	**129,684**	**9,659**	**407**	**139,750**

CHANGES IN AVAILABLE FOR SALE FINANCIAL ASSETS

(In millions of euros)	2018
Balance as of 1 January	**84,731**
Acquisitions	4,769
Disposals / redemptions	(3,987)
Transfers to held-to-maturity financial assets	(76)
Change in scope and others	(202)
Gains and losses on changes in fair value recognised directly in equity during the period	(613)
Change in impairment on debt instruments recognised in profit and loss	-
o/w allocations	-
o/w reversals	-
Impairment losses on equity instruments recognised in profit and loss	(36)
Translation differences	11
Balance as of 30 June	**84,597**

UNREALISED GAINS AND LOSSES ON AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	30.06.2018		
(In millions of euros)	Capital gains	Capital losses	Net revaluation
Unrealised gains and losses of insurance companies	**444**	**(37)**	**407**
On equity instruments available-for-sale	*1,611*	*(87)*	*1,524*
On debt instruments available-for-sale and assets reclassified as loans and receivables	*7,193*	*(385)*	*6,808*
Deferred profit-sharing	*(8,360)*	*435*	*(7,925)*

	31.12.2017		
(In millions of euros)	Capital gains	Capital losses	Net revaluation
Unrealised gains and losses of insurance companies	**438**	**(27)**	**411**
On available-for-sale equity instruments	*1,537*	*(38)*	*1,499*
On available-for-sale debt instruments and assets reclassified as loans and receivables	*7,748*	*(327)*	*7,421*
Deferred profit-sharing	*(8,847)*	*338*	*(8,509)*

3. NET INCOME FROM INSURANCE ACTIVITIES

ACCOUNTING PRINCIPLES

INCOME AND EXPENSE RELATED TO INSURANCE CONTRACTS

Income and expense related to insurance contracts issued by Group insurance companies, associated fee income and expense, and income and expense related to investments of insurance companies are recorded under *Net income from insurance activities* in the income statement.

Other income and expense are recorded under the appropriate headings.

Changes in the provision for deferred profit-sharing are recorded under *Net income from insurance activities* in the income statement or under *Unrealised or deferred gains and losses* under the appropriate headings for the underlying assets in question.

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

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Net premiums	6,515	11,480	5,872
Net income from investments	1,157	3,368	1,770
Cost of benefits (including changes in reserves) [(1)]	(6,921)	(12,771)	(6,620)
Other net technical income (expense)	108	2	3
Net income from insurance activities	**859**	**2,079**	**1,025**
Funding costs	(3)	(4)	(2)
Net banking income of insurance companies	**856**	**2,075**	**1,023**

(1) o/w EUR 1,188 million in respect of profit-sharing.

NET INCOME FROM INVESTMENTS

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Dividend income on equity instruments	133	393	149
Interest income	1,018	2,047	1,017
On available-for-sale financial assets	*848*	*1,711*	*853*
On loans and receivables	*143*	*273*	*136*
Other net interest income	*27*	*63*	*28*
Net gains and losses on financial instruments at fair value through profit or loss	(11)	864	473
Net gains and losses on available-for-sale financial instruments	6	61	131
Capital gains and losses on sale of debt instruments	*-*	*(51)*	*34*
Capital gains and losses on sale of equity instruments	*42*	*167*	*135*
Impairment values on equity instruments	*(36)*	*(55)*	*(38)*
Net gains and losses on real estate investments	11	3	-
Total net income from investments	**1,157**	**3,368**	**1,770**

4. MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risk:

- underwriting risks, particularly risk relating to life insurance, individual personal protection and non-life insurance. This risk can be biometrical: disability, longevity, mortality, or related to policyholders' behaviour (risk of redemption). To a lesser extent, the Insurance business line is also exposed to non-life and health risks. Such risks can come from pricing, selection, claims management or catastrophic risk;
- risks related to financial markets and ALM: the Insurance business line, mainly through life insurance, is exposed to instabilities on the financial markets (changes in interest rates and stock market fluctuations) which can be made worse by policyholder behaviour.

Managing these risks is key to the Insurance business line's activity. It is carried out by qualified and experienced teams, with major bespoke IT resources. Risks undergo regular monitoring and are reported to the Board of Directors of the entities concerned.

Risk management techniques are based on the following:

- heightened security for the risk acceptance process, with the aim of guaranteeing that the price schedule matches the policyholder's risk profile and the guarantees provided;
- regular monitoring of indicators on product claims rates in order to adjust certain product parameters, such as pricing or the level of guarantee, if necessary;
- implementation of a reinsurance plan to protect the business line from major/serial claims;
- application of policies on risk, provisioning and reinsurance.

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimisation of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analysed by the Finance Investment and Risk Department of the insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behaviour (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per issuer rating and asset class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA report (Own Risk and Solvency Assessment), and sent to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

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

BREAKDOWN OF INVESTMENTS BY RATING OF BASIC INSTRUMENTS

	30.06.2018			
(In millions of euros)	**Available-for-sale financial assets**	**Due from banks**	**Customer loans**	**Total**
AAA	4,185	562	-	4,747
AA+ / AA / AA-	37,984	430	-	38,414
A+ / A / A-	12,941	1,177	-	14,118
BBB+ / BBB / BBB-	11,912	923	-	12,835
BB+ / BB / BB-	531	93	-	624
B+ / B / B-	75	-	-	75
CCC+ / CCC / CCC-	-	-	-	-
CC+ / CC / CC-	-	-	-	-
Lower than CC-	-	-	-	-
Without rating	382	650	132	1,164
Total before impairment	**68,010**	**3,835**	**132**	**71,977**
Impairment	**-**	**-**	**-**	**-**
Carrying amount	**68,010**	**3,835**	**132**	**71,977**

The rating scale is the scale used for Solvency 2 purposes, which calls for the second highest rating determined by the rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings) to be used. The ratings in question apply to issues or, where these are not available, to issuers.

NOTE 4.4 - OTHER ASSETS AND LIABILITIES

1. OTHER ASSETS

Other assets are impacted by the transition to IFRS 9 due to the implementation of the simplified impairment model for operating leases (see Note 3.8).

(In millions of euros)	30.06.2018	01.01.2018	31.12.2017
Guarantee deposits paid (1)	45,077	40,978	40,984
Settlement accounts on securities transactions	9,237	7,436	7,436
Prepaid expenses	1,067	989	989
Miscellaneous receivables (2)	10,919	9,920	10,378
Miscellaneous receivables - insurance	1,443	1,411	1,033
Gross amount	**67,743**	**60,734**	**60,820**
Impairment (3)	(195)	(285)	(258)
Net amount	**67,548**	**60,449**	**60,562**

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

(2) Miscellaneous receivables primarily include trade receivables, fee income and income from other activities to be received.

(3) Impairments on other assets are related to:

- *credit risk on operating lease receivables for an amount of EUR 131 million as of 30 June 2018 and EUR 132 million as of 1 January 2018;*
- *credit risk on assets acquired by adjudication and sundry debtors for an amount of EUR 26 million as of 30 June 2018 and EUR 116 million as of 1 January 2018;*
- *other risks for an amount of EUR 38 million as of 30 June 2018 and EUR 37 million as of 1 January 2018.*

2. OTHER LIABILITIES

The balance sheet value of other liabilities was not impacted by the first-time application of IFRS 9.

(In millions of euros)	30.06.2018	31.12.2017
Guarantee deposits received (1)	41,072	39,117
Settlement accounts on securities transactions	10,691	6,816
Expenses payable on employee benefits	2,086	2,542
Deferred income	1,748	1,633
Miscellaneous payables (2)	14,723	13,314
Miscellaneous payables - insurance	5,973	5,717
Total	**76,293**	**69,139**

(1) Mainly relates to guarantee deposits received on financial instruments, the fair value of which is taken to be the same as their book value.

(2) Miscellaneous payables primarily include trade payables, fee expense and expense from other activities to be paid.

NOTE 5 - PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

1. PERSONNEL EXPENSES

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Employee compensation	(3,418)	(7,018)	(3,411)
Social security charges and payroll taxes	(820)	(1,605)	(796)
Net pension expenses - defined contribution plans	(337)	(713)	(341)
Net pension expenses - defined benefit plans	(62)	(112)	(57)
Employee profit-sharing and incentives	(148)	(301)	(137)
Total	**(4,785)**	**(9,749)**	**(4,742)**
Including net expenses from share based payments	*(111)*	*(129)*	*(71)*

2. DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS

(In millions of euros)	Provisions at 31.12.2017	Allocations	Write-backs available	Net allocation	Write-backs used	Actuarial gains and losses	Currency and scope effects	Provisions at 30.06.2018
Provisions for employee benefits	**2,100**	136	(152)	**(16)**	(4)	(29)	3	**2,054**

DESCRIPTION OF THE 2018 SHARE-BASED PAYMENT PLANS

2018 SOCIETE GENERALE FREE SHARES PLAN (1)

Shareholders' agreement	18.05.2016
Board of Directors' decision	14.03.2018
Number of free shares granted	861,544
Number of free shares outstanding at 30.06.2018	860,335
Vesting period	14.03.2018 - 31.03.2021
Performance conditions (2)	yes
Fair value (% of the share price at grant date)	86.9%
Method of valuation	Arbitrage

(1) Excluding shares awarded within the framework of the specific retention and remuneration policy concerning employees working within activities considered as having a significant impact on the Group's risk profile and as defined by Directive CRD4 in effect since 1 January 2014 (i.e. regulated staff).

(2) The performance conditions are based on Net income, Group share.

2018 SOCIETE GENERALE PERFORMANCE SHARES PLAN [1]

Date of General Meeting	18.05.2016	
Date of Board Meeting	14.03.2018	
Total number of shares granted	815,735	
Vesting date		
Sub-plan 1	1st instalment	31.03.2020
	2nd instalment	31.03.2021
Sub-plan 2	1st instalment	31.03.2022
	2nd instalment	29.03.2024
Sub-plan 3		31.03.2023
Holding period end date		
Sub-plan 1	1st instalment	01.10.2020
	2nd instalment	01.10.2021
Sub-plan 2	1st instalment	01.04.2023
	2nd instalment	31.03.2025
Sub-plan 3		01.10.2023
Performance conditions [2]	yes	
Fair value (*in EUR*) [3]		
Sub-plan 1	1st instalment	40.39
	2nd instalment	38.59
Sub-plan 2	1st instalment	26.40
	2nd instalment	24.43
Sub-plan 3		39.17

(1) Under the annual employee plan and awards in the context of the specific loyalty and remuneration policy applicable to regulated persons as defined in banking regulations (including Chief Executive Officers and Executive Committee members).

(2) The performance conditions are based on Net income, Group share.

(3) The fair value is calculated using the arbitrage method of valuation.

NOTE 6 - INCOME TAX

1. INCOME TAX

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Current taxes	(571)	(1,035)	(676)
Deferred taxes	(315)	(673)	(15)
Total	**(886)**	**(1,708)**	**(691)**

RECONCILIATION OF THE DIFFERENCE BETWEEN THE GROUP'S STANDARD TAX RATE AND ITS EFFECTIVE TAX RATE

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Income before tax, excluding net income from companies accounted for using the equity method and impairment losses on goodwill	**3,197**	**5,045**	**2,737**
Normal tax rate applicable to French companies (including 3.3% national contribution)	34.43%	34.43%	34.43%
Permanent differences[1]	4.23%	12.87%	4.52%
Differential on securities with tax exemption or taxed at reduced rate	(0.79)%	(2.23)%	(3.31)%
Tax rate differential on profits taxed outside France	(10.19)%	(10.48)%	(10.26)%
Impact of non-deductible losses and use of tax losses carried forward	0.04%	(0.69)%	(0.13)%
Group effective tax rate	**27.72%**	**33.90%**	25.25%

In France, the standard corporate income tax rate is 33.33%. In addition, a national contribution payment based on pretax earnings (contribution sociale) was introduced in 2000 equal to 3.3% (after a deduction of EUR 0.76 million from basic taxable income).

Long-term capital gains on equity investments are exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate. In accordance with the 2013 French Finance Act, this portion of fees and expenses is 12% of gross capital gains.

Furthermore, under the parent-subsidiary regime, dividends from companies in which Societe Generale's equity interest is at least 5% are tax exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate.

The 2018 French Finance Act, adopted on 21 December 2017, includes a gradual reduction in the French tax rate. Between now and 2022, the standard Corporate Income Tax of 33.33% will be brought down to 25%, plus the existing national contribution of 3.3%.

Deferred taxes in French companies are determined by applying the tax rate in effect at the reversal of the temporary difference. Regarding the gradual reduction in French tax rate until 2022:

- for income taxed at the ordinary tax rate, the rate is between 34.43% in 2018 and 25.83% from 2022,
- for income taxed at the reduced rate, the rate is between 4.13% in 2018 and 3.10% from 2022.

The US tax reform enacted end of December 2017 introduced a new tax on services and interest payments to non-US related parties (“Base Erosion Anti-abuse Tax”). Societe Generale remains attentive to guidance that is still expected from the US authorities.

2. PROVISIONS FOR TAX ADJUSTMENTS

(In millions of euros)	**Provisions at 31.12.2017**	**Allocations**	**Available write-backs**	**Net allocation**	**Used write-backs**	**Currency and scope effects**	**Provisions at 30.06.2018**
Provisions for tax adjustments	**162**	8	(52)	**(44)**	-	(1)	**117**

NOTE 7 - SHAREHOLDERS' EQUITY

NOTE 7.1 - TREASURY SHARES AND SHAREHOLDERS' EQUITY ISSUED BY THE GROUP

1. ORDINARY SHARES ISSUED BY SOCIETE GENERALE S.A.

(Number of shares)	30.06.2018	31.12.2017
Ordinary shares	807,917,739	807,917,739
Including treasury stock with voting rights[(1)]	*5,994,034*	*6,850,304*
Including shares held by employees	*52,983,091*	*49,830,060*

(1) Excluding Societe Generale shares held for trading purposes or in respect of the liquidity contract.

At 30 June 2018, Societe Generale S.A.'s fully paid up capital amounted to EUR 1,009,897,173.75 and was made up of 807,917,739 shares with a nominal value of EUR 1.25.

2. TREASURY STOCK

At 30 June 2018, the Group held 18,456,091 of its own shares as treasury stock, for trading purposes or for the active management of shareholders' equity, representing 2.28% of the capital of Societe Generale S.A.

The amount deducted by the Group from its equity for treasury shares (and related derivatives) came to EUR 750 million, including EUR 500 million in shares held for trading purposes

THE CHANGE IN TREASURY STOCK OVER THE 1ST HALF OF 2018 BREAKS DOWN AS FOLLOWS:

(In millions of euros)	Liquidity contract	Trading activities	Treasury stock and active management of shareholders' equity	Total
Disposals net of purchases	(9)	(279)	31	**(257)**
Capital gains net of tax on treasury stock and treasury share derivatives, booked under shareholders' equity	-	(12)	(25)	**(37)**

3. EQUITY INSTRUMENTS ISSUED

At 30 June 2018, the equity instruments issued by the Group corresponded to a total of EUR 8,958 million. The change in the first half of year 2018 reflects the repayment of the deeply subordinated note in GBP for a total of EUR 643 million and the issue of a deeply subordinated note in US dollars, for a total of EUR 1,035 million.

NOTE 7.2 - EARNINGS PER SHARE AND DIVIDENDS

1. EARNINGS PER SHARE

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Net income, Group share	2,006	2,806	1,805
Net attributable income to subordinated notes	(218)	(466)	(254)
Issuance fees relating to subordinated notes	(5)	-	-
Net income attributable to ordinary shareholders	**1,783**	**2,340**	**1,551**
Weighted average number of ordinary shares outstanding(1)	801,607,044	800,596,132	800,355,055
Earnings per ordinary share (in euros)	**2.22**	**2.92**	**1.94**
Average number of ordinary shares used in the dilution calculation	-	50	83
Weighted average number of ordinary shares used in the calculation of diluted net earnings per share	801,607,044	800,596,182	800,355,138
Diluted earnings per ordinary share (in euros)	**2.22**	**2.92**	**1.94**

(1) Excluding treasury shares.

2. DIVIDENDS PAID

Dividends paid by the Group for the first half of 2018 amounted to EUR 2,472 million and are detailed in the following table:

	1st half of 2018			2017		
(In millions of euros)	**Group Share**	**Non-controlling interests**	**Total**	**Group Share**	**Non-controlling interests**	**Total**
Ordinary shares	(1,764)	(364)	(2,128)	(1,762)	(243)	(2,005)
o/w paid in shares	-	-	-	-	-	-
o/w paid in cash	*(1,764)*	*(364)*	*(2,128)*	*(1,762)*	*(243)*	*(2,005)*
Other equity instruments	(311)	(33)	(344)	(738)	(33)	(771)
Total	**(2,075)**	**(397)**	**(2,472)**	**(2,500)**	**(276)**	**(2,776)**

NOTE 8 - ADDITIONAL DISCLOSURES

NOTE 8.1 - SEGMENT REPORTING

	Societe Generale Group			French Retail Banking			Corporate Centre (1)		
(In millions of euros)	1st half of 2018	2017	1st half of 2017	1st half of 2018	2017*	1st half of 2017*	1st half of 2018	2017*	1st half of 2017*
Net banking income	12,748	23,954	11,673	3,999	8,014	4,049	58	(1,147)	(1,242)
Operating Expenses(2)	(9,132)	(17,838)	(8,813)	(2,841)	(5,939)	(2,772)	(258)	(374)	(96)
Gross operating income	**3,616**	**6,116**	**2,860**	**1,158**	**2,075**	**1,277**	**(200)**	**(1,521)**	**(1,338)**
Cost of risk	(378)	(1,349)	(368)	(227)	(547)	(258)	(5)	(400)	101
Operating income	**3,238**	**4,767**	**2,492**	**931**	**1,528**	**1,019**	**(205)**	**(1,921)**	**(1,237)**
Net income from companies accounted for by the equity method	29	92	50	16	33	20	2	17	11
Net income / expense from other assets	(41)	278	245	2	9	5	(32)	237	207
Value adjustments on goodwill	-	1	1	-	-	-	-	-	-
Earnings before tax	**3,226**	**5,138**	**2,788**	**949**	**1,570**	**1,044**	**(235)**	**(1,667)**	**(1,019)**
Income tax	(886)	(1,708)	(691)	(314)	(511)	(343)	45	52	314
Net income before non-controlling interests	**2,340**	**3,430**	**2,097**	**635**	**1,059**	**701**	**(190)**	**(1,615)**	**(705)**
Non-controlling interests	334	624	292	-	-	-	82	170	81
Net income, Group share	**2,006**	**2,806**	**1,805**	**635**	**1,059**	**701**	**(272)**	**(1,785)**	**(786)**

	International Retail Banking & Financial Services											
	International Retail Banking			**Financial Services to Corporates**			**Insurance**			**Total**		
(In millions of euros)	**1st half of 2018**	**2017***	**1st half of 2017***	**1st half of 2018**	**2017***	**1st half of 2017***	**1st half of 2018**	**2017***	**1st half of 2017***	**1st half of 2018**	**2017***	**1st half of 2017***
Net banking income	2,713	5,278	2,597	905	1,804	905	446	832	406	4,064	7,914	3,908
Operating Expenses	(1,634)	(3,171)	(1,569)	(470)	(925)	(453)	(177)	(308)	(163)	(2,281)	(4,404)	(2,185)
Gross operating income	**1,079**	**2,107**	**1,028**	**435**	**879**	**452**	**269**	**524**	**243**	**1,783**	**3,510**	**1,723**
Cost of risk	(138)	(349)	(148)	(28)	(51)	(22)	-	-	-	(166)	(400)	(170)
Operating income	**941**	**1,758**	**880**	**407**	**828**	**430**	**269**	**524**	**243**	**1,617**	**3,110**	**1,553**
Net income from companies accounted for by the equity method	7	26	6	1	16	12	-	(1)	-	8	41	18
Net income / expense from other assets	4	36	33	-	-	-	-	-	-	4	36	33
Value adjustments on goodwill	-	1	1	-	-	-	-	-	-	-	1	1
Earnings before tax	**952**	**1,821**	**920**	**408**	**844**	**442**	**269**	**523**	**243**	**1,629**	**3,188**	**1,605**
Income tax	(221)	(418)	(214)	(108)	(224)	(115)	(89)	(178)	(82)	(418)	(820)	(411)
Net income before non-controlling interests	**731**	**1,403**	**706**	**300**	**620**	**327**	**180**	**345**	**161**	**1,211**	**2,368**	**1,194**
Non-controlling interests	189	361	187	51	66	10	1	2	1	241	429	198
Net income, Group share	**542**	**1,042**	**519**	**249**	**554**	**317**	**179**	**343**	**160**	**970**	**1,939**	**996**

	Global Banking and Investor Solutions											
	Global Markets and Investors Services			Financing and Advisory			Asset and Wealth Management			Total		
(In millions of euros)	1st half of 2018	2017*	1st half of 2017*	1st half of 2018	2017*	1st half of 2017*	1st half of 2018	2017*	1st half of 2017*	1st half of 2018	2017*	1st half of 2017*
Net banking income	2,862	5,678	3,174	1,265	2,495	1,261	500	1,000	523	4,627	9,173	4,958
Operating Expenses	(2,390)	(4,434)	(2,393)	(909)	(1,767)	(906)	(453)	(920)	(461)	(3,752)	(7,121)	(3,760)
Gross operating income	**472**	**1,244**	**781**	**356**	**728**	**355**	**47**	**80**	**62**	**875**	**2,052**	**1,198**
Cost of risk	(2)	(34)	(40)	33	30	3	(11)	2	(4)	20	(2)	(41)
Operating income	**470**	**1,210**	**741**	**389**	**758**	**358**	**36**	**82**	**58**	**895**	**2,050**	**1,157**
Net income from companies accounted for by the equity method	4	5	3	-	(4)	(3)	(1)	-	1	3	1	1
Net income / expense from other assets	(1)	-	-	-	(4)	-	(14)	-	-	(15)	(4)	-
Value adjustments on goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before tax	**473**	**1,215**	**744**	**389**	**750**	**355**	**21**	**82**	**59**	**883**	**2,047**	**1,158**
Income tax	(125)	(322)	(201)	(68)	(84)	(33)	(6)	(23)	(17)	(199)	(429)	(251)
Net income before non-controlling interests	**348**	**893**	**543**	**321**	**666**	**322**	**15**	**59**	**42**	**684**	**1,618**	**907**
Non-controlling interests	9	21	12	1	2	-	1	2	1	11	25	13
Net income, Group share	**339**	**872**	**531**	**320**	**664**	**322**	**14**	**57**	**41**	**673**	**1,593**	**894**

** The amounts have been restated compared to the 2017 consolidated financial statements considering the new organization of the Group. The restatements are due to the transfer of Global Transaction and Payment Services business from French Retail Banking to Global Banking and Investor Solutions, to the modification of analytical split of results of the Insurance business distributed through French Retail Banking and Private Banking, and to a change in the allocation of overhead costs.*

(1) Income and expense not directly related to business line activities are recorded in the Corporate Centre income.

The Net banking income includes the revaluation differences for debts related to own credit risk (EUR -199 million at 30 June 2017 and EUR -53 million at 31 December 2017) and compensation of EUR 963 million for the transaction agreement between Societe Generale and the Libyan Investment Authority (at 30 June 2017 and 31 December 2017).

(2) These amounts include Personnel expenses, Other operating expenses and Amortisation, depreciation and impairment of tangible and intangible fixed assets.

(In millions of euros)	Societe Generale Group			French Retail Banking			Corporate Centre [2]		
	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017
Segment assets	1,298,022	1,274,216	1,275,128	215,454	213,708	226,346	109,501	117,011	116,737
Segment liabilities[1]	1,234,659	1,211,265	1,211,091	210,685	211,709	230,110	87,352	91,854	92,515

	International Retail Banking & Financial Services											
	International Retail Banking			Financial Services to Corporates			Insurance			Total		
(In millions of euros)	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017
Segment assets	127,578	115,992	116,749	40,700	39,542	39,645	151,177	149,784	149,785	319,455	305,318	306,179
Segment liabilities[1]	95,130	91,854	91,853	11,917	12,055	12,106	142,630	141,721	141,676	249,677	245,630	245,635

	Global Banking and Investor Solutions											
	Global Markets and Investors Services			Financing and Advisory			Asset and Wealth Management			Total		
(In millions of euros)	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017	30.06.2018	01.01.2018*	31.12.2017
Segment assets	493,495	492,804	494,111	122,496	110,810	97,179	37,621	34,564	34,576	653,612	638,178	625,866
Segment liabilities[1]	628,345	594,024	593,419	33,937	42,699	24,063	24,663	25,350	25,349	686,945	662,072	642,831

** Amounts restated compared to the 31 December 2017 consolidated financial statements, following :*

- the first time application of IFRS9;

- the relocation of Global Transaction and Payment Services from French Retail Banking to Financing and Advisory.

(1) Segment liabilities correspond to debts (i.e. total liabilities excluding equity).

(2) Assets and liabilities not directly related to the business line activities are recorded on the Corporate Centre's balance sheet. Thus the debt revaluation differences linked to own credit risk and the revaluation differences of the credit derivative instruments hedging the loans and receivables portfolios are allocated to the Corporate Centre.

NOTE 8.2 - OTHER OPERATING EXPENSES

(In millions of euros)	1st half of 2018	2017	1st half of 2017
Rentals	(384)	(839)	(542)
Taxes and levies	(740)	(919)	(755)
Data & Telecom	(1,168)	(2,265)	(1,095)
Consulting fees	(633)	(1,340)	(657)
Other	(935)	(1,720)	(541)
Total	**(3,860)**	**(7,083)**	**(3,590)**

CONTRIBUTION TO BANK RESOLUTION MECHANISMS

The European regulatory framework designed to enhance financial stability has been updated by Directive 2014/49/EU of 16 April 2014 on deposit guarantee schemes and Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive).

The European Regulation EU n° 806/2014 of 15 July 2014 then determined the financing means of resolution mechanisms within the European Banking Union through the establishment of a Single Resolution Fund (SRF).

The Single Resolution Fund (SRF), established in January 2016, shall receive annual contributions from the participating European financial institutions. By the end of 2023, the available financial means of the Fund shall reach at least 1% of the amount of covered deposits of all these participating financial institutions. A share of the annual contributions can be provided through irrevocable payment commitments.

For the 1st half of 2018, the Group’s contributions to the SRF and the National Resolution Fund (NRF) were as follows:

- Cash contributions (85%) for a total of EUR 425 million, of which EUR 387 million related to the SRF and EUR 38 million related to the NRF, which is non tax-deductible in France and has been recorded in the income statement in *Other administrative expenses,* among *Taxes and Levies*;
- Irrevocable payment commitments (15%) backed by a cash collateral for EUR 70 million related to the SRF, recorded as an asset in the balance sheet, among *Other assets*.

NOTE 8.3 - PROVISIONS

BREAKDOWN OF PROVISIONS

(in millions of euros)	Provisions at 01.01.2018	Allocations	Write-backs available	Net allocation	Write-backs used	Currency and others	Provisions at 30.06.2018
Provisions for credit of risk on off balance sheet commitments (see Note 3.8)	683	268	(343)	**(75)**	-	19	**627**
Provisions for employee benefits (see Note 5.2)	2,100	136	(152)	**(16)**	(4)	(26)	**2,054**
Provisions for tax adjustments (see Note 6)	162	8	(52)	**(44)**	-	(1)	**117**
Provisions for disputes	2,387	229	(4)	**225**	(1,186)	108	**1,534**
Provisions for mortgage savings plans and accounts commitments	193	2	(33)	**(31)**	(4)	-	**158**
Other provisions	820	67	(36)	**31**	(2)	17	**866**
Total	**6,345**	**710**	**(620)**	**90**	(1,196)	**117**	**5,356**

1. DETAIL OF PROVISIONS FOR DISPUTES

Each quarter the Group carries out a detailed examination of outstanding disputes that present a significant risk. The description of those disputes is provided in Note 9 "Information on risks and litigation".

To take into account changes in legal risks related to public law litigation for which investigations and proceedings are under way with US authorities (such as The Office of Foreign Assets Control) and European authorities, as well as the dispute on the "précompte", the Group has recognised a provision among its liabilities, under *Provisions for disputes*; this provision amount to EUR 2,318 million as at 30 June 2018, after a use following the settlement agreement with the US Department of Justice, the Commodity Futures Trading Commission and the "Parquet National Financier" in the IBOR and Lybian matters, and an additional allocation of EUR 200 million to reflect the progress of risks on some matters.

2. OTHER PROVISIONS

Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

NOTE 9 - INFORMATION ON RISKS AND LITIGATION

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

Additionally, to take into account the development of a global risk of outflows regarding some ongoing judicial investigations and proceedings in the US (such as the Office of Foreign Assets Control) and with European authorities, as well as the dispute on the French "précompte", the Group has recorded a provision for disputes among its liabilities which is disclosed in Note 8.3 to the consolidated financial statements.

- Beginning in 2006, Societe Generale, along with numerous other banks, financial institutions, and brokers, received requests for information from the US Internal Revenue Service, the Securities and Exchange Commission ("SEC") and the Antitrust Division of the U.S. Department of Justice ("DOJ"), focused on alleged noncompliance with various laws and regulations relating to the provision to governmental entities of Guaranteed Investment Contracts ("GICs") and related products in connection with the issuance of tax-exempt municipal bonds. Societe Generale has cooperated with the US authorities.

- On 24th October 2012, the Court of Appeal of Paris confirmed the first judgment delivered on 5th October 2010, finding J. Kerviel guilty of breach of trust, fraudulent insertion of data into a computer system, forgery and use of forged documents. J. Kerviel was sentenced to serve a prison sentence of five years, two years of which are suspended, and was ordered to pay EUR 4.9 billion as damages to the bank. On 19th March 2014, the Supreme Court confirmed the criminal liability of J. Kerviel. This decision puts an end to the criminal proceedings. On the civil front, the Supreme Court has departed from its traditional line of case law regarding the compensation of victims of criminal offences against property and remanded the case to the Versailles Court of Appeal for it to rule on the amount of damages. On 23rd September 2016, the Versailles Court of Appeal rejected J. Kerviel's request for an expert determination of the damage suffered by Societe Generale, and therefore confirmed that the net accounting losses suffered by the Bank as a result of his criminal conduct amount to EUR 4.9 billion. It also declared J. Kerviel partially responsible for the damage caused to Societe Generale and sentenced him to pay to Societe Generale EUR 1 million. Societe Generale and J. Kerviel did not appeal before the Supreme Court. Societe Generale considers that this decision has no impact on its tax situation. However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and recently confirmed that they intended to call into question the deductibility of the loss caused by the actions of J. Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by an adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In view of the 2011 opinion of the French Supreme Administrative Court (Conseil d'état) and its established case law which was recently confirmed again in this regard, Societe Generale considers that there is no need to provision the corresponding deferred tax assets. In the event that the authorities decide, in due course, to confirm their current position, Societe Generale group will not fail to assert its rights before the competent courts. A hearing took place on 18th June 2018 before the Investigation Committee of the Criminal Case Review Court, following a request filed in May 2015 by J. Kerviel against his criminal sentence. The Investigation Committee will give its decision on 20th September 2018.

- Between 2003 and 2008, Societe Generale set up gold consignment lines with the Turkish group Goldas. In February 2008, Societe Generale was alerted to a risk of fraud and embezzlement of gold stocks held by Goldas. These suspicions were rapidly confirmed following the failure by Goldas to pay or refund gold worth EUR 466.4 million. Societe Generale brought civil proceedings against its insurers and various Goldas Group entities. Goldas launched various proceedings in Turkey and in the UK against Societe Generale. In the action brought by Societe Generale against Goldas in the UK, Goldas applied to have the action of SG struck-out and applied to the UK court for damages. On 3rd April 2017, the UK court granted both applications and will, after an inquiry into damages, rule on the amount due to Goldas, if any. On 15th May 2018, the Court of Appeal discharged entirely the inquiry into damages granted by the High Court to Goldas but rejected Societe Generale's arguments relating to service of the claims issued against Goldas, which are therefore time barred. Goldas and Societe Generale filed permission to appeal the judgment to the Supreme Court. On 16th February 2017, the Paris Commercial Court dismissed Societe Generale's claims against its insurers. Societe Generale filed an appeal against this decision.

- Societe Generale Algeria ("SGA") and several of its branch managers are being prosecuted for breach of Algerian laws on exchange rates and capital transfers with other countries. The defendants are accused of having failed to make complete or accurate statements to the Algerian authorities on capital transfers in connection with exports or imports made by clients of SGA. The events were discovered during investigations by the Algerian authorities, which subsequently filed civil claims before the criminal court. Sentences were delivered by the court of appeal against SGA and its employees in some proceedings, while charges were dropped in other ones. To date, fourteen cases have ended in favour of SGA and nine remain pending, seven of which before the Supreme Court.

- In the early 2000s, the French banking industry decided to transition to a new digital system in order to streamline cheque clearing. To support this reform (known as EIC – Echange d'Images Chèques), which has contributed to the improvement of cheque payments' security and to the fight against fraud, the banks established several interbank fees (including the CEIC which was abolished in 2007). These fees were implemented under the aegis of the banking sector supervisory authorities, and to the knowledge of the public authorities.

  On 20th September 2010, after several years of investigation, the French competition authority ruled that the joint implementation and the setting of the amount of the CEIC and of two additional fees for related services were in breach of competition law. The authority fined all the participants to the agreement (including the Banque de France) a total of approximately EUR 385 million. Societe Generale was ordered to pay a fine of EUR 53.5 million and Crédit du Nord, its subsidiary, a fine of EUR 7 million.

  However, in its 23rd February 2012 order, the French Court of Appeal, to which the matter was referred by all the banks involved except Banque de France, held that there was no competition law infringement, allowing the banks to recoup the fines paid. On 14th April 2015, the Supreme Court quashed and annulled the Court of Appeal decision on the grounds that the latter did not examine the arguments of two third parties who voluntarily intervened in the proceedings. The case was heard again on 3rd and 4th November 2016 by the Paris Court of Appeal before which the case was remanded. On 21st December 2017, the Court of Appeal confirmed the fines imposed on Societe Generale and Crédit du Nord by the French competition authority. On 22 January 2018, Societe Generale and Crédit du Nord filed an appeal before the Supreme court against this decision.

- Societe Generale Private Banking (Suisse), along with several other financial institutions, has been named as a defendant in a putative class action that is pending in the US District Court for the Northern District of Texas. The plaintiffs seek to represent a class of individuals who were customers of Stanford International Bank Ltd. ("SIBL"), with money on deposit at SIBL and/or holding Certificates of Deposit issued by SIBL as of 16th February 2009. The plaintiffs allege that they suffered losses as a result of fraudulent activity at SIBL and the Stanford Financial Group or related entities, and that the defendants are responsible for those alleged losses. The plaintiffs further seek to recoup payments made through or to the defendants on behalf of SIBL or related entities on the basis that they are alleged to have been fraudulent transfers. The Official Stanford Investors Committee ("OSIC") was permitted to intervene and filed a complaint against Societe Generale Private Banking (Suisse) and the other defendants seeking similar relief.

The motion by Societe Generale Private Banking (Suisse) to dismiss these claims on grounds of lack of jurisdiction was denied by the court by order filed 5th June 2014. Societe Generale Private Banking (Suisse) sought reconsideration of the Court's jurisdictional ruling, which the Court ultimately denied. On 21st April 2015, the Court permitted the substantial majority of the claims brought by the plaintiffs and the OSIC to proceed.

On 7th November 2017, the District Court denied the plaintiffs' motion for class certification. The plaintiffs sought leave to appeal this decision, which the court of appeal denied on 20 April 2018.

On 22nd December 2015, the OSIC filed a motion for partial summary judgment seeking return of a transfer of USD 95 million to Societe Generale Private Banking (Suisse) made in December 2008 (prior to the Stanford insolvency) on the grounds that it is voidable under Texas state law as a fraudulent transfer. Societe Generale Private Banking (Suisse) has opposed this motion.

- On 7th March 2014, the Libyan Investment Authority ("LIA") brought proceedings against Societe Generale before the High Court of England regarding the conditions pursuant to which LIA entered into certain investments with the Societe Generale Group. LIA alleges that Societe Generale and other parties who participated in the conclusion of the investments notably committed acts amounting to corruption. On 3rd May 2017, Societe Generale and the Libyan Investment Authority reached a settlement agreement with a GBP 813.26 million payment, putting an end to the dispute.

- On 4 June 2018, Societe Generale announced that it had reached agreements with (i) the U.S. Department of Justice ("DOJ") and the U.S. Commodity Futures Trading Commission ("CFTC") in connection with investigations regarding submissions to the British Bankers Association for setting certain London Interbank Offered Rates and the Euro Interbank Offered Rate (the "IBOR matter"), and (ii) the DOJ and the French *Parquet National Financier* ("PNF") in connection with investigations regarding certain transactions involving Libyan counterparties, including the Libyan Investment Authority ("LIA") and the bank's third-party intermediary (the "Libyan matter").

  On 24 May 2018, Societe Generale entered into a "*Convention Judiciaire d'Intérêt Public*" ("CJIP") with the PNF, approved by the French court on 4 June 2018, to end its preliminary investigation in respect of the Libyan matter. On 5 June 2018, Societe Generale entered into a three-year deferred prosecution agreement ("DPA") with the DOJ in respect of the IBOR and Libyan matters. Societe Generale Acceptance N.V. ("SGA"), a subsidiary of Societe Generale dedicated to the issuance of investment products, entered a guilty plea in connection with the resolution of the Libyan matter. Also, on 4 June 2018, Societe Generale consented to an order from the CFTC in respect of the IBOR matter.

  As part of the settlements, Societe Generale paid penalties totalling approximately USD1.3 billion to the DOJ, CFTC, and PNF. These penalties include (i) USD 275 million to the DOJ and USD 475 million to the CFTC in respect of the IBOR matter, and (ii) USD 292.8 million to the DOJ and EUR 250.15 million (USD 292.8 million) to the PNF in relation to the Libyan matter. The payment of the penalties was fully covered by the existing provision allocated to the IBOR and Libyan matters and previously booked in Societe Generale's accounts. As a result, these payments did not have an impact on the Bank's results for the second quarter.

  In connection with the CJIP, which does not involve a recognition of criminal liability, Societe Generale agreed to have the French Anti-Corruption Agency (Agence Française Anticorruption) assess its anti-corruption programme for two years.

  In connection with the DPA, Societe Generale agreed to implement a compliance and ethics program designed to prevent and detect violations of the Foreign Corrupt Practices Act and other applicable anti-corruption laws, anti-fraud and commodities laws throughout the Bank's operations. These actions are in addition to extensive steps undertaken at Societe Generale's own initiative to strengthen its global compliance and control framework in order to meet the highest standards of compliance and ethics. No independent compliance monitor has been imposed in connection with the DPA. The charges against Societe Generale will be dismissed if the Bank abides by the terms of the agreement, to which the Bank is fully committed.

Societe Generale received credit from the DOJ, CFTC and PNF for its cooperation with their investigations and the Bank has agreed to continue to cooperate with them pursuant to the settlement agreements.

In connection with the IBOR matter, the Bank continues to defend civil proceedings in the United States (as described below) and to respond to information requests received from other authorities, including the Attorneys General of various States of the United States and the New York Department of Financial Services ("NYDFS").

In the United States, Societe Generale, along with other financial institutions, has been named as a defendant in putative class actions involving the setting of US Dollar Libor, Japanese Yen Libor, and Euribor rates and trading in instruments indexed to those rates. Societe Generale has also been named in several individual (non-class) actions concerning the US Dollar Libor rate. All of these actions are pending in the US District Court in Manhattan (the "District Court").

As to US Dollar Libor, the District Court has dismissed all claims against Societe Generale in two of the putative class actions and in all of the individual actions. The District Court has permitted plaintiffs in certain of the individual actions to seek leave to amend their complaints. The class plaintiffs and a number of individual plaintiffs have appealed the dismissal of their antitrust claims to the United States Court of Appeals for the Second Circuit. Two other putative class actions are effectively stayed pending resolution of these appeals. Societe Generale was voluntarily dismissed from a fifth putative class action.

As to Japanese Yen Libor, the District Court dismissed the complaint brought by purchasers of Euroyen over-the-counter derivative products and the plaintiffs have appealed that ruling to the United States Court of Appeals for the Second Circuit. In the other action, brought by purchasers or sellers of Euroyen derivative contracts on the Chicago Mercantile Exchange, the District Court has allowed certain Commodity Exchange Act claims to proceed to discovery. The plaintiff's deadline to move for class certification in that action is 15th February 2019.

As to Euribor, the District Court dismissed all claims against Societe Generale in the putative class action and denied the plaintiffs' motion to file a proposed amended complaint.

In Argentina, Societe Generale, along with other financial institutions, has been named as a defendant in litigation brought by a consumer association on behalf of Argentine consumers who held government bonds or other specified instruments that paid interest tied to US Dollar Libor. The allegations concern violations of Argentine consumer protection law in connection with alleged manipulation of the US Dollar Libor rate. Societe Generale has not yet been served with the complaint in this matter.

- On 10th December 2012, the French Supreme Administrative Court (Conseil d'État) rendered two decisions confirming that the "précompte tax" which used to be levied on corporations in France does not comply with EU law and defined a methodology for the reimbursement of the amounts levied by the tax authorities. However, such methodology considerably reduces the amount to be reimbursed. Societe Generale purchased in 2005 the "précompte tax" claims of two companies (Rhodia and Suez, now ENGIE) with a limited recourse on the selling companies. One of the above decisions of the French Supreme Administrative Court relates to Rhodia. Societe Generale has brought proceedings before the French administrative courts. The latest court decision rendered is a rejection, on 1st February 2016 by the French Administrative Supreme Court, of an appeal lodged by ENGIE and Societe Generale. The Court of Luxembourg should hand down its decision before the end of 2018.

  Several French companies applied to the European Commission, who considered that the decisions handed down by the French Supreme Administrative Court on 10th December 2012, which was supposed to implement the decision rendered by the Court of Justice of the European Union C-310/09 on 15th September 2011, infringed a number of principles of European law. The European Commission subsequently brought infringement proceedings against the French Republic in November 2014, and since then confirmed its position by publishing a reasoned opinion on 29th April 2016 and by referring the matter to the Court of Justice of the European Union on 8th December 2016.

- Societe Generale continues to cooperate with the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Attorney's Office for the Southern District of New York, the New York County District Attorney's Office, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, and the NYDFS (collectively, the "US Authorities") in connection with an investigation relating to certain U.S. dollar transactions processed by Societe Generale involving countries, persons and entities that are subject to economic sanctions under U.S. law.

  Societe Generale is in discussions with the US Authorities in order to reach an agreement to resolve this matter. Any such agreement would include a requirement that Societe Generale pay a monetary fine and may impose additional sanctions or penalties. It is not currently possible to know the outcome of these discussions, nor the date when they could be concluded. It is possible, without it being certain, that the pending discussions lead to an agreement in the next weeks. The amount of any prospective fine or the other sanctions that may be imposed on Societe Generale cannot be determined with certainty and could be significant.

- Societe Generale, along with other financial institutions, has been named as a defendant in a putative class action alleging violations of US antitrust laws and the Commodity Exchange Act ("CEA") in connection with its involvement in the London Gold Market Fixing. The action is brought on behalf of persons or entities that sold physical gold, sold gold futures contracts traded on the CME, sold shares in gold ETFs, sold gold call options traded on CME, bought gold put options traded on CME, sold over-the-counter gold spot or forward contracts or gold call options, or bought over-the-counter gold put options. The action is pending in the US District Court in Manhattan. Motions to dismiss the action were denied by an order dated 4th October 2016. Discovery is currently stayed by court orders. Societe Generale and certain subsidiaries, along with other financial institutions, have also been named as defendants in two putative class actions in Canada (in the Ontario Superior Court in Toronto and Quebec Superior Court in Quebec City) involving similar claims.

- On 30th January 2015, the CFTC served Societe Generale with a subpoena requesting the production of information and documents concerning trading in precious metals done since 1st January 2009. Societe Generale cooperated with the authorities and produced documents in 2015. There has been no contact with the CFTC since that time.

- SG Americas Securities, LLC ("SGAS"), along with other financial institutions, was named as a defendant in several putative class actions alleging violations of US antitrust laws and the CEA in connection with its activities as a US Primary Dealer, buying and selling US Treasury securities. The cases were consolidated in the US District Court in Manhattan, and lead plaintiffs' counsel appointed. An amended consolidated complaint was filed on 15th November 2017, and SGAS was not named as a defendant. By order dated February 15, 2018, SGAS was dropped as a defendant in an individual "opt out" action alleging similar causes of action. There are no actions pending against SGAS in this matter.

- Societe Generale, along with several other financial institutions, has been named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with foreign exchange spot and derivatives trading. The action is brought by persons or entities that transacted in certain over-the-counter and exchange-traded foreign exchange instruments. Societe Generale has reached a settlement of USD 18 million, which was preliminarily approved by the Court. A final approval hearing was held on 23 May 2018, and a decision is pending. Separate putative class actions on behalf of putative classes of indirect purchasers are also pending. A motion to dismiss those cases was granted by order dated 15 March 2018. On 5 April 2018, plaintiffs filed a motion for leave to file an amended complaint in those actions. That motion is pending.

- Further to an inspection conducted from 8th September to 1st December 2015 within the Societe Generale Group in order to review the Group's suspicious transaction reporting policies and procedures, the ACPR gave Societe Generale notice on 26th July 2016 of the opening of enforcement proceedings against it. On 19th July 2017, the ACPR enforcement commission issued a reprimand against Societe Generale and ordered it to pay a fine of EUR 5 million.

- The NYDFS has indicated to Societe Generale New York branch (“SGNY”) that it is considering taking enforcement action against the bank concerning SGNY’s Bank Secrecy Act and Anti Money Laundering compliance program. SGNY is in discussion with the NYDFS in an attempt to resolve this matter consensually. The timing as to when the discussions will be concluded and the final terms of any resolution are uncertain at this time.

NOTE 10 - RISK MANAGEMENT LINKED WITH FINANCIAL INSTRUMENTS

The scope and principles of impairments and provisions for credit risk were changed on 1 January 2018 following the first application of IFRS 9. The terms and conditions are detailed in Note 3.8.

The presentation and the content of the information presented here after, as disclosure to condensed interim financial statements, may be adapted in the notes of the consolidated statements for 2018.

Theses information are presented only in the notes to the consolidated financial statements and are consequently not disclosed in chapter 4 of the second update to the 2018 Registration document.

1.1 ANALYSIS OF GROSS OUTSTANDINGS AND PROVISIONS FOR CREDIT RISK

The following tables detail the provisioned outstandings (balance sheet and off-balance sheet) subject to impairment and provisions in accordance with the new model for estimating expected credit losses introduced by IFRS 9 and the impairment and provisions by stage.

The scope of these tables includes:

- Securities (excluding securities received under repurchase agreements), customer loans and due from banks measured at amortised cost or at fair value through other comprehensive income;
- Operational and finance lease;
- Financing and guarantee commitments.

Nota Bene: the oustandings of ex-Newedge brokerage activities outside France are excluded from the figures provided in tables 1 and 2.
There are no exclusions in tables 3 and 4.

Table 1: Basel portfolio breakdown of provisioned outstandings

	30.06.2018				01.01.2018			
(In millions of euros)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Sovereign	153,295	1,031	366	**154,692**	160,645	968	374	**161, 988**
Institution	51,198	129	80	**51,406**	58,799	250	94	**59,143**
Corporates	335,982	14,571	9,754	**360,307**	326,850	15,238	11,220	**353,308**
Retail	186,097	15,928	10,320	**212,345**	183,299	16,350	10,660	**210,309**
Others	18,737	46	48	**18,831**	18,927	-	46	**18,973**
Total	**745,309**	**31,705**	**20,568**	**797,581**	**748,521**	**32,806**	**22,394**	**803,720**

Table 2: Geographical breakdown of provisioned outstandings

(In millions of euros)	30.06.2018				01.01.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
France	322,595	20,830	11,143	**354,568**	341,405	21,139	11,836	**374,381**
Western Europe (excl. France)	156,466	2,776	2,278	**161,520**	159,547	3,002	2,479	**165,028**
Eastern Europe EU	22,711	1,939	1,031	**25,681**	25,379	2,396	1,361	**29 136**
Eastern Europe (excl. EU)	55,798	1,765	1,871	**59,434**	56,354	1,788	2,056	**60,198**
North America	105,437	993	807	**107,237**	87,530	1,000	1,037	**89,566**
Latin America and Caribbean	5,992	1,254	330	**7,576**	5,294	1,141	318	**6,754**
Asia Pacific	38,476	167	300	**38,943**	38,508	229	327	**39,064**
Africa and Middle East	37,834	1,981	2,808	**42,623**	34,503	2,111	2,980	**39,594**
Total	**745,309**	**31,705**	**20,568**	**797,581**	**748,521**	**32,806**	**22,394**	**803,720**

Table 3: Basel portfolio breakdown of provisions and impairment for credit risk

(In millions of euros)	30.06.2018				01.01.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Sovereign	11	1	69	**81**	12	0	70	**82**
Institution	13	8	15	**36**	11	4	25	**40**
Corporates	614	695	5,415	**6,724**	644	750	5,851	**7,245**
Retail	488	586	5,564	**6,638**	498	658	5,815	**6,971**
Others	0	0	9	**9**	0	0	9	**9**
Total	**1,126**	**1,290**	**11,072**	**13,488**	**1,165**	**1,412**	**11,770**	**14,347**

Table 4: Geographical breakdown of provisions and impairment for credit risk

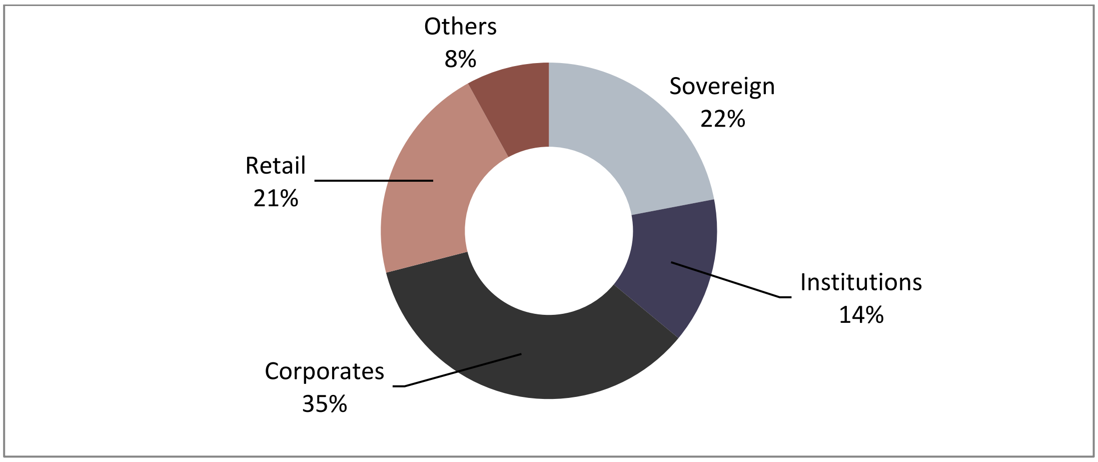
(In millions of euros)	30.06.2018				01.01.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
France	439	790	5,631	**6,860**	483	824	5,765	**7,072**
Western Europe (excl. France)	182	115	1,227	**1, 524**	168	149	1,285	**1,602**
Eastern Europe EU	127	132	697	**956**	141	178	901	**1,220**
Eastern Europe (excl. EU)	157	77	1,314	**1,548**	153	80	1,532	**1,765**
North America	39	32	145	**217**	41	27	185	**253**
Latin America and Caribbean	3	1	83	**87**	8	4	100	**112**
Asia Pacific	13	1	160	**173**	13	2	154	**169**
Africa and Middle East	165	141	1,815	**2,121**	157	148	1,848	**2,153**
Total	**1,126**	**1,290**	**11,072**	**13,488**	**1,165**	**1,412**	**11,770**	**14,347**

1.2 EXPOSURES ANALYSIS

The measurement used for credit exposures in this section is EAD – Exposure At Default (on- and off-balance sheet). Under the Standard Approach, EAD is calculated net of collateral and provisions.

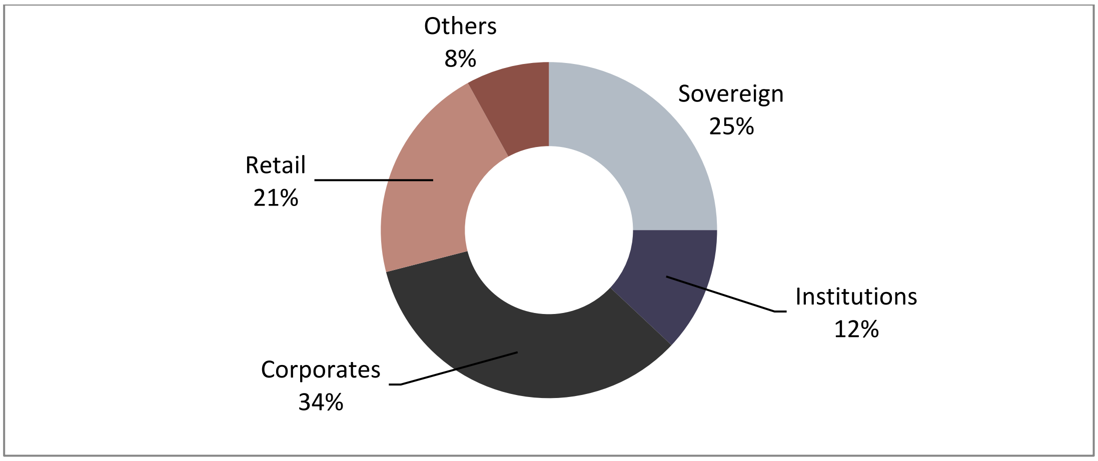
CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 30 JUNE 2018

On- and off-balance sheet exposures (EUR 899 billion in EAD)



CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31 DECEMBER 2017

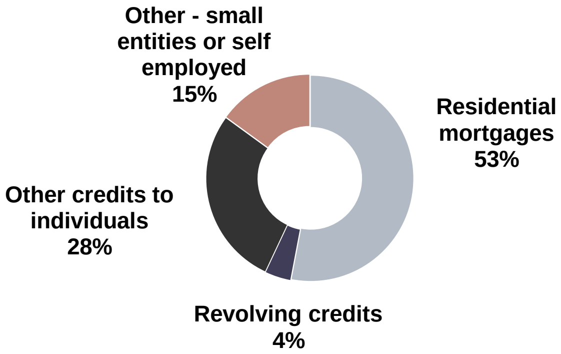
On and off-balance sheet exposures (EUR 872 billion in EAD)



(1) Institutions: Basel classification bank and public sector portfolios.

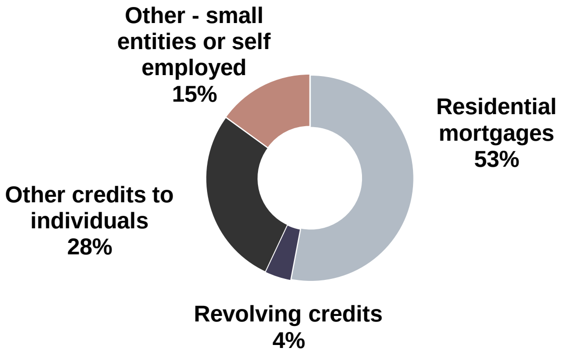
RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 30 JUNE 2018

On- and off-balance sheet exposures (EUR 188 billion in EAD)

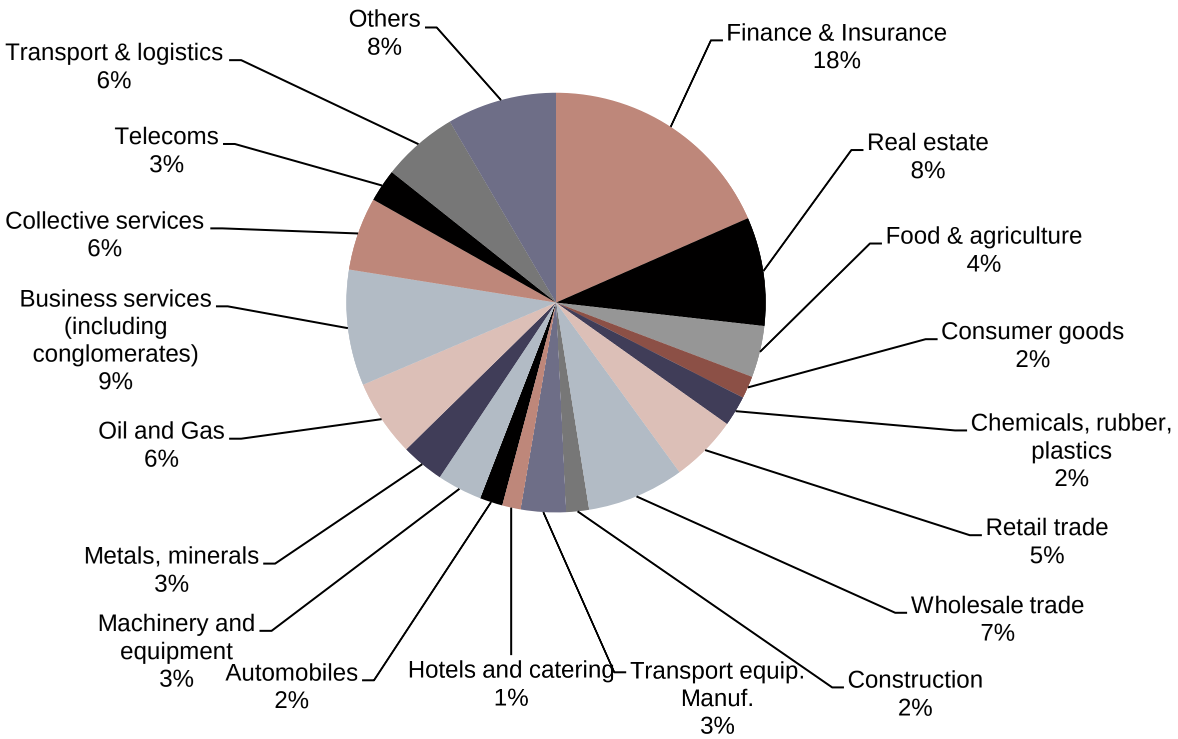


RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31 DECEMBER 2017

On-and off-balance sheet exposures (EUR 184 billion in EAD)



SECTOR BREAKDOWN OF GROUP CORPORATE EXPOSURE (BASEL PORTFOLIO) AT 30 JUNE 2018

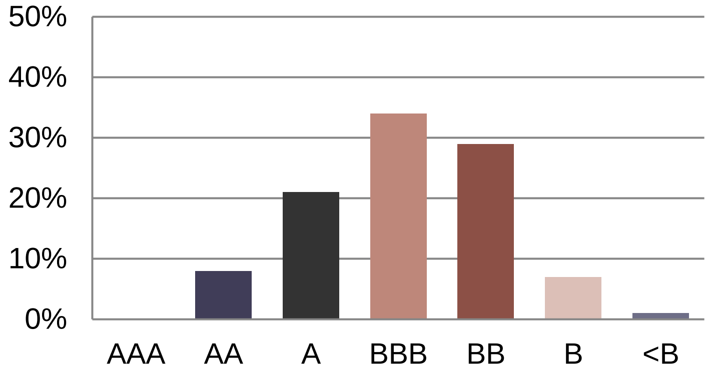


EAD of the Corporate portfolio is presented in accordance with the Basel rules (large corporates, including insurance companies, funds and hedge funds, SMEs, specialist financing, factoring businesses), based on the obligor’s characteristics, before taking into account the substitution effect (credit risk scope: debtor, issuer and replacement risk).

At 30 June 2018, the Corporate portfolio amounted to EUR 343 billion (on- and off-balance sheet exposures measured in EAD). Only the Finance and Insurance sector accounts for more than 10% of the portfolio. The Group’s exposure to its ten largest Corporate counterparties accounts for 6% of this portfolio.

CORPORATE AND BANK COUNTERPARTY EXPOSURE

Breakdown of risk by internal rating for corporate clients at 30 june 2018 (as % of EAD)

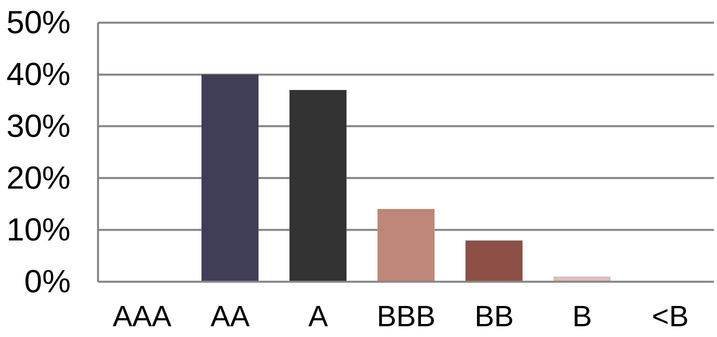


The scope includes performing loans recorded under the IRB method (excluding prudential classification criteria, by weight, of specialised financing) for the entire Corporate client portfolio, all divisions combined, and represents EAD of EUR 261 billion (out of total EAD for the Basel Corporate client portfolio of EUR 318 billion, standard method included).

The breakdown by rating of the Group's Corporate exposure demonstrates the sound quality of the portfolio. It is based on an internal counterparty rating system, presented above as its Standard & Poor's equivalent.

At 30 June 2018, the majority of the portfolio (64% of Corporate clients) had an investment grade rating, i.e. counterparties with an S&P-equivalent internal rating higher than BBB-. Transactions with non-investment grade counterparties were very often backed by guarantees and collateral in order to mitigate the risk incurred.

Breakdown of risk by internal rating for banking clients at 30 june 2018 (as % of EAD)



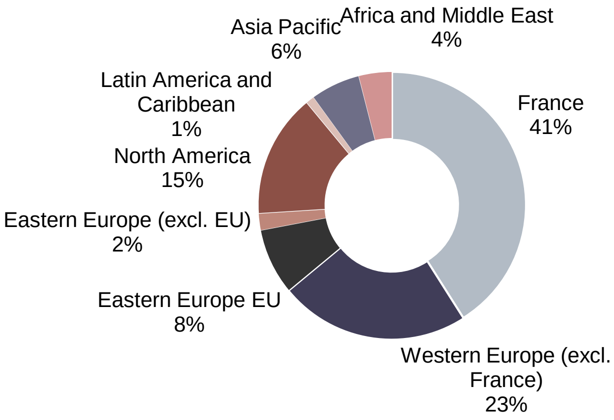
The scope includes performing loans recorded under the IRB method for the entire Bank client portfolio, all divisions combined, and represents EAD of EUR 66 billion (out of total EAD for the Basel Bank client portfolio of EUR 121 billion, standard method included). The breakdown by rating of Societe Generale group's bank counterparty exposure demonstrates the sound quality of the portfolio.

It is based on an internal counterparty rating system, presented above as its Standard & Poor's equivalent.

At 30 June 2018, exposure on banking clients was concentrated in investment grade counterparties (91% of exposure), as well as in developed countries (92%).

GEOGRAPHIC BREAKDOWN OF GROUP CREDIT RISK EXPOSURE AT 30 JUNE 2018 (ALL CLIENT TYPES INCLUDED)

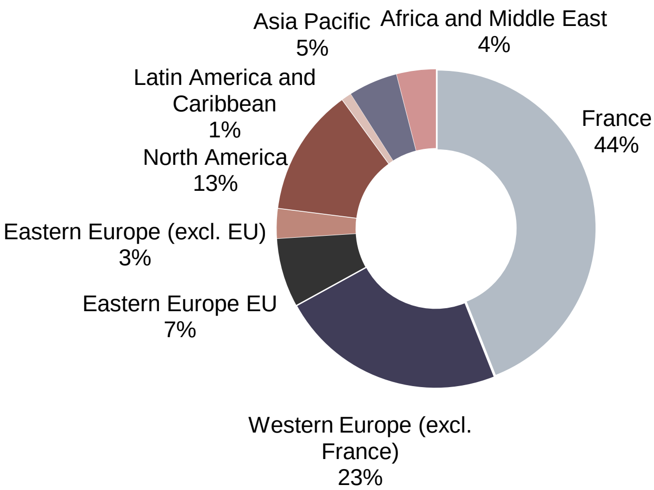
On-and off-balance sheet exposures: EUR 899 BN



At 30 June 2018, 89 % of the Group's on- and off-balance sheet exposure was concentrated in the major industrialised countries. Almost half of the overall amount of outstanding loans was to French customers (26% exposure to non-retail portfolio and 15% to retail portfolio).

GEOGRAPHIC BREAKDOWN OF GROUP CREDIT RISK EXPOSURE AT 31 DECEMBER 2017 (ALL CLIENT TYPES INCLUDED)

On-and off-balance sheet exposures: EUR 872 BN



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