

## **Supplemental Listing Document**

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

Application has been made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in and for quotation of the Certificates (as defined below). The SGX-ST takes no responsibility for the contents of this document, 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 document. 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 Certificates, or the Company (as defined below).

**A further 19,300,000 European Style Cash Settled Short Certificates  
relating to the ordinary shares of Tencent Holdings Limited  
with a Daily Leverage of -5x**

**issued by**

**SG Issuer**

**(Incorporated in Luxembourg with limited liability)**

**unconditionally and irrevocably guaranteed by**

**Société Générale**

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**Issue Price: S\$2.20 per Certificate**

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This document is published for the purpose of obtaining a listing of all the above certificates (the “**Certificates**”) to be issued by SG Issuer (the “**Issuer**”) unconditionally and irrevocably guaranteed by Société Générale (the “**Guarantor**”), and is supplemental to and should be read in conjunction with a base listing document dated 21 June 2018 including such further base listing documents as may be issued from time to time (the “**Base Listing Document**”), as supplemented by an addendum to the Base Listing Document dated 5 November 2018 (the “**Addendum**”), for the purpose of giving information with regard to the Issuer, the Guarantor and the Certificates. Information relating to the Company (as defined below) is contained in this document.

The Certificates shall be consolidated and form a single series with an existing issue of 2,700,000 European Style Cash Settled Short Certificates relating to the ordinary shares of Tencent Holdings Limited (DLC SOCGEN5XSHORT TENCENT) (DQTW) issued by the Issuer and listed on the SGX-ST, in which dealings commenced on 7 November 2018 and details of which are contained in the Supplemental Listing Document dated 5 November 2018.

This document 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, Certificates or other securities of the

Issuer, 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 the Certificates or other securities of the Issuer.

Restrictions have been imposed on offers and sales of the Certificates and on distributions of documents relating thereto in Singapore, Hong Kong, the European Economic Area, the United Kingdom and the United States (see “Placing and Sale” contained herein).

Investors are warned that the price of the Certificates may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. The price of the Certificates also depends on the supply and demand for the Certificates in the market and the price at which the Certificates is trading at any time may differ from the underlying valuation of the Certificates because of market inefficiencies. It is not possible to predict the secondary market for the Certificates. Although the Issuer, the Guarantor and/or any of their affiliates may from time to time purchase the Certificates or sell additional Certificates on the market, the Issuer, the Guarantor and/or any of their affiliates are not obliged to do so. Investors should also note that there are leveraged risks because the Certificates integrate an inverse leverage mechanism and the Certificates will amplify the movements in the increase, and in the decrease, of the value of the Underlying Stock (as defined below) and if the investment results in a loss, any such loss will be increased by the leverage factor of the Certificates. As such, investors could lose more than they would if they had invested directly in the Underlying Stock.

The Certificates are classified as capital markets products other than prescribed capital markets products<sup>1</sup> and Specified Investment Products (SIPs)<sup>2</sup>, and may only be sold to retail investors with enhanced safeguards, including an assessment of such investors’ investment knowledge or experience.

The Certificates constitute general unsecured obligations of the Issuer and of no other person, and the guarantee dated 21 June 2018 (the “**Guarantee**”) and entered into by the Guarantor constitutes general unsecured obligations of the Guarantor and of no other person, and if you purchase the Certificates, you are relying upon the creditworthiness of the Issuer and the Guarantor and have no rights under the Certificates against any other person.

Application has been made to the SGX-ST for permission to deal in and for quotation of the Certificates and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Certificates. It is expected that dealings in the Certificates will commence on or about 22 April 2019.

As of the date hereof, the Guarantor’s long term credit rating by S&P Global Ratings is A, and by Moody’s Investors Service, Inc. is A1.

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.

18 April 2019

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<sup>1</sup> As defined in the Securities and Futures (Capital Markets Products) Regulations 2018.

<sup>2</sup> As defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

Subject as set out below, the Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document, the Base Listing Document and the Addendum in relation to themselves and the Certificates. 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 this document, the Base Listing Document and the Addendum for which they accept responsibility (subject as set out below in respect of the information contained herein with regard to the Company) is in accordance with the facts and does not omit anything likely to affect the import of such information. The information with regard to the Company as set out herein is extracted from publicly available information. The Issuer and the Guarantor accept responsibility only for the accurate reproduction of such information. No further or other responsibility or liability in respect of such information is accepted by the Issuer and the Guarantor.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Certificates, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Guarantor. Neither the delivery of this document nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the Guarantor or their respective subsidiaries and associates since the date hereof.

This document does not constitute an offer or invitation by or on behalf of the Issuer or the Guarantor to purchase or subscribe for any of the Certificates. The distribution of this document and the offering of the Certificates may, in certain jurisdictions, be restricted by law. The Issuer and the Guarantor require persons into whose possession this document comes to inform themselves of and observe all such restrictions. In particular, the Certificates 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 Certificates 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, Certificates, 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 Certificates. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Certificates, 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 Certificates and distribution of this document is given in the section headed “Placing and Sale” contained herein.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the Guarantor or the merits of investing in the Certificates, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer, the Guarantor and/or any of their affiliates may repurchase Certificates at any time on or after the date of issue and any Certificates so 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, the Guarantor and/or any of their affiliates. Investors should not therefore make any assumption as to the number of Certificates in issue at any time.

References in this document to the “**Conditions**” shall mean references to the Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities contained in the Addendum. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.



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## RISK FACTORS

The following are risk factors relating to the Certificates:

- (a) investment in Certificates involves substantial risks including market risk, liquidity risk, and the risk that the Issuer and/or the Guarantor will be unable to satisfy its/their obligations under the Certificates. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Certificates. You should consider carefully whether Certificates are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Certificates are not suitable for inexperienced investors;
- (b) the Certificates constitute general unsecured obligations of the Issuer and of no other person, and the Guarantee constitutes general unsecured obligations of the Guarantor and of no other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Certificates, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Certificates, you are relying upon the creditworthiness of the Issuer and the Guarantor and have no rights under the Certificates against any other person;
- (c) since the Certificates relate to the price of the Underlying Stock, certain events relating to the Underlying Stock may cause adverse movements in the value and the price of the Underlying Stock, as a result of which, the Certificate Holders (as defined in the Conditions of the Certificates) may, in extreme circumstances, sustain a significant loss of their investment if the price of the Underlying Stock has risen sharply on the Expiry Date;
- (d) due to their nature, the Certificates can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Certificates may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the price of the Underlying Stock, the time remaining to expiry, the currency exchange rates and the creditworthiness of the Issuer and the Guarantor;
- (e) if, whilst any of the Certificates remain unexercised, trading in the Underlying Stock is suspended or halted on the relevant stock exchange, trading in the Certificates will be suspended for a similar period;
- (f) as indicated in the Conditions of the Certificates and herein, a Certificate Holder must tender a specified number of Certificates at any one time in order to exercise. Thus, Certificate Holders with fewer than the specified minimum number of Certificates in a particular series will either have to sell their Certificates or purchase additional Certificates, incurring transactions costs in each case, in order to realise their investment;
- (g) investors should note that in the event of there being a Market Disruption Event (as defined in the Conditions) determination or payment of the Cash Settlement Amount (as defined in the Conditions) may be delayed, all as more fully described in the Conditions;
- (h) certain events relating to the Underlying Stock require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions. Investors may refer to the Conditions 4 and 6 on pages 27 to 31 and the examples and illustrations of adjustments set out in the “Information relating to the European Style Cash Settled Short Certificates on Single Equities” section of this document for more information;

- (i) the Certificates are only exercisable on the Expiry Date and may not be exercised by Certificate Holders prior to such Expiry Date. Accordingly, if on the Expiry Date the Cash Settlement Amount is zero, a Certificate Holder will lose the value of his investment;
- (j) the total return on an investment in any Certificate may be affected by the Hedging Fee Factor (as defined below), Management Fee (as defined below) and Gap Premium (as defined below);
- (k) investors holding their position overnight should note that they would be required to bear the annualised cost which consists of the Management Fee and Gap Premium, which are calculated daily and applied to the value of the Certificates, as well as certain costs embedded within the Leverage Inverse Strategy (as described below) including the Stock Borrowing Cost (as defined below) and Rebalancing Cost (as defined below);
- (l) investors should note that there may be an exchange rate risk relating to the Certificates where the Cash Settlement Amount is converted from a foreign currency into Singapore dollars.

Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments, and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Certificates. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies;

- (m) investors should note that there are leveraged risks because the Certificates integrate an inverse leverage mechanism and the Certificates will amplify the movements in the increase, and in the decrease, of the value of the Underlying Stock and if the investment results in a loss, any such loss will be increased by the leverage factor of the Certificates. As such, investors could lose more than they would if they had invested directly in the Underlying Stock;
- (n) when held for longer than a day, the performance of the Certificates could be more or less than the leverage factor that is embedded within the Certificates. The performance of the Certificates each day is locked in, and any subsequent returns are based on what was achieved the previous day. This process, referred to as compounding, may lead to a performance difference from 5 times the inverse performance of the Underlying Stock over a period longer than one day. This difference may be amplified in a volatile market with a sideways trend, where market movements are not clear in direction, whereby investors may sustain substantial losses;
- (o) investors should note that the Air Bag Mechanism (as defined below) reduces the impact on the Leverage Inverse Strategy if the Underlying Stock rises further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to fall after the Air Bag Mechanism is triggered, thereby reducing its ability to recoup losses;
- (p) there is no assurance that the Air Bag Mechanism will prevent investors from losing the entire value of their investment, in the event of (i) an overnight increase in the Underlying Stock, where there is a 20% or greater gap between the previous day closing price and the opening price of the Underlying Stock the following day, as the Air Bag Mechanism will only be triggered when market opens the following day or (ii) a sharp intraday increase in the price of

the Underlying Stock of 20% or greater (comparative to the previous closing price of the Underlying Stock or the previous observed price in case of an air bag previously on the same day) during the Observation Period. Investors may refer to pages 46 to 47 of this document for more information;

- (q) certain events may, pursuant to the terms and conditions of the Certificates, trigger (i) the implementation of methods of adjustment or (ii) the early termination of the Certificates. The Issuer will give the investors reasonable notice of any early termination. If the Issuer terminates the Certificates early, then 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 the Certificate 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. The performance of this commitment shall depend on (i) general market conditions and (ii) the liquidity conditions of the underlying instrument(s) and, as the case may be, of any other hedging transactions. Investors should note that the amount repaid by the Issuer may be less than the amount initially invested. Investors may refer to the Condition 13 on pages 33 to 35 of this document for more information;
- (r) there is no assurance that an active trading market for the Certificates will sustain throughout the life of the Certificates, or if it does sustain, it may be due to market making on the part of the Designated Market Maker. The Issuer acting through its Designated Market Maker may be the only market participant buying and selling the Certificates. Therefore, the secondary market for the Certificates may be limited and you may not be able to realise the value of the Certificates. Do note that the bid-ask spread increases with illiquidity;
- (s) in the ordinary course of their business, including without limitation, in connection with the Issuer or its appointed designated market maker's market making activities, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the Underlying Stock. In addition, in connection with the offering of any Certificates, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the Underlying Stock. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer, the Guarantor and any of their respective subsidiaries and affiliates, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may enter into transactions in the Underlying Stock which may affect the market price, liquidity or value of the Certificates and which may affect the interests of Certificate Holders;
- (t) various potential and actual conflicts of interest may arise from the overall activities of the Issuer, the Guarantor and/or any of their subsidiaries and affiliates.

The Issuer, the Guarantor and any of their subsidiaries and affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for their own account or the account of others. In addition, the Issuer, the Guarantor and any of their subsidiaries and affiliates, in connection with their other business activities, may possess or acquire material information about the Underlying Stock. Such activities and information may involve or otherwise affect issuers of the Underlying Stock in a manner that may cause consequences adverse to the Certificate Holders or otherwise create conflicts of interests in connection with the issue of Certificates by the Issuer. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships

and exercise of creditor rights. The Issuer, the Guarantor and any of their subsidiaries and affiliates have no obligation to disclose such information about the Underlying Stock or such activities. The Issuer, the Guarantor and any of their subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the issue of Certificates by the Issuer or the effect that such activities may directly or indirectly have on any Certificate;

- (u) legal considerations which may restrict the possibility of certain investments:

Some investors' investment activities are subject to specific laws and regulations or laws and regulations currently being considered by various authorities. All potential investors must consult their own legal advisers to check whether and to what extent (i) they can legally purchase the Certificates (ii) the Certificates can be used as collateral security for various forms of borrowing (iii) if other restrictions apply to the purchase of Certificates or their use as collateral security. Financial institutions must consult their legal advisers or regulators to determine the appropriate treatment of the Certificates under any applicable risk-based capital or similar rules;

- (v) the credit rating of the Guarantor is an assessment of its ability to pay obligations, including those on the Certificates. Consequently, actual or anticipated declines in the credit rating of the Guarantor may affect the market value of the Certificates;

- (w) the Certificates are linked to the Underlying Stock and subject to the risk that the price of the Underlying Stock may rise. The following is a list of some of the significant risks associated with the Underlying Stock:

- Historical performance of the Underlying Stock does not give an indication of future performance of the Underlying Stock. It is impossible to predict whether the price of the Underlying Stock will fall or rise over the term of the Certificates; and
- The price of the Underlying Stock may be affected by the economic, financial and political events in one or more jurisdictions, including the stock exchange(s) or quotation system(s) on which the Underlying Stock may be traded;

- (x) the value of the Certificates depends on the Leverage Inverse Strategy performance built in the Certificate. The Calculation Agent will make the Leverage Inverse Strategy last closing level and a calculation tool available to the investors on a website;

- (y) two or more risk factors may simultaneously have an effect on the value of a Certificate such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Certificate;

- (z) as the Certificates are represented by a global warrant certificate which will be deposited with The Central Depository (Pte) Limited ("**CDP**"):

- (i) investors should note that no definitive certificate will be issued in relation to the Certificates;
- (ii) there will be no register of Certificate Holders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Certificates by way of interest (to the extent of such number) in the global warrant certificate in respect of those Certificates represented thereby shall be treated as the holder of such number of Certificates;
- (iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Certificates; and

- (iv) notices to such Certificate Holders will be published on the web-site of the SGX-ST. Investors will need to check the web-site of the SGX-ST regularly and/or rely on their brokers/custodians to obtain such notices;

(aa) the US Foreign Account Tax Compliance Act ("**FATCA**") withholding risk:

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

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

(bb) U.S. withholding tax

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

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

dividend for U.S. federal income tax purposes, and thus there should be no tax imposed under section 871(m) on the Certificates even if one or more dividends are paid with respect to a U.S. Underlying Equity.

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

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

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

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

**Investors should consult their tax adviser regarding the potential application of Section 871(m) Regulations to their investment in the Certificates; and**

(cc) risk factors relating to the BRRD

*French law and European legislation regarding the resolution of financial institutions may require the write-down or conversion to equity of the Certificates or other resolution measures if the Issuer or the Guarantor is deemed to meet the conditions for resolution*

Directive 2014/59/EU of the European Parliament and of the Council of the European Union dated 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") entered into force on 2 July 2014. As a Directive, the BRRD is not directly applicable in France and had to be transposed into national legislation. The French ordonnance No. 2015-1024 of 20 August 2015 transposed the BRRD into French law and amended the French Code monétaire et financier for this purpose. The French ordonnance has been ratified by law no. 2016-1691 dated 9 December 2016 (Loi n°2016-1691 du 9 décembre 2016 relative à la transparence, à la lutte contre la corruption et à la modernisation de la vie économique) which also incorporates provisions which clarify the implementation of the BRRD.

The stated aim of the BRRD and Regulation (EU) No. 806/2014 of the European Parliament and of the Council of the European Union of 15 July 2014 (the "**SRM Regulation**") is to provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions, investment firms, certain financial institutions and certain holding companies (each a relevant entity). The regime provided for by the BRRD is, among other things, stated to be needed to provide the authority designated by each EU Member State (the "**Resolution Authority**") with a credible set of tools to intervene sufficiently early and

quickly in an unsound or failing relevant entity so as to ensure the continuity of the relevant entity's critical financial and economic functions while minimising the impact of a relevant entity's failure on the economy and financial system (including taxpayers' exposure to losses).

Under the SRM Regulation a centralised power of resolution is established and entrusted to the Single Resolution Board (the "**SRB**") and to the national resolution authorities.

The powers provided to the Resolution Authority in the BRRD and the SRM Regulation include write-down/conversion powers to ensure that capital instruments (including subordinated debt instruments) and eligible liabilities (including senior debt instruments if junior instruments prove insufficient to absorb all losses) absorb losses of the issuing relevant entity under resolution in accordance with a set order of priority (the "**Bail-in Tool**").

The conditions for resolution under the French Code monétaire et financier implementing the BRRD are deemed to be met when: (i) the Resolution Authority or the relevant supervisory authority determines that the relevant entity is failing or is likely to fail, (ii) there is no reasonable prospect that any measure other than a resolution measure would prevent the failure within a reasonable timeframe, and (iii) a resolution measure is necessary for the achievement of the resolution objectives (in particular, ensuring the continuity of critical functions, avoiding a significant adverse effect on the financial system, protecting public funds by minimising reliance on extraordinary public financial support, and protecting client funds and assets) and winding up of the relevant entity under normal insolvency proceedings would not meet those resolution objectives to the same extent.

The Resolution Authority could also, independently of a resolution measure or in combination with a resolution measure where the conditions for resolution are met, write-down or convert capital instruments (including subordinated debt instruments) into equity when it determines that the relevant entity or its group will no longer be viable unless such write down or conversion power is exercised or when the relevant entity requires extraordinary public financial support (except when extraordinary public financial support is provided in the form defined in Article L. 613-48 III, 3° of the French Code monétaire et financier).

The Bail-in Tool or the exercise of write-down/conversion powers by the Resolution Authority with respect to capital instruments (including subordinated debt instruments) could result in the full (i.e., to zero) or partial write-down or conversion of the Certificates into ordinary shares or other instruments of ownership, or the variation of the terms of the Certificates (for example, the maturity and/or interest payable may be altered and/or a temporary suspension of payments may be ordered). Extraordinary public financial support should only be used as a last resort after having assessed and applied, to the maximum extent practicable, the resolutions measures, including the Bail-in Tool. In addition, if the Issuer's or the Guarantor's financial condition deteriorates, the existence of the Bail-in Tool could cause the market price or value of the Certificates to decline more rapidly than would be the case in the absence of such power.

In addition to the Bail-in Tool, the BRRD provides the Resolution Authority with broader powers to implement other resolution measures with respect to relevant entities that meet the conditions for resolution, which may include (without limitation) the sale of the relevant entity's business, the creation of a bridge institution, the separation of assets, the replacement or substitution of the institution as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments), removing management, appointing an interim administrator, and discontinuing the listing and admission to trading of financial instruments.



Before taking a resolution measure or exercising the power to write down or convert relevant capital instruments, the Resolution Authority must ensure that a fair, prudent and realistic valuation of the assets and liabilities of the institution is carried out by a person independent from any public authority.

Since 1 January 2016, French credit institutions (such as the Issuer and the Guarantor) have to meet, at all times, a minimum requirement for own funds and eligible liabilities (“**MREL**”) pursuant to Article L. 613-44 of the French Code monétaire et financier. The MREL, which is expressed as a percentage of the total liabilities and own funds of the institution, aims at avoiding institutions to structure their liabilities in a manner that impedes the effectiveness of the Bail-in Tool. From January 2019, G-SIBs (global systemically important banks) such as the Issuer and the Guarantor will also have to comply with the total loss absorbing capacity (TLAC) requirements.

In accordance with the provisions of the SRM Regulation, when applicable, the SRB, has replaced the national resolution authorities designated under the BRRD with respect to all aspects relating to the decision-making process and the national resolution authorities designated under the BRRD continue to carry out activities relating to the implementation of resolution schemes adopted by the SRB. The provisions relating to the cooperation between the SRB and the national resolution authorities for the preparation of the banks’ resolution plans have applied since 1 January 2015 and the SRM has been fully operational since 1 January 2016.

The application of any resolution measure under the French BRRD implementing provisions or any suggestion of such application with respect to the Issuer, the Guarantor or the Group could materially adversely affect the rights of Certificate Holders, the price or value of an investment in the Certificates and/or the ability of the Issuer or the Guarantor to satisfy its obligations under the Certificates, and as a result investors may lose their entire investment.

Moreover, if the Issuer’s or the Guarantor’s financial condition deteriorates, the existence of the Bail-in Tool or the exercise of write-down/conversion powers by the Resolution Authority independently of a resolution measure with respect to capital instruments (including subordinated debt instruments) or in combination with a resolution measure when it determines that the institution or its group will no longer be viable could cause the market price or value of the Certificates to decline more rapidly than would be the case in the absence of such powers.

#### *Implementation of BRRD in Luxembourg*

The BRRD was implemented by the Luxembourg act dated 18 December 2015 (the “**BRR Act 2015**”). Under the BRR Act 2015, the competent authority is the CSSF and the resolution authority is the CSSF acting as Resolution Council (le Conseil de *résolution*).

The BRR Act 2015 provides for certain resolution measures, including the power to impose in certain circumstances a suspension of activities. Any suspension of activities can, to the extent determined by the CSSF, result in the partial or complete suspension of the performance of agreements entered into by a Luxembourg incorporated credit institution or investment firm. The BRR Act 2015 also grants the power to the Resolution Council to take a number of resolution measures including (i) a forced sale of a Luxembourg incorporated credit institution or investment firm (sale of business), (ii) the establishment of a bridge institution or, (iii) the forced transfer of all or part of the assets, rights or obligations of a Luxembourg incorporated credit institution or investment firm (asset separation) and (iv) the application of the general bail-in tool. The powers set out in the BRR Act 2015 will impact how credit

institutions, investment firms or relevant financial institutions (such as SG Issuer) established in Luxembourg, are managed as well as, in certain circumstances, the rights of creditors.

If the general bail-in tool and the statutory write-down and conversion power become applicable to SG Issuer, the Certificates may be subject to write-down or conversion into equity (ordinary shares or other instrument of ownership) on any application of the bail-in tool, which may result in such Certificates' holders losing some or all of their investment (notably, the amount of the outstanding may be reduced, including to zero). Subject to certain conditions, the terms of the obligations owed under the Certificates may also be varied by the Resolution Council (e.g. as to maturity, interest and interest payment dates). The exercise of any power under the BRR Act 2015 or any suggestion of such exercise could materially adversely affect the rights of the holders of the Certificates, the price or value of their investment in any Certificates and/or the ability of SG Issuer to satisfy its obligations under any Certificate.

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 significant credit institutions and financial groups, in the framework of a Single Resolution Mechanism and a Single Resolution Fund, established a centralised power of resolution and entrusted to a Single Resolution Board and to the national resolution authorities of participating EU Member States (including Luxembourg and the CSSF through the Resolution Council). Since 1 January 2015, the Single Resolution Board works in close cooperation with the Resolution Council, in particular in relation to the elaboration of resolution planning, and has assumed full resolution powers since 1 January 2016.

## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following are the terms and conditions of the Certificates and should be read in conjunction with, and are qualified by reference to, the other information set out in this document, the Base Listing Document and the Addendum.*

The Conditions are set out in the section headed “Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities” in the Addendum. For the purposes of the Conditions, the following terms shall have the following meanings:

Certificates:	A further 19,300,000 European Style Cash Settled Short Certificates relating to the ordinary shares of Tencent Holdings Limited (the <b>“Underlying Stock”</b> )  The Certificates shall be consolidated and form a single series with an existing issue of 2,700,000 European Style Cash Settled Short Certificates relating to the ordinary shares of Tencent Holdings Limited issued by the Issuer and listed on the SGX-ST, in which dealings commenced on 7 November 2018.
Company:	Tencent Holdings Limited (RIC: 0700.HK)
Underlying Price <sup>3</sup> and Source:	HK\$292.374 (Reuters)
Calculation Agent:	Société Générale
Strike Level:	Zero
Daily Leverage:	-5x (within the Leverage Inverse Strategy as described below)
Notional Amount per Certificate:	SGD 2.20
Management Fee (p.a.) <sup>4</sup> :	0.40%
Gap Premium (p.a.) <sup>5</sup> :	4.60%, is a hedging cost against extreme market movements overnight.
Stock Borrowing Cost <sup>6</sup> :	The annualised costs for borrowing stocks in order to take an inverse exposure on the Underlying Stock.
Rebalancing Cost <sup>6</sup> :	The transaction costs (if applicable), computed as a function of

<sup>3</sup> These figures are calculated as at, and based on information available to the Issuer on or about 5 November 2018. The Issuer is not obliged, and undertakes no responsibility to any person, to update or inform any person of any changes to the figures after 5 November 2018.

<sup>4</sup> Please note that the Management Fee is calculated on a 360-day basis and may be increased up to a maximum of 3% p.a. on giving one month's notice to investors. Any increase in the Management Fee will be announced on the SGXNET. Please refer to “Fees and Charges” below for further details of the fees and charges payable and the maximum of such fees as well as other ongoing expenses that may be borne by the Certificates.

<sup>5</sup> Please note that the Gap Premium is calculated on a 360-day basis.

<sup>6</sup> These costs are embedded within the Leverage Inverse Strategy. Please note that the Stock Borrowing Cost may be changed on giving 5 Business Days' notice to investors. Any change in the Stock Borrowing Cost will be announced on the SGXNET.

leverage and daily inverse performance of the Underlying Stock.

Launch Date:	16 April 2019
Closing Date:	18 April 2019
Expected Listing Date:	22 April 2019
Last Trading Date:	The date falling 5 Business Days immediately preceding the Expiry Date, currently being 28 October 2021
Expiry Date:	5 November 2021 (if the Expiry Date is not a Business Day, then the Expiry Date shall fall on the preceding Business Day and subject to adjustment of the Valuation Date upon the occurrence of Market Disruption Events as set out in the Conditions of the Certificates)
Board Lot:	100 Certificates
Valuation Date:	3 November 2021 or if such day is not an Exchange Business Day, the immediately preceding Exchange Business Day.
Exercise:	<p>The 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 a Board Lot or integral multiples thereof. 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) of the Conditions. 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.</p>
Cash Settlement Amount:	<p>In respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:</p> <p>Closing Level multiplied by the Notional Amount per Certificate</p> <p>Please refer to the "Information relating to the European Style Cash Settled Short Certificates on Single Equities" section on pages 38 to 52 of this document for examples and illustrations of the calculation of the Cash Settlement Amount.</p>

Hedging Fee Factor:	<p>In respect of each Certificate, shall be an amount calculated as: Product (for t from 1 to Valuation Date) of <math>(1 - \text{Management Fee} \times (\text{ACT}(t-1;t) \div 360)) \times (1 - \text{Gap Premium}(t-1) \times (\text{ACT}(t-1;t) \div 360))</math>, where:</p> <p>“t” refers to “<b>Observation Date</b>” which means each Underlying Stock Business Day from (and including) the Underlying Stock Business Day immediately preceding 7 November 2018 to the Valuation Date; and</p> <p>ACT (t-1;t) means the number of calendar days between the Underlying Stock Business Day immediately preceding the Observation Date (which is “t-1”) (included) and the Observation Date (which is “t”) (excluded).</p> <p>An “<b>Underlying Stock Business Day</b>” is a day on which The Stock Exchange of Hong Kong Limited (the “<b>HKEX</b>”) is open for dealings in Hong Kong during its normal trading hours and banks are open for business in Hong Kong.</p> <p>Please refer to the “Information relating to the European Style Cash Settled Short Certificates on Single Equities” section on pages 38 to 52 of this document for examples and illustrations of the calculation of the Hedging Fee Factor.</p>
Closing Level:	<p>In respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:</p> $\left( \frac{\text{Final Reference Level} \times \text{Final Exchange Rate}}{\text{Initial Reference Level} \times \text{Initial Exchange Rate}} - \text{Strike Level} \right) \times \text{Hedging Fee Factor}$
Initial Reference Level:	1,000
Final Reference Level:	<p>The closing level of the Leverage Inverse Strategy (as described below) on the Valuation Date</p> <p>The calculation of the closing level of the Leverage Inverse Strategy is set out in the “Specific Definitions relating to the Leverage Inverse Strategy” section on pages 19 to 22 below.</p>
Initial Exchange Rate <sup>3</sup> :	0.1757
Final Exchange Rate:	<p>The rate for the conversion of HKD to SGD as at 5:00pm (Singapore Time) on the Valuation Date as shown on Reuters, provided that if the Reuters service ceases to display such information, as determined by the Issuer by reference to such source(s) as the Issuer may reasonably determine to be appropriate at such a time.</p>
Air Bag Mechanism:	<p>The “<b>Air Bag Mechanism</b>” refers to the mechanism built in the Leverage Inverse Strategy and which is designed to reduce the Leverage Inverse Strategy exposure to the Underlying Stock during extreme market conditions. If the Underlying Stock rises by 15% or more (“<b>Air Bag Trigger Price</b>”) during the trading day (which represents approximately 75% loss after a 5 times inverse leverage), the Air Bag Mechanism is triggered and the Leverage Inverse</p>

Strategy is adjusted intra-day. The Air Bag Mechanism reduces the impact on the Leverage Inverse Strategy if the Underlying Stock rises further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to fall after the Air Bag Mechanism is triggered, thereby reducing its ability to recoup losses.

Trading of Certificates is suspended for at least 30 minutes after the Air Bag is triggered.

The Leverage Inverse Strategy is floored at 0 and the Certificates cannot be valued below zero.

Please refer to the “Extraordinary Strategy Adjustment for Performance Reasons (‘Air Bag Mechanism’)” section on pages 21 to 22 below and the “Description of Air Bag Mechanism” section on pages 44 to 45 of this document for further information of the Air Bag Mechanism.

Underlying Stock Currency:	Hong Kong Dollar (“ <b>HKD</b> ”)
Settlement Currency:	Singapore Dollar (“ <b>SGD</b> ”)
Exercise Expenses:	Certificate Holders will be required to pay all charges which are incurred in respect of the exercise of the Certificates.
Relevant Stock Exchange for the Certificates:	The Singapore Exchange Securities Trading Limited (“ <b>SGX-ST</b> ”)
Relevant Stock Exchange for the Underlying Stock:	HKEX
Business Day and Exchange Business Day:	<p>A “<b>Business Day</b>” is 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.</p> <p>An “<b>Exchange Business Day</b>” is a day on which the SGX-ST and the HKEX are open for dealings in Singapore and Hong Kong respectively during its normal trading hours and banks are open for business in Singapore and Hong Kong.</p>
Warrant Agent:	The Central Depository (Pte) Limited (“ <b>CDP</b> ”)
Clearing System:	CDP
Fees and Charges:	<p>Normal transaction and brokerage fees shall apply to the trading of the Certificates on the SGX-ST. Investors should note that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Certificates are transferred. Investors who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, investors should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.</p>

Investors holding position overnight would also be required to bear the Management Fee and Gap Premium, which are calculated daily and applied to the value of the Certificates, as well as certain costs embedded within the Leverage Inverse Strategy including the Stock Borrowing Cost and Rebalancing Cost. The Management Fee may be increased up to a maximum of 3% p.a. on giving one month's notice to investors in accordance with the terms and conditions of the Certificates. Any increase in the Management Fee will be announced on the SGXNET.

Further Information:

Please refer to the website at [dlc.socgen.com](http://dlc.socgen.com) for more information on the theoretical closing price of the Certificates on the previous trading day, the closing price of the Underlying Stock on the previous trading day, the Air Bag Trigger Price for each trading day and the Management Fee and Gap Premium.

### **Specific Definitions relating to the Leverage Inverse Strategy**

#### **Description of the Leverage Inverse Strategy**

The Leverage Inverse Strategy is designed to track a 5 times daily leveraged inverse exposure to the Underlying Stock.

At the end of each trading day of the Underlying Stock, the exposure of the Leverage Inverse Strategy to the Underlying Stock is reset within the Leverage Inverse Strategy in order to retain a daily leverage of 5 times the inverse performance of the Underlying Stock (excluding costs) regardless of the performance of the Underlying Stock on the preceding day. This mechanism is referred to as the Daily Reset.

The Leverage Inverse Strategy incorporates an air bag mechanism which is designed to reduce exposure to the Underlying Stock during extreme market conditions, as further described below.

#### **Leverage Inverse Strategy Formula**

**LSL<sub>t</sub>** means, for any Observation Date(t), the Leverage Inverse Strategy Closing Level as of such day (t).

Subject to the occurrence of an Intraday Restrike Event, the **Leverage Inverse Strategy Closing Level** as of such Observation Date(t) is calculated in accordance with the following formulae:

On Observation Date(1):

$$LSL_1 = 1000$$

On each subsequent Observation Date(t):

$$LSL_t = \text{Max}[LSL_{t-1} \times (1 + LR_{t-1,t} - FC_{t-1,t} - SB_{t-1,t} - RC_{t-1,t}), 0]$$

**LR<sub>t-1,t</sub>** means the Leveraged Return of the Underlying Stock between Observation Date(t-1) and Observation Date(t) closing prices, calculated as follows:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times R_{\text{factor}_t}} - 1 \right)$$

**FC<sub>t-1,t</sub>** means, the Funding Cost between Observation Date(t-1) (included) and Observation Date(t) (excluded) calculated as follows :

$$FC_{t-1,t} = (\text{Leverage} - 1) \times \frac{\text{Rate}_{t-1} \times \text{ACT}(t-1, t)}{\text{DayCountBasisRate}}$$

**SB<sub>t-1,t</sub>** means the Stock Borrowing Cost between Observation Date(t-1) (included) and Observation Date(t) (excluded) calculated as follows :

$$SB_{t-1,t} = -\text{Leverage} \times \frac{\text{CB} \times \text{ACT}(t-1, t)}{\text{DayCountBasisRate}}$$

**CB** means the Cost of Borrowing applicable that is equal to 2%.

**RC<sub>t-1,t</sub>** means the Rebalancing Cost of the Leverage Inverse Strategy on Observation Date (t), calculated as follows :

$$RC_{t-1,t} = \text{Leverage} \times (\text{Leverage} - 1) \times \left( \left| \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right| \right) \times \text{TC}$$

**TC** means the Transaction Costs applicable (including Stamp Duty) that are equal to : 0.10%

**Leverage** -5

**S<sub>t</sub>** means, in respect of each Observation Date(t), the Closing Price of the Underlying Stock as of such Observation Date(t), subject to the adjustments and provisions of the Conditions.

**Rate<sub>t</sub>** means, in respect of each Observation Date(t), the Overnight HKD Hong Kong Interbank Offered Rate (HIBOR) Fixing, as published on Reuters RIC HIKHDOND= or any successor page.

**Rfactor<sub>t</sub>** means, in the event Observation Date (t) is an ex-dividend date of the Underlying Stock, an amount determined by the Calculation Agent, subject to the adjustments and provisions of the Conditions, according to the following formula :

$$Rfactor_t = 1 - \frac{Div_t}{S_{t-1}}$$

where

*Div<sub>t</sub>* is the dividend to be paid out in respect of the Underlying Stock and the relevant ex-dividend date which shall be considered gross of any applicable withholding taxes.

**ACT(t-1,t)** ACT (t-1;t) means the number of calendar days between the Underlying Stock Business Day immediately preceding the Observation Date (which is "t-1") (included) and the Observation Date (which is "t") (excluded).

**DayCount BasisRate** 365



**Extraordinary Strategy Adjustment for Performance Reasons (“Air Bag Mechanism”)**

**Extraordinary Strategy Adjustment for Performance Reasons**

If the Calculation Agent determines that an Intraday Restrike Event has occurred during an Observation Date(t) (the **Intraday Restrike Date**, noted hereafter **IRD**), an adjustment (an **Extraordinary Strategy Adjustment for Performance Reasons**) shall take place during such Observation Date(t) in accordance with the following provisions.

(1) Provided the last Intraday Restrike Observation Period as of such Intraday Restrike Date does not end on the TimeReferenceClosing, the Leverage Inverse Strategy Closing Level on the Intraday Restrike Date ( $LSL_{IRD}$ ) should be computed as follows :

$$LSL_{IRD} = \text{Max}[ILSL_{IR(n)} \times (1 + ILR_{IR(n),IR(C)} - IRC_{IR(n),IR(C)}), 0]$$

(2) If the last Intraday Restrike Event Observation Period on the relevant Intraday Restrike Date ends on the TimeReferenceClosing:

$$LSL_{IRD} = \text{Max}[ILSL_{IR(n)}, 0]$$

**$ILSL_{IR(k)}$**

means, in respect of  $IR(k)$ , the Intraday Leverage Inverse Strategy Level in accordance with the following provisions :

(1) for  $k = 1$  :

$$ILSL_{IR(1)} = \text{Max}[LSL_{IRD-1} \times (1 + ILR_{IR(0),IR(1)} - FC_{IRD-1,IRD} - SB_{IRD-1,IRD} - IRC_{IR(0),IR(1)}), 0]$$

(2) for  $k > 1$  :

$$ILSL_{IR(k)} = \text{Max}[ILSL_{IR(k-1)} \times (1 + ILR_{IR(k-1),IR(k)} - IRC_{IR(k-1),IR(k)}), 0]$$

**$ILR_{IR(k-1),IR(k)}$**

means the Intraday Leveraged Return between  $IR(k-1)$  and  $IR(k)$ , calculated as follows :

$$ILR_{IR(k-1),IR(k)} = \text{Leverage} \times \left( \frac{IS_{IR(k)}}{IS_{IR(k-1)}} - 1 \right)$$

**$IRC_{IR(k-1),IR(k)}$**

means the Intraday Rebalancing Cost of the Leverage Inverse Strategy in respect of  $IR(k)$  on a given Intraday Restrike Date, calculated as follows :

$$IRC_{IR(k-1),IR(k)} = \text{Leverage} \times (\text{Leverage} - 1) \times \left( \left| \frac{IS_{IR(k)}}{IS_{IR(k-1)} \times Rfactor_t} - 1 \right| \right) \times TC$$

**$IS_{IR(k)}$**

means the Underlying Stock Price in respect of  $IR(k)$  computed as follows :

(1) for  $k=0$

$$IS_{IR(0)} = S_{IRD-1} \times Rfactor_{IRD}$$

(2) for  $k=1$  to  $n$

means in respect of  $IR(k)$ , the lowest price of the Underlying Stock during the respective Intraday Restrike Observation Period

(3) with respect to  $IR(C)$

$$IS_{IR(C)} = S_{IRD}$$

In each case, subject to the adjustments and provisions of the Conditions.

<b>IR(k)</b>	For k=0, means the scheduled close for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto) on the Observation Date immediately preceding the relevant Intraday Restrike Date; For k=1 to n, means the k <sup>th</sup> Intraday Restrike Event on the relevant Intraday Restrike Date.
<b>IR(C)</b>	means the scheduled close for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto) on the relevant Intraday Restrike Date.
<b>n</b>	means the number of Intraday Restrike Events that occurred on the relevant Intraday Restrike Date.
<b>Intraday Restrike Event</b>	means in respect of an Observation Date(t) : (1) provided no Intraday Restrike Event has previously occurred on such Observation Date (t), the increase at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock Price $IS_{IR(0)}$ as of such Calculation Time. (2) if k Intraday Restrike Events have occurred on the relevant Intraday Restrike Date, the increase at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock Price $IS_{IR(k)}$ as of such Calculation Time.
<b>Calculation Time</b>	means any time between the TimeReferenceOpening and the TimeReferenceClosing, provided that the relevant data is available to enable the Calculation Agent to determine the Leverage Inverse Strategy Level.
<b>TimeReferenceOpening</b>	means the scheduled opening time for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto).
<b>TimeReferenceClosing</b>	means the scheduled closing time for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto).
<b>Intraday Restrike Event Observation Period</b>	means in respect of an Intraday Restrike Event, the period starting on and excluding the Intraday Restrike Event Time and finishing on and including the sooner between (1) the time falling 15 minutes after the Intraday Restrike Event Time and (2) the TimeReferenceClosing. Where, during such period, the Calculation Agent determines that (1) the trading in the Underlying Stock is disrupted or subject to suspension or limitation or (2) the Relevant Stock Exchange for the Underlying Stock is not open for continuous trading, the Intraday Restrike Event Observation Period will be extended to the extent necessary until (1) the trading in the Underlying Stock is no longer disrupted, suspended or limited and (2) the Relevant Stock Exchange for the Underlying Stock is open for continuous trading.
<b>Intraday Restrike Event Time</b>	means in respect of an Intraday Restrike Event, the Calculation Time on which such event occurs.

*The Conditions set out in the section headed “Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities” in the Addendum are set out below. This section is qualified in its entirety by reference to the detailed information appearing elsewhere in this document which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions set out below, replace or modify the relevant Conditions for the purpose of the Certificates.*

## **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 date 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 impracticability 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.

## SUMMARY OF THE ISSUE

*The following is a summary of the issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this document, the Base Listing Document and the Addendum. Terms used in this Summary are defined in the Conditions.*

Issuer:	SG Issuer
Company:	Tencent Holdings Limited
The Certificates:	European Style Cash Settled Short Certificates relating to the Underlying Stock
Number:	A further 19,300,000 Certificates
	The Certificates shall be consolidated and form a single series with an existing issue of 2,700,000 European Style Cash Settled Short Certificates relating to the ordinary shares of Tencent Holdings Limited issued by the Issuer and listed on the SGX-ST, in which dealings commenced on 7 November 2018.
Form:	The Certificates will be issued subject to, and with the benefit of, a master instrument by way of deed poll dated 21 June 2018 (the “ <b>Master Instrument</b> ”) and executed by the Issuer and the Guarantor and a master warrant agent agreement dated 29 May 2017 (the “ <b>Master Warrant Agent Agreement</b> ”) and made between the Issuer, the Guarantor and the Warrant Agent.
Cash Settlement Amount:	In respect of each Certificate, is the amount (if positive) equal to:  Notional Amount per Certificate x Closing Level
Denominations:	Certificates are represented by a global warrant in respect of all the Certificates.
Exercise:	The 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 a Board Lot or integral multiples thereof. Certificate Holders will not be required to deliver an exercise notice. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates will 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) of the Conditions. 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.



Exercise and Trading Currency:	SGD
Board Lot:	100 Certificates
Transfers of Certificates:	Certificates may only be transferred in Board Lots (or integral multiples thereof). All transfers in 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 of CDP.
Listing:	Application has been made to the SGX-ST for permission to deal in and for quotation of the Certificates and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Certificates. Issue of the Certificates is conditional on such listing being granted. It is expected that dealings in the Certificates on the SGX-ST will commence on or about 22 April 2019.
Governing Law:	The laws of Singapore
Warrant Agent:	The Central Depository (Pte) Limited 11 North Buona Vista Drive #06-07 The Metropolis Tower 2 Singapore 138589
Further Issues:	Further issues which will form a single series with the Certificates will be permitted, subject to the approval of the SGX-ST.

The above summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this document, the Base Listing Document and the Addendum.

## INFORMATION RELATING TO THE EUROPEAN STYLE CASH SETTLED SHORT CERTIFICATES ON SINGLE EQUITIES

### What are European Style Cash Settled Short Certificates on Single Equities?

European style cash settled short certificates on single equities (the “**Certificates**”) are structured products relating to the Underlying Stock and the return on a Certificate is linked to the performance of the Leverage Inverse Strategy.

#### **A) Cash Settlement Amount Payable upon the Exercise of the Certificates at Expiry**

Upon the exercise of the Certificates at expiry, the Certificate Holders would be paid a Cash Settlement Amount in respect of each Certificate.

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 (1) divided by (2) less (3) subject to any adjustments such as (4), where:

(1) is the Final Reference Level multiplied by the Final Exchange Rate;

(2) is the Initial Reference Level multiplied by the Initial Exchange Rate;

(3) is the Strike Level; and

(4) is the Hedging Fee Factor.

If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates shall be deemed to have been automatically exercised and investors will receive a Cash Settlement Amount. If the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired. Please refer to the section headed “Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities” for further details on the calculation of the Cash Settlement Amount.

The Certificates are only suitable for investors who believe that the price of the Underlying Stock will decrease and are seeking short-term leveraged inverse exposure to the Underlying Stock.

#### **B) Trading the Certificates before Expiry**

If the Certificate Holders want to cash out their investments in the Certificates before the expiry of the Certificates, they may sell the Certificates in the secondary market during the life of the Certificates, and would be subject to the following fees and charges:

- (i) For Certificate Holders who trade the Certificates intraday: shall pay normal transaction and brokerage fees for the trading of the Certificates on the SGX-ST, and may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Certificates are transferred; and
- (ii) For Certificate Holders who hold the Certificates overnight: in addition to the normal transaction and brokerage fees and applicable stamp taxes, would also be required to bear the Management Fee and Gap Premium as well as certain costs embedded within the Leverage Inverse Strategy including the Stock Borrowing Cost and Rebalancing Cost.

### Illustration of the Calculation of Hedging Fee Factor

Hedging Fee Factor	=	Product of the Daily Fees
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Daily Fees	=	<b>Daily Management Fee Adjustment</b>	
		1 – Management Fee x ACT (t-1;t) / 360	
		x	
		<b>Daily Gap Premium Adjustment</b>	
		1 – Gap Premium (t-1) x ACT (t-1;t) / 360	

### Illustration of the Calculation of Cash Settlement Amount

Cash Settlement Amount = Final Value of Certificates – Strike Level (zero)

Value of Certificates	=	$t'=0$	x	$t=1$	x	$t=2$	x ...	$t=i$
		Notional Amount		Leverage Inverse Strategy daily performance <sup>8</sup> x Daily Fees		Leverage Inverse Strategy daily performance x Daily Fees		Leverage Inverse Strategy Daily performance x Daily Fees

Value of Certificates	=	$t=0$	x	<b>Product of the daily Leverage Inverse Strategy Performance</b>	x	<b>Product of the Daily Fees (Hedging Fee Factor)</b>
		Notional Amount		Leverage Inverse Strategy daily performance x Leverage Inverse Strategy daily performance		Daily Fees x Daily Fees

Final Value of Certificates	=	$t=0$	x	Final Reference Level x Final Exchange Rate ÷ Initial Reference Level x Initial Exchange Rate	x	Hedging Fee Factor
		Notional Amount				

### Illustration of the applicable fees and charges for an intraday trading scenario

Hedging Fee is implemented overnight in the price of the Certificate. As a consequence, when trading intraday, investors will not bear any Hedging Fee.

Investors will only support bid/ask costs, which are the difference between the price at which the Designated Market Maker purchases (bid) and sells (ask) the Certificate at any point of time.

<sup>7</sup> "t" refers to "Observation Date" which means each Underlying Stock Business Day from (and including) the Underlying Stock Business Day immediately preceding the Expected Listing Date to the Valuation Date.

<sup>8</sup> Leverage Inverse Strategy daily performance is computed as the Leverage Inverse Strategy Closing Level on Business Day (t) divided by the Leverage Inverse Strategy Closing Level on Business Day (t-1).

### Example of Calculation of Hedging Fee Factor and Cash Settlement Amount

*The example is purely hypothetical. We include the example to illustrate how the Certificates work, and you MUST NOT rely on them as any indication of the actual return or what the payout on the Certificates might actually be. The example also assumes a product which expires 16 days after listing date, to illustrate the daily calculation of price, costs and fees from listing date to expiry date.*

Assuming an investor purchases the following Certificates at the Issue Price:

Underlying Stock:	Ordinary shares of Tencent Holdings Limited
Expected Listing Date:	<b>03/07/2018</b>
Expiry Date:	<b>18/07/2018</b>
Initial Reference Level:	<b>1,000</b>
Initial Exchange Rate:	<b>1</b>
Final Reference Level:	<b>1,200</b>
Final Exchange Rate:	<b>1</b>
Issue Price:	<b>2.2 SGD</b>
Notional Amount per Certificate:	<b>2.2 SGD</b>
Management Fee (p.a.):	<b>0.40%</b>
Gap Premium (p.a.):	<b>4.60%</b>
Strike Level:	Zero

### Hedging Fee Factor

Hedging Fee Factor on the  $n^{\text{th}}$  Underlying Stock Business Day after issuance of Certificate ("HFF (n)") is calculated as follows:

$$\text{HFF}(0) = 100\%$$

On Next Calendar Day (assuming it is an Underlying Stock Business Day):

$$\text{HFF}(1) = \text{HFF}(0) \times \left(1 - \text{Management Fee} \times \frac{\text{ACT}(t-1; t)}{360}\right) \times \left(1 - \text{Gap Premium} \times \frac{\text{ACT}(t-1; t)}{360}\right)$$

$$\text{HFF}(1) = 100\% \times \left(1 - 0.40\% \times \frac{1}{360}\right) \times \left(1 - 4.60\% \times \frac{1}{360}\right)$$

$$\text{HFF}(1) = 100\% \times 99.9989\% \times 99.9872\% \approx 99.9861\%$$

Assuming 2<sup>nd</sup> Underlying Stock Business Day falls 3 Calendar Days after 1<sup>st</sup> Underlying Stock Business Day:

$$\text{HFF (2)} = \text{HFF (1)} \times \left(1 - \text{Management Fee} \times \frac{\text{ACT (t-1; t)}}{360}\right) \times \left(1 - \text{Gap Premium} \times \frac{\text{ACT (t-1; t)}}{360}\right)$$

$$\text{HFF (2)} = 99.9861\% \times \left(1 - 0.40\% \times \frac{3}{360}\right) \times \left(1 - 4.60\% \times \frac{3}{360}\right)$$

$$\text{HFF (2)} = 99.9861\% \times 99.9967\% \times 99.9617\% \approx 99.9445\%$$

The same principle applies to the following Underlying Stock Business Days:

$$\text{HFF (n)} = \text{HFF (n-1)} \times \left(1 - \text{Management Fee} \times \frac{\text{ACT (t-1; t)}}{360}\right) \times \left(1 - \text{Gap Premium} \times \frac{\text{ACT (t-1; t)}}{360}\right)$$

In this example, the Hedging Fee Factor as of the Valuation Date would be equal to 99.7919% as illustrated below:

Date	HFF
3/7/2018	100.0000%
4/7/2018	99.9861%
5/7/2018	99.9722%
6/7/2018	99.9583%
9/7/2018	99.9167%
10/7/2018	99.9028%
11/7/2018	99.8889%
12/7/2018	99.8751%
13/7/2018	99.8612%
16/7/2018	99.8196%
17/7/2018	99.8057%
18/7/2018	99.7919%

### Cash Settlement Amount

In this example, the Closing Level and the Cash Settlement Amount would be computed as follows:

$$\begin{aligned} \text{Closing Level} &= [(\text{Final Reference Level} \times \text{Final Exchange Rate}) / (\text{Initial Reference Level} \times \text{Initial Exchange Rate}) - \text{Strike Level}] \times \text{Hedging Fee Factor} \\ &= [(1200 \times 1) / (1000 \times 1) - 0] \times 99.7919\% \\ &= 119.75\% \end{aligned}$$

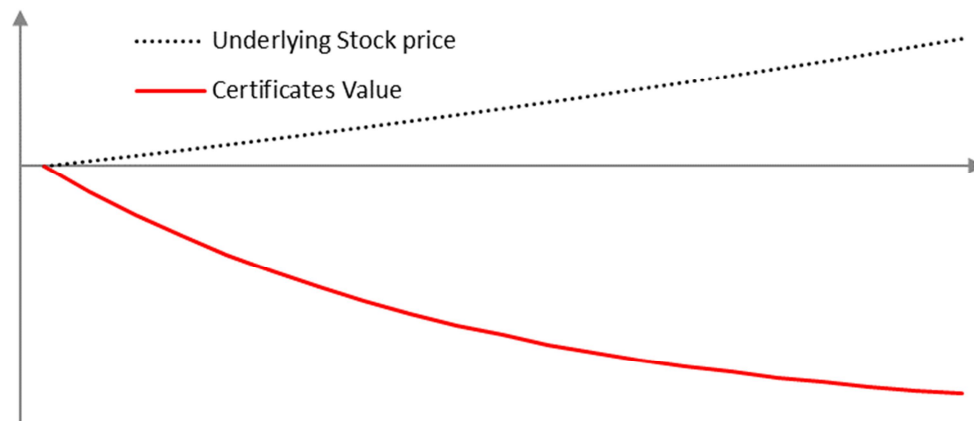
$$\begin{aligned} \text{Cash Settlement Amount} &= \text{Closing Level} \times \text{Notional Amount per Certificate} \\ &= 119.75\% \times 2.20 \text{ SGD} \\ &= \mathbf{2.635 \text{ SGD}} \end{aligned}$$

## Illustration on how returns and losses can occur under different scenarios

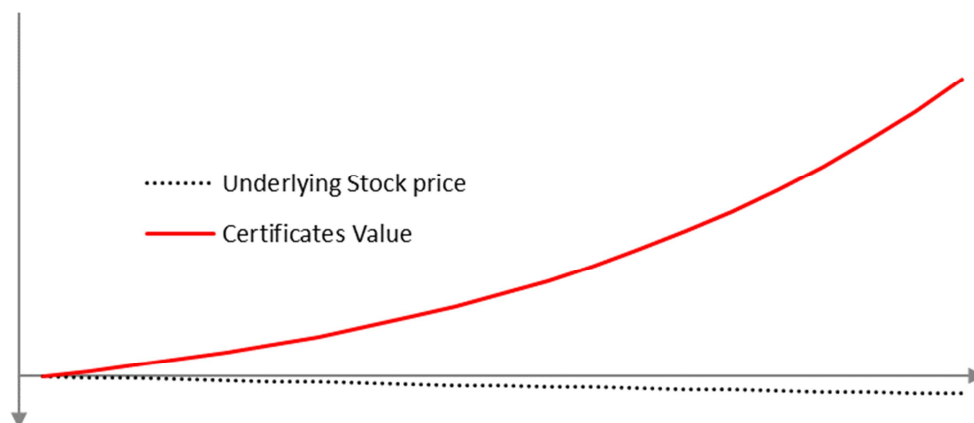
The examples are purely hypothetical and do not take fees and charges payable by investors into consideration. The examples highlight the effect of the Underlying Stock performance on the value of the Certificates and do not take into account the possible influence of fees, exchange rates, dividends, or any other market parameters.

### 1. Illustrative examples

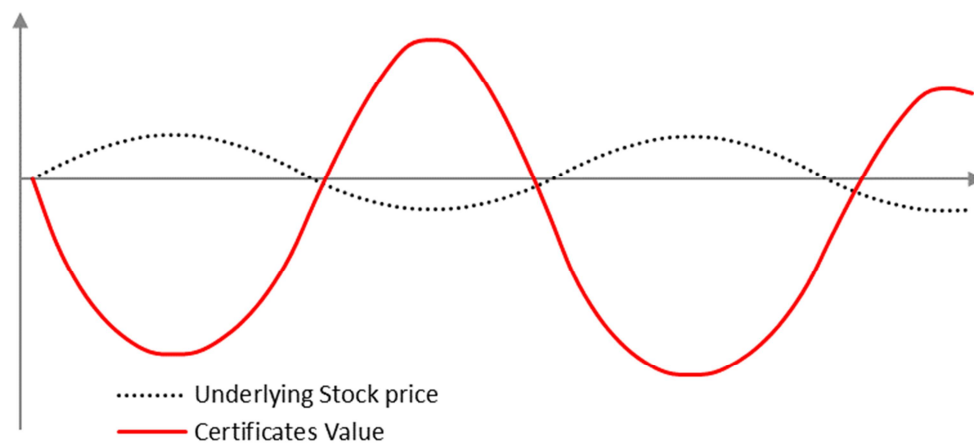
#### Scenario 1 – Upward Trend



#### Scenario 2 – Downward Trend



#### Scenario 3 – Volatile Market



## 2. Numerical Examples

### Scenario 1 – Upward Trend

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		2.0%	2.0%	2.0%	2.0%	2.0%
Value at end of day	10,000.0	10,200.0	10,404.0	10,612.1	10,824.3	11,040.8
Accumulated Return		2.00%	4.04%	6.12%	8.24%	10.41%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Price at end of day	2.2	1.98	1.78	1.60	1.44	1.30
Accumulated Return		-10.00%	-19.00%	-27.10%	-34.39%	-40.95%

### Scenario 2 – Downward Trend

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Value at end of day	10,000.0	9,800.0	9,604.0	9,411.9	9,223.7	9,039.2
Accumulated Return		-2.00%	-3.96%	-5.88%	-7.76%	-9.61%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		10.0%	10.0%	10.0%	10.0%	10.0%
Price at end of day	2.2	2.42	2.66	2.93	3.22	3.54
Accumulated Return		10.00%	21.00%	33.10%	46.41%	61.05%

### Scenario 3 – Volatile Market

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		2.0%	-2.0%	2.0%	-2.0%	2.0%
Value at end of day	10,000.0	10,200.0	9,996.0	10,195.9	9,992.0	10,191.8
Accumulated Return		2.00%	-0.04%	1.96%	-0.08%	1.92%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-10.0%	10.0%	-10.0%	10.0%	-10.0%
Price at end of day	2.2	1.98	2.18	1.96	2.16	1.94
Accumulated Return		-10.00%	-1.00%	-10.90%	-1.99%	-11.79%

## Description of Air Bag Mechanism

The Certificates integrate an “Air Bag Mechanism” which is designed to reduce exposure to the Underlying Stock during extreme market conditions.

When the Air Bag triggers, a 30-minute period starts. This period is divided into two sub-periods:

- Observation Period : during 15 minutes after the Air Bag trigger, the price of the Underlying Stock is observed and its maximum price is recorded; and
- Reset Period: after 15 minutes, the Leverage Inverse Strategy is reset using the maximum price of the Underlying Stock during the Observation Period as the New Observed Price. The New Observed Price replaces the last closing price of the Underlying Stock in order to compute the performance of the Leverage Inverse Strategy, 30 minutes after the Air Bag trigger.

Trading of Certificates is suspended for at least 30 minutes after the Air Bag is triggered. Investors cannot sell or purchase any Certificates during this period.

The performance of the Leverage Inverse Strategy will be the inverse of the Underlying Stock.

### Air Bag Mechanism timeline

Air Bag Trigger	Observation Period	Resumption of Trading
More than 45 minutes before Market Close	First 15 minutes after Air Bag Trigger	Trading resumes the same day between 30 and 45 minutes after Air Bag Trigger
45 minutes before Market Close		Next trading day at Market Open
30 to 45 minutes before Market Close		
30 minutes before Market Close		
15 to 30 minutes before Market Close		
15 minutes before Market Close	From Air Bag Trigger to Market Close	
Less than 15 minutes before Market Close		

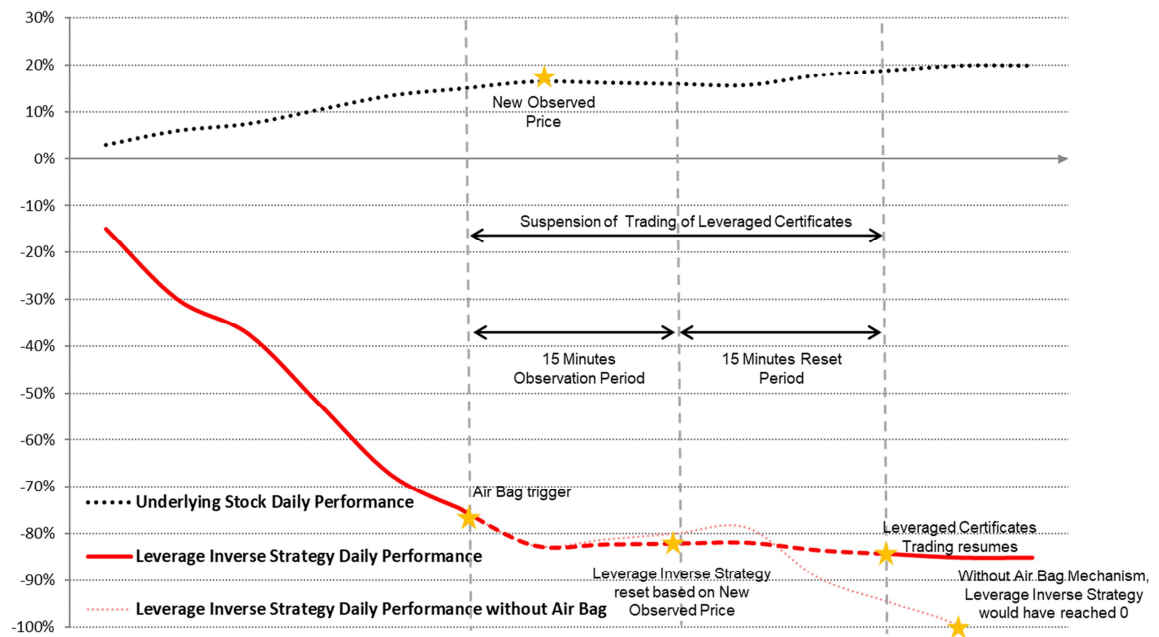
With **Market Close** defined as:

- Underlying Stock closing time with respect to the Observation Period
- The sooner between Underlying Stock closing time and SGX closing time with respect to the Resumption of Trading

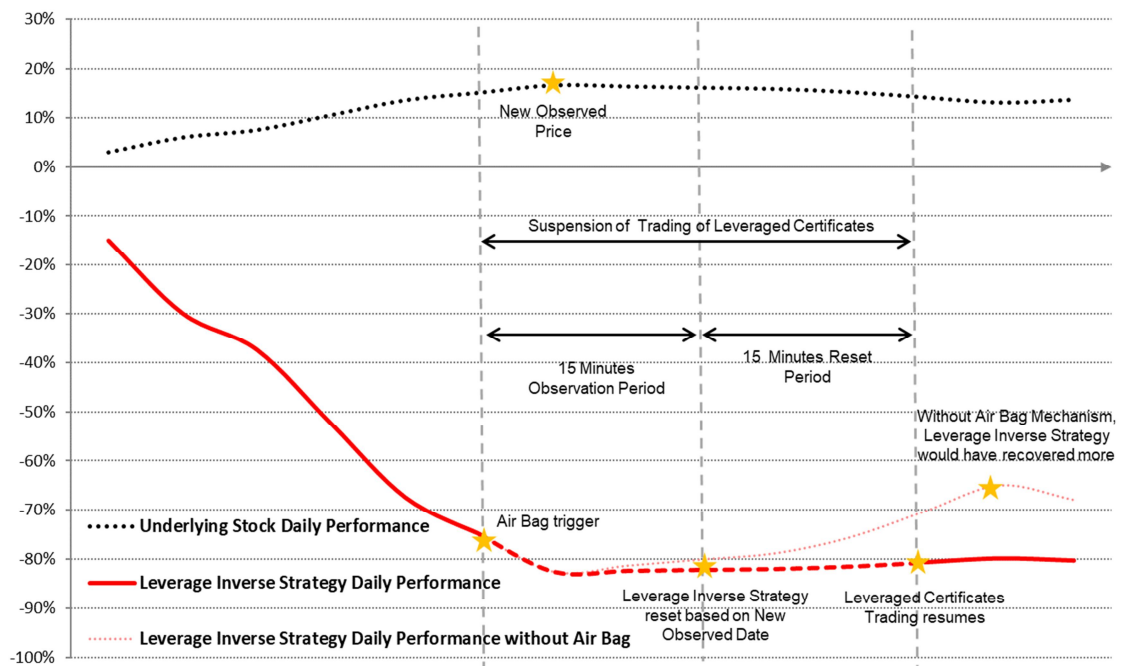


## Illustrative examples of the Air Bag Mechanism

### Scenario 1 – Upward Trend after Air Bag trigger



### Scenario 2 – Downward Trend after Air Bag trigger



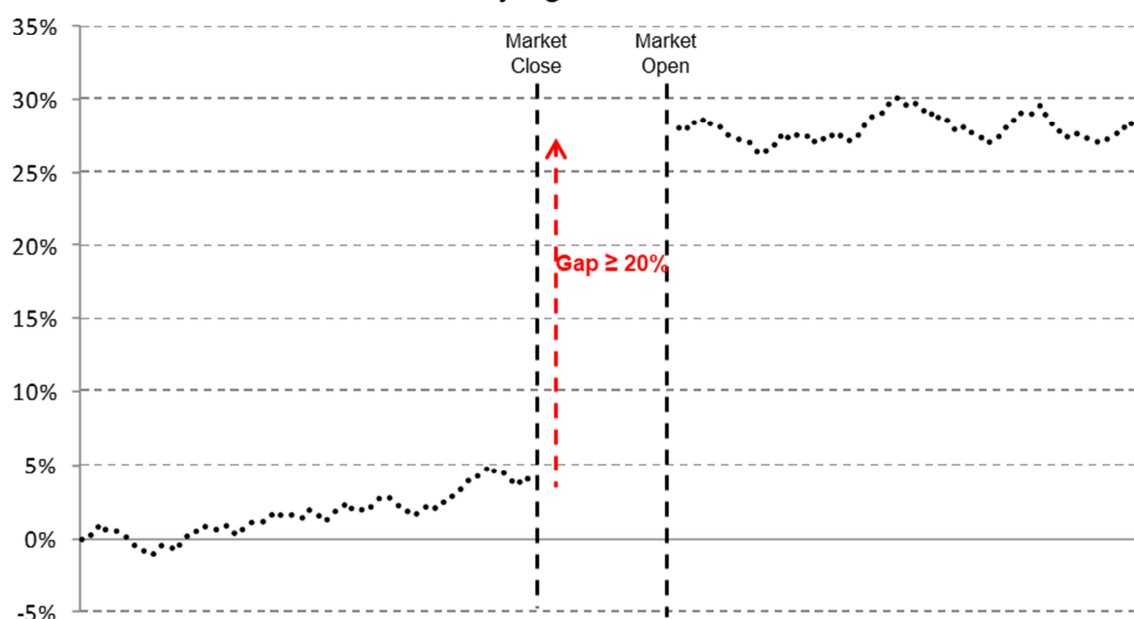
## Scenarios where the investor may lose the entire value of the investment

*The scenarios below are purely hypothetical and do not take fees and charges payable by investors into consideration. The scenarios highlight cases where the Certificates may lose 100% of their value.*

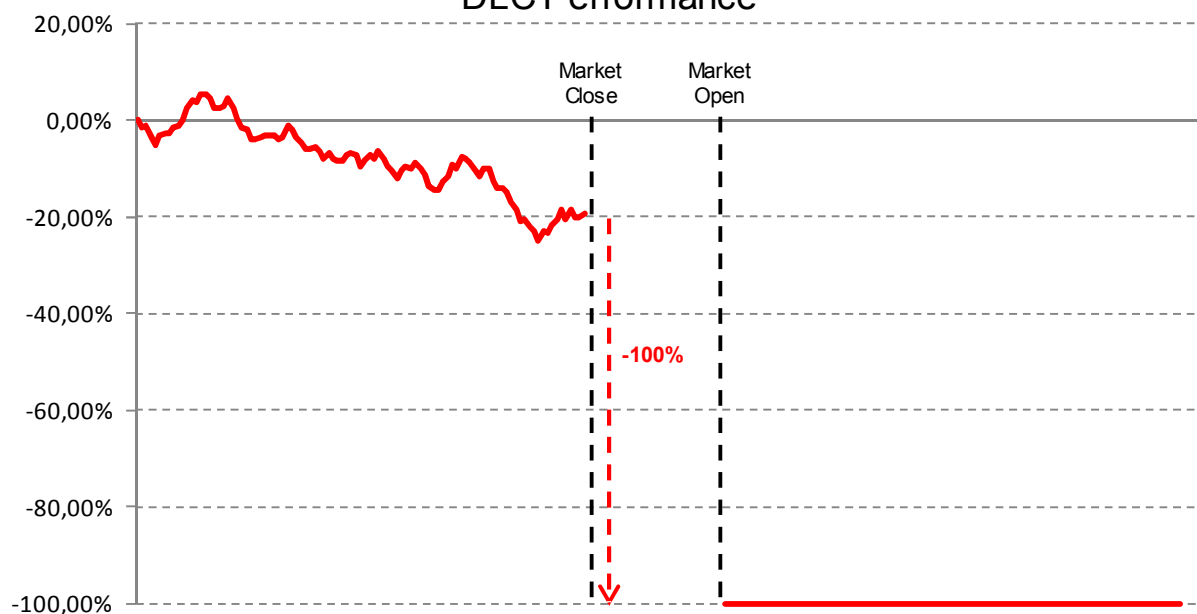
### Scenario 1 – Overnight rise of the Underlying Stock

On any business day, the opening price of the Underlying Stock may be higher or lower than the closing price on the previous day. The difference between the previous closing price and the opening price of the Underlying Stock is termed a “gap”. If the opening price of the Underlying Stock is 20% or more above the previous day closing price, the Air Bag Mechanism would only be triggered when the market opens the following day, and the Certificates would lose their entire value in such event.

#### Underlying Stock Performance

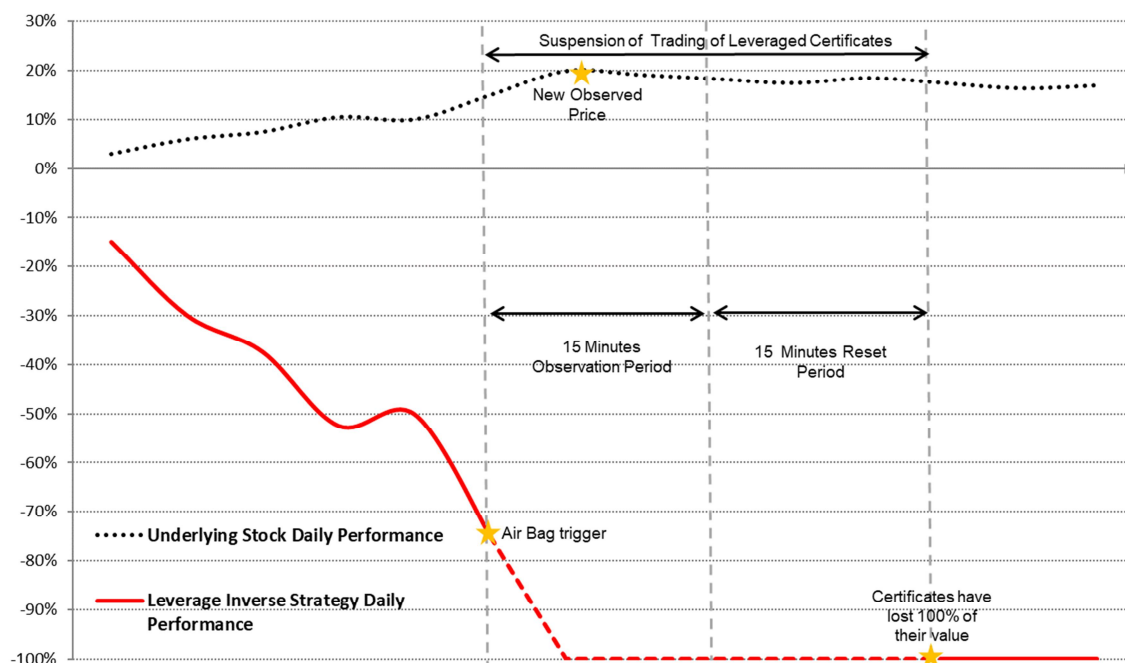


#### DLC Performance



### Scenario 2 – Sharp intraday rise of the Underlying Stock

Although the Air Bag Mechanism is designed to reduce the exposure to the Underlying Stock during extreme market conditions, the Certificate can lose 100% of its value in the event the price of the Underlying Stock rises by 20% or more compared to the previous closing price of the Underlying Stock or the previous observed price in case of an air bag previously on the same day within the 15 minute Observation Period. The Certificates would lose their entire value in such event.



## Examples and illustrations of adjustments due to certain corporate actions

*The examples are purely hypothetical and do not take fees and charges payable by investors into consideration. The examples highlight the effect of corporate actions on the value of the Certificates and do not take into account the possible influence of fees, exchange rates, or any other market parameters.*

In the case of any corporate action on the Underlying Stock, the Calculation Agent will, as soon as reasonably practical after it becomes aware of such event, determine whether such corporate action has a dilutive or concentrative effect on the theoretical value of the Underlying Stock, and if so, will (a) calculate the corresponding adjustment, if any, to be made to the elements relating to the Underlying Stock which are used to determine any settlement or payment terms under the Certificates and/or adjust at its discretion any other terms of the Certificates as it determines appropriate to preserve the economic equivalent of the obligations of the Issuer under the Certificates and (b) determine the effective date of such adjustment.

Notwithstanding the foregoing, in the event Observation Date (t) is an ex-date with respect to a corporate action related to the Underlying Stock, the Calculation Agent may, in its sole and absolute discretion, replace the  $Rfactor_t$  with respect to such Observation Date (t) by an amount computed according to the following generic formula :

$$Rfactor_t = \left[ 1 - \frac{Div_t + DivExc_t - M \times R}{S_{t-1}} \right] \times \frac{1}{1 + M}$$

This formula is provided for indicative purposes and the Calculation Agent may determine that this formula is not appropriate for certain corporate actions and may apply a different formula instead.

Such adjustment of  $Rfactor_t$  would affect the Leveraged Return, the Rebalancing Cost, and the Underlying Reference Price used to determine the Intraday Restrike Event. The Air Bag mechanism would not be triggered if the stock price rises by 15% exclusively because of the dilutive effect of a corporate action.

Where:

$DivExc_t$  is the amount received as an Extraordinary Dividend by a holder of existing Shares for each Share held prior to the Extraordinary Dividend, net of any applicable withholding taxes.

$M$  is the number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe or to receive (positive amount) or the number of existing Shares redeemed or canceled per existing Share (negative amount), as the case may be, resulting from the corporate action.

$R$  is the subscription price per Share (positive amount) or the redemption price per Share (negative amount) including any dividends or other benefits forgone to be subscribe to or to receive (as applicable), or to redeem a Share.

### 1. Stock split

Assuming the Underlying Stock is subject to a 1 to 2 stock split (i.e. 1 new Share for every 1 existing share):

$$S_{t-1} = \$100$$

$$S_t = \$51$$

$$Div_t = \$0$$

$$\text{DivExc}_t = \$0$$

M = 1 (i.e. 1 new Shares for 1 existing Share)

R = \$0 (no subscription price / redemption price)

$$Rfactor_t = \left[ 1 - \frac{0 + 0 - 2 \times 0}{100} \right] \times \frac{1}{1 + 1} = 50\%$$

As a consequence:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right) = -5 \times \left( \frac{51}{100 \times 50\%} - 1 \right) = -10\%$$

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	Adjusted Underlying Stock Performance
100	50	51	2%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
2.2	1.98	-10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$57.5, which is 15% above \$50, the Underlying Stock Reference Price.

## 2. Share Consolidation

Assuming the Underlying Stock is subject to a 2 to 1 share consolidation (i.e. 1 Share canceled for every 2 existing Shares):

$$S_{t-1} = \$100$$

$$S_t = \$202$$

$$\text{Div}_t = \$0$$

$$\text{DivExc}_t = \$0$$

M = -0.5 (i.e. 0.5 Shares canceled for each 1 existing Share)

R = \$0 (no subscription price / redemption price)

$$Rfactor_t = \left[ 1 - \frac{0 + 0 - (-0.5) \times 0}{100} \right] \times \frac{1}{1 + (-0.5)} = 200\%$$

As a consequence:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right) = -5 \times \left( \frac{202}{100 \times 200\%} - 1 \right) = -5\%$$

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	Adjusted Underlying Stock Performance
100	200	202	1%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
2.2	2.09	-5%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$230, which is 15% above \$200, the Underlying Stock Reference Price.

### 3. Rights Issues

Assuming there is a rights issue with respect to the Underlying Stock, with a right to receive 1 new Share for every 2 existing Shares, for a subscription price of \$40.

$$S_{t-1} = \$100$$

$$S_t = \$84$$

$$Div_t = \$0$$

$$DivExc_t = \$0$$

$$R = \$40 \text{ (i.e. subscription price of \$40)}$$

$$M = 0.5 \text{ (i.e. 1 new share for every 2 existing shares)}$$

$$Rfactor_t = \left[ 1 - \frac{0 + 0 - 0.5 \times 40}{100} \right] \times \frac{1}{1 + 0.5} = 80\%$$

As a consequence:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right) = -5 \times \left( \frac{84}{100 \times 80\%} - 1 \right) = -25\%$$

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	Adjusted Underlying Stock Performance
100	80	84	5%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
2.2	1.65	-25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$92, which is 15% above \$80, the Underlying Stock Reference Price.

#### 4. Bonus Issues

Assuming there is a bonus issue with respect to the Underlying Stock, where shareholders receive 1 bonus share for 5 existing shares:

$$S_{t-1} = \$100$$

$$S_t = \$85$$

$$\text{Div}_t = \$0$$

$$\text{DivExc}_t = \$0$$

$$R = \$0$$

$$M = 0.2 \text{ (i.e. 1 new share for 5 existing shares)}$$

$$Rfactor_t = \left[ 1 - \frac{0 + 0 - 0.2 \times 0}{100} \right] \times \frac{1}{1 + 0.2} = 83.33\%$$

As a consequence:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right) = -5 \times \left( \frac{85}{100 \times 83.33\%} - 1 \right) = -10\%$$

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	Adjusted Underlying Stock Performance
100	83.33	85	2%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
2.2	1.98	-10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$95.83, which is 15% above \$83.33, the Underlying Stock Reference Price.

#### 5. Extraordinary Dividend

Assuming there is an extraordinary dividend of \$20 (net of taxes) paid in respect of each stock.

$$S_{t-1} = \$100$$

$$S_t = \$84$$

$$\text{Div}_t = \$0$$

$$\text{DivExc}_t = \$20$$

$$R = \$0$$

$$M = 0$$

$$Rfactor_t = \left[ 1 - \frac{0 + 20 - 0 \times 0}{100} \right] \times \frac{1}{1 + 0} = 80\%$$

As a consequence:

$$LR_{t-1,t} = \text{Leverage} \times \left( \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right) = -5 \times \left( \frac{84}{100 \times 80\%} - 1 \right) = -25\%$$

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	Adjusted Underlying Stock Performance
100	80	84	5%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
2.2	1.65	-25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$92, which is 15% above \$80, the Underlying Stock Reference Price.



## INFORMATION RELATING TO THE COMPANY

*All information contained in this document regarding the Company, including, without limitation, its financial information, is derived from publicly available information which appears on the web-site of Hong Kong Exchanges and Clearing Limited (the “HKExCL”) at <http://www.hkex.com.hk> and/or the Company’s web-site at <https://www.tencent.com/en-us/index.html>. The Issuer has not independently verified any of such information.*

Tencent Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 16 June 2004.

Tencent Holdings Limited is an investment holding company principally involved in the provision of value-added services (VAS) and online advertising services. The Company operates through three main segments. The VAS segment is mainly involved in provision of online/mobile games, community value-added services and applications across various Internet and mobile platforms. The Online Advertising segment is mainly engaged in display based and performance based advertisements. The Others segment is mainly involved in provision of payment related services, cloud services and other services.

The information set out in Appendix I of this document relates to the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 and has been extracted and reproduced from an announcement by the Company dated 1 April 2019 in relation to the same. Further information relating to the Company may be located on the web-site of the HKExCL at <http://www.hkex.com.hk>.

## INFORMATION RELATING TO THE DESIGNATED MARKET MAKER

Société Générale has been appointed the designated market maker (“**DMM**”) for the Certificates. The DMM will provide competitive buy and sell quotes for the Certificates continuously during the trading hours of the SGX-ST on the following basis:

- (a) Maximum bid and offer spread : 10 ticks or S\$0.20 whichever is greater
- (b) Minimum quantity subject to bid and offer spread : 10,000 Certificates
- (c) Last Trading Day for Market Making : The date falling 5 Exchange Business Days immediately preceding the Expiry Date

In addition, the DMM may not provide a quotation in the following circumstances:

- (i) during the pre-market opening and five minutes following the opening of the SGX-ST on any trading day;
- (ii) if the Certificates are valueless (where the Issuer’s bid price is below the minimum bid size for such securities as prescribed by the SGX-ST), the DMM will not provide the bid price. In such an instance, the DMM will provide the offer price only;
- (iii) before the Relevant Stock Exchange for the Underlying Stock has opened and after the Relevant Stock Exchange for the Underlying Stock has closed on any trading day;
- (iv) when trading in the Underlying Stock is suspended or limited in a material way for any reason, for the avoidance of doubt, the DMM is not obliged to provide quotations for the Certificates at any time when the Underlying Stock is not negotiated/traded for any reason;
- (v) where the Certificates are suspended from trading for any reason;
- (vi) market disruption events, including, without limitation, 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 SGX-ST or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) in the Underlying Stock;
- (vii) where the Issuer or the DMM faces technical problems affecting the ability of the DMM to provide bids and offer quotations;
- (viii) where the ability of the Issuer to source a hedge or unwind an existing hedge, as determined by the Issuer in good faith, is materially affected by the prevailing market conditions, and the Issuer informs the SGX-ST of its inability to do so as soon as practicable;
- (ix) in cases where the Issuer has no Certificates to sell, then the DMM will only provide the bid price;
- (x) if the stock market experiences exceptional price movement and volatility;
- (xi) when it is a public holiday in Singapore and/or Hong Kong and/or the SGX-ST and/or the HKEX are not open for dealings; and
- (xii) during the suspension of trading of Certificates after an Air Bag Mechanism has been triggered.

The last trading day on which the DMM will provide competitive quotations for the Certificates would be the fifth Exchange Business Day immediately preceding the Expiry Date.

## **SUPPLEMENTAL INFORMATION RELATING TO THE GUARANTOR**

The information set out in Appendix II of this document is a reproduction of the Guarantor's audited consolidated financial statements for the year ended 31 December 2018.

## SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 86 of the Base Listing Document, and the Addendum.

1. Save as disclosed in this document and the Base Listing Document (as amended and supplemented by the Addendum), neither the Issuer nor the Guarantor is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which may have or have had in the previous 12 months a significant effect on the financial position of the Issuer or the Guarantor in the context of the issuance of the Certificates.
2. Settlement of trades done on a normal “ready basis” on the SGX-ST generally take place on the third Business Day following the transaction. Dealing in the Certificates will take place in Board Lots in Singapore dollars. For further details on the transfer of Certificates and their exercise, please refer to the section headed “Summary of the Issue” above.
3. It is not the current intention of the Issuer to apply for a listing of the Certificates on any stock exchange other than the SGX-ST.
4. Save as disclosed in the Base Listing Document, the Addendum and herein, there has been no material adverse change in the financial position or prospects of the Issuer since 30 June 2018 or the Guarantor since 31 December 2018, in the context of the issuance of Certificates hereunder.
5. The following contracts, relating to the issue of the Certificates, have been or will be entered into by the Issuer and/or the Guarantor and may be material to the issue of the Certificates:
  - (a) the Guarantee;
  - (b) the Master Instrument; and
  - (c) the Master Warrant Agent Agreement.

None of the directors of the Issuer and the Guarantor has any direct or indirect interest in any of the above contracts.

6. The Auditors of the Issuer and the Guarantor have given and have not withdrawn their written agreement to the inclusion of the report, included herein, in the form and context in which it is included. Their report was not prepared exclusively for incorporation into this document.

The Auditors of the Issuer and the Guarantor have no shareholding in the Issuer or the Guarantor or any of its subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Issuer or the Guarantor or any of its subsidiaries.

7. The Certificates are not fully covered by the Underlying Stock held by Issuer or a trustee for and on behalf of the Issuer. The Issuer has appropriate risk management capabilities to manage the issue of the Certificates.
8. Société Générale, Singapore Branch, currently of 8 Marina Boulevard, #12-01 Marina Bay Financial Centre Tower 1, Singapore 018981, has been authorised to accept, on behalf of the Issuer and the Guarantor, service of process and any other notices required to be served on the Issuer or the Guarantor. Any notices required to be served on the Issuer or the Guarantor

should be sent to Société Générale at the above address for the attention of Société Générale Legal Department.

9. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of Société Générale, Singapore Branch at 8 Marina Boulevard, #12-01 Marina Bay Financial Centre Tower 1, Singapore 018981, during the period of 14 days from the date of this document:
- (a) the Memorandum and Articles of Association of the Issuer and the Constitutional Documents of the Guarantor;
  - (b) the latest financial reports (including the notes thereto) of the Issuer;
  - (c) the latest financial reports (including the notes thereto) of the Guarantor;
  - (d) the consent letters from the Auditors to the Issuer and the Guarantor referred to in paragraph 6 above;
  - (e) the Base Listing Document;
  - (f) the Addendum;
  - (g) this document; and
  - (h) the Guarantee.

## PLACING AND SALE

### General

No action has been or will be taken by the Issuer that would permit a public offering of the Certificates or possession or distribution of any offering material in relation to the Certificates in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Certificates, or distribution of any offering material relating to the Certificates may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to placees.

Each Certificate Holder undertakes that it will inform any subsequent purchaser of the terms and conditions of the Certificates and all such subsequent purchasers as may purchase such securities from time to time shall be deemed to be a Certificate Holder for the purposes of the Certificates and shall be bound by the terms and conditions of the Certificates.

### Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Certificates may not be circulated or distributed, nor may Certificates be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

### Hong Kong

Each dealer has represented and agreed, and each further dealer appointed in respect of the Certificates and each other purchaser will be required to represent and agree, that it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made under that Ordinance.

### European Economic Area

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

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

- (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates.

### United Kingdom

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

- (a) in respect to Certificates having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of Financial Services and Markets Act, as amended (the “**FSMA**”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

### United States

The Certificates and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or any state securities law, and trading in the Certificates has not been approved by the United States Commodity Futures Trading Commission (the “**CFTC**”) under the United States Commodity Exchange Act of 1936, as amended (the “**Commodity Exchange Act**”). Accordingly, Certificates, 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 Certificates. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Certificates, 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.

Each dealer has represented and agreed, and each further dealer will be required to represent and agree, that it has not and will not at any time offer, sell, resell, trade, pledge, exercise,



redeem, transfer or deliver, directly or indirectly, Certificates in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redeem, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any such U.S. person. Any person purchasing Certificates of any tranches must agree with the relevant dealer or the seller of such Certificates that (i) it will not at any time offer, sell, resell, trade, pledge, exercise, redeem, transfer or deliver, directly or indirectly, any Certificates in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person, (ii) it is not purchasing any Certificates for the account or benefit of any U.S. person and (iii) it will not make offers, sales, re-sales, trades, pledges, redemptions, transfers or deliveries of any Certificates (otherwise acquired), directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person.

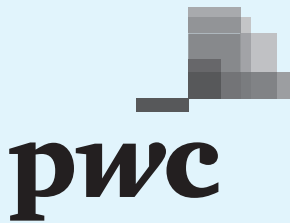
Exercise of Certificates will be conditional upon certification that each person exercising a Certificate is not a U.S. person or in the United States and that the Certificate is not being exercised on behalf of a U.S. person. No payment will be made to accounts of holders of the Certificates located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

As used in the preceding paragraphs, the term “**United States**” includes the territories, the possessions and all other areas subject to the jurisdiction of the United States of America, and the term “**U.S. person**” means any person who is (i) an individual who is a citizen or resident of the United States; (ii) a corporation, partnership or other entity organised in or under the laws of the United States or any political subdivision thereof or which has its principal place of business in the United States; (iii) any estate or trust which is subject to United States federal income taxation regardless of the source of its income; (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and if one or more United States trustees have the authority to control all substantial decisions of the trust; (v) a pension plan for the employees, officers or principals of a corporation, partnership or other entity described in (ii) above; (vi) any entity organised principally for passive investment, ten per cent. or more of the beneficial interests in which are held by persons described in (i) to (v) above if such entity was formed principally for the purpose of investment by such persons in a commodity pool the operator of which is exempt from certain requirements of Part 4 of the CFTC’s regulations by virtue of its participants being non-U.S. persons; or (vii) any other “U.S. person” as such term may be defined in Regulation S under the Securities Act or the regulations adopted under the Commodity Exchange Act.

## **APPENDIX I**

### **REPRODUCTION OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 OF TENCENT HOLDINGS LIMITED AND ITS SUBSIDIARIES**

The information set out below is a reproduction of the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 and has been extracted and reproduced from an announcement by the Company dated 1 April 2019 in relation to the same.



羅兵咸永道

## TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

### OPINION

#### What we have audited

The consolidated financial statements of Tencent Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 132 to 264, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.



# Independent Auditor's Report

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/items
- Impairment assessments of goodwill, investments in associates and joint ventures
- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities



## Key Audit Matter

### ***Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/items***

Refer to Note 2.30(a), 4(a) and 5(b) to the consolidated financial statements

The Group has recognised revenue from sales of virtual products/items to the users in respect of value-added services rendered on the Group's online platforms. The relevant revenue is recognised over the lifespans of respective virtual products/items which was determined by the management, on an item by item basis, with reference to the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items, depending on the terms of the virtual products/items.

During the year ended 31 December 2018, a majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual products/items.

We focused on this area due to the fact that management applied significant judgment in determining the expected users' relationship periods for certain virtual products/items. These judgment included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn rates and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.

## How our audit addressed the Key Audit Matter

We discussed with management and evaluated their judgment on key assumptions in determining the estimated lifespans of the virtual products/items that were based on the expected users' relationship periods.

We tested, on a sample basis, key controls in respect of the recognition of revenue from sales of virtual products/items, including management's review and approval of (i) determination of the estimated lifespans of new virtual products/items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual products/items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected virtual products/items generated directly from the Group's information system.

We assessed, on a sample basis, the expected users' relationship periods adopted by management by testing the data integrity of historical users' consumption patterns and calculation of the churn rates. We also evaluated the consideration made by management in determining the underlying assumptions for expected users' relationship periods with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation process by comparing the actual users' relationship periods for the year against the original estimation for selected virtual products/items.

We found that the results of our procedures performed to be materially consistent with management's supporting documentation.



# Independent Auditor's Report

## Key Audit Matter

### ***Impairment assessments of goodwill, investments in associates and joint ventures***

Refer to Notes 2.13(a), 2.15, 4(b), 19, 20 and 21 to the consolidated financial statements

As at 31 December 2018, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB32,605 million, RMB219,215 million and RMB8,575 million, respectively. Impairment provision of RMB784 million, RMB14,069 million and RMB2,328 million had been recognised during the year ended 31 December 2018 against the carrying amounts, respectively.

We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgment were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.

## How our audit addressed the Key Audit Matter

We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information.

We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions.

Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate.

In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.



# Independent Auditor's Report

## Key Audit Matter

*Impairment assessments of goodwill, investments in associates and joint ventures (Cont'd)*

## How our audit addressed the Key Audit Matter

In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using market approach, we assessed the valuation assumptions including the selection of comparable companies, recent market transactions, and liquidity discount for lack of marketability, etc. We assessed these key assumptions adopted by management with the involvement of our internal valuation experts based on our industry knowledge and independent research performed by us. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges. We did not identify any material exceptions from our testing.



# Independent Auditor's Report

## Key Audit Matter

***Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities***

Refer to Notes 3.3, 4(c), 23, 24, 37 to the consolidated financial statements

As at 31 December 2018, the Group's financial assets and financial liabilities which were carried at fair value comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB97,877 million, RMB43,519 million and RMB4,506 million, respectively, of which approximately RMB83,934 million of these financial assets and approximately RMB4,466 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments".

We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.

## How our audit addressed the Key Audit Matter

In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions.

We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2018 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.





## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



# Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



## Independent Auditor's Report

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 21 March 2019



# Consolidated Income Statement

For the year ended 31 December 2018

		Year ended 31 December	
	Note	2018 RMB'Million	2017 RMB'Million
<b>Revenues</b>			
Value-added services		176,646	153,983
Online advertising		58,079	40,439
Others		77,969	43,338
	5	312,694	237,760
Cost of revenues	8	(170,574)	(120,835)
<b>Gross profit</b>		142,120	116,925
Interest income	6	4,569	3,940
Other gains, net	7	16,714	20,140
Selling and marketing expenses	8	(24,233)	(17,652)
General and administrative expenses	8	(41,522)	(33,051)
<b>Operating profit</b>		97,648	90,302
Finance costs, net	9	(4,669)	(2,908)
Share of profit of associates and joint ventures	10	1,487	821
<b>Profit before income tax</b>		94,466	88,215
Income tax expense	11	(14,482)	(15,744)
<b>Profit for the year</b>		79,984	72,471
<b>Attributable to:</b>			
Equity holders of the Company		78,719	71,510
Non-controlling interests		1,265	961
		79,984	72,471
<b>Earnings per share for profit attributable to equity holders of the Company (in RMB per share)</b>			
– basic	12(a)	8.336	7.598
– diluted	12(b)	8.228	7.499

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
<b>Profit for the year</b>	<b>79,984</b>	<b>72,471</b>
<b>Other comprehensive income, net of tax:</b>		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates and joint ventures	23	907
Net gains from changes in fair value of available-for-sale financial assets	–	16,854
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	(2,561)
Currency translation differences	4,133	(9,316)
Other fair value gains	181	756
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(16,391)	–
Other fair value losses	(170)	(50)
	<b>(12,224)</b>	<b>6,590</b>
<b>Total comprehensive income for the year</b>	<b>67,760</b>	<b>79,061</b>
<b>Attributable to:</b>		
Equity holders of the Company	66,339	78,218
Non-controlling interests	1,421	843
	<b>67,760</b>	<b>79,061</b>

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.



# Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
	Note	2018 RMB'Million	2017 RMB'Million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	35,091	23,597
Construction in progress	17	4,879	3,163
Investment properties		725	800
Land use rights	18	7,106	5,111
Intangible assets	19	56,650	40,266
Investments in associates	20	219,215	113,779
Investments in redeemable instruments of associates	2.2(a)	–	22,976
Investments in joint ventures	21	8,575	7,826
Financial assets at fair value through profit or loss	2.2(a), 23	91,702	–
Financial assets at fair value through other comprehensive income	2.2(a), 24	43,519	–
Available-for-sale financial assets	2.2(a)	–	127,218
Prepayments, deposits and other assets	25	21,531	11,173
Other financial assets	2.2(a), 26	1,693	5,159
Deferred income tax assets	27	15,755	9,793
Term deposits	28	–	5,365
		<b>506,441</b>	<b>376,226</b>
<b>Current assets</b>			
Inventories		324	295
Accounts receivable	29	28,427	16,549
Prepayments, deposits and other assets	25	18,493	17,110
Other financial assets	2.2(a), 26	339	465
Financial assets at fair value through profit or loss	2.2(a), 23	6,175	–
Term deposits	28	62,918	36,724
Restricted cash	30	2,590	1,606
Cash and cash equivalents	30	97,814	105,697
		<b>217,080</b>	<b>178,446</b>
<b>Total assets</b>		<b>723,521</b>	<b>554,672</b>



# Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
	Note	2018 RMB'Million	2017 RMB'Million
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	31	–	–
Share premium	31	27,294	22,204
Shares held for share award schemes	31	(4,173)	(3,970)
Other reserves	2.2(a), 32	729	35,158
Retained earnings	2.2(a)	299,660	202,682
		<b>323,510</b>	256,074
<b>Non-controlling interests</b>		<b>32,697</b>	21,019
<b>Total equity</b>		<b>356,207</b>	277,093
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	34	87,437	82,094
Notes payable	35	51,298	29,363
Long-term payables	36	4,797	3,862
Other financial liabilities	37	3,306	2,154
Deferred income tax liabilities	27	10,964	5,975
Deferred revenue	5(c) (i)	7,077	2,391
		<b>164,879</b>	125,839



# Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
	Note	2018 RMB'Million	2017 RMB'Million
<b>Current liabilities</b>			
Accounts payable	38	73,735	50,085
Other payables and accruals	39	33,312	29,433
Borrowings	34	26,834	15,696
Notes payable	35	13,720	4,752
Current income tax liabilities		10,210	8,708
Other financial liabilities	37	1,200	–
Other tax liabilities		1,049	934
Deferred revenue	5(c) (i)	42,375	42,132
		<b>202,435</b>	151,740
<b>Total liabilities</b>		<b>367,314</b>	277,579
<b>Total equity and liabilities</b>		<b>723,521</b>	554,672

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 132 to 264 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf:

**Ma Huateng**  
Director

**Lau Chi Ping Martin**  
Director





# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for award schemes	Other reserves	Retained earnings	Total		
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 31 December 2017, as previously reported	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9 (Note 2.2(a))	–	–	–	(16,210)	16,210	–	–	–
Balance at 1 January 2018	–	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
<b>Comprehensive income</b>								
Profit for the year	–	–	–	–	78,719	78,719	1,265	79,984
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	23	–	23	–	23
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(16,095)	–	(16,095)	(296)	(16,391)
– currency translation differences	–	–	–	3,681	–	3,681	452	4,133
– other fair value gains, net	–	–	–	11	–	11	–	11
<b>Total comprehensive income for the year</b>	–	–	–	(12,380)	78,719	66,339	1,421	67,760
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(9,561)	9,561	–	–	–
Share of other changes in net assets of associates	–	–	–	2,861	–	2,861	–	2,861



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

## Transactions with equity holders

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total		
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Capital injection	-	-	-	-	-	-	140	140
Employee share option schemes:								
– value of employee services	-	1,983	-	63	-	2,046	57	2,103
– proceeds from shares issued	-	525	-	-	-	525	-	525
Employee share award schemes:								
– value of employee services	-	5,022	-	466	-	5,488	277	5,765
– shares withheld for share award schemes	-	-	(2,187)	-	-	(2,187)	-	(2,187)
– vesting of awarded shares	-	(1,984)	1,984	-	-	-	-	-
Repurchase and cancellation of shares	-	(783)	-	-	-	(783)	-	(783)
Tax benefit from share-based payments of a subsidiary	-	-	-	148	-	148	-	148
Profit appropriations to statutory reserves	-	-	-	517	(517)	-	-	-
Dividends (Note 15)	-	-	-	-	(6,995)	(6,995)	(618)	(7,613)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	1,003	1,003
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	327	-	(877)	-	(550)	1,664	1,114
Partial disposal of subsidiaries	-	-	-	-	-	-	(31)	(31)
Dilution of interests in subsidiaries	-	-	-	2,836	-	2,836	5,879	8,715
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(1,886)	-	(1,886)	1,886	-
Recognition of financial liabilities in respect of the put option from business combination	-	-	-	(406)	-	(406)	-	(406)
<b>Total transactions with equity holders at their capacity as equity holders for the year</b>	<b>-</b>	<b>5,090</b>	<b>(203)</b>	<b>861</b>	<b>(7,512)</b>	<b>(1,764)</b>	<b>10,257</b>	<b>8,493</b>
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>27,294</b>	<b>(4,173)</b>	<b>729</b>	<b>299,660</b>	<b>323,510</b>	<b>32,697</b>	<b>356,207</b>



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total		
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Balance at 1 January 2017</b>	–	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
<b>Comprehensive income</b>								
Profit for the year	–	–	–	–	71,510	71,510	961	72,471
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	907	–	907	–	907
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	16,854	–	16,854	–	16,854
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(2,561)	–	(2,561)	–	(2,561)
– currency translation differences	–	–	–	(9,198)	–	(9,198)	(118)	(9,316)
– other fair value gains, net	–	–	–	706	–	706	–	706
<b>Total comprehensive income for the year</b>	–	–	–	6,708	71,510	78,218	843	79,061
<b>Transactions with equity holders</b>								
Capital injection	–	–	–	–	–	–	60	60
Employee share option schemes:								
– value of employee services	–	1,125	–	156	–	1,281	98	1,379
– proceeds from shares issued	–	171	–	–	–	171	–	171
Employee share award schemes:								
– value of employee services	–	4,254	–	407	–	4,661	106	4,767
– shares withheld for share award schemes	–	–	(2,232)	–	–	(2,232)	–	(2,232)
– vesting of awarded shares	–	(1,398)	1,398	–	–	–	–	–
Tax benefit from share-based payments of a subsidiary	–	–	–	244	–	244	–	244
Profit appropriations to statutory reserves	–	–	–	519	(519)	–	–	–
Dividends (Note 15)	–	–	–	–	(5,052)	(5,052)	(943)	(5,995)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	728	–	(952)	–	(224)	(69)	(293)
Disposal of subsidiaries	–	–	–	–	–	–	(133)	(133)
Dilution of interests in subsidiaries	–	–	–	6,378	–	6,378	7,363	13,741
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(2,045)	–	(2,045)	2,045	–
Lapse of put option granted to non-controlling interests	–	–	–	50	–	50	26	76
<b>Total transactions with equity holders at their capacity as equity holders for the year</b>	–	4,880	(834)	4,757	(5,571)	3,232	8,553	11,785
<b>Balance at 31 December 2017</b>	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

		Year ended 31 December	
	Note	2018 RMB'Million	2017 RMB'Million
<b>Cash flows from operating activities</b>			
Cash generated from operations	41(a)	120,964	120,002
Income tax paid		(14,521)	(13,862)
<b>Net cash flows generated from operating activities</b>		<b>106,443</b>	<b>106,140</b>
<b>Cash flows from investing activities</b>			
Payments for business combinations, net of cash acquired		(3,206)	(21)
Net outflow of cash in respect of disposals and deemed disposals of subsidiaries		(201)	(3)
Purchase of property, plant and equipment, construction in progress and investment properties		(19,743)	(12,108)
Proceeds from disposals of property, plant and equipment		33	28
Purchase of/prepayment for intangible assets		(31,877)	(19,850)
Purchase of/prepayment for land use rights		(2,441)	(46)
Payments for acquisition of investments in associates		(37,776)	(17,528)
Proceeds from disposals of investments in associates		429	608
Payments for acquisition of investments in redeemable instruments of associates		–	(16,384)
Proceeds from disposals of investments in redeemable instruments of associates		–	507
Payments for acquisition of investments in joint ventures		(2,352)	(7,091)
Proceeds from disposals of investments in joint ventures		–	9
Payments for acquisition of financial assets at fair value through other comprehensive income		(17,669)	–
Proceeds from disposals of financial assets at fair value through other comprehensive income		22,224	–
Payments for acquisition of financial assets at fair value through profit or loss		(54,141)	–
Proceeds from disposals of financial assets at fair value through profit or loss		11,254	–
Payments for available-for-sale financial assets and related derivative financial instruments		–	(47,716)
Proceeds from disposals of available-for-sale financial assets		–	4,705



# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Payments for loans to investees and others	(2,523)	(2,219)
Loans repayments from investees and others	745	1,533
Payments for other financial assets	–	(995)
Proceeds from settlement of other financial assets	–	995
Receipt from maturity of term deposits with initial terms of over three months	46,227	86,166
Placement of term deposits with initial terms of over three months	(67,055)	(72,520)
Interest received	4,435	3,529
Dividends received	1,724	2,009
<b>Net cash flows used in investing activities</b>	<b>(151,913)</b>	<b>(96,392)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	26,463	16,676
Repayments of short-term borrowings	(23,545)	(12,450)
Proceeds from long-term borrowings	7,237	33,517
Repayments of long-term borrowings	(194)	(5,281)
Net proceeds from issuance of notes payable	32,547	–
Repayments of notes payable	(4,666)	(3,450)
Proceeds from issuance of ordinary shares	525	171
Shares withheld for share award schemes	(1,967)	(2,232)
Payments for repurchase of shares	(783)	–
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	7,238	6,466
Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries	157	106
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	(236)	(927)
Dividends paid to the Company's shareholders	(6,776)	(5,052)
Dividends paid to non-controlling interests	(620)	(946)
<b>Net cash flows generated from financing activities</b>	<b>35,380</b>	<b>26,598</b>



# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018 RMB'Million	2017 RMB'Million
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(10,090)</b>	36,346
Cash and cash equivalents at beginning of the year	<b>105,697</b>	71,902
Exchange gains/(losses) on cash and cash equivalents	<b>2,207</b>	(2,551)
<b>Cash and cash equivalents at end of the year</b>	<b>97,814</b>	105,697

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of value-added services (“VAS”) and online advertising services to users in the People’s Republic of China (the “PRC”).

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited (“Tencent Computer”), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the “Registered Shareholders”).

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited (“Tencent Technology”), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interests in the Company.

Under a series of contractual arrangements (collectively, “Structure Contracts”) entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer; and
- the right to control the management, financial and operating policies of Tencent Computer.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 46) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 46.

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, other financial liabilities and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.1 Basis of preparation (Cont'd)

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2018:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 2 (amendment)	Classification and measurement of share-based payment transactions
IAS 40 (amendment)	Transfers of investment property
IFRIC 22	Foreign currency transactions and advance consideration

The Group has changed its accounting policies following the adoption of IFRS 9 and IFRS 15. Except IFRS 9, the adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group, details of which are disclosed in Note 2.2.

(b) New standards and interpretations issued but not yet effective

A number of new standards and interpretations have not come into effect for the financial year beginning 1 January 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except IFRS 16 "Lease" as set out below:

*Nature of change*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

*Impact*

The Group has set up a project team which has reviewed all of the Group's leasing arrangements effective as of the year of ended 31 December 2018 in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB12,294 million, see Note 42. Of these commitments, approximately RMB189 million relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.1 Basis of preparation (Cont'd)

#### (b) New standards and interpretations issued but not yet effective (Cont'd)

For the remaining lease commitments, based on management's preliminary assessment, the Group expects to recognise right-of-use assets of approximately RMB10 billion and lease liabilities of approximately RMB10 billion on 1 January 2019. The Group expects that net profit will not be materially changed as a result of adopting the new rules. It will result in reclassification of operating cash flows and financing cash flows relating to the payments of lease liabilities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required from the financial year beginning on 1 January 2019.

#### *Date of adoption by Group*

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses).

### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements.

#### (a) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group's adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 2.16 and 2.17 below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognised at the beginning of the current year, with the difference recognised in opening retained earnings.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.2 Changes in accounting policies (Cont'd)

#### (a) IFRS 9 Financial Instruments (Cont'd)

##### *Classification and measurement*

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

##### **At 1 January 2018**

##### **Opening balance – IAS 39**

Reclassification of available-for-sale financial assets (“AFS”) to financial assets at fair value through profit or loss (“FVPL”)

Reclassification of AFS to financial assets at fair value through other comprehensive income (“FVOCI”)

Reclassification of investments in redeemable instruments of associates (“RCPS”) to FVPL

Reclassification of other financial assets (“OFA”) to FVPL

##### **Opening balance – IFRS 9**

	AFS	RCPS	OFA	FVPL	FVOCI	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Opening balance – IAS 39</b>	<b>127,218</b>	<b>22,976</b>	<b>5,624</b>	<b>–</b>	<b>–</b>	<b>155,818</b>
Reclassification of available-for-sale financial assets (“AFS”) to financial assets at fair value through profit or loss (“FVPL”)	<b>(68,703)</b>	<b>–</b>	<b>–</b>	<b>68,703</b>	<b>–</b>	<b>–</b>
Reclassification of AFS to financial assets at fair value through other comprehensive income (“FVOCI”)	<b>(58,515)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>58,515</b>	<b>–</b>
Reclassification of investments in redeemable instruments of associates (“RCPS”) to FVPL	<b>–</b>	<b>(22,976)</b>	<b>–</b>	<b>22,976</b>	<b>–</b>	<b>–</b>
Reclassification of other financial assets (“OFA”) to FVPL	<b>–</b>	<b>–</b>	<b>(3,818)</b>	<b>3,818</b>	<b>–</b>	<b>–</b>
<b>Opening balance – IFRS 9</b>	<b>–</b>	<b>–</b>	<b>1,806</b>	<b>95,497</b>	<b>58,515</b>	<b>155,818</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.2 Changes in accounting policies (Cont'd)

#### (a) IFRS 9 Financial Instruments (Cont'd)

##### *Classification and measurement (Cont'd)*

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on AFS reserves RMB'Million	Effect on FVOCI reserves RMB'Million	Effect on retained earnings RMB'Million
<b>Opening balance – IAS 39</b>	<b>31,152</b>	<b>–</b>	<b>202,682</b>
Reclassification of AFS to FVPL	(16,210)	–	16,210
Reclassification of AFS to FVOCI	(14,942)	14,942	–
<b>Total impact</b>	<b>(31,152)</b>	<b>14,942</b>	<b>16,210</b>
<b>Opening balance – IFRS 9</b>	<b>–</b>	<b>14,942</b>	<b>218,892</b>

Certain equity investments and debt instruments previously classified as AFS at an aggregated amount of RMB68,703 million were reclassified from AFS to FVPL on 1 January 2018, and accumulated fair value gains of RMB16,210 million were transferred from the AFS reserves to retained earnings on 1 January 2018.

Certain equity investments of RMB58,515 million were reclassified from AFS to FVOCI on 1 January 2018, because these investments are not held for trading and meet the definition of equity instruments from the perspective of the issuer. The Group elected to classify them as FVOCI. As a result, accumulated fair value gains of RMB14,942 million were transferred from the AFS reserves to FVOCI reserves on 1 January 2018.

Investments in RCPS of RMB22,976 million with embedded derivatives of RMB3,818 million previously recorded in OFA were considered in their entirety as a single instrument and were reclassified to FVPL as at 1 January 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as at amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments of principal and interest. There was no impact on the amounts previously recognised in profit or loss in relation to these assets from the adoption of IFRS 9.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.2 Changes in accounting policies (Cont'd)

#### (a) IFRS 9 Financial Instruments (Cont'd)

##### *Classification and measurement (Cont'd)*

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group did not have any such liabilities.

##### *Derivative and hedging activities*

In prior years, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates, which were qualified as hedge accounting. The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges under IFRS 9 and have been thus treated as continuing hedges upon the adoption of the standard.

##### *Impairment of financial assets*

The Group has the following types of financial assets subject to the new expected credit loss model under IFRS 9:

- Accounts receivable; and
- Deposits and other receivables.

For accounts receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for accounts receivable were not significant.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for deposits and other receivables were insignificant.

#### (b) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach, provides specific guidance on contract costs and license arrangements, and also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers of which details are disclosed in Note 5. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively, and since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.3 Subsidiaries

#### (a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.3 Subsidiaries (Cont'd)

#### (a) Consolidation (Cont'd)

##### (i) Business combinations (Cont'd)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

##### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### (iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.3 Subsidiaries (Cont'd)

#### (b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 46(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint arrangements (Note 2.5), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.4 Associates (Cont'd)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated income statement where appropriate.

### 2.5 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term receivables that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.6 Investments in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate/joint venture. A gain or loss on re-measurement of the previously held interests is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interests is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

### 2.7 Disposal of associates

When the Group loses significant influence over an associate, it measures any retained investment at fair value. A gain or loss is recognised at any difference between the fair value of any retained interest plus any proceeds from disposing part of the interests in the associate and the carrying amount of the investment at the date the equity method of accounting was discontinued. The amounts previously recognised in other comprehensive income by an associate should be reclassified to the consolidated income statement or transferred to another category of equity as specified and permitted by applicable IFRSs when the Group loses significant influence over the associate.

### 2.8 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

### 2.9 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and certain of its overseas subsidiaries is United States Dollars ("USD"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("RMB"), unless otherwise stated.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.9 Foreign currency translation (Cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.10 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost net of their residual values over their estimated useful lives, as follows:

Buildings	20 ~ 50 years
Computer equipment	2 ~ 5 years
Furniture and office equipment	2 ~ 5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of their useful lives and the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction costs less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in "Other gains/(losses), net" in the consolidated income statement.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.11 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs net of their residual values over their estimated useful lives of 20-50 years. Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

### 2.12 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated income statement on a straight-line basis over the remaining period of the lease.

### 2.13 Intangible assets

#### (a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.13 Intangible assets (Cont'd)

(b) Licensed online contents

Licensed online contents mainly include video and music contents. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Licensed online contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include game licences, copyrights, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

### 2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 46(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment made to "Share premium".

### 2.15 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets

#### (a) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

#### *Debt instruments*

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets (Cont'd)

#### (a) Classification and measurement (Cont'd)

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs, net" and impairment losses or reversals for "Other gains/(losses), net".
- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *Equity instruments*

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets (Cont'd)

#### (b) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

#### (c) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

#### *Classification*

Until 31 December 2017, the Group classified its financial assets in the following categories: FVPL, loans and receivables and AFS. The classification depended on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determined the classification of its financial assets at initial recognition.

#### (i) FVPL

FVPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets (Cont'd)

- (c) Accounting policies applied until 31 December 2017 (Cont'd)

#### *Classification (Cont'd)*

- (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise "Accounts receivable", "Deposits and other receivables", "Term deposits", "Restricted cash" and "Cash and cash equivalents" in the consolidated statement of financial position.

- (iii) AFS

Investments are designated as AFS if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories are also included in the available-for-sale category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

#### *Subsequent measurement*

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, AFS and FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of AFS are recognised in other comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated income statement as "Other gains/(losses), net".

Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of interest income. Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets (Cont'd)

- (c) Accounting policies applied until 31 December 2017 (Cont'd)

#### *Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- Assets carried at amortised cost

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

#### *Impairment (Cont'd)*

- Assets classified as AFS

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indication that the assets are impaired. If any such evidence of impairment exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

For debt securities, if any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement - is reclassified from equity and recognised in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

#### *Hybrid financial instruments*

Hybrid financial instruments held by the Group comprise instruments with redemption features of associates that can be converted to ordinary shares at the option of the holder.

The Group either (i) accounts for different components of the hybrid financial instruments separately or (ii) designates the entire financial instruments as financial assets/liabilities at fair value through profit or loss. The host component is recognised initially at the difference between the fair value of the hybrid financial instrument as a whole and the fair value of the embedded derivatives. The subsequent measurement of the host component and embedded derivatives follow the respective accounting policy of financial instruments as stated in Notes 2.16(c) above and 2.17.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.17 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.18 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in certain circumstances, such as default, insolvency, bankruptcy or the termination of a contract.

### 2.19 Inventories

Inventories, mainly consisting of merchandise for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

### 2.20 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.21 Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash in hand, deposits held at call with banks, money market funds and other short-term highly liquid investments with initial maturities of three months or less.

The Group does not recognise cash amounts deposited with banks (which are received under its payment business) under users' entrustment in the consolidated statement of financial position as the Group holds these cash amounts as a custodian according to the relevant users' agreements.

### 2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.23 Accounts payable

Accounts payable are obligations to pay for services or goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.24 Put option arrangements

Put options are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain subsidiaries for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial assets under the put option, a financial liability is initially recognised at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised as "Other gains/(losses), net" in the consolidated income statement. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

### 2.25 Financial guarantee contracts

The Group has a financial guarantee contract that represents guarantee provided by the Group in respect of a put arrangement granted by an investee to the employees of its subsidiary.

The financial guarantee contracts are initially recognised as a financial liability at fair value on the date the guarantee is given. The liability is subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.25 Financial guarantee contracts (Cont'd)

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of the investees are provided for no compensation, the fair value is accounted for as contributions and recognised as part of the cost of the investment.

### 2.26 Borrowings, notes payable and borrowing costs

Borrowings and notes payable issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over their terms using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan facilities to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes payable are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2018, finance cost capitalised was insignificant to the Group.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.27 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax, which is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except for deferred tax liability where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profit is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.28 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, i.e. the period over which all of the specified vesting conditions are to be satisfied, and credited to equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing model, "Enhanced FAS 123" binomial model (the "Binomial Model"), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation techniques to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.28 Employee benefits (Cont'd)

#### (c) Share-based compensation benefits (Cont'd)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made in exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses are treated as part of the “Investments in subsidiaries” in the Company’s statement of financial position.

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment to equity.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

If the Group repurchases vested equity instruments, the payments made to the employees and other qualifying participants shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees and other qualifying participants, as measured at the date of modification.

### 2.29 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.29 Provisions (Cont'd)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.30 Revenue recognition

The Group generates revenues primarily from provision of VAS, online advertising services and other online related services in the PRC. Revenue is recognised when the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

#### (a) VAS

Revenues from VAS primarily include revenues from the provision of online games and social networks services. Online games revenues are mainly derived from sales of in-game virtual items, and social networks revenues are mainly derived from sales of virtual products such as VAS subscriptions across various online platforms, and games revenues attributable to social networks business. The Group offers virtual products/items to users on the Group's online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when the Group satisfies its performance obligations by rendering services. Giving there is an explicit or implicit obligation of the Group to maintain the virtual products/items operated on the Group's platforms and allow users to gain access to them, revenue is recognised over the estimated lifespans of the respective virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective term of virtual products/items.

Where the contracts include multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.30 Revenue recognition (Cont'd)

#### (a) VAS (Cont'd)

In respect of the Group's VAS services directly delivered to the Group's customers and paid through various third parties platforms, these third party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of platform provider fees (as part of "Channel and distribution costs"). Such Channel and distribution costs are withheld and deducted from the gross Online Service Fees collected by these platforms from the users, with the net amounts remitted to the Group. The Group recognises the Online Service Fees as revenue on a gross basis, given it acts as the principal in these transactions based on the assessment according to the criteria stated in (d) below, and recognises such Channel and distribution costs as cost of revenues.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual products/items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

#### (b) Online advertising

Online advertising revenues mainly comprise revenues derived from media advertisements and from social and others advertisements, depending on the placement of advertising properties and inventories.

Advertising contracts are signed to establish the prices and advertising services to be provided based on different arrangements, including display-based advertising that are display of ads for an agreed period of time, and performance-based advertising.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.30 Revenue recognition (Cont'd)

#### (b) Online advertising (Cont'd)

Revenue from display-based advertising are recognised on number of display/impression basis or ratably over the respective contractual term with the advertisers or their advertising agencies depending on the contractual measures. Revenue from performance-based advertising are recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

#### (c) Other revenues

The Group's other revenues are primarily derived from provision of FinTech services, cloud services, television series and film production services and other businesses. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

#### (d) Principal agent consideration

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.30 Revenue recognition (Cont'd)

(e) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates (Note 5(c)), and customer loyalty incentives offered to the customers.

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues.

(f) Practical expedients and exemptions

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less. The unsatisfied performance obligation related to cooperation arrangements with certain investees have been included in deferred revenue.

### 2.31 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

*Accounting policies applied until 31 December 2017*

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 2.32 Dividend income

Dividends are received from FVPL and FVOCI (2017: from AFS). Dividends are recognised in “Other gains/(losses), net” in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

### 2.33 Government grants/subsidies

Grants/Subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs and expenses which the grants/subsidies are intended to compensate.

### 2.34 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

### 2.35 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividend is approved by the Company's shareholders or board of directors where appropriate.

### 2.36 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollars ("HKD"), USD and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's subsidiaries. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures by using foreign currency forwards.

During the year ended 31 December 2018, the Group entered into foreign currency forward contracts in relation to projected purchases that qualify as "high probable" forecast transactions and hence satisfy the requirements for hedge accounting. Under the Group's policy the critical terms of the forwards must align with the hedged items.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted, where material.

The changes in the forward element of the foreign currency forwards that relate to hedged items are deferred in the costs of hedging reserve. The effects of the foreign currency related hedging instruments are not material to the Group's consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2018, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
<b>As at 31 December 2018</b>		
Monetary assets, current	18,041	1,994
Monetary assets, non-current	2,642	–
Monetary liabilities, current	(3,434)	(4,587)
Monetary liabilities, non-current	(3,733)	(9,430)
	<u>13,516</u>	<u>(12,023)</u>
<b>As at 31 December 2017</b>		
Monetary assets, current	13,795	1,563
Monetary assets, non-current	1,309	–
Monetary liabilities, current	(2,747)	(15,744)
Monetary liabilities, non-current	(1,833)	(5,115)
	<u>10,524</u>	<u>(19,296)</u>

During the year ended 31 December 2018, the Group reported exchange gains of approximately RMB229 million (2017: RMB152 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2018, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant, given the exchange rate peg between HKD and USD. Accordingly, no sensitivity analysis is presented for foreign exchange risk.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 23) or FVOCI (Note 24). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI (2017: AFS) at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2017: 5%) higher/lower as at 31 December 2018, profit for the year would have been approximately RMB4,794 million higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB2,147 million higher/lower as a result of gains/losses on financial instruments classified as at FVOCI (2017: RMB4,069 million).

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 25, 28 and 30.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 34 and 35, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group regularly monitors its interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages its cash flow interest rate risk by using interest rate swaps, whenever considered necessary.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

During the year ended 31 December 2018, the Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2018 have been disclosed in Note 26.

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2018 RMB'Million	2017 RMB'Million
<b>Interest rate swaps</b>		
Carrying amount	1,663	1,300
Notional amount	77,630	70,184
Maturity date	2019/6/28~ 2023/12/8	2019/6/28~ 2023/12/8
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	181	756
Change in value of hedged item used to determine hedge effectiveness	181	756
Weighted average hedged rate for the year	1.60%	1.52%

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2018 and 2017, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

#### (b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits placed with banks and financial institutions, accounts receivable, other receivables, as well as short-term investments measured at amortised cost and at FVPL. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

#### (i) Credit risk of cash and deposits and short-term investments

To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit loss is close to zero.

#### (ii) Credit risk of accounts receivable

To manage this risk, the Group has policies in place to ensure that revenues of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. In addition, the Group has a large number of customers and there is no concentration of credit risk.

The Group's online advertising that are sales to/through advertising agencies or directly to the advertisers are at term of full advances, partial advances or sales on credit according to the Group's credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

The Group's revenues from VAS are generally paid by end users mainly via online payment channels, whereas the revenues from VAS delivered to its end users through third party platforms are collected by these third party platform providers and remitted to the Group under a credit period within 60 days. In addition, the Group also sells prepaid credits through various channels such as sales agents, telecommunication operators, third party platform providers and Internet cafes, etc. Apart from certain credit periods granted to the telecommunication operators and third party platform providers, full advances are required from other channels.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

#### (b) Credit risk (Cont'd)

##### (ii) Credit risk of accounts receivable (Cont'd)

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. In view of the sound financial position and collection history of receivables due from these counterparties and insignificant risk of default, to measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. A default on accounts receivable is when the counterparty fails to make contractual payments within 90 days of when they fall due. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan within the Group, and its failure to make contractual payments for a period of greater than 3 years past due. Impairment losses on accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item. Management believes that the expected credit loss is immaterial and the credit risk inherent in the Group's outstanding accounts receivable balances due from these counterparties is not significant.

##### (iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares risk of default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor;
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of the debtor.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk of other receivables (Cont'd)

Management considers the credit risk of other receivables is insignificant when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

Previous accounting policy for impairment of accounts receivable and other receivables is described in note 2.16(c).

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents and marketable securities.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.1 Financial risk factors (Cont'd)

#### (c) Liquidity risk (Cont'd)

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
<b>At 31 December 2018</b>					
<b>Non-derivatives:</b>					
Notes payable	15,780	12,010	14,629	38,305	80,724
Long-term payables	–	3,113	1,018	343	4,474
Borrowings	30,402	21,309	72,626	–	124,337
Other financial liabilities	1,191	942	1,615	–	3,748
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	90,310	–	–	–	90,310
<b>Derivatives:</b>					
Other financial liabilities	9	–	31	–	40
	<b>137,692</b>	<b>37,374</b>	<b>89,919</b>	<b>38,648</b>	<b>303,633</b>
<b>At 31 December 2017</b>					
<b>Non-derivatives:</b>					
Notes payable	5,892	13,832	10,757	7,492	37,973
Long-term payables	–	2,345	905	734	3,984
Borrowings	18,190	10,127	71,663	6,109	106,089
Other financial liabilities	–	–	2,068	–	2,068
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	65,651	–	–	–	65,651
<b>Derivatives:</b>					
Other financial liabilities	–	–	86	–	86
	<b>89,733</b>	<b>26,304</b>	<b>85,479</b>	<b>14,335</b>	<b>215,851</b>





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

Capital refers to equity and external debts (including borrowings and notes payable). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or raise/repay debts.

The Group monitors capital by regularly reviewing debts to adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") (Note) ratio, being the measure of the Group's ability to pay off all debts that reflects financial health and liquidity position. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Borrowings (Note 34)	114,271	97,790
Notes payable (Note 35)	65,018	34,115
Total debts	179,289	131,905
Adjusted EBITDA (Note)	118,273	95,861
Total debts/Adjusted EBITDA ratio	1.52	1.38

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/(losses), net, and plus depreciation of property, plant and equipment and investment properties, amortisation of intangible assets and equity-settled share-based compensation expenses.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
<b>As at 31 December 2018</b>				
FVPL	10,875	5,009	81,993	97,877
FVOCI	41,578	–	1,941	43,519
OFA	–	2,032	–	2,032
Other financial liabilities	–	40	4,466	4,506
<b>As at 31 December 2017</b>				
AFS	53,574	331	73,313	127,218
OFA	–	1,806	3,818	5,624
Other financial liabilities	–	–	2,154	2,154

The fair value of financial instruments traded in active markets is determined with reference to quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.3 Fair value estimation (Cont'd)

Specific valuation techniques used to value financial instruments mainly include:

- Dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

During the year ended 31 December 2018, there was no transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 instruments for the years ended 31 December 2018 and 2017:

	Financial assets		Financial liabilities	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Opening balance - IAS 39</b>	<b>77,131</b>	65,599	<b>2,154</b>	2,576
Adjustment on adoption of IFRS 9 (Note 2.2(a))	<b>22,976</b>		<b>—</b>	
<b>Opening balance - IFRS 9</b>	<b>100,107</b>		<b>2,154</b>	
Additions	<b>51,185</b>	31,795	<b>3,301</b>	—
Disposals/Settlement	<b>(9,899)</b>	(7,006)	<b>—</b>	—
Transfers	<b>(93,151)</b>	(18,641)	<b>—</b>	—
Changes in fair value recognised in other comprehensive income	<b>261</b>	6,220	<b>—</b>	—
Changes in fair value recognised in profit or loss *	<b>30,485</b>	4,027	<b>(1,063)</b>	(271)
Impairment provision	<b>—</b>	(581)	<b>—</b>	—
Currency translation differences	<b>4,946</b>	(4,282)	<b>74</b>	(151)
<b>Closing balance</b>	<b>83,934</b>	77,131	<b>4,466</b>	2,154
*Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	<b>6,861</b>	3,954	<b>(1,063)</b>	(271)



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.3 Fair value estimation (Cont'd)

Valuation processes inputs and relationships to fair value (Level 3)

The Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincides with the Group's quarterly reporting dates. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, and other financial liabilities. Other financial liabilities mainly include: (i) contingent consideration payable related to business combination of the Group; and (ii) guarantee provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value as at 31 December		Significant unobservable inputs	Range of inputs at 31 December		Relationship of unobservable inputs to fair value
	2018 RMB'Million	2017 RMB'Million		2018	2017	
Investments in unlisted companies	83,934	77,131	Expected volatility	28% ~ 76%	31% ~ 59%	The higher the expected volatility, the lower the fair value
Contingent consideration related to business combination	3,145	—	Growth rate of net profit	50%	N/A	The higher the growth rate, the higher the fair value
			Expected volatility	15%	N/A	The higher the expected volatility, the lower the fair value



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3 FINANCIAL RISK MANAGEMENT (Cont'd)

### 3.3 Fair value estimation (Cont'd)

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1 (a) (ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2018, the fair value would have increased approximately RMB150 million or decreased approximately RMB171 million. If the expected volatility had been 5% higher or lower as at 31 December 2018, the fair value would have decreased approximately RMB90 million or increased approximately RMB92 million.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### (a) The estimates of the lifespans of virtual products/items provided on the Group's online platforms

As mentioned in Note 2.30(a), the end users purchase certain virtual products/items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective terms of virtual products/items.

Significant judgments are required in determining the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn out rate and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy. The Group has adopted a policy of assessing the estimated lifespans of virtual products/items on a regular basis whenever there is any indication of change in the expected users' relationship periods.

The Group will continue to monitor the average lifespans of the virtual products/items. The results may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis from that in prior periods.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

### (b) Recoverability of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, as well as investments in associates and joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to identify any impairment indicators existing for any of the Group's goodwill, other non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

### (c) Fair value measurement of FVPL, FVOCI and other financial liabilities

The fair value assessment of FVPL, FVOCI and other financial liabilities that are measured at level 3 fair value hierarchy requires significant estimates, which include risk-free rates, expected volatility, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

### (d) Share-based compensation arrangements

As mentioned in Note 2.28(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 33).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD3,533 million (equivalent to approximately RMB2,868 million) in 2018 (2017: HKD2,691 million (equivalent to approximately RMB2,373 million)).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

### (d) Share-based compensation arrangements (Cont'd)

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the “Expected Retention Rate”) in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2018, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 88%-97% (31 December 2017: 88%-97%).

### (e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax in the period in which such determination is made.

## 5 SEGMENT INFORMATION AND REVENUES

### (a) Description of segments and principal activities

The chief operating decision-makers mainly include executive directors of the Company. They review the Group’s internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

The Group has following reportable segments for the years ended 31 December 2018 and 2017:

- VAS;
- Online advertising; and
- Others.

“Others” segment primarily comprises FinTech services, cloud services, television series and film production services and other services.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments’ performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance income/(costs), net, share of profit/(loss) of associates and joint ventures and income tax expense are also not allocated to individual operating segment.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 5 SEGMENT INFORMATION AND REVENUES

### (a) Description of segments and principal activities (Cont'd)

There were no material inter-segment sales during the years ended 31 December 2018 and 2017. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in these consolidated financial statements. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018			
	VAS	Online advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	176,646	58,079	77,969	312,694
Gross profit	102,685	20,806	18,629	142,120
Depreciation	1,996	1,376	3,658	7,030
Amortisation	11,663	12,462	573	24,698

	Year ended 31 December 2017			
	VAS	Online advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	153,983	40,439	43,338	237,760
Gross profit	92,594	14,853	9,478	116,925
Depreciation	1,858	561	1,473	3,892
Amortisation	7,836	10,001	—	17,837





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 5 SEGMENT INFORMATION AND REVENUES (Cont'd)

### (a) Description of segments and principal activities (Cont'd)

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the years ended 31 December 2018 and 2017, the place of incorporation on the total revenues is as follows:

	2018 RMB'Million	2017 RMB'Million
Revenues		
– Mainland China	303,657	229,767
– Others	9,037	7,993
	<u>312,694</u>	<u>237,760</u>

The Group also conducts operations in the United States of America (“United States”), Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL, FVOCI (31 December 2017: investments in associates, RCPs together with embedded derivatives recorded in OFA, investments in joint ventures, and AFS)) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Operating assets		
– Mainland China	270,373	219,285
– Others	83,962	59,770
Investments		
– Mainland China and Hong Kong	254,992	161,903
– North America	44,835	52,542
– Europe	37,451	34,515
– Asia excluding Mainland China and Hong Kong	30,148	26,407
– Others	1,760	250
	<u>723,521</u>	<u>554,672</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 5 SEGMENT INFORMATION AND REVENUES (Cont'd)

### (a) Description of segments and principal activities (Cont'd)

As at 31 December 2018, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB282,774 million (31 December 2017: RMB159,563 million) and RMB65,057 million (31 December 2017: RMB42,421 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2018 and 2017.

### (b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

	2018 RMB'Million	2017 RMB'Million
Revenue from contracts with customers		
– VAS	176,646	153,983
<i>Online games</i>	103,992	97,883
<i>Social networks</i>	72,654	56,100
– Online advertising	58,079	40,439
<i>Media advertising</i>	18,306	14,829
<i>Social and others advertising</i>	39,773	25,610
– Others	77,969	43,338
	<b>312,694</b>	<b>237,760</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 5 SEGMENT INFORMATION AND REVENUES (Cont'd)

### (c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under “Deferred revenue”:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
<b>Contract liabilities:</b>		
VAS	31,787	34,360
Online advertising	9,145	5,238
Others	1,105	232
	<b>42,037</b>	<b>39,830</b>

Note:

#### (i) Contract liabilities

Contract liabilities mainly comprises of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates (Note 20), and customer loyalty incentives offered to the customers.

#### (ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2018 RMB'Million	2017 RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	34,360	20,444
Online advertising	2,681	1,597
Others	232	143
	<b>37,273</b>	<b>22,184</b>

As at 31 December 2018, total capitalised costs to obtain or fulfill a contract with customer were immaterial.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 6 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including bank balance and term deposits.

## 7 OTHER GAINS, NET

	2018 RMB'Million	2017 RMB'Million
Net fair value gains on FVPL (Note (a))	28,738	–
Impairment provision for investee companies and intangible assets arising from acquisitions (Note (b))	(17,577)	(2,794)
Subsidies and tax rebates	3,456	3,971
Net gains on disposals and deemed disposals of investee companies (Note (a), (c))	2,932	13,518
Net fair value gains on other financial instruments (Note 26, 37)	1,019	4,298
Donations to Tencent Charity Funds	(730)	(820)
Dividend income	686	1,713
Others (Note (d))	(1,810)	254
	<b>16,714</b>	<b>20,140</b>

Note:

- (a) Net fair value gains on FVPL included aggregate gains of approximately RMB22,215 million, arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of redeemable instruments or preferred shares into ordinary shares with board representative upon their respective initial public offering ("IPO"). In 2017, aggregate gains of approximately RMB3,663 million arising from the similar transactions were recognised in net gains on disposals and deemed disposals of investee companies.
- (b) The impairment provision for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2018 RMB'Million	2017 RMB'Million
Investments in associates (Note 20)	14,069	1,277
Investments in joint ventures (Note 21)	2,328	–
Intangible assets arising from acquisitions	1,180	239
RCPS	–	607
AFS	–	671
	<b>17,577</b>	<b>2,794</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 7 OTHER GAINS, NET (Cont'd)

Note: (Cont'd)

- (c) The disposal and deemed disposal gains during the year ended 31 December 2018 mainly comprised the following:
- net gains of approximately RMB1,661 million (2017: RMB6,229 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 20). These investee companies are principally engaged in Internet-related business;
  - aggregate net gains of approximately RMB1,271 million (2017: RMB3,626 million) on disposals, acquisition achieved in stages or partial disposals of various investments of the Group.
- (d) Included one-off expenses of RMB1,519 million recognised by a non-wholly owned subsidiary of the Group arising from the issuance of ordinary shares to strategic partners.

## 8 EXPENSES BY NATURE

	2018 RMB'Million	2017 RMB'Million
Employee benefits expenses (Note (a) and Note 13)	<b>42,153</b>	34,866
Content costs (excluding amortisation of intangible assets)	<b>39,061</b>	28,177
Channel and distribution costs	<b>32,821</b>	25,109
Bandwidth and server custody fees	<b>15,818</b>	11,203
Promotion and advertising expenses	<b>19,806</b>	13,661
Operating lease rentals in respect of office buildings	<b>1,614</b>	1,335
Travelling and entertainment expenses	<b>1,450</b>	1,040
Amortisation of intangible assets (Note (b) and Note 19)	<b>25,616</b>	18,622
Depreciation of property, plant and equipment (Note 16)	<b>8,396</b>	4,850
Auditor's remuneration		
– Audit services	<b>83</b>	76
– Audit-related services	<b>27</b>	15
– Non-audit services	<b>26</b>	21

Note:

- (a) During the year ended 31 December 2018, the Group incurred expenses for the purpose of research and development of approximately RMB22,936 million (2017: RMB17,456 million), which comprised employee benefits expenses of RMB19,088 million (2017: RMB14,766 million).

No significant development expenses had been capitalised for the years ended 31 December 2018 and 2017.

- (b) Mainly included the amortisation charges of intangible assets in respect of media contents and game licences.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 9 FINANCE COSTS, NET

	2018 RMB'Million	2017 RMB'Million
Interest and related expenses	4,898	3,060
Exchange gains	(229)	(152)
	<u>4,669</u>	<u>2,908</u>

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 34 and 35.

## 10 SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES

	2018 RMB'Million	2017 RMB'Million
Share of profit of associates (Note 20)	1,301	730
Share of profit of joint ventures (Note 21)	186	91
	<u>1,487</u>	<u>821</u>

## 11 TAXATION

### (a) Income tax expense

Income tax expense is recognised based on management's best knowledge of the income tax rates expected for the financial year.

#### (i) Cayman Islands and British Virgin Islands corporate income tax

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2018 and 2017.

#### (ii) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2018 and 2017.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11 TAXATION (Cont'd)

### (a) Income tax expense (Cont'd)

#### (iii) PRC corporate income tax

PRC corporate income tax has been provided for at the applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the years ended 31 December 2018 and 2017. The general PRC corporate income tax rate is 25% in 2018 and 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2018 and 2017. Moreover, according to the announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise is subject to a preferential corporate income tax rate of 10%.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Company are entitled to other tax concessions and they are exempt from corporate income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation, after offsetting tax losses generated in prior years.

#### (iv) Corporate income tax in other countries

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

#### (v) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between Mainland China and Hong Kong, the relevant withholding tax rate applicable to the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

Dividends distributed from certain jurisdictions that the Group's entities operate in are also subject to withholding tax at respective applicable tax rates.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11 TAXATION (Cont'd)

### (a) Income tax expense (Cont'd)

The income tax expense of the Group is analysed as follows:

	2018 RMB'Million	2017 RMB'Million
Current income tax	15,091	15,154
Deferred income tax (Note 27)	(609)	590
	<b>14,482</b>	<b>15,744</b>

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2017: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2018 RMB'Million	2017 RMB'Million
Profit before income tax	94,466	88,215
Share of profit of associates and joint ventures	(1,487)	(821)
	<b>92,979</b>	<b>87,394</b>
Tax calculated at a tax rate of 25%	23,245	21,848
Effects of different tax rates applicable to different subsidiaries of the Group	(14,668)	(10,442)
Effects of tax holiday on assessable profit of certain subsidiaries	(958)	(715)
Income not subject to tax	(43)	(25)
Expenses not deductible for tax purposes	1,434	1,087
Withholding tax on earnings expected to be remitted by subsidiaries (Note 27)	3,360	3,150
Unrecognised deferred income tax assets	2,378	1,004
Others	(266)	(163)
	<b>14,482</b>	<b>15,744</b>





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11 TAXATION (Cont'd)

### (b) Value-added tax and other taxes

The operations of the Group are also mainly subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6~17% (Note)	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Construction fee for cultural undertakings	3%	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively.

## 12 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	<b>78,719</b>	71,510
Weighted average number of ordinary shares in issue (million shares)	<b>9,444</b>	9,411
Basic EPS (RMB per share)	<b>8.336</b>	7.598

### (b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 12 EARNINGS PER SHARE (Cont'd)

### (b) Diluted (Cont'd)

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the years ended 31 December 2018 and 2017, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	<b>78,719</b>	71,510
Weighted average number of ordinary shares in issue (million shares)	<b>9,444</b>	9,411
Adjustments for share options and awarded shares (million shares)	<b>124</b>	125
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<b>9,568</b>	9,536
Diluted EPS (RMB per share)	<b>8.228</b>	7.499

## 13 EMPLOYEE BENEFITS EXPENSES

	2018 RMB'Million	2017 RMB'Million
Wages, salaries and bonuses	<b>28,236</b>	24,194
Contributions to pension plans (Note)	<b>2,553</b>	1,934
Share-based compensation expenses	<b>7,900</b>	6,253
Welfare, medical and other expenses (Note)	<b>3,355</b>	2,400
Training expenses	<b>109</b>	85
	<b>42,153</b>	34,866



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2018 and 2017 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 11.5%
Unemployment insurance	0.5 ~ 1.5%
Housing fund	10.0 ~ 12.0%

### (a) Senior management's emoluments

Senior management includes directors, chief executive officer ("CEO"), president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO, whose details have been reflected in Note 14(a), is as follows:

	2018 RMB'000	2017 RMB'000
Salaries, bonuses, allowances and benefits in kind	329,721	285,322
Contributions to pension plans	874	891
Share-based compensation expenses	1,555,671	1,174,316
	<b>1,886,266</b>	<b>1,460,529</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

### (a) Senior management's emoluments (Cont'd)

The emoluments of the senior management fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HKD800,000 ~ HKD15,000,000	1	1
HKD40,000,001 ~ HKD65,000,000	1	2
HKD65,000,001 ~ HKD115,000,000	4	5
HKD115,000,001 ~ HKD165,000,000	4	2
HKD215,000,001 ~ HKD815,000,000	2	2

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2018 (2017: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2018 and 2017. The emoluments paid/payable to the remaining four (2017: four) individuals during the year were as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and bonuses	393,071	325,416
Contributions to pension plans	11,872	10,909
Share-based compensation expenses	968,642	805,807
Allowances and benefits in kind	84	39
	<b>1,373,669</b>	<b>1,142,171</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

### (b) Five highest paid individuals (Cont'd)

The emoluments of the above four individuals (2017: four) fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HKD196,500,001 ~ HKD197,000,000	2	–
HKD228,500,001 ~ HKD229,000,000	–	2
HKD430,000,001 ~ HKD430,500,000	–	1
HKD477,500,001 ~ HKD478,000,000	–	1
HKD545,500,001 ~ HKD546,000,000	1	–
HKD628,000,001 ~ HKD628,500,000	1	–



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 14 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and the chief executive's emoluments

The remuneration of every director and the CEO is set out below:

During the year ended 31 December 2018:

Name of director	Fees	Salaries and bonuses	Contributions to pension plans	Share-based compensation expenses	Allowances and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Note (i))	
Ma Huateng (CEO)	1,235	37,469	118	–	20	38,842
Lau Chi Ping Martin	1,235	28,214	–	283,899	125	313,473
Iain Ferguson Bruce	964	–	–	3,892	–	4,856
Ian Charles Stone	964	–	–	4,262	–	5,226
Li Dong Sheng	701	–	–	2,131	–	2,832
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	876	–	–	2,325	–	3,201
	<u>5,975</u>	<u>65,683</u>	<u>118</u>	<u>296,509</u>	<u>145</u>	<u>368,430</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

### (a) Directors' and the chief executive's emoluments (Cont'd)

During the year ended 31 December 2017:

Name of director	Fees	Salaries and bonuses	Contributions to pension plans	Share-based compensation expenses	Allowances and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Note (i))	
Ma Huateng (CEO)	1,176	44,656	105	–	–	45,937
Lau Chi Ping Martin	1,176	31,580	–	204,441	65	237,262
Iain Ferguson Bruce	920	–	–	3,811	–	4,731
Ian Charles Stone	836	–	–	3,811	–	4,647
Li Dong Sheng	627	–	–	1,905	–	2,532
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	627	–	–	1,406	–	2,033
	<u>5,362</u>	<u>76,236</u>	<u>105</u>	<u>215,374</u>	<u>65</u>	<u>297,142</u>

Note:

- (i) Allowances and benefits in kind include leave pay, insurance premium and club membership.
- (ii) During the year ended 31 December 2018, 3,215,800 options were granted to one executive director of the Company (2017: 5,250,000 options were granted to one executive director of the Company), and 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).
- (iii) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2018 and 2017.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

### (b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

### (c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

### (d) Information about loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

### (e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 15 DIVIDENDS

The dividends amounting to RMB6,776 million (2017: RMB5,052 million) were paid during the year ended 31 December 2018.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of a non-wholly owned subsidiary on the New York Stock Exchange. Such dividend was subsequently paid by the Group in February 2019.

A final dividend in respect of the year ended 31 December 2018 of HKD1.00 per share (2017: HKD0.88 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2019 and subject to the approval of the shareholders at the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 16 PROPERTY, PLANT AND EQUIPMENT

### At 1 January 2018

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Cost	8,852	28,504	1,136	41	2,090	40,623
Accumulated depreciation and impairment	(1,021)	(14,337)	(659)	(24)	(1,023)	(17,064)
Currency translation differences	–	(26)	16	–	48	38
Net book amount	<u>7,831</u>	<u>14,141</u>	<u>493</u>	<u>17</u>	<u>1,115</u>	<u>23,597</u>

### Year ended 31 December 2018

Opening net book amount	7,831	14,141	493	17	1,115	23,597
Business combinations	–	2	3	1	3	9
Additions	457	18,716	255	3	383	19,814
Disposals	(2)	(25)	(1)	–	(2)	(30)
Depreciation	(650)	(7,322)	(172)	(3)	(249)	(8,396)
Currency translation differences	(1)	69	(3)	–	32	97
Closing net book amount	<u>7,635</u>	<u>25,581</u>	<u>575</u>	<u>18</u>	<u>1,282</u>	<u>35,091</u>

### At 31 December 2018

Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	<u>7,635</u>	<u>25,581</u>	<u>575</u>	<u>18</u>	<u>1,282</u>	<u>35,091</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 16 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>At 1 January 2017</b>						
Cost	4,501	20,374	902	31	1,787	27,595
Accumulated depreciation and impairment	(807)	(11,610)	(544)	(18)	(807)	(13,786)
Currency translation differences	–	4	19	–	68	91
Net book amount	<u>3,694</u>	<u>8,768</u>	<u>377</u>	<u>13</u>	<u>1,048</u>	<u>13,900</u>
<b>Year ended 31 December 2017</b>						
Opening net book amount	3,694	8,768	377	13	1,048	13,900
Business combinations	–	–	2	–	2	4
Additions	4,372	9,678	260	10	323	14,643
Disposals	(7)	(32)	(5)	–	(3)	(47)
Depreciation	(228)	(4,243)	(138)	(6)	(235)	(4,850)
Currency translation differences	–	(30)	(3)	–	(20)	(53)
Closing net book amount	<u>7,831</u>	<u>14,141</u>	<u>493</u>	<u>17</u>	<u>1,115</u>	<u>23,597</u>
<b>At 31 December 2017</b>						
Cost	8,852	28,504	1,136	41	2,090	40,623
Accumulated depreciation and impairment	(1,021)	(14,337)	(659)	(24)	(1,023)	(17,064)
Currency translation differences	–	(26)	16	–	48	38
Net book amount	<u>7,831</u>	<u>14,141</u>	<u>493</u>	<u>17</u>	<u>1,115</u>	<u>23,597</u>

During the year ended 31 December 2018, depreciation of RMB7,030 million (2017: RMB3,892 million), RMB153 million (2017: RMB134 million) and RMB1,213 million (2017: RMB824 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 17 CONSTRUCTION IN PROGRESS

	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
Opening net book amount	<b>3,163</b>	4,674
Additions	<b>2,809</b>	3,204
Transfer to property, plant and equipment	<b>(1,094)</b>	(4,682)
Transfer to investment properties	–	(31)
Currency translation differences	<b>1</b>	(2)
Closing net book amount	<b>4,879</b>	3,163

As at 31 December 2018, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

## 18 LAND USE RIGHTS

	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
Opening net book amount	<b>5,111</b>	5,174
Additions	<b>2,348</b>	46
Amortisation	<b>(353)</b>	(109)
Closing net book amount	<b>7,106</b>	5,111

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 37 to 50 years.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 19 INTANGIBLE ASSETS

### At 1 January 2018

	Goodwill	Computer software and technology	Game licences	Licensed online contents	Copyrights	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Cost	24,143	2,947	2,759	33,549	1,066	3,225	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(1,441)	(21,961)	(747)	(1,277)	(27,427)
Currency translation differences	29	(6)	16	(18)	8	(25)	4
Net book amount	<u>23,608</u>	<u>1,504</u>	<u>1,334</u>	<u>11,570</u>	<u>327</u>	<u>1,923</u>	<u>40,266</u>

### Year ended 31 December 2018

Opening net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
Business combinations	9,587	454	–	420	–	1,440	11,901
Additions	–	522	165	30,808	345	392	32,232
Disposals	–	–	(44)	(1,156)	(21)	(29)	(1,250)
Amortisation	–	(457)	(402)	(24,112)	(155)	(490)	(25,616)
Impairment provision	(784)	(187)	–	–	(1)	(209)	(1,181)
Currency translation differences	194	14	1	74	2	13	298
Closing net book amount	<u>32,605</u>	<u>1,850</u>	<u>1,054</u>	<u>17,604</u>	<u>497</u>	<u>3,040</u>	<u>56,650</u>

### At 31 December 2018

Cost	33,730	3,902	1,496	51,254	1,370	4,971	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(459)	(33,706)	(883)	(1,919)	(40,375)
Currency translation differences	223	8	17	56	10	(12)	302
Net book amount	<u>32,605</u>	<u>1,850</u>	<u>1,054</u>	<u>17,604</u>	<u>497</u>	<u>3,040</u>	<u>56,650</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 19 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Game licences	Licensed online contents	Copyrights	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>At 1 January 2017</b>							
Cost	23,157	2,643	3,515	20,880	869	3,147	54,211
Accumulated amortisation and impairment	(439)	(1,118)	(1,900)	(13,121)	(630)	(796)	(18,004)
Currency translation differences	209	10	20	17	3	1	260
Net book amount	<u>22,927</u>	<u>1,535</u>	<u>1,635</u>	<u>7,776</u>	<u>242</u>	<u>2,352</u>	<u>36,467</u>
<b>Year ended 31 December 2017</b>							
Opening net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467
Business combinations	998	–	–	45	–	38	1,081
Additions	–	320	170	21,017	207	172	21,886
Disposals	(13)	(3)	(19)	(12)	(3)	(1)	(51)
Amortisation	–	(332)	(448)	(17,221)	(124)	(497)	(18,622)
Impairment provision	(124)	–	–	–	–	(115)	(239)
Currency translation differences	(180)	(16)	(4)	(35)	5	(26)	(256)
Closing net book amount	<u>23,608</u>	<u>1,504</u>	<u>1,334</u>	<u>11,570</u>	<u>327</u>	<u>1,923</u>	<u>40,266</u>
<b>At 31 December 2017</b>							
Cost	24,143	2,947	2,759	33,549	1,066	3,225	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(1,441)	(21,961)	(747)	(1,277)	(27,427)
Currency translation differences	29	(6)	16	(18)	8	(25)	4
Net book amount	<u>23,608</u>	<u>1,504</u>	<u>1,334</u>	<u>11,570</u>	<u>327</u>	<u>1,923</u>	<u>40,266</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 19 INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2018, amortisation of RMB24,698 million (2017: RMB17,837 million) and RMB918 million (2017: RMB785 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2018, impairment losses of RMB1,181 million (2017: RMB239 million) on goodwill and other intangible assets were charged to the consolidated income statement under “Other gains/(losses), net”, resulting from revisions of financial/business outlook and changes in the market environment of the underlying business.

### Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB25,672 million (31 December 2017: RMB23,608 million) and Others segment with RMB6,933 million (31 December 2017: Nil). The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (group of CGUs) is the higher of its value in use and fair value less costs of disposal.

The key assumptions used for the calculation of the recoverable amounts of the CGUs under impairment testing were as follows:

For goodwill attributable to the Group’s online music business, online literature business and television series and film production business, value in use was determined using discounted cash flows calculations which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period extrapolated using an estimated terminal growth rate of not more than 5% (2017: not more than 5%). Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Pre-tax discount rates ranging from 15% to 25% (2017: 20% to 25%) were applied in the discounted cash flows calculations, which reflected assessments of time value and the specific risks relating to the respective industries.

For goodwill attributable to the Group’s online game business, fair value less costs of disposal was determined based on ratios of EV (enterprise value) divided by EBITDA (earnings before interest, tax, depreciation and amortization) of several comparable public companies (ranging with 11-21x) (2017: ranging with 16-23x) multiplied by the EBITDA of the related CGU (group of CGUs) and discounted for the lack of marketability at a range of 10% to 20% (2017: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

When determining the recoverable amounts, management has not identified reasonably possible change in key assumptions that could cause the CGU’s (group of CGUs’) carrying amount to exceed the recoverable amount.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	130,633	60,935
– Unlisted entities	88,582	52,844
	<b>219,215</b>	<b>113,779</b>
	2018	2017
	RMB'Million	RMB'Million
<b>At beginning of the year</b>	<b>113,779</b>	<b>70,042</b>
Additions (Note (a))	40,918	19,122
Transfers (Note (b))	71,593	20,825
Deemed disposal gains (Note 7(c))	1,661	9,892
Share of profit of associates (Note 10)	1,301	730
Share of other comprehensive income of associates	24	907
Share of other changes in net assets of associates	2,861	–
Impairment provision (Note (c))	(14,069)	(1,277)
Dividends	(908)	(312)
Disposals	(725)	(253)
Currency translation differences	2,780	(5,897)
<b>At end of the year</b>	<b>219,215</b>	<b>113,779</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note:

- (a) During the year ended 31 December 2018, the Group's additions to investments in associates mainly comprised the following:
- (i) an additional investment in an eCommerce company in the PRC of approximately RMB7,456 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 17% on an outstanding basis;
  - (ii) an additional investment in a media and entertainment company in the PRC of approximately RMB4,800 million which was previously recognised as FVPL. Subsequently, such investment of approximately RMB3,461 million was transferred to investment in a subsidiary through an acquisition made by a non-wholly owned subsidiary (Note 40(a));
  - (iii) an additional investment in a media and entertainment company in the PRC of approximately RMB3,998 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 43% on an outstanding basis;
  - (iv) a new investment in an online game company in the PRC of approximately RMB2,985 million to subscribe for approximately 12% of its equity interests on an outstanding basis;
  - (v) subscription of certain additional shares of a leading eCommerce platform for services in the PRC upon its IPO of approximately RMB2,757 million. Immediately before its IPO, the Group's investment in this investee company of approximately RMB48,173 million was classified as FVPL (Note 20(b)), and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 19% on an outstanding basis;
  - (vi) an investment in an investment bank in the PRC of approximately RMB2,316 million to subscribe for approximately 5% of its equity interests on an outstanding basis; and
  - (vii) new investments in other associates and additional investments in existing associates, with an aggregate amount of approximately RMB16,606 million. These associates are principally engaged in online games, smart retails, technology and other Internet-related business.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

- (b) During the year ended 31 December 2018, transfers comprised of associates achieved in stages of an aggregate amount of approximately RMB75,931 million, and associates transferred to financial instruments or subsidiaries of an aggregate amount of approximately RMB4,338 million. In addition to the transfer described in Note 20(a) (v) and Note 23(a) (iii), the transfers in relation to associates achieved in stages mainly include:
- (i) an acquisition of approximately 4% in a commercial property company in the PRC at a consideration of approximately RMB10,266 million was carried out in certain tranches and completed in September 2018. The board representation was effective upon the completion of final tranche and the investment was transferred from FVPL accordingly;
  - (ii) an investment in an Indian eCommerce company of approximately RMB5,386 million was transferred from FVPL, due to certain contractual rights attached to this investment having been changed;
  - (iii) the Group transferred several investments from FVPL to investments in associates at an aggregate amount of approximately RMB5,426 million upon the conversion of the redeemable instruments or preferred shares into ordinary shares upon their IPOs, mainly comprising investee companies that are principally engaged in automotive industry; and
  - (iv) the Group also transferred several other investments from FVPL to investments in associates at an aggregate amount of approximately RMB2,009 million as a result of obtaining board representation.
- (c) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 15% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of RMB14,069 million (2017: RMB1,277 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2018, which includes impairment loss of approximately RMB15,684 million recognised and approximately RMB1,615 million reversed. The impairment losses mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

- (d) The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of our stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets	Liabilities	Revenues	Profit/ (loss) from continuing operation	Other com- prehensive income	Total com- prehensive income/(loss)	Fair value of stakes in listed associates as at 31 December
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>2018</b>							
Listed entities	210,311	79,678	126,027	(3,337)	25	(3,312)	187,339
Non-listed entities	225,799	137,217	47,081	4,638	(1)	4,637	
	<u>436,110</u>	<u>216,895</u>	<u>173,108</u>	<u>1,301</u>	<u>24</u>	<u>1,325</u>	
<b>2017</b>							
Listed entities	103,999	43,064	84,022	505	845	1,350	156,968
Non-listed entities	128,028	75,184	25,659	225	62	287	
	<u>232,027</u>	<u>118,248</u>	<u>109,681</u>	<u>730</u>	<u>907</u>	<u>1,637</u>	

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and associates with shareholding over 50%, with total carrying amounts of RMB149,175 million and RMB24,948 million as at 31 December 2018, respectively (31 December 2017: RMB56,768 million and RMB18,836 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES (Cont'd)

Particulars of a material associate of the Group, as determined by the directors, are set out below:

Name of entity	Place of incorporation	Interest held indirectly	Principal activities/place of operation
Meituan Dianping	PRC	19.06%	eCommerce platform for services/the PRC

Except Meituan Dianping, the directors of the Company considered that there is no other individual investment which was determined as a material associate.

Set out below are the summarised financial information of Meituan Dianping extracted from its financial statements prepared under IFRS.

### Summarised consolidated balance sheet

Current assets	73,150
Non-current assets	47,512
Current liabilities	31,825
Non-current liabilities	2,327
Total equity	86,510

### Reconciliation to carrying amounts:

Net assets	86,510
Group's share in %	19.06%
Group's share in RMB	16,489
Goodwill and others	33,756
Carrying amount	50,245



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20 INVESTMENTS IN ASSOCIATES (Cont'd)

As at 31 December 2018, the fair value of the investment in Meituan Dianping which is a listed entity was RMB40,261 million.

There were no material contingent liabilities relating to the Group's interests in the associates.

### Transactions with associates

During the year ended 31 December 2018, the Group had undertaken transactions relating to provision of FinTech services, online traffic, online advertising and other online services to certain associates (including Meituan Dianping), under but not limited to certain co-operation arrangements. The revenues recorded by the Group from the aforesaid co-operation arrangements during the years ended 31 December 2018 and 2017 were considered to be insignificant.

## 21 INVESTMENTS IN JOINT VENTURES

As at 31 December 2018, the Group's investments in joint ventures of RMB8,575 million (31 December 2017: RMB7,826 million) mainly comprised a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related businesses.

Share of profit amounting to RMB186 million was recognised during the year ended 31 December 2018 (2017: RMB91 million) (Note 10).

During the year ended 31 December 2018, the Group made an aggregate impairment provision of RMB2,328 million (2017: Nil) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amount.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 22 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2018, the financial instruments of the Group is analysed as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
<b>Financial assets</b>		
Financial assets at amortised cost:		
Deposits and other receivables (Note 25)	10,757	9,486
Term deposits (Note 28)	62,918	42,089
Accounts receivable (Note 29)	28,427	16,549
Cash and cash equivalents (Note 30(a))	97,814	105,697
Restricted cash (Note 30(b))	2,590	1,606
RCPS	–	22,976
FVPL (Note 23)	97,877	–
FVOCI (Note 24)	43,519	–
OFA (Note 26)	2,032	5,624
AFS	–	127,218
	<b>345,934</b>	<b>331,245</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost:		
Borrowings (Note 34)	114,271	97,790
Notes payable (Note 35)	65,018	34,115
Long-term payables (Note 36)	4,797	3,862
Accounts payable (Note 38)	73,735	50,085
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 39)	16,841	15,566
Other financial liabilities	4,506	2,154
	<b>279,168</b>	<b>203,572</b>

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

### Included in non-current assets:

Investments in listed entities

– Japan	3,360
– United Kingdom	2,613
– United States	1,442
– Sweden	539
– Mainland China	537
– Hong Kong	398
– South Korea	234
	<hr/>
	9,123
	<hr/>

Investments in unlisted entities

78,234

Others

4,345

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91,702

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### Included in current assets:

Treasury investments and others

6,175

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97,877

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# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Movement of FVPL is analysed as follows:

### At beginning of the year

Adjustment on adoption of IFRS 9 (Note 2.2(a))

Additions (Note (a))

Transfers (Note (b))

Changes in fair value (Note 7(a))

Disposals (Note (c))

Currency translation differences

### At end of the year

2018
RMB'Million
–
95,497
60,807
(78,816)
28,738
(14,805)
6,456
<b>97,877</b>

Note:

(a) During the year ended 31 December 2018, the Group's additions to FVPL mainly comprised the following:

- (i) an investment in a commercial property company in the PRC which was carried out in certain tranches and completed in September 2018 as detailed in Note 20(b) (i);
- (ii) an additional investment in a real estate O2O platform of approximately RMB3,478 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 7% on an outstanding basis;
- (iii) an investment in a media and entertainment company of approximately RMB2,922 million to subscribe for approximately 35% of its equity interests in form of preferred shares, on an outstanding basis. Immediately before its IPO, the Group's investment in this investee company of approximately RMB4,671 million was classified as FVPL and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 32% on an outstanding basis;
- (iv) additional equity interests obtained in a disposal of the equity interests in an investee company, to another investee company of the Group at a total consideration of approximately USD551 million (equivalent to approximately RMB3,481 million) comprised of cash and its equity interests. The acquirer is principally engaged in the provision of Internet-related services, and the investment in this acquirer was reclassified to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO as described in Note 20(a) (v) above;



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Note: (Cont'd)

(a) (Cont'd)

- (v) an additional investment in an Asian online game company of approximately RMB2,799 million. Subsequent to the additional investment, the Group obtained the board representation and the investment was transferred to investment in an associate accordingly;
  - (vi) an additional investment in a media and entertainment company of approximately RMB2,536 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 14% on an outstanding basis; and
  - (vii) new investments and additional investments with an aggregate amounts of approximately RMB36,263 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in online games, entertainment, technology and other Internet-related business.
- (b) During the year ended 31 December 2018, in addition to the transfers of FVPL to investments in associates with an aggregate amount of approximately RMB75,931 million described in Note 20(b) above, the transfers mainly include:
- (i) the Group designated certain investments with an aggregate amount of approximately RMB3,577 million as FVOCI upon their IPOs, and these investments were previously recorded as FVPL due to the form of redeemable instruments or preferred shares; and
  - (ii) the Group also transferred certain investments with an aggregate amount of approximately RMB692 million from investments in associates to FVPL as a result of changes in nature of these investments.
- (c) During the year ended 31 December 2018, the Group disposed of certain investments with an aggregate amount of RMB14,805 million, which are mainly engaged in the provision of Internet-related services.
- (d) During the year ended 31 December 2018, the Group made a large number of individual investments recognised as FVPL, but none of them was significant enough to trigger the disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time when the Group made such investments.
- (e) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

Equity investments in listed entities

- United States
- Mainland China
- France

Others

As at 31 December 2018 RMB'Million	
	33,120
	5,365
	3,093
	<hr/>
	41,578
	<hr/>
	1,941
	<hr/>
	43,519
	<hr/> <hr/>

Movement of FVOCI is analysed as follows:

### At beginning of the year

Adjustment on adoption of IFRS 9 (Note 2.2(a))  
 Additions (Note (a))  
 Transfers (Note 23(b))  
 Changes in fair value  
 Disposals (Note (b))  
 Currency translation differences

### At end of the year

2018 RMB'Million
–
58,515
17,689
3,577
(16,578)
(22,200)
2,516
<hr/>
43,519
<hr/> <hr/>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

Note:

- (a) During the year ended 31 December 2018, the Group's additions to FVOCI mainly comprised the following:
- (i) a new investment in a retail company in the PRC of approximately RMB4,216 million to acquire approximately 5% of its equity interests on an outstanding basis;
  - (ii) an additional investment in an Internet-related company in the United States of approximately RMB3,712 million to further acquire approximately 3% of its equity interests on an outstanding basis;
  - (iii) a new investment in an online game company in France of approximately RMB2,900 million, to acquire approximately 5% of its equity interests on an outstanding basis;
  - (iv) an additional investment in a media and entertainment company listed on the New York Stock Exchange of approximately RMB2,508 million, to further acquire certain equity interests;
  - (v) an additional investment in a media and entertainment company in the PRC of approximately RMB2,191 million, to acquire approximately 7% of its equity interests on an outstanding basis; and
  - (vi) certain new investments and additional investments with an aggregate amount of approximately RMB2,162 million, most of which are principally engaged in technology services and operate in the PRC.
- (b) During the year ended 31 December 2018, the Group partially disposed of certain listed investments, with total gains of approximately RMB9,561 million on disposals of FVOCI transferred from other reserves to retained earnings.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 25 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
<b>Included in non-current assets:</b>		
Prepayments for media contents and game licences	13,652	7,031
Loans to investees and investees' shareholders (Note (a))	3,864	2,058
Running royalty fees for online games (Note (b))	99	149
Prepayments for capital investments in investees	619	34
Others	3,297	1,901
	<b>21,531</b>	<b>11,173</b>
<b>Included in current assets:</b>		
Prepayments and prepaid expenses	7,532	6,681
Running royalty fees for online games (Note (b))	5,230	4,095
Interest receivables	1,697	2,703
Refundable value-added tax	915	579
Loans to investees and investees' shareholders (Note (a))	225	521
Rental deposits and other deposits	693	220
Dividend and other investment-related receivables	338	222
Others	1,863	2,089
	<b>18,493</b>	<b>17,110</b>
	<b>40,024</b>	<b>28,283</b>

Note:

- (a) As at 31 December 2018, the balances of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2017: not higher than 8.0% per annum).
- (b) Running royalty fees for online games comprises of prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2018, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax), were approximate to their fair values. Deposits and other assets were neither past due nor impaired.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 26 OTHER FINANCIAL ASSETS

Other financial assets were measured at their fair values.

### **Included in non-current assets:**

As at 31 December 2018, the Group's non-current other financial assets comprised interest rate swap contracts of RMB1,693 million for interest rate hedging purpose, which swap the floating interest rates into fixed interest rates. The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD11,311 million (equivalent to approximately RMB77,630 million) (31 December 2017: USD10,741 million (equivalent to approximately RMB70,184 million)). These interest rate swap contracts were qualified for hedge accounting. (31 December 2017: the Group's non-current other financial assets also included the embedded derivatives bifurcated from their host contracts which mainly comprised the conversion options bifurcated from their corresponding host components that were classified as AFS and investments in redeemable instruments of associates of RMB3,818 million.)

### **Included in current assets:**

As at 31 December 2018, the Group's current other financial assets mainly comprised call option rights held by the Group to acquire additional equity interests in an investee company of the Group, amounting to RMB312 million (31 December 2017: RMB465 million).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 27 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2018 and 2017.

	<b>As at 31 December</b>	
	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	<b>7,216</b>	4,510
– to be recovered within 12 months	<b>8,539</b>	5,283
	<b>15,755</b>	9,793
Deferred income tax liabilities:		
– to be recovered after more than 12 months	<b>(9,834)</b>	(5,583)
– to be recovered within 12 months	<b>(1,130)</b>	(392)
	<b>(10,964)</b>	(5,975)

The movements of the deferred income tax assets/liabilities account were as follows:

	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
<b>At beginning of the year</b>	<b>3,818</b>	1,880
Credited/(charged) to consolidated income statement (Note 11)	<b>609</b>	(590)
Withholding tax paid	<b>1,773</b>	2,451
Credited to consolidated statement of changes in equity	<b>187</b>	164
Business combinations	<b>(501)</b>	(21)
Other additions	<b>(986)</b>	–
Currency translation differences	<b>(109)</b>	(66)
<b>At end of the year</b>	<b>4,791</b>	3,818



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax assets were as follows:

	Deferred income tax assets on temporary differences arising from				Total RMB'Million
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	
<b>At 1 January 2018</b>	<b>1,902</b>	<b>96</b>	<b>5,565</b>	<b>2,230</b>	<b>9,793</b>
Business combinations	–	–	–	62	62
Credited/(charged) to consolidated income statement	<b>2,502</b>	<b>(5)</b>	<b>2,513</b>	<b>703</b>	<b>5,713</b>
Credited to consolidated statement of changes in equity	–	–	–	170	170
Currency translation differences	–	–	–	17	17
<b>At 31 December 2018</b>	<b>4,404</b>	<b>91</b>	<b>8,078</b>	<b>3,182</b>	<b>15,755</b>
<b>At 1 January 2017</b>	642	189	3,661	2,541	7,033
Credited/(charged) to consolidated income statement	1,260	(93)	1,904	(275)	2,796
Credited to consolidated statement of changes in equity	–	–	–	46	46
Currency translation differences	–	–	–	(82)	(82)
<b>At 31 December 2017</b>	<b>1,902</b>	<b>96</b>	<b>5,565</b>	<b>2,230</b>	<b>9,793</b>

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2018, the Group did not recognise deferred income tax assets of RMB1,351 million (31 December 2017: RMB1,129 million) in respect of cumulative tax losses amounting to RMB6,277 million (31 December 2017: RMB4,997 million). These tax losses will expire from 2019 to 2023.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax liabilities were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	Withholding		Change in	Deemed	Accelerated	Others	Total
	Intangible	earnings					
	assets acquired	anticipated to	fair value of	disposals of	tax depreciation		
	in business	be remitted	FVPL and FVOCI	investees			
	combinations	by subsidiaries	(2017: AFS)				
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>At 1 January 2018</b>	(506)	(4,075)	(151)	(779)	–	(464)	(5,975)
Business combinations	(563)	–	–	–	–	–	(563)
Credited/(charged) to consolidated income statement	178	(3,360)	(75)	(139)	(1,634)	(74)	(5,104)
Withholding tax paid	–	1,773	–	–	–	–	1,773
Credited to consolidated statement of changes in equity	–	–	17	–	–	–	17
Other additions	–	–	(986)	–	–	–	(986)
Currency translation differences	(1)	(6)	(104)	(1)	–	(14)	(126)
<b>At 31 December 2018</b>	<b>(892)</b>	<b>(5,668)</b>	<b>(1,299)</b>	<b>(919)</b>	<b>(1,634)</b>	<b>(552)</b>	<b>(10,964)</b>
<b>At 1 January 2017</b>	(607)	(3,391)	(269)	(425)	–	(461)	(5,153)
Business combinations	(21)	–	–	–	–	–	(21)
Credited/(charged) to consolidated income statement	121	(3,150)	–	(354)	–	(3)	(3,386)
Withholding tax paid	–	2,451	–	–	–	–	2,451
Credited to consolidated statement of changes in equity	–	–	118	–	–	–	118
Currency translation differences	1	15	–	–	–	–	16
<b>At 31 December 2017</b>	<b>(506)</b>	<b>(4,075)</b>	<b>(151)</b>	<b>(779)</b>	<b>–</b>	<b>(464)</b>	<b>(5,975)</b>

As at 31 December 2018, the Group recognised the relevant deferred income tax liabilities of RMB5,668 million (31 December 2017: RMB4,075 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB13,685 million (31 December 2017: RMB32,213 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 28 TERM DEPOSITS

An analysis of the Group's term deposits by currencies are as follows:

		As at 31 December	
		2018	2017
		RMB'Million	RMB'Million
<b>Included in non-current assets:</b>			
RMB term deposits	–	5,358	
Other currencies	–	7	
		<hr/>	<hr/>
	–	5,365	
		<hr/>	
<b>Included in current assets:</b>			
RMB term deposits	55,180	30,701	
USD term deposits	6,349	4,187	
Other currencies	1,389	1,836	
		<hr/>	<hr/>
	62,918	36,724	
		<hr/>	
	62,918	42,089	
		<hr/>	<hr/>

The effective interest rate for the term deposits of the Group with initial terms of over three months during the year ended 31 December 2018 was 4.08% (2017: 3.86%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2018, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 29 ACCOUNTS RECEIVABLE

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Accounts receivable	29,784	17,429
Loss allowance	(1,357)	(880)
	<u>28,427</u>	<u>16,549</u>

Accounts receivable and their ageing analysis, based on recognition date, are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	11,200	4,399
31 ~ 60 days	7,695	6,394
61 ~ 90 days	4,201	2,259
Over 90 days	5,331	3,497
	<u>28,427</u>	<u>16,549</u>

Majority of the Group's accounts receivable were denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Online advertising customers and agencies	11,944	8,076
Content production related customers	5,400	2,162
FinTech and cloud customers	4,260	1,716
Third party platform providers	3,877	3,140
Others	2,946	1,455
	<u>28,427</u>	<u>16,549</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 29 ACCOUNTS RECEIVABLE (Cont'd)

Some online advertising customers and agencies are usually granted with a credit period within 90 days after full execution of the contracted advertisement orders. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

As of 31 December 2017, impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past history. Beginning from 1 January 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the year ended 31 December 2018 and 2017, loss allowance made against the gross amounts of accounts receivable were not significant, and provision matrix is not presented.

As at 31 December 2018, the carrying amounts of accounts receivable approximated their fair values.

## 30 BANK BALANCES AND CASH

### (a) Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Bank balances and cash	38,696	48,278
Term deposits and highly liquid investments with initial terms within three months	59,118	57,419
	<b>97,814</b>	<b>105,697</b>

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2018 was 3.59% (2017: 2.42%).

Approximately RMB31,015 million (31 December 2017: RMB54,894 million) and RMB3,349 million (31 December 2017: RMB11,740 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in Mainland China and Hong Kong, respectively.

### (b) Restricted cash

As at 31 December 2018, restricted deposits held at bank of RMB2,590 million (31 December 2017: RMB1,606 million) were mainly denominated in RMB.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2018 and 2017, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
<b>At 1 January 2018</b>	<b>9,499,056,887</b>	<b>–</b>	<b>22,204</b>	<b>(3,970)</b>	<b>18,234</b>
Employee share option schemes:					
– value of employee services	–	–	1,983	–	1,983
– shares issued (Note (a))	6,891,249	–	525	–	525
Employee share award schemes:					
– value of employee services	–	–	5,022	–	5,022
– shares withheld for share award schemes (Note (b))	–	–	–	(2,187)	(2,187)
– shares allotted for share award schemes (Note (c))	17,206,955	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,984)	1,984	–
Repurchase and cancellation of shares (Note (e))	(2,848,000)	–	(783)	–	(783)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	327	–	327
<b>At 31 December 2018</b>	<b>9,520,307,091</b>	<b>–</b>	<b>27,294</b>	<b>(4,173)</b>	<b>23,121</b>
<b>At 1 January 2017</b>	<b>9,477,083,480</b>	<b>–</b>	<b>17,324</b>	<b>(3,136)</b>	<b>14,188</b>
Employee share option schemes:					
– value of employee services	–	–	1,125	–	1,125
– shares issued (Note (a))	4,102,812	–	171	–	171
Employee share award schemes:					
– value of employee services	–	–	4,254	–	4,254
– shares withheld for share award schemes (Note (b))	–	–	–	(2,232)	(2,232)
– shares allotted for share award schemes (Note (c))	17,870,595	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,398)	1,398	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	728	–	728
<b>At 31 December 2017</b>	<b>9,499,056,887</b>	<b>–</b>	<b>22,204</b>	<b>(3,970)</b>	<b>18,234</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

- \* As at 31 December 2018, the total number of issued ordinary shares of the Company included 63,275,620 shares (31 December 2017: 70,675,181 shares) held under the Share Award Schemes.

Note:

- (a) During the year ended 31 December 2018, 6,891,249 Post-IPO options (2017: 4,102,812 Post-IPO options) with exercise prices ranging from HKD31.70 to HKD272.36 (2017: HKD26.08 to HKD174.86) were exercised.
- (b) During the year ended 31 December 2018, the Share Scheme Trust withheld 6,839,643 ordinary shares (2017: 9,303,028 ordinary shares) of the Company for an amount of approximately HKD2,550 million (equivalent to approximately RMB2,187 million) (2017: HKD2,606 million (equivalent to approximately RMB2,232 million)), which had been deducted from the equity.
- (c) During the year ended 31 December 2018, the Company allotted 17,206,955 ordinary shares (2017: 17,870,595 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.
- (d) During the year ended 31 December 2018, the Share Scheme Trust transferred 31,446,159 ordinary shares of the Company (2017: 38,573,979 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 33(b)).
- (e) During the year ended 31 December 2018, the Company repurchased 2,848,000 of its own shares from the market which were subsequently cancelled. The shares were acquired at prices ranging from HKD265.20 to HKD333.40, with an average price of HKD311.38 per share.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 32 OTHER RESERVES

	Capital reserves	AFS	FVOCI	Investments in associates and joint ventures	Currency translation differences	PRC statutory reserves	Share-based compensation reserves	Others	Total
	RMB'Million (Note (a))	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million (Note (b))	RMB'Million (Note (c))	RMB'Million	RMB'Million
<b>Balance at 31 December 2017, as previously reported</b>	<b>(2,999)</b>	<b>31,152</b>	<b>–</b>	<b>2,228</b>	<b>(3,464)</b>	<b>2,273</b>	<b>4,170</b>	<b>1,798</b>	<b>35,158</b>
Adjustment on adoption of IFRS 9 (Note 2.2(a))	–	(31,152)	14,942	–	–	–	–	–	(16,210)
<b>Balance at 1 January 2018</b>	<b>(2,999)</b>	<b>–</b>	<b>14,942</b>	<b>2,228</b>	<b>(3,464)</b>	<b>2,273</b>	<b>4,170</b>	<b>1,798</b>	<b>18,948</b>
Transfer of gains on disposal of FVOCI to retained earnings (Note (d))	–	–	(9,561)	–	–	–	–	–	(9,561)
Share of other changes in net assets of associates	–	–	–	2,861	–	–	–	–	2,861
Value of employee services:									
– Employee share option schemes	–	–	–	–	–	–	63	–	63
– Employee share award schemes	–	–	–	–	–	–	466	–	466
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	–	148	–	148
Acquisition of additional equity interests in non-wholly owned subsidiaries	(877)	–	–	–	–	–	–	–	(877)
Transfer of equity interests of subsidiaries to non-controlling interests	(1,886)	–	–	–	–	–	–	–	(1,886)
Recognition of the financial liabilities in respect of the put option from business combination	(406)	–	–	–	–	–	–	–	(406)
Dilution of interests in subsidiaries (Note (e))	2,836	–	–	–	–	–	–	–	2,836
Profit appropriations to PRC statutory reserves	–	–	–	–	–	517	–	–	517
Net losses from changes in fair value of FVOCI	–	–	(16,095)	–	–	–	–	–	(16,095)
Share of other comprehensive income of associates and joint ventures	–	–	–	23	–	–	–	–	23
Currency translation differences	–	–	–	–	3,681	–	–	–	3,681
Other fair value gains, net	–	–	–	–	–	–	–	11	11
<b>Balance at 31 December 2018</b>	<b>(3,332)</b>	<b>–</b>	<b>(10,714)</b>	<b>5,112</b>	<b>217</b>	<b>2,790</b>	<b>4,847</b>	<b>1,809</b>	<b>729</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 32 OTHER RESERVES (Cont'd)

	Capital reserves	AFS	Investments in associates and joint ventures	Currency translation differences	PRC statutory reserves	Share-based compensation reserves	Others	Total
	RMB'Million (Note (a))	RMB'Million	RMB'Million	RMB'Million	RMB'Million (Note (b))	RMB'Million (Note (c))	RMB'Million	RMB'Million
<b>Balance at 1 January 2017</b>	(6,430)	16,859	1,321	5,734	1,754	3,363	1,092	23,693
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	156	–	156
– Employee share award schemes	–	–	–	–	–	407	–	407
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	244	–	244
Acquisition of additional equity interests in non-wholly owned subsidiaries	(952)	–	–	–	–	–	–	(952)
Transfer of equity interests of subsidiaries to non-controlling interests	(2,045)	–	–	–	–	–	–	(2,045)
Lapse of put option granted to non-controlling interests	50	–	–	–	–	–	–	50
Dilution of interests in subsidiaries	6,378	–	–	–	–	–	–	6,378
Profit appropriations to PRC statutory reserves	–	–	–	–	519	–	–	519
Net gains from changes in fair value of AFS	–	16,854	–	–	–	–	–	16,854
Transfer to profit or loss upon disposal of AFS	–	(2,561)	–	–	–	–	–	(2,561)
Share of other comprehensive income of								
associates and joint ventures	–	–	907	–	–	–	–	907
Currency translation differences	–	–	–	(9,198)	–	–	–	(9,198)
Other fair value gains, net	–	–	–	–	–	–	706	706
<b>Balance at 31 December 2017</b>	<u>(2,999)</u>	<u>31,152</u>	<u>2,228</u>	<u>(3,464)</u>	<u>2,273</u>	<u>4,170</u>	<u>1,798</u>	<u>35,158</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 32 OTHER RESERVES (Cont'd)

Note:

- (a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.
- (b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profit (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 33(d)).
- (d) The Group has elected to recognise changes in the fair value of certain investment in equity instruments in other comprehensive income, as explained in Note 2.16. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.
- (e) During the year ended 31 December 2018, the dilution of interests in subsidiaries mainly comprised the following:
  - (i) a non-wholly owned subsidiary of the Group, Tencent Music Entertainment Group ("TME"), have undergone initial public offering by listing of certain of its new shares on the New York Stock Exchange with proceeds of approximately RMB3,520 million, and thus the Group's equity interest in TME was diluted. Given TME remains a subsidiary of the Group following the said initial public offering, this transaction was accounted for as transaction with non-controlling interest with a gain of RMB1,312 million directly recognised in equity; and
  - (ii) an equity transaction of a non-wholly owned subsidiary described in Note 7(d), which results in the transaction with non-controlling interests of approximately RMB1,121 million.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS

### (a) Share option schemes

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV.

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes.

In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV which continue to be in force, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under the Rules Governing the Listing of Securities on the Stock Exchange. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 10-year period for the Post-IPO Option Scheme III and a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS (Cont'd)

### (a) Share option schemes (Cont'd)

#### (i) Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
<b>At 1 January 2018</b>	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	–	–	–	–	HKD405.73	27,723,850	27,723,850
Exercised	HKD110.85	(3,966,835)	HKD31.70	(2,500,000)	HKD272.36	(424,414)	(6,891,249)
Lapsed/forfeited	HKD136.67	(44,403)	–	–	HKD298.36	(178,062)	(222,465)
<b>At 31 December 2018</b>	HKD185.25	51,499,010	–	–	HKD374.52	36,277,234	87,776,244
<b>Exercisable as at</b>							
<b>31 December 2018</b>	HKD160.50	22,419,156	–	–	HKD274.86	1,760,025	24,179,181
<b>At 1 January 2017</b>	HKD120.95	31,247,436	HKD31.70	2,500,000	–	–	33,747,436
Granted	HKD225.44	28,526,215	–	–	HKD273.79	9,219,035	37,745,250
Exercised	HKD49.05	(4,102,812)	–	–	–	–	(4,102,812)
Lapsed/forfeited	HKD142.65	(160,591)	–	–	HKD272.36	(63,175)	(223,766)
<b>At 31 December 2017</b>	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
<b>Exercisable as at</b>							
<b>31 December 2017</b>	HKD118.70	13,152,006	HKD31.70	1,250,000	–	–	14,402,006

During the year ended 31 December 2018, 3,215,800 options were granted to an executive director of the Company (2017: 5,250,000 options were granted to an executive director of the Company).

As a result of the options exercised during the year ended 31 December 2018, 6,891,249 ordinary shares (2017: 4,102,812 ordinary shares) were issued by the Company (Note 31). The weighted average price of the shares at the time these options were exercised was HKD399.37 per share (equivalent to approximately RMB325.67 per share) (2017: HKD286.46 per share (equivalent to approximately RMB248.41 per share)).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS (Cont'd)

### (a) Share option schemes (Cont'd)

#### (ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2018 and 2017 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2018	31 December 2017
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD37.80~HKD49.76	22,875	1,633,050
	HKD112.30~HKD174.86	23,504,535	25,386,768
	HKD225.44~HKD272.36	36,475,949	37,556,725
	HKD354.00~HKD386.60	5,191,480	–
	HKD403.16~HKD444.20	22,581,405	89,565
		<b>87,776,244</b>	<b>64,666,108</b>
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	–	2,500,000
		<b>87,776,244</b>	<b>67,166,108</b>

The outstanding share options as of 31 December 2018 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to three years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

#### (iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2018 was HKD127.43 per share (equivalent to approximately RMB103.46 per share) (2017: HKD71.30 per share (equivalent to approximately RMB62.86 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS (Cont'd)

### (a) Share option schemes (Cont'd)

#### (iii) Fair value of options (Cont'd)

	2018	2017
Weighted average share price at the grant date	<b>HKD405.00</b>	HKD236.88
Risk free rate	<b>1.77%~2.27%</b>	1.39%~1.68%
Dividend yield	<b>0.24%~0.25%</b>	0.26%~0.34%
Expected volatility (Note)	<b>30.00%</b>	30.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

### (b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes") as of 31 December 2018, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2018 and 2017 are as follows:

	Number of awarded shares	
	2018	2017
<b>At beginning of the year</b>	<b>63,636,254</b>	86,365,812
Granted	<b>20,940,149</b>	19,071,975
Lapsed/forfeited	<b>(2,882,349)</b>	(3,227,554)
Vested and transferred	<b>(31,446,159)</b>	(38,573,979)
<b>At end of the year</b>	<b>50,247,895</b>	63,636,254
<b>Vested but not transferred as at the end of the year</b>	<b>45,432</b>	159,893



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS (Cont'd)

### (b) Share award schemes (Cont'd)

During the year ended 31 December 2018, 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HKD374.32 per share (equivalent to approximately RMB316.30 per share) (2017: HKD274.02 per share (equivalent to approximately RMB238.37 per share)).

The outstanding awarded shares as of 31 December 2018 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to three years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

### (c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2018 and 2017 were insignificant to the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33 SHARE-BASED PAYMENTS (Cont'd)

### (d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

### (e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2018, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 88%~97% (31 December 2017: 88%~97%).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 34 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
<b>Included in non-current liabilities:</b>		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	<b>70,938</b>	76,326
Non-current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	<b>11,189</b>	4,459
– secured (Note (a))	–	475
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	<b>5,310</b>	834
	<b>87,437</b>	82,094
<b>Included in current liabilities:</b>		
USD bank borrowings, unsecured (Note (b))	<b>16,403</b>	1,307
HKD bank borrowings, unsecured (Note (b))	<b>3,368</b>	14,293
RMB bank borrowings, unsecured (Note (b))	<b>628</b>	–
Current portion of long-term USD bank borrowings, unsecured (Note (a))	<b>5,628</b>	66
Current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	<b>332</b>	30
– secured (Note (a))	<b>475</b>	–
	<b>26,834</b>	15,696
	<b>114,271</b>	97,790



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 34 BORROWINGS (Cont'd)

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,156 million (31 December 2017: USD11,691 million), RMB11,996 million (31 December 2017: RMB4,964 million) and HKD6,070 million (31 December 2017: HKD1,000 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings, and interest rates of 4.18% ~ 9.00% for RMB bank borrowings (31 December 2017: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings) per annum.

The long-term bank borrowings were repayable as follows:

As at 31 December	
	2018
	RMB'Million
	RMB'Million
Within 1 year	6,435
Between 1 and 2 years	18,640
Between 2 and 5 years	68,797
More than 5 years	–
	<b>93,872</b>
	82,190

- (b) The aggregate principal amounts of short-term USD bank borrowings, short-term RMB bank borrowings and short-term HKD bank borrowings were USD2,390 million (31 December 2017: USD200 million), RMB628 million (31 December 2017: Nil) and HKD3,850 million (31 December 2017: HKD17,133 million), respectively. These short-term bank borrowings were carried at LIBOR/HIBOR + 0.50% ~ 0.55% or a fixed interest rate of 5.22% ~ 5.44% (31 December 2017: LIBOR/HIBOR + 0.50% ~ 0.55%) per annum.

During the year ended 31 December 2018, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2018 have been detailed in Note 26.

As at 31 December 2018, the carrying amounts of borrowings approximated their fair values.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 35 NOTES PAYABLE

As at 31 December	
	2018
	RMB'Million
	2017
	RMB'Million
<b>Included in non-current liabilities:</b>	
Non-current portion of long-term USD notes payable	48,501
Non-current portion of long-term HKD notes payable	2,797
	<u>51,298</u>
	29,363
<b>Included in current liabilities:</b>	
Current portion of long-term USD notes payable	13,720
Current portion of long-term HKD notes payable	–
	<u>13,720</u>
	4,752
	<u>65,018</u>
	34,115

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2017: USD4,700 million) and HKD3,200 million (31 December 2017: HKD4,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2017: 2.30% ~ 4.70%) per annum.

The notes payable were repayable as follows:

As at 31 December	
	2018
	RMB'Million
	2017
	RMB'Million
Within 1 year	13,720
Between 1 and 2 years	10,335
Between 2 and 5 years	10,258
More than 5 years	30,705
	<u>65,018</u>
	34,115





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 35 NOTES PAYABLE (Cont'd)

All of these notes payable issued by the Group were unsecured.

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme with aggregate principal amounts of USD5 billion as set out below:

	Amount (USD'Million)	Interest Rate (per annum)	Due
2023 Notes	1,000	2.985%	2023
2023 Floating Rate Notes	500	3-month USD LIBOR + 0.605%	2023
2028 Notes	2,500	3.595%	2028
2038 Notes	1,000	3.925%	2038
	<u>5,000</u>		

In March 2018, the notes payable with an aggregate principal amount of USD600 million issued in September 2012 reached their maturity and were repaid in full by the Group.

In September 2018, the notes payable with an aggregate principal amount of HKD1,000 million issued in September 2015 reached their maturity and were repaid in full by the Group.

As at 31 December 2018, the fair value of the notes payable amounted to RMB62,820 million (31 December 2017: RMB34,691 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 36 LONG-TERM PAYABLES

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Purchase consideration payables for investee companies	2,018	336
Payables relating to media contents and running royalty fee for online games	1,415	2,597
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	393	225
Others	971	704
	<u>4,797</u>	<u>3,862</u>

## 37 OTHER FINANCIAL LIABILITIES

As at 31 December 2018, it mainly comprised of the contingent consideration in relation to the acquisition of equity interests from shareholders of an associate of the Group (Note 40).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 38 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis, based on recognition date, are as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
0 ~ 30 days	56,506	38,420
31 ~ 60 days	6,264	3,030
61 ~ 90 days	1,557	2,050
Over 90 days	9,408	6,585
	<b>73,735</b>	<b>50,085</b>

## 39 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Staff costs and welfare accruals	15,929	13,451
Selling and marketing expense accruals	3,038	4,414
General and administrative expenses accruals	1,650	1,149
Purchase consideration payables for investee companies	1,277	1,045
Purchase of construction related costs	1,065	1,463
Interests payable	951	410
Prepayments received from customers and others	542	416
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	759	–
Others (Note)	8,101	7,085
	<b>33,312</b>	<b>29,433</b>

Note:

Others primary consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 40 BUSINESS COMBINATION

### (a) Step-up acquisition of New Classics Media

On 31 October 2018 (the “Acquisition Date”), the Group’s non-wholly owned subsidiary, China Literature Limited (“China Literature”), acquired entire equity interests in New Classic Media Holdings Limited (“New Classics Media”), an existing associate of the Group, which is engaged in the production and distribution of television series, web series and films in the PRC (the “Step-up Acquisition”). The investment in New Classics Media was initially accounted for as FVPL, and subsequently reclassified as an associate of the Group due to additional investments and board representation. Immediately before the Step-up Acquisition, the Group held 44.08% equity interests in New Classics Media (the “Previously Held Interests”). Upon completion of the Step-up Acquisition, the Group indirectly held approximately 56% equity interests in New Classics Media through China Literature and accounted for it as a subsidiary of the Group. The Group expects the acquisition of New Classics Media to further increase its market share in entertainment industry.

Goodwill of approximately RMB6,933 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in New Classics Media at fair value on Acquisition Date.

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 40 BUSINESS COMBINATION (Cont'd)

### (a) Step-up acquisition of New Classics Media (Cont'd)

	As at 31 October 2018 RMB'Million
<b>Total consideration:</b>	
Cash paid	1,532
Ordinary shares issued by China Literature	1,431
Contingent consideration (Note)	3,301
Fair value of the Previously Held Interests (Note 20(a) (ii))	2,945
	<hr/>
	9,209
Non-controlling interests	(4,070)
	<hr/>
<b>Total consideration attributable to the Company's equity holders</b>	<b>5,139</b>
	<hr/>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>	
Cash and cash equivalents	1,006
Accounts receivable	1,527
Intangible assets arising from acquisition	741
Intangible assets and prepayments (mainly include television series and film rights)	2,449
Other assets	608
Deferred revenue and other payables and accruals	(2,173)
Borrowings	(1,363)
Other liabilities	(290)
Deferred income tax liabilities	(231)
	<hr/>
<b>Total identifiable net assets</b>	<b>2,274</b>
Non-controlling interests	(4,068)
Goodwill	6,933
	<hr/>
	<b>5,139</b>
	<hr/>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 40 BUSINESS COMBINATION (Cont'd)

### (a) Step-up acquisition of New Classics Media (Cont'd)

Note:

Pursuant to the share purchase agreement, the consideration will be settled by a combination of cash and new shares paid and issued by China Literature and will be subject to the earn-out mechanism set forth in the share purchase agreement. “Monte Carlo Simulation Method” was used in this exercise to measure the value of the contingent consideration. The future net profit of New Classics Media was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of New Classics Media. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the earn-out mechanism set out in the share purchase agreement. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios. As at 31 October 2018, other financial liabilities of approximately RMB3,301 million in relation to this arrangement was recognised in the Group’s consolidated statement of financial position based on the earn-out mechanism.

The revenue and the results contributed by New Classics Media to the Group for the period since the Acquisition Date were insignificant. The Group’s revenue and results for the year would not be materially different should the Step-up Acquisition have otherwise occurred on 1 January 2018.

The financial impacts recorded as “Other gains, net” during the year ended 31 December 2018 for the difference between the fair value of the Previously Held Interests and the existing carrying amount of investment in an associate at the Acquisition Date were insignificant.

The related transaction costs of the Step-up Acquisition are not material to the Group’s consolidated financial statements.

### (b) Other business combination

During the year ended 31 December 2018, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was approximately RMB3,077 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB1,426 million, RMB1,003 million and RMB2,654 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group’s revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2018.

The related transaction costs of these business combinations were not material to the Group’s consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 41 CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of net profit to cash inflow from operating activities:

	2018 RMB'Million	2017 RMB'Million
Profit for the year	79,984	72,471
Adjustments for:		
Income tax expense	14,482	15,744
Net gains on disposals and deemed disposals of investee companies	(2,932)	(13,518)
Dividend income	(686)	(1,713)
Depreciation of property, plant and equipment and investment properties	8,423	4,880
Amortisation of intangible assets and land use rights	25,825	18,731
Net losses on disposals of intangible assets and property, plant and equipment	47	24
Interest income	(4,569)	(3,940)
Equity-settled share-based compensation expenses	7,869	6,137
Other expenses in relation to equity transactions of an investee company	1,519	–
Share of profit of associates and joint ventures	(1,487)	(821)
Impairment provision for investments in associates, joint ventures (2017: investments in associates, joint ventures, AFS and RCPS)	16,397	2,555
Net fair value gains on FVPL and other financial instruments	(29,757)	(4,298)
Impairment of intangible assets	1,181	239
Exchange gains	(228)	(152)
Changes in working capital:		
Accounts receivable	(10,302)	(6,400)
Inventories	(29)	(39)
Prepayments, deposits and other receivables	(4,050)	(3,760)
Accounts payable	22,955	16,134
Other payables and accruals	(3,154)	8,422
Other tax liabilities	(19)	189
Deferred revenue	(505)	9,117
Cash generated from operating activities	120,964	120,002



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

### (b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 32(e) and 40(a), there were no material non-cash transactions during the year ended 31 December 2018.

### (c) Net (debt)/cash reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net (debt)/cash	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Cash and cash equivalents	97,814	105,697
Term deposits and others	69,305	42,540
Borrowings – repayable within one year	(26,834)	(15,696)
Borrowings – repayable after one year	(87,437)	(82,094)
Notes payable – repayable within one year	(13,720)	(4,752)
Notes payable – repayable after one year	(51,298)	(29,363)
Net (debt)/cash	(12,170)	16,332
Cash and cash equivalents, term deposits and others	167,119	148,237
Gross debt – fixed interest rates	(74,910)	(39,257)
Gross debt – floating interest rates	(104,379)	(92,648)
Net (debt)/cash	(12,170)	16,332





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

### (c) Net (debt)/cash reconciliation (Cont'd)

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net cash as at 1 January 2018	105,697	42,540	(15,696)	(82,094)	(4,752)	(29,363)	16,332
Cash flows	(10,090)	24,811	(2,724)	(7,237)	4,666	(32,547)	(23,121)
Exchange impacts	2,207	1,954	(1,559)	(3,598)	(957)	(2,011)	(3,964)
Other non-cash movements	–	–	(6,855)	5,492	(12,677)	12,623	(1,417)
Net debt as at 31 December 2018	<u>97,814</u>	<u>69,305</u>	<u>(26,834)</u>	<u>(87,437)</u>	<u>(13,720)</u>	<u>(51,298)</u>	<u>(12,170)</u>
Net cash as at 1 January 2017	71,902	55,735	(12,278)	(57,549)	(3,466)	(36,204)	18,140
Cash flows	36,346	(13,179)	(3,698)	(28,764)	3,450	–	(5,845)
Exchange impacts	(2,551)	(16)	768	3,731	231	1,921	4,084
Other non-cash movements	–	–	(488)	488	(4,967)	4,920	(47)
Net cash as at 31 December 2017	<u>105,697</u>	<u>42,540</u>	<u>(15,696)</u>	<u>(82,094)</u>	<u>(4,752)</u>	<u>(29,363)</u>	<u>16,332</u>

## 42 COMMITMENTS

### (a) Capital commitments

Capital commitments as at 31 December 2018 and 2017 are analysed as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	2,219	273
Purchase of other property, plant and equipment	357	153
Capital investment in investees	8,763	3,027
	<u>11,339</u>	<u>3,453</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 42 COMMITMENTS

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and server custody leases, are as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Contracted:		
Not later than one year	2,632	1,027
Later than one year and not later than five years	7,398	1,056
Later than five years	2,264	970
	<u>12,294</u>	<u>3,053</u>

### (c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Contracted:		
Not later than one year	7,260	5,279
Later than one year and not later than five years	8,332	9,822
Later than five years	2,279	2,236
	<u>17,871</u>	<u>17,337</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 43 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2018 and 2017, and no other material balances with related parties as at 31 December 2018 and 2017.

## 44 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2018 to the approval date of these financial statements by the Board of Directors on 21 March 2019.

## 45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Financial position of the Company

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	42	41
Investments in subsidiaries	60,770	55,253
Contribution to Share Scheme Trust	95	43
	<b>60,907</b>	<b>55,337</b>
<b>Current assets</b>		
Amounts due from subsidiaries	52,078	8,725
Prepayments, deposits and other receivables	6	17
Cash and cash equivalents	63	7,919
	<b>52,147</b>	<b>16,661</b>
<b>Total assets</b>	<b>113,054</b>	<b>71,998</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

### (a) Financial position of the Company (Cont'd)

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	—	—
Share premium	27,294	22,204
Shares held for share award schemes	(4,173)	(3,970)
Other reserves (b)	(179)	(531)
Retained earnings (b)	5,443	8,371
<b>Total equity</b>	<b>28,385</b>	<b>26,074</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Notes payable	51,298	29,363
Other financial liabilities	1,164	2,068
	<b>52,462</b>	<b>31,431</b>
<b>Current liabilities</b>		
Amounts due to subsidiaries	17,454	9,408
Other payables and accruals	1,033	333
Notes payable	13,720	4,752
	<b>32,207</b>	<b>14,493</b>
<b>Total liabilities</b>	<b>84,669</b>	<b>45,924</b>
<b>Total equity and liabilities</b>	<b>113,054</b>	<b>71,998</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

### (b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
<b>At 1 January 2018</b>	<b>8,371</b>	<b>(531)</b>
Profit for the year	4,067	–
Dividends paid relating to 2017	(6,995)	–
Currency translation differences	–	352
	<u>5,443</u>	<u>(179)</u>
<b>At 31 December 2018</b>	<b>5,443</b>	<b>(179)</b>
<b>At 1 January 2017</b>	4,031	126
Profit for the year	9,392	–
Dividends paid relating to 2016	(5,052)	–
Currency translation differences	–	(657)
	<u>8,371</u>	<u>(531)</u>
<b>At 31 December 2017</b>	<b>8,371</b>	<b>(531)</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2018:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in BVI, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB142,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,306	100%	Development and operation of online games in the United States
China Literature	Established in the Cayman Islands, limited liability company	USD102,255	55.59%*	Provision of online literature services in the PRC
TME (Note (b))	Established in the Cayman Islands, limited liability company	USD269,025	50.08%*	Provision of online music entertainment services in the PRC

\* on an outstanding basis



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Note:

- (a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.
- (b) The directors of the Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.
- (c) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.
- (d) Significant restrictions

As at 31 December 2018, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB86,468 million were held in Mainland China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

- (e) Consolidation of structured entities

As mentioned in Note (a) above and Note 33(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 33(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2018, the Company contributed approximately RMB2,187 million (2017: RMB2,232 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.





In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term	Definition
“2007 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date I, as amended
“2013 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date II, as amended
“2019 AGM”	the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof
“2B”	Product/Service provided to business customers
“Account I”	the bank account opened in the name of the Company to be operated solely for the purposes of operating the 2007 Share Award Scheme and the funds thereof to be held on trust by the Company for the Selected Participants
“Account II”	the bank account opened in the name of the trust pursuant to Trust Deed II, managed by the Trustee, and operated solely for the purposes of operating the 2013 Share Award Scheme, which is held on trust for the benefit of Selected Participants and can be funded by the Company or any of its subsidiaries
“Adoption Date I”	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
“Adoption Date II”	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
“AFS”	available-for-sale financial assets
“AI”	artificial intelligence
“Articles of Association”	the amended and restated articles of association of the Company adopted by special resolution passed on 14 May 2014
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Awarded Share(s)”	the share(s) of the Company awarded under the Share Award Schemes



## Definition

Term	Definition
“Beijing BIZCOM”	Beijing BIZCOM Technology Company Limited
“Beijing Starsinhand”	Beijing Starsinhand Technology Company Limited
“Board”	the board of directors of the Company
“BOC”	Bank of China Limited
“CCB”	China Construction Bank Corporation
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“China Literature”	China Literature Limited, a non-wholly owned subsidiary of the Company, which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Chongqing Tencent Information”	Chongqing Tencent Information Technology Company Limited
“CMB”	China Merchants Bank Co., Ltd.
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“Company Website”	the website of the Company at <a href="http://www.tencent.com">www.tencent.com</a>
“Corporate Governance Committee”	the corporate governance committee of the Company
“COSO Framework”	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations
“Cyber Tianjin”	Tencent Cyber (Tianjin) Company Limited
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes



Term	Definition
“Epic Games”	Epic Games, Inc., a Maryland corporation organized under the general laws of the State of Maryland, US
“EPS”	earnings per share
“ESG Reporting Guide”	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules
“FinTech”	financial technology
“GAAP”	Generally Accepted Accounting Principles
“Grant Date”	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
“Group”	the Company and its subsidiaries
“Guangzhou Tencent Technology”	Guangzhou Tencent Technology Company Limited
“Guian New Area Tencent Cyber”	Guian New Area Tencent Cyber Company Limited
“Hainan Network”	Hainan Tencent Network Information Technology Company Limited
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IA”	internal audit department of the Company
“IaaS”	Infrastructure-as-a-Service
“IAS”	International Accounting Standards
“IC”	internal control department of the Company
“IFRS”	International Financial Reporting Standards



## Definition

Term	Definition
“IM”	Instant messaging
“Investment Committee”	the investment committee of the Company
“IP”	intellectual property
“IPO”	initial public offering
“KPL”	King Pro League
“LBS”	Location Based Service
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“Meituan Dianping”	Meituan Dianping, a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange
“MIH TC”	MIH TC Holdings Limited
“MOBA”	Multiplayer Online Battle Arena
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NASDAQ”	NASDAQ Global Select Market
“Nomination Committee”	the nomination committee of the Company



Term	Definition
“O2O”	online-to-offline, or offline-to-online
“PaaS”	Platform-as-a-Service
“PC”	personal computer
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“QR Codes”	Quick Response Codes
“R&D”	research and development
“Reference Date”	in respect to a Selected Participant, the date of final approval by the Board of the total number of shares of the Company to be awarded to the relevant Selected Participant on a single occasion pursuant to the 2007 Share Award Scheme
“Remuneration Committee”	the remuneration committee of the Company
“Riot Games”	Riot Games, Inc., a Company established in US
“RMB”	the lawful currency of the PRC
“ROI”	return on investment
“Sea”	Sea Limited, a company headquartered in Singapore and listed on the New York Stock Exchange



## Definition

Term	Definition
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Tencent Information”	Shanghai Tencent Information Technology Company Limited
“Share Award Schemes”	the 2007 Share Award Scheme and the 2013 Share Award Scheme
“Share Subdivision”	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and granting by the Stock Exchange of the listing of, and permission to deal in, the subdivided shares
“Shenzhen Tencent Information”	Shenzhen Tencent Information Technology Company Limited
“Shenzhen Tencent Network”	Shenzhen Tencent Network Information Technology Company Limited
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“Singapore”	the Republic of Singapore
“SKT CFC”	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
“SKT Co-operation Committee”	the co-operation committee established under the SKT CFC
“SME”	small and medium enterprise
“Sogou”	Sogou Inc., a company incorporated in the Cayman Islands and listed on the New York Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“TCS CFC”	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
“TCS Co-operation Committee”	the co-operation committee established under the TCS CFC



Term	Definition
“Tencent Beijing”	Tencent Technology (Beijing) Company Limited
“Tencent Charity Funds”	charity funds established by the Group
“Tencent Chengdu”	Tencent Technology (Chengdu) Company Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“Tencent Shanghai”	Tencent Technology (Shanghai) Company Limited
“Tencent Technology”	Tencent Technology (Shenzhen) Company Limited
“Tencent Wuhan”	Tencent Technology (Wuhan) Company Limited
“TME”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands and listed on the New York Stock Exchange
“Trust Deed II”	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services
“Yixin”	Yixin Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Wang Dian”	Nanjing Wang Dian Technology Company Limited



# Definition

Term	Definition
“WFOEs”	Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network and Guian New Area Tencent Cyber





## **APPENDIX II**

### **REPRODUCTION OF THE GUARANTOR'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

The information set out below is a reproduction of the Guarantor's audited consolidated financial statements for the year ended 31 December 2018.

# 6

## FINANCIAL INFORMATION

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### Note to the consolidated statements: additional information

The information on the types of risks, the risk management linked to financial instruments as well as the information on capital management and compliance with regulatory ratios, required by IFRS as adopted by the European Union, are disclosed in Chapter 4 of the present Registration Document (Risks and capital adequacy).

The main characteristics of Societe Generale stock-option plans and free share plans are disclosed in Chapter 3 of the present Registration Document (Corporate governance).

This information belongs to the notes to the consolidated financial statements and has been audited by Statutory Auditors; it is identified as such in Chapters 3 and 4 of the present Registration Document.

## 6.1 CONSOLIDATED FINANCIAL STATEMENTS

### 6.1.1 CONSOLIDATED BALANCE SHEET - ASSETS

<i>(In millions of euros)</i>		31.12.2018	01.01.2018 <sup>(1)</sup>	31.12.2017
Cash, due from central banks		96,585	114,404	114,404
Financial assets at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	365,550	369,112	419,680
Hedging derivatives	Notes 3.2 and 3.4	11,899	12,718	13,641
Financial assets at fair value through other comprehensive income	Notes 3.3 and 3.4	50,026	50,468	
Available-for-sale assets				139,998
Securities at amortised cost	Notes 3.5, 3.8 and 3.9	12,026	11,592	
Due from banks at amortised cost	Notes 3.5, 3.8 and 3.9	60,588	53,656	60,866
Customer loans at amortised cost	Notes 3.5, 3.8 and 3.9	447,229	417,391	425,231
Revaluation differences on portfolios hedged against interest rate risk		338	663	663
Investments of insurance companies	Note 4.3	146,768	147,611	
Held-to-maturity financial assets				3,563
Tax assets	Note 6	5,819	6,292	6,001
Other assets	Note 4.4	67,446	60,449	60,562
Non-current assets held for sale	Note 2.5	13,502	13	13
Investments accounted for using the equity method		249	659	700
Tangible and intangible fixed assets	Note 8.4	26,751	24,200	24,818
Goodwill	Note 2.2	4,652	4,988	4,988
<b>TOTAL</b>		<b>1,309,428</b>	<b>1,274,216</b>	<b>1,275,128</b>

(1) The amounts have been restated following the first time application of IFRS 9 "Financial Instruments" (see Note 1).

## 6.1.2 CONSOLIDATED BALANCE SHEET - LIABILITIES

(In millions of euros)		31.12.2018	01.01.2018 <sup>(1)</sup>	31.12.2017
Due to central banks		5,721	5,604	5,604
Financial liabilities at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	363,083	368,550	368,705
Hedging derivatives	Note 3.2 and 3.4	5,993	6,146	6,750
Debt securities issued	Notes 3.6 and 3.9	116,339	103,235	103,235
Due to banks	Notes 3.6 and 3.9	94,706	88,621	88,621
Customer deposits	Notes 3.6 and 3.9	416,818	410,633	410,633
Revaluation differences on portfolios hedged against interest rate risk		5,257	6,020	6,020
Tax liabilities	Note 6	1,157	1,608	1,662
Other liabilities	Note 4.4	76,629	69,139	69,139
Non-current liabilities held for sale	Note 2.5	10,454	-	-
Underwriting reserves of insurance companies				130,958
Insurance contracts related liabilities	Note 4.3	129,543	131,717	
Provisions	Note 8.3	4,605	6,345	6,117
Subordinated debt	Note 3.9	13,314	13,647	13,647
<b>TOTAL LIABILITIES</b>		<b>1,243,619</b>	<b>1,211,265</b>	<b>1,211,091</b>
<b>SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' equity, Group share</b>				
Issued common stocks, equity instruments and capital reserves		29,856	29,427	29,427
Retained earnings		28,342	27,698	27,791
Net income		3,864	2,806	2,806
<b>SUB-TOTAL</b>		<b>62,062</b>	<b>59,931</b>	<b>60,024</b>
Unrealised or deferred capital gains and losses	Note 7.3	(1,036)	(1,503)	(651)
<b>SUB-TOTAL EQUITY, GROUP SHARE</b>		<b>61,026</b>	<b>58,428</b>	<b>59,373</b>
Non-controlling interests	Note 2.3	4,783	4,523	4,664
<b>TOTAL EQUITY</b>		<b>65,809</b>	<b>62,951</b>	<b>64,037</b>
<b>TOTAL</b>		<b>1,309,428</b>	<b>1,274,216</b>	<b>1,275,128</b>

(1) The amounts have been restated following the first time application of IFRS 9 "Financial Instruments" (see Note 1).

### 6.1.3 CONSOLIDATED INCOME STATEMENT

(In millions of euros)		2018 <sup>(1)</sup>	2017
Interest and similar income	Note 3.7	22,678	23,679
Interest and similar expense	Note 3.7	(11,659)	(13,263)
Fee income	Note 4.1	9,124	10,504
Fee expense	Note 4.1	(3,600)	(3,681)
Net gains and losses on financial transactions		5,189	5,826
<i>o/w net gains and losses on financial instruments at fair value through profit or loss</i>	Note 3.1	5,119	5,113
<i>o/w net gains and losses on available-for-sale financial assets</i>			713
<i>o/w net gains and losses on financial instruments at fair value through other comprehensive income</i>	Note 3.3	83	
<i>o/w net gains and losses from the derecognition of financial assets at amortised cost</i>		(13)	
Net income of insurance activities	Note 4.3	1,724	
Income from other activities	Note 4.2	10,761	22,045
Expenses from other activities	Note 4.2	(9,012)	(21,156)
<b>Net banking income</b>		<b>25,205</b>	<b>23,954</b>
Personnel expenses	Note 5	(9,561)	(9,749)
Other operating expenses	Note 8.2	(7,366)	(7,083)
Amortisation, depreciation and impairment of tangible and intangible fixed assets		(1,004)	(1,006)
<b>Gross operating income</b>		<b>7,274</b>	<b>6,116</b>
Cost of risk	Note 3.8	(1,005)	(1,349)
<b>Operating income</b>		<b>6,269</b>	<b>4,767</b>
Net income from investments accounted for using the equity method	Note 2.3	56	92
Net income/expense from other assets		(208)	278
Value adjustments on goodwill	Note 2.2	-	1
<b>Earnings before tax</b>		<b>6,117</b>	<b>5,138</b>
Income tax	Note 6	(1,561)	(1,708)
<b>Consolidated net income</b>		<b>4,556</b>	<b>3,430</b>
Non-controlling interests		692	624
<b>Net income, Group share</b>		<b>3,864</b>	<b>2,806</b>
<b>Earnings per ordinary share</b>	Note 7.2	<b>4.24</b>	<b>2.92</b>
<b>Diluted earnings per ordinary share</b>	Note 7.2	<b>4.24</b>	<b>2.92</b>

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

- income and expenses from insurance activities are grouped on a specific line item within the "Net banking income" (see Note 1.4);
- the line item "Cost of risk" is now exclusively dedicated to credit risk (see Note 3.8);
- fair value changes of financial liabilities designated to be measured at fair value through profit or loss (using the fair value option) attributable to changes in own credit risk are now recorded under "Unrealised or deferred gains and losses" (see Note 3.1).

## 6.1.4 STATEMENT OF NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES

<i>(In millions of euros)</i>	2018	2017
<b>Consolidated net income</b>	<b>4,556</b>	<b>3,430</b>
<b>Unrealised or deferred gains and losses that will be reclassified subsequently into income</b>	<b>24</b>	<b>(2,371)</b>
Translation differences	370	(2,088)
Revaluation of debt instruments at fair value through other comprehensive income	(233)	
<i>Revaluation differences of the period</i>	(193)	
<i>Reclassified into income</i>	(40)	
Revaluation of available-for-sale financial assets <sup>(1)</sup>	(74)	(218)
<i>Revaluation differences of the period</i>	(54)	69
<i>Reclassified into income</i>	(20)	(287)
Revaluation of hedging derivatives	(120)	(100)
<i>Revaluation differences of the period</i>	(156)	(94)
<i>Reclassified into income</i>	36	(6)
Unrealised gains and losses of entities accounted for using the equity method	1	(20)
Tax related	80	55
<b>Unrealised or deferred gains and losses that will not be reclassified subsequently into income</b>	<b>411</b>	<b>19</b>
Actuarial gains and losses on defined benefits plans	30	42
Revaluation of own credit risk on financial liabilities at fair value through profit or loss	529	
Revaluation of equity instruments through other comprehensive income	1	
Unrealised gains and losses of entities accounted for using the equity method	(3)	
Tax related	(146)	(23)
<b>Total unrealised or deferred gains and losses</b>	<b>435</b>	<b>(2,352)</b>
<b>Net income and unrealised or deferred gains and losses</b>	<b>4,991</b>	<b>1,078</b>
<i>o/w Group share</i>	4,331	504
<i>o/w non-controlling interests</i>	660	574

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

## 6.1.5 CHANGES IN SHAREHOLDERS' EQUITY

(In millions of euros)	Capital and associated reserves				Total	Retained earnings	Net income, Group share
	Issued common stocks	Issuing premium and capital reserves	Elimination of treasury stock	Other equity instruments			
<b>Shareholders' equity at 1 January 2017</b>	<b>1,010</b>	<b>20,277</b>	<b>(371)</b>	<b>9,680</b>	<b>30,596</b>	<b>29,687</b>	<b>-</b>
Increase in common stock	-	8	-	-	8	-	-
Elimination of treasury stock	-	-	(122)	-	(122)	(29)	-
Issuance/Redemption/ Remuneration of other equity instruments (see Note 7.1)	-	-	-	(1,114)	(1,114)	(540)	-
Equity component of share-based payment plans	-	59	-	-	59	-	-
2017 dividends paid (see Note 7.2)	-	-	-	-	-	(1,762)	-
Effect of changes of the consolidation scope	-	-	-	-	-	419	-
<b>Sub-total of changes linked to relations with shareholders</b>	<b>-</b>	<b>67</b>	<b>(122)</b>	<b>(1,114)</b>	<b>(1,169)</b>	<b>(1,912)</b>	<b>-</b>
Change in unrealised or deferred gains and losses	-	-	-	-	-	19	-
2017 Net income	-	-	-	-	-	-	2,806
Change in equity of associates and joint ventures accounted for the equity method	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(3)	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>2,806</b>
<b>Shareholders' equity at 31 December 2017</b>	<b>1,010</b>	<b>20,344</b>	<b>(493)</b>	<b>8,566</b>	<b>29,427</b>	<b>27,791</b>	<b>2,806</b>
Appropriation of net income	-	-	-	-	-	2,806	(2,806)
IFRS 9 First time application (see Note 1)	-	-	-	-	-	(93)	-
<b>Shareholders' equity at 1 January 2018</b>	<b>1,010</b>	<b>20,344</b>	<b>(493)</b>	<b>8,566</b>	<b>29,427</b>	<b>30,504</b>	<b>-</b>
Increase in common stock	-	-	-	-	-	-	-
Elimination of treasury stock (see Note 7.1)	-	-	(174)	-	(174)	(12)	-
Issuance/Redemption/ Remuneration of other equity instruments (see Note 7.1)	-	-	-	544	544	(458)	-
Equity component of share-based payment plans (see Note 5.3)	-	59	-	-	59	-	-
2018 dividends paid (see Note 7.2)	-	-	-	-	-	(1,764)	-
Effect of changes of the consolidation scope	-	-	-	-	-	52	-
<b>Sub-total of changes linked to relations with shareholders</b>	<b>-</b>	<b>59</b>	<b>(174)</b>	<b>544</b>	<b>429</b>	<b>(2,182)</b>	<b>-</b>
Change in unrealised or deferred gains and losses	-	-	-	-	-	-	-
2018 Net income	-	-	-	-	-	-	3,864
Change in equity of associates and joint ventures accounted for the equity method	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	20	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>3,864</b>
<b>Shareholders' equity at 31 December 2018</b>	<b>1,010</b>	<b>20,403</b>	<b>(667)</b>	<b>9,110</b>	<b>29,856</b>	<b>28,342</b>	<b>3,864</b>

Unrealised or deferred gains and losses			Non-controlling interests					Total consolidated shareholders' equity
that will be reclassified subsequently into income	that will not be reclassified subsequently into income	Total	Shareholder's Group Share	Capital and reserves	Other equity instruments issued by subsidiaries	Unrealised or deferred gains and losses	Total	
1,670	-	1,670	61,953	2,920	800	33	3,753	65,706
-	-	-	8	-	-	-	-	8
-	-	-	(151)	-	-	-	-	(151)
-	-	-	(1,654)	(33)	-	-	(33)	(1,687)
-	-	-	59	-	-	-	-	59
-	-	-	(1,762)	(243)	-	-	(243)	(2,005)
-	-	-	419	614	-	-	614	1,033
-	-	-	(3,081)	338	-	-	338	(2,743)
(2,307)	-	(2,307)	(2,288)	(1)	-	(49)	(50)	(2,338)
-	-	-	2,806	624	-	-	624	3,430
(14)	-	(14)	(14)	-	-	-	-	(14)
-	-	-	(3)	(1)	-	-	(1)	(4)
(2,321)	-	(2,321)	501	622	-	(49)	573	1,074
(651)	-	(651)	59,373	3,880	800	(16)	4,664	64,037
-	-	-	-	-	-	-	-	-
(393)	(459)	(852)	(945)	(112)	-	(29)	(141)	(1,086)
(1,044)	(459)	(1,503)	58,428	3,768	800	(45)	4,523	62,951
-	-	-	-	-	-	-	-	-
-	-	-	(186)	-	-	-	-	(186)
-	-	-	86	(33)	-	-	(33)	53
-	-	-	59	-	-	-	-	59
-	-	-	(1,764)	(368)	-	-	(368)	(2,132)
-	-	-	52	(5)	-	-	(5)	47
-	-	-	(1,753)	(406)	-	-	(406)	(2,159)
58	412	470	470	-	-	(32)	(32)	438
-	-	-	3,864	692	-	-	692	4,556
-	(3)	(3)	(3)	-	-	-	-	(3)
-	-	-	20	6	-	-	6	26
58	409	467	4,351	698	-	(32)	666	5,017
(986)	(50)	(1,036)	61,026	4,060	800	(77)	4,783	65,809



## 6.1.6 CASH FLOW STATEMENT

(In millions of euros)

	2018	2017
<b>Consolidated net income (I)</b>	<b>4,556</b>	<b>3,430</b>
Amortisation expense on tangible and intangible fixed assets (including operational leasing)	4,589	4,283
Depreciation and net allocation to provisions	2,343	108
Net income/loss from investments accounted for using the equity method	(53)	(92)
Change in deferred taxes	357	673
Net income from the sale of long-term assets and subsidiaries	(101)	(110)
Other changes	2,256	4,367
<b>Non-cash items included in net income and others adjustments excluding income on financial instruments at fair value through profit or loss (II)</b>	<b>9,391</b>	<b>9,229</b>
Income on financial instruments at fair value through profit or loss	4,901	(5,113)
Interbank transactions	(1,929)	5,200
Customers transactions	(11,732)	(4,996)
Transactions related to other financial assets and liabilities	(1,598)	22,876
Transactions related to other non financial assets and liabilities	(4,643)	(2,228)
<b>Net increase/decrease in cash related to operating assets and liabilities (III)</b>	<b>(15,001)</b>	<b>15,739</b>
<b>Net cash inflow (outflow) related to operating activities (A) = (I) + (II) + (III)</b>	<b>(1,054)</b>	<b>28,398</b>
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long term investments	(5,928)	(280)
Net cash inflow (outflow) related to tangible and intangible fixed assets	(7,621)	(5,928)
<b>Net cash inflow (outflow) related to investment activities (B)</b>	<b>(13,549)</b>	<b>(6,208)</b>
Cash flow from/to shareholders	(2,543)	(3,836)
Other net cash flows arising from financing activities	(471)	(331)
<b>Net cash inflow (outflow) related to financing activities (C)</b>	<b>(3,014)</b>	<b>(4,167)</b>
<b>Net inflow (outflow) in cash and cash equivalents (A) + (B) + (C)</b>	<b>(17,617)</b>	<b>18,023</b>
Cash, due from central banks (assets)	114,404	96,186
Due to central banks (liabilities)	(5,604)	(5,238)
Current accounts with banks (see Notes 3.5 and 4.3)	22,159	24,639
Demand deposits and current accounts with banks (see Note 3.6)	(11,686)	(14,337)
<b>Cash and cash equivalents at the start of the year</b>	<b>119,273</b>	<b>101,250</b>
Cash, due from central banks (assets)	96,585	114,404
Due to central banks (liabilities)	(5,721)	(5,604)
Current accounts with banks (see Notes 3.5 and 4.3)	24,667	22,159
Demand deposits and current accounts with banks (see Note 3.6)	(13,875)	(11,686)
<b>Cash and cash equivalents at the end of the year</b>	<b>101,656</b>	<b>119,273</b>
<b>Net inflow (outflow) in cash and cash equivalents</b>	<b>(17,617)</b>	<b>18,023</b>

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## 6.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 6 February 2019.

### NOTE 1 SIGNIFICANT ACCOUNTING PRINCIPLES

#### NOTE 1.1 Introduction



##### ACCOUNTING STANDARDS

In accordance with European Regulation 1606/2002 of 19 July 2002 on the application of International Accounting Standards, the Societe Generale Group ("the Group") prepared its consolidated financial statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in force at that date.

These standards are available on the European Commission website at:

[https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps\\_en](https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_en)

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

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



##### FINANCIAL STATEMENTS PRESENTATION

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

The disclosures provided in the notes to the consolidated financial statements of the Societe Generale Group, its activities and the circumstances in which it conducted its operations over the period.



##### PRESENTATION CURRENCY

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

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

**NOTE 1.2 New accounting standards applied by the group as of 1 January 2018**

IFRS 9 “Financial Instruments” (see Note 1.4)

IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications

Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (see Note 1.4)

Annual improvements (2014-2016)

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

Amendments to IAS 40 “Transfers of Investment Property”

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

Amendments to IFRS 9 “Prepayment Features with Negative Compensation” (see Note 1.4)

**IFRS 9 “FINANCIAL INSTRUMENTS”, SUBSEQUENT AMENDMENTS AND AMENDMENTS TO IFRS 4 RELATED TO THE APPLICATION OF IFRS 9 BY INSURANCE COMPANIES**

The impacts of the first-time application of IFRS 9 are presented in Note 1.4 *First-time application of IFRS 9 “Financial Instruments”*.

IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications

This standard supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and their interpretations and sets out the new

requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

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

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



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

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

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

IFRS 15 and the other standards, amendments, improvements and interpretations presented below, applicable as from 1 January 2018, have no material impact on the net income and shareholders' equity of the Group.

**ANNUAL IMPROVEMENTS (2014-2016)**

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IAS 28 “Investments in Associates and Joint Ventures” and IFRS 12 “Disclosure of Interests in Other Entities”.

The amendment to IAS 28 clarifies the measurement of investments in associates or joint ventures held by a venture capital organisation or other qualifying entity.

The amendment to IFRS 12 clarifies the disclosure requirements related to an entity's interest that is classified as held for sale or as discontinued operations in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

**AMENDMENTS TO IFRS 2 “CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS”**

These amendments clarify how to account for certain types of share-based payment transactions: modelling vesting conditions regardless of settlement method, impacts of tax withholdings on share-based payment transactions, accounting treatment of modifications that change the settlement method (cash versus equity instruments) of the share-based payment transactions.

**AMENDMENTS TO IAS 40 "TRANSFERS OF INVESTMENT PROPERTY"**

These amendments reinforce the principle according to which the entity shall transfer property into or out of the investment property category. Such a transfer shall occur if and only if property meets, or ceases to meet, the definition of investment property and if there is evidence of a change in management's intentions regarding the use of the property.

**IFRIC 22 "FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION"**

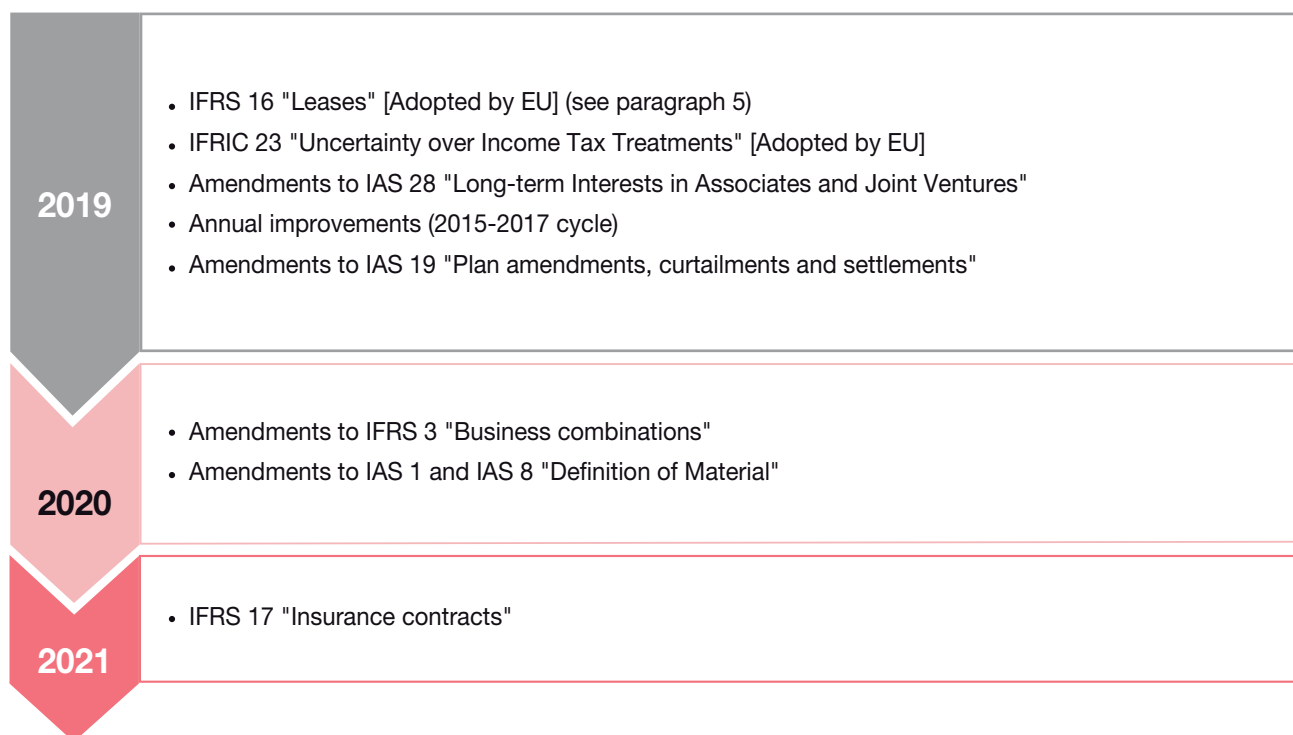
This interpretation clarifies the accounting for foreign currency transactions (payments or prepayments). The transaction shall provide a consideration that is denominated or priced in a foreign currency. Before this transaction, a prepayment asset or a deferred income liability shall be recognised and considered as a non-monetary item. The date of the transaction, for determining the exchange rate, is the date of initial recognition of the non-monetary asset or liability, except when there are multiple payments or receipts in advance, in which case the date of transaction will be established for each payment or receipt.

**NOTE 1.3 Accounting standards, amendments or interpretations to be applied by the Group in the future**

IASB published accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 31 December 2018. They are required to be

applied from annual periods beginning on 1 January 2019 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Group as at 31 December 2018.

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

**IFRS 16 "LEASES"**

IFRS 16 is presented in Note 1.5 *Preparation for the first application of IFRS 16 "Leases"* below.

**IFRIC 23 "UNCERTAINTY OVER INCOME TAX TREATMENTS"**

*Adopted by the European union on 23 October 2018*

This interpretation provides clarifications about the measurement and accounting treatment of income tax when there is uncertainty over income tax treatments. The approach to be used should be the one that provides the best predictions of the resolution of the uncertainty.

The process for identifying, analysing and monitoring tax uncertainties has been reviewed. The Group expects no material effect of this interpretation on equity.

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

*Issued by IASB on 12 October 2017*

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

**ANNUAL IMPROVEMENTS (2015-2017)**

*Issued by IASB on 12 December 2017*

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

**AMENDMENTS TO IAS 19 "PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT"***Issued by IASB on 7 February 2018*

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

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

**AMENDMENTS TO IFRS 3 "BUSINESS COMBINATIONS"***Issued by the IASB on 22 October 2018*

The amendments are intended to provide clearer application guidance to make it easier to differentiate between the acquisition of a business and the acquisition of a group of assets, whose accounting treatment is different.

**AMENDMENTS TO IAS 1 AND IAS 8 "DEFINITION OF MATERIAL"***Issued by the IASB on 31 October 2018*

These amendments are intended to clarify the definition of 'material' in order to facilitate the exercise of judgement during the preparation financial statements, particularly when selecting the information to be presented in the Notes.

**IFRS 17 "INSURANCE CONTRACTS"***Issued by IASB on 18 May 2017*

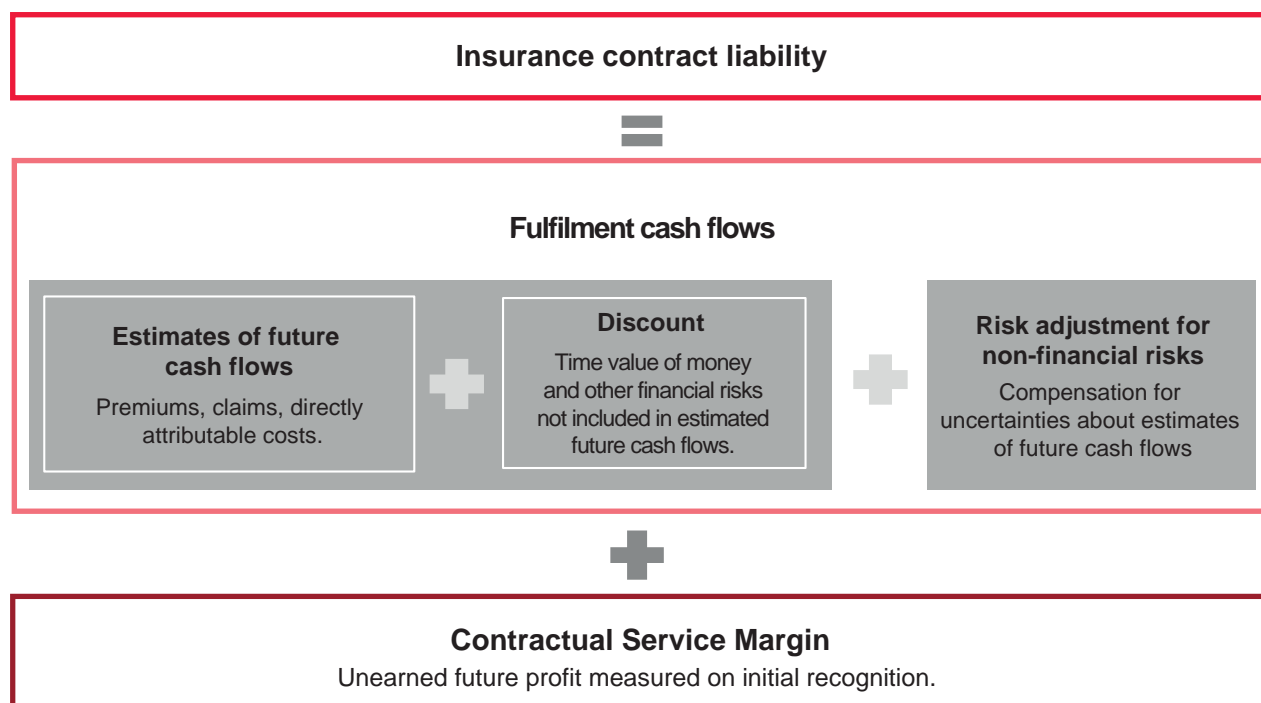
This new standard will replace IFRS 4 "Insurance Contracts" that was issued in 2004 and which currently allows entities to use national requirements for the accounting of insurance contracts.

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

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

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

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



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

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

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

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

IASB is currently discussing implementation challenges and concerns raised by stakeholders since IFRS 17 was issued and is considering whether there is a need to amend the Standard. Moreover, in November 2018, Board members decided to defer by one year the mandatory effective date of IFRS 17, so that it would become applicable for annual periods beginning on or after 1 January 2022 if this amendment is issued.

## NOTE 1.4 First application of IFRS 9 “Financial Instruments”

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

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

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

### IFRS 9 ACCOUNTING PRINCIPLES

#### Classification and measurement of financial assets and liabilities

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

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

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

#### Credit risk

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

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

#### Hedge accounting

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

However, additional disclosures related to hedging transactions are provided in Note 3.2 to the 31 December 2018 consolidated financial statements pursuant to amendments to IFRS 7.

### TRANSITION REQUIREMENTS

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

Consequently, for financial instruments, the data for financial year 2017 which are presented in comparison with the data for financial year 2018 comply with the provisions of IAS 39 as adopted by the European Union. Accounting principles applicable to financial instruments up to 31 December 2017 are presented in the Note 8.8.

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

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

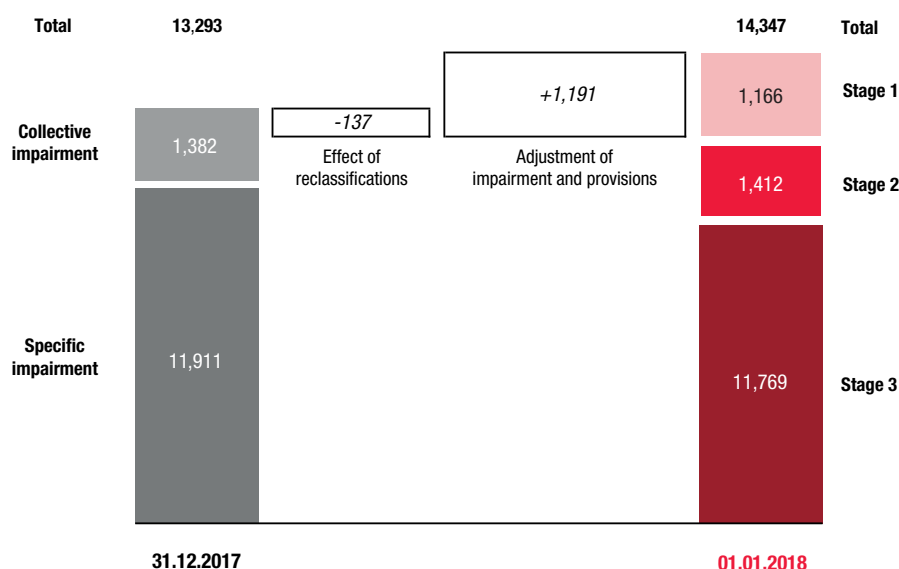
The following table shows the 2018 *Net banking income* prior to this reclassification:

(In millions of euros)	2018	2017
Interest and similar income	24,730	23,679
Interest and similar expense	(14,065)	(13,263)
Fee income	10,798	10,504
Fee expense	(3,874)	(3,681)
Net gains and losses from financial transactions	5,471	5,826
<i>o/w net gains and losses on financial instruments at fair value through profit or loss</i>	5,018	5,113
<i>o/w net gains and losses on available-for-sale financial assets</i>	136	713
<i>o/w net gains and losses on financial instruments at fair value through other comprehensive income</i>	330	
<i>o/w net gains and losses from the derecognition of financial assets at amortised cost</i>	(13)	
Income from other activities	24,097	22,045
Expenses from other activities	(21,952)	(21,156)
<b>NET BANKING INCOME</b>	<b>25,205</b>	<b>23,954</b>

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

## IMPACT ON BALANCE SHEET

### Reconciliation of the asset side between IAS 39 and IFRS 9

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

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

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

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

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

	Reclassifications							
	Balances at 31.12.2017 IAS 39	of investments of insurance activities	of available- for-sale financial assets	of held-to- maturity financial assets	of non-SPPI loans and receivables	of loans and receivables regarding their business model	Others	Reclassified balances
(In millions of euros)		A	B	C	D	E	F	
Cash, due from central banks	114,404	-	-	-	-	-	-	114,404
Financial assets at fair value through profit or loss	419,680	(54,598)	2,422	-	643	644	537	369,328
Hedging derivatives	13,641	(420)	-	-	-	-	(503)	12,718
Financial assets at fair value through other comprehensive income	N/A	-	49,874	485	-	80	-	50,439
Available-for-sale financial assets	139,998	(84,731)	(55,267)	-	-	-	-	-
Securities at amortised cost	N/A	-	2,971	3,078	-	-	5,650	11,699
Due from banks at amortised cost	60,866	(7,103)	-	-	(5)	(80)	(18)	53,660
Customer loans at amortised cost	425,231	(141)	-	-	(638)	(644)	(5,580)	418,228
Revaluation differences on portfolios hedged against interest rate risk	663	-	-	-	-	-	-	663
Investments of insurance activities	N/A	147,611	-	-	-	-	-	147,611
Held-to-maturity financial assets	3,563	-	-	(3,563)	-	-	-	-
Tax assets	6,001	-	-	-	-	-	-	6,001
Other assets	60,562	-	-	-	-	-	(86)	60,476
Non-current assets held for sale	13	-	-	-	-	-	-	13
Investments accounted for using the equity method	700	-	-	-	-	-	-	700
Tangible and intangible fixed assets	24,818	(618)	-	-	-	-	-	24,200
Goodwill	4,988	-	-	-	-	-	-	4,988
<b>TOTAL</b>	<b>1.275.128</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.275.128</b>

(In millions of euros)	Reclassified balances	Value adjustments			Balance at 01.01.2018 IFRS 9 <sup>(1)</sup>
		Reclassification effects	Impairment for credit risk	Change in deferred taxes	
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
<b>TOTAL</b>	<b>1,275,128</b>	<b>(282)</b>	<b>(925)</b>	<b>295</b>	<b>1,274,216</b>

(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 held by those entities have been grouped in a specific line of the balance sheet (*Investments of insurance activities*) in which financial assets remain recorded in compliance with IAS 39.

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

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

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

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

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

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

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

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

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

- the portion of syndicated loans that are not intended to be kept by the Group and that have been identified since their origination as to be sold in the short term on the secondary market; and
- residual outstandings of CDO (Collateralised Debt Obligations) tranches and ABS (Asset Backed Securities) tranches presented among loans and receivables since their reclassification in 2008 and that are intended to be sold through an organised and pre-determined disposal program.

### Other reclassifications (column F)

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

## DESCRIPTION OF VALUE ADJUSTMENTS

### Limited effects of reclassifications (column G)

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

### Increase in credit risk impairment (column H)

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

### Tax effects (column I)

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

## Reconciliation of the liability side between IAS 39 and IFRS 9

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

(In millions of euros)	Balances at 31.12.2017 IAS 39	Reclassifications		Value adjustments				Balance at 01.01.2018 IFRS 9(1)
		of insurance liabilities	of own credit risk adjustment	Others	Reclassifi- cations effects	Impairment and provisions for credit risks	Change in deferred taxes	
		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
<b>TOTAL LIABILITIES</b>	<b>1,211,091</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38)</b>	<b>266</b>	<b>(54)</b>	<b>1,211,265</b>
<b>SHAREHOLDERS' EQUITY</b>								
<b>Shareholders' equity, Group share</b>								
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
<b>SUB-TOTAL</b>	<b>60,024</b>	<b>-</b>	<b>724</b>	<b>-</b>	<b>113</b>	<b>(1,031)</b>	<b>101</b>	<b>59,931</b>
Unrealised or deferred capital gains and losses	(651)	-	(724)	-	(329)	5	196	(1,503)
<b>SUB-TOTAL EQUITY, GROUP SHARE</b>	<b>59,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(216)</b>	<b>(1,026)</b>	<b>297</b>	<b>58,428</b>
Non-controlling interests	4,664	-	-	-	(28)	(165)	52	4,523
<b>TOTAL EQUITY</b>	<b>64,037</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(244)</b>	<b>(1,191)</b>	<b>349</b>	<b>62,951</b>
<b>TOTAL</b>	<b>1,275,128</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(282)</b>	<b>(925)</b>	<b>295</b>	<b>1,274,216</b>

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

## DESCRIPTION OF RECLASSIFICATIONS

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

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

### OCA (Own Credit risk Adjustment) (column B)

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

### Other reclassifications (column C)

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

## DESCRIPTION OF VALUE ADJUSTMENTS

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

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

**Tax effects (column F)**

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

**Equity (columns D, E and F)**

The value adjustments recorded as at 1 January 2018 on Group assets and liabilities in compliance with IFRS 9 have been recorded with a

corresponding entry in equity. Those adjustments are mainly due to the application of the new accounting model for credit risk (EUR -1,191 million).

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



**NOTE 1.5 Preparation for the first application of IFRS 16 "Leases"**

This new standard will supersede, as from 1 January 2019, the existing standard, IAS 17. It will modify the accounting requirements for leases,

more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

**ACCOUNTING TREATMENTS PROVIDED BY IFRS 16**

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

	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		€ € €	---

**Scope**

IFRS 16 will concern any contract meeting the definition of a lease except for:

- leases to explore for or use non-regenerative resources and leases of biological assets;
- service concession arrangements;

- licences of intellectual property;
- rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Lessees are not required to apply this standard to intangible assets leases (software for example). In preparing the application of the standard, the Group used this option.

The Group, as a lessee, recorded its leases as operating leases until 31 December 2018, and recorded the lease payments as an expense on a straight-line basis over the lease term, pursuant to IAS 17.

These annual lease payments totalled EUR 752 million in 2018, compared to EUR 839 million in 2017 (see Note 8.2).



### Property Leases

Most of the leases (>90%) involve building leases contracted for the lease of commercial and office space:

- The commercial spaces are branches in the Group's French and international retail banking networks.
- The office buildings are leased for certain departments reporting to the Group's French headquarters or the local head offices of the main foreign subsidiaries, and for certain locations in the main international financial centres: London, New York, Hong Kong...

At 31 December 2018, there are approximately 4,500 outstanding property leases, including more than 3,500 in France.

The majority of leases contracted in France are nine-year commercial leases with early termination options at three and six years (so-called "3/6/9" leases).

Outside France, residual lease periods are generally below 10 years. In some countries, such as Russia, leases can be annual, with optional automatic renewal. In other locations, specifically London and New York, lease periods can be as long as 25 years.

### Equipment Leases

Other leases (<10%) are mainly computer equipment leases and a very small percentage of vehicle leases.

## Simplified procedures

Lessors may choose not to apply the new lease treatment to contracts with a term of less than one year (including renewal options), nor to contracts on low-value items. This last simplification applies specifically to small equipment such as personal computers, tablets, telephones,

and small items of office furniture. The IASB mentions a guideline threshold of USD 5,000 in the standard's Basis for Conclusions (the threshold should be measured against the replacement cost per unit of the leased asset).

The Group has decided to apply this exemption threshold of USD 5,000 and has, furthermore, considered the possibility to exclude other lease agreements provided the effect of these exclusions will remain immaterial with regard to its financial statements.

The majority of vehicle leases are contracted with the Group's consolidated entities belonging to the ALD Automotive sub-group. Leases contracted with lessors outside the Group are marginal and fall within the scope of additional exclusions because they are immaterial.

## Distinction between leases and service contracts

IFRS 16 introduces new provisions for distinguishing leases from service contracts.

In the lessees' accounts, the standard will no longer separate contracts classified as operating leases from lease financing contracts.

However, the contracts must be analysed to determine whether they meet the definition of a lease, and to separate, as applicable, the various lease components from the non-lease (or service) components.

A contract is, or contains, a lease if it conveys to the lessor the right to control the use of an identified asset for a period of time in exchange for consideration:

- Control is conveyed where the customer has both the right to direct the identified asset's use, and to obtain substantially all the economic benefits from that use throughout the lease period.

- The existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset; this condition is measured with regard to the facts and circumstances existing at the commencement of the contract. If the lessor has the option of freely substituting the leased asset, the contract can not be qualified as a lease, since its purpose is the provision of a capacity and not an asset.

- A capacity portion of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). Conversely, a portion of the capacity or of an asset that is not physically distinct does not constitute an identified asset (e.g. the lease of co-working area within a unit with no pre-defined location inside that unit).

If the lessor cannot separate the non-lease (or service) components from the lease components within a single contract, the contract will be qualified as a single lease.

The Group has entered into contracts giving it access to back up sites that can be used if the entities' customary premises should become inaccessible. If these contracts include lease and service components, they will be treated entirely as leases.

Marginally, certain contracts for providing back up sites have been identified as being entirely service contracts. These back up sites are not specifically designed for the entity and do not consist of entire buildings; they only provide areas within building complexes, without pre-defined location within the building complex, and they do not represent virtually all of the capacity of the building complex.

### Accounting treatment of lease contracts for the lessees



#### RECOGNITION OF A LESSEE'S LEASE LIABILITY

On the commencement date (on which the leased asset is made available for use), the lessee must book a lease liability on the liabilities side of its balance sheet. The initial amount of the liability is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the balance sheet.

The amount of the lease liability may be adjusted later if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

As applicable, the lessee must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

#### LEASE PERIOD

The lease period to be applied in determining the rental payments to be discounted will match the non-cancellable period of the lease adjusted for:

- options to extend the contract that the lessee is reasonably certain to exercise,
- and early termination options that the lessee is reasonably certain not to exercise.

The measurement of the reasonable certainty of exercising or not exercising the extension or early termination options shall take into account all the facts and circumstances that may create an economic incentive to exercise or not to exercise these options, specifically:

- the conditions for exercising these options (including measurement of the amount of the rental payments in case of an extension, or of the amount of penalties that may be imposed for early termination),
- substantial changes made to the leased premises (specific layouts, such as a bank vault),
- the costs associated with terminating the contract (negotiation costs, moving costs, research costs for a new asset that meets the lessee's requirements, etc.),
- the importance of the leased asset for the lessee, in view of its specific nature, its location, or the availability of substitute assets (specifically for branches located in commercially strategic sites, given their accessibility, expected traffic, or the prestige of the location),
- the history of renewals of similar contracts, as well as the strategy for the future use of the assets (based on the prospect of redeployment or rearrangement of a commercial branch network, for example).

If the lessee and the lessor each have the right to terminate the lease without the prior agreement of the other party and with no penalty other than a negligible one, the contract is no longer binding, and thus it no longer creates a lease liability.

In France, the majority of property leases contracted in France are nine-year commercial leases with early termination options at three and six years (so-called "3/6/9" leases). If a new contract is not signed by the end of that nine-year period, the initial lease is automatically extended.

These "3/6/9" commercial leases are generally enforceable for a term of nine years, with an initial three-year non-cancellation period.

#### LEASE DISCOUNT RATES

The implicit contract rates are not generally known nor easily determined, specifically for building leases. Therefore, the Group has decided to use the lessees' incremental borrowing rate to discount the rental payments as well as the amount of lease liabilities.

The incremental borrowing rate is set by the lessee entity, not by the Group, in consideration of the borrowing terms and that entity's credit risk.

The discount rates to be used by the Group shall be set according to the currency and country of location of the lessee entities.

#### RENTAL PAYMENT AMOUNTS

The payments to be applied for the measurement of the lease liability include fixed and variable rental payments based on an index (e.g. consumer price index or construction cost index) or a benchmark interest rate (Euribor), plus, where applicable, the funds that the lessee expects to pay the lessor for residual value guarantees, purchase options, or early termination penalties.



However, variable lease payments that are indexed based on the use of the leased asset (indexed to revenue or mileage, for example) are excluded from the measurement of lease liability. This variable portion of the rental payments is recorded in the net income over time according to fluctuations in contractual indexing.

In France, rental payments will be applied based on their amount net of value-added tax. In addition, for building leases, occupancy taxes and property taxes passed on by lessors will be excluded from lease liabilities because their amount, as set by the competent public authorities, is variable.



#### RECOGNITION OF A LESSEE'S RIGHT-OF-USE

On the availability date of the leased asset, the lessee must enter a right-of-use to the leased asset, on the assets side of the balance sheet, for an amount equal to the initial value of the lease liability, plus, as applicable, initial direct costs, advance payments, and restoration costs.

This asset is then depreciated on a straight-line basis over the lease period that is applied for measuring the lease liability.

The asset's value may be adjusted later if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

Rights-of-use will be presented on the lessee's balance sheet under the items of fixed assets where properties of the same type that are held in full ownership are entered. If the leases stipulate the initial payment of a leasehold right to the former tenant of the premises, the amount of that right will be stated as a component of the right of use and presented under the same heading as the latter. At 31 December 2018, the amount of leasehold rights recorded by the Group under Intangible fixed assets was approximately EUR 100 million.

In the income statement, depreciation charges on rights-to-use will be presented with the depreciation charges on fixed assets held in full ownership.

#### INCOME TAX

Deferred tax will be recorded on the basis of the net amount of taxable and deductible temporary differences.

On the date of the initial recording of the right-of-use and the lease liability, no deferred tax will be recorded if the asset value is equal to the liability value.

The net temporary differences that may result from subsequent changes in the right-to-use and lease liability will result in the recognition of deferred tax.

#### ORGANISATION OF THE SCHEDULE FOR IMPLEMENTING IFRS 16

In the fourth quarter of 2016, following a preliminary analysis phase on IFRS 16, the Group began scoping work for adapting information systems and processes, and defining the scope of such contracts.

To this end, a project structure was set up under the joint governance of the Group's Finance and Corporate Resources Divisions.

Over the course of 2017, the Group undertook an initial collection of leases on real estate assets and began the collection of contracts for IT equipment to enter into a contract database.

At the same time, the Group undertook development of an in-house calculation and operation tool for lease databases, which will be used to generate the data required to recognise the leases in accordance with IFRS 16.

In 2018, the Group finalised the development of its calculation tool and its entries through the lease databases and tested its features. All personnel involved received training in IFRS 16 and its implementation procedures as well as in the new operation tools and processes in place. In the second half of the year, a full rehearsal was done to test the entire implementation mechanism for IFRS 16.

#### TRANSITION PROCEDURES

For the first-time application of IFRS 16, the Group chose to implement the amended retrospective approach proposed by the standard.

At 1 January 2019, the amount of the lease liability on outstanding leases will be calculated by discounting residual rental payments with the rate in effect on that date, taking into account the residual maturity of the contracts. The corresponding rights-to-use will be recorded on the balance sheet for an amount equal to the lease liability. Therefore, the first-time application of IFRS 16 will have no impact on the amount of the Group shareholders' equity at 1 January 2019.

On that date, leases that have a remaining life of less than 12 months and those that are automatically renewable will be considered short-term leases (leases of less than one year) and not restated, in accordance with the option offered by IFRS 16.

Pursuant to IFRS 16 in its provisions on the amended retrospective approach, comparative data on financial year 2018 that are presented with regard to 2019 will not be restated.

#### FIRST-TIME APPLICATION OF IFRS 16

Identification and analysis of the lease contracts were approved by the Group by 31 December 2018. The entry of outstanding leases at 1 January 2019 into the lease databases and their release into the calculation tool to determine the final amount of the lease liability and rights-to-use as of the first-time application date will be finalised during the first quarter of 2019.

At the date of approval of these consolidated financial statements by the Board of Directors, the Group estimates that the first application of IFRS 16 will lead to the recognition of a lease liability and of an asset representative of the rights-to-use for an amount of less than EUR 2.5 billion.



**NOTE 1.6 Use of estimates and judgment**

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

In order to make these assumptions and estimates, the Management uses information available at the date of preparation of the consolidated financial statements and can exercise its judgment. By nature, valuations based on estimates include risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and may then have a significant impact on the financial statements.

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

- the fair value in the balance sheet of financial instruments not quoted in an active market which are classified as *Financial assets and liabilities at fair value through profit or loss*, *Hedging derivatives*, *Financial assets at fair-value through other comprehensive income* or even *Available-for-sale financial assets* for the 2017 financial year (described in Notes 3.1, 3.2, 3.3 and 3.4) and fair value of instruments measured at amortised cost for which this information must be disclosed in the notes to the financial statements (see Note 3.9);
- the amount of impairment and provisions for credit risk related to financial assets measured at amortised cost, or at fair-value through other comprehensive income, loan commitments granted and guarantee commitments granted measured with models or internal assumptions based on historical, current and prospective data (see Note 3.8);
- the amount of impairment on *Goodwill* (see Notes 2.2);

- the provisions recognised under liabilities (in particular, provisions for disputes in a complex legal environment and provisions for employee benefits), including underwriting reserves of insurance companies and deferred profit-sharing (see Notes 4.3, 5.2 and 8.3);
- the amount of deferred tax assets recognised in the balance sheet (see Note 6);
- the assessment of control of the Group over an entity when updating the consolidation scope, mainly when structured entities are concerned (see Note 2);
- the initial value of goodwill determined for each business combination (see Notes 2.1 and 2.2).

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

The United Kingdom has organised on 23 June 2016 a referendum in which a majority of British citizens voted to leave the European Union (Brexit). This exit must occur on 29 March 2019. The technical agreement concluded between the British government and the European Commission to reshape the economic relations between United Kingdom and the European Union has been rejected by the British parliament in January 2019. In the event of an exit of United Kingdom from the European Union on 29 March 2019 without any consent on a transition agreement, the Group is taking actions to ensure the business continuity for its customers from this date. Those changes of Brexit implementation process have been considered in the assumptions and assessments adopted for the preparation of the Group financial statements.

## NOTE 2 CONSOLIDATION



### MAKE IT SIMPLE

The various activities of the Societe Generale Group in France and abroad are carried out by Societe Generale – Parent company (which includes the Societe Generale foreign branches) and by all of the entities that it controls either directly or indirectly (subsidiaries and joint arrangements) or on which it exercises significant influence (associates). All of these entities make up the scope of the Group consolidation.

Consolidation uses a standardized accounting process to give an aggregated presentation of the accounts of Societe Generale – Parent company and its subsidiaries, joint arrangements and associates, presented as if they were a single entity.

To do so, the individual accounts of the entities that make up the Group are restated so that they are in accordance with IFRS, as adopted by the European Union, in order to present consistent information in the consolidated financial statements.

In addition, the accounting balances (assets, liabilities, income and expense) generated by transactions between Group entities are eliminated through the consolidation process so that the consolidated financial statements present only the operations and results made with third parties outside of the Group.

### ACCOUNTING PRINCIPLES

The consolidated financial statements of Societe Generale include the financial statements of the parent company and of the main French and foreign companies as well as foreign branches over which the Group exercises control, joint control or significant influence.

#### Consolidated entities

##### SUBSIDIARIES

Subsidiaries are the entities over which the Group has exclusive control. The Group controls an entity if and only if the following conditions are met:

- the Group has power over the entity (ability to direct its relevant activities, *i.e.* the activities that significantly affect the entity's returns), through the holding of voting rights or other rights; and
- the Group has exposure or rights to variable returns from its involvement with the entity; and
- the Group has the ability to use its power over the entity to affect the amount of the Group's returns.

##### Power

When determining voting rights for the purpose of establishing the Group's degree of control over an entity and the appropriate consolidation methods, potential voting rights are taken into account where they can be freely exercised at the time the assessment is made or at the latest when decisions about the direction of the relevant activities need to be made. Potential voting rights are instruments such as call options on ordinary shares outstanding on the market or rights to convert bonds into new ordinary shares.

When voting rights are not relevant to determine whether or not the Group controls an entity, the assessment of this control shall consider all the facts and circumstances, including the existence of one or more contractual arrangements. Power over an investee exists only if the investor has substantive rights that give it the current ability to direct relevant activities without barriers.

Some rights are designed to protect the interests of their holder (protective rights) without giving that party power over the investee to which those rights relate.

If several investors each have substantive rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the variable returns of the investee is presumed to have power over the investee.

##### Exposure to variable returns

Control exists only if the Group is significantly exposed to the variability of variable returns generated by its investment or its involvement in the entity. These returns, which could be dividends, interest, fees, etc., can be only positive, only negative or both positive and negative.

##### Link between power and returns

Power over the relevant activities does not give control to the Group if this power does not allow it to affect its returns from its involvement with the entity. If the Group has been delegated decision-making rights that it exercises on behalf and for the benefit of third parties (the principals), it is presumed to act as an agent for these principals, and therefore it does not control the entity when it exercises its decision-making authority. In asset management activities, an analysis shall be performed in order to determine whether the asset manager is acting as agent or principal when managing the net assets of a fund; the fund is presumed to be controlled by the asset manager if the latter is considered as a principal.

**Special case of structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such is the case, for example, when the relevant activities are directed by means of contractual arrangements.

A structured entity often presents certain characteristics such as a limited business activity, a specific and carefully defined purpose, or insufficient capital to fund its activities without the use of subordinated financing.

Structured entities may assume different legal forms: stock companies, partnerships, securitisation vehicles, mutual funds, unincorporated entities, etc.

When assessing the existence of control over a structured entity, all facts and circumstances shall be considered among which:

- the purpose and design of the entity;
- the structuring of the entity;
- risks to which the entity is exposed by way of its design and the Group's exposure to some or all of these risks;
- potential returns and benefits for the Group.

Unconsolidated structured entities are those that are not exclusively controlled by the Group.

**JOINT ARRANGEMENTS**

Through a joint arrangement (either a joint operation or a joint venture) the Group exercises joint control over an entity if decisions about the direction of its relevant activities require the unanimous consent of the parties that collectively control the entity. Assessing joint control requires an analysis of the rights and obligations of all the parties.

In the case of a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities.

In the case of a joint venture, the parties have rights to the net assets of the entity.

**ASSOCIATES**

Associates are companies over which the Group exercises significant influence and are accounted for using the equity method in the Group's consolidated financial statements. Significant influence is the power to participate in the financial and operating policies of an entity without exercising control. In particular, significant influence can result from Societe Generale being represented on the Board of Directors or Supervisory Board, from its involvement in strategic decisions, from the existence of significant intercompany transactions, from the exchange of management staff, or from the company's technical dependency on Societe Generale. The Group is assumed to exercise significant influence over the financial and operating policies of an entity when it directly or indirectly holds at least 20% of the voting rights in this entity.

**Consolidation rules and methods**

The consolidated financial statements are built up from the financial statements of the entities that are included in the consolidation scope. Companies with a fiscal year ending more than three months before or after that of Societe Generale prepare pro-forma statements for a twelve-month period ended 31 December. All significant balances, profits and transactions between Group companies are eliminated.

The results of newly acquired subsidiaries are included in the consolidated financial statements from the date the acquisition became effective and results of subsidiaries disposed of during the fiscal year are included up to the date where the Group relinquished control.

**CONSOLIDATION METHODS**

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

In the consolidated balance sheet, full consolidation consists in replacing the value of the subsidiary's equity securities held by the Group with each of the subsidiary's assets and liabilities, in addition to the goodwill recognised when the Group assumed control over the entity (see Note 2.2).

In the income statement and the statement of net income and unrealised or deferred gains and losses, the subsidiary's expense and income items are aggregated with those of the Group.

The share of non-controlling interests in the subsidiary is presented separately in the consolidated balance sheet and income statement. However, in consolidating structured entities that are controlled by the Group, the shares of said entities not held by the Group are recognised as *Debt* in the balance sheet.

In the case of a joint operation, the Group distinctly recognises in its consolidated financial statements its share in the assets and liabilities as well as its share in the related revenue and expense.

Associates and joint ventures are accounted for using the equity method in the consolidated financial statements of the Group. Under the equity method, on initial recognition the investment in an associate is recognised under *Investments accounted for using the equity method* at the cost of the Group's investment in the joint venture or associate, including goodwill and after the date of acquisition the carrying amount is increased or decreased to recognise the changes in the investor's share in the net asset value of the investee.

These investments are tested for impairment if there is objective evidence of impairment. If the recoverable amount of the investment (value in use or market value net of selling costs, whichever is higher) is lower than its carrying amount, an impairment loss is recorded on the balance sheet at the carrying amount of the investment. Impairment allowances and reversals are recorded under *Net income from investments accounted for using the equity method*.

The Group's share in the entity's net income and unrealised or deferred gains and losses is presented on separate lines in the consolidated income statement and the consolidated statement of net income and unrealised or deferred gains and losses. If the Group's share in the losses of an entity consolidated using the equity method becomes greater than or equal to its ownership interest in the company, the Group ceases to recognise its share in subsequent losses unless it is required to do so by legal or implied obligations, in which case it records a provision for said losses.

Capital gains and losses generated on disposal of companies accounted for using the equity method are recorded under Net income/expense from other assets.

#### TRANSLATION OF FOREIGN ENTITY FINANCIAL STATEMENTS

The balance sheet items of consolidated companies reporting in foreign currencies are translated into euro at the official exchange rates prevailing at the closing date. Income statement items of these companies are translated into euros, at the average month-end exchange rates. Gains and losses arising from the translation of capital, reserves, retained earnings and income are recognised under *Unrealised or deferred gains and losses – Translation differences*. Gains and losses arising from the translation of the capital contribution of foreign branches of Group banks are also included in changes in consolidated shareholders' equity under the same heading.

In accordance with the option allowed under IFRS 1, the Group allocated all differences arising on translation of foreign entity financial statements at 1 January 2004 to consolidated reserves. As a result, if any of these entities are sold, the proceeds from the sale will only include write-backs of those translation differences arising since 1 January 2004.

#### CHANGES IN GROUP'S OWNERSHIP INTEREST IN A CONSOLIDATED ENTITY

In the event of an increase in Group's ownership interest in a subsidiary over which it already exercises control: the differences between the price paid for the additional stake and the assessed fair value of the proportion of net assets acquired at this date is recorded under *Consolidation reserves, Group share*.

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

At this date when the Group loses control of a consolidated subsidiary, any investment retained in the former subsidiary is then remeasured at fair value through profit or loss, at the same time the capital gain or loss is recorded under *Net income/expense from other assets* in the consolidated income statement. The gain or loss on disposal includes a share of goodwill previously allocated to the cash-generating units to which the subsidiary belongs. This share is determined using a relative approach based on the normative capital allocated to the subsidiary that is sold and to the portion of cash-generating unit that is retained.

#### Commitments to buy out minority shareholders in fully consolidated subsidiaries

The Group has awarded minority shareholders in some fully consolidated Group subsidiaries commitments to buy out their stakes. For the Group, these buyout commitments are put option sales. The exercise price for these options can be established using a formula agreed upon at the time of the acquisition of the shares in the subsidiary that takes into account its future performance. It can also be set as the fair value of these shares at the exercise date of the options.

The commitments are recorded as follows:

- in accordance with IAS 32, the Group records a financial liability for the put options granted to minority shareholders of the subsidiaries over which it exercises control. This liability is initially recognised at the present value of the estimated exercise price of the put options under *Other Liabilities*;
- the obligation to recognise a liability even though the put options have not been exercised means that, in order to be consistent, the Group must use the same accounting treatment as that applied to transactions in *Non-controlling interests*. As a result, the counterpart of this liability is a write-down in value of non-controlling interests underlying the options, with any balance deducted from *Retained earnings, Group share*;
- subsequent variations in this liability linked to changes in the estimated exercise price of the options and the carrying value of *Non-controlling interests* are recorded in full in *Retained earnings, Group share*;
- if the buy-out takes place, the liability is settled by the cash payment linked to the acquisition of non-controlling interests in the subsidiary in question. However if, when the commitment reaches its term, the buy-out has not occurred, the liability is written off against *Non-controlling interests* and *Retained earnings, Group share* for their respective portions;
- as long as the options have not been exercised, the results linked to *Non-controlling interests* with a put option are recorded under *Non-controlling interests* on the Group's consolidated income statement.

**NOTE 2.1 Consolidation scope**

The scope of consolidation is presented by location in Note 8.6.

The consolidation scope includes subsidiaries and structured entities under the Group's exclusive control, joint arrangements (joint ventures and joint operations) and associates whose financial statements are significant relative to the Group's consolidated financial statements,

notably regarding Group consolidated total assets and gross operating income.

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

**NOTE 2.2 Goodwill**

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SIMPLE

When the Group acquires a company, it integrates in its consolidated balance sheet all of the new subsidiary's assets and liabilities at fair value, as if they had been individually acquired.

But the acquisition price of a company is generally higher than the net revalued amount of its assets and liabilities. The excess value, called goodwill, can represent part of the company's intangible capital (reputation, quality of its personnel, market shares, etc.) which contributes to its overall value, or the value of the future synergies that the Group hopes to develop by integrating the new subsidiary in its existing activities.

In the consolidated balance sheet, the goodwill is recognised as an intangible asset, the useful life of which is presumed to be unlimited; it is not amortised and therefore does not generate any recurring expense in the Group's future results.

However, every year, the Group assesses whether the value of its goodwill has not depreciated. If it has, an irreversible expense is immediately recognised in the Group results, which indicates that the profitability of the intangible capital of the acquired entity is inferior to initial expectations, or that the anticipated synergies have not been fulfilled.

**ACCOUNTING PRINCIPLES**

The Group uses the acquisition method to recognise its business combinations.

At the acquisition date, all assets, liabilities, off-balance sheet items and contingent liabilities of the acquired entities that are identifiable under the provisions of IFRS 3 "Business Combinations" are measured individually at their fair value regardless of their purpose. The analyses and professional appraisals required for this initial valuation must be carried out within 12 months as from the acquisition date, as must any adjustment to the value based on new information related to facts and circumstances existing at the acquisition date. At the same time, *Non-controlling interests* are valued according to their share of the fair value of the identifiable assets and liabilities of the acquired entity. However, for each business combination, the Group may also choose to measure *Non-controlling interests* initially at their fair value, in which case a fraction of goodwill is allocated.

The acquisition cost is calculated as the total fair value, at the date of acquisition, of all assets given, liabilities incurred or assumed and equity instruments issued in exchange for the control of the acquired entity. The costs directly linked to business combinations are recognised in the income statement for the period except those related to the issuance of equity instruments.

Any contingent consideration is included in the acquisition cost at its fair value on the acquisition date, even if its occurrence is only potential. It is recognised under equity or debt in the balance sheet depending on the settlement alternatives.

If it is recognised as debt, any subsequent adjustments are recorded under income for financial liabilities in accordance with IFRS 9 and within the scope of the appropriate standards for other debts; if it is recognised as equity, these subsequent adjustments are not recognised. Any excess of the price paid over the assessed fair value of the proportion of net assets acquired is recorded on the asset side of the consolidated balance sheet under *Goodwill*. Any deficit is immediately recognised in the income statement. On the date of acquisition of an entity, any stake in this entity already held by the Group is remeasured at fair value through profit or loss. In the case of a step acquisition, goodwill is therefore determined by referring to the fair value on the acquisition date.

At the acquisition date, each item of goodwill is allocated to one or more Cash-Generating Units (CGU's) expected to derive benefits from the acquisition. When the Group reorganises its reporting structure in a way that changes the composition of one or more CGU's, goodwill previously allocated to modified units is reallocated to the units affected (new or existing). This reallocation is generally performed using a relative approach based on the normative capital requirements of each CGU's affected.

Goodwill is reviewed regularly by the Group and tested for impairment whenever there is any indication that its value may have diminished, and at least once a year. Any impairment of goodwill is calculated based on the recoverable value of the relevant CGU's.

If the recoverable amount of the CGU's is less than its (their) carrying amount, an irreversible impairment is recorded in the consolidated income statement for the period under *Value adjustments on goodwill*.

At 31 December 2018, goodwill recorded by the 11 CGUs can be broken down as follows:

Pillars	Activities
<b>French Retail Banking</b>	
Societe Generale network	Societe Generale's retail banking network, Boursorama online banking activities, consumer and equipment financing in France
Crédit du Nord	Retail banking network of Crédit du Nord and its 7 regional banks
<b>International Retail Banking and Financial Services</b>	
Europe	Retail banking and consumer finance services in Europe, notably in Germany (Hanseatic Bank, BDK), Italy (Fiditalia), Czech Republic (KB, Essox), Romania (BRD)
Russia	Integrated banking group including Rosbank and its subsidiaries DeltaCredit and Rusfinance
Africa, Mediterranean Basin and Overseas	Retail banking and consumer finance in Africa, Asia, the Mediterranean Basin and Overseas, including in Morocco (SGMA), Algeria (SGA), Tunisia (UIB), Cameroon (SGBC), Côte d'Ivoire (SGBCI) and Senegal (SGBS)
Insurance	Life and non-life insurance activities in France and abroad (including Sogécap, Sogessur, Oradéa Vie and Antarius)
Equipment and Vendor Finance	Financing of sales and professional equipment by Societe Generale Equipment Finance
Auto Leasing Financial Services	Operational vehicle leasing and fleet management services (ALD Automotive)
<b>Global Banking and Investor Solutions</b>	
Global Markets and Investor Services	Market solutions for businesses, financial institutions, the public sector, family offices and a full range of securities services, clearing services, execution, prime brokerage and custody
Financing and Advisory	Advisory and financing services for businesses, financial institutions and the public sector and transaction and payment management services
Asset and Wealth Management	Asset and Wealth Management Solutions in France and abroad

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

(In millions of euros)	Net book value at 31.12.2017	Acquisitions and other increases	Disposals and other decreases <sup>(1)</sup>	Transfers <sup>(2)</sup>	Net book value at 31.12.2018
<b>French Retail Banking</b>	<b>815</b>			<b>(18)</b>	<b>797</b>
Societe Generale network	304			(18)	286
Crédit du Nord	511				511
<b>International Retail Banking &amp; Financial Services</b>	<b>3,209</b>	<b>13</b>	<b>(337)</b>		<b>2,885</b>
Europe	1,787		(337)		1,450
Russia	-				-
Africa, Mediterranean Basin and Overseas <sup>(3)</sup>	231				231
Insurance	335				335
Equipment and Vendor Finance	335				335
Auto Leasing Financial Services	521	13			534
<b>Global Banking and Investor Solutions</b>	<b>964</b>		<b>(12)</b>	<b>18</b>	<b>970</b>
Global Markets and Investor Services	501				501
Financing and Advisory	39			18	57
Asset and Wealth Management	424		(12)		412
<b>TOTAL</b>	<b>4,988</b>	<b>13</b>	<b>(349)</b>		<b>4,652</b>

(1) The goodwill relative to Asset management and private banking in Belgium (SG Private Banking NV) and for the retail banking in Albanian (Banka SG Albania), in Bulgarian (SG Express Bank), in Poland (Eurobank), in Serbia (SG Banka Srbija A.D. Beograd), in Macedonia (Ohridska Banka A.D. Skopje), in Moldova (Mobiasbanca Group SG) and in Montenegro (SG Banka Montenegro A.D.) has been reclassified to "Non-current assets held for sale" (See Note 2.5).

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

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

The Group performed an annual impairment test at 31 December 2018 for each CGU to which goodwill had been allocated. A CGU is defined as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from the Group's other assets or groups of assets. Impairment tests consist into assessing the recoverable value of each CGU and comparing it with its carrying value. An irreversible impairment loss is recorded in the income statement if the carrying value of a CGU, including goodwill, exceeds its recoverable value. This loss is booked to the impairment of goodwill.

The recoverable amount of a cash-generating unit is calculated using the most appropriate method, generally the discounted cash flow (DCF) method applied to the entire cash-generating unit. The cash flows used in this calculation are income available for distribution generated by all the entities included in the cash-generating unit, taking into account the Group targeted equity allocated to each CGU.

The cash flows were determined this year on a five-year period, with the prospective four-year budgets (from 2019 to 2022) extrapolated over the year 2023, this one corresponding to a "normative" year used to calculate the terminal value:

- allocated equity at 31 December 2018 amounted to 11% of risk-weighted assets, excepted for Crédit du Nord, whose allocated

equity amounted to 10.5%, in accordance with the entity's management guidelines;

- the discount rate is calculated using a risk-free rate grossed up by a risk premium based on the CGU's underlying activities. This risk premium, specific to each activity, is calculated from a series of equity risk premiums published by SG Cross Asset Research and from its specific estimated volatility (beta). Where appropriate, the risk-free rate is also grossed up by a sovereign risk premium, representing the difference between the risk-free rate available in the area of monetary assignment (mainly US dollar area or Euro area) and the interest rate observed on liquid long-term treasury bonds issued (mainly US dollar area or Euro area), in proportion with risk-weighted assets for CGUs covering several countries;
- the growth rates used to calculate the terminal value is determined using forecasts on long-term economic growth and sustainable inflation. These rates are estimated using two main sources, namely the International Monetary Fund and the economic analyses produced by SG Cross Asset Research which provide up 2023 forecasts.

No goodwill impairment was recognised as at 31 December 2018 as a result of the annual CGU impairment test.

The table below presents discount rates and long-term growth rates specific for the CGUs of the Group's three core businesses:

Assumptions at 31 December 2018	Discount rate	Long-term growth rate
<b>French Retail Banking</b>		
Societe Generale network and Crédit du Nord	8%	2%
<b>International Retail Banking and Financial Services</b>		
Retail Banking and Consumer Finance	10.6% to 15.2%	2% to 3%
Insurance	9.1%	2.5%
Equipment and Vendor Finance and Auto Leasing Financial Services	9.6%	2%
<b>Global Banking and Investor Solutions</b>		
Global Markets and Investor Services	11.5%	2%
Financing and Advisory	9.8%	2%
Asset and Wealth Management	9.6%	2%



Budget projections are based on the following main business line and macroeconomic assumptions:

<b>French Retail Banking</b>	
Societe Generale network and Crédit du Nord	<ul style="list-style-type: none"> <li>■ In a challenging environment (regulatory constraints, low inflation, historically low rates), ongoing efforts to shift operations and relationship banking at Societe Generale and Crédit du Nord towards a digital model</li> <li>■ Confirmation of Boursorama's customer acquisition plan</li> </ul>
<b>International Retail Banking &amp; Financial Services</b>	
Europe	<ul style="list-style-type: none"> <li>■ Continued adaptation of our models to capture growth potential in the region and consolidate the competitive positions of our operations</li> <li>■ Strict discipline applied to operating expenses and normalisation of cost of risk</li> </ul>
Russia	<ul style="list-style-type: none"> <li>■ Achievement of recovery of activities in Russia in stabilising economic conditions</li> <li>■ Strict discipline applied to operating expenses and cost of risk</li> </ul>
Africa, Mediterranean Basin and Overseas	<ul style="list-style-type: none"> <li>■ Continued development of Societe Generale's sales network and expansion of services through the mobile banking offer</li> <li>■ Continued focus on operating efficiency</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>■ Reinforcement of integrated bank insurance model and continued dynamic growth in France and abroad in synergy with the retail banking network, Private Banking and financial services to businesses</li> </ul>
Equipment and Vendor Finance	<ul style="list-style-type: none"> <li>■ Consolidation of leadership in these corporate financing businesses</li> <li>■ Consolidation of profitability by continuing to focus on activities with the best risk/reward</li> </ul>
Auto Leasing Financial Services	<ul style="list-style-type: none"> <li>■ Reinforcement of leadership of ALD relative to solutions of mobility and continued growth for the long-time leasing to retail customers</li> </ul>
<b>Global Banking and Investor Solutions</b>	
Global Markets and Investor Services	<ul style="list-style-type: none"> <li>■ Adaptation of market activities to a competitive environment, coupled with further business and regulatory investments.</li> <li>■ Consolidation of market-leading franchises (equities) and development of prime brokerage activities</li> <li>■ Continued of optimization measures and investments in information systems</li> </ul>
Financing and Advisory	<ul style="list-style-type: none"> <li>■ Continuation of origination momentum of financing activities</li> <li>■ Consolidation of market-leading franchises (commodity and structured financing)</li> <li>■ Management of cost of risk despite challenging economic conditions</li> </ul>
Asset and Wealth Management	<ul style="list-style-type: none"> <li>■ Continued development of synergies with retail bank networks, both in France or abroad, development of synergies between private banking and Asset and Wealth Management, improvement of commercial and operational efficiency</li> </ul>

Sensitivity tests are carried out to measure the impact on each CGU's recoverable value of the variation in certain assumptions.

At 31 December 2018, in light of the risks associated with business activity in the current environment (market volatility, regulatory uncertainties), sensitivities to variations in the discount rate, long-term growth were measured.

According to the results of these tests:

- an increase of 50 basis points applied to all discount rates for the CGUs disclosed in the table above would lead to a decrease of 23.9% in recoverable value and would not generate any additional impairment;
- similarly, a decrease of 50 basis points in long-term growth rates would lead to a decrease of 7.7% in recoverable value and would not generate any additional impairment.



## NOTE 2.3 Additional disclosures for consolidated entities and investments accounted for using the equity method

This Note provides additional disclosures for entities included in the consolidation scope.

These disclosures concern entities over which Societe Generale exercises exclusive control, joint control or significant influence,

provided these entities have significant impact on the Group's consolidated financial statements. The significance of the impact is considered in particular regarding Group consolidated total assets and gross operating income.

### NOTE 2.3.1 CONSOLIDATED STRUCTURED ENTITIES

Consolidated structured entities include:

- collective investment vehicles such as SICAVs (open-ended investment funds) and mutual funds managed by the Group's asset management subsidiaries;
- securitisation funds and conduits issuing financial instruments that can be subscribed for by investors and that generate credit risks inherent in an exposure or basket of exposures which can be divided into tranches; and
- asset financing vehicles (aircraft, rail, shipping or real estate finance facilities).

The Group has not provided any financial support to these entities outside of any contractual framework for the closing period and as of 31 December 2018 does not intend to support them financially.

The Group has entered into contractual agreements with certain consolidated structured entities that may lead to financial support for these entities due to their exposure to credit, market or liquidity risks.

Securities issued by structured debt vehicles carry an irrevocable and unconditional guarantee from Societe Generale for payment of amounts due by issuer. These issuers also enter into hedging transactions with Societe Generale to enable them to meet their payment obligations. As of 31 December 2018, the amount of outstanding loans thus guaranteed is EUR 48.3 billion.

As part of its securitization activities on behalf of its clients or investors, Societe Generale grants two liquidity lines to ABCP vehicles (Asset Back Commercial Paper) for a total amount of EUR 21.8 billion as of 31 December 2018.

### NOTE 2.3.2. NON-CONTROLLING INTERESTS

*Non-controlling interests* refer to equity holdings in fully consolidated subsidiaries that are neither directly nor indirectly attributable to the Group. They include equity instruments issued by these subsidiaries and not held by the Group, as well as the share of income and accumulated reserves, and of unrecognised or deferred gains and losses attributable to the holders of these instruments.

*Non-controlling interests* amounted to EUR 4,783 million at 31 December 2018 (vs. EUR 4,664 million at 31 December 2017) and accounted for 7% of total shareholders' equity at 31 December 2018 (vs. 7% at 31 December 2017).

The *Non-controlling interests*, of significant amount in terms of contribution to the total shareholders' equity in the Group's consolidated balance sheet, relate to:

- listed subsidiaries Komerční Banka A.S, BRD – Groupe Société Générale SA and SG Marocaine de Banques;
- ALD SA, whose data presented here correspond to those of the ALD group;
- Sogécap, fully owned, with the subordinated notes issued in December 2014.

	31.12.2018				
	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to holders of non-controlling interests
(In millions of euros)					
KOMERCNI BANKA A.S	60.73%	60.73%	220	1,437	(122)
BRD - GROUPE SOCIETE GENERALE SA	60.17%	60.17%	128	623	(94)
ALD GROUP	79.82%	79.82%	120	658	(50)
SG MAROCAINE DE BANQUES	57.57%	57.57%	39	413	(8)
SOGECAP	100.00%	100.00%	33	829	(33)
Other entities	-	-	152	823	(94)
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>692</b>	<b>4,783</b>	<b>(401)</b>

31.12.2017					
(In millions of euros)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to holders of non-controlling interests
KOMERCNI BANKA A.S	60.73%	60.73%	214	1,390	(104)
BRD - GROUPE SOCIETE GENERALE SA	60.17%	60.17%	122	634	(43)
ALD GROUP	79.82%	79.82%	68	601	(6)
SG MAROCAINE DE BANQUES	57.53%	57.53%	37	409	(7)
SOGECAP	100.00%	100.00%	33	829	(33)
Other entities	-	-	150	801	(83)
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>624</b>	<b>4,664</b>	<b>(276)</b>

### SUMMARISED FINANCIAL INFORMATION FOR MAIN NON-CONTROLLING INTERESTS

The information below are the data of the entities (excluding Sogécap) taken at 100% and before the elimination of intra-group operations.

31.12.2018				
(In millions of euros)	Net banking income	Net income	Net income and unrealised or deferred gains and losses	Total balance sheet
KOMERCNI BANKA A.S	1,227	595	969	40,501
BRD - GROUPE SOCIETE GENERALE SA	636	327	62	11,618
ALD GROUP	1,321	561	408	43,681
SG MAROCAINE DE BANQUES	399	100	128	8,583

31.12.2017				
(In millions of euros)	Net banking income	Net income	Net income and unrealised or deferred gains and losses	Total balance sheet
KOMERCNI BANKA A.S	1,140	567	925	38,655
BRD - GROUPE SOCIETE GENERALE SA	585	310	184	11,701
ALD GROUP	1,272	671	565	37,875
SG MAROCAINE DE BANQUES	384	89	90	7,890

### NOTE 2.3.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (ASSOCIATES AND JOINT VENTURES)

### SUMMARISED FINANCIAL INFORMATION FOR JOINT VENTURES AND ASSOCIATES

(In millions of euros)	Joint ventures		Associates		Total investments accounted for using the equity method	
	2018	2017	2018	2017	2018	2017
Group share:						
Net income	5	19	51	73	56	92
Unrealised or deferred gains and losses (net of tax)		-	(3)	(14)	(3)	(14)
<b>NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES</b>	<b>5</b>	<b>19</b>	<b>48</b>	<b>59</b>	<b>53</b>	<b>78</b>

## COMMITMENTS TO RELATED PARTIES

<i>(In millions of euros)</i>	31.12.2018	31.12.2017
Loan commitments granted	-	-
Guarantee commitments granted	54	75
Forward financial instrument commitments	142	6

## NOTE 2.3.4 RESTRICTIONS

## SIGNIFICANT RESTRICTIONS ON THE ABILITY TO ACCESS OR USE THE ASSETS OF THE GROUP

Legal, regulatory, statutory or contractual constraints or requirements may restrict the ability of the Group to transfer assets freely to or from entities within the Group.

The ability of consolidated entities to distribute dividends or to grant or repay loans and advances to entities within the Group depends on, among other things, local regulatory requirements, statutory reserves and financial and operating performance. Local regulatory requirements may concern regulatory capital, exchange controls or non-convertibility of the local currency (as it is the case in countries belonging to the West African Economic and Monetary Union or to the Economic and Monetary Community of Central Africa), liquidity ratios (as in the United States) or large exposures ratios that aim to cap the entity's exposure in relation to the Group (regulatory requirement to be fulfilled in most countries in Eastern and Central Europe, Maghreb and sub-Saharan Africa).

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

- assets pledged as security for liabilities, notably guarantees provided to the central banks, or assets pledged as security for transactions in financial instruments, mainly through guarantee deposits with clearing houses;
- securities that are sold under repurchase agreements or that are lent;
- assets held by insurance subsidiaries in representation of unit-linked liabilities with life-insurance policy holders;
- assets held by consolidated structured entities for the benefit of the third-party investors that have bought the notes or securities issued by the entity;
- mandatory deposits placed with central banks.

**NOTE 2.4 Unconsolidated structured entities**

The information provided hereafter concerns entities structured but not controlled by the Group. This information is grouped by main type of similar entities, such as Financing activities, Asset management and Others (including Securitisation and Issuing vehicles).

Asset financing includes lease finance partnerships and similar vehicles that provide aircraft, rail, shipping or real estate finance facilities.

Asset management includes mutual funds managed by the Group's asset management subsidiaries.

Securitisation includes securitisation funds or similar vehicles issuing financial instruments that can be subscribed for by investors and that generate credit risks inherent in an exposure or basket of exposures which can be divided into tranches.

The Group's interests in unconsolidated entities that have been structured by third parties are classified among financial instruments in the consolidated balance sheet according to their nature.

**NOTE 2.4.1 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES**

The Group's interests in an unconsolidated structured entity refer to contractual and non-contractual involvements that expose the Group to the variability of returns from the performance of this structured entity.

Such interests can be evidenced by:

- the holding of equity or debt instruments (regardless of their rank of subordination);
- other funding (loans, cash facilities, loan commitments, liquidity facilities...);
- credit enhancement (guarantees, subordinated instruments, credit derivatives...);
- issuance of guarantees (guarantee commitments);
- derivatives that absorb all or part of the risk of variability of the structured entity's returns, except Credit Default Swap (CDS) and options purchased by the Group;
- contracts remunerated by fees indexed to the structured entity's performance;
- tax consolidation agreements.

	Asset financing		Asset management		Others	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>(In millions of euros)</i>						
<b>Total balance sheet<sup>(1)</sup> of the entity</b>	<b>7,900</b>	<b>8,777</b>	<b>121,154</b>	<b>102,355</b>	<b>27,464</b>	<b>41,067</b>
<b>Net carrying amount of Group interests in unconsolidated structured entities</b>						
<b>Assets</b>	<b>3,232</b>	<b>3,629</b>	<b>5,596</b>	<b>10,452</b>	<b>10,645</b>	<b>13,054</b>
Financial assets at fair value through profit or loss	384	411	4,964	9,906	5,509	7,819
Financial assets at fair value through other comprehensive income	-	-	-	-	56	-
Available-for-sale financial assets	-	85	-	14	-	556
Due from banks and customer loans at amortised cost	1,880	3,127	447	458	3,887	4,677
Securities at amortised cost	963	-	15	-	1,193	-
Others	5	6	170	74	-	2
<b>Liabilities</b>	<b>1,533</b>	<b>1,641</b>	<b>4,701</b>	<b>11,180</b>	<b>5,680</b>	<b>7,580</b>
Financial liabilities at fair value through profit or loss	198	225	3,122	9,549	4,845	6,699
Due to banks and customer deposits	1,313	1,389	1,487	1,580	830	876
Others	22	27	92	51	5	5

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

The Group did not provide any financial support to these entities outside of any binding contractual arrangement and, as of 31 December 2018, did not have any intention to provide such support.

The maximum exposure to loss related to interests in unconsolidated structured entities is measured as:

- the amortised cost or fair value<sup>(1)</sup> for non-derivative financial assets entered into with the structured entity depending on how they are measured on the balance sheet;

- the fair value<sup>(1)</sup> of derivative financial assets recognised in the balance sheet;
- the notional amount of written Credit Default Swaps (maximum amount to pay);
- the notional amount of loan commitments or guarantee commitments granted.

	Asset financing		Asset management		Others	
(In millions of euros)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Amortised cost or fair value <sup>(1)</sup> (according to the measurement of the financial instrument) of non-derivative financial assets entered into with the structured entity	2,910	3,190	5,227	5,993	2,450	3,229
Fair value <sup>(1)</sup> of derivative financial	248	283	1,268	5,990	4,309	6,295
Notional amount of CDS sold (maximum amount to be paid)	-	-	-	-	-	-
Notional amount of loan or guarantee commitments granted	387	535	1,355	1,536	1,198	788
<b>Maximum exposure to loss</b>	<b>3,545</b>	<b>4,008</b>	<b>7,850</b>	<b>13,519</b>	<b>7,957</b>	<b>10,312</b>

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

- the notional amount of guarantee commitments received;
- the fair value<sup>(1)</sup> of collateral received;

- the carrying amount of surety deposits received.

These mitigating amounts must be capped in case of legal or contractual limitation of their realisable or recoverable amounts. They amounted to EUR 2,407 million and mainly concern Asset financing.

(1) Fair value at the closing date. This fair value can change during the previous exercises.

#### NOTE 2.4.2 INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES SPONSORED BY THE GROUP

The Group may have no ownership interest in a structured entity, but still be considered as a sponsor of this structured entity if it acts or has acted as:

- a structurer;
- an originator for potential investors;
- an asset manager;
- an implicit or explicit guarantor of the entity's performance (in particular via capital or return guarantees granted to mutual fund unit holders).

A structured entity is also considered to be sponsored by the Group if its name includes the name of the Group or the name of one of its subsidiaries.

Conversely, entities that are structured by the Group according to specific needs expressed by one or more customers or investors are considered to be sponsored by said customers or investors.

At 31 December 2018, the total amount of the balance sheet of these unconsolidated structured entities, sponsored by the Group, and in which the Group does not have any interest, was EUR 4,518 million (including EUR 1,708 million for Other structures).

In 2018, no significant revenue has been recognized for these structured entities.

**NOTE 2.5 Non-current assets held for sale and related debt****ACCOUNTING PRINCIPLES**

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

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

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

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

(In millions of euros)	31.12.2018	31.12.2017
<b>Assets</b>	<b>13,502</b>	<b>13</b>
Fixed assets and Goodwill	262	6
Financial assets	11,245	7
<i>Financial assets at fair value through profit or loss</i>	111	7
<i>Hedging derivatives</i>	-	-
<i>Financial assets at fair value through equity</i>	1,429	-
<i>Securities measured at the amortised cost</i>	59	-
<i>Due from banks</i>	324	-
<i>Customer loans</i>	9,322	-
Other assets	1,995	-
<b>Liabilities</b>	<b>10,454</b>	<b>-</b>
Provisions	22	-
Financial liabilities	10,309	-
<i>Financial liabilities at fair value through profit or loss</i>	2	-
<i>Hedging derivatives</i>	-	-
<i>Debt securities issued</i>	116	-
<i>Due to banks</i>	596	-
<i>Customer deposits</i>	9,595	-
<i>Subordinated debt</i>	-	-
Other liabilities	123	-

The *Non-current assets held for sale* and *Non-current liabilities held for sale* items mainly encompass the assets and liabilities of the Group's Albanian, Bulgarian, Polish, Serbian, Moldavian, Montenegrin and Macedonian retail banking arms (Banka SG Albania, SG Express Bank, Eurobank, SG Banka Srbija A.D. Beograd, Mobiasbanca Groupe SG, SG Banka Montenegro A.D., Ohridska Banka A.D. Skopje), the assets and liabilities of the Spanish online banking (Self Trade Bank SA), the assets and liabilities of the Belgian private bank (SG Private Banking NV), the assets and liabilities related to the South African securities

services activity (SG Johannesburg), and the equity accounted investment in La Banque Postale Financement.

The principle applied whereby some *Non-current assets held for sale* (mostly goodwill and fixed assets) are assessed at their lowest accounting value and lowest net fair value for the disposal costs means that all or part of any expected capital loss from the sale of an asset group can be allocated as soon as these assets are reclassified under *Non-current assets held for sale*. In this context, the impairment cost recognised by the Group at 31 December 2018 amounts to EUR -273 million under *Net gains or losses from other assets*.

## NOTE 3 FINANCIAL INSTRUMENTS



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

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

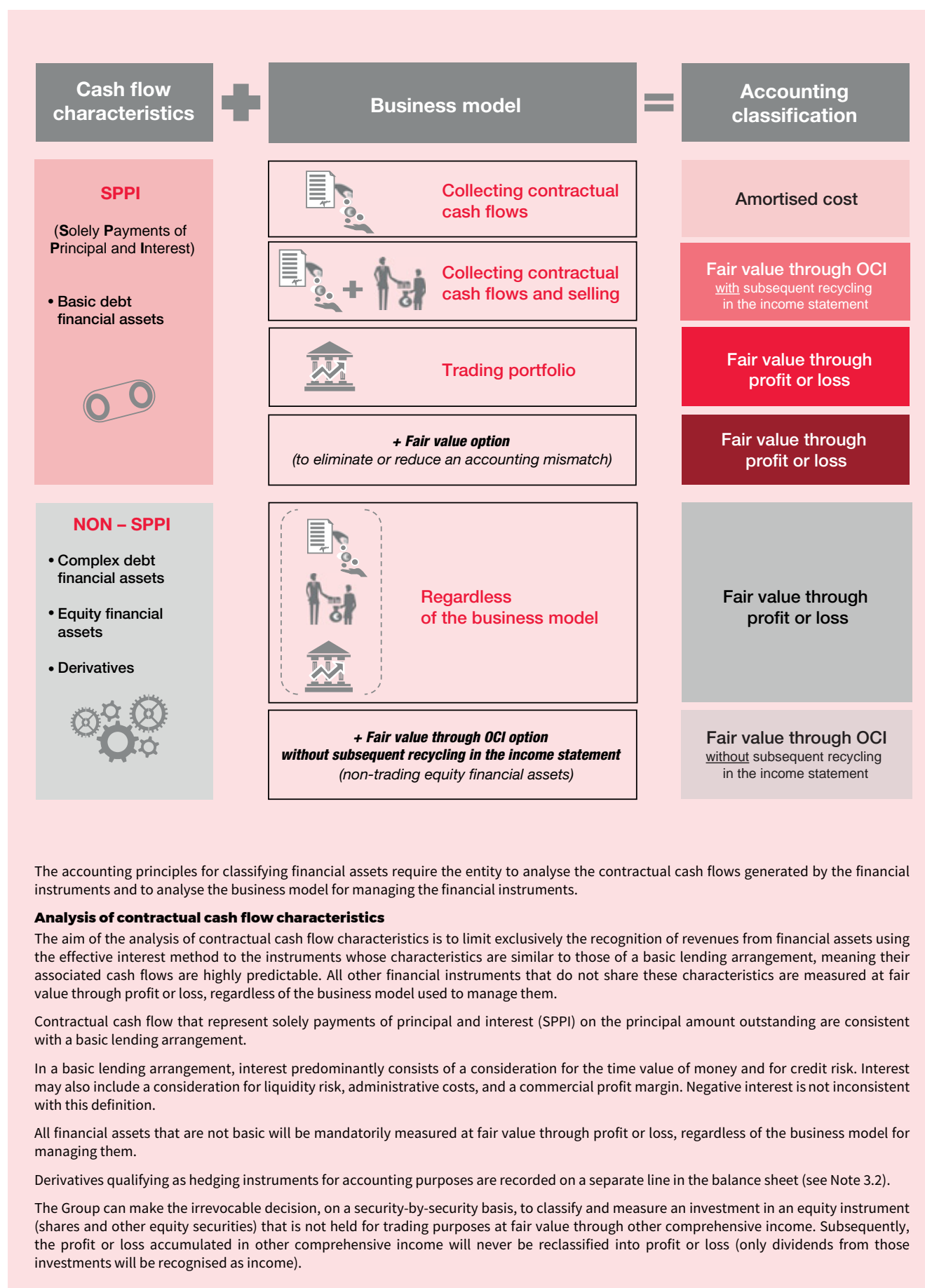
However, this distinction is not applicable to derivative instruments, which are always measured at fair value in the balance sheet, no matter what their purpose is (market activities or hedging transactions).

### ACCOUNTING PRINCIPLES

Accounting principles applicable to financial instruments up to 31 December 2017 are presented in the Note 8.8. Accounting principles presented in this Note 3 are those applied as from 1 January 2018 according to the IFRS 9 provisions excluding insurance activities (see Note 4.3).

#### Classification of financial assets

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





### Analysis of the business model

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

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

- how the performance of the portfolio is evaluated and reported to the Group's management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- sales of assets realised or expected (value, frequency, purpose).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows ("Collect" business model);
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Collect and Sell" business model);
- and a separate business model for other financial assets, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

### Fair value option

SPPI financial assets that are not held for trading purposes can be designated, at initial recognition, at fair value through profit or loss if such designation eliminates or significantly reduces discrepancies in the accounting treatment of related financial assets and liabilities (accounting mismatch).

### Classification of financial liabilities

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

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

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

### Reclassification of financial assets

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

### Fair value

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

### Initial recognition

Financial assets are recognised on the balance sheet:

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

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

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

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

### Derecognition of financial assets and liabilities

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

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

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

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

The Group derecognises all or part of a financial liability when it is extinguished, *i.e.* when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

### ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

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

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

The prepayment compensation is considered as reasonable especially when:

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

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



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

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

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



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

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

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

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

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

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

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

## COMPARATIVE DATA

For the balance sheet items impacted by the first time application of IFRS 9, comparative data presented throughout Note 3 are the balances at 1 January 2018. These amounts constitute the balances at 31 December 2017, corrected for reclassifications and value adjustments resulting from the first-time application of IFRS 9 (see Note 1).

The comparative data at 31 December 2017 are available in the consolidated financial statements for financial year 2017, presented in the Chapter 6 of the 2018 Registration Document of the Societe Generale Group, whereas the accounting policies applicable to financial instruments at 31 December 2017 are detailed in Note 8.8.

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

The information on the types of risks, the risk management linked to financial instruments as well as the information on capital management and compliance with regulatory ratios, required by IFRS

as adopted by the European Union, are disclosed in Chapter 4 of the present Registration Document (Risks and capital adequacy).

**NOTE 3.1 Financial assets and liabilities at fair value through profit or loss****OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS IN NOTE 1)**

	Reclassifications							
	Balance at 31.12.2017 IAS 39	of investments and liabilities related to insurance activities	of available -for-sale financial assets	of non-SPPI loans and receivables	of loans and receivables regarding the business model	Others	Value adjust- ments	Balance at 01.01.2018 IFRS 9
(In millions of euros)								
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**

<i>(In millions of euros)</i>	31.12.2018		01.01.2018	
	Assets	Liabilities	Assets	Liabilities
Trading portfolio	338,312	285,478	343,837	288,534
Financial instruments mandatorily at fair value through profit or loss	24,057		21,569	
Financial instruments at fair value through profit or loss using the fair value option	3,181	77,605	3,706	80,016
<b>TOTAL</b>	<b>365,550</b>	<b>363,083</b>	<b>369,112</b>	<b>368,550</b>
<i>o/w securities purchased/sold under resale/repurchase agreements</i>	<i>129,628</i>	<i>98,874</i>	<i>101,414</i>	<i>105,737</i>

**NOTE 3.1.1 TRADING PORTFOLIO****ACCOUNTING PRINCIPLES**

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

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

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

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

## TRADING ACTIVITIES

Financial assets held for trading are:

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

**Global market activities**

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

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

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

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

Trading portfolio includes all the financial assets held for trading purpose regardless of the characteristics of their contractual cash flows. Only non-SPPI financial assets that are not held for trading are

classified amongst *Financial assets measured mandatorily at fair value through profit or loss* (see Note 3.1.2 below).

**ASSETS**

(In millions of euros)

	31.12.2018	01.01.2018
Bonds and other debt securities	29,732	28,006
Shares and other equity securities	49,297	80,059
Loans and securities purchased under resale agreements	135,861	101,110
Trading derivatives <sup>(1)</sup>	122,983	134,291
Other transaction assets	439	371
<b>TOTAL</b>	<b>338,312</b>	<b>343,837</b>
<i>o/w securities lent</i>	<i>12,411</i>	<i>15,807</i>

(1) See Note 3.2 Financial derivatives.

**LIABILITIES**

(In millions of euros)

	31.12.2018	01.01.2018
Amounts payable on borrowed securities	51,264	34,844
Bonds and other debt instruments sold short	6,231	5,416
Shares and other equity instruments sold short	1,248	1,002
Borrowings and securities sold under repurchase agreements	98,299	104,090
Trading derivatives <sup>(1)</sup>	126,946	142,369
Other trading liabilities	1,490	813
<b>TOTAL</b>	<b>285,478</b>	<b>288,534</b>

(1) See Note 3.2 Financial derivatives.

## NOTE 3.1.2 FINANCIAL INSTRUMENTS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

## ACCOUNTING PRINCIPLES

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

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

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

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

(In millions of euros)	31.12.2018	01.01.2018
Bonds and other debt securities	158	159
Shares and other equity securities	1,996	1,560
Loans and receivables and securities purchased under resale agreements	21,903	19,850
<b>TOTAL</b>	<b>24,057</b>	<b>21,569</b>

## BREAKDOWN OF LOANS AND RECEIVABLES AND SECURITIES PURCHASED UNDER RESALE AGREEMENTS

(In millions of euros)	31.12.2018	01.01.2018
Short-term loans	2,354	1,316
Equipment loans	15,796	14,325
Other loans	3,753	4,209
<b>TOTAL</b>	<b>21,903</b>	<b>19,850</b>

The loans and receivables recorded in the balance sheet under *Financial assets at fair value through profit or loss* are mainly:

- loans that include prepayment features with compensation that do not reflect the effect of changes in the benchmark interest rate;
- loans that include indexation clauses that do not permit to recognize as basic loans (SPPI).

Until 31 December 2017, almost all these loans were classified as *Financial assets measured at fair value option through profit or loss* in

order to eliminate or significantly reduce accounting mismatches with hedging derivatives that were not accounted for as hedging instruments, or in order to avoid the separate recognition of embedded derivatives.

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

## NOTE 3.1.3

**FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS USING FAIR VALUE OPTION****ACCOUNTING PRINCIPLES**

In addition to financial assets and liabilities held for trading, and financial assets measured mandatorily at fair value through profit or loss, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in the fair value of these instruments (including interest) are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*, except the share related to the Group's own credit risk on financial liabilities which is booked under *Unrealised or deferred gains and losses*.

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

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

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

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

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

**ASSETS**

(In millions of euros)

	<b>31.12.2018</b>	<b>01.01.2018</b>
Bonds and other debt securities	1,310	1,045
Loans and securities purchased under resale agreements	819	2,119
Separate assets for employee benefits plans <sup>(1)</sup>	1,052	542
<b>TOTAL</b>	<b>3,181</b>	<b>3,706</b>

(1) See Note 5.2.1

**LIABILITIES**

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

Changes in fair value attributable to own credit risk generated a gain of EUR 529 million at 31 December 2018, which was recognised in other comprehensive income. Up to this date, the total gains and losses attributable to own credit risk amounted to EUR -195 million (see "Statement of net income and unrealised or deferred gains and losses" and "Changes in shareholders' equity").

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

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

At 31 December 2018, the difference between the fair value of financial liabilities measured using the fair value option through profit or loss (EUR 77,605 million versus EUR 80,016 million at 31 December 2017) and their amount redeemable at maturity (EUR 78,080 million versus EUR 79,597 million at 31 December 2017) stood at EUR -475 million (EUR 419 million at 31 December 2017).



**NOTE 3.1.4 NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
Net gain/loss on trading portfolio (excluding derivatives)	(6,091)	10,440
Net gain/loss on financial instruments at fair value through profit or loss <sup>(1)(2)</sup>	941	
Net gain/loss on financial instruments measured using fair value option	4,277	(5,131)
Net gain/loss on derivative instruments	6,263	(1,272)
Net gain/loss on hedging transactions <sup>(3)</sup>	35	-
<i>Net gain/loss on fair value hedging derivatives</i>	(947)	(2,746)
<i>Revaluation of hedged items attributable to hedged risks<sup>(4)</sup></i>	982	2,746
Net gain/loss on foreign exchange transactions	(306)	1,076
<b>TOTAL OF NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>5,119</b>	<b>5,113</b>
<i>o/w gains on financial instruments at fair value through other comprehensive income</i>	103	

(1) This item includes realised and unrealised gains and losses on debt and equity instruments, with the exception of the income component of debt instruments representative of an interest rate, which is recorded under net interest margin (see Note 3.7).

(2) This item includes realised and unrealised gains during the financial year on Euribor securities in the amount of EUR 319 million.

(3) This item includes only the net gain/loss on hedging transactions related to financial instruments. For the hedging transactions related to non-financial assets and liabilities, the net gain/loss on hedging transactions is included under the profit and loss account of the hedged item.

(4) This item includes the revaluation of fair value hedged items, including the change in revaluation differences in portfolios hedged against interest rate risk.

Insofar as income and expenses recorded in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole. It should be noted that the income shown here does not include the refinancing cost of these financial instruments, which is shown under interest expense and interest income.

**NOTE 3.2 Financial derivatives****MAKE IT  
SIMPLE**

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

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

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

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

**ACCOUNTING PRINCIPLES**

Derivatives are financial instruments meeting the following three criteria:

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

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

**Special case - Financial derivatives having Societe Generale shares as their underlying instrument**

Financial derivatives having Societe Generale shares as their underlying instrument or shares in Group subsidiaries and whose liquidation entails the payment of a fixed amount in cash (or another financial asset) against a fixed number of Societe Generale shares (other than derivatives) are equity instruments. These instruments, and any related premiums paid or received, are recognised directly in equity, and any changes in the fair value of these derivatives are not recorded. For sales of put options on Societe Generale shares and forward on Societe Generale shares, a debt is recognised for the value of the notional with a contra entry in equity.

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

**Embedded derivatives**

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

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

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

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

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

## NOTE 3.2.1 TRADING DERIVATIVES

## ACCOUNTING PRINCIPLES

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

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

## BREAKDOWN OF TRADING DERIVATIVES

(In millions of euros)	31.12.2018		01.01.2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate instruments	74,253	73,835	89,508	92,183
Foreign exchange instruments	19,246	19,466	16,553	17,797
Equities & index Instruments	21,450	23,675	19,959	22,732
Commodities Instruments	5,708	6,081	5,948	6,070
Credit derivatives	2,224	2,704	2,245	2,562
Other forward financial instruments	102	1,185	78	1,025
<b>TOTAL</b>	<b>122,983</b>	<b>126,946</b>	<b>134,291</b>	<b>142,369</b>

The Group uses credit derivatives in the management of its Corporate credit portfolio, primarily to reduce individual, sector and geographic concentration and to implement a proactive risk and capital management approach. All credit derivatives, regardless of their

purpose, are measured at fair value through profit or loss and cannot be qualified as hedging instruments for accounting purposes. Accordingly, they are recognised at fair value among trading derivatives.

## BREAKDOWN OF TRADING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

(In millions of euros)	31.12.2018	01.01.2018
<b>Interest rate instruments</b>	<b>11,489,020</b>	<b>12,222,014</b>
Firm instruments	9,476,579	10,039,177
Swaps	7,868,534	7,984,206
FRAs	1,608,045	2,054,971
Options	2,012,441	2,182,837
<b>Foreign exchange instruments</b>	<b>3,823,369</b>	<b>3,261,527</b>
Firm instruments	2,661,823	2,455,220
Options	1,161,546	806,307
<b>Equity and index instruments</b>	<b>1,086,822</b>	<b>913,578</b>
Firm instruments	154,988	135,363
Options	931,834	778,215
<b>Commodities instruments</b>	<b>190,706</b>	<b>189,203</b>
Firm instruments	139,558	149,532
Options	51,148	39,671
<b>Credit derivatives</b>	<b>293,463</b>	<b>312,198</b>
<b>Other forward financial instruments</b>	<b>38,423</b>	<b>35,303</b>
<b>TOTAL</b>	<b>16,921,803</b>	<b>16,933,823</b>

**NOTE 3.2.2 HEDGING DERIVATIVES**

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

**ACCOUNTING PRINCIPLES**

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

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

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

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

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

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

**Cash flow hedges**

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

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

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

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

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

### Hedging of a net investment in a foreign operation

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

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

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

### Macro-fair value hedges

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

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

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

## BREAKDOWN OF HEDGING DERIVATIVES

	31.12.2018		01.01.2018	
	Assets	Liabilities	Assets	Liabilities
(In millions of euros)				
<b>Fair value hedge</b>	<b>11,666</b>	<b>5,767</b>	<b>12,456</b>	<b>5,978</b>
Interest rate instruments	11,650	5,765	12,403	5,974
Foreign exchange instruments	16	2	53	4
Equity and index Instruments	-	-	-	-
<b>Cash flow hedge</b>	<b>105</b>	<b>204</b>	<b>168</b>	<b>132</b>
Interest rate instruments	27	140	49	103
Foreign exchange instruments	78	38	110	25
Equity and index Instruments	-	26	9	4
<b>Net investment hedge</b>	<b>128</b>	<b>22</b>	<b>94</b>	<b>36</b>
Foreign exchange instruments	128	22	94	36
<b>TOTAL</b>	<b>11,899</b>	<b>5,993</b>	<b>12,718</b>	<b>6,146</b>

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

Through some of its Corporate and Investment Banking operations, the Group is exposed to future cash flow changes in its short and

medium-term funding requirements, and sets up hedging relationships recognised for accounting purposes as cash flow hedges. Highly probable funding requirements are determined using historic data established for each activity and representative of balance sheet outstandings. These data may be increased or decreased with changes in management methods.

**BREAKDOWN OF HEDGING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)**

(In millions of euros)

	31.12.2018	01.01.2018
<b>Interest rate instruments</b>	<b>488,398</b>	<b>418,956</b>
Firm instruments	487,149	417,334
<i>Swaps</i>	486,994	417,040
<i>FRAs</i>	155	294
Options	1,249	1,622
<b>Foreign exchange instruments</b>	<b>14,747</b>	<b>12,483</b>
Firm instruments	14,747	12,483
<b>Equity and index instruments</b>	<b>74</b>	<b>148</b>
Options	74	148
<b>TOTAL</b>	<b>503,219</b>	<b>431,587</b>

**MATURITIES OF HEDGING FINANCIAL DERIVATIVES (NOTIONAL AMOUNTS)**

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

(In millions of euros)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2018
Interest rate instruments	53,511	27,588	178,615	228,684	488,398
Foreign exchange instruments	5,515	7,554	1,409	269	14,747
Equity and index instruments	1	14	59	-	74
Other forward financial instruments	-	-	-	-	-
<b>TOTAL</b>	<b>59,027</b>	<b>35,156</b>	<b>180,083</b>	<b>228,953</b>	<b>503,219</b>

**BREAKDOWN OF FAIR VALUE HEDGED ITEMS**

	31.12.2018		
(In millions of euros)	Carrying amount of the hedged item <sup>(1)</sup>	Cumulative change in the fair value of the hedged item <sup>(2)</sup>	Change in the fair value of the hedged item booked during the period <sup>(2)</sup>
<b>Hedge of interest rate risk</b>	<b>1,007,558</b>	<b>8,018</b>	<b>943</b>
Hedged assets	389,869	1,521	(230)
<i>Due from banks, at amortised cost</i>	19,856	19	(6)
<i>Customer loans, at amortised cost</i>	314,759	336	(10)
<i>Securities at amortised cost</i>	594	25	11
<i>Financial assets at fair value through other comprehensive income</i>	33,190	642	124
<i>Customer loans (macro hedged)</i>	21,470	499	(349)
Hedged liabilities	617,689	6,497	1,173
<i>Debt securities issued</i>	196,883	745	232
<i>Due to banks</i>	124,633	114	(20)
<i>Customer deposits</i>	220,383	219	48
<i>Subordinated debts</i>	13,697	1	120
<i>Customer deposits (macro hedged)</i>	62,093	5,418	793
<b>Hedge of currency risk</b>	<b>783</b>	<b>16</b>	<b>39</b>
Hedged assets	31	1	1
<i>Customer loans, at amortised cost</i>	31	1	1
Hedged liabilities	752	15	38
<i>Due to banks</i>	752	15	38
<b>TOTAL</b>	<b>1,008,341</b>	<b>8,034</b>	<b>982</b>

(1) The carrying amount of the macro-hedged items represents the sum of the hedged outstanding and the revaluation differences on portfolios hedged against interest rate risk.

(2) Changes in fair value attributable to the hedged risk only and used to determine the ineffective portion of the fair value of the hedging instrument. This change is excluding accrued interests for the items hedged against interest rate risk.

At 31 December 2018, EUR 396 million of cumulative change of fair value remain to be amortized because of the disappearance of the hedging instrument.

## BREAKDOWN OF FAIR VALUE HEDGING INSTRUMENTS

(In millions of euros)	31.12.2018				
	Commitments (notional amounts)	Fair value <sup>(2)</sup>		Change in fair value recorded during the period	Ineffectiveness recognised during the period
		Assets	Liabilities		
<b>Hedge of interest rate risk</b>	<b>169,944</b>	<b>11,650</b>	<b>5,765</b>	<b>(909)</b>	<b>34</b>
Firm instruments – Swaps	168,695	11,645	5,765	(909)	34
For hedged assets	37,271	314	1,380	(138)	(18)
For hedged portfolios of assets (macro hedge) <sup>(1)</sup>	20,986	955	1,436	323	(33)
For hedged liabilities	52,178	2,111	612	(358)	3
For hedged portfolios of liabilities (macro hedge) <sup>(1)</sup>	58,260	8,265	2,337	(736)	82
Optional instruments	1,249	5	-	(0)	(0)
For hedged assets portfolios of assets (macro hedge) <sup>(1)</sup>	1,249	5	-	(0)	(0)
<b>Hedge of currency risk</b>	<b>2,055</b>	<b>16</b>	<b>30</b>	<b>(38)</b>	<b>1</b>
Firm instruments	2,055	16	2	(38)	(0)
For hedged liabilities	2,055	16	2	(38)	0
Non-derivative financial instruments		-	28	(0)	1
For hedged assets		-	28	(0)	1
<b>TOTAL</b>	<b>171,999</b>	<b>11,666</b>	<b>5,795</b>	<b>(947)</b>	<b>35</b>

(1) For macro fair value transactions, the commitment described above equals to the net hedging derivatives position in order to represent the economic exposure from these instruments. This position should be linked with the carrying amount of the hedged items which represents the hedged exposure.

(2) The fair value of interest rate hedging derivatives includes accrued interests.

## BREAKDOWN OF CASH FLOW HEDGED ITEMS

The following table describes the change of fair value of hedged items used to book the ineffective portion of the hedge during the current period. Regarding the cash flow hedges, the change of fair value of hedged items is assessed using the hypothetical derivative method described in the accounting principles above.

(In millions of euros)	31.12.2018
	Change in the fair value
<b>Hedge of interest rate risk</b>	<b>54</b>
Hedged assets	16
Customer loans, at amortised cost	2
Financial assets at fair value through other comprehensive income	8
Customer loans (macro hedged)	6
Hedged liabilities	38
Debt securities issued	2
Due to banks	(0)
Customer deposits (macro hedged)	36
<b>Hedge of currency risk</b>	<b>33</b>
Hedged liabilities	33
Due to banks	33
Forecasted transactions	0
<b>Hedge of equity risk</b>	<b>46</b>
Forecast transactions	46
<b>TOTAL</b>	<b>133</b>

## BREAKDOWN OF CASH FLOWS HEDGING INSTRUMENTS

	31.12.2018					
	Commitments (notional amounts)	Fair value		Changes in value booked during the period		Cumulative changes in value recorded in unrealized or deferred gains and losses
		Asset	Liability	Portion booked in unrealized or deferred gains and losses	Ineffectiveness recorded during the period	
<i>(In millions of euros)</i>						
<b>Hedge of interest rate risk</b>	<b>15,965</b>	<b>27</b>	<b>140</b>	<b>(54)</b>	<b>(0)</b>	<b>(100)</b>
Firm instruments – Swaps	15,810	27	139	(45)	(0)	(96)
<i>For hedged assets</i>	2,257	1	10	(10)	-	(9)
<i>For hedged portfolios of assets (macro     hedge)<sup>(1)</sup></i>	4,775	5	43	(6)	(0)	(27)
<i>For hedged liabilities</i>	3,047	0	2	7	(0)	5
<i>For hedged portfolios of liabilities (macro     hedge)<sup>(1)</sup></i>	5,731	21	84	(36)	0	(65)
Firm instruments – FRAs	155	-	1	(9)	(0)	(4)
<i>For hedged liabilities</i>	155	-	1	(9)	(0)	(4)
<b>Hedge of currency risk</b>	<b>5,599</b>	<b>89</b>	<b>39</b>	<b>(33)</b>	<b>0</b>	<b>(13)</b>
Firm instruments	5,599	78	38	(33)	0	(13)
<i>For hedged assets</i>	674	8	31	0	-	0
<i>For hedged liabilities</i>	4,925	70	7	(33)	0	(13)
Non-derivative financial instruments	-	11	1	(0)	-	(0)
<i>For future hedged transactions</i>	-	11	1	(0)	-	(0)
<b>Hedge of equity risk</b>	<b>74</b>	<b>0</b>	<b>26</b>	<b>(46)</b>	<b>(7)</b>	<b>(15)</b>
Optional instruments	74	0	26	(46)	(7)	(15)
<i>For hedged future transactions</i>	74	0	26	(46)	(7)	(15)
<b>TOTAL</b>	<b>21,638</b>	<b>116</b>	<b>205</b>	<b>(133)</b>	<b>(7)</b>	<b>(128)</b>

(1) For the macro hedge transactions, the commitment described above equals to the net hedging derivatives position in order to represent the economic exposure from these instruments.

In 2018, EUR 36 millions of unrealised or deferred gains and losses have been transferred into net income, following the accounting of the cash flow hedge effects in the profit and loss.



## BREAKDOWN OF NET INVESTMENT HEDGED ITEMS

		31.12.2018
(In millions of euros)	Change in the fair value of the hedged item during the period <sup>(1)</sup>	Cumulative translation differences related to the hedged items
<b>Hedge of currency risk</b>	<b>172</b>	<b>1,212</b>
Hedged net investment in GBP	24	297
Hedged net investment in CZK	11	(173)
Hedged net investment in RUB	161	959
Hedged net investment in RON	(14)	20
Hedged net investment in USD	(39)	(15)
Hedged net investment in KRW	(1)	(31)
Hedged net investment (other currencies)	30	155

(1) Changes in fair value attributable to the hedged risk only and used to determine the ineffective portion of the fair value of the hedged instruments.

## BREAKDOWN OF NET INVESTMENT HEDGE INSTRUMENTS

	31.12.2018					
	Carrying amount <sup>(1)</sup>			Changes in value booked during the period		Cumulative changes in value booked in unrealized or deferred gains and losses
(In millions of euros)	Hedging derivatives commitments(1)	Asset	Liability	Portion booked in unrealized or deferred gains and losses	Ineffective portion booked during the period	
<b>Hedge of currency risk</b>	<b>6,992</b>	<b>128</b>	<b>2,515</b>	<b>(191)</b>	<b>18</b>	<b>(1,212)</b>
Firm instruments	6,992	128	22	(107)	18	(93)
Hedged net investment in GBP	1,491	21	3	(10)	1	64
Hedged net investment in CZK	1,065	3	-	(1)	(4)	6
Hedged net investment in RUB	752	83	-	(136)	26	(99)
Hedged net investment in RON	689	1	-	16	(2)	(7)
Hedged net investment in USD	461	-	4	34	(3)	9
Hedged net investment in KRW	497	-	7	1	(0)	9
Hedged net investment (other currencies)	2,037	20	8	(11)	(0)	(75)
Non derivatives instruments	-	-	2,493	(84)	-	(1,119)
Hedged net investment in GBP	-	-	346	(15)	-	(362)
Hedged net investment in CZK	-	-	839	(6)	-	166
Hedged net investment in RUB	-	-	348	(52)	-	(860)
Hedged net investment in RON	-	-	45	(0)	-	(13)
Hedged net investment in USD	-	-	199	9	-	6
Hedged net investment in KRW	-	-	-	-	-	22
Hedged net investment (other currencies)	-	-	716	(20)	-	(78)

(1) The net position of the derivatives hedge instruments (notional amounts) represents the economic exposure from these hedging instruments. This position should be linked with the carrying amount of the hedged items which represents the exposure to hedge.

In 2018, EUR 9 millions of unrealized or deferred gains and losses have been transferred into the net income, following the recognition of the foreign hedged net investment translation differences in net income.

**NOTE 3.3 Financial assets at fair value through other comprehensive income****OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 1)**

(In millions of euros)	Balance at 31.12.2017 IAS 39	Reclassifications			Value adjustments	Balances at 01.01.2018 IFRS 9
		of available- for-sale financial assets	of held-to- maturity financial assets	of loans and receivables regarding the business model		
Debt instruments	N/A	49,584	485	80	29	50,178
<i>Bonds and other debt securities</i>	N/A	49,584	485	80	29	50,178
<i>Loans and receivables and securities purchased under resale agreements</i>	N/A	-	-	-	-	-
Shares and other equity securities	N/A	290	-	-	-	290
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>	<b>N/A</b>	<b>49,874</b>	<b>485</b>	<b>80</b>	<b>29</b>	<b>50,468</b>

**OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

(In millions of euros)	31.12.2018	01.01.2018
Debt instruments	49,736	50,178
<i>Bonds and other debt securities</i>	49,696	50,178
<i>Loans and receivables and securities purchased under resale agreements</i>	40	-
Shares and other equity securities	290	290
<b>TOTAL</b>	<b>50,026</b>	<b>50,468</b>
o/w securities lent	483	27

**NOTE 3.3.1 DEBT INSTRUMENTS****ACCOUNTING PRINCIPLES**

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

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

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

**BUSINESS MODEL "HOLD TO COLLECT AND SALE"**

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

**Cash management**

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

**CHANGES OF THE CARRYING AMOUNT**

(In millions of euros)

**2018**

<b>Balance on 1 January</b>	<b>50,178</b>
Acquisitions/disbursements	32,869
Disposals/redemptions	(32,278)
Transfers further to reclassification to (or from) another accounting category	76
Change in scope and others	(1,658)
Changes in fair value during the period	(287)
Change in related receivables	32
Translation differences	804
<b>Balance on 31 December</b>	<b>49,736</b>

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

(In millions of euros)

**31.12.2018**

Unrealised gains	416
Unrealised losses	(183)
<b>TOTAL</b>	<b>233</b>

**NOTE 3.3.2 EQUITY INSTRUMENTS****ACCOUNTING PRINCIPLES**

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

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

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

### NOTE 3.3.3 NET GAINS AND LOSSES RECOGNISED IN NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(In millions of euros)

	2018
Realised gains and losses on sale of debt instruments	39
Dividends incomes on financial assets at fair value through other comprehensive income	44
<b>TOTAL</b>	<b>83</b>

### NOTE 3.4 Fair value of financial instruments measured at fair value



**MAKE IT  
SIMPLE**

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

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

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

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

## ACCOUNTING PRINCIPLES

### Definition of fair value

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

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

### Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The main L3 complex derivatives are:

- equity derivatives: options with long maturities and/or incorporating bespoke remuneration mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e.g. extrapolation from observable data, historical analysis). Hybrid equity instruments (i.e. having at least one non-equity underlying instrument) are also classified as L3 insofar as correlations between the different underlyings are generally unobservable;
- interest rate derivatives: long-term and/or exotic options, products sensitive to correlation between different interest rates, different exchange rates, or between interest rates and exchange rates, for example for quanto products (in which the instrument is settled in a currency different from the currency of the underlying); they are liable to be classified as L3 because the valuation inputs are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (e.g. exchange rate correlations are deemed unobservable for the USD/JPY);
- credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation ("N to default" products in which the buyer of the hedge is compensated as of the N<sup>th</sup> default, which are exposed to the credit quality of the issuers comprising the basket and to their correlation, or CDO Bespoke products, which are Collateralised Debt Obligations created specifically for a group of investors and structured according to their needs), as well as products subject to credit spread volatility;
- commodity derivatives: this category includes products involving unobservable volatility or correlation inputs (i.e. options on commodity swaps or instruments based on baskets of underlyings).

## NOTE 3.4.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE

	31.12.2018				01.01.2018			
(In millions of euros)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Trading portfolio*</b>	<b>69,429</b>	<b>144,430</b>	<b>1,470</b>	<b>215,329</b>	<b>97,222</b>	<b>111,414</b>	<b>910</b>	<b>209,546</b>
Bonds and other debt securities	26,059	3,403	270	29,732	25,225	2,612	169	28,006
Shares and other equity securities	43,370	5,926	1	49,297	71,997	8,061	1	80,059
Loans and receivables and securities purchased under resale agreements*	-	134,662	1,199	135,861	-	100,370	740	101,110
Other trading assets	-	439	-	439	-	371	-	371
<b>Trading derivatives</b>	<b>23</b>	<b>119,460</b>	<b>3,500</b>	<b>122,983</b>	<b>38</b>	<b>131,670</b>	<b>2,583</b>	<b>134,291</b>
Interest rate instruments	8	71,628	2,617	74,253	19	87,663	1,826	89,508
Foreign exchange instruments	8	19,038	200	19,246	16	16,411	126	16,553
Equity and index instruments	-	21,211	239	21,450	-	19,535	424	19,959
Commodity instruments	-	5,666	42	5,708	-	5,888	60	5,948
Credit derivatives	-	1,826	398	2,224	-	2,108	137	2,245
Other forward financial instruments	7	91	4	102	3	65	10	78
<b>Financial assets measured mandatorily at fair value through profit or loss</b>	<b>117</b>	<b>21,091</b>	<b>2,849</b>	<b>24,057</b>	<b>151</b>	<b>18,782</b>	<b>2,636</b>	<b>21,569</b>
Bonds and other debt securities	12	36	110	158	2	67	90	159
Shares and other equity securities	105	194	1,697	1,996	149	200	1,211	1,560
Loans and receivables and securities purchased under resale agreements	-	20,861	1,042	21,903	-	18,515	1,335	19,850
<b>Financial assets measured using fair value option through profit or loss*</b>	<b>1,126</b>	<b>1,702</b>	<b>353</b>	<b>3,181</b>	<b>848</b>	<b>1,914</b>	<b>944</b>	<b>3,706</b>
Bonds and other debt securities	1,126	184	-	1,310	848	197	-	1,045
Loans and receivables and securities purchased under resale agreements*	-	466	353	819	-	1,175	944	2,119
Other financial assets	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	1,052	-	1,052	-	542	-	542
<b>Hedging derivatives</b>	<b>-</b>	<b>11,899</b>	<b>-</b>	<b>11,899</b>	<b>-</b>	<b>12,718</b>	<b>-</b>	<b>12,718</b>
Interest rate instruments	-	11,677	-	11,677	-	12,452	-	12,452
Foreign exchange instruments	-	222	-	222	-	257	-	257
Equity and index instruments	-	-	-	-	-	9	-	9
<b>Financial assets measured at fair value through other comprehensive income</b>	<b>48,738</b>	<b>998</b>	<b>290</b>	<b>50,026</b>	<b>48,045</b>	<b>2,130</b>	<b>293</b>	<b>50,468</b>
Bonds and other debt securities	48,738	958	-	49,696	48,045	2,130	3	50,178
Shares and other equity securities	-	-	290	290	-	-	290	290
Loans and receivables	-	40	-	40	-	-	-	-
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE*</b>	<b>119,433</b>	<b>299,580</b>	<b>8,462</b>	<b>427,475</b>	<b>146,304</b>	<b>278,628</b>	<b>7,366</b>	<b>432,298</b>

\* Amounts restated see Note 3.4.2.

## NOTE 3.4.2 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

(In millions of euros)	31.12.2018				01.01.2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Trading portfolio*</b>	<b>7,787</b>	<b>149,776</b>	<b>969</b>	<b>158,532</b>	<b>6,755</b>	<b>138,911</b>	<b>499</b>	<b>146,165</b>
Amounts payable on borrowed securities	308	50,956	-	51,264	337	34,507	-	34,844
Bonds and other debt instruments sold short	6,231	-	-	6,231	5,416	-	-	5,416
Shares and other equity instruments sold short	1,248	-	-	1,248	1,002	-	-	1,002
Borrowings and securities sold under repurchase agreements*	-	97,330	969	98,299	-	103,591	499	104,090
Other trading liabilities	-	1,490	-	1,490	-	813	-	813
<b>Trading derivatives</b>	<b>81</b>	<b>123,075</b>	<b>3,790</b>	<b>126,946</b>	<b>16</b>	<b>137,181</b>	<b>5,172</b>	<b>142,369</b>
Interest rate instruments	6	70,986	2,843	73,835	-	88,366	3,817	92,183
Foreign exchange instruments	5	19,346	115	19,466	1	17,742	54	17,797
Equity and index instruments	-	23,103	572	23,675	-	21,844	888	22,732
Commodity instruments	-	6,041	40	6,081	-	6,048	22	6,070
Credit derivatives	-	2,484	220	2,704	-	2,171	391	2,562
Other forward financial instruments	70	1,115	-	1,185	15	1,010	-	1,025
<b>Financial liabilities measured using fair value option through profit or loss*</b>	<b>265</b>	<b>39,408</b>	<b>37,932</b>	<b>77,605</b>	<b>334</b>	<b>40,125</b>	<b>39,557</b>	<b>80,016</b>
<b>Hedging derivatives</b>	<b>-</b>	<b>5,993</b>	<b>-</b>	<b>5,993</b>	<b>-</b>	<b>6,146</b>	<b>-</b>	<b>6,146</b>
Interest rate instruments	-	5,905	-	5,905	-	6,077	-	6,077
Foreign exchange instruments	-	62	-	62	-	65	-	65
Equity and index instruments	-	26	-	26	-	4	-	4
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE*</b>	<b>8,133</b>	<b>318,252</b>	<b>42,691</b>	<b>369,076</b>	<b>7,105</b>	<b>322,363</b>	<b>45,228</b>	<b>374,696</b>

\* At 1 January 2018, the allocation of repo transactions between the level 2 and the level 3 of fair value was modified comparing with 31 December 2017. The repo transactions finalized by the Group can have the settlement dates much longer than the usual ones operated on the stock market. The parameters utilized to assess the fair value were revised, a part of this operations was reclassified from the level the level 2 to the level 3 (1,416 millions of euros of securities purchased under resale agreements and 1,382 million of euros of securities sold under repurchased agreements were reclassified on level 3 at 1 January 2018).

## NOTE 3.4.3 VARIATION IN LEVEL 3 FINANCIAL INSTRUMENTS

## FINANCIAL ASSETS AT FAIR VALUE

<i>(In millions of euros)</i>	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 31.12.2018
<b>Trading portfolio*</b>	<b>910</b>	<b>1,276</b>	<b>(707)</b>	<b>(202)</b>	<b>-</b>	<b>116</b>	<b>77</b>	<b>-</b>	<b>1,470</b>
Bonds and other debt securities	169	164	(125)	(35)	-	23	74	-	270
Shares and other equity securities	1	-	-	-	-	-	-	-	1
Loans and receivables and securities purchased under resale agreements*	740	1,112	(582)	(167)	-	93	3	-	1,199
Other trading assets	-	-	-	-	-	-	-	-	-
<b>Trading derivatives</b>	<b>2,583</b>	<b>101</b>	<b>(6)</b>	<b>(89)</b>	<b>195</b>	<b>639</b>	<b>125</b>	<b>(48)</b>	<b>3,500</b>
Interest rate instruments	1,826	33	-	(65)	187	623	62	(49)	2,617
Foreign exchange instruments	126	16	(5)	(8)	1	22	48	-	200
Equity and index instruments	424	32	-	(16)	2	(218)	14	1	239
Commodity instruments	60	20	(1)	-	-	(37)	-	-	42
Credit derivatives	137	-	-	-	5	255	1	-	398
Other forward financial instruments	10	-	-	-	-	(6)	-	-	4
<b>Financial assets measured mandatorily at fair value through profit or loss</b>	<b>2,636</b>	<b>889</b>	<b>(295)</b>	<b>(607)</b>	<b>34</b>	<b>391</b>	<b>71</b>	<b>(270)</b>	<b>2,849</b>
Bonds and other debt securities	90	28	(5)	(3)	-	(1)	-	1	110
Shares and other equity securities	1,211	258	(246)	(70)	26	508	8	2	1,697
Loans and receivables and securities purchased under resale agreements	1,335	603	(44)	(534)	8	(116)	63	(273)	1,042
<b>Financial assets measured using fair value option through profit or loss*</b>	<b>944</b>	<b>-</b>	<b>(204)</b>	<b>(401)</b>	<b>-</b>	<b>10</b>	<b>4</b>	<b>-</b>	<b>353</b>
Bonds and other debt securities	-	-	-	-	-	-	-	-	-
Loans and receivables and securities purchased under resale agreements*	944	-	(204)	(401)	-	10	4	-	353
Other financial assets	-	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	-	-	-	-	-	-	-	-
<b>Hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
<b>Financial assets measured at fair value option through other comprehensive income</b>	<b>293</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>	<b>290</b>
Debt instruments	3	-	(1)	-	-	-	(1)	(1)	-
Equity instruments	290	-	-	-	-	-	-	-	290
Loans and receivables	-	-	-	-	-	-	-	-	-
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE*</b>	<b>7,366</b>	<b>2,266</b>	<b>(1,213)</b>	<b>(1,299)</b>	<b>229</b>	<b>1,156</b>	<b>276</b>	<b>(319)</b>	<b>8,462</b>

\* Amounts restated see Note 3.4.2.



## FINANCIAL LIABILITIES AT FAIR VALUE

(In millions of euros)	Balance at 01.01.2018	Issues	Redemptions	Transfer to Level 2	Transfer from Level 2	Gains and losses	Translation differences	Change in scope and others	Balance at 31.12.2018
<b>Trading portfolio*</b>	<b>499</b>	<b>868</b>	<b>(476)</b>	<b>(92)</b>	<b>-</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>969</b>
Debt securities issued	-	-	-	-	-	-	-	-	-
Amounts payable on borrowed securities	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments sold short	-	-	-	-	-	-	-	-	-
Shares and other equity instruments sold short	-	-	-	-	-	-	-	-	-
Borrowings and securities sold under repurchase agreements*	499	868	(476)	(92)	-	170	-	-	969
Other trading liabilities	-	-	-	-	-	-	-	-	-
<b>Trading derivatives</b>	<b>5,172</b>	<b>684</b>	<b>(230)</b>	<b>(325)</b>	<b>654</b>	<b>(1,551)</b>	<b>156</b>	<b>(770)</b>	<b>3,790</b>
Interest rate instruments	3,817	17	(53)	(233)	653	(716)	128	(770)	2,843
Foreign exchange instruments	54	13	-	(7)	1	54	-	-	115
Equity and index instruments	888	644	(177)	(83)	-	(727)	27	-	572
Commodity instruments	22	10	-	-	-	8	-	-	40
Credit derivatives	391	-	-	(2)	-	(170)	1	-	220
Other forward financial instruments	-	-	-	-	-	-	-	-	-
<b>Financial liabilities measured using fair value option through profit or loss*</b>	<b>39,557</b>	<b>17,734</b>	<b>(13,528)</b>	<b>(1,883)</b>	<b>198</b>	<b>(5,219)</b>	<b>1,111</b>	<b>(38)</b>	<b>37,932</b>
<b>Hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE*</b>	<b>45,228</b>	<b>19,286</b>	<b>(14,234)</b>	<b>(2,300)</b>	<b>852</b>	<b>(6,600)</b>	<b>1,267</b>	<b>(808)</b>	<b>42,691</b>

\* Amounts restated see Note 3.4.2(.

#### NOTE 3.4.4 VALUATION METHODS OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ON THE BALANCE SHEET

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

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

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

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

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

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

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

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

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

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

maturity of the instrument falls below five years, its fair value becomes sensitive to observable inputs.

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

#### SHARES AND OTHER EQUITY SECURITIES

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

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

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

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

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

#### OTHER DEBTS

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

#### CUSTOMER LOANS

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

## NOTE 3.4.5 ESTIMATES OF MAIN UNOBSERVABLE INPUTS

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

(In millions of euros)	Value in balance sheet					
Cash instruments and derivatives <sup>(1)</sup>	Assets	Liabilities	Main products	Valuation techniques used	Significant unobservable inputs	Range of inputs min & max
Equities/funds	542	26,919	derivatives on funds, equities or baskets of stocks derivatives on funds, equities or baskets of stocks	Various option models on funds, equities or baskets of stocks	Equity volatilities	6.7%; 48.1%
					Equity dividends	0.0%; 20.9%
					Correlations	-77.5%; 98%
					Hedge fund volatilities	8.5%; 20.0%
					Mutual fund volatilities	1.5%; 42.2%
Rates and Forex	5,794	15,512	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	-41.1%; 85%
			Forex derivatives	Forex option pricing models	Forex volatilities	1.0%; 32.0%
			Interest rate derivatives whose notional is indexed to prepayment behaviour in European collateral pools	Prepayment modelling	Constant prepayment rates	0.0%; 45%
			Inflation instruments and derivatives	Inflation pricing models	Correlations	64.4%; 88.9%
Credit	398	220	Collateralised Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	0%; 100%
			Other credit derivatives	Credit default models	Recovery rate variance for single name underlyings	0%; 100%
					Time to default correlations	0%; 100%
					Quanto correlations	-50%; 40%
Commodities	42	40	Derivatives on commodities baskets	Option models on commodities	Credit spreads	0 bps; 1 000 bps
Long term equity investments	1,686	-	Securities held for strategic purposes	Net Book Value / Recent transactions	Commodities correlations	10.6%; 95.8%
TOTAL	8,462	42,691			Non applicable	-

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

## NOTE 3.4.6 SENSITIVITY OF FAIR VALUE FOR LEVEL 3 INSTRUMENTS

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

To quantify this, fair value sensitivity was estimated at 31 December 2018 on instruments whose valuation requires certain unobservable inputs. This estimate was based either on a “standardised” variation in unobservable inputs, calculated for each input on a net position, or on

assumptions in line with the additional valuation adjustment policies for the financial instruments in question.

The “standardised” variation is:

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

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

	31.12.2018		31.12.2017	
	Negative impact	Positive impact	Negative impact	Positive impact
<i>(In millions of euros)</i>				
<b>Shares and other equity instruments and derivatives</b>	<b>(13)</b>	<b>96</b>	<b>(5)</b>	<b>88</b>
Equity volatilities	0	19	0	18
Dividends	(3)	9	0	6
Correlations	(9)	62	(5)	59
Hedge Fund volatility	0	0	0	0
Mutual Fund volatility	(1)	6	0	6
<b>Rates or Forex instruments and derivatives</b>	<b>(6)</b>	<b>58</b>	<b>(6)</b>	<b>50</b>
Correlations between exchange rates and/or interest rates	(4)	55	(4)	45
Forex volatilities	(1)	2	(1)	2
Constant prepayment rates	0	0	0	0
Inflation/inflation correlations	(1)	1	(1)	2
<b>Credit instruments and derivatives</b>	<b>(4)</b>	<b>14</b>	<b>(2)</b>	<b>6</b>
Time to default correlations	(2)	4	(1)	1
Recovery rate variance for single name underlyings	0	0	0	0
Quanto correlations	(2)	10	0	4
Credit spreads	0	0	(1)	1
<b>Commodity derivatives</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>
Commodities correlations	0	1	0	1
<b>Long term securities valued using internal models</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

It should be noted that, given the already conservative valuation levels, this sensitivity is higher for a favourable impact on results than for an unfavourable impact. Moreover, the amounts shown above illustrate the uncertainty of the valuation as of the computation date

on the basis of a reasonable variation in inputs. Future variations in fair value or consequences of extreme market conditions cannot be deduced or forecast from these estimates.

### NOTE 3.4.7 DEFERRED MARGIN RELATED TO MAIN UNOBSERVABLE INPUTS

The remaining amount to be recorded in the income statement, resulting from the difference between the transaction price and the amount determined at this date using valuation techniques, minus the amounts recorded in the income statement after initial recognition, is

shown in the table below. This amount is recorded in the income statement spread over the period during which the inputs are expected to be unobservable, or as the inputs become observable.

<i>(In millions of euros)</i>	2018	2017
<b>Deferred margin at 1 January</b>	<b>1,281</b>	<b>1,142</b>
Deferred margin on new transactions during the period	744	880
Margin recorded in the income statement during the period	(788)	(741)
<i>o/w amortisation</i>	(479)	(317)
<i>o/w switch to observable inputs</i>	(45)	(49)
<i>o/w disposed, expired or terminated</i>	(264)	(375)
<b>Deferred margin at 31 December</b>	<b>1,237</b>	<b>1,281</b>

**NOTE 3.5 Loans, receivables and securities at amortised cost****OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 1)**

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

**OVERVIEW OF FINANCIAL ASSETS AT AMORTISED COST**

(In millions of euros)	31.12.2018		01.12.2018	
	Carrying amount	o/w impairment	Carrying amount	o/w impairment
Due from banks	60,588	(32)	53,656	(29)
Customer loans	447,229	(11,435)	417,391	(13,361)
Securities	12,026	(10)	11,592	(11)
<b>TOTAL</b>	<b>519,843</b>	<b>(11,477)</b>	<b>482,639</b>	<b>(13,401)</b>

**ACCOUNTING PRINCIPLES**

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

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

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

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

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

**BUSINESS MODEL "HOLD TO COLLECT"**

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

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

- the financial asset is sold following an increase in the asset's credit risk; or

- the sale of the financial asset occurs close to its maturity and the proceeds from the sale are similar to the amount to be collected from the remaining contractual cash flows.

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

**Financing activities**

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

**NOTE 3.5.1 DUE FROM BANKS**

(In millions of euros)

	31.12.2018	01.01.2018
Current accounts	23,958	21,066
Deposits and loans <sup>(1)</sup>	18,453	15,842
Securities purchased under resale agreements	18,000	16,523
Subordinated and participating loans	91	133
Related receivables	99	94
<b>Due from banks before impairment</b>	<b>60,601</b>	<b>53,658</b>
Credit loss impairment	(32)	(29)
Revaluation of hedged items	19	27
<b>Net due from banks</b>	<b>60,588</b>	<b>53,656</b>

(1) At 31 December 2018, the amount of due from banks with level 3 of impairment was EUR 51 million compared to EUR 100 million at 1 January 2018.

**NOTE 3.5.2 CUSTOMER LOANS**

(In millions of euros)

	31.12.2018	01.01.2018
Overdrafts <sup>(1)</sup>	21,230	20,239
Other customer loans <sup>(1)</sup>	375,982	356,662
Lease financing agreements <sup>(1)</sup>	32,345	30,310
Securities purchased under resale agreements	26,078	21,004
Related receivables	2,692	2,183
<b>Customer loans before impairment</b>	<b>458,327</b>	<b>430,398</b>
Credit loss impairment	(11,435)	(13,361)
Revaluation of hedged items	337	354
<b>Customer loans</b>	<b>447,229</b>	<b>417,391</b>

(1) At 31 December 2018, the amount of due from banks with level 3 of impairment was EUR 17,818 million compared to EUR 20,569 million at 1 January 2018.

**BREAKDOWN OF OTHER CUSTOMER LOANS**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>01.01.2018</b>
Trade notes	10,056	10,173
Short-term loans	118,978	108,005
Export loans	11,485	10,395
Equipment loans	57,253	53,983
Housing loans	126,160	124,324
Loans secured by notes and securities	92	89
Other loans	51,958	49,693
<b>Other customer loans</b>	<b>375,982</b>	<b>356,662</b>

**ADDITIONAL INFORMATION ON LEASE FINANCING AND SIMILAR AGREEMENTS**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>01.01.2018</b>
<b>Gross investments</b>	<b>34,562</b>	<b>32,714</b>
<i>less than one year</i>	8,243	8,525
<i>1-5 years</i>	20,847	18,784
<i>more than five years</i>	5,472	5,405
<b>Present value of minimum payments receivable</b>	<b>30,233</b>	<b>28,827</b>
<i>less than one year</i>	7,576	7,942
<i>1-5 years</i>	18,291	16,852
<i>more than five years</i>	4,366	4,033
<b>Unearned financial income</b>	<b>2,217</b>	<b>2,403</b>
<b>Unguaranteed residual values receivable by the lessor</b>	<b>2,112</b>	<b>1,484</b>

**NOTE 3.5.3 SECURITIES**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>01.01.2018</b>
Government securities	5,826	5,623
Negotiable certificates, bonds and other debt securities	6,106	5,851
Related receivables	79	109
<b>Securities before impairment</b>	<b>12,011</b>	<b>11,583</b>
Impairment	(10)	(11)
Revaluation of hedged items	25	20
<b>Securities</b>	<b>12,026</b>	<b>11,592</b>

**NOTE 3.6 Debts**

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

**ACCOUNTING PRINCIPLES**

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

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

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

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

Mortgage savings accounts and plans are recorded under *Customer deposits – Regulated savings accounts*. A provision may be recorded in respect of CEL mortgage savings accounts and PEL mortgage savings plans (see Note 8.3).

**NOTE 3.6.1 DUE TO BANKS**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
Demand deposits and current accounts	13,875	11,686
Overnight deposits and borrowings and others	2,248	2,145
Term deposits	72,965	68,265
Related payables	130	127
Revaluation of hedged items	129	147
Securities sold under repurchase agreements	5,359	6,251
<b>TOTAL</b>	<b>94,706</b>	<b>88,621</b>

**NOTE 3.6.2 CUSTOMER DEPOSITS**

<b>(In millions of euros)</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Regulated savings accounts	93,230	92,023
<i>Demand</i>	68,082	66,515
<i>Term</i>	25,148	25,508
Other demand deposits <sup>(1)</sup>	222,642	216,102
Other term deposits <sup>(1)</sup>	82,932	85,454
Related payables	387	381
Revaluation of hedged items	219	268
<b>TOTAL CUSTOMER DEPOSITS</b>	<b>399,410</b>	<b>394,228</b>
Securities sold to customers under repurchase agreements	17,408	16,405
<b>TOTAL</b>	<b>416,818</b>	<b>410,633</b>

<sup>(1)</sup> Including deposits linked to governments and central administrations.



**BREAKDOWN OF OTHER DEMAND DEPOSITS BY CUSTOMER TYPE**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
Professionals and corporates	98,459	97,930
Individual customers	72,372	69,591
Financial customers	38,413	36,261
Others <sup>(1)</sup>	13,398	12,320
<b>TOTAL</b>	<b>222,642</b>	<b>216,102</b>

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

**NOTE 3.6.3 DEBT SECURITIES ISSUED**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
Term savings certificates	474	515
Bond borrowings	24,381	22,470
Interbank certificates and negotiable debt instruments	89,913	78,485
Related payables	804	770
Revaluation of hedged items	767	995
<b>TOTAL</b>	<b>116,339</b>	<b>103,235</b>
<i>o/w floating-rate securities</i>	39,121	30,762

**NOTE 3.7 Interest income and expense****MAKE IT  
SIMPLE**

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

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

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

**ACCOUNTING PRINCIPLES**

Interest income and expense are recorded in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income) and for all financial instruments mandatorily measured at fair value through profit and loss and interest rate risk hedging derivatives for the portion of income or expenses representative of the effective interest rate.

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking account of possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest, directly linked transaction costs, and all types of premiums and discounts.

Where a financial asset is classified in Stage 3 for impairment, subsequent interest income is recognised in profit or loss by applying the effective interest rate to the net carrying amount of the financial asset with an offsetting entry equal to the outstanding financial asset before impairment.

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

(In millions of euros)	2018 <sup>(1)</sup>			2017		
	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	14,030	(7,021)	7,009	13,830	(8,829)	5,001
Central banks	575	(151)	424	389	(217)	172
Bonds and other debt securities	257	(1,931)	(1,674)		(1,902)	(1,902)
Due from/to banks <sup>(2)</sup>	1,077	(1,354)	(277)	1,219	(1,158)	61
Customer loans and deposits <sup>(3)</sup>	11,435	(2,889)	8,546	11,698	(4,847)	6,851
Subordinated debt	-	(542)	(542)	-	(581)	(581)
Securities lending/borrowing	7	(5)	2	14	(20)	(6)
Repo transactions	679	(149)	530	510	(104)	406
Hedging derivatives	6,358	(4,638)	1,720	6,164	(4,434)	1,730
Financial instruments at fair value through other comprehensive income	622	-	622			
Available-for-sale financial assets				2,424	-	2,424
Held-to-maturity financial assets				141	-	141
Lease financing agreements	1,126	-	1,126	1,120	-	1,120
Real estate lease financing agreements	194	-	194	199	-	199
Non-real estate lease financing agreements	932	-	932	921	-	921
<b>Subtotal interest income/expense on financial instruments using the effective interest method</b>	<b>22,136</b>	<b>(11,659)</b>	<b>10,477</b>			
Financial instruments mandatorily at fair value through profit or loss	542	-	542			
<b>TOTAL INTEREST INCOME AND EXPENSE</b>	<b>22,678</b>	<b>(11,659)</b>	<b>11,019</b>	<b>23,679</b>	<b>(13,263)</b>	<b>10,416</b>
o/w interest income from impaired financial assets	357	-	-	519	-	-

(1) As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income of insurance companies" (see Note 1, paragraph 4).

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

(3) In 2017, Interests expenses on customer loans and deposit included EUR -2,496 million for profit-sharing for insurance policy holders.

These interest expenses include the refinancing cost of financial instruments at fair value through profit or loss, which results are classified in net gains or losses on these instruments. Given that income and expenses booked in the income statement are classified

by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole.

## BREAKDOWN OF OTHER CUSTOMER LOANS INCOME

(In millions of euros)	2018	2017
Trade notes	479	410
Other customer loans	9,773	10,037
Short-term loans	4,153	3,996
Export loans	321	267
Equipment loans	1,396	1,740
Housing loans	3,182	3,278
Other customer loans	721	756
Overdrafts	835	744
Doubtful outstandings (stage 3)	348	507
<b>TOTAL</b>	<b>11,435</b>	<b>11,698</b>

**NOTE 3.8 Impairment and provisions****MAKE IT  
SIMPLE**

Some financial assets (loans, debt securities) involve credit risk which exposes the Group to a potential loss if the counterparty or the securities issuer were to be unable to respect their financial commitments. To bear this risk, a portion of the contractual interest received by the bank on those assets, called credit margin, compensate it.

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

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

Potential losses recognised in profit or loss represent initially the credit losses expected by the Group over the year to come. Subsequently, the amount is increased by the expected loss at maturity of the instrument in case of significant increase of risk. The losses are then reassessed if the counterparty or issuer of the security is in default.

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

**ACCOUNTING PRINCIPLES****Recognition of expected credit losses**

Debt instruments classified as financial assets at amortised cost or as financial assets at fair value through other comprehensive income, operating lease receivables, customer receivables and income to be received included amongst *Other assets*, as well as loan commitments granted and guarantee commitments issued, are systematically subject to impairment or provisions for expected credit losses. These impairments and provisions are recognised as the loans are granted, the commitments undertaken, or the debt securities purchased, without waiting for the occurrence of an objective evidence of impairment.

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

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

### Exposures classified in Stage 1

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are purchased or originated credit-impaired instruments.

### Exposures classified in Stage 2

To identify Stage 2 exposures, the significant increase in credit risk is assessed by the Group using all available past and forward-looking data (behavioral scores, loan to value indicators, macroeconomic forecast scenarios, etc.). This assessment of changes in credit risk takes account of the following three criteria's:

- **The counterparty's credit rating**

The Group analyses changes in the counterparty's credit rating, as well as any changes in its operating sector, in macroeconomic conditions and in the behaviors of the counterparty that may, above and beyond the review of the credit rating, be a sign of deteriorating credit risk.

If, after a review, a counterparty is deemed "sensitive" (notion of watch list), all contracts between the Group and this counterparty are transferred into Stage 2 and the related impairment and provisions are increased up to the lifetime expected credit losses. Once a counterparty has been placed on a watch list, all new transactions originated with that counterparty are recorded in Stage 1.

- **The magnitude of the change in a counterparty's credit rating**

This magnitude is assessed from contract to contract, from the date of their initial recognition to the balance sheet date.

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the balance sheet date is significant enough to prompt a change in the impairment Stage, thresholds are set once a year by the Risk Division. These transfer thresholds between Stage 1 and Stage 2 are determined for each homogenous portfolio of contracts (notion of risk segment) and are calculated based on the probability-of-default curves for each (thus, the threshold is different depending on whether it is a Sovereign portfolio or a Large Corporates portfolio, for instance). The thresholds are therefore differentiated based on the one-year probability of default curves; this assumes there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

- **The existence of payments more than 30 days past due**

There is a rebuttable presumption of a significant deterioration in credit risk when a payment on an asset is more than 30 days past due.

Once any one of these three criteria is met, the instrument is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

The first two criteria are symmetrical: a sufficient improvement in the credit rating, or removal from the watch list of sensitive counterparties, results in a return to Stage 1.

### Exposures classified in stage 3

To identify Stage 3 exposures (doubtful exposures), the Group determines whether there is an objective evidence of impairment (default event):

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

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

In the case of a return in Stage 2, the exposures are kept in Stage 2 during a probation period before assessing whether they could be transferred in Stage 1. This probation period in Stage 2 is from six months to two years according to the nature of the risk portfolio to which the exposures belong.

### Purchased or originated credit-impaired exposures

Purchased or originated credit-impaired assets are subject to a specific accounting treatment. This treatment leads to recognize into the income statement any subsequent improvement or deterioration in the expected cash flows of the instrument, discounted at the effective interest rate of the instrument after adjustment for credit risk.

### Measurement of depreciation and provision

Stage 1 exposures are impaired for the amount of credit losses that the Group expects to incur within 12 months (12-month expected credit losses), based on past data and the current situation. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring within the next 12 months.

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Group expects to incur over the life of the exposures (lifetime expected credit losses), taking into consideration past data, the present situation and reasonable forecast changes in economic conditions, and relevant macroeconomic factors through to maturity. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring through to the instrument's maturity.

Calculation methods used to measure credit losses are disclosed in Chapter 4 of the present Registration Document (Risk factors and capital adequacy), Part 4.5.

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

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

### Restructured loans

Loans issued or acquired by the Group may be restructured due to financial difficulties. This takes the shape of a contractual modification of the initial terms of the loan (e.g. lower interest rates, rescheduled loan payments, partial debt forgiveness, or additional collateral). This adjustment of the contractual terms is strictly linked to the borrower's financial difficulties and/or insolvency (whether they have already become insolvent or are certain to do so if the loan is not restructured).

Where they still pass the SPPI test, restructured loans are still recognized in the balance sheet and their amortised cost before credit risk allowance is adjusted for a discount representing the restructuring loss. This discount is equal to the negative difference between the present value of the new contractual cash flows resulting from the restructuring of the loan and the amortised cost before credit risk allowance less any partial debt forgiveness; it is booked to *Cost of risk* in the income statement. As a result, the amount of interest income subsequently recognised into income are still computed using the initial effective interest rate of the loan.

Post-restructuring, these financial assets are systematically classified in Stage 3 for impairment (credit-impaired exposures), as the borrowers are deemed to be in default. Stage 3 classification is maintained for at least one year, or longer if the Group is uncertain that the borrowers will be able to meet their commitments. Once the loan is no longer classified in Stage 3, the assessment of the significant increase of credit risk will be performed by comparing the credit risk level at the closing date and the level at the initial recognition date of the loan before restructuring.

Where they no longer pass the SPPI test, restructured loans are derecognised and replaced by new loans recognized according to the restructured terms and conditions. These new loans are then classified as *Financial assets measured mandatorily at fair value through profit or loss*.

Restructured loans do not include loans and receivables subject to commercial renegotiations that are loans to customers for which the Group has agreed to renegotiate the debt with the aim of maintaining or developing a commercial relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

## RECONCILIATION OF IMPAIRMENT AND PROVISIONS BETWEEN IAS 39 AND IFRS 9

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

## OVERVIEW OF IMPAIRMENT AND PROVISIONS

(In millions of euros)	31.12.2018	01.01.2018
Impairment of financial assets at fair value through other comprehensive income	11	15
Impairment of financial assets at amortised cost	11,673	13,649
<i>Loans and receivables at amortized costs</i>	11,477	13,401
Other assets at amortized costs <sup>(1)</sup>	196	248
<b>TOTAL IMPAIRMENT OF FINANCIAL ASSETS</b>	<b>11,684</b>	<b>13,664</b>
Provisions on financing commitments	252	281
Provisions on guarantee commitments	386	402
<b>TOTAL CREDIT RISK PROVISIONS</b>	<b>638</b>	<b>683</b>

(1) o/w EUR 131 million of impairments on operating lease receivables as at 31 December 2018, measured using the simplified approach (vs. EUR 132 million as at 1 January 2018); those receivables are presented among miscellaneous receivables (see Note 4.4).

## NOTE 3.8.1 IMPAIRMENT OF FINANCIAL ASSETS

## BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

(In millions of euros)	Amounts at 01.01.2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Amounts at 31.12.2018
<b>Financial assets at fair value through other comprehensive income</b>							
Impairment on performing outstandings (Stage 1)	5	3	(3)	-		(2)	3
Impairment on under-performing outstandings (Stage 2)	-	-	-	-		-	-
Impairment on doubtful outstandings (Stage 3)	10	-	-	-	(1)	(1)	8
<b>TOTAL</b>	<b>15</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>(1)</b>	<b>(3)</b>	<b>11</b>
<b>Financial assets at amortised cost</b>							
Impairment on performing outstandings (Stage 1)	992	662	(672)	(10)		(95)	887
Impairment on under-performing outstandings (Stage 2)	1,244	898	(1,034)	(136)		(70)	1,038
Impairment on doubtful outstandings (Stage 3)	11,413	4,269	(3,153)	1,116	(2,130)	(651)	9,748
<b>TOTAL</b>	<b>13,649</b>	<b>5,829</b>	<b>(4,859)</b>	<b>970</b>	<b>(2,130)</b>	<b>(816)</b>	<b>11,673</b>
<b><i>o/w Lease financing and similar agreements</i></b>	<b>842</b>	<b>352</b>	<b>(299)</b>	<b>53</b>	<b>(116)</b>	<b>(12)</b>	<b>767</b>
<i>Impairment on performing outstandings (Stage 1)</i>	80	40	(37)	3		-	83
<i>Impairment of under-performing outstandings (Stage 2)</i>	101	61	(64)	(3)		-	98
<i>Impairment of doubtful outstandings (Stage 3)</i>	661	251	(198)	53	(116)	(12)	586

## VARIATION OF IMPAIRMENT ACCORDING TO CHANGES IN THE CARRYING AMOUNT OF FINANCIAL ASSETS

<i>(In millions of euros)</i>	Amounts at 01.01.2018	Production & Acquisition	Derecognition (among which write-offs) and repayments	Transfer between stages of impairment	Other variations	Amounts at 31.12.2018
<b>Financial assets at fair value through other comprehensive income</b>						
Impairment on performing outstandings (Stage 1)	5	2			(4)	3
Impairment on under-performing outstandings (Stage 2)						-
Impairment on doubtful outstandings (Stage 3)	10				(2)	8
<b>TOTAL</b>	<b>15</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>11</b>
<b>Financial assets at amortised cost</b>						
Impairment on performing outstandings (Stage 1)	992	408	(420)	(142)	49	887
Impairment of under-performing outstandings (Stage 2)	1,244	277	(442)	126	(167)	1,038
Impairment on doubtful outstandings (Stage 3)	11,413	207	(2,182)	368	(58)	9,748
<b>TOTAL</b>	<b>13,649</b>	<b>892</b>	<b>(3,044)</b>	<b>352</b>	<b>176</b>	<b>11,673</b>
<b><i>o/w Lease financing and similar agreements</i></b>	<b>842</b>	<b>53</b>	<b>(315)</b>	<b>17</b>	<b>171</b>	<b>767</b>
<i>Impairment on performing outstandings (Stage 1)</i>	80	28	(20)	(10)	5	83
<i>Impairment on under-performing outstandings (Stage 2)</i>	101	15	(32)	13	1	98
<i>Impairment on doubtful outstandings (Stage 3)</i>	661	9	(263)	14	165	586

Impairment decreased by EUR 2 billion in 2018 mainly on corporate and retail customers doubtful outstandings (stage 3). This decrease is linked to the Group strategy to reduce its defaulted exposures highly covered by impairment.

### NOTE 3.8.2 PROVISIONS

#### BREAKDOWN OF PROVISIONS

<i>(In millions of euros)</i>	Amounts at 01.01.2018	Allocations	Write-backs available	Net impairment losses	Currency and scope effects	Amounts at 31.12.2018
<b>Financing commitments</b>						
Provisions on performing outstandings (Stage 1)	117	83	(100)	(17)	(2)	98
Provisions on under-performing outstandings (Stage 2)	107	93	(82)	11	1	119
Provisions on doubtful outstandings (Stage 3)	57	76	(152)	(76)	54	35
<b>TOTAL</b>	<b>281</b>	<b>252</b>	<b>(334)</b>	<b>(82)</b>	<b>53</b>	<b>252</b>
<b>Guarantee commitments</b>						
Provisions on performing outstandings (Stage 1)	52	37	(38)	(1)	(4)	47
Provisions on under-performing outstandings (Stage 2)	61	68	(79)	(11)	18	68
Provisions on doubtful outstandings (Stage 3)	289	131	(96)	35	(53)	271
<b>TOTAL</b>	<b>402</b>	<b>236</b>	<b>(213)</b>	<b>23</b>	<b>(39)</b>	<b>386</b>



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

(In millions of euros)	Amounts at 01.01.2018	Production	Derecognition	Transfer between stages of impairment	Other variations	Amounts at 31.12.2018
<b>Financing commitments</b>						
Provisions on performing outstandings (Stage 1)	117	43	(55)	(10)	3	98
Provisions on under-performing outstandings (Stage 2)	107	28	(35)	20	(1)	119
Provisions on doubtful outstandings (Stage 3)	57	1	(19)	(2)	(2)	35
<b>TOTAL</b>	<b>281</b>	<b>72</b>	<b>(109)</b>	<b>8</b>	<b>0</b>	<b>252</b>
<b>Guarantee commitments</b>						
Provisions on performing outstandings (Stage 1)	52	14	(15)	(5)	1	47
Provisions on under-performing outstandings (Stage 2)	61	11	(6)	6	(4)	68
Provisions on doubtful outstandings (Stage 3)	289	4	(38)	15	1	271
<b>TOTAL</b>	<b>402</b>	<b>29</b>	<b>(59)</b>	<b>16</b>	<b>(2)</b>	<b>386</b>

#### NOTE 3.8.3 COST OF RISK

##### ACCOUNTING PRINCIPLES

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

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

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

(In millions of euros)	2018	2017
<b>Credit risk</b>	<b>-1,005</b>	<b>-918</b>
Net allocation to impairment losses	-970	-1,034
On financial assets at fair value through other comprehensive income	-	
On financial assets at amortised cost	-970	
Net allocations to provisions	59	9
On financing commitments	82	
On guarantee commitments	-23	
Losses not covered on irrecoverable loans	-263	-151
Amounts recovered on irrecoverable loans	169	258
Other risks		-431
<b>TOTAL</b>	<b>-1,005</b>	<b>-1,349</b>

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

**NOTE 3.9 Fair value of financial instruments measured at amortised cost****ACCOUNTING PRINCIPLES****Definition of fair value**

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

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

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

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

**NOTE 3.9.1 FINANCIAL ASSETS MEASURED AT AMORTISED COST**

	<b>31.12.2018</b>				
<i>(In millions of euros)</i>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Due from banks	60,588	60,674	-	43,844	16,830
Customer loans	447,229	451,366	-	187,421	263,945
Securities	12,026	12,113	4,007	7,312	794
<b>TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST</b>	<b>519,843</b>	<b>524,153</b>	<b>4,007</b>	<b>238,577</b>	<b>281,569</b>

**NOTE 3.9.2 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**

	<b>31.12.2018</b>				
<i>(In millions of euros)</i>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Due to banks	94,706	94,564	244	90,037	4,283
Customer deposits	416,818	417,019	-	406,699	10,320
Debt securities issued	116,339	116,336	22,028	93,564	744
Subordinated debt	13,314	13,316	-	13,316	-
<b>TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>	<b>641,177</b>	<b>641,235</b>	<b>22,272</b>	<b>603,616</b>	<b>15,347</b>

**NOTE 3.9.3 VALUATION METHODS OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST****LOANS, RECEIVABLES AND LEASE FINANCING AGREEMENTS**

The fair value of loans, receivables and lease financing transactions for large corporates and banks is calculated, in the absence of an actively traded market for these loans, by discounting expected cash flows to present value based on the market rates (the benchmark maturity yield published by the Banque de France and the zero-coupon yield) prevailing on the balance sheet date for loans with broadly similar terms and maturities. These discount rates are adjusted for borrower credit risk.

The fair value of loans, receivables and lease financing transactions for retail banking customers, essentially comprised of individuals and small or medium-sized companies, is determined, in the absence of an actively traded market for these loans, by discounting the associated expected cash flows to present value at the market rates prevailing on the balance sheet date for similar types of loans and similar maturities.

For all floating-rate loans, receivables and lease financing transactions and fixed-rate loans with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value net of impairment, assuming there has been no significant change in credit spreads on the counterparties in question since they were recognised in the balance sheet.

**DEBTS**

The fair value of debts, in the absence of an actively traded market for these liabilities, is taken to be the same as the value of future cash flows discounted to present value at the market rates prevailing on the balance sheet date. When the debt is a listed instrument, its fair value is its market value.

When the debt is a listed instrument, its fair value is its market value.

For floating-rate deposits, demand deposits and borrowings with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value. Similarly, the individual fair value of demand deposit accounts is equal to their book value.

**SECURITIES**

Provided that the security is an instrument traded on an active market, its fair value is equal to the market price.

If no active market exists, the fair value of the securities is calculated by discounting estimated future cash flows from the asset at the market rate on the balance sheet date. For variable-rate securities, and fixed-rate securities with an agreed duration of up to one year, the fair value is assumed to be the carrying amount minus impairments provided there have been no significant fluctuations in credit spreads involving the counterparties concerned since they were recorded on the balance sheet.

**NOTE 3.10 Commitments and assets pledged and received as securities****ACCOUNTING PRINCIPLES****Loan commitments**

Loan commitments that are not considered as financial derivatives or that are not measured at fair value through profit and loss for trading purpose are initially recognised at fair value. Thereafter, they are provisioned as necessary in accordance with the accounting principles for *Impairment and provisions* (see Note 3.8).

**Guarantee commitments**

When considered as non-derivative financial instruments, financial guarantees issued by the Group are initially recognised in the balance sheet at fair value. Thereafter, they are measured at either the amount of the obligation or the amount initially recognised (whichever is higher) less, when appropriate, the cumulative amortisation of a guarantee commission. Where there is objective evidence of impairment, a provision for financial guarantees given is recognised on the liabilities side of the balance sheet (see Note 3.8).

**Securities commitments**

Securities bought and sold, which are booked to *Financial assets at fair value through profit or loss*, *Financial assets at fair value through other comprehensive income* and *Financial assets at amortised cost* are recognised on the balance sheet at the settlement-delivery date. Between the trade date and the settlement-delivery date, securities receivable or deliverable are not recognized on the balance sheet. Changes in the fair value of securities measured at fair value through profit or loss and securities measured at fair value through other comprehensive income between the trade date and the settlement-delivery date are booked to profit or loss or equity, depending on the accounting classification of the securities in question.

The amounts of commitments and assets pledged and received as securities was not impacted by the first application of IFRS 9.

**NOTE 3.10.1 COMMITMENTS****COMMITMENTS GRANTED**

(In millions of euros)	31.12.2018	31.12.2017
<b>Loan commitments</b>		
To banks	19,174	21,983
To customers	199,663	180,004
<i>Issuance facilities</i>	-	-
<i>Confirmed credit lines</i>	181,015	168,874
<i>Others</i>	18,648	11,130
<b>Guarantee commitments</b>		
On behalf of banks	5,020	6,641
On behalf of customers <sup>(1)</sup>	57,251	61,024
<b>Securities commitments</b>		
Securities to be delivered	38,066	25,711

(1) Including capital and performance guarantees given to the holders of UCITS managed by entities of the Group.

**COMMITMENTS RECEIVED**

(In millions of euros)	31.12.2018	31.12.2017
<b>Loan commitments</b>		
From banks	62,447	52,222
<b>Guarantee commitments</b>		
From banks	104,845	91,742
Other commitments <sup>(1)</sup>	136,702	126,409
<b>Securities commitments</b>		
Securities to be received	41,857	26,958

(1) Including guarantees granted by government and official agencies and other guarantees granted by customers for EUR 72,768 million at 31 December 2018 versus EUR 62,394 million at 31 December 2017.

## NOTE 3.10.2 FINANCIAL ASSETS PLEDGED AND RECEIVED AS SECURITY

## FINANCIAL ASSETS PLEDGED

(In millions of euros)	31.12.2018	31.12.2017
Book value of assets pledged as security for liabilities <sup>(1)</sup>	348,262	316,565
Book value of assets pledged as security for transactions in financial instruments <sup>(2)</sup>	55,957	45,291
Book value of assets pledged as security for off-balance sheet commitments	2,117	2,515
<b>TOTAL</b>	<b>406,336</b>	<b>364,371</b>

(1) Assets pledged as security for liabilities mainly include loans given as guarantees for liabilities (guarantees notably provided to the central banks).

(2) Assets pledged as security for transactions in financial instruments mainly include security deposit.

## FINANCIAL ASSETS RECEIVED AS SECURITY AND AVAILABLE FOR THE ENTITY

(In millions of euros)	31.12.2018	31.12.2017
<b>Fair value of securities purchased under resale agreements</b>	<b>129,628</b>	<b>138,956</b>

The Group generally purchases securities under resale agreements under normal market terms and conditions. It may re-use the securities received under resale agreement by selling them outright, selling them under repurchase agreements or pledging them as security, provided that it returns these or equivalent securities to the

counterparty to the resale agreement at its term. Securities purchased under resale agreements are not recognised on the balance sheet. Their fair value, as shown above, includes securities sold or pledged as collateral.

**NOTE 3.11 Transferred financial assets****ACCOUNTING PRINCIPLES**

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

The tables below show securities lending and repurchase agreements that only concern securities recognised on the asset side of the balance sheet.

Securities involved in a repurchase agreement or securities lending transaction are held in their original position on the asset side of the Group's balance sheet. For repurchase agreements, the obligation to return the amounts deposited is recorded under *Liabilities* on the liabilities side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial liabilities at fair value through profit or loss*.

Securities involved in a reverse repurchase agreement or securities borrowing transaction are not recorded in the Group's balance sheet. For securities received under a reverse repurchase agreement, the right to recover the amounts delivered by the Group is recorded under *Customer Loans and receivables* or *Due from banks* on the asset side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial assets at fair value through profit or loss*. In the case of a subsequent sale of the borrowed securities, a debt due to the lender of those securities is recognised on the Group balance sheet amongst *Financial liabilities at fair value through profit or loss*.

Securities lending and securities borrowing transactions that are fully matched by cash are assimilated to repurchase and reverse repurchase agreements and are recorded and recognised as such in the balance sheet.

With securities lending and repurchase agreements, the Group remains exposed to issuer default (credit risk) and to increases or decreases of securities value (market risk). The underlying securities cannot simultaneously be used as collateral in other transactions.

**NOTE 3.11.1 TRANSFERRED FINANCIAL ASSETS NOT DERECOGNISED****REPURCHASE AGREEMENTS**

	31.12.2018	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
(In millions of euros)		
Securities at fair value through profit or loss	19,515	15,371
Securities at fair value through other comprehensive income	11,903	9,743
<b>TOTAL</b>	<b>31,418</b>	<b>25,114</b>

**SECURITIES LENDING**

	31.12.2018	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
(In millions of euros)		
Securities at fair value through profit or loss	11,347	51
Securities at fair value through other comprehensive income	368	-
<b>TOTAL</b>	<b>11,715</b>	<b>51</b>

**SECURITISATION ASSETS FOR WHICH THE COUNTERPARTIES TO THE ASSOCIATED LIABILITIES HAVE RECOURSE ONLY TO THE TRANSFERRED ASSETS**

<b>Customers loans (In millions of euros)</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Carrying amount of transferred assets	1,249	904
Carrying amount of associated liabilities	1,086	798
Fair value of transferred assets (A)	1,253	908
Fair value of associated liabilities (B)	1,090	801
<b>NET POSITION (A)-(B)</b>	<b>163</b>	<b>107</b>

The Group remains exposed to the majority of the risks and rewards associated with these receivables; furthermore, these receivables may not be used as collateral or sold outright as part of another transaction.

**NOTE 3.11.2 TRANSFERRED FINANCIAL ASSETS PARTIALLY OR FULLY DERECOGNISED**

At 31 December 2018, the Group carried out no material transactions resulting in the partial or full derecognition of financial assets leaving the Group with a continuous involvement in said assets.

**NOTE 3.12 Offsetting financial assets and financial liabilities****ACCOUNTING PRINCIPLES**

A financial asset and a financial liability are offset and the net amount presented on the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in all circumstances, in both the normal course of business and in the event of default of one of the counterparties. In this respect, the Group recognises in its balance sheet the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

The following tables present the amounts of financial assets and financial liabilities set off on the Group's consolidated balance sheet. The gross outstanding amounts of these financial assets and financial liabilities are matched with the consolidated outstanding amounts presented in the balance sheet (net balance sheet amounts), after indicating the amounts set off on the balance sheet for these various instruments (amounts offset) and aggregating them with the outstanding amounts of other financial assets and financial liabilities not subject to a Master Netting Agreement or similar agreement (amounts of assets and liabilities not eligible for offsetting).

These tables also indicate the amounts which may be offset, as they are subject to a Master Netting Agreement or similar agreement, but whose characteristics make them ineligible for offsetting in the

consolidated financial statements under IFRS. This information is provided in comparison with the accounting treatment applied under US GAAP. This affects in particular financial instruments that may only be offset in the event of the default, insolvency or bankruptcy of one of the counterparties, as well as instruments pledged by cash or securities collateral. These mainly include over-the-counter interest rate options, interest rate swaps and securities purchased/sold under resale/repurchase agreements.

Net positions resulting from these various offsettings are not intended to represent the Group's actual exposure to counterparty risk through these financial instruments, insofar as counterparty risk management uses other risk mitigation strategies in addition to netting and collateral agreements.

ASSETS	Impact of offsetting on the balance sheet			At 31 December 2018	Impact of Master Netting Agreements (MNA) and similar agreements <sup>(1)</sup>			Net amount
	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral received	Financial instruments received as collateral	
<i>(In millions of euros)</i>								
Derivative financial instruments (see Notes 3.1 and 3.2)	25,601	166,618	(57,337)	134,882	(81,559)	(13,720)	(31)	39,572
Securities lent (see Notes 3.1 and 3.3)	9,367	3,527	-	12,894	(1,745)	(2)	(732)	10,415
Securities purchased under resale agreements (see Notes 3.1 and 3.5)	46,526	224,992	(97,812)	173,706	(21,581)	(304)	(51,925)	99,896
Guarantee deposits pledged (see Note 4.4)	33,099	13,595	-	46,694	-	(13,595)	-	33,099
Other assets not subject to offsetting	941,252	-	-	941,252	-	-	-	941,252
TOTAL ASSETS	1,055,845	408,732	(155,149)	1,309,428	(104,885)	(27,621)	(52,688)	1,124,234

LIABILITIES	Impact of offsetting on the balance sheet			At 31 December 2018	Impact of Master Netting Agreements (MNA) and similar agreements <sup>(1)</sup>			Net amount
	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral pledged	Financial instruments pledged as collateral	
<i>(In millions of euros)</i>								
Derivative financial instruments (see Notes 3.1 and 3.2)	27,918	162,357	(57,337)	132,938	(81,559)	(13,595)	-	37,784
Amount payable on borrowed securities (see Note 3.1)	33,731	17,533	-	51,264	(1,745)	-	-	49,519
Securities sold under repurchase agreements (see Notes 3.1 and 3.6)	45,391	174,062	(97,812)	121,641	(21,581)	-	(22,956)	77,104
Guarantee deposits received (See Note 4.4)	29,417	14,026	-	43,443	-	(14,026)	-	29,417
Other liabilities not subject to offsetting	894,333	-	-	894,333	-	-	-	894,333
<b>TOTAL LIABILITIES</b>	<b>1,030,790</b>	<b>367,978</b>	<b>(155,149)</b>	<b>1,243,619</b>	<b>(104,885)</b>	<b>(27,621)</b>	<b>(22,956)</b>	<b>1,088,157</b>

<sup>(1)</sup> Fair value of financial instruments and collateral, capped at the net book value of the balance sheet exposure, so as to avoid any over-collateralisation effect.



ASSETS	Impact of offsetting on the balance sheet			At 31 December 2017	Impact of Master Netting Agreements (MNA) and similar agreements <sup>(1)</sup>			Net amount
	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral received	Financial instruments received as collateral	
<i>(In millions of euros)</i>								
Derivative financial instruments (see Notes 3.1 and 3.2)	30,291	182,376	(64,576)	148,091	(93,223)	(13,429)	(1)	41,438
Securities lent (see Notes 3.1 and 3.3)	2,534	13,782	-	16,316	(12,028)	-	-	4,288
Securities purchased under resale agreements (see Notes 3.1 and 3.5)	41,458	168,163	(70,659)	138,962	(34,145)	(204)	(51,164)	53,449
Guarantee deposits pledged (see Note 4.4)	28,650	12,334	-	40,984	-	(12,334)	-	28,650
Other assets not subject to offsetting	930,775	-	-	930,775	-	-	-	930,775
<b>TOTAL ASSETS</b>	<b>1,033,708</b>	<b>376,655</b>	<b>(135,235)</b>	<b>1,275,128</b>	<b>(139,396)</b>	<b>(25,967)</b>	<b>(51,165)</b>	<b>1,058,600</b>

## Liabilities

LIABILITIES	Impact of offsetting on the balance sheet			At 31 December 2017	Impact of Master Netting Agreements (MNA) and similar agreements <sup>(1)</sup>			Net amount
	Amount of liabilities not subject to offsetting*	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral pledged	Financial instruments pledged as collateral	
<i>(In millions of euros)</i>								
Derivative financial instruments (see Notes 3.1 and 3.2)	31,915	181,935	(64,576)	149,274	(93,223)	(12,334)	-	43,717
Amount payable on borrowed securities (see Note 3.1)	17,486	17,358	-	34,844	(12,028)	-	-	22,816
Securities sold under repurchase agreements (see Notes 3.1 and 3.6)	50,646	148,406	(70,659)	128,393	(34,145)	-	(17,620)	76,628
Guarantee deposits received (See Note 4.4)	25,484	13,633	-	39,117	-	(13,633)	-	25,484
Other liabilities not subject to offsetting	859,463	-	-	859,463	-	-	-	859,463
<b>TOTAL LIABILITIES</b>	<b>984,994</b>	<b>361,332</b>	<b>(135,235)</b>	<b>1,211,091</b>	<b>(139,396)</b>	<b>(25,967)</b>	<b>(17,620)</b>	<b>1,028,108</b>

(1) Fair value of financial instruments and collateral, capped at the net book value of the balance sheet exposure, so as to avoid any over-collateralisation effect.

**NOTE 3.13 Contractual maturities of financial liabilities**

<i>(In millions of euros)</i>	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 Years</b>	<b>More than 5 years</b>	<b>31.12.2018</b>
Due to central banks	5,721	-	-	-	5,721
Financial liabilities at fair value through profit or loss	310,193	22,209	13,699	16,982	363,083
Due to banks	26,897	26,560	20,135	21,114	94,706
Customer deposits	337,374	36,027	22,013	21,404	416,818
Debt securities issued	26,034	25,017	37,348	27,940	116,339
Subordinated debt	355	2	52	12,905	13,314
Other liabilities	66,231	2,087	5,281	3,03	76,629
<b>TOTAL LIABILITIES</b>	<b>772,805</b>	<b>111,902</b>	<b>98,528</b>	<b>103,375</b>	<b>1,086,610</b>
Loan commitments granted	84,953	19,941	74,835	39,108	218,837
Guarantee commitments granted	24,164	10,472	9,496	18,139	62,271
<b>TOTAL COMMITMENTS GRANTED</b>	<b>109,117</b>	<b>30,413</b>	<b>84,331</b>	<b>57,247</b>	<b>281,108</b>

The flows presented in this note are based on contractual maturities. However, for certain elements of the balance sheet, assumptions could be applied.

For lack of contractual terms and for trading financial instruments (e.g: derivatives), maturities are presented in the first column (up to 3 months).

The guarantee commitments given are scheduled on the basis of the best possible estimate of disposal, if not available they are presented in the first column (up to 3 months).

## NOTE 4 OTHER ACTIVITIES

### NOTE 4.1 Fee income and expense

#### ACCOUNTING PRINCIPLES

*Fee income* and *Fee expense* combine fees on services rendered and received, as well as fees on commitments, that cannot be assimilated to interest. Fees that can be assimilated to interest are integrated into the effective interest rate on the associated financial instrument and are recorded under *Interest and similar income* and *Interest and similar expense* (see Note 3.7).

Transactions with customers includes the fees from retail customers from the Group banking activities (in particular credit card fees, account management fees or application fees outside the effective interest rate).

Sundry services provided includes the fees from customers from the other Group activities (in particular, interchange fees, funds management fees or fees on insurance products sold within the network).

The Group recognises fee income or expense for an amount equivalent to the remuneration for the service provided and depending on the progress transferring control of these services:

- fees for ongoing services, such as some payment services, custody fees, or digital service subscriptions are recognised as income over the life of the service;
- fees for one-off services, such as fund activity, finder's fees received, arbitrage fees, or penalties on payment incidents are recognised as income when the service is provided.

The amount equivalent to the remuneration for the service provided is composed of fixed and variable contractual compensation whether they are paid in kind or in cash, less any payments due to customers (for example, in case of promotional offers). The variable compensation (for example, discounts based on the provided services volume over a period of time or fees payable subject to the achievement of a performance target, etc.) are included in the amount equivalent to the remuneration for the service provided if and only if this compensation is highly probable not to be subsequently reduced significantly.

The possible mismatch between the payment date of the service provided and the date of execution of the service gives assets and liabilities depending on the type of contract and mismatch which are recognized under *Other Assets* and *Other Liabilities* (see Note 4.4):

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

In syndication deals, the effective interest rate for the share of the issuance retained on the Group's balance sheet is comparable to that applied to the other members of the syndicate including, when needed, a share of the underwriting fees and participation fees; the balance of these fees for services rendered is then recorded under *Fee income* at the end of the syndication period. Arrangement fees are recorded as income when the placement is legally complete.

	2018			2017		
	Income	Expense	Net	Income	Expense	Net
(In millions of euros)						
<b>Transactions with banks</b>	<b>148</b>	<b>(182)</b>	<b>(34)</b>	<b>133</b>	<b>(168)</b>	<b>(35)</b>
<b>Transactions with customers</b>	<b>3,187</b>	<b>-</b>	<b>3,187</b>	<b>2,971</b>	<b>-</b>	<b>2,971</b>
<b>Financial instruments operations</b>	<b>2,308</b>	<b>(2,334)</b>	<b>(26)</b>	<b>2,416</b>	<b>(2,240)</b>	<b>176</b>
Securities transactions	539	(1,030)	(491)	596	(959)	(363)
Primary market transactions	136		136	208		208
Foreign exchange transactions and financial derivatives	1,633	(1,304)	329	1,612	(1,281)	331
<b>Loan and guarantee commitments</b>	<b>711</b>	<b>(78)</b>	<b>633</b>	<b>748</b>	<b>(62)</b>	<b>686</b>
<b>Sundry services<sup>(1)</sup></b>	<b>2,770</b>	<b>(1,006)</b>	<b>1,764</b>	<b>4,236</b>	<b>(1,211)</b>	<b>3,025</b>
Asset management fees	634		634	1,427		1,427
Means of payment fees	847		847	813		813
Insurance products fees	228		228	820		820
Underwriting fees of UCITS	85		85	176		176
Other fees	976	(1,006)	(30)	1,000	(1,210)	(211)
<b>TOTAL</b>	<b>9,124</b>	<b>(3,600)</b>	<b>5,524</b>	<b>10,504</b>	<b>(3,681)</b>	<b>6,823</b>

(1) As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1.4).

**NOTE 4.2 Income and expense from other activities****ACCOUNTING PRINCIPLES****Leasing activities**

Leases granted by the Group which do not transfer to the lessee virtually all the risks and benefits associated with ownership of the leased asset are classified as operating leases.

Assets held under operating leases, including investment property, are recorded on the balance sheet under *Tangible and intangible fixed assets* at their acquisition cost, less depreciation and impairment (see Note 8.4).

Leased assets are depreciated, excluding residual value, over the life of the lease. Lease payments are recognised as income according to the straight-line method over the term of the lease. Meanwhile, the purpose of the accounting treatment of income invoiced in respect of maintenance services related to operating lease activities is to reflect a constant margin between this income and the expenses incurred in providing the service over the term of the service agreement.

Income and expenses, and capital gains or losses on investment properties and leased assets, are recorded under *Income and expenses from other activities* on the Real estate leasing and Equipment leasing lines, as well as income and expense on maintenance services related to operating lease activities.

These lines also include losses incurred in the event of a decline in the unguaranteed residual value of finance-lease transactions, and capital gains or losses on disposal related to unleased assets once the lease finance agreements are terminated.

Leases granted by the Group entities may include maintenance service for the leased equipment. In this case, the portion of rentals corresponding to this maintenance service is spread over the duration of the service (generally the lease contract duration) and, when necessary, considers the progress of the service provided when it is not linear.

**Real estate development activities**

As the sale of real estate off plan (housing, office property, retail areas, etc.) is an ongoing service, the margin of this activity is progressively recognised over the construction programme's duration until the delivery date to the customer. It is recognised under income when this margin is positive and under expenses when this margin is negative.

The margin recognised at each closing period reflects the programme's estimated margin forecast and its stage of completion at the end of the period which depends on the progress in terms of marketing and the project.

	2018			2017		
	Income	Expense	Net	Income	Expense	Net
(In millions of euros)						
Real estate development	76	(2)	74	93	(4)	89
Real estate leasing	34	(40)	(6)	67	(68)	(1)
Equipment leasing	10,102	(7,156)	2,946	9,158	(6,447)	2,711
Other activities <sup>(1)(2)</sup>	549	(1,814)	(1,265)	12,727	(14,637)	(1,910)
<i>o/w insurance activities</i>				12,346	(12,052)	294
<b>TOTAL</b>	<b>10,761</b>	<b>(9,012)</b>	<b>1,749</b>	<b>22,045</b>	<b>(21,156)</b>	<b>889</b>

(1) As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1.4).

(2) For 2017, the Expenses from other activities include EUR 963 million, the exchange value of GBP 813.26 million, in compensation for the settlement agreement between Societe Generale and the Libyan Investment Authority.

**NOTE 4.3 Insurance activities****MAKE IT  
SIMPLE**

Insurance activities (life insurance, personal protection and non-life insurance) add to the range of products included in the banking services offered to Group customers.

These activities are carried out by dedicated subsidiaries, subject to regulations specific to the insurance sector.

The rules for measuring and accounting for risks associated with insurance contracts are specific to the Insurance sector.

**DEFERRED APPLICATION OF IFRS 9 BY INSURANCE SUBSIDIARIES**

The amendments to IFRS 4 (Applying IFRS 9, “Financial Instruments”, with IFRS 4, Insurance Contracts) allow entities having insurance as their primary activity to delay the application of IFRS 9 until 1 January 2021, meaning they may continue applying IAS 39. The European Commission also extended the deferral option to allow financial conglomerates falling within the scope of Directive 2002/87/EC to elect that all their entities operating in the insurance sector within the meaning of that directive will defer the effective date of IFRS 9 until 1 January 2021.

The Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. The Group has made the necessary arrangements to forbid all transfers of financial instruments between its insurance sector and any other sector in the Group that would lead to a derecognition of the instrument by the seller, except for transfers of financial instruments measured at fair value through profit or loss by both sectors involved in such transfers.

Starting in financial year 2018, insurance activities are presented on separate lines in the consolidated financial statements for clarification purposes: *Investments of insurance activities* under balance sheet assets, *Insurance contracts related liabilities* under balance sheet liabilities, and *Net income from insurance activities* under *Net banking income* in the income statement.

The main subsidiaries concerned are Sogécap, Antarius, Sogelife, Oradea Vie, Komerční Pojistovna A.S. and Sogessur.

**NOTE 4.3.1 INSURANCE CONTRACTS RELATED LIABILITIES****ACCOUNTING PRINCIPLES****Underwriting reserves of insurance companies**

Underwriting reserves correspond to the commitments of insurance companies with respect to policyholders and the beneficiaries of policies.

In accordance with IFRS 4 on insurance policies, life and non-life underwriting reserves continue to be measured under the same local regulations, with the exception of certain prudential provisions that are cancelled (liquidity risk provision) or recalculated economically (overall management reserve).

Risks covered by non-life insurance policies are principally linked to home, car and accident protection guarantees. Underwriting reserves comprise reserves for unearned premiums (share of premium income relating to subsequent financial years) and for outstanding claims.

Risks covered by life insurance policies are principally death, invalidity and incapacity for work. Life insurance underwriting reserves mainly comprise actuarial reserves, which correspond to the difference between the present value of commitments falling to the insurer and those falling to the policyholder, and the reserve for claims incurred but not settled.

In life insurance products:

- underwriting reserves of life insurance contracts invested in EUR-denominated vehicles with profit-sharing clauses consist primarily of mathematical provisions and provisions for profit-sharing;
- underwriting reserves of life insurance contracts invested in unit-linked vehicles or with a significant insurance clause (mortality, invalidity, etc.) are measured at the inventory date according to the realisation value of the assets underlying these contracts.
- Under the principles defined in IFRS 4, and in compliance with local regulations applicable with respect thereto, life insurance policies with discretionary profit-sharing features are subject to “mirror accounting”, whereby any changes in the value of financial assets liable to affect policyholders are recorded in Deferred profit-sharing. This reserve is calculated to reflect the potential rights of policyholders to unrealised gains on financial instruments measured at fair value or their potential share of unrealised losses.

To demonstrate the recoverability of the deferred profit-sharing asset in the event of an unrealised net loss, two approaches are verified by the Group in order to show that the liquidity requirements caused by an unfavourable economic environment would not require assets to be sold in the event of unrealised losses:

- the first approach consists in simulating deterministic ("standardised" or extreme) stress scenarios. This is used to show that in these scenarios no significant losses would be realised on the assets existing at the balance sheet date for the scenarios tested;
- the aim of the second approach is to ensure that in the long or medium term, the sale of assets to meet liquidity needs would not generate any significant losses. The approach is verified considering projections based on extreme scenarios

A liability adequacy test (LAT) is also carried out quarterly using a stochastic model based on parameters assumption consistent with those used for the MCEV (Market Consistent Embedded Value). This test takes into account all of the future cash flows from policies, including benefits, management charges, fees and policy options and guarantees. It does not include future premiums.

### Classification of financial liabilities

At initial recognition, financial liabilities resulting from the Group's insurance activities are classified in the following accounting categories:

- financial liabilities measured at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that do not qualify as hedging instruments, as well as non-derivative financial liabilities initially designated by the Group at fair value through profit or loss (fair value option). These financial liabilities mainly comprise investment contracts without discretionary profit-sharing clauses and with no insurance component, that do not meet the definition of an insurance contract under IFRS 4 (unit-linked insurance contracts only) and are thus governed by IAS 39;
- financial liabilities measured at amortised cost: other non-derivative financial liabilities, which are measured at amortised cost.

These financial liabilities are recorded in the balance sheet under *Debts* and *Financial liabilities measured at fair value through profit or loss*, except for derivative liabilities which are recorded under *Insurance contracts related liabilities*.

## BREAKDOWN OF INSURANCE CONTRACTS RELATED LIABILITIES

(In millions of euros)	31.12.2018	01.01.2018
Underwriting reserves of insurance companies	128,769	130,958
Financial liabilities of insurance companies	774	759
<b>TOTAL</b>	<b>129,543</b>	<b>131,717</b>

## UNDERWRITING RESERVES OF INSURANCE COMPANIES

(In millions of euros)	31.12.2018	01.01.2018
Underwriting reserves for unit-linked policies	28,850	29,643
Life insurance underwriting reserves	90,992	89,563
Non-life insurance underwriting reserves	1,418	1,332
Deferred profit-sharing booked in liabilities	7,509	10,420
<b>Total</b>	<b>128,769</b>	<b>130,958</b>
Attributable to reinsurers	(703)	(731)
<b>UNDERWRITING RESERVES OF INSURANCE COMPANIES (INCLUDING PROVISIONS FOR DEFERRED PROFIT-SHARING) NET OF THE SHARE ATTRIBUTABLE TO REINSURERS</b>	<b>128,066</b>	<b>130,227</b>

## STATEMENT OF CHANGES IN UNDERWRITING RESERVES

<i>(In millions of euros)</i>	Underwriting reserves for unit-linked policies	Life insurance underwriting reserves	Non-life insurance underwriting reserves
<b>Reserves at 1 January 2018 (except provisions for deferred profit-sharing)</b>	<b>29,643</b>	<b>89,563</b>	<b>1,332</b>
Allocation to insurance reserves	469	1,233	81
Revaluation of unit-linked policies	(1,895)		
Charges deducted from unit-linked policies	(157)		
Transfers and allocation adjustments	647	(655)	
New customers	21	86	11
Profit-sharing	124	1,351	
Others	(2)	(586)	(6)
<b>Reserves at 31 December 2018 (except provisions for deferred profit-sharing)</b>	<b>28,850</b>	<b>90,992</b>	<b>1,418</b>

In accordance with IFRS 4 and Group accounting standards, the Liability Adequacy Test (LAT) was performed at 31 December 2018. This test assesses whether recognised insurance liabilities are

adequate, using current estimates of future cash flows under insurance policies. The result of the test at 31 December 2018 does not show any insufficiency of technical liabilities.

## UNDERWRITING RESERVES BY REMAINING MATURITY

<i>(In millions of euros)</i>	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	<b>31.12.2018</b>
<b>Underwriting reserves of insurance companies</b>	<b>11,542</b>	<b>8,891</b>	<b>35,102</b>	<b>73,234</b>	<b>128,769</b>

## NOTE 4.3.2 INVESTMENTS OF INSURANCE ACTIVITIES

As of 1 January 2018, derivative and non-derivative financial assets and investment property held by insurance entities are isolated on the balance sheet under Investments of insurance companies.

The accounting principles applicable to financial assets are detailed in Note 8.8.

## OVERVIEW OF INVESTMENTS OF INSURANCE ACTIVITIES

(In millions of euros)

	31.12.2018	01.01.2018
Financial assets at fair value through profit or loss (trading portfolio)	1,876	1,765
Bonds and other debt instruments	200	200
Shares and other equity instruments	29	38
Trading derivatives	1,647	1,527
Financial assets at fair value through profit or loss (fair value option)	56,240	55,414
Bonds and other debt instruments	27,881	27,174
Shares and other equity instruments	28,085	27,986
Loans, receivables and repo transactions	274	254
Hedging derivatives	409	438
Available-for-sale financial assets	86,299	86,509
Debt instruments	72,613	72,973
Equity instruments	13,686	13,536
Due from banks	7,983	9,195
Customer loans	119	141
Real estate investments	609	618
<b>Total investments of insurance activities before elimination of intercompany transactions</b>	<b>153,535</b>	<b>154,080</b>
Elimination of intercompany transactions	(6,767)	(6,469)
<b>TOTAL INVESTMENTS OF INSURANCE ACTIVITIES AFTER ELIMINATION OF INTERCOMPANY TRANSACTIONS<sup>(1)(2)</sup></b>	<b>146,768</b>	<b>147,611</b>

(1) Investments in other Group companies that are made in representation of unit-linked liabilities are kept in the Group's consolidated balance sheet without any significant impact thereon.

(2) o/w EUR 710 million of current accounts at 31 December 2018 (after elimination of intercompany transactions) vs. EUR 1,093 million at 1 January 2018.

The following tables show the carrying amounts and fair value after eliminating intercompany transactions.

## ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

The following table shows the carrying amount of the financial assets included in *Investments from insurance activities*, whereby those assets whose contractual conditions give rise to cash-flows on set dates that are solely payments of principal and interest (basic instruments) are presented separately from trading assets and assets measured using the fair value option through profit or loss.

	31.12.2018				01.01.2018
	Basic instruments	Other instruments	Total carrying amount	Fair value	Total carrying amount
(In millions of euros)					
Financial assets at fair value through profit or loss	-	55,177	55,177	55,177	53,899
Hedging derivatives		401	401	401	420
Available-for-sale financial assets	68,261	16,407	84,668	84,668	84,731
Due from banks	2,122	3,672	5,794	6,139	7,103
Customer loans	119	-	119	117	141
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>70,502</b>	<b>75,657</b>	<b>146,159</b>	<b>146,502</b>	<b>146,294</b>



## FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(In millions of euros)	31.12.2018			
	Level 1	Level 2	Level 3	Total
Trading portfolio	29	384	49	462
Financial assets at fair value through profit or loss using the fair value option	48,821	5,516	378	54,715
Hedging derivatives	-	401	-	401
Available-for-sale financial assets	79,104	5,466	98	84,668
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE</b>	<b>127,954</b>	<b>11,767</b>	<b>525</b>	<b>140,246</b>

(In millions of euros)	31.12.2017			
	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
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE</b>	<b>129,684</b>	<b>9,659</b>	<b>407</b>	<b>139,750</b>

## CHANGES IN AVAILABLE FOR SALE FINANCIAL ASSETS

(In millions of euros)	2018
<b>Balance as of 1 January</b>	<b>84,731</b>
Acquisitions	9,834
Disposals/redemptions	(7,232)
Transfers to held-to-maturity financial assets	-
Change in scope and others	(427)
Gains and losses on changes in fair value recognised directly in equity during the period	(2,153)
Impairment losses on equity instruments recognised in profit and loss	(107)
Translation differences	22
<b>Balance as of 31 December</b>	<b>84,668</b>

## UNREALISED GAINS AND LOSSES ON AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNISED IN OTHER COMPREHENSIVE INCOME

(In millions of euros)	31.12.2018		
	Capital gains	Capital losses	Net revaluation
<b>Unrealised gains and losses of insurance companies</b>	<b>384</b>	<b>(47)</b>	<b>337</b>
On equity instruments available-for-sale	1,114	(391)	723
On debt instruments available-for-sale and assets reclassified as loans and receivables	6,338	(477)	5,861
Deferred profit-sharing	(7,068)	821	(6,247)

(In millions of euros)	31.12.2017		
	Capital gains	Capital losses	Net revaluation
<b>Unrealised gains and losses of insurance companies</b>	<b>438</b>	<b>(27)</b>	<b>411</b>
On available-for-sale equity instruments	1,537	(38)	1,499
On available-for-sale debt instruments and assets reclassified as loans and receivables	7,748	(327)	7,421
Deferred profit-sharing	(8,847)	338	(8,509)

## FINANCIAL ASSETS RECEIVED AS SECURITY AND AVAILABLE FOR THE ENTITY

(In millions of euros)	31.12.2018	31.12.2017
<b>Fair value of securities purchased under resale agreements</b>	<b>8</b>	<b>38</b>

The Group generally purchases securities under resale agreements under normal market terms and conditions. It may re-use the securities received under resale agreement by selling them outright, selling them under repurchase agreements or pledging them as security, provided that it returns these or equivalent securities to the counterparty to the resale agreement at its term.

Securities purchased under resale agreements are not recognised on the balance sheet. Their fair value, as shown above, includes securities sold or pledged as collateral.

### NOTE 4.3.3 NET INCOME FROM INSURANCE ACTIVITIES

#### ACCOUNTING PRINCIPLES

##### Income and expense related to insurance contracts

Income and expense related to insurance contracts issued by Group insurance companies, associated fee income and expense, and income and expense related to investments of insurance companies are recorded under *Net income from insurance activities* in the income statement.

Other income and expense are recorded under the appropriate headings.

Changes in the provision for deferred profit-sharing are recorded under *Net income from insurance activities* in the income statement or under *Unrealised or deferred gains and losses* under the appropriate headings for the underlying assets in question.

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

(In millions of euros)	2018	2017
Net premiums	12,568	11,480
Net income from investments	1,928	3,368
Cost of benefits (including changes in reserves) <sup>(1)</sup>	(12,541)	(12,771)
Other net technical income (expense)	(231)	2
<b>Net income of insurance activities</b>	<b>1,724</b>	<b>2,079</b>
Funding costs	(7)	(4)
<b>Net banking income of insurance companies</b>	<b>1,717</b>	<b>2,075</b>

(1) o/w: EUR -2,001 million in respect of profit-sharing at 31 December 2018.

## NET INCOME FROM INVESTMENTS

<i>(In millions of euros)</i>	2018	2017
Dividend income on equity instruments	617	393
Interest income	2,011	2,047
<i>On available-for-sale financial assets</i>	1,706	1,711
<i>On loans and receivables</i>	293	273
<i>Other net interest income</i>	12	63
Net gains or losses on financial instruments at fair value through profit or loss	(776)	864
Net gains or losses on available-for-sale financial instruments	62	61
<i>Capital gain or loss on sale of debt instruments</i>	(5)	(51)
<i>Capital gain or loss on sale of equity instruments</i>	174	167
<i>Impairment losses on equity instruments</i>	(107)	(55)
Net gains or losses on real estate investments	14	3
<b>TOTAL NET INCOME FROM INVESTMENTS</b>	<b>1,928</b>	<b>3,368</b>

## NOTE 4.3.4 MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risks:

- underwriting risks, particularly risk through life insurance, individual personal protection and non-life insurance. This risk can be biometrical: disability, longevity, mortality, or related to policyholders' behaviour (risk of lapses). To a lesser extent, the Insurance business line is also exposed to non-life and health risks. Such risks can come from pricing, selection, claims management or catastrophic risk;
- risks related to financial markets and ALM: the Insurance business line, mainly through life insurance, is exposed to instabilities on the financial markets (changes in interest rates and stock market fluctuations) which can be made worse by policyholder behaviour.

Managing these risks is key to the Insurance business line's activity. It is carried out by qualified and experienced teams, with major bespoke IT resources. Risks are monitored and regularly reported, they are guaranteed by risk policies validated by the Board of Directors of each entity.

Risk management techniques are based on the following:

- heightened security for the risk acceptance process, with the aim of guaranteeing that the price schedule matches the policyholder's risk profile and the guarantees provided;
- regular monitoring of indicators on product claims rates in order to adjust certain product parameters, such as pricing or the level of guarantee, if necessary;
- implementation of a reinsurance plan to protect the business line from major/serial claims;

- application of policies on risk, provisioning and reinsurance.

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimization of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analyzed by the Finance and Risk Department of the insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behaviour (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per issuer rating and assets class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA report (Own Risk and Solvency Assessment), transferred to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

**BREAKDOWN BY RATING OF BASIC FINANCIAL INSTRUMENTS**

The following tables show the carrying amounts after eliminating intercompany transactions.

	31.12.2018			
<i>(In millions of euros)</i>	Available- for-sale financial assets	Due from banks	Customer loans	Total
AAA	4,146	214	-	4,36
AA+ / AA / AA-	37,692	562	-	38,254
A+ / A/A-	12,809	867	-	13,676
BBB+ / BBB/BBB-	12,769	377	-	13,146
BB+ / BB/BB-	353	102	-	455
B+ / B/B-	5	-	-	5
CCC+ / CCC/CCC-	-	-	-	-
CC+ / CC/CC-	-	-	-	-
Lower than CC-	-	-	-	-
Without rating	487	-	119	606
<b>TOTAL BEFORE IMPAIRMENT</b>	<b>68,261</b>	<b>2,122</b>	<b>119</b>	<b>70,502</b>
Impairment	-	-	-	-
<b>CARRYING AMOUNT</b>	<b>68,261</b>	<b>2,122</b>	<b>119</b>	<b>70,502</b>

The rating scale is the scale used for Solvency 2 purposes, which calls for the second highest rating determined by the rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings) to be used. The ratings in question apply to issues or, where these are not available, to issuers.

**NOTE 4.4 Other assets and liabilities****NOTE 4.4.1 OTHER ASSETS**

Other assets are impacted by the transition to IFRS 9 due to the implementation of the simplified impairment model for operating leases (see Note 3.8).

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>01.01.2018</b>	<b>31.12.2017</b>
Guarantee deposits paid <sup>(1)</sup>	46,694	40,978	40,984
Settlement accounts on securities transactions	6,645	7,436	7,436
Prepaid expenses	1,057	989	989
Miscellaneous receivables <sup>(2)</sup>	11,817	9,920	10,378
Miscellaneous receivables - insurance	1,511	1,411	1,033
<b>GROSS AMOUNT</b>	<b>67,724</b>	<b>60,734</b>	<b>60,820</b>
Impairment <sup>(3)</sup>	(278)	(285)	(258)
<b>NET AMOUNT</b>	<b>67,446</b>	<b>60,449</b>	<b>60,562</b>

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

(2) Miscellaneous receivables primarily include trade receivables, fee income and income from other activities to be received. The operating leases receivables equal to EUR 902 million as of 31 December 2018.

(3) Impairments on other assets are related to:

- credit risk on operating lease receivables for an amount of EUR 131 million as of 31 December 2018 and EUR 132 million as of 1 January 2018;
- credit risk on assets acquired by adjudication and sundry debtors for an amount of EUR 110 million as of 31 December 2018 and EUR 116 million as of 1 January 2018;
- other risks for an amount of EUR 37 million as of 31 December 2018 and EUR 37 million as of 1 January 2018.

**NOTE 4.4.2 OTHER LIABILITIES**

The balance sheet value of other liabilities was not impacted by the first-time application of IFRS 9.

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
Guarantee deposits received <sup>(1)</sup>	43,443	39,117
Settlement accounts on securities transactions	6,904	6,816
Expenses payable on employee benefits	2,396	2,542
Deferred income	1,620	1,633
Miscellaneous payables <sup>(2)</sup>	15,609	13,314
Miscellaneous payables - insurance	6,657	5,717
<b>TOTAL</b>	<b>76,629</b>	<b>69,139</b>

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

(2) Miscellaneous payables primarily include trade payables, fee expense and expense from other activities to be paid.

## NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS



### MAKE IT SIMPLE

Employee benefits correspond to the compensation granted by the Group to its employees in exchange for work carried out during the annual reporting period.

All forms of compensation for work rendered are recorded in the expenses:

- whether it be paid to employees or to outside social security agencies;
- whether it be paid during the annual reporting period or to be paid by the Group in the future as entitlements to employees (pension plans, retirement benefits...);
- whether it be paid in cash or in Societe Generale shares (free share plans, stock options).

### ACCOUNTING PRINCIPLES

Employee benefits are divided into four categories:

- Short-term employee benefits which are employee benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, such as fixed and variable compensation, annual leave, taxes and social security contributions, mandatory employer contributions and profit-sharing;
- Post-employment benefits, including defined contributions plans and defined benefit plans such as pension plans and retirement benefits;
- Long-term employee benefits which are employee benefits not expected to be settled wholly before twelve months, such as defined variable compensation paid in cash and not indexed to the Societe Generale share, long service awards and time saving accounts;
- Termination benefits.

Information related to the Group headcount is presented in the Chapter 5 of the Registration Document (Corporate Social Responsibility), part 5.

**NOTE 5.1 Personnel expenses and related party transactions****ACCOUNTING PRINCIPLES**

*Personnel expenses* include all expenses related to personnel, including employee benefits and expenses related to payments based on Societe Generale shares.

Short-term employee benefits are recorded under *Personnel expenses* during the period according to the services provided by the employee.

The accounting principles relating to post-employment benefits and long-term benefits are described in Note 5.2. Those related to share-based payments are described in Note 5.3.1.

**NOTE 5.1.1 PERSONNEL EXPENSES**

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
Employee compensation	(6,925)	(7,018)
Social security charges and payroll taxes	(1,648)	(1,605)
Net pension expenses - defined contribution plans	(724)	(713)
Net pension expenses - defined benefit plans	78	(112)
Employee profit-sharing and incentives	(342)	(301)
<b>TOTAL</b>	<b>(9,561)</b>	<b>(9,749)</b>
<i>Including net expenses from share-based payments</i>	(227)	(129)

**NOTE 5.1.2 RELATED-PARTY TRANSACTIONS****ACCOUNTING PRINCIPLES**

*Personnel expenses* include related party transactions, within the meaning of IAS 24.

The Group's related parties include the members of the Board of Directors, corporate officers (the Chairman, the Chief Executive Officer and the three Deputy Chief Executive Officers), their respective spouses and any children residing in the family home, subsidiaries which are either controlled exclusively or jointly by the Group, and companies over which Societe Generale exercises significant influence.

**Remuneration of the group's managers**

This includes amounts effectively paid by the Group to Directors and corporate officers as remuneration (including employer contributions) and other benefits as indicated below.

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
Short-term benefits	17.9	20.7
Post-employment benefits	0.7	1.5
Long-term benefits	-	-
Termination benefits	1.6	-
Share-based payments	2.8	2.4
<b>TOTAL</b>	<b>23.0</b>	<b>24.6</b>

**Related-party transactions**

The transactions with members of the Board of Directors, Chief Executive Officers and members of their families included in this note only comprise loans and guarantees outstanding at 31 December 2018 for a total amount of EUR 4.9 million. All other transactions with these individuals are insignificant.

**Total amounts provisioned or booked by the Societe Generale Group for the payment of pensions and other benefits**

The total amount provisioned or booked by the Societe Generale Group at 31 December 2018 under IAS 19 for the payment of pensions and other benefits to Societe Generale's Chief Executive Officers (Ms Lebot and Mr. Aymerich, Mr. Cabannes and Mr. Heim and the two staff-elected Directors) is EUR 9.5 million.

**NOTE 5.2 Employee benefits**

Group entities in France and abroad, may award their employees:

- post-employment benefits, such as pension plans or retirement benefits;
- long-term benefits such as deferred variable remuneration, long-service awards or the *Compte Epargne Temps* (CET) flexible working provisions;
- termination benefits.

**DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS**

(In millions of euros)	Provisions at 31.12.2017	Allocations <sup>(1)</sup>	Write-backs available	Net allocation	Write-backs used	Actuarial gains and losses	Currency and scope effects	Provisions at 31.12.2018
Provisions for employee benefits	2,100	889	(571)	318	(6)	(6)	(65)	2,341

(1) This amount includes an allocation of EUR 554 million related to the change of hedging strategies for French benefits plans in November 2018 (see Note 5.2.1).

**NOTE 5.2.1 POST-EMPLOYMENT BENEFITS****ACCOUNTING PRINCIPLES**

Post-employment benefits can be broken down into two categories: defined contribution pension plans or defined benefit pension plans.

**Defined contribution plans**

Defined contribution plans limit the Group's liability to the subscriptions paid into the plan but do not commit the Group to a specific level of future benefits. Contributions paid are recorded as an expense for the current year.

**Defined benefit plans**

Defined benefit plans commit the Group, either formally or constructively, to pay a certain amount or level of future benefits and therefore bear the associated medium or long-term risk.

Provisions are recognised on the liabilities side of the balance sheet under *Provisions*, to cover the whole of these retirement obligations. These provisions are assessed regularly by independent actuaries using the projected unit credit method. This valuation technique incorporates assumptions about demographics, early retirement, salary rises and discount and inflation rates.

Group can choose to finance defined benefit plans by assets held by a long-term employee benefit fund or by qualifying insurance policies.

Funding assets, made by funds or insurance policies, are classified as plan assets if assets are held by an entity (a fund) that is legally separate from the reporting entity and are available to be used only to pay employee benefits

When these plans are financed from external funds classified as plan assets, the fair value of these funds is subtracted from the provision to cover the obligations.

When these plans are financed from funds not classified as plan assets, these funds, classified as separate assets, are displayed separately in the assets of the balance sheet under *Financial assets at fair value through profit or loss*.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognised as actuarial gains and losses. Actuarial gains and losses, as well as the return on plan assets excluding amounts expensed as net interest on the net defined benefit liability (or asset) and any change in the effect of the asset ceiling are components used to re-measure the net defined benefit liability (or asset). These components are immediately and fully recognised in shareholder's equity among *Unrealised or deferred gains and losses* and they cannot be subsequently reclassified as income.

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

Where a new or amended plan comes into force, past service cost is immediately recognised in profit or loss.

An annual charge is recorded under *Personnel expenses* for defined benefit plans consisting of:

- the additional entitlements vested by each employee (current service cost);
- past service cost resulting from a plan amendment or a curtailment;



- the financial expense resulting from the discount rate and the interest income on plan assets (net interest on the net defined benefit liability or asset);
- plan settlements.

#### DEFINED CONTRIBUTION PLANS

The main defined contribution plans provided to employees of the Group are located in France, in the United Kingdom and in the United States.

In France, they include state pension plans and other national pension plan such as AGIRC-ARRCO, as well as pension schemes put in place by certain Group entities whose only commitment is to pay annual contributions (PERCO).

In the United Kingdom, the employer pays contributions according to the age of the employees (from 2.5 to 10% of the salary) and can make extra contributions up to 4.5% for the voluntary additional employee contributions.

In the United States, employers fully match the first 8% of employee contributions, within the limit of USD 10,000.

#### POST-EMPLOYMENT DEFINED BENEFIT PLANS

Post-employment pension plans include schemes offering annuities, plans offering retirement bonuses and mixed plans (cash balance). Benefits paid out in annuities supplement the pensions paid by the mandatory basic plans.

The main defined benefit plans are located in France, Switzerland, the United Kingdom and the United States.

In France, the supplementary pension plan for executive managers, set up in 1991, allocates an annual allowance to beneficiaries covered by Societe Generale as described in the Chapter 3 "Corporate Governance" of the Registration Document. This allowance depends in particular on the beneficiary's seniority within Societe Generale.

In Switzerland, the plan is managed by a personal protection insurance institution (the Foundation), comprised of employer and employee representatives. The employer and its employees pay contributions to the Foundation. Pension benefits are revalued at a guaranteed rate of return and converted to annuities (or lump-sum payment) also at a guaranteed conversion rate (cash balance scheme). Because of this minimum guaranteed return, the plan is considered similar to a defined benefit plan.

In recent years, the Societe Generale Group has actively implemented a policy of converting defined benefit plans to defined contribution plans.

In the United Kingdom, the defined benefit plan has been closed to new employees for nearly 20 years, and the benefits of the last beneficiaries were frozen in 2015. The plan is managed by an independent institution (Trustee).

Similarly, in the United States, defined benefit plans were closed to new employees in 2015 and the vesting of new benefits was frozen.

#### RECONCILIATION OF ASSETS AND LIABILITIES RECORDED IN THE BALANCE SHEET

<i>(In millions of euros)</i>	31.12.2018	31.12.2017
A - Present value of funded defined benefit obligations	2,617	2,953
B - Fair value of plan assets and separate assets	(2,436)	(2,610)
<b>C = A + B Deficit (surplus)</b>	<b>181</b>	<b>343</b>
D - Present value of unfunded defined benefit obligations	412	428
E - Change in asset ceiling	-	8
<b>C + D + E = NET BALANCE RECORDED IN THE BALANCE SHEET</b>	<b>593</b>	<b>779</b>

**COMPONENTS OF THE COST OF DEFINED BENEFITS**

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
Current service cost including social security contributions	106	104
Employee contributions	(5)	(5)
Past service cost/curtailments <sup>(1)</sup>	(212)	(5)
Settlements	(3)	-
Net interest	17	16
<b>A - Components recognised in income statement</b>	<b>(97)</b>	<b>110</b>
Actuarial gains and losses on assets	119	(70)
Actuarial gains and losses due to changes in demographic assumptions	1	(38)
Actuarial gains and losses due to changes in economic and financial assumptions	(148)	57
Actuarial gains and losses due to experience	(3)	12
Change in asset ceiling	-	-
<b>B - Components recognised in unrealised or deferred gains and losses</b>	<b>(31)</b>	<b>(39)</b>
<b>C = A + B TOTAL COMPONENTS OF THE COST OF DEFINED BENEFITS</b>	<b>(128)</b>	<b>71</b>

*(1) Some French defined benefit plans have been reviewed in December 2018 implying a decrease of the liabilities.*

**CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS**

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
<b>Balance at 1 January</b>	<b>3,381</b>	<b>3,468</b>
Current service cost including social security contributions	106	104
Past service cost/curtailments <sup>(1)</sup>	(212)	(5)
Settlements	(3)	(23)
Net interest	60	63
Actuarial gains and losses due to changes in demographic assumptions	1	(38)
Actuarial gains and losses due to changes in economic and financial assumptions	(148)	57
Actuarial gains and losses due to experience	(3)	12
Foreign exchange adjustment	12	(92)
Benefit payments	(165)	(167)
Change in consolidation scope	-	1
Transfers and others	-	1
<b>Balance at 31 December</b>	<b>3,029</b>	<b>3,381</b>

*(1) Some French defined benefit plans have been reviewed in December 2018 implying a decrease of the liabilities.*

## CHANGES IN THE FAIRE VALUE OF PLAN ASSETS AND SEPARATE ASSETS

(In millions of euros)	2018	2017
<b>Balance at 1 January</b>	<b>2,610</b>	<b>2,695</b>
Expected return on plan assets	44	47
Expected return on separate assets	6	6
Actuarial gains and losses due to assets	(119)	70
Foreign exchange adjustment	11	(81)
Employee contributions	5	5
Employer contributions to plan assets	22	26
Benefit payments	(135)	(141)
Change in consolidation scope	-	-
Transfers and others	(8)	(17)
<b>Balance at 31 December<sup>(1)</sup></b>	<b>2,436</b>	<b>2,610</b>

(1) Including EUR 902 million in separate assets at 31 December 2018 (EUR 398 million at 31 December 2017).

## INFORMATION REGARDING FUNDING ASSETS

General information regarding funding assets (for all benefits and future contributions)

Funding assets include plan assets and separate assets.

Funding assets represent around 78% of Group obligations, with different rates depending on the country.

Accordingly defined benefit plan obligations in the United Kingdom are fully hedged, those in the United States hedged 89%, while they are only 85% hedged in France and are not funded in Germany.

The breakdown of the fair value of plan assets is as follows: 63% bonds, 25% equities and 12% others investments. Directly held Societe Generale shares are not significant.

Funding assets excess is EUR 150 million.

Employer contributions to be paid to post-employment defined benefit plans for 2019 are estimated at EUR 17 million.

Plan hedging strategies are defined locally in connection with the Finance and Human Resources Departments of the entities, by ad hoc

structures (Trustees, Foundations, Joint structures etc.) if necessary. Besides, liability investment or financing strategies are monitored at Group level through a global governance system. Committee meetings, with the participation of representatives of the Human Resources Department, the Finance Department and the Risk Division, are organised in order to define Group guidelines for employee benefits investment and management, to validate decisions and to follow up the associated risks for the Group.

In France, plan hedging strategies of some defined benefit plans has been modified in November 2018, implying a requalification of some plan assets into separate assets. The result is an increase of the liabilities of EUR 554 million and the recognition of a separate assets for the same amount (see Note 3.1.3). At the transfer date, the impact of this change is nil in profit or loss.

Depending on the duration of each plan and local regulations, funding assets are invested in equities and/or in fixed income products, whether guaranteed or not.

## ACTUAL RETURNS ON FUNDING ASSETS

The actual returns on plan and separate assets can be broken down as follows:

(In millions of euros)	2018	2017
Plan assets	(42)	112
Separate assets	(27)	11

**MAIN ASSUMPTIONS DETAILED BY GEOGRAPHICAL AREA**

	31.12.2018	31.12.2017
Discount rate		
Europe	1.80%	1.66%
Americas	4.29%	3.50%
Asia-Oceania-Africa	2.22%	2.11%
Long-term inflation		
Europe	1.93%	2.07%
Asia-Oceania-Africa	1.66%	1.77%
Future salary increase		
Europe	0.60%	0.68%
Asia-Oceania-Africa	2.50%	2.49%
Average remaining working lifetime of employees (in years)		
Europe	8.33	9.46
Americas	7.85	8.25
Asia-Oceania-Africa	14.21	14.39
Duration (in years)		
Europe	14.75	15.76
Americas	15.59	17.53
Asia-Oceania-Africa	11.82	11.09

Assumptions by geographical area are weighted average by the defined benefit obligations (DBO).

The discount yield curves used are AA corporate bonds yield curves (source: Merrill Lynch) observed at the end of October for USD, GBP and EUR, and corrected at the end of December if the change in discount rates had a significant impact.

Inflation rates used for EUR and GBP monetary areas are market rates observed at the end of October, and corrected at the end of December

if the change had a significant impact. Inflation rates used for the other monetary areas are the long-term targets of the central banks.

The average remaining working lifetime of employees is calculated taking into account turnover assumptions.

The assumptions described above have been applied to post-employment benefit plans.

**SENSITIVITIES OF DEFINED BENEFIT OBLIGATIONS TO MAIN ASSUMPTION RANGES**

(Percentage of item measured)	31.12.2018	31.12.2017
Variation in discount rate	+0.5%	+0.5%
Impact on the present value of defined benefit obligations at 31 December N	-7%	-7%
Variation in long-term inflation	+0.5%	+0.5%
Impact on the present value of defined benefit obligations at 31 December N	5%	5%
Variation in future salary increase	+0.5%	+0.5%
Impact on the present value of defined benefit obligations at 31 December N	2%	2%

Disclosed sensitivities are averages of the variations weighted by the present value of the defined benefit obligations

**5.2.2. LONG-TERM BENEFITS****ACCOUNTING PRINCIPLES**

Long-term employee benefits are benefits other than post-employment and termination benefits, that are paid to employees more than twelve months after the end of the annual period in which they provided the related services.

Long-term benefits are measured and recognised in the same way as post-employment benefits, with the exception of actuarial gains and losses, which are immediately recognised as profit or loss.

These benefits include deferred compensation settled in cash and not indexed to the Societe Generale share, such as long-term deferred variable remuneration, CET (*Comptes Epargne Temps*) flexible working provisions, or longservice awards.

At 31 December 2018, the net balance of long-term benefits was EUR 428 million. The total cost of long-term benefits was EUR 56 million for 2018.

**NOTE 5.3 Share-based payment plans****ACCOUNTING PRINCIPLES**

Societe Generale, and its subsidiaries, share-based payments include:

- payments in equity instruments;
- cash payments whose amount depends on the performance of equity instruments.

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

For equity-settled share-based payments (free shares, stock purchase or subscription options), the fair value of these instruments, measured at the vesting date, is spread over the vesting period and recorded in shareholders' equity under *Issuing premium and capital reserves*. At each accounting date, the number of these instruments is revised in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under *Personnel expenses* from the start of the plan are then adjusted accordingly.

For cash-settled share-based payments (stock-options granted by unlisted companies or compensation indexed on Societe Generale, or one of its subsidiary, shares), the fair value of the amounts payable is recorded under *Personnel expenses* as an expense over the vesting period against a corresponding liabilities entry recognised in the balance sheet under *Other liabilities – Expenses payable on employee benefits*. This payables item is then remeasured to take into account performance and presence conditions as well as changes in the value of the underlying shares. When the expense is hedged by an equity derivative instrument, the effective portion of the change in the fair value of the hedging derivative is recorded in profit or loss under *Personnel expense* as well.

The Group may award some of its employees stock purchase or subscription options, free shares or rights to a future cash payment indexed to the Societe Generale, or one of its subsidiary, share price.

The options are measured at their fair value when the employees are first notified, without waiting for the conditions that trigger the award to be met, or for the beneficiaries to exercise their options.

Group stock-option plans are measured using a binomial formula when the Group has adequate statistics to take into account the behaviour of the option beneficiaries. When such data are not available, the Black & Scholes model or Monte Carlo model is used. Valuations are performed by independent actuaries.

**EXPENSES RECORDED IN THE INCOME STATEMENT**

(in millions of euros)	31.12.2018			31.12.2017		
	Cash settled plans	Equity settled plans	Total plans	Cash settled plans	Equity settled plans	Total plans
Net expenses from purchase plans, stock option and free share plans	112	59	171	127	58	185

\* Amounts restated compared to the 31 December 2018 consolidated financial statements.

The description of Societe Generale stock-options plans and free share plans, which supplements this note, is presented in Chapter 3 of the present Registration Document (Corporate Governance).

## NOTE 6 INCOME TAX



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Income tax expenses are presented separately from other taxes which are classified among *Other operating expenses*. They are calculated according to the rates and tax regulations applicable in the countries where each consolidated entity is located.

*Income tax* presented in the income statement includes current taxes and deferred taxes:

- current taxes correspond to the amount of taxes due (or refundable) as calculated according to the taxable profit base for the reporting period;
- deferred taxes correspond to the amount of taxes resulting from past transactions and that will be payable (or refundable) in a future reporting period.

### ACCOUNTING PRINCIPLES

#### Current taxes

Current tax is based on the taxable profits of each consolidated taxable entity and determined in accordance with the rules established by the local taxation authorities, upon which income taxes are payable. This tax expense also includes net allowances for tax adjustments pertaining to income tax.

Tax credits arising in respect of interest from loans and income from securities are recorded in the relevant interest account as they are applied in settlement of income taxes for the year. The related tax charge is included under *Income tax* in the consolidated income statement.

#### Deferred taxes

Deferred taxes are recognised whenever the Group identifies a temporary difference between the book value and tax value of balance sheet assets and liabilities that will affect future tax payments.

Deferred tax assets and liabilities are measured in each consolidated taxable entity and in accordance with the rules established by the local taxation authorities, upon which their income taxes are payable. This amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realised or the liability settled. These deferred taxes are adjusted in the event of changes to tax rates. This amount is not discounted to present value.

Deferred tax assets can result from deductible temporary differences or from tax loss carry forwards. These deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set time. These temporary differences or tax loss carry forwards can also be used against future taxable profit.

Tax loss carry forwards are subject to an annual review taking into account the tax system applicable to each relevant tax entity and a realistic projection of their tax income or expense: any previously unrecognised deferred tax assets are recorded in the balance sheet to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered; however, the carrying value of deferred tax assets already recognised in the balance sheet is reduced where a risk of total or partial non-recovery occurs.

Current and deferred taxes are recognised in the consolidated income statement under *Income tax*. However, deferred taxes related to gains and losses recorded under *Unrealised or deferred gains and losses* are also recognised under the same heading in shareholders' equity.

### NOTE 6.1 Income tax

(In millions of euros)	2018	2017
Current taxes	(1,204)	(1,035)
Deferred taxes	(357)	(673)
<b>TOTAL</b>	<b>(1,561)</b>	<b>(1,708)</b>

## RECONCILIATION OF THE DIFFERENCE BETWEEN THE GROUP'S STANDARD TAX RATE AND ITS EFFECTIVE TAX RATE

(In millions of euros)	2018	2017
<b>Income before tax, excluding net income from companies accounted for using the equity method and impairment losses on goodwill</b>	<b>6,061</b>	<b>5,045</b>
Normal tax rate applicable to French companies (including 3.3% national contribution)	34.43%	34.43%
Permanent differences <sup>(1)</sup>	1.58%	12.87%
Differential on securities with tax exemption or taxed at reduced rate	-0.10%	-2.23%
Tax rate differential on profits taxed outside France	-10.11%	-10.48%
Impact of non-deductible losses and use of tax losses carried forward	-0.04%	-0.69%
<b>GROUP EFFECTIVE TAX RATE</b>	<b>25.76%</b>	<b>33.90%</b>

(1) At 31 December 2017, the main impact was related to the change in the US tax rate and the appreciation of deferred tax assets of the US tax group for +5.01%, and the change in the French tax rate for +3.23%.

In France, the standard corporate income tax rate is 33.33%. A national contribution payment based on pre-tax earnings (contribution sociale) was introduced in 2000 equal to 3.3% (after a deduction of EUR 0.76 million from basic taxable income).

Long-term capital gains on equity investments are exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate. This portion of fees and expenses is 12% of gross capital gains and is applicable only if the company realizes a net long-term capital gain.

Furthermore, under the parent-subsidary regime, dividends from companies in which Societe Generale's equity interest is at least 5% are tax exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate.

The 2018 French Finance Act, adopted on 21 December 2017, includes a gradual reduction in French tax rate. Until 2022, the standard Corporate Income Tax of 33.33% will be brought down to 25%, plus the existing national contribution of 3.3%.

Deferred taxes on French companies are determined by applying the tax rate in effect at the reversal of the temporary difference. Regarding the gradual reduction in French tax rate until 2022:

- for income taxed at the ordinary tax rate, the rate is between 34.43% in 2018 and 25.83% from 2022 (including the national contribution payment);
- for income taxed at reduced rate, the rate is between 4.13% in 2018 and 3.10% from 2022 (including the national contribution payment).

## NOTE 6.2 Provisions for tax adjustments

### ACCOUNTING PRINCIPLES

Provisions represent liabilities whose timing or amount cannot be precisely determined.

- Provisions may be recorded:
- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;

and when the amount of probable outflow of resources can be reliably estimated.

The expected outflows are then discounted to present value to determine the amount of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax adjustments are booked to *Current taxes* in the income statement under *Income tax*.

Information on the nature and the amount of the associated risks is not disclosed when the Group considers that such disclosure could seriously undermine its position in a dispute with other parties on the object of the provision.

(In millions of euros)	Provisions at 31.12.2017	Allowances	Available write-backs	Net	Used write-backs	Changes in translation and consolidation scope	Provisions at 31.12.2018
Tax adjustments	162	100	(51)	49	(75)	(1)	135

**NOTE 6.3 Tax assets and liabilities****TAX ASSETS***(In millions of euros)*

	31.12.2018	01.01.2018	31.12.2017
Current tax assets	1,066	1,236	1,236
Deferred tax assets	4,753	5,056	4,765
<i>o/w deferred tax assets on tax loss carryforwards</i>	2,895	2,970	2,970
<i>o/w deferred tax assets on temporary differences</i>	1,858	2,086	1,795
<b>TOTAL</b>	<b>5,819</b>	<b>6,292</b>	<b>6,001</b>

**TAX LIABILITIES***(In millions of euros)*

	31.12.2018	01.01.2018	31.12.2017
Current tax liabilities	552	995	995
Deferred tax liabilities	605	613	667
<b>TOTAL</b>	<b>1,157</b>	<b>1,608</b>	<b>1,662</b>

Each year, the Group performs a review of tax loss carryforwards, according to the tax system applicable for each relevant tax entity and a realistic forecast of its tax results. For this purpose, tax results are determined based on the forecast of the performance of each business line entering in the Group budgetary path and/or on the strategic review of countries, after being approved by empowered management bodies. In addition, they include accounting and tax adjustments (of which the reversal of deferred tax assets and liabilities bases on temporary differences) applicable to concerned entities and jurisdictions. These adjustments are determined based on historical tax results and on the Group's tax expertise. Beyond the Group budgetary path and/or the strategic review, extrapolations are performed particularly from macro-economic assumptions (for example, the evolution of interest rates).

By nature, the appreciation of macro-economic factors chosen and the internal estimations used to determine the tax results contain risks and uncertainties on their realisation over the estimated horizon of the losses absorption. These risks and uncertainties concern the possibilities of change of tax rules applicable (tax result computation as well as rules of imputation of tax losses carried forward) or the achievement of the strategic assumptions.

To ensure the robustness of the tax result projections, the Group realises sensitivity analysis on the achievement of budgetary and strategic assumptions.

At 31 December 2018, these analyses confirm the probability for the Group to use tax loss carryforwards subject to deferred tax assets against future taxable profit.



**NOTE 6.4 Deferred tax assets recognised on tax loss carryforwards**

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

(In millions of euros)	31.12.2018	Statutory time limit on carryforwards	Expected recovery period
<b>Total deferred tax assets relating to tax loss carryforwards</b>	<b>2,895</b>	-	-
<i>o/w French tax group</i>	2,327	unlimited <sup>(1)</sup>	10 years
<i>o/w US tax group</i>	463	20 years <sup>(2)</sup>	7 years
<i>Others</i>	105	-	-

(1) In accordance with the 2013 French Finance Act, the deduction of previous losses is limited to EUR 1 million plus 50% of the fraction of the taxable income for the fiscal year exceeding this limit. The non-deductible portion of losses may be carried forward to the following fiscal years with no time limit and under the same conditions.

(2) Tax losses generated before 31 December 2017.

At 31 December 2018, the main unrecognised deferred tax assets represent a total of EUR 558 million (compared to EUR 687\* million at 31 December 2017). They are mostly related to the US tax group, with EUR 500 million (compared to EUR 629\* million at 31 December 2017), SG Kleinwort Hambros Ltd. with EUR 29 million (compared to EUR 30 million at 31 December 2017) and SG Singapour with EUR 29 million (compared to EUR 27 million at 31 December 2017).

With regard to the tax treatment of the loss caused by the actions of Jérôme Kerviel (see Note 9), Societe Generale considers that the judgment of the Versailles Court of Appeal of 23 September 2016 is not likely to call into question its validity in light of the 2011 opinion of the French Supreme Administrative Court (*Conseil d'État*) and its established case law which was recently confirmed again in this regard. Consequently, Societe Generale considers there is no need to provision the corresponding deferred tax assets.

However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and confirmed that they intended to call into question the deductibility of the loss caused by the actions of Jérôme Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by a tax adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In the event that the authorities decide, in due course, to confirm their current position, the Societe Generale Group will not fail to assert its rights before the competent courts.

\* Amounts restated compared to the 31 December 2017 published financial statements, including City and State income taxes in addition to Federal income tax in United States of America.

## NOTE 7 SHAREHOLDERS' EQUITY



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Equity are the resources contributed to the Group by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings). It also includes resources received when financial instruments are issued and for which the issuer has no contractual obligation to deliver cash to the holders of these instruments (such as certain perpetual subordinated notes).

Equity has no contractual maturity, and when compensation is awarded to shareholders or holders of other equity instruments, it does not affect the income statement but directly reduces the retained earnings in the equity.

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

### NOTE 7.1 Treasury shares and Shareholders' Equity issued by the Group

#### ACCOUNTING PRINCIPLES

##### Treasury shares

Societe Generale shares held by the Group are deducted from consolidated equity irrespective of the purpose for which they are held. Income on these shares is eliminated from the consolidated income statement.

Recognition of shares issued by Group subsidiaries, which are bought and sold by the Group, is described in Note 2.

##### Shareholders' Equity issued by the Group

Financial instruments issued by the Group are booked in whole or in part to debt or to equity depending on whether or not they contractually oblige the issuer to deliver cash to the holders of the securities.

When they are classified as equity, securities issued by Societe Generale are recorded under *Other equity instruments*. If they are issued by Group subsidiaries, these securities are recognised under *Non-controlling interests*. External costs associated with issuing equity instruments are deducted directly from equity at their after-tax amount.

When they are classified as debt instruments, securities issued by the Group are recorded under *Debt securities issued* or *Subordinated debt* depending on their characteristics. They are accounted for in the same way as other financial liabilities measured at amortised cost (see Note 3.6).

## NOTE 7.1.1 ORDINARY SHARES ISSUED BY SOCIETE GENERALE S.A.

(Number of shares)	31.12.2018	31.12.2017
Ordinary shares	807,917,739	807,917,739
Including treasury stock with voting rights <sup>(1)</sup>	5,975,497	6,850,304
Including shares held by employees	51,668,863	49,830,060

(1) Excluding Societe Generale shares held for trading purposes or in respect of the liquidity contract.

At 31 December 2018, Societe Generale S.A.'s fully paid up capital amounted to EUR 1,009,897,173.75 and was made up of 807,917,739 shares with a nominal value of EUR 1.25.

## NOTE 7.1.2 TREASURY STOCK

At 31 December 2018, the Group held 19,037,552 of its own shares as treasury stock, for trading purposes or for the active management of shareholders' equity, representing 2.36% of the capital of Societe Generale S.A.

The amount deducted by the Group from its equity for treasury shares (and related derivatives) came to EUR 667 million, including EUR 423 million in shares held for trading purposes.

## THE CHANGE IN TREASURY STOCK OVER THE 1ST SEMESTER 2018 BREAKS DOWN AS FOLLOWS:

(In millions of euros)	Liquidity contract	Trading activities	Treasury stock and active management of shareholders' equity	Total
Disposals net of purchases	(4)	(202)	32	(174)
Capital gains net of tax on treasury stock and treasury share derivatives, booked under shareholders' equity	(1)	16	(27)	12

## NOTE 7.1.3 EQUITY INSTRUMENTS ISSUED

## PERPETUAL SUBORDINATED NOTES

Perpetual subordinated notes issued by the Group, with some discretionary features governing the payment of interest, are classified as equity.

At 31 December 2018, perpetual subordinated notes issued by the Group and recognised under Group shareholders' equity in *Other equity instruments* totalled EUR 244 million, valued at historical rate.

Issuance Date	Amount in local currency at 31 December 2017	Repurchases and redemptions in 2018	Amount in local currency at 31 December 2018	Amount in millions of euros at historical rate	Remuneration
1 July 1985	EUR 62 m	-	EUR 62 m	62	BAR (Bond Average Rate) of -0.25% for the period from 1 June to 31 May before each due date
24 November 1986	USD 248 m	-	USD 248 m	182	Average 6-month Euro/Dollar deposit rates communicated by reference banks +0.075%

## PERPETUAL DEEPLY SUBORDINATED NOTES

Given the discretionary nature of the decision to pay dividends to shareholders, perpetual deeply subordinated notes have been classified as equity and recognised under *Other equity instruments*.

At 31 December 2018, perpetual deeply subordinated notes issued by the Group and recognised under Group shareholders' equity in *Other equity instruments* totalled EUR 8,866 million, valued at historical rate.

The variation of the amount of perpetual deeply subordinated notes reflects the redemptions of three notes during the year.

Issuance Date	Amount in local currency at 31 December 2017	Repurchases and redemptions in 2018	Amount in local currency at 31 December 2018	Amount in millions of euros at historical rate	Remuneration
16 June 2008	GBP 506 m	GBP 506 m	-	-	8.875%, from 2018 3-month GBP Libor +3.4% annually
4 September 2009	EUR 905 m		EUR 905 m	905	9.375%, from 2019 3-month Euribor +8.901% annually
6 September 2013	USD 1,250 m	USD 1,250 m	-	-	8.25%, from 29 November 2018 USD 5-year Mid Swap Rate +6.394%
18 December 2013	USD 1,750 m		USD 1,750 m	1,273	7.875%, from 18 December 2023, USD 5-year Mid Swap Rate +4.979%
25 June 2014	USD 1,500 m		USD 1,500 m	1,102	6%, from 27 January 2020, USD 5-year Mid Swap Rate +4.067%
7 April 2014	EUR 1,000 m		EUR 1,000 m	1,000	6.75%, from 7 April 2021, EUR 5-year Mid Swap Rate +5.538%
29 September 2015	USD 1,250 m		USD 1,250 m	1,111	8.00% from 29 September 2025, USD 5-year Mid Swap rate +5.873%
13 September 2016	USD 1,500 m		USD 1,500 m	1,335	7.375% from 13 September 2021, USD 5-year Mid Swap rate +6.238%
6 April 2018			USD 1,250 m	1,035	6.750% from 6 April 2028, 5-year Mid Swap rate +3.929%
4 October 2018			USD 1,250 m	1,105	7.375% from 4 October 2023, 5-year Mid Swap rate +4.302%

## OTHER EQUITY INSTRUMENTS ISSUED BY SUBSIDIARIES

Given the discretionary nature of the decision to pay dividends to shareholders, perpetual subordinated notes issued by the Group's subsidiaries are classified as equity.

At 31 December 2018, other equity instruments issued by the Group's subsidiaries and recognised under *Non-controlling interests* totalled EUR 800 million.

Issuance Date	Amount	Remuneration
18 December 2014 (step-up clause after 12 years)	EUR 800 m	4.125%, from 2026 5-year Mid-Swap rate + 4.150% annually

## SUMMARY OF CHANGES IN EQUITY INSTRUMENTS ISSUED

Changes related to the perpetual subordinated notes and deeply subordinated notes included in *Shareholder's equity*, *Group share* are detailed below:

	2018			2017 <sup>(1)</sup>		
(In millions of euros)	Deeply subordinated notes	Perpetual subordinated notes	Total	Deeply subordinated notes	Perpetual subordinated notes	Total
Remuneration paid booked under reserves	(700)	(5)	(705)	(735)	(3)	(738)
Changes in nominal values	544	-	544	(1,114)	-	(1,114)
Tax savings on remuneration payable to shareholders and recorded under reserves	255	2	257	186	1	187
Issuance fees relating to subordinated notes	(10)	-	(10)	-	-	-

(1) Remuneration paid to shareholders of others equity instruments (deeply subordinated notes and perpetual subordinated notes) are now disclosed on the line "Issuance/Redemption/remuneration of equity instruments".

**NOTE 7.2 Earnings per share and dividends****ACCOUNTING PRINCIPLES**

Earnings per share are measured by dividing net income attributable to ordinary shareholders by the weighted average number of shares outstanding over the period, excluding treasury shares. Net income attributable to ordinary shareholders takes account of remuneration rights of preferred shareholders, such as holders of preferred shares, subordinated securities or deeply subordinated notes classified in equity. Diluted earnings per share take into account the potential dilution of shareholders' interests in the event dilutive instruments (stock options or free share plans) are converted into ordinary shares. This dilutive effect is determined using the share buyback method.

**NOTE 7.2.1 EARNINGS PER SHARE**

<i>(In millions of euros)</i>	<b>2018</b>	<b>2017</b>
Net income, Group share	3,864	2,806
Net attributable remuneration to deeply subordinated notes	(452)	(466)
Issuance fees relating to subordinated notes	(10)	-
<b>Net income attributable to ordinary shareholders</b>	<b>3,402</b>	<b>2,340</b>
Weighted average number of ordinary shares outstanding <sup>(1)</sup>	801,909,473	800,596,132
<b>Earnings per ordinary share (in euros)</b>	<b>4.24</b>	<b>2.92</b>
Average number of ordinary shares used in the dilution calculation	-	50
Weighted average number of ordinary shares used in the calculation of diluted net earnings per share	801,909,473	800,596,182
<b>Diluted earnings per ordinary share (in euros)</b>	<b>4.24</b>	<b>2.92</b>

(1) Excluding treasury shares.

**NOTE 7.2.2 DIVIDENDS PAID**

Dividends paid by the Group to ordinary shareholder's in 2018 amounted to EUR 2,132 million and are detailed in the following table:

	<b>2018</b>			<b>2017*</b>		
<i>(In millions of euros)</i>	<b>Group Share</b>	<b>Non-controlling interests</b>	<b>Total</b>	<b>Group Share</b>	<b>Non-controlling interests</b>	<b>Total</b>
Paid in shares	-	-	-	-	-	-
Paid in cash	(1,764)	(368)	<b>(2,132)</b>	(1,762)	(243)	<b>(2,005)</b>

\* Remuneration paid to shareholders of other equity instruments (perpetual subordinated notes and deeply subordinated notes) is now presented in Note 7.1.3 relative to equity instruments issued.

**NOTE 7.3 Gains and losses recognised in other comprehensive income****BREAKDOWN OF CHANGES OF UNREALISED OR DEFERRED GAINS AND LOSSES**

	01.01.2018				Variation				31.12.2018			
(In millions of euros)	Gross value	Tax	Net value	Net Group share	Gross value	Tax	Net value	Net Group share	Gross value	Tax	Net value	Net Group share
Translation differences	(1,744)	-	(1,744)	(1,682)	370	(1)	369	384	(1,374)	(1)	(1,375)	(1,298)
Revaluation of debt instruments at fair value through other comprehensive income	466	(109)	357	339	(233)	52	(181)	(170)	233	(57)	176	169
Revaluation of available-for-sale financial assets <sup>(1)</sup>	411	(114)	297	296	(74)	18	(56)	(53)	337	(96)	241	243
Revaluation of hedging derivatives	(3)	7	4	4	(120)	11	(109)	(104)	(123)	18	(105)	(100)
Unrealised gains and losses of entities accounted for using the equity method	(2)	-	(2)	(1)	1	-	1	1	(1)	-	(1)	-
<b>Subtotal of unrealised gains and losses with subsequent recycling in the income statement</b>	<b>(872)</b>	<b>(216)</b>	<b>(1,088)</b>	<b>(1,044)</b>	<b>(56)</b>	<b>80</b>	<b>24</b>	<b>58</b>	<b>(928)</b>	<b>(136)</b>	<b>(1,064)</b>	<b>(986)</b>
Actuarial gains and losses on defined benefit plans <sup>(2)</sup>	-	-	-	-	30	(4)	26	24	30	(4)	26	24
Revaluation of own credit risk on financial liabilities at fair value through profit or loss <sup>(3)</sup>	(725)	187	(538)	(536)	529	(138)	391	380	(196)	49	(147)	(156)
Revaluation of equity instruments at fair value through other comprehensive income <sup>(2)</sup>	80	(2)	78	77	1	(4)	(3)	8	81	(6)	75	85
Unrealised gains and losses of entities accounted for using the equity method <sup>(2)</sup>	-	-	-	-	(3)	-	(3)	(3)	(3)	-	(3)	(3)
<b>Subtotal of unrealised gains and losses without subsequent recycling in the income statement</b>	<b>(645)</b>	<b>185</b>	<b>(460)</b>	<b>(459)</b>	<b>557</b>	<b>(146)</b>	<b>411</b>	<b>409</b>	<b>(88)</b>	<b>39</b>	<b>(49)</b>	<b>(50)</b>
<b>TOTAL OF UNREALISED GAINS AND LOSSES</b>	<b>(1,517)</b>	<b>(31)</b>	<b>(1,548)</b>	<b>(1,503)</b>	<b>501</b>	<b>(66)</b>	<b>435</b>	<b>467</b>	<b>(1,016)</b>	<b>(97)</b>	<b>(1,113)</b>	<b>(1,036)</b>

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

(2) Gains and losses presented in these items are transferred into Retained earnings at the opening of the next financial year;

(3) In case of derecognition of a financial liability, potential realized gains and losses attributable to Group own credit risk are transferred into Retained earnings at the opening of the next financial year (see Note 3.1).

## NOTE 8 ADDITIONAL DISCLOSURES

### NOTE 8.1 Segment reporting

#### NOTE 8.1.1 DEFINITION OF SEGMENT REPORTING

The Group is managed on a matrix basis that takes into account its different business lines and the geographical breakdown of its activities. Segment reporting information is therefore presented under both criteria.

The Group includes in the results of each sub-division all operating income and expenses directly related to its activity. Income for each sub-division, except for the Corporate Centre, also includes the return on equity allocated to it, based on the estimated rate of return on Group equity. The return on the sub-division's book equity is then reallocated to the Corporate Centre. Transactions between sub-divisions are carried out under the same terms and conditions as those applying to non-Group customers.

The Group's core businesses are managed through three strategic pillars:

- French Retail Banking, which includes the domestic networks Societe Generale, Cr dit du Nord and Boursorama;
- International Retail Banking & Financial Services, which consists of:
  - International Retail Banking, including consumer finance activities,
  - Financial Services to Corporates (operational vehicle leasing and fleet management, equipment and vendor finance),
  - Insurance activities;

- Global Banking and Investor Solutions which comprises:

- Global Markets and Investors Services,
- Financing and Advisory,
- Asset and Wealth Management.

In addition to the strategic pillars, the Corporate Centre acts as the Group's central funding department. As such, it recognises the carrying cost of equity investments in subsidiaries and related dividend payments, as well as income and expenses stemming from the Group's Asset and Liability Management (ALM) and income from the Group's management of its assets (management of its industrial and bank equity portfolio and of its real estate assets). Income or expenses that do not relate directly to the activity of the core businesses are also allocated to the Corporate Centre.

Segment income take intra-group transactions into account, while these transactions are eliminated from segment assets and liabilities. The tax rate levied on each business line is based on the standard tax rate applicable in each country where the division makes profits. Any difference with respect to the Group's tax rate is allocated to the Corporate Centre.

For the purpose of segment reporting by geographical region, segment profit or loss and assets and liabilities are presented based on the location of the booking entities.

#### NOTE 8.1.2 SEGMENT REPORTING BY DIVISION AND SUB-DIVISION

	Societe Generale Group		French Retail Banking		Corporate Centre <sup>(1)</sup>	
	2018	2017	2018	2017*	2018	2017*
(In millions of euros)						
Net banking income	25,205	23,954	7,860	8,014	182	(1,147)
Operating Expenses <sup>(2)</sup>	(17,931)	(17,838)	(5,629)	(5,939)	(535)	(374)
<b>Gross operating income</b>	<b>7,274</b>	<b>6,116</b>	<b>2,231</b>	<b>2,075</b>	<b>(353)</b>	<b>(1,521)</b>
Cost of risk	(1,005)	(1,349)	(489)	(547)	(19)	(400)
<b>Operating income</b>	<b>6,269</b>	<b>4,767</b>	<b>1,742</b>	<b>1,528</b>	<b>(372)</b>	<b>(1,921)</b>
Net income from companies accounted for by the equity method	56	92	28	33	7	17
Net income/expense from other assets	(208)	278	74	9	(274)	237
Value adjustments on goodwill	-	1	-	-	-	-
<b>Earnings before tax</b>	<b>6,117</b>	<b>5,138</b>	<b>1,844</b>	<b>1,570</b>	<b>(639)</b>	<b>(1,667)</b>
Income tax	(1,561)	(1,708)	(607)	(511)	168	52
<b>Net income before non-controlling interests</b>	<b>4,556</b>	<b>3,430</b>	<b>1,237</b>	<b>1,059</b>	<b>(471)</b>	<b>(1,615)</b>
Non-controlling interests	692	624	-	-	164	170
<b>Net income, Group share</b>	<b>3,864</b>	<b>2,806</b>	<b>1,237</b>	<b>1,059</b>	<b>(635)</b>	<b>(1,785)</b>

## International Retail Banking &amp; Financial Services

	International Retail Banking		Financial Services to Corporates		Insurance		Total	
(In millions of euros)	2018	2017*	2018	2017*	2018	2017*	2018	2017*
Net banking income	5,608	5,278	1,822	1,804	887	832	8,317	7,914
Operating Expenses <sup>(2)</sup>	(3,238)	(3,171)	(955)	(925)	(333)	(308)	(4,526)	(4,404)
<b>Gross operating income</b>	<b>2,370</b>	<b>2,107</b>	<b>867</b>	<b>879</b>	<b>554</b>	<b>524</b>	<b>3,791</b>	<b>3,510</b>
Cost of risk	(335)	(349)	(69)	(51)	-	-	(404)	(400)
<b>Operating income</b>	<b>2,035</b>	<b>1,758</b>	<b>798</b>	<b>828</b>	<b>554</b>	<b>524</b>	<b>3,387</b>	<b>3,110</b>
Net income from companies accounted for by the equity method	14	26	1	16	-	(1)	15	41
Net income/expense from other assets	7	36	1	-	-	-	8	36
Value adjustments on goodwill	-	1	-	-	-	-	-	1
<b>Earnings before tax</b>	<b>2,056</b>	<b>1,821</b>	<b>800</b>	<b>844</b>	<b>554</b>	<b>523</b>	<b>3,410</b>	<b>3,188</b>
Income tax	(474)	(418)	(184)	(224)	(183)	(178)	(841)	(820)
<b>Net income before non-controlling interests</b>	<b>1,582</b>	<b>1,403</b>	<b>616</b>	<b>620</b>	<b>371</b>	<b>345</b>	<b>2,569</b>	<b>2,368</b>
Non-controlling interests	395	361	106	66	3	2	504	429
<b>Net income, Group share</b>	<b>1,187</b>	<b>1,042</b>	<b>510</b>	<b>554</b>	<b>368</b>	<b>343</b>	<b>2,065</b>	<b>1,939</b>

## Global Banking and Investor Solutions

	Global Markets and Investors Services		Financing and Advisory		Asset and Wealth Management		Total	
(In millions of euros)	2018	2017*	2018	2017*	2018	2017*	2018	2017*
Net banking income	5,207	5,678	2,673	2,495	966	1,000	8,846	9,173
Operating Expenses <sup>(2)</sup>	(4,521)	(4,434)	(1,815)	(1,767)	(905)	(920)	(7,241)	(7,121)
<b>Gross operating income</b>	<b>686</b>	<b>1,244</b>	<b>858</b>	<b>728</b>	<b>61</b>	<b>80</b>	<b>1,605</b>	<b>2,052</b>
Cost of risk	(21)	(34)	(53)	30	(19)	2	(93)	(2)
<b>Operating income</b>	<b>665</b>	<b>1,210</b>	<b>805</b>	<b>758</b>	<b>42</b>	<b>82</b>	<b>1,512</b>	<b>2,050</b>
Net income from companies accounted for by the equity method	8	5	(1)	(4)	(1)	-	6	1
Net income/expense from other assets	(1)	-	(1)	(4)	(14)	-	(16)	(4)
Value adjustments on goodwill	-	-	-	-	-	-	-	-
<b>Earnings before tax</b>	<b>672</b>	<b>1,215</b>	<b>803</b>	<b>750</b>	<b>27</b>	<b>82</b>	<b>1,502</b>	<b>2,047</b>
Income tax	(172)	(322)	(101)	(84)	(8)	(23)	(281)	(429)
<b>Net income before non-controlling interests</b>	<b>500</b>	<b>893</b>	<b>702</b>	<b>666</b>	<b>19</b>	<b>59</b>	<b>1,221</b>	<b>1,618</b>
Non-controlling interests	19	21	2	2	3	2	24	25
<b>Net income, Group share</b>	<b>481</b>	<b>872</b>	<b>700</b>	<b>664</b>	<b>16</b>	<b>57</b>	<b>1,197</b>	<b>1,593</b>

\* The amounts have been restated compared to 2017 consolidated financial statements considering the new organization of the Group put in place as from 1 September 2017. The restatements are due to the transfer of Global Transaction and Payment Services business from French Retail Banking to Global Banking and Investor Solutions, to the modification of analytical split of results of the Insurance business distributed through French Retail Banking and Private Banking, and to a change in the allocation of overhead costs.

(1) Income and expenses not directly related to business line activities are recorded in the Corporate Centre income. The Net banking income included in 2017 the revaluation differences for debts related to own credit risk of EUR -53 million and compensation of EUR -963 million for the transaction agreement between Societe Generale and the Libyan Investment Authority.

(2) These amounts include Personnel expenses, Other operating expenses and Amortisation, depreciation and impairment of tangible and intangible fixed assets.



(In millions of euros)	Societe Generale Group			French Retail Banking			Corporate Centre <sup>(2)</sup>		
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	1,309,428	1,274,216	1,275,128	222,086	213,708	226,346	106,392	117,011	116,737
Segment liabilities <sup>(1)</sup>	1,243,619	1,211,265	1,211,091	216,934	211,709	230,110	91,819	91,854	92,515

(In millions of euros)	International retail Banking & Financial Services						Total					
	International Retail Banking			Financial Services to Corporates			Insurance					
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	128,303	115,992	116,749	42,868	39,542	39,645	148,999	149,784	149,785	320,170	305,318	306,179
Segment liabilities <sup>(1)</sup>	94,454	91,854	91,853	13,641	12,055	12,106	138,959	141,721	141,676	247,054	245,630	245,635

(In millions of euros)	Global Banking and Investor Solutions						Total					
	Global Markets and Investors Services			Financing and Advisory			Asset and Wealth Management					
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	489,757	492,804	494,111	137,064	110,810	97,179	33,959	34,564	34,576	660,780	638,178	625,866
Segment liabilities <sup>(1)</sup>	616,282	594,024	593,419	47,502	42,699	24,063	24,028	25,350	25,349	687,812	662,072	642,831

\* Amounts restated compared to the 31 December 2017 consolidated financial statements, following:

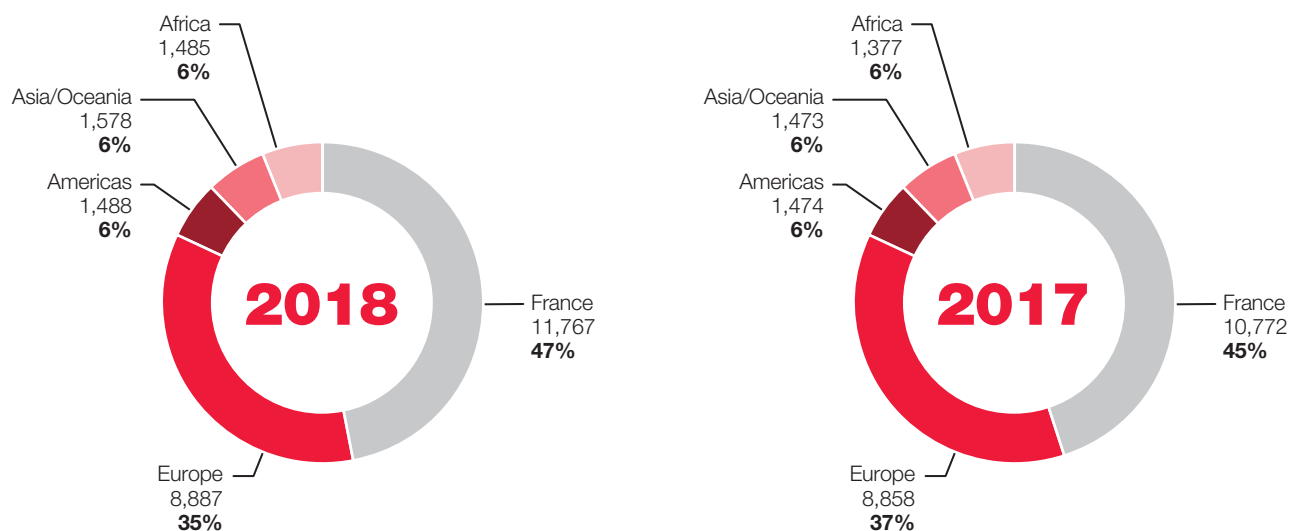
- the first time of application of IFRS 9;
- the relocation of Global Transaction and Payment Services from French Retail Banking to Financing and Advisory.

(1) Segment liabilities correspond to debts (i.e. total liabilities excluding equity).

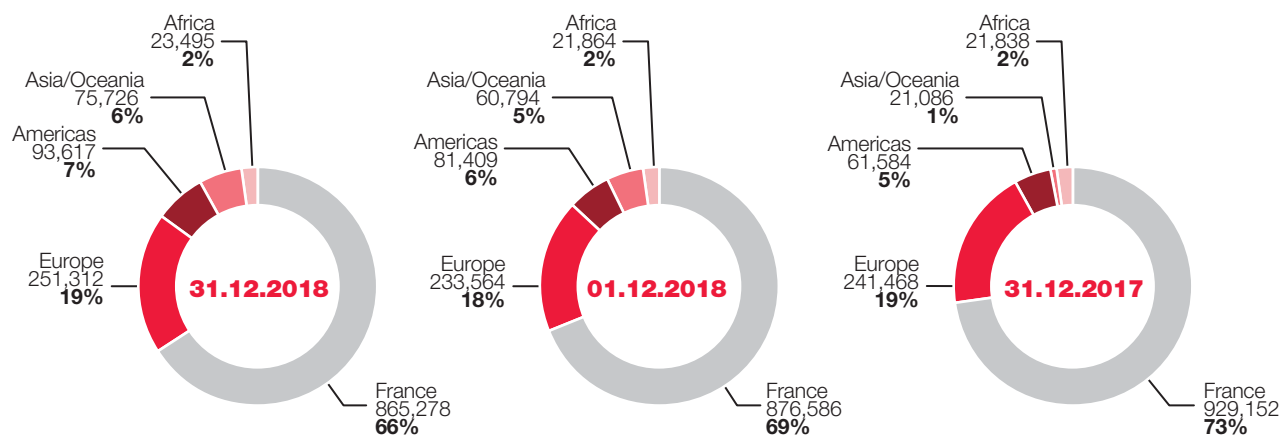
(2) Assets and liabilities not directly related to the business line activities are recorded on the Corporate Centre's balance sheet. Thus the debt revaluation differences linked to own credit risk and the revaluation differences of the credit derivative instruments hedging the loans and receivables portfolios are allocated to the Corporate Centre.

## NOTE 8.1.3 SEGMENT REPORTING BY GEOGRAPHICAL REGION

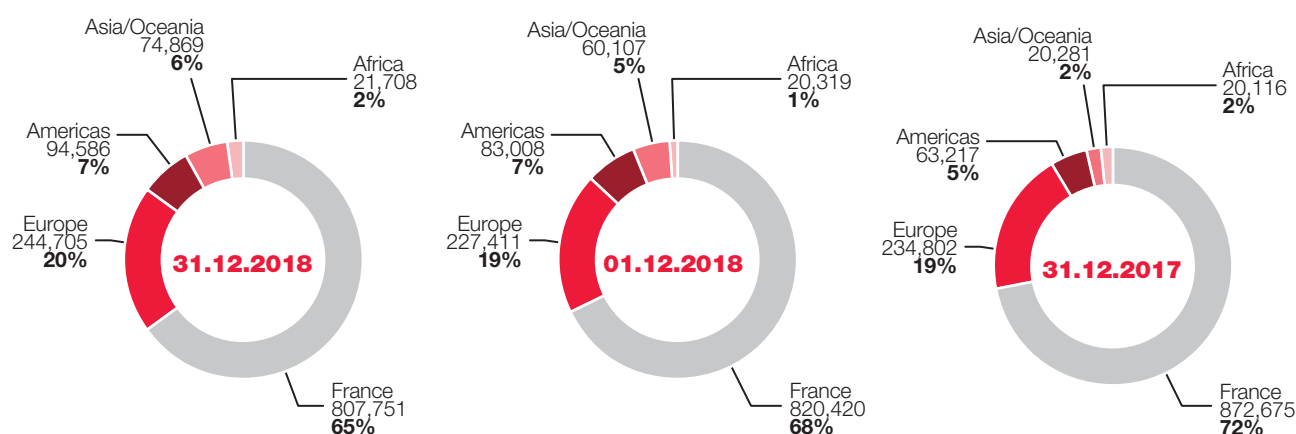
### GEOGRAPHICAL BREAKDOWN OF NET BANKING INCOME (IN EUR M)



At 31 December 2018, the amount of net banking income was EUR 25,205 million compared to EUR 23,954 million at 31 December 2017.

**GEOGRAPHICAL BREAKDOWN OF BALANCE SHEET ITEMS (IN EUR M)****ASSETS**

At 31 December 2018, the amount of total assets was EUR 1,309,428 million compared to EUR 1,274,216 million at 1 January 2018\* and EUR 1,275,128 million at 31 December 2017.

**LIABILITIES**

At 31 December 2018, the amount of total liabilities (except shareholder equity) was EUR 1,243,619 million compared to EUR 1,211,265 million at 1 January 2018\* and EUR 1,211,091 million at 31 December 2017.

Segment liabilities correspond to debts (i.e. total liabilities excluding equity).

\* The amounts have been restated following the first time application of IFRS 9 "Financial Instruments" (see Note 1).

**NOTE 8.2 Other operating expenses****ACCOUNTING PRINCIPLES**

The Group records operating expenses under expenses, according to the type of services to which they refer and the rate of use of said services.

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

*Taxes and levies* are only booked when the triggering event provided for by law occurs. If the obligation to pay the tax arises from the gradual operation of an activity, the expense must be spread out over the same period. Finally, if the obligation to pay is generated when a threshold is reached, the expense is only recorded once the threshold is reached.

*Taxes and levies* cover all contributions levied by a public authority and include the contributions paid to the Single Resolution Fund and the Deposit Insurance and Resolution Fund, the systemic risk tax, and contributions for ACPR control costs, which are recognised on the income statement at the start of the financial year. The company social solidarity contribution (C3S), based on income generated in previous financial year, is fully recognised on the income statement at 1 January of the current financial year.

*Other* mainly includes building maintenance and other costs, travel and business expenses, and advertising expenses.

(In millions of euros)	2018	2017
Rentals	(752)	(839)
Taxes and levies	(901)	(919)
Data & telecom (excluding rentals)	(2 400)	(2 265)
Consulting fees (excluding data & telecom)	(1 338)	(1 340)
Other	(1 975)	(1 720)
<b>TOTAL</b>	<b>(7 366)</b>	<b>(7 083)</b>

**BREAKDOWN OF TOTAL MINIMUM OPERATING LEASE PAYMENTS**

The table below shows the breakdown by time bucket of minimum payments related to operating lease contracts on tangible assets used by the Group. The amounts exclude the actuarial effect.

(In millions of euros)	31.12.2018
in less than one year	423
in one to five years	1,157
in more than five years	808
<b>TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS</b>	<b>2,388</b>

**CONTRIBUTION TO BANK RESOLUTION MECHANISMS**

The European regulatory framework aimed to enhance the financial stability has been updated by the Directive 2014/49/UE of 16 April 2014 on deposit guarantee schemes and the Directive 2014/59/UE of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive).

The European Regulation UE No. 806/2014 of 15 July 2014 has then determined the financing means of resolution mechanisms within the European Banking Union through the establishment of a Single Resolution Fund (SRF).

The Single Resolution Fund (SRF), established in January 2016, shall receive annual contributions from the participating European financial institutions. By the end of 2023, the available financial means of the

Fund shall reach at least 1% of the amount of covered deposits of all these participating financial institutions. A share of the annual contributions can be provided through irrevocable payment commitments.

For the year 2018, the Group's contributions to the SRF and the National Resolution Fund (NRF) were as follows:

- Cash contributions (85%) for a total of EUR 425 million, of which EUR 387 million related to the SRF and EUR 38 million related to the NRF, which is non tax-deductible in France and has been recorded in the income statement in *Other administrative expenses*, among *Taxes and Levies*;
- Irrevocable payment commitments (15%) backed by a cash collateral for EUR 70 million related to the SRF, recorded as an asset in the balance sheet, among *Other assets*.

**NOTE 8.3 Provisions****ACCOUNTING PRINCIPLES**

Under balance sheet liabilities, *Provisions* are comprised of provisions for financial instruments, disputes, employee benefits and income tax adjustments.

As from 1 January 2018, the balance of provisions for credit risk on off balance sheet commitments has been modified due to the first application of IFRS 9. This impact is described in Note 1.

**BREAKDOWN OF PROVISIONS**

(In millions of euros)	Provisions at 01.01.2018	Allocations	Write-backs available	Net allocation	Write-backs used	Currency and others	Provisions at 31.12.2018
Provisions for credit of risk on off balance sheet commitments (see Note 3.8)	683	488	(547)	(59)	-	14	638
Provisions for employee benefits (see Note 5.2)	2,100	889	(571)	318	(6)	(71)	2,341
Provisions for tax adjustments (see Note 6)	162	100	(51)	49	(75)	(1)	135
Provisions for mortgage savings plans and accounts commitments	193	9	(26)	(17)	(5)	-	171
Other provisions <sup>(1)</sup>	3,207	626	(195)	431	(2,462)	144	1,320
<b>TOTAL</b>	<b>6,345</b>	<b>2,112</b>	<b>(1,390)</b>	<b>722</b>	<b>(2,548)</b>	<b>86</b>	<b>4,605</b>

(1) see Note 8.3.2

**NOTE 8.3.1 COMMITMENTS UNDER MORTGAGE SAVINGS AGREEMENTS****ACCOUNTING PRINCIPLES**

In France, *Comptes d'épargne-logement* (CEL or mortgage savings accounts) and *Plans d'épargne-logement* (PEL or mortgage savings plans) are special savings schemes for individual customers which are governed by Law 65-554 of 10 July 1965. These products combine an initial deposit phase in the form of an interest-earning savings account, followed by a lending phase where the deposits are used to provide mortgage loans. The lending phase is subject to the prior existence of the savings phase and is therefore inseparable from it. The savings deposits collected and loans granted are measured at amortised cost.

These instruments create two types of commitments for the Group: the obligation to pay interest on customer savings for an indeterminate future period at an interest rate established at the inception of the mortgage savings agreement, and the obligation to subsequently lend to the customer at an interest rate also established at the inception of the savings agreement.

If it is clear that commitments under the PEL/CEL agreements will have negative consequences for the Group, a provision is recorded on the liabilities side of the balance sheet. Any changes in these provisions are recognised as *Net banking income* under net interest income. These provisions only relate to commitments arising from PEL/CEL that are outstanding at the date of calculation.

Provisions are calculated for each generation of mortgage savings plans (PEL), with no netting between different PEL generations, and for all mortgage saving accounts (CEL) making up a single generation.

During the deposit phase, the underlying commitment used to determine the amount to be provisioned is calculated as the difference between the average expected amount of deposits and the minimum expected amount. These two amounts are determined statistically on the basis of the historical observations of past customer behaviour.

During the lending phase, the underlying commitment to be provisioned includes loans already granted but not yet drawn at the date of calculation, and future loans that are considered statistically probable on the basis of deposits that are currently recognised in the balance sheet at the date of calculation and on the basis of historical observations of past customer behaviour.

A provision is recognised if the discounted value of expected future earnings for a given generation of PEL/CEL is negative. Earnings are estimated on the basis of interest rates available to individual customers for equivalent savings and loan products, with a similar estimated life and date of inception.

**OUTSTANDING DEPOSITS IN PEL/CEL ACCOUNTS**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
PEL accounts	19,186	19,291
less than 4 years old	3,466	5,847
between 4 and 10 years old	10,555	8,344
more than 10 years old	5,165	5,100
CEL accounts	1,346	1,394
<b>TOTAL</b>	<b>20,532</b>	<b>20,685</b>

**OUTSTANDING HOUSING LOANS GRANTED WITH RESPECT TO PEL/CEL ACCOUNTS**

<i>(In millions of euros)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
less than 4 years old	1	4
between 4 and 10 years old	26	128
more than 10 years old	11	6
<b>TOTAL</b>	<b>38</b>	<b>138</b>

**PROVISIONS FOR COMMITMENTS LINKED TO PEL/CEL ACCOUNTS**

<i>(In millions of euros)</i>	<b>31.12.2017</b>	<b>Allocations</b>	<b>Write-backs</b>	<b>31.12.2018</b>
PEL accounts	189	-	(31)	158
less than 4 years old	19	-	(16)	3
between 4 and 10 years old	31	-	(11)	20
more than 10 years old	139	-	(4)	135
CEL accounts	4	9	-	13
<b>TOTAL</b>	<b>193</b>	<b>9</b>	<b>(31)</b>	<b>171</b>

The level of provisions is sensitive to long-term interest rates. Since long-term rates were low during 2018, the provisions for PEL and CEL mortgage savings accounts were mainly linked to the risks attached to the commitment to pay interest on the deposits. Provisioning for PEL/CEL savings amounted to 0.83% of total outstandings at 31 December 2018.

**METHODS USED TO ESTABLISH PROVISION VALUATION INPUTS**

The inputs used to estimate future customer behaviour are derived from historical observations of customer behaviour patterns over a long period (more than 10 years). The values of these inputs can be

adjusted whenever changes are made to regulations that may undermine the effectiveness of past data as an indicator of future customer behaviour.

The values of the different market inputs used, notably interest rates and margins, are calculated on the basis of observable data and constitute a best estimate, at the date of valuation, of the future value of these items for the period in question, in line with the Retail Banking Division's policy of interest rate risk management.

The discount rates used are derived from the zero coupon swaps vs. Euribor yield curve at the valuation date, averaged over a 12-month period.

**NOTE 8.3.2 OTHER PROVISIONS**

*Other provisions* include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

The Group is subject to an extensive legal and regulatory framework in the countries where it operates. In this complex legal context, the Group and some of its former and current representatives may be involved in various legal actions, including civil, administrative and criminal proceedings. The vast majority of these proceedings are part of the Group's current business. In recent years, litigation with investors and the number of disputes involving financial intermediaries such as banks and investment advisors has increased, partly due to a difficult financial environment.

It is by nature difficult to foresee the outcome of disputes, regulatory proceedings and acts involving Group entities, particularly if they are initiated by various categories of complainants, if the amount of claims for damages is not specified or is indeterminate or if the proceedings have no precedent.

In preparing its financial statements, the Group assesses the consequences of the legal, regulatory or arbitration proceedings in which it is involved. A provision is booked when losses from these proceedings become probable and the amount can be estimated reliably.

To assess the probability of losses and the amount of these losses, and thus to determine the amount of provisions to book, estimations are

important. Management makes these estimates by exercising its judgment and taking into account all information available when financial statements are prepared. In particular, the Group takes into account the nature of the dispute, the underlying facts, ongoing proceedings and court decisions already taken, as well as its experience and the experiences of other companies dealing with similar cases (assuming that the Group has knowledge thereof) and, where appropriate, the opinion and reports of experts and independent legal advisers.

Each quarter the Group carries out a detailed examination of outstanding disputes that present a significant risk. The description of those disputes is presented in Note 9 "Information on risks and litigation".

During the financial year 2018, the Group concluded settlement agreements with US and European authorities to end investigations related to IBOR and to some transactions with Libyan counterparties, and with some US authorities to end investigations related to economic sanctions and anti-money laundering. In the context of those agreements, the Group agreed to pay penalties to those authorities for a total amount of USD 2.7 billion; at the same time, the provision for public right disputes recognised in the Group financial statements has been reversed partially and its outstanding balance amounts to EUR 340 million as at 31 December 2018.

**NOTE 8.4 Tangible and intangible fixed assets****ACCOUNTING PRINCIPLES**

Tangible and intangible fixed assets include operating and investment fixed assets. Equipment assets held for operating leases purpose are included in operating tangible assets, while buildings held for leasing purposes are included in investment property.

Tangible and intangible fixed assets are carried at their purchase price on the asset side of the balance sheet, less depreciation, amortisation and impairment.

The purchase price of fixed assets includes borrowing costs incurred to fund a lengthy construction period for the fixed assets, along with all other directly attributable expenses. Investment subsidies received are deducted from the cost of the relevant assets. Software developed internally is recorded on the asset side of the balance sheet in the amount of the direct cost of development.

As soon as they are fit for use, fixed assets are depreciated or amortised using the component-based approach. Each component is depreciated or amortised over its own useful life. The Group has applied this approach to its operating properties, breaking down its assets into components with depreciation periods of 10 to 50 years. Depreciation periods for fixed assets other than buildings depend on their useful life, which is usually estimated at 3 to 20 years.

Any residual value of the asset is deducted from its depreciable amount. If there is a subsequent decrease or increase in this initial residual value, the depreciable amount of the asset is adjusted, leading to a prospective modification of the depreciation schedule.

Depreciation and amortisation are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Fixed assets grouped into Cash Generating Units are tested for impairment whenever there is any indication that their value may have diminished. Allocations and reversals of provisions for impairment are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Realised capital gains and losses on operating fixed assets are recognised under *Net income from other assets*.

Investment properties are depreciated using the component based-method. Each component is depreciated over its own useful life, ranging from 10 to 50 years.

Profits or losses on operating lease assets and on investment property, including amortisation and depreciation, are recognised under *Income from other activities and Expense from other activities* (see Note 4.2).

**CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS**

(In millions of euros)	Gross book value at 31.12.2017	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications	Gross value at 31.12.2018	Depreciation and amortisation of assets at 31.12.2017	Allocations to amortisation and depreciation in 2018	Impairment of assets in 2018	Write-backs from amortisation and depreciation in 2018	Changes in translation, consolidation scope and reclassifications	Net book value at 31.12.2018	Net book value at 31.12.2017
Intangible assets	6,237	801	(119)	(156)	6,763	(4,297)	(435)	(1)	73	95	2,198	1,940
Operating tangible assets	11,016	728	(379)	(314)	11,051	(5,964)	(561)	(5)	207	210	4,938	5,052
Lease assets of specialised financing companies	23,699	10,496	(7,503)	89	26,781	(6,511)	(3,573)	(95)	2,946	50	19,598	17,188
Investment property	777	-	-	(737)	40	(139)	(1)	-	-	117	17	638
<b>TOTAL TANGIBLE AND INTANGIBLE FIXED ASSETS</b>	<b>41,729</b>	<b>12,025</b>	<b>(8,001)</b>	<b>(1,118)</b>	<b>44,635</b>	<b>(16,911)</b>	<b>(4,570)</b>	<b>(101)</b>	<b>3,226</b>	<b>472</b>	<b>26,751</b>	<b>24,818</b>

**BREAKDOWN OF MINIMUM PAYMENTS RECEIVABLE ON OPERATING LEASE ASSETS***(In millions of euros)*

	31.12.2018	31.12.2017
payments due in less than one year	3,625	3,400
payments due in 1-5 years	17,077	12,392
payments due in more than five years	787	328
<b>TOTAL MINIMUM FUTURE PAYMENTS RECEIVABLE</b>	<b>21,489</b>	<b>16,120</b>

**NOTE 8.5 Foreign exchange transactions****ACCOUNTING PRINCIPLES**

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into the entity's functional currency at the prevailing spot exchange rate. Realised or unrealised foreign exchange losses or gains are recognised in the income statement under *Net gains and losses on financial transactions*.

Forward foreign exchange transactions are recognised at fair value based on the forward exchange rate for the remaining maturity. Spot foreign exchange positions are valued using the official spot rates prevailing at the end of the period. Unrealised gains and losses are recognised in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss* (see Note 3.1), except when hedge accounting is applied to a cash-flow hedge transaction or to a hedge of a net investment in a foreign operation (see Note 3.2).

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies measured at fair value (in particular, shares and other equity instruments) are translated into the entity's functional currency at the prevailing spot exchange rate. Foreign exchanges losses or gains are recognised either in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*, or under other comprehensive income (*Unrealised and deferred gains and losses*), depending on the accounting of the gains or losses relative to these assets/liabilities.

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated into the entity's functional currency at the historical exchange rate on initial recognition.

	31.12.2018				31.12.2017			
<i>(In millions of euros)</i>	Assets	Liabilities	Currencies bought, not yet received	Currencies sold, not yet delivered	Assets*	Liabilities	Currencies bought, not yet received	Currencies sold, not yet delivered
EUR	767,029	831,415	28,393	32,198	739,218	790,479	27,723	31,949
USD	257,257	213,653	40,461	41,579	263,408	229,177	51,273	41,661
GBP	44,372	44,012	28,709	10,159	42,140	37,804	15,021	10,321
JPY	68,895	62,273	24,519	33,531	57,884	54,176	17,753	24,588
AUD	5,244	6,663	7,798	6,707	6,284	7,035	4,830	5,910
CZK	35,612	35,102	208	783	34,562	36,175	572	766
RUB	12,286	7,406	113	90	13,938	10,590	37	88
RON	8,166	7,886	56	49	8,011	7,967	168	132
Other currencies	110,567	96,018	24,195	18,514	109,683	101,725	32,740	27,191
<b>TOTAL</b>	<b>1,309,428</b>	<b>1,309,428</b>	<b>154,452</b>	<b>143,610</b>	<b>1,275,128</b>	<b>1,275,128</b>	<b>150,117</b>	<b>142,606</b>

\* Amounts restated compared to consolidated financial statements issued in 2018, following the change of allocation of intercompany transactions by currency.



**NOTE 8.6 Companies included in the consolidation scope**

				Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Country		Activity	Method*				
South Africa							
(1)	SG JOHANNESBURG	Bank	FULL	100	100	100	100
Albania							
	BANKA SOCIETE GENERALE ALBANIA SH.A.	Bank	FULL	88.89	88.89	88.89	88.89
Algeria							
	ALD AUTOMOTIVE ALGERIE SPA	Specialist Financing	FULL	79.81	79.81	99.99	99.99
	SOCIETE GENERALE ALGERIE	Bank	FULL	100	100	100	100
Germany							
	AKRUN EINS GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH & CO. OBJEKT SEREN 1 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
	ALD AUTOLEASING D GMBH	Specialist Financing	FULL	79.82	79.82	100	100
	ALD INTERNATIONAL GROUP HOLDINGS GMBH	Specialist Financing	FULL	79.82	79.82	100	100
	ALD INTERNATIONAL SAS & CO. KG	Specialist Financing	FULL	79.82	79.82	100	100
	ALD LEASE FINANZ GMBH	Specialist Financing	FULL	100	100	100	100
	BANK DEUTSCHES KRAFTFAHRZEUGGEWERBE GMBH	Specialist Financing	FULL	99.93	99.91	51	51
	BDK LEASING UND SERVICE GMBH	Specialist Financing	FULL	100	100	100	100
	CAR PROFESSIONAL FUHRPARKMANAGEMENT UND BERATUNGSGESELLSCHAFT MBH & CO. KG	Specialist Financing	FULL	79.82	79.82	100	100
	CARPOOL GMBH	Broker	FULL	79.82	79.82	100	100
	EUROPARC DREILINDEN GMBH	Group Real Estate Management Company	FULL	100	100	100	100
	EUROPARC GMBH	Real Estate and Real Estate Financing	FULL	100	100	100	100
	EUROPARC KERPEN GMBH	Group Real Estate Management Company	FULL	100	100	100	100
	GEFA BANK GMBH	Specialist Financing	FULL	100	100	100	100
	GEFA VERSICHERUNGSDIENST GMBH	Specialist Financing	EFS	100	100	100	100
	HANSEATIC BANK GMBH & CO KG	Specialist Financing	FULL	75	75	75	75
	HANSEATIC GESELLSCHAFT FUR BANKBETEILIGUNGEN MBH	Portfolio Management	FULL	75	75	100	100
	HSCE HANSEATIC SERVICE CENTER GMBH	Services	FULL	75	75	100	100
	INTERLEASING DELLO HAMBURG GMBH	Specialist Financing	FULL	79.82	79.82	100	100
	PEMA GMBH	Specialist Financing	FULL	100	100	100	100
	PODES DREI GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH &CO OBJEKTE WEL 4 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
	PODES GRUNDSTUCKS - VERMIETUNGSGESELLSCHAFT MBH & CO OBJEKTE WEL 3 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
	PODES ZWEI GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH &CO OBJEKTE WEL 3 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
(2)	RED & BLACK AUTO GERMANY 2 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	0	99.91	0	100
	RED & BLACK AUTO GERMANY 3 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	99.93	99.91	100	100
	RED & BLACK AUTO GERMANY 4 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	100	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	(6)	RED & BLACK AUTO GERMANY 5 UG (HAFTUNGSBESCHRANKT)	Specialist Financing	100	0	100	0
	(2)	RED & BLACK CAR SALES 1UG	Financial Company	0	79.82	0	100
		SG EQUIPMENT FINANCE GMBH	Specialist Financing	100	100	100	100
		SG EQUIPMENT FINANCE INTERNATIONAL GMBH	Specialist Financing	100	100	100	100
	(1)	SG FRANCFORT	Bank	100	100	100	100
		SOCIETE GENERALE EFFEKTEN GMBH	Financial Company	100	100	100	100
		SOCIETE GENERALE SECURITIES SERVICES GMBH	Specialist Financing	100	100	100	100
	(1)	SOGECAP DEUTSCHE NIEDERLASSUNG	Insurance	100	100	100	100
	(1)(5)	SOGECAP RISQUES DIVERS DEUTSCHE NIEDERLASSUNG	Insurance	0	100	0	100
	(1)(6)	SOGESSUR DEUTSCHE NIEDERLASSUNG	Insurance	100	0	100	0
<b>Australia</b>							
		SOCIETE GENERALE SECURITIES AUSTRALIA PTY LTD	Broker	100	100	100	100
<b>Austria</b>							
		ALD AUTOMOTIVE FUHRPARKMANAGEMENT UND LEASING GMBH	Specialist Financing	79.82	79.82	100	100
	(3)	SG EQUIPMENT LEASING AUSTRIA GMBH	Specialist Financing	0	100	0	100
	(1)	SG VIENNE	Bank	100	100	100	100
<b>Belgium</b>							
		AXUS FINANCE SPRL	Specialist Financing	79.82	79.82	100	100
		AXUS SA/NV	Specialist Financing	79.82	79.82	100	100
		BASTION EUROPEAN INVESTMENTS S.A.	Financial Company	60.74	60.74	100	100
		PARCOURS BELGIUM	Specialist Financing	79.82	79.82	100	100
		PEMA TRUCK TRAILER VERHUUR	Specialist Financing	100	100	100	100
	(1)	SG BRUXELLES	Bank	100	100	100	100
	(1)	SG EQUIPMENT FINANCE BENELUX B.V. BELGIAN BRANCH	Specialist Financing	100	100	100	100
		SOCIETE GENERALE DE FINANCEMENT	Financial Company	100	100	100	100
		SOCIETE GENERALE IMMOBEL	Financial Company	100	100	100	100
		SOCIETE GENERALE PRIVATE BANKING NV/SA	Bank	100	100	100	100
<b>Benin</b>							
		SOCIETE GENERALE BENIN	Bank	90.98	89.64	91.65	90.3
<b>Bermuda</b>							
		CATALYST RE INTERNATIONAL LTD.	Insurance	100	100	100	100
<b>Brazil</b>							
		ALD AUTOMOTIVE S.A.	Specialist Financing	79.82	79.82	100	100
		BANCO SOCIETE GENERALE BRASIL S.A.	Bank	100	100	100	100
		MORDENO SOCIEDADES ANONIMAS	Financial Company	100	100	100	100
		SG EQUIPMENT FINANCE S.A. ARRENDAMENTO MERCANTIL	Specialist Financing	100	100	100	100
	(2)	SOCIETE GENERALE S.A. CORRETORA DE CAMBIO, TITULOS E VALORES MOBILIARIOS	Broker	0	100	0	100
<b>British Virgin Islands</b>							
		TSG HOLDINGS LTD	Services	100	100	100	100
		TSG MANAGEMENT LTD	Services	100	100	100	100
		TSG SERVICES LTD	Services	100	100	100	100
<b>Bulgaria</b>							
		REGIONAL URBAN DEVELOPMENT FUND	Specialist Financing	51.86	51.86	52	52
		SG EXPRESS BANK	Bank	99.74	99.74	99.74	99.74
		SOCIETE GENERALE FACTORING EOOD	Specialist Financing	99.74	99.74	100	100
		SOGLEASE BULGARIA	Specialist Financing	99.74	99.74	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest		
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017	
Burkina Faso							
	SOCIETE GENERALE BURKINA FASO	Bank	FULL	51.27	51.27	52.61	52.61
Cameroon							
	SOCIETE GENERALE CAMEROUN	Bank	FULL	58.08	58.08	58.08	58.08
Canada							
	KLEINWORT BENSON INTERNATIONAL TRUSTEES LIMITED	Bank	FULL	100	100	100	100
	SG CONSTELLATION CANADA LTD.	Specialist Financing	FULL	100	100	100	100
(2)	SG HAMBROS TRUST COMPANY (CANADA) INC	Financial Company	FULL	0	100	0	100
(1)	SOCIETE GENERALE (CANADA BRANCH)	Bank	FULL	100	100	100	100
	SOCIETE GENERALE (CANADA)	Bank	FULL	100	100	100	100
	SOCIETE GENERALE CAPITAL CANADA INC	Broker	FULL	100	100	100	100
Cayman Islands							
	AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	FULL	100	100	100	100
(2)	BRIDGEVIEW II LIMITED	Specialist Financing	FULL	0	100	0	100
	SOCIETE GENERALE (NORTH PACIFIC) LTD	Bank	FULL	100	100	100	100
China							
	ALD FORTUNE AUTO LEASING & RENTING SHANGHAI CO. LTD	Specialist Financing	ESI	39.91	39.91	50	50
	SOCIETE GENERALE (CHINA) LIMITED	Bank	FULL	100	100	100	100
	SOCIETE GENERALE LEASING AND RENTING CO. LTD	Specialist Financing	FULL	100	100	100	100
South Korea							
	SG SECURITIES KOREA CO. LTD	Broker	FULL	100	100	100	100
(1)	SG SEOUL	Bank	FULL	100	100	100	100
Côte d'Ivoire							
	SOCIETE GENERALE COTE D'IVOIRE	Bank	FULL	73.25	73.25	73.25	73.25
	SOGEBOURSE EN COTE D'IVOIRE	Portfolio Management	FULL	71.25	71.27	99.98	100
Croatia							
	ALD AUTOMOTIVE D.O.O. ZA. OPERATIVNI I FINANCIJSKI LEASING	Specialist Financing	FULL	79.82	79.82	100	100
(6)	ALD FLEET SERVICES D.O.O ZA TRGOVINU I USLUGE	Specialist Financing	FULL	79.82	0	100	0
Curaçao							
	SGA SOCIETE GENERALE ACCEPTANCE N.V	Financial Company	FULL	100	100	100	100
Denmark							
	ALD AUTOMOTIVE A/S	Specialist Financing	FULL	79.82	79.82	100	100
	NF FLEET A/S	Specialist Financing	FULL	63.85	63.85	80	80
	PEMA LAST OG- TRAILERUDLEJNING A/S	Specialist Financing	FULL	100	100	100	100
(1)	SG FINANS AS DANISH BRANCH	Specialist Financing	FULL	100	100	100	100
United Arab Emirates							
(1)	SOCIETE GENERALE DUBAI	Bank	FULL	100	100	100	100
Spain							
	ALD AUTOMOTIVE S.A.U	Specialist Financing	FULL	79.82	79.82	100	100
(5)	ALD AUTORENTING S.A.U.	Specialist Financing	FULL	0	79.82	0	100
	ALTURA MARKETS. SOCIEDAD DE VALORES. SA	Broker	EJV	50	50	50	50
(1)	GENEFIM SUCURSAL EN ESPANA	Real Estate and Real Estate Financing	FULL	100	100	100	100
(5)	PARCOURS IBERIA SA	Specialist Financing	FULL	0	79.82	0	100
(6)	REFLEX ALQUILER FLEXIBLE DE VEHICULOS	Specialist Financing	FULL	79.82	0	100	0
	SELF TRADE BANK SA	Broker	FULL	100	100	100	100
	SG EQUIPMENT FINANCE IBERIA. E.F.C. S.A.	Specialist Financing	FULL	100	100	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SOCGEN INVERSIONES FINANCIERAS SA	Financial Company	FULL	100	100	100
	(1) SOCIETE GENERALE SUCCURSAL EN ESPANA	Bank	FULL	100	100	100
	SODEPROM	Real Estate and Real Estate Financing	FULL	100	100	100
<b>Estonia</b>						
	ALD AUTOMOTIVE EESTI AS	Specialist Financing	FULL	59.87	59.87	75.01
<b>United States of America</b>						
	AEGIS HOLDINGS (ONSHORE) INC.	Financial Company	FULL	100	100	100
(8)	CGI FINANCE INC	Financial Company	FULL	99.89	99.89	100
(8)	CGI NORTH AMERICA INC.	Specialist Financing	FULL	99.89	99.89	100
(8)	CLASSIC YACHT DOCUMENTATION. INC.	Services	FULL	99.89	99.89	100
	LYXOR ASSET MANAGEMENT HOLDING CORP.	Portfolio Management	FULL	100	100	100
	LYXOR ASSET MANAGEMENT INC.	Financial Company	FULL	100	100	100
	SG AMERICAS EQUITIES CORP.	Financial Company	FULL	100	100	100
	SG AMERICAS OPERATIONAL SERVICES. INC.	Services	FULL	100	100	100
	SG AMERICAS SECURITIES HOLDINGS. LLC	Bank	FULL	100	100	100
	SG AMERICAS SECURITIES. LLC	Broker	FULL	100	100	100
	SG AMERICAS. INC.	Financial Company	FULL	100	100	100
	SG CONSTELLATION. INC.	Financial Company	FULL	100	100	100
	SG EQUIPMENT FINANCE USA CORP.	Specialist Financing	FULL	100	100	100
	SG MORTGAGE FINANCE CORP.	Financial Company	FULL	100	100	100
	SG MORTGAGE SECURITIES. LLC	Portfolio Management	FULL	100	100	100
	SG REINSURANCE INTERMEDIARY BROKERAGE. LLC	Insurance	FULL	100	100	100
	SG STRUCTURED PRODUCTS. INC.	Specialist Financing	FULL	100	100	100
	SGAIF. LLC	Financial Company	FULL	100	100	100
	SGAIH. INC.	Financial Company	FULL	100	100	100
(8)	SGB FINANCE NORTH AMERICA INC.	Specialist Financing	FULL	50.94	50.94	100
(1)	SOCIETE GENERALE (NEW YORK)	Bank	FULL	100	100	100
	SOCIETE GENERALE ENERGY LLC	Financial Company	FULL	100	100	100
	SOCIETE GENERALE FINANCIAL CORPORATION	Financial Company	FULL	100	100	100
	SOCIETE GENERALE INVESTMENT CORPORATION	Financial Company	FULL	100	100	100
	SOCIETE GENERALE LIQUIDITY FUNDING. LLC	Financial Company	FULL	100	100	100
	TENDER OPTION BOND PROGRAM (TAXABLE AND TAX-EXEMPT)	Financial Company	FULL	100	100	100
<b>Finland</b>						
	AXUS FINLAND OY	Specialist Financing	FULL	79.82	79.82	100
	NF FLEET OY	Specialist Financing	FULL	63.85	63.85	80

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
France						
	29 HAUSSMANN EQUILIBRE	Portfolio Management	FULL	87.1	87.1	87.1
	29 HAUSSMANN EURO RDT	Portfolio Management	FULL	58.1	58.1	58.1
	29 HAUSSMANN SELECTION MONDE	Portfolio Management	FULL	68.7	68.7	68.7
	9 RUE DES BIENVENUS	Real Estate and Real Estate Financing	FULL	95.5	95.5	100
	AIR BAIL	Specialist Financing	FULL	100	100	100
	AIX - BORD DU LAC - 3	Real Estate and Real Estate Financing	EJV	50	50	50
	AIX - BORD DU LAC - 4	Real Estate and Real Estate Financing	EJV	50	50	50
	ALD	Specialist Financing	FULL	79.82	79.82	79.82
	ALD AUTOMOTIVE RUSSIE SAS	Specialist Financing	FULL	79.82	79.82	100
	ALPRIM	Real Estate and Real Estate Financing	FULL	100	100	100
(6)	AMPERIM	Real Estate and Real Estate Financing	EJV	50	0	50
	ANTALIS SA	Financial Company	FULL	100	100	100
	ANTARES	Real Estate and Real Estate Financing	ESI	45	45	45
	ANTARIUS	Insurance	FULL	100	100	100
(6)	ARTISTIK	Real Estate and Real Estate Financing	ESI	30	0	30
	AVIVA INVESTORS RESERVE EUROPE	Financial Company	FULL	69.35	69.35	69.35
(3)	AXA SOGECAP LOAN	Portfolio Management	FULL	0	100	0
	BANQUE COURTOIS. SUCESSEUR DE L'ANCIENNE MAISON COURTOIS ET CIE DEPUIS 1760	Bank	FULL	100	100	100
	BANQUE FRANCAISE COMMERCIALE OCEAN INDIEN	Bank	FULL	50	50	50
	BANQUE KOLB	Bank	FULL	99.97	99.97	99.97
	BANQUE LAYDERNIER	Bank	FULL	100	100	100
	BANQUE NUGER	Bank	FULL	100	100	100
	BANQUE POUYANNE	Bank	ESI	35	35	35
	BANQUE RHONE ALPES	Bank	FULL	99.99	99.99	99.99
	BANQUE TARNEAUD	Bank	FULL	100	100	100
	BOURSORAMA INVESTISSEMENT	Services	FULL	100	100	100
	BOURSORAMA SA	Broker	FULL	100	100	100
	BREMANY LEASE SAS	Specialist Financing	FULL	79.82	79.82	100
(2)	CAEN - RUE BASSE	Real Estate and Real Estate Financing	FULL	0	100	0
(2)	CAEN - RUE DU GENERAL MOULIN	Real Estate and Real Estate Financing	FULL	0	100	0
	CARBURAUTO	Group Real Estate Management Company	EJV	50	50	50
	CARRERA	Group Real Estate Management Company	EJV	50	50	50
	CENTRE IMMO PROMOTION	Real Estate and Real Estate Financing	FULL	60	60	60

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	CHARTREUX LOT A1	Real Estate and Real Estate Financing	FULL	100	100	100	100
	CHEMIN DES COMBES	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
	COMPAGNIE FINANCIERE DE BOURBON	Specialist Financing	FULL	99.99	99.99	100	100
	COMPAGNIE FONCIERE DE LA MEDITERRANEE (CFM)	Group Real Estate Management Company	FULL	100	100	100	100
	COMPAGNIE GENERALE DE LOCATION D'EQUIPEMENTS	Specialist Financing	FULL	99.89	99.89	99.89	99.89
	CONTE	Group Real Estate Management Company	EJV	50	50	50	50
(5)	CREDINORD CIDIZE	Financial Company	FULL	0	100	0	100
	CREDIT DU NORD	Bank	FULL	100	100	100	100
	DARWIN DIVERSIFIE 0-20	Portfolio Management	FULL	89.94	88.67	89.94	88.67
	DARWIN DIVERSIFIE 40-60	Portfolio Management	FULL	79.78	79.98	79.78	79.98
	DARWIN DIVERSIFIE 80-100	Portfolio Management	FULL	78.34	78.1	78.34	78.1
	DESCARTES TRADING	Financial Company	FULL	100	100	100	100
	DESSUARD	Real Estate and Real Estate Financing	ESI	40	40	40	40
(5)	DEVILLE AVENUE LECLERC	Real Estate and Real Estate Financing	FULL	0	100	0	100
	DISPONIS	Specialist Financing	FULL	99.99	99.99	100	100
	ESNI - COMPARTIMENT SG-CREDIT CLAIMS -1	Financial Company	FULL	100	100	100	100
	ETOILE CLIQUET 90	Financial Company	FULL	73.52	73.52	73.52	73.52
	ETOILE ID	Financial Company	FULL	100	100	100	100
(6)	ETOILE MULTI GESTION EUROPE-C	Insurance	FULL	51.59	0	51.59	0
(6)	ETOILE VALEURS MOYENNES-C	Insurance	FULL	61.09	0	61.09	0
	F.E.P. INVESTISSEMENTS	Real Estate and Real Estate Financing	FULL	80	80	100	100
	FCC ALBATROS	Portfolio Management	FULL	100	100	51	51
(2)	FCT CODA	Financial Company	FULL	0	100	0	100
	FEEDER LYX E ST50 D5	Portfolio Management	FULL	100	100	100	100
	FEEDER LYX E ST50 D6	Portfolio Management	FULL	100	100	100	100
	FEEDER LYXOR CAC 40	Financial Company	FULL	99.77	99.77	99.77	99.77
	FEEDER LYXOR CAC40 D2-EUR	Portfolio Management	FULL	100	100	100	100
	FEEDER LYXOR STOXX 50	Financial Company	FULL	100	99.56	100	99.56
	FENWICK LEASE	Specialist Financing	FULL	99.99	99.99	100	100
(5)	FIDUCEO	Services	FULL	0	100	0	100
	FINANCIERE PARCOURS	Specialist Financing	FULL	79.82	79.82	100	100
	FINANCIERE UC	Real Estate and Real Estate Financing	FULL	100	100	100	100
	FINASSURANCE SNC	Broker	FULL	98.89	98.89	99	99
	FRANFINANCE	Specialist Financing	FULL	99.99	99.99	99.99	99.99
	FRANFINANCE LOCATION	Specialist Financing	FULL	99.99	99.99	100	100
	GALYBET	Real Estate and Real Estate Financing	FULL	100	100	100	100
	GENEBANQUE	Bank	FULL	100	100	100	100
	GENECAL FRANCE	Specialist Financing	FULL	100	100	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	GENECAR - SOCIETE GENERALE DE COURTAGE D'ASSURANCE ET DE REASSURANCE	Insurance	FULL	100	100	100
	GENECOMI	Specialist Financing	FULL	99.64	99.64	99.64
	GENEFIM	Real Estate and Real Estate Financing	FULL	100	100	100
	GENEFINANCE	Portfolio Management	FULL	100	100	100
	GENEGIS I	Group Real Estate Management Company	FULL	100	100	100
	GENEGIS II	Group Real Estate Management Company	FULL	100	100	100
	GENEVALMY	Group Real Estate Management Company	FULL	100	100	100
	IMAPRIM AMENAGEMENT	Real Estate and Real Estate Financing	FULL	70	70	70
	IMMOBILIERE PROMEX	Real Estate and Real Estate Financing	ESI	35	35	35
(1)	INORA LIFE FRANCE	Insurance	FULL	100	100	100
	INTER EUROPE CONSEIL	Financial Company	FULL	100	100	100
(5)	INVESTIR IMMOBILIER MAROMME	Real Estate and Real Estate Financing	FULL	0	100	0
	INVESTIR IMMOBILIER NORMANDIE	Real Estate and Real Estate Financing	FULL	100	100	100
	INVESTISSEMENT 81	Financial Company	FULL	100	100	100
	KOLB INVESTISSEMENT	Financial Company	FULL	100	100	100
	LA BANQUE POSTALE FINANCEMENT	Specialist Financing	ESI	35	35	35
	LA CORBEILLERIE	Real Estate and Real Estate Financing	ESI	24	24	40
(3)	LA COURTIME	Real Estate and Real Estate Financing	ESI	0	30	0
	LA CROIX BOISEE	Real Estate and Real Estate Financing	FULL	100	100	100
	LA FONCIERE DE LA DEFENSE	Real Estate and Real Estate Financing	FULL	99.99	99.99	100
	LES ALLEES DE L'EUROPE	Real Estate and Real Estate Financing	ESI	34	34	34
	LES CEDRES BLEUS	Real Estate and Real Estate Financing	ESI	40	40	40
	LES JARDINS D'ALHAMBRA	Real Estate and Real Estate Financing	ESI	35	35	35
	LES JARDINS DE L'ALCAZAR	Real Estate and Real Estate Financing	ESI	30	30	30
	LES MESANGES	Real Estate and Real Estate Financing	FULL	55	55	55
	LES VILLAS VINCENTI	Real Estate and Real Estate Financing	ESI	30	30	30
	L'HESPEL	Real Estate and Real Estate Financing	ESI	30	30	30
	LOTISSEMENT DES FLEURS	Real Estate and Real Estate Financing	ESI	30	30	30

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	LYON LA FABRIC	Real Estate and Real Estate Financing	EJV	48.87	48.87	50	50
	LYXOR ASSET MANAGEMENT	Financial Company	FULL	100	100	100	100
	LYXOR GL OVERLAY F	Portfolio Management	FULL	87.27	87.27	87.27	87.27
	LYXOR INTERMEDIATION	Broker	FULL	100	100	100	100
	LYXOR INTERNATIONAL ASSET MANAGEMENT	Financial Company	FULL	100	100	100	100
	MEDITERRANEE GRAND ARC	Real Estate and Real Estate Financing	EJV	43	43	50	50
	NOAHO	Real Estate and Real Estate Financing	FULL	85	85	85	85
	NORBAIL IMMOBILIER	Real Estate and Real Estate Financing	FULL	100	100	100	100
	NORBAIL SOFERGIE	Real Estate and Real Estate Financing	FULL	100	100	100	100
(5)	NORIMMO	Real Estate and Real Estate Financing	FULL	0	100	0	100
	NORMANDIE REALISATIONS	Real Estate and Real Estate Financing	FULL	100	100	100	100
	ONYX	Group Real Estate Management Company	EJV	50	50	50	50
	OPCI SOGECAPIMMO	Real Estate and Real Estate Financing	FULL	100	100	100	100
	OPERA 72	Group Real Estate Management Company	FULL	99.99	99.99	100	100
	ORADEA VIE	Insurance	FULL	100	100	100	100
	ORPAVIMOB	Specialist Financing	FULL	100	100	100	100
	PACTIMO	Real Estate and Real Estate Financing	FULL	86	86	86	86
	PARCOURS	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS ANNECY	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS BORDEAUX	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS IMMOBILIER	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS NANTES	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS STRASBOURG	Specialist Financing	FULL	79.82	79.82	100	100
	PARCOURS TOURS	Specialist Financing	FULL	79.82	79.82	100	100
	PAREL	Services	FULL	100	100	100	100
	PHILIPS MEDICAL CAPITAL FRANCE	Specialist Financing	FULL	60	60	60	60
	PRAGMA	Real Estate and Real Estate Financing	FULL	86	86	100	100
(3)	PRIMAXIA	Real Estate and Real Estate Financing	FULL	0	93.74	0	95
	PRIORIS	Specialist Financing	FULL	94.89	94.89	95	95
	PROGEREAL SA	Real Estate and Real Estate Financing	ESI	25.01	25.01	25.01	25.01
	PROJECTIM	Real Estate and Real Estate Financing	FULL	60	60	60	60
	RED & BLACK CONSUMER FRANCE 2013	Financial Company	FULL	100	100	100	100
	RED & BLACK HOME LOANS FRANCE 1	Financial Company	FULL	100	100	100	100
	RIVAPRIM	Real Estate and Real Estate Financing	FULL	100	80	100	80



Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
(6)	RIVAPRIM REALISATIONS	Real Estate and Real Estate Financing	FULL	100	0	100	0
	S.C.I. DU DOMAINE DE STONEHAM	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SAGEMCOM LEASE	Specialist Financing	FULL	99.99	99.99	100	100
	SAINT CLAIR	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SAINT-MARTIN 3	Real Estate and Real Estate Financing	EJV	50	50	50	50
(8)	SARL CS 72 - KERIADENN	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
	SARL D'AMENAGEMENT DU MARTINET	Real Estate and Real Estate Financing	EJV	43	43	50	50
	SARL DE LA COTE D'OPALE	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SARL DE LA VECQUERIE	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
	SARL EKO BOUAYE	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SARL SEINE CLICHY	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SAS AMIENS - AVENUE DU GENERAL FOY	Real Estate and Real Estate Financing	FULL	80	80	100	100
	SAS COPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SAS ECULLY SO'IN	Real Estate and Real Estate Financing	FULL	71.62	71.62	75	75
(6)	SAS FOCH SULLY	Real Estate and Real Estate Financing	FULL	87.97	0	90	0
	SAS LOIRE ATLANTIQUE TERTIAIRE	Real Estate and Real Estate Financing	EJV	50	50	50	50
(6)	SAS MERIGNAC OASIS URBAINE	Real Estate and Real Estate Financing	FULL	90	0	90	0
	SAS MS FRANCE	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SAS NOAHO AMENAGEMENT	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
	SAS NORMANDIE HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SAS NORMANDIE RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SAS NOYALIS	Real Estate and Real Estate Financing	ESI	28	28	28	28
	SAS PARNASSE	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SAS PROJECTIM IMMOBILIER	Real Estate and Real Estate Financing	FULL	80	80	100	100
	SAS RESIDENCIAL	Real Estate and Real Estate Financing	FULL	68.4	68.4	68.4	68.4

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
(6)	SAS ROANNE LA TRILOGIE	Real Estate and Real Estate Financing	ESI	40.08	0	41	0
	SAS SOGEBROWN POISSY	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SAS SOGEMYSJ	Real Estate and Real Estate Financing	FULL	51	51	51	51
	SAS SOGEPROM TERTIAIRE	Real Estate and Real Estate Financing	FULL	100	100	100	100
(6)	SAS SOJEPRIM	Real Estate and Real Estate Financing	FULL	80	0	100	0
(6)	SAS TIR A L'ARC AMENAGEMENT	Real Estate and Real Estate Financing	EJV	40	0	50	0
	SAS TOUR D2	Real Estate and Real Estate Financing	JO	50	50	50	50
	SAS ZAC DU TRIANGLE	Real Estate and Real Estate Financing	FULL	48.7	48.7	51	51
	SC ALICANTE 2000	Group Real Estate Management Company	FULL	100	100	100	100
	SC CHASSAGNE 2000	Group Real Estate Management Company	FULL	100	100	100	100
	SCCV 282 MONTOLIVET 12	Real Estate and Real Estate Financing	FULL	51.6	51.6	60	60
	SCCV 29 ET 31 AVENUE CHARLES DE GAULLE A LA TESTE DE BUCH	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCCV 3 CHATEAUX	Real Estate and Real Estate Financing	EJV	43	43	50	50
(3)	SCCV ADIVO	Real Estate and Real Estate Financing	ESI	0	26	0	26
	SCCV ALFORTVILLE MANDELA	Real Estate and Real Estate Financing	ESI	49	49	49	49
	SCCV BAHIA	Real Estate and Real Estate Financing	FULL	48.7	48.7	51	51
(3)	SCCV BALMA ENTREPRISE	Real Estate and Real Estate Financing	EJV	0	50	0	50
(3)	SCCV BASSENS LES MONTS	Real Estate and Real Estate Financing	FULL	0	70	0	70
	SCCV BLAINVILLE LEMARCHAND	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCCV BOIS-GUILLAUME PARC DE HALLEY	Real Estate and Real Estate Financing	EJV	50	50	50	50
(6)	SCCV BOURGOIN 140 ROUTE DE LYON	Real Estate and Real Estate Financing	FULL	78.2	0	80	0
	SCCV BRON CARAVELLE	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
(5)	SCCV CAEN - CHARITE ILOT 3	Real Estate and Real Estate Financing	FULL	0	100	0	100
	SCCV CAEN CASERNE MARTIN	Real Estate and Real Estate Financing	FULL	100	100	100	100

				Group ownership interest		Group voting interest		
Country		Activity	Method*	At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017	
		SCCV CAEN PANORAMIK	Real Estate and Real Estate Financing	ESI	40	50	40	50
(5)		SCCV CHARITE - REHABILITATION	Real Estate and Real Estate Financing	FULL	0	100	0	100
		SCCV CHARTREUX LOT C	Real Estate and Real Estate Financing	EJV	100	100	100	100
		SCCV CHARTREUX LOT E	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCCV CHARTREUX LOTS B-D	Real Estate and Real Estate Financing	FULL	35	35	35	35
		SCCV CITY SQUARE	Real Estate and Real Estate Financing	ESI	50	50	50	50
		SCCV CLICHY BRC	Real Estate and Real Estate Financing	EJV	28	28	28	28
		SCCV COURS CLEMENCEAU	Real Estate and Real Estate Financing	ESI	43	43	50	50
		SCCV CUGNAUX-LEO LAGRANGE	Real Estate and Real Estate Financing	EJV	35	35	35	35
		SCCV EKO GREEN CITY	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV EKO PARK OCEAN	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV ESPACES DE DEMAIN	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV EURONANTES 1E	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV GAO	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV GIGNAC MOUSSELINE	Real Estate and Real Estate Financing	FULL	60.2	60.2	70	70
		SCCV GIVORS ROBICHON	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
		SCCV HALLUARD	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV HEROUVILLE ILOT A2	Real Estate and Real Estate Financing	ESI	33.33	33.33	33.33	33.33
		SCCV HOUSE PARK	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV JA LE HAVRE 22 COTY	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCCV JDA OUISTREHAM	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV KYMA MERIGNAC	Real Estate and Real Estate Financing	ESI	30	30	30	30
(6)		SCCV LA MADELEINE SAINT-CHARLES	Real Estate and Real Estate Financing	EJV	40	0	50	0
		SCCV LA PORTE DU CANAL	Real Estate and Real Estate Financing	EJV	50	50	50	50

			Group ownership interest		Group voting interest		
Country		Activity	Method*	At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SCCV LACASSAGNE BRICKS	Real Estate and Real Estate Financing	ESI	49	49	49	49
	SCCV LE BOUSCAT CARRÉ SOLARIS	Real Estate and Real Estate Financing	ESI	25	0	25	0
	SCCV LE COURTIL	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCCV LE SIX	Real Estate and Real Estate Financing	ESI	24.5	24.5	24.5	24.5
	SCCV LE TEICH COEUR DE VILLE	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SCCV LES ECRIVAINS	Real Estate and Real Estate Financing	FULL	70	70	70	70
	SCCV LES PATIOS D'OR DE FLEURY LES AUBRAIS	Real Estate and Real Estate Financing	FULL	64	64	80	80
	SCCV LES SUCRES	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
(6)	SCCV LESQUIN PARC	Real Estate and Real Estate Financing	EJV	40	0	50	0
(6)	SCCV LILLE - JEAN MACE	Real Estate and Real Estate Financing	ESI	26.72	0	33.4	0
	SCCV MARCQ PROJECTIM	Real Estate and Real Estate Financing	FULL	64	64	80	80
(3)	SCCV MASSON BEAU	Real Estate and Real Estate Financing	ESI	0	30	0	30
(6)	SCCV MEHUL	Real Estate and Real Estate Financing	FULL	60.2	0	70	0
(6)	SCCV MERIGNAC 53-55 AVENUE LEON BLUM	Real Estate and Real Estate Financing	ESI	30	0	30	0
	SCCV MONROC - LOT 3	Real Estate and Real Estate Financing	EJV	43	43	50	50
	SCCV MONTREUIL ACACIA	Real Estate and Real Estate Financing	FULL	80	80	80	80
	SCCV NATUREO	Real Estate and Real Estate Financing	ESI	30	30	30	30
(6)	SCCV NICE ARENAS	Real Estate and Real Estate Financing	FULL	100	0	100	0
	SCCV NOAHO HABITAT	Real Estate and Real Estate Financing	FULL	97.75	97.75	100	100
(6)	SCCV NOISY BOISSIERE	Real Estate and Real Estate Financing	FULL	51	0	51	0
	SCCV PARIS ALBERT	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCCV PARK OCEAN II	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCCV PRADES BLEU HORIZON	Real Estate and Real Estate Financing	EJV	43	43	50	50
	SCCV QUAI DE SEINE A ALFORTVILLE	Real Estate and Real Estate Financing	FULL	51	51	51	51

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
(6)	SCCV ROMAINVILLE DUMAS	Real Estate and Real Estate Financing	FULL	70	0	70	0
	SCCV ROUEN 27 ANGLAIS	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCCV ROUSSET - LOT 03	Real Estate and Real Estate Financing	FULL	60.2	60.2	70	70
	SCCV SAY	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCCV SENGHOR	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCCV SOGAB ROMAINVILLE	Real Estate and Real Estate Financing	FULL	80	80	80	80
	SCCV SWING RIVE GAUCHE	Real Estate and Real Estate Financing	EJV	43	43	50	50
	SCCV TALENCE PUR	Real Estate and Real Estate Financing	FULL	95	95	95	95
(6)	SCCV TASSIN - 190 CDG	Real Estate and Real Estate Financing	ESI	35	0	35	0
(3)	SCCV VAULX PABLO PICASSO	Real Estate and Real Estate Financing	EJV	0	47.75	0	50
	SCCV VERNAISON - RAZAT	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
	SCCV VILLA CHANZY	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCCV VILLENAVE D'ORNON GARDEN VO	Real Estate and Real Estate Financing	ESI	25	0	25	0
(6)	SCCV VILLEURBANNE TEMPO	Real Estate and Real Estate Financing	FULL	92.8	0	100	0
	SCI 1134, AVENUE DE L'EUROPE A CASTELNAU LE LEZ	Real Estate and Real Estate Financing	EJV	43	43	50	50
	SCI 637 ROUTE DE FRANS	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SCI ABARITZ	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCI AGIAN	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCI ANGLET PROMOTION	Real Estate and Real Estate Financing	ESI	38.5	38.5	38.5	38.5
	SCI AQPRIM PROMOTION	Real Estate and Real Estate Financing	FULL	79.8	79.8	50	50
	SCI ASC LA BERGEONNERIE	Real Estate and Real Estate Financing	EJV	42	42	50	50
(3)	SCI AUBERVILLIERS CREVECOEUR	Real Estate and Real Estate Financing	ESI	0	35	0	35
	SCI AVARICUM	Real Estate and Real Estate Financing	FULL	99	99	99	99
	SCI BOBIGNY HOTEL DE VILLE	Real Estate and Real Estate Financing	ESI	35	35	35	35

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SCI BORDEAUX-20-26 RUE DU COMMERCE	Real Estate and Real Estate Financing	ESI	30	0	30	0
	SCI CENTRE IMMO PROMOTION RESIDENCES	Real Estate and Real Estate Financing	FULL	80	80	100	100
	SCI CHARITE - GIRANDIERE	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI CHELLES AULNOY MENDES FRANCE	Real Estate and Real Estate Financing	EJV	50	50	50	50
(2)	SCI D.S.N.	Real Estate and Real Estate Financing	ESI	0	32.5	0	32.5
	SCI DIAGONALE	Real Estate and Real Estate Financing	FULL	68	68	75	75
	SCI DREUX LA ROTULE NORD	Real Estate and Real Estate Financing	FULL	80	80	100	100
	SCI DU 84 RUE DU BAC	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI DU PARC SAINT ETIENNE	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCI ETAMPES NOTRE-DAME	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI ETRECHY SAINT NICOLAS	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI EUROPARC HAUTE BORNE 1	Real Estate and Real Estate Financing	FULL	51	51	51	51
	SCI EUROPARC ST MARTIN DU TOUCH 2002	Real Estate and Real Estate Financing	FULL	100	100	100	100
(3)	SCI HAUSQUETTE I	Real Estate and Real Estate Financing	ESI	0	40	0	40
	SCI HEGEL PROJECTIM	Real Estate and Real Estate Financing	FULL	68	68	85	85
	SCI LA MANTILLA COMMERCE	Real Estate and Real Estate Financing	FULL	93	93	100	100
	SCI LA MARQUEILLE	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI L'ACTUEL	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SCI LAVOISIER	Real Estate and Real Estate Financing	FULL	80	80	80	80
	SCI LE CERCLE DES ARTS	Real Estate and Real Estate Financing	ESI	37.5	37.5	37.5	37.5
	SCI LE DOMAINE DU PLESSIS	Real Estate and Real Estate Financing	ESI	20	20	20	20
	SCI LE HAMEAU DES GRANDS PRES	Real Estate and Real Estate Financing	EJV	40	40	40	40
	SCI LE MANOIR DE JEREMY	Real Estate and Real Estate Financing	ESI	40	40	40	40
(8)	SCI LE PARC DE BORDEROUGE	Real Estate and Real Estate Financing	FULL	60	60	60	60

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.201830	At 31.12.201730	At 31.12.201830	At 31.12.201730
	SCI LES BAINOTS	Real Estate and Real Estate Financing	ESI	40	40	40
	SCI LES JARDINS DE LA BOURBRE	Real Estate and Real Estate Financing	ESI	40	40	40
	SCI LES JARDINS D'IRIS	Real Estate and Real Estate Financing	FULL	60	60	60
	SCI LES JARDINS DU BLAVET	Real Estate and Real Estate Financing	ESI	40	40	40
	SCI LES PORTES DU LEMAN	Real Estate and Real Estate Financing	FULL	70	70	70
	SCI LES RESIDENCES GENEVOISES	Real Estate and Real Estate Financing	FULL	90	90	90
(3)	SCI LES TERRASSES DE BEL AIR	Real Estate and Real Estate Financing	ESI	0	40	0
	SCI LIEUSAIN RUE DE PARIS	Real Estate and Real Estate Financing	EJV	50	50	50
	SCI LINAS COEUR DE VILLE 1	Real Estate and Real Estate Financing	FULL	70	70	70
	SCI LOCMINE- LAMENNAIS	Real Estate and Real Estate Financing	ESI	30	30	30
	SCI L'OREE DES LACS	Real Estate and Real Estate Financing	FULL	70	70	70
	SCI LYON BON LAIT	Real Estate and Real Estate Financing	ESI	35	35	35
	SCI LYON JOANNES	Real Estate and Real Estate Financing	EJV	47.8	47.8	50
	SCI MARSEILLE LE ZEPHYR	Real Estate and Real Estate Financing	FULL	55.9	55.9	65
	SCI MONTPELLIER JACQUES COEUR	Real Estate and Real Estate Financing	EJV	43	43	50
	SCI NOAHO RESIDENCES	Real Estate and Real Estate Financing	FULL	95.5	95.5	100
(8)	SCI PATRIS	Real Estate and Real Estate Financing	EJV	25.8	25.8	30
	SCI PORTU ONDOAN	Real Estate and Real Estate Financing	ESI	40	40	40
	SCI PROJECTIM HABITAT	Real Estate and Real Estate Financing	FULL	80	80	100
	SCI PROJECTIM MARCQ COEUR DE VILLE	Real Estate and Real Estate Financing	FULL	48	48	60
	SCI PRONY	Real Estate and Real Estate Financing	EJV	50	50	50
	SCI QUINTEFEUILLE	Real Estate and Real Estate Financing	ESI	30	30	30
	SCI QUINTESSANCE-VALESCURE	Real Estate and Real Estate Financing	EJV	50	48	50
	SCI REIMS GARE	Real Estate and Real Estate Financing	FULL	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SCI RESIDENCE DU DONJON	Real Estate and Real Estate Financing	EJV	40	40	40	40
	SCI RHIN ET MOSELLE 1	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCI RHIN ET MOSELLE 2	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCI RIVAPRIM HABITAT	Real Estate and Real Estate Financing	FULL	100	92	100	100
	SCI RIVAPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	96	100	100
(3)	SCI ROUBAIX FOCH-LECLERC	Real Estate and Real Estate Financing	ESI	0	30	0	30
	SCI RSS INVESTIMMO COTE BASQUE	Real Estate and Real Estate Financing	ESI	20	20	20	20
(8)	SCI SAINT JEAN	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCI SAINT OUEEN L'AUMONE - L'OISE	Real Estate and Real Estate Financing	EJV	38	38	38	38
	SCI SAINT-DENIS WILSON	Real Estate and Real Estate Financing	FULL	60	60	60	60
	SCI SCS IMMOBILIER D'ENTREPRISES	Real Estate and Real Estate Financing	FULL	52.8	52.8	66	66
	SCI SOGECIP	Real Estate and Real Estate Financing	FULL	80	80	100	100
	SCI SOGECTIM	Real Estate and Real Estate Financing	FULL	80	80	100	100
(3)	SCI SOGEPROM ATLANTIQUE	Real Estate and Real Estate Financing	FULL	0	80	0	80
	SCI STRASBOURG ETOILE THUMENAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCI STRASBOURG ROUTE DE WASSELONNE	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCI TERRES NOUVELLES FRANCILIENNES	Real Estate and Real Estate Financing	FULL	80	80	80	80
	SCI TOULOUSE CENTREDA 3	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SCI VAILLANT COUTURIER	Real Estate and Real Estate Financing	ESI	25	25	25	25
	SCI VALENCE-CHAMPS DE MARS	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SCI VELRI	Group Real Estate Management Company	EJV	50	50	50	50
	SCI VILLA EMILIE	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SCI VITAL BOUHOT 16-22 NEUILLY SUR SEINE	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SCPI GENEPIERRE	Real Estate and Real Estate Financing	FULL	45.08	45.08	45.08	45.08



Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SEFIA	Specialist Financing	FULL	99.89	99.89	100	100
	SERVIPAR	Specialist Financing	FULL	79.82	79.82	100	100
	SG 29 HAUSSMANN	Financial Company	FULL	100	100	100	100
(6)	SG ACTIONS EURO SELECTION	Financial Company	FULL	40.05	0	40.05	0
(6)	SG ACTIONS EURO VALUE-C	Insurance	FULL	64.94	0	64.94	0
	SG ACTIONS FRANCE	Portfolio Management	FULL	38.14	38.14	38.14	38.14
(6)	SG ACTIONS LUXE-C	Insurance	FULL	84.25	0	84.25	0
(6)	SG ACTIONS MONDE EMERGENT	Insurance	FULL	60.05	0	60.05	0
	SG ACTIONS US	Portfolio Management	FULL	65.06	100	65.06	100
	SG CAPITAL DEVELOPPEMENT	Portfolio Management	FULL	100	100	100	100
	SG EUROPEAN MORTGAGE INVESTMENTS	Financial Company	FULL	100	100	100	100
	SG FINANCIAL SERVICES HOLDING	Portfolio Management	FULL	100	100	100	100
	SG FLEXIBLE	Portfolio Management	FULL	92.48	100	92.48	100
	SG LYXOR GOVERNMENT BOND FUND	Portfolio Management	FULL	100	100	100	100
	SG LYXOR LCR FUND	Portfolio Management	FULL	100	100	100	100
(6)	SG MONE TRESO-E	Insurance	FULL	98.62	0	98.62	0
	SG MONETAIRE PLUS E	Financial Company	FULL	58.93	38.45	58.93	38.45
(6)	SG OBLIG ETAT EURO-R	Insurance	FULL	79.94	0	79.94	0
	SG OPCIMMO	Real Estate and Real Estate Financing	FULL	97.95	97.95	97.95	97.95
	SG OPTION EUROPE	Broker	FULL	100	100	100	100
(5)	SG SERVICES	Specialist Financing	FULL	0	100	0	100
	SG VALOR ALPHA ACTIONS FRANCE	Financial Company	FULL	72.77	75.34	72.77	75.34
	SGB FINANCE S.A.	Specialist Financing	FULL	50.94	50.94	51	51
	SGEF SA	Specialist Financing	FULL	100	100	100	100
(6)	SGI 10-16 VILLE L'EVEQUE	Insurance	FULL	100	0	100	0
(6)	SGI 1-5 ASTORG	Insurance	FULL	100	0	100	0
	SGI HOLDING SIS	Group Real Estate Management Company	FULL	100	100	100	100
(6)	SGI PACIFIC	Insurance	FULL	86.17	0	89.53	0
	SNC COEUR 8EME MONPLAISIR	Real Estate and Real Estate Financing	ESI	25.5	25.5	30	30
	SNC COPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SNC D'AMENAGEMENT FORUM SEINE ISSY LES MOULINEAUX	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
(5)	SNC DU 10 RUE MICHELET	Real Estate and Real Estate Financing	FULL	0	100	0	100
	SNC ISSY FORUM 10	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
	SNC ISSY FORUM 11	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
	SNC NEUILLY ILE DE LA JATTE	Real Estate and Real Estate Financing	ESI	40	40	40	40
	SNC PROMOSEINE	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
	SOCIETE ANONYME DE CREDIT A L'INDUSTRIE FRANCAISE (CALIF)	Bank	FULL	100	100	100	100
(2)	SOCIETE CIVILE IMMOBILIERE 110 RUE DE RICHELIEU	Real Estate and Real Estate Financing	ESI	0	35	0	35

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SOCIETE CIVILE IMMOBILIERE CAP THALASSA	Real Estate and Real Estate Financing	ESI	45	45	45	45
	SOCIETE CIVILE IMMOBILIERE CAP VEYRE	Real Estate and Real Estate Financing	ESI	50	50	50	50
	SOCIETE CIVILE IMMOBILIERE DE DIANE	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SOCIETE CIVILE IMMOBILIERE DE PIERLAS	Real Estate and Real Estate Financing	ESI	28	28	28	28
	SOCIETE CIVILE IMMOBILIERE DES COMBEAUX DE TIGERY	Real Estate and Real Estate Financing	FULL	99.99	99.99	100	100
	SOCIETE CIVILE IMMOBILIERE DOMAINE DURANDY	Real Estate and Real Estate Financing	ESI	25	25	25	25
	SOCIETE CIVILE IMMOBILIERE ERICA	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SOCIETE CIVILE IMMOBILIERE ESTEREL TANNERON	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SOCIETE CIVILE IMMOBILIERE FONTENAY - ESTIENNES D'ORVES	Real Estate and Real Estate Financing	EJV	50	50	50	50
	SOCIETE CIVILE IMMOBILIERE GAMBETTA DEFENSE V	Real Estate and Real Estate Financing	ESI	20	20	20	20
	SOCIETE CIVILE IMMOBILIERE LE BOTERO	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SOCIETE CIVILE IMMOBILIERE LES HAUTS DE L'ESTAQUE	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SOCIETE CIVILE IMMOBILIERE LES HAUTS DE SEPTEMES	Real Estate and Real Estate Financing	ESI	25	25	25	25
	SOCIETE CIVILE IMMOBILIERE MIRECRAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SOCIETE CIVILE IMMOBILIERE NAXOU	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOCIETE CIVILE IMMOBILIERE TOULDI	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOCIETE CIVILE IMMOBILIERE VERT COTEAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
	SOCIETE DE BOURSE GILBERT DUPONT	Financial Company	FULL	100	100	100	100
	SOCIETE DE LA RUE EDOUARD VII	Portfolio Management	FULL	99.91	99.91	99.91	99.91
(5)	SOCIETE DE REALISATION DU PARC D'ACTIVITES DE TOULOUSE S O P A T	Real Estate and Real Estate Financing	ESI	0	100	0	100
	SOCIETE DES TERRAINS ET IMMEUBLES PARISIENS (STIP)	Group Real Estate Management Company	FULL	99.98	99.98	100	100
	SOCIETE DU PARC D ACTIVITE DE LA VALENTINE	Real Estate and Real Estate Financing	ESI	30	30	30	30
	SOCIETE EN NOM COLLECTIF PARNASSE	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOCIETE FINANCIERE D' ANALYSE ET DE GESTION	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE	Bank	FULL	100	100	100	100
	SOCIETE GENERALE CAPITAL FINANCE	Portfolio Management	FULL	100	100	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SOCIETE GENERALE CAPITAL PARTENAIRES	Portfolio Management	FULL	100	100	100
	SOCIETE GENERALE DE BANQUE AUX ANTILLES	Bank	FULL	100	100	100
	SOCIETE GENERALE FACTORING	Specialist Financing	FULL	100	100	100
	SOCIETE GENERALE PARTICIPATIONS INDUSTRIELLES	Portfolio Management	FULL	100	100	100
	SOCIETE GENERALE POUR LE DEVELOPPEMENT DES OPERATIONS DE CREDIT-BAIL IMMOBILIER SOGEBAIL	Real Estate and Real Estate Financing	FULL	100	100	100
	SOCIETE GENERALE REAL ESTATE	Real Estate and Real Estate Financing	FULL	100	100	100
	SOCIETE GENERALE SCF	Financial Company	FULL	100	100	100
	SOCIETE GENERALE SECURITIES SERVICES HOLDING	Portfolio Management	FULL	100	100	100
	SOCIETE GENERALE SFH	Specialist Financing	FULL	100	100	100
	SOCIETE IMMOBILIERE DU 29 BOULEVARD HAUSSMANN	Group Real Estate Management Company	FULL	100	100	100
	SOCIETE IMMOBILIERE URBI ET ORBI	Real Estate and Real Estate Financing	FULL	100	100	100
	SOCIETE LES PINSONS	Real Estate and Real Estate Financing	EJV	50	50	50
	SOCIETE MARSEILLAISE DE CREDIT	Bank	FULL	100	100	100
	SOGÉ BEAUJOIRE	Group Real Estate Management Company	FULL	99.99	99.99	100
	SOGÉ PERIVAL I	Group Real Estate Management Company	FULL	100	100	100
	SOGÉ PERIVAL II	Group Real Estate Management Company	FULL	100	100	100
	SOGÉ PERIVAL III	Group Real Estate Management Company	FULL	100	100	100
	SOGÉ PERIVAL IV	Group Real Estate Management Company	FULL	100	100	100
	SOGÉACT.SELEC.MON.	Portfolio Management	FULL	99.78	99.78	99.78
	SOGÉCAMPUS	Group Real Estate Management Company	FULL	100	100	100
	SOGÉCAP	Insurance	FULL	100	100	100
	SOGÉCAP - DIVERSIFIED LOANS FUND	Specialist Financing	FULL	100	100	100
	SOGÉCAP DIVERSIFIE 1	Portfolio Management	FULL	100	100	100
	SOGÉCAP LONG TERME N°1	Financial Company	FULL	100	100	100
(6)	SOGÉCAPIMMO 2	Insurance	FULL	89.39	0	90.84
	SOGÉFIM HOLDING	Portfolio Management	FULL	100	100	100
	SOGÉFIMUR	Specialist Financing	FULL	100	100	100
	SOGÉFINANCEMENT	Specialist Financing	FULL	100	100	100
	SOGÉFINERG SG POUR LE FINANCEMENT DES INVESTISSEMENTS ECONOMISANT L'ENERGIE	Specialist Financing	FULL	100	100	100
	SOGÉFONTENAY	Group Real Estate Management Company	FULL	100	100	100
	SOGÉLEASE FRANCE	Specialist Financing	FULL	100	100	100
	SOGÉMARCHE	Group Real Estate Management Company	FULL	100	100	100
	SOGÉPARTICIPATIONS	Portfolio Management	FULL	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	SOGEPROM	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM ALPES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM ALPES HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM CENTRE-VAL DE LOIRE	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM CVL SERVICES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM ENTREPRISES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM ENTREPRISES REGIONS	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM PARTENAIRES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM SERVICES	Real Estate and Real Estate Financing	FULL	100	100	100	100
	SOGEPROM SUD REALISATIONS	Real Estate and Real Estate Financing	FULL	90.9	90.9	100	100
	SOGESSUR	Insurance	FULL	100	100	100	100
	SOGEVIMMO	Group Real Estate Management Company	FULL	85.55	100	85.55	100
(5)	SOGINFO - SOCIETE DE GESTION ET D'INVESTISSEMENTS FONCIERS	Group Real Estate Management Company	FULL	0	100	0	100
	ST BARNABE 13004	Real Estate and Real Estate Financing	EJV	43	43	50	50
	STAR LEASE	Specialist Financing	FULL	100	100	100	100
(8)	STRACE	Real Estate and Real Estate Financing	ESI	20	20	20	20
	TEMSYS	Specialist Financing	FULL	79.82	79.82	100	100
(8)	URBANISME ET COMMERCE	Real Estate and Real Estate Financing	FULL	99.88	99.88	99.88	99.88
	URBANISME ET COMMERCE PROMOTION	Real Estate and Real Estate Financing	FULL	100	100	100	100
(2)	UTEI FEYZIN	Real Estate and Real Estate Financing	ESI	0	30	0	30
	VALMINVEST	Group Real Estate Management Company	FULL	100	100	100	100
	VILLA D'ARMONT	Real Estate and Real Estate Financing	ESI	40	40	40	40

				Group ownership interest		Group voting interest	
Country		Activity	Method*	At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Ghana							
	SOCIETE GENERALE GHANA LIMITED	Bank	FULL	60.22	56.67	60.22	56.67
Gibraltar							
	HAMBROS (GIBRALTAR NOMINEES) LIMITED	Services	FULL	100	100	100	100
	SG KLEINWORT HAMBROS BANK (GIBRALTAR) LIMITED	Bank	FULL	100	100	100	100
Greece							
	ALD AUTOMOTIVE S.A. LEASE OF CARS	Specialist Financing	FULL	79.82	79.82	100	100
Guinea							
	SG DE BANQUES EN GUINEE	Bank	FULL	57.94	57.94	57.94	57.94
Equatorial Guinea							
	SOCIETE GENERALE DE BANQUES EN GUINEE EQUATORIALE	Bank	FULL	52.44	52.44	57.23	57.23
Hong Kong							
	(1) DESCARTES TRADING HONG KONG BRANCH	Financial Company	FULL	100	100	100	100
	SG ASSET FINANCE (HONG KONG) LIMITED	Broker	FULL	100	100	100	100
	(6) SG CORPORATE FINANCE (HONG KONG) LIMITED	Financial Company	FULL	100	0	100	0
	SG FINANCE (ASIA PACIFIC) LIMITED	Financial Company	FULL	100	100	100	100
	SG FINANCE (HONG KONG) LIMITED	Financial Company	FULL	100	100	100	100
	(1) SG HONG KONG	Bank	FULL	100	100	100	100
	SG SECURITIES (HK) NOMINEES LTD	Broker	FULL	100	100	100	100
	SG SECURITIES (HONG-KONG) LTD	Broker	FULL	100	100	100	100
	SG SECURITIES ASIA INTERNATIONAL HOLDINGS LTD (HONG-KONG)	Broker	FULL	100	100	100	100
	SOCIETE GENERALE ASIA LTD	Financial Company	FULL	100	100	100	100
	TH INVESTMENTS (HONG KONG) 1 LIMITED	Financial Company	FULL	100	100	100	100
	TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	FULL	100	100	100	100
	TH INVESTMENTS (HONG KONG) 5 LIMITED	Financial Company	FULL	100	100	100	100
Hungary							
	ALD AUTOMOTIVE MAGYARORSZAG KFT	Specialist Financing	FULL	79.82	79.82	100	100
	(5) MKB-EUROLEASING AUTOPARK KERESKEDELMI ES SZOLGALTATO ZARTKORUEN MUKODO RESZVENYTARSASAG	Specialist Financing	FULL	0	79.82	0	100
	(3) SG EQUIPMENT FINANCE HUNGARY ZRT	Specialist Financing	EFS	0	100	0	100
	(3) SG EQUIPMENT LEASING HUNGARY LTD	Specialist Financing	EFS	0	100	0	100
Jersey Island							
	ELMFORD LIMITED	Services	FULL	100	100	100	100
	HANOM I LIMITED	Financial Company	FULL	100	100	100	100
	HANOM II LIMITED	Financial Company	FULL	100	100	100	100
	HANOM III LIMITED	Financial Company	FULL	100	100	100	100
	JD CORPORATE SERVICES LIMITED	Services	FULL	100	100	100	100
	KLEINWORT BENSON CUSTODIAN SERVICES LIMITED	Bank	FULL	100	100	100	100
	(7) LYXOR MASTER FUND	Financial Company	FULL	100	100	100	100
	NEWMEAD TRUSTEES LIMITED	Financial Company	FULL	100	100	100	100
	SG HAMBROS (FOUNDATIONS) LTD	Financial Company	FULL	100	100	100	100
	SG HAMBROS NOMINEES (JERSEY) LTD	Financial Company	FULL	100	100	100	100
	SG KLEINWORT HAMBROS BANK (CI) LIMITED	Bank	FULL	100	100	100	100
	SG KLEINWORT HAMBROS CORPORATE SERVICES (CI) LIMITED	Portfolio Management	FULL	100	100	100	100
	SG KLEINWORT HAMBROS TRUST COMPANY (CI) LIMITED	Financial Company	FULL	100	100	100	100
	SGKH TRUSTEES (CI) LIMITED	Services	FULL	100	100	100	100
	SOLENTIS INVESTMENT SOLUTIONS PCC	Financial Company	FULL	100	100	100	100
Isle of Man							
	KBBIOM LIMITED	Bank	FULL	50	50	50	50
	KBTIOM LIMITED	Bank	FULL	100	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Guernsey Island							
		ARAMIS II SECURITIES CO. LTD	Financial Company	FULL	100	100	100
		CDS INTERNATIONAL LIMITED	Services	FULL	100	100	100
		GRANGE NOMINEES LIMITED	Bank	FULL	100	100	100
		GUERNSEY FINANCIAL ADVISORY SERVICES LIMITED	Bank	FULL	100	100	100
		GUERNSEY NOMINEES LIMITED	Bank	FULL	100	100	100
		HAMBROS (GUERNSEY NOMINEES) LTD	Services	FULL	100	100	100
		HTG LIMITED	Services	FULL	100	100	100
		K.B. (C.I.) NOMINEES LIMITED	Bank	FULL	100	100	100
	(2)	KBII PCC LIMITED	Bank	FULL	0	100	100
		MISON NOMINEES LIMITED	Bank	FULL	100	100	100
	(1)	SG HAMBROS BANK (CHANNEL ISLANDS) LTD GUERNSEY BRANCH	Bank	FULL	100	100	100
Cayman Islands							
		AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	FULL	100	100	100
	(2)	BRIDGEVIEW II LIMITED	Specialist Financing	FULL	0	100	100
		SOCIETE GENERALE (NORTH PACIFIC) LTD	Bank	FULL	100	100	100
British Virgin Islands							
		TSG HOLDINGS LTD	Services	FULL	100	100	100
		TSG MANAGEMENT LTD	Services	FULL	100	100	100
		TSG SERVICES LTD	Services	FULL	100	100	100
India							
		ALD AUTOMOTIVE PRIVATE LIMITED	Specialist Financing	FULL	79.82	79.82	100
	(1)	SG MUMBAI	Bank	FULL	100	100	100
		SOCIETE GENERALE GLOBAL SOLUTION CENTRE PRIVATE	Services	FULL	100	100	100
		SOCIETE GENERALE SECURITIES INDIA PRIVATE LIMITED	Broker	FULL	100	100	100
Ireland							
		ALD RE DESIGNATED ACTIVITY COMPANY	Insurance	FULL	79.82	79.82	100
		INORA LIFE LTD	Insurance	FULL	100	100	100
		IRIS II SPV DESIGNATED ACTIVITY COMPANY	Financial Company	FULL	100	100	100
		MERRION FLEET FINANCE LIMITED	Financial Company	FULL	79.82	79.82	100
		MERRION FLEET MANAGEMENT LIMITED	Specialist Financing	FULL	79.82	79.82	100
	(1)	SG DUBLIN	Bank	FULL	100	100	100
		SG KLEINWORT HAMBROS PRIVATE INVESTMENT OFFICE SERVICES LIMITED	Bank	FULL	100	100	100
		SGBT FINANCE IRELAND DESIGNATED ACTIVITY COMPANY	Specialist Financing	FULL	100	100	100
		SGSS (IRELAND) LIMITED	Financial Company	FULL	100	100	100
		SOCIETE GENERALE HEDGING DESIGNATED ACTIVITY COMPANY	Financial Company	FULL	100	100	100
Italy							
		ALD AUTOMOTIVE ITALIA S.R.L	Specialist Financing	FULL	79.82	79.82	100
		FIDITALIA S.P.A	Specialist Financing	FULL	100	100	100
		FRAER LEASING SPA	Specialist Financing	FULL	73.85	73.85	73.85
		SG EQUIPMENT FINANCE ITALY S.P.A.	Specialist Financing	FULL	100	100	100
		SG FACTORING SPA	Specialist Financing	FULL	100	100	100
		SG LEASING SPA	Specialist Financing	FULL	100	100	100
	(1)	SG MILAN	Bank	FULL	100	100	100
	(1)	SOCECAP SA RAPPRESENTANZA GENERALE PER L'ITALIA	Insurance	FULL	100	100	100
		SOCIETE GENERALE SECURITIES SERVICES S.P.A.	Bank	FULL	100	100	100
	(1)	SOGESSUR SA	Insurance	FULL	100	100	100
Japan							
		LYXOR ASSET MANAGEMENT JAPAN CO LTD	Portfolio Management	FULL	100	100	100
	(1)	SG TOKYO	Bank	FULL	100	100	100
	(1)	SOCIETE GENERALE (NORTH PACIFIC) LTD. TOKYO BRANCH	Bank	FULL	100	100	100
		SOCIETE GENERALE SECURITIES JAPAN LIMITED	Broker	FULL	100	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest		
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017	
Latvia							
	ALD AUTOMOTIVE SIA	Specialist Financing	FULL	59.86	59.86	75	75
Lebanon							
	SG DE BANQUE AU LIBAN	Bank	ESI	16.79	16.79	16.85	16.85
Lithuania							
	UAB ALD AUTOMOTIVE	Specialist Financing	FULL	59.86	59.86	75	75
Luxembourg							
(2)	ALD INTERNATIONAL SERVICES S.A.	Specialist Financing	FULL	79.82	79.82	100	100
	AXA IM FIIS US SH.DUR.HIGH YIELD A DIS H	Specialist Financing	FULL	50.58	38	50.58	38
	AXUS LUXEMBOURG SA	Specialist Financing	FULL	79.82	79.82	100	100
	BARTON CAPITAL SA	Financial Company	FULL	100	100	100	100
	CHABON SA	Financial Company	FULL	0	100	0	100
	CODEIS COMPARTIMENT A0076	Financial Company	FULL	100	100	100	100
	CODEIS SECURITIES S.A.	Financial Company	FULL	100	100	100	100
	COVALBA	Financial Company	FULL	100	100	100	100
	G FINANCE LUXEMBOURG SA	Financial Company	FULL	100	100	100	100
	IVEFI S.A.	Financial Company	FULL	100	100	100	100
	LX FINANZ S.A.R.L.	Financial Company	FULL	100	100	100	100
	PIONEER INVESTMENTS DIVERSIFIED LOANS FUND	Specialist Financing	FULL	100	100	100	100
	RED & BLACK AUTO LEASE GERMANY 2 S.A.	Financial Company	FULL	79.82	79.82	100	100
	SG ISSUER	Financial Company	FULL	100	100	100	100
	SGBT ASSET BASED FUNDING SA	Financial Company	FULL	100	100	100	100
	SGBTCI	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE BANK & TRUST	Bank	FULL	100	100	100	100
	SOCIETE GENERALE CAPITAL MARKET FINANCE	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE FINANCING AND DISTRIBUTION	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE LDG	Bank	FULL	0	100	0	100
	SOCIETE GENERALE LIFE INSURANCE BROKER SA	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE PRIVATE WEALTH MANAGEMENT S.A.	Financial Company	FULL	100	100	100	100
	SOCIETE GENERALE RE SA	Insurance	FULL	100	100	100	100
	SOCIETE IMMOBILIERE DE L'ARSENAL	Group Real Estate Management Company	FULL	100	100	100	100
		SOGELIFE	Insurance	FULL	100	100	100
Macedonia							
	OHRIDSKA BANKA AD SKOPJE	Bank	FULL	74.53	70.02	75.38	70.96
Madagascar							
	BANKY FAMPANDROSOANA VAROTRA SG	Bank	FULL	70	70	70	70
Malta							
	LNG MALTA INVESTMENT 1 LIMITED	Financial Company	FULL	100	100	100	100
	LNG MALTA INVESTMENT 2 LIMITED	Financial Company	FULL	100	100	100	100
Morocco							
	ALD AUTOMOTIVE SA MAROC	Specialist Financing	FULL	36.57	36.56	50	50
	ATHENA COURTAGE	Insurance	FULL	58.45	58.41	99.93	99.93
	FONCIMMO	Group Real Estate Management Company	FULL	57.57	57.53	100	100
	LA MAROCAINE VIE	Insurance	FULL	89.03	89.02	99.98	99.98
	SG MAROCAINE DE BANQUES	Bank	FULL	57.57	57.53	57.57	57.53
	SOCIETE D' EQUIPEMENT DOMESTIQUE ET MENAGER EQDOM	Specialist Financing	FULL	30.93	45.75	53.72	53.72
	SOCIETE GENERALE DE LEASING AU MAROC	Specialist Financing	FULL	57.57	57.53	100	100
	SOCIETE GENERALE OFFSHORE	Financial Company	FULL	57.5	57.46	99.88	99.88
	SOGECAPITAL GESTION	Financial Company	FULL	57.53	57.49	99.94	99.94
	SOGECAPITAL PLACEMENT	Portfolio Management	FULL	57.55	57.5	99.96	99.96
	SOGEFINANCEMENT MAROC	Specialist Financing	FULL	57.57	57.53	100	100

Country	Activity	Method*	Group ownership interest		Group voting interest	
			At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
<b>Mauritius</b>						
	SG SECURITIES BROKING (M) LIMITED	Broker	FULL	100	100	100
<b>Mexico</b>						
	ALD AUTOMOTIVE S.A. DE C.V.	Specialist Financing	FULL	79.82	79.82	100
	ALD FLEET SA DE CV SOFOM ENR	Specialist Financing	FULL	79.82	79.82	100
	SGFP MEXICO. S.A. DE C.V.	Financial Company	FULL	99.98	100	100
<b>Moldavia</b>						
	MOBIASBANCA GROUPE SOCIETE GENERALE	Bank	FULL	79.93	79.93	87.9
<b>Monaco</b>						
	(1) CREDIT DU NORD - MONACO	Bank	FULL	100	100	100
	(1) SMC MONACO	Bank	FULL	100	100	100
	(1) SOCIÉTÉ GÉNÉRALE (SUCCURSALE MONACO)	Bank	FULL	100	100	100
	SOCIETE GENERALE PRIVATE BANKING (MONACO)	Bank	FULL	100	100	100
<b>Montenegro</b>						
	SOCIETE GENERALE BANKA MONTENEGRO A.D.	Bank	FULL	90.56	90.56	90.56
<b>Norway</b>						
	ALD AUTOMOTIVE AS	Specialist Financing	FULL	79.82	79.82	100
	NF FLEET AS	Specialist Financing	FULL	63.85	63.85	80
	SG FINANS AS	Specialist Financing	FULL	100	100	100
<b>New Caledonia</b>						
	CREDICAL	Specialist Financing	FULL	87.07	87.07	96.64
	SOCIETE GENERALE CALEDONNIENNE DE BANQUE	Bank	FULL	90.1	90.1	90.1
<b>Netherlands</b>						
	ALVARENGA INVESTMENTS B.V.	Specialist Financing	FULL	100	100	100
	ASTEROLD B.V.	Financial Company	FULL	100	100	100
	AXUS FINANCE NL B.V.	Specialist Financing	FULL	79.82	79.82	100
	AXUS NEDERLAND BV	Specialist Financing	FULL	79.82	79.82	100
	BRIGANTIA INVESTMENTS B.V.	Financial Company	FULL	100	100	100
	COPARER HOLDING	Group Real Estate Management Company	FULL	100	100	100
	HERFSTTAFEL INVESTMENTS B.V.	Specialist Financing	FULL	100	100	100
	HORDLE FINANCE B.V.	Financial Company	FULL	100	100	100
	MONTALIS INVESTMENT BV	Specialist Financing	FULL	100	100	100
	(1) SG AMSTERDAM	Bank	FULL	100	100	100
	SG EQUIPMENT FINANCE BENELUX BV	Specialist Financing	FULL	100	100	100
	SOGLEASE B.V.	Specialist Financing	FULL	100	100	100
	SOGLEASE FILMS	Specialist Financing	FULL	100	100	100
	TYNEVOR B.V.	Financial Company	FULL	100	100	100
<b>The Philippines</b>						
	(1)(2) SOCIETE GENERALE MANILA OFFSHORE BRANCH	Bank	FULL	0	100	0
<b>Poland</b>						
	ALD AUTOMOTIVE POLSKA SP Z O.O.	Specialist Financing	FULL	79.82	79.82	100
	EURO BANK S.A.	Bank	FULL	99.99	99.99	99.99
	PEMA POLSKA SP.Z O.O.	Services	FULL	100	100	100
	SG EQUIPMENT LEASING POLSKA SP Z.O.O.	Specialist Financing	FULL	100	100	100
	(1) SOCIETE GENERALE S.A. ODDZIAL W POLSCE	Bank	FULL	100	100	100
	(1)(5) SOGECAP RISQUES DIVERS SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	0	100	0
	(1) SOGECAP SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	100	100	100
	(1)(6) SOGESSUR SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	100	0	0
	BANQUE DE POLYNESIE	Bank	FULL	72.1	72.1	72.1
	SOGLEASE BDP SAS	Specialist Financing	FULL	72.1	72.1	100



Country		Activity	Method*	Group ownership interest		Group voting interest		
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017	
Portugal		SGALD AUTOMOTIVE SOCIEDADE GERAL DE COMERCIO E ALUGUER DE BENZ SA	Specialist Financing	FULL	79.82	79.82	100	100
Czech Republic								
		ALD AUTOMOTIVE SRO	Specialist Financing	FULL	79.82	79.82	100	100
		CATAPS	Services	ESI	0.61	12.15	40	20
		ESSEX SRO	Specialist Financing	FULL	80	80	100	100
		FACTORING KB	Financial Company	FULL	60.73	60.73	100	100
		KB PENZIJNI SPOLECNOST. A.S.	Financial Company	FULL	60.73	60.73	100	100
		KB REAL ESTATE	Real Estate and Real Estate Financing	FULL	60.73	60.73	100	100
		KOMERCNI BANKA A.S	Bank	FULL	60.73	60.73	60.73	60.73
		KOMERCNI POJISTOVNA A.S	Insurance	FULL	80.76	80.76	100	100
		MODRA PYRAMIDA STAVEBNI SPORITELNA AS	Financial Company	FULL	60.73	60.73	100	100
		PEMA PRAHA SPOL. S.R.O.	Specialist Financing	FULL	100	100	100	100
		PROTOS	Financial Company	FULL	60.73	60.73	100	100
(5)		PSA FINANCE CESKA REPUBLIKA SRO	Specialist Financing	FULL	0	80	0	100
		SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O.	Specialist Financing	FULL	80.33	80.33	100	100
		SOGEPROM CESKA REPUBLIKA S.R.O.	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM MICHLE S.R.O.	Real Estate and Real Estate Financing	FULL	100	100	100	100
		STD2. A.S.	Group Real Estate Management Company	FULL	60.73	60.73	100	100
		VN 42	Real Estate and Real Estate Financing	FULL	60.73	60.73	100	100
Romania								
		ALD AUTOMOTIVE SRL	Specialist Financing	FULL	75.89	75.89	100	100
		BRD - GROUPE SOCIETE GENERALE SA	Bank	FULL	60.17	60.17	60.17	60.17
		BRD ASSET MANAGEMENT SAI SA	Portfolio Management	FULL	60.15	60.15	99.97	99.97
		BRD FINANCE IFN S.A.	Financial Company	FULL	80.48	80.48	100	100
		S.C. BRD SOGELEASE IFN S.A.	Specialist Financing	FULL	60.17	60.17	100	100
		S.C. ROGARIU IMOBILIARE S.R.L.	Real Estate and Real Estate Financing	FULL	75	75	75	75
		SOCIETE GENERALE EUROPEAN BUSINESS SERVICES S.A.	Services	FULL	100	100	100	100
		SOGEPROM ROMANIA SRL	Real Estate and Real Estate Financing	FULL	100	100	100	100
(1)(6)		SOGESSUR S.A PARIS - SUCURSALA BUCURESTI	Insurance	FULL	100	0	100	0
United Kingdom								
		ACR	Financial Company	FULL	100	100	100	100
		ALD AUTOMOTIVE GROUP LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
		ALD AUTOMOTIVE LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
		ALD FUNDING LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
(1)(2)		BRIDGEVIEW II LIMITED (UK BRANCH)	Specialist Financing	FULL	0	100	0	100
(1)		BRIGANTIA INVESTMENTS B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100
(1)		DESCARTES TRADING LONDON BRANCH	Financial Company	FULL	100	100	100	100
		FENCHURCH NOMINEES LIMITED	Bank	FULL	100	100	100	100
		FRANK NOMINEES LIMITED	Bank	FULL	100	100	100	100
(1)		HORDLE FINANCE B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest		
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017	
	(8)	JWB LEASE HOLDINGS LIMITED	Specialist Financing	FULL	100	100	100	100
		JWB LEASING LIMITED PARTNERSHIP	Specialist Financing	FULL	100	100	100	100
		KBIM STANDBY NOMINEES LIMITED	Bank	FULL	100	100	100	100
		KBPB NOMINEES LIMITED	Bank	FULL	100	100	100	100
		KH COMPANY SECRETARIES LIMITED	Bank	FULL	100	100	100	100
		KLEINWORT BENSON FARMLAND TRUST (MANAGERS) LIMITED	Bank	FULL	75	75	75	75
		LANGBOURN NOMINEES LIMITED	Bank	FULL	100	100	100	100
		LYXOR ASSET MANAGEMENT UK LLP	Financial Company	FULL	100	100	100	100
		MAGPIE ROSE LIMITED	Bank	FULL	100	100	100	100
		PICO WESTWOOD LIMITED	Bank	FULL	100	100	100	100
		ROBERT BENSON. LONSDALE & CO (CANADA) LIMITED	Bank	FULL	100	100	100	100
		SAINT MELROSE LIMITED	Bank	FULL	100	100	100	100
		SG (MARITIME) LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
		SG EQUIPMENT FINANCE (DECEMBER) LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE OPERATING LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE RENTAL LIMITED	Specialist Financing	FULL	100	100	100	100
		SG FINANCIAL SERVICES LIMITED	Financial Company	FULL	100	100	100	100
		SG HAMBROS (LONDON) NOMINEES LIMITED	Financial Company	FULL	100	100	100	100
		SG HAMBROS TRUST COMPANY LTD	Financial Company	FULL	100	100	100	100
		SG HEALTHCARE BENEFITS TRUSTEE COMPANY LIMITED	Financial Company	FULL	100	100	100	100
		SG INVESTMENT LIMITED	Financial Company	FULL	100	100	100	100
		SG KLEINWORT HAMBROS BANK LIMITED	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS LIMITED	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS TRUST COMPANY (UK) LIMITED	Bank	FULL	100	100	100	100
		SG LEASING (ASSETS) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (CENTRAL 1) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (CENTRAL 3) LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG LEASING (DECEMBER) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (GEMS) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (JUNE) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (MARCH) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (USD) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (UTILITIES) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING IX	Specialist Financing	FULL	100	100	100	100
	(2)	SG LEASING XII	Specialist Financing	FULL	0	100	0	100
	(1)	SG LONDRES	Bank	FULL	100	100	100	100
		SGFLD LIMITED	Financial Company	FULL	100	100	100	100
		SOCGEN NOMINEES (UK) LIMITED	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE EQUIPMENT FINANCE LIMITED	Specialist Financing	FULL	100	100	100	100
		SOCIETE GENERALE INTERNATIONAL LIMITED	Broker	FULL	100	100	100	100
		SOCIETE GENERALE INVESTMENTS (U.K.) LIMITED	Financial Company	FULL	100	100	100	100
	-2	SOCIETE GENERALE SECURITIES SERVICES UK LIMITED	Broker	FULL	0	100	0	100
		STRABUL NOMINEES LIMITED	Financial Company	FULL	100	100	100	100
	(8)	TALOS HOLDING LTD	Financial Company	FULL	100	100	100	100
	(8)	TALOS SECURITIES LTD	Broker	FULL	100	100	100	100
		TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	FULL	100	100	100	100
	(2)	THE EIFFEL LIMITED PARTNERSHIP	Specialist Financing	FULL	0	100	0	100
	(2)	THE FENCHURCH PARTNERSHIP (EFFECTIVE 11.08.2003)	Financial Company	FULL	0	100	0	100
	(1)	TYNEVOR B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100

Country		Activity	Method*	Group ownership interest		Group voting interest	
				At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Russian Federation							
	ALD AUTOMOTIVE OOO	Specialist Financing	FULL	79.82	79.82	100	100
	CLOSED JOINT STOCK COMPANY SG FINANCE	Specialist Financing	FULL	99.95	99.95	100	100
	COMMERCIAL BANK DELTACREDIT JOINT STOCK COMPANY	Bank	FULL	99.95	99.95	100	100
	CREDIT INSTITUTION OBYEDINYONNAYA RASCHOTNAYA SISTEMA	Financial Company	FULL	99.95	99.95	100	100
	JSC TELSICOM	Services	FULL	99.95	99.95	100	100
	LLC RUSFINANCE	Bank	FULL	99.95	99.95	100	100
	LLC RUSFINANCE BANK	Bank	FULL	99.95	99.95	100	100
	PJSC ROSBANK	Bank	FULL	99.95	99.95	99.95	99.95
	RB FACTORING LLC	Specialist Financing	FULL	99.95	99.95	100	100
	RB LEASING LLC	Specialist Financing	FULL	99.95	99.95	100	100
	RB SERVICE LLC	Group Real Estate Management Company	FULL	99.95	99.95	100	100
	RB SPECIALIZED DEPOSITARY LLC	Financial Company	FULL	99.95	99.95	100	100
	SG STRAKHOVANIE LLC	Insurance	FULL	99.99	99.99	100	100
	SOCIETE GENERALE STRAKHOVANIE ZHIZNI LLC	Insurance	FULL	99.99	99.99	100	100
(2)	SOSNOVKA LLC	Group Real Estate Management Company	FULL	0	99.95	0	100
Senegal							
	SOCIETE GENERALE DE BANQUES AU SENEGAL	Bank	FULL	64.45	64.45	64.87	64.87
Serbia							
	ALD AUTOMOTIVE D.O.O BEOGRAD	Specialist Financing	FULL	79.82	79.82	100	100
	SOCIETE GENERALE BANKA SRBIJA A.D. BEOGRAD	Bank	FULL	100	100	100	100
	SOGLEASE SRBIJA D.O.O.	Specialist Financing	FULL	100	100	100	100
Singapore							
	SG MARKETS (SEA) PTE. LTD.	Broker	FULL	100	100	100	100
	SG SECURITIES (SINGAPORE) PTE. LTD.	Broker	FULL	100	100	100	100
(1)	SG SINGAPOUR	Bank	FULL	100	100	100	100
	SG TRUST (ASIA) LTD	Financial Company	FULL	100	100	100	100
Slovakia							
	ALD AUTOMOTIVE SLOVAKIA S.R.O.	Specialist Financing	FULL	79.82	79.82	100	100
	ESOX FINANCE S.R.O	Specialist Financing	FULL	80	80	100	100
(1)	KOMERCNI BANKA BRATISLAVA	Bank	FULL	60.73	60.73	100	100
	PEMA SLOVAKIA SPOL.S.R.O.	Specialist Financing	FULL	100	100	100	100
(1)	SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O. ORGANIZACNA ZLOZKA (SLOVAK RUPUBLIC BRANCH)	Specialist Financing	FULL	80.33	80.33	100	100
Slovenia							
	ALD AUTOMOTIVE OPERATIONAL LEASING DOO	Specialist Financing	FULL	79.82	79.82	100	100
	SKB LEASING D.O.O.	Specialist Financing	FULL	99.73	99.73	100	100
	SKB BANKA D.D. LJUBLJANA	Bank	FULL	99.73	99.73	99.73	99.73
	SKB LEASING SELECT D.O.O.	Specialist Financing	FULL	99.73	99.73	100	100
Sweden							
	ALD AUTOMOTIVE AB	Specialist Financing	FULL	79.82	79.82	100	100
	NF FLEET AB	Specialist Financing	FULL	63.85	63.85	80	80
	PEMA TRUCK- OCH TRAILERUTHYRNING AB	Specialist Financing	FULL	100	100	100	100
(1)	SG FINANS AS SWEDISH BRANCH	Specialist Financing	FULL	100	100	100	100
(1)	SOCIETE GENERALE SA BANKFILIAL SVERIGE	Bank	FULL	100	100	100	100

				Group ownership interest		Group voting interest	
Country		Activity	Method*	At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Switzerland							
	ALD AUTOMOTIVE AG	Specialist Financing	FULL	79.82	79.82	100	100
	PEMA TRUCK- UND TRAILERVERMIETUNG GMBH	Specialist Financing	FULL	100	100	100	100
(8)	ROSBANK (SWITZERLAND)	Bank	FULL	99.95	99.95	100	100
	SG EQUIPMENT FINANCE SCHWEIZ AG	Specialist Financing	FULL	100	100	100	100
(1)	SG ZURICH	Bank	FULL	100	100	100	100
	SOCIETE GENERALE PRIVATE BANKING (SUISSE) S.A.	Bank	FULL	100	100	100	100
Taiwan							
(1)	SG SECURITIES (HONG KONG) LIMITED TAIPEI BRANCH	Broker	FULL	100	100	100	100
(1)	SG TAIPEI	Bank	FULL	100	100	100	100
Chad							
	SOCIETE GENERALE TCHAD	Bank	FULL	56.86	56.86	67.83	67.83
Thailand							
	SOCIETE GENERALE SECURITIES (THAILAND) LTD.	Broker	FULL	100	100	100	100
Togo							
(1)	SOCIETE GENERALE TOGO	Bank	FULL	89.64	89.64	100	100
Tunisia							
	UNION INTERNATIONALE DE BANQUES	Bank	FULL	55.1	55.1	52.34	52.34
Turkey							
	ALD AUTOMOTIVE TURIZM TICARET ANONIM SIRKETI	Specialist Financing	FULL	79.82	79.82	100	100
(1)	SG ISTANBUL	Bank	FULL	100	100	100	100
Ukraine							
	ALD AUTOMOTIVE UKRAINE LIMITED LIABILITY COMPANY	Specialist Financing	FULL	79.82	79.82	100	100

\* FULL: Full consolidation - JO: Joint Operation - EJ: Equity (Joint Venture) - ESI: Equity (significant influence) - EFS: Equity For Simplification (Entities controlled by the Group that are consolidated using the equity method for simplification due to their limited materiality).

(1) Branches.

(2) Entities wound up in 2018.

(3) Removal from the scope in 2018.

(4) Entities sold in 2018.

(5) Merged in 2018.

(6) Newly consolidated in 2018.

(7) Including 48 funds.

(8) Wind up in process.

Additional information related to the consolidation scope and equity investments as required by the regulation 2016-09 of the "Autorité des Normes Comptables" (ANC, the French Accounting standard setter), dated 2 December 2016 is available on the Societe Generale Group website at:

<https://www.societegenerale.com/en/investors/>

**NOTE 8.7 FEES PAID TO STATUTORY AUDITORS**

The consolidated financial statements of Societe Generale Group are certified jointly by Ernst & Young et Autres represented by Mr. Micha Missakian, on the one hand; and Deloitte et Associés represented by Mr. Jean-Marc Mickeler, on the other hand.

On the proposal of the Board of Directors and following the recommendation of the Audit and Internal Control Committee of Societe Generale (CACI), the Annual General Meeting held on 23 May 2018 renewed the mandates of Ernst & Young et Autres and Deloitte et Associés for six years.

Further to the publication of the European regulation on the audit reform, a new approval policy of the non-audit services of statutory auditors ("SACC") and their network was set up by the CACI to verify its

compliance in relation to the new regulation before to the launch of the mission.

A synthesis of the SACC (approved or refused) is presented to every session of the CACI.

In addition, a report on the fees according to type of mission (audit or non-audit) is submitted each year to the CACI.

Lastly, the Finance Departments of the entities and business units annually appraise the quality of the audits performed by Deloitte et Associés and Ernst & Young et Autres. The conclusions of this survey are presented to the CACI.

**AMOUNTS OF STATUTORY AUDITORS' FEES PRESENTED IN THE INCOME STATEMENT**

		Ernst & Young et Autres		Deloitte et Associés		TOTAL	
		2018 <sup>(1)</sup>	2017	2018 <sup>(2)</sup>	2017	2018	2017
<i>(In millions of euros excl. VAT)</i>							
Statutory audit. certification. examination of parent company and consolidated accounts	Issuer	4	7	7	9	11	16
	Fully consolidated subsidiaries	16	17	12	14	28	31
<b>SUB-TOTAL AUDIT</b>		<b>20</b>	<b>24</b>	<b>19</b>	<b>23</b>	<b>39</b>	<b>47</b>
Non-audit services (SACC)	Issuer	2	1	1	1	3	2
	Fully consolidated subsidiaries	1	1	2	1	3	2
<b>TOTAL</b>		<b>23</b>	<b>26</b>	<b>22</b>	<b>25</b>	<b>45</b>	<b>51</b>

(1) Including Ernst and Young network: EUR 14 million

(2) Including Deloitte network: EUR 11 million

The non-audit services provided by statutory auditors this year mainly consisted of missions of compliance review with regard to the regulatory requirements, missions of internal control within the framework of respect of ISAE standards (International Standard on Assurance Engagement), agreed upon procedures or complementary

audits within the scope of issuing of certificates or RSE report (RSE: environmental and social responsibility) and then audit assignments within the framework of project of acquisitions. They include also non-audit services expressly and exclusively entrusted to the statutory auditors for EUR 1.5 million.

**NOTE 8.8 Accounting principles applied up to 31 december 2017 to financial instruments****ACCOUNTING PRINCIPLES**

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

**Classification of financial instruments**

When initially recognised, financial instruments are presented in the balance sheet under categories that determine their accounting treatment and their subsequent valuation method. This classification depends on the type of financial instrument and the purpose of the transaction.

Financial assets are classified into one of the following four categories:

- *Financial assets at fair value through profit or loss*: these are financial assets held for trading purposes which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- *Loans and receivables*: these include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired and not designated upon initial recognition to be carried at fair value through profit or loss (in accordance with the fair value option). They are measured at amortised cost and impairment determined on an individual or a collective basis may be recorded if appropriate;
- *Held-to-maturity financial assets*: these are non-derivative financial assets with fixed or determinable payments and a fixed maturity that are quoted in an active market and which the Group has the intention and ability to hold to maturity. They are measured at their amortised cost and may be subject to impairment as appropriate. Amortised cost includes premiums and discounts as well as transaction costs;
- *Available-for-sale financial assets*: these are non-derivative financial assets held for an indeterminate period which the Group may sell at any time. By default, they are any assets that do not fall into one of the above three categories. These instruments are measured at fair value against *Unrealised or deferred gains and losses*. Interest accrued or paid on debt securities is recognised in the income statement using the effective interest rate method while dividend income earned on equity securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

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

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

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

**Reclassification of financial assets**

After their initial recognition, financial assets may not be later reclassified as *Financial assets at fair value through profit or loss*.

A non-derivative financial asset initially recognised as an asset held for trading purposes under *Financial assets at fair value through profit or loss* may be reclassified out of this category when it meets the following conditions:

- if a financial asset with fixed or determinable payments initially held for trading purposes can no longer, after acquisition, be quoted in an active market and the Group has the intention and ability to hold it for the foreseeable future or until maturity then this financial asset may be reclassified as *Loans and receivables*, provided that the eligibility criteria for this category are met at the date of transfer;
- if rare circumstances generate a change in the holding purpose of non-derivative financial assets initially held for trading, then these assets may be reclassified as *Available-for-sale financial assets* or as *Held-to-maturity financial assets* provided that the eligibility criteria for the category in question are met at the date of transfer.

In any case financial derivatives and financial assets measured using the fair value option may not be reclassified out of *Financial assets at fair value through profit or loss*. A financial asset initially recognised under *Available-for-sale financial assets* may be reclassified to *Held-to-maturity financial assets* provided that the eligibility criteria for this category are met. Furthermore, if a financial asset with fixed or determinable payments initially recognised under *Available-for-sale financial assets* can subsequently no longer be quoted in an active market and if the Group has the intention and ability to hold it for the foreseeable future or until maturity then this financial asset may be reclassified to *Loans and receivables* provided that the eligibility criteria for this category are met at the date of transfer.

These reclassified financial assets are transferred to their new category at their fair value at the date of reclassification and are subsequently measured according to the rules that apply to the new category. The amortised cost of financial assets reclassified out of *Financial assets at fair value through profit or loss* or *Available-for-sale financial assets* to *Loans and receivables* and the amortised cost of financial assets reclassified out of *Financial assets at fair value through profit or loss* to *Available-for-sale financial assets* are determined on the basis of estimated future cash flows measured at the date of reclassification. The estimated future cash flows must be reviewed at each closing date. In the event of an increase in estimated future cash flows resulting from an increase in their recoverability the effective interest rate is adjusted prospectively. However, if there is objective evidence that the financial asset has been impaired as a result of an event occurring after reclassification and the loss event in question has a negative impact on the estimated future cash flows of the financial asset, the impairment of this financial asset is recognised under *Cost of risk* in the income statement.

### Fair value

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

### Initial recognition

Purchases and sales of financial assets recorded under *Financial assets at fair value through profit or loss*, *Held-to-maturity financial assets* and *Available-for-sale financial assets* are recognised in the balance sheet at the delivery-settlement date. Changes in fair value between the trade and settlement dates are recorded in the income statement or booked to shareholders' equity depending on the accounting category of the relevant financial assets. *Loans and receivables* are recorded in the balance sheet on the date they are paid or at the maturity date for invoiced services.

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

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

### Derecognition of financial assets and liabilities

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

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

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

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

The Group only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

### Derivative financial instruments

First time application of IFRS 9 did not change the accounting principles applicable to derivative financial instruments. Those principles are presented in Note 3.2.

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

These are financial assets held for trading purposes which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

The trading portfolio contains financial assets and liabilities which upon initial recognition are:

- acquired or incurred with the intention of selling or repurchasing them in the short term; or



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

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

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

In addition to financial assets and liabilities held for trading purposes the item *Financial assets and liabilities at fair value through profit or loss* also include non-derivative financial assets and liabilities designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option. Changes in the fair value of these items are recognised through profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss*.

This option is only applied in the following cases:

- when it eliminates or significantly reduces discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid instrument containing one or more embedded derivatives that would otherwise be subject to a separate recognition;
- when a group of financial assets and/or liabilities is managed and its performance is measured on a fair value basis.

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

The Group also recognises the financial assets held to guarantee the unit-linked policies of its life insurance subsidiaries at fair value through profit or loss to ensure that their accounting treatment matches that of the corresponding insurance liabilities. Under IFRS 4, insurance liabilities must be recognised according to local accounting principles. Revaluations of underwriting reserves on unit-linked policies, which are directly linked to revaluations of the financial assets underlying their policies are therefore recognised in the income statement. The fair value option thus allows the Group to record changes in the fair value of the financial assets through profit or loss so that they match fluctuations in value of the insurance liabilities associated with these unit-linked policies.

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

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets held for an indeterminate period which the Group may sell at any time. By default, they are any financial assets that are not classified under *Loans and receivables*, *Financial assets at fair value through profit or loss* or *Held-to-maturity financial assets*.

Interest accrued or paid on fixed-income securities is recognised in the income statement using the effective interest rate method under *Interest and similar income – Transactions in financial instruments*. Dividend income earned on these securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

At the balance sheet date, available-for-sale financial assets are measured at fair value and any changes in fair value excluding income are booked to *Unrealised or deferred capital gains and losses*, except for foreign exchange losses or gains on foreign-currency monetary assets which are taken to the income statement.

If these financial assets are sold, the unrealised gains and losses booked to equity are reclassified as *Net gains and losses on available-for-sale financial assets*.

If, at the balance sheet date, there is objective evidence of impairment of an available-for-sale financial asset arising from one or more events subsequent to its initial recognition, the unrealised loss previously accumulated in equity is reclassified under *Cost of risk* for debt instruments and under *Net gains and losses on available-for-sale financial assets* for equity instruments. The impairment rules applied by the Group are described hereafter.

### Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired and not designated by the Group upon initial recognition to be measured at fair value through profit or loss in accordance with the fair value option.

Loans and receivables are recognised in the balance sheet under *Due from banks* or *Customer loans* depending on the type of counterparty. After their initial recognition, they are measured at amortised cost using the effective interest rate method and impairment determined on an individual or a collective basis may be recorded if appropriate (see of the impairment rules hereafter).



Loans and receivables may be subject to commercial renegotiations provided that the borrowing customer is not experiencing financial difficulties and is not insolvent. Such transactions involve customers whose debt the Group is willing to renegotiate in the interest of maintaining or developing a commercial relationship in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans and receivables are derecognised at the renegotiation date and replaced with the new loans taken out under renegotiated conditions which are recorded on the balance sheet at the same date. These new loans are subsequently measured at amortised cost based on the effective interest rate arising from the new contractual conditions and taking into account the renegotiation fees billed to the customer.

*Customer loans* include lease receivables where they are classified as finance leases. Leases granted by the Group are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Otherwise, they are classified as operating leases (see Notes 4.2 and 8.4).

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

### Debts

The first-time application of IFRS 9 did not change the accounting principles applicable to financial liabilities at amortised cost. Those principles are presented in Note 3.6.

### Recognition of interest income and expense

Interest income and expense are recognised in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured at amortised cost using the effective interest rate method (loans and receivables, debts, held-to-maturity financial assets) and for debt securities classified as *Available-for-sale financial assets*.

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking account of possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest directly linked transaction costs and all types of premiums and discounts.

When a financial asset or group of similar financial assets has been impaired following an impairment of value, subsequent interest income is recorded on the basis of the effective interest rate used to discount the future cash flows when measuring the loss of value.

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

### Impairment of financial assets measured at amortised cost

At each balance sheet date, the Group assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised (a "loss event") and whether that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Notwithstanding the existence of a guarantee, the criteria used to assess objective evidence of credit risk include the following conditions:

- a significant decline in the counterparty's financial situation leads to a high probability of said counterparty being unable to fulfill its overall commitments (credit obligations); hence a risk of loss to the bank;
- concessions are granted to the clauses of the loan agreement in light of the borrower's financial difficulties that would not have been granted in other circumstances;
- one or more over 90-day past-due payments are recorded (with the exception of restructured loans on probation which are considered in default at the first missed payment) and/or a collection procedure is initiated;
- or, regardless of whether or not any past-due payments are recorded, there is objective evidence of impairment or legal proceedings have been initiated (bankruptcy, legal settlement, compulsory liquidation).

The Group applies the impairment contagion principle to all of the defaulting counterparty's outstanding loans. When a debtor belongs to a group all of the group's outstanding loans are generally impaired as well.

If there is objective evidence that loans or other receivables or financial assets classified as *Held-to-maturity financial assets* are impaired, an impairment is recognised for the difference between the carrying amount and the present value of estimated future recoverable cash flows taking into account any guarantees. This discount is calculated using the financial assets' original effective interest rate. The impairment is deducted from the carrying value of the impaired financial asset. Allocations to and reversals of impairments are recorded in the income statement under *Cost of risk*. The impaired loans or receivables are remunerated for accounting purposes by the reversal over time of the discounting to present value which is recorded under *Interest and similar income* in the income statement.

Where there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, be it significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment. In a homogenous portfolio as soon as a credit risk is incurred on a group of financial instruments, impairment is recognised without waiting for the risk to individually affect one or more receivables.

Homogeneous portfolios thus impaired can include:

- receivables on counterparties which have encountered financial difficulties since these receivables were initially recognised without any objective evidence of impairment having yet been identified at the individual level (sensitive receivables); or
- receivables on counterparties linked to economic sectors considered as being in crisis further to the occurrence of loss events; or
- receivables on geographical sectors or countries in which a deterioration of credit risk has been assessed.

The amount of impairment on a group of homogeneous assets is calculated on the basis of assumptions on default rates and loss given default or, if necessary, on the basis of *ad hoc* studies. These assumptions are calibrated for each homogeneous group based on its specific characteristics, sensitivity to the economic environment and historical data. They are reviewed periodically by the Risk Division and then adjusted to reflect any relevant current economic conditions. Allocations to and reversals of such impairment are recorded under *Cost of risk*.

### Restructuring of loans and receivables

When an asset recorded under *Loans and receivables* is restructured, contractual changes are made to the amount, term or financial conditions of the initial transaction approved by the Group due to the financial difficulties or insolvency of the borrower (whether insolvency has already occurred or will definitely occur unless the debt is restructured) and these changes would not have been considered in other circumstances.

Restructured financial assets are classified as impaired and the borrowers are considered to be in default. These classifications are maintained for at least one year and for as long as any uncertainty remains for the Group as to whether or not the borrowers can meet their commitments.

At the restructuring date, the carrying amount of the restructured financial asset is decreased to the present amount of the estimated new future recoverable cash flows discounted using the initial effective interest rate. This loss is booked to profit or loss under *Cost of risk*.

Restructured financial assets do not include loans and receivables subject to commercial renegotiations and involving customers whose debt the Group has agreed to renegotiate in the interest of maintaining or developing a commercial relationship in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

### Impairment of Available-for-sale financial assets

An available-for-sale financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of this asset.

For listed equity instruments, a significant or prolonged decline in their price below their acquisition cost constitutes objective evidence of impairment. For this purpose, the Group considers as impaired listed shares showing an unrealised loss greater than 50% of their acquisition price on the balance sheet date as well as listed shares for which the quoted prices have been below their acquisition price on every trading day for at least the last 24 months before the balance sheet date. Further factors, such as the financial situation of the issuer or its development outlook can lead the Group to consider that the cost of its investment may not be recovered even if the above-mentioned criteria are not met. An impairment loss is then recorded through profit or loss equal to the difference between the last quoted price of the security on the balance sheet date and its acquisition price.

For unlisted equity instruments, the criteria used to assess the evidence of impairment are identical to those mentioned above. The value of these instruments at the balance sheet date is determined using the valuation methods described in Note 3.4.

The criteria for the impairment of debt instruments are similar to those for the impairment of financial assets measured at amortised cost.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in shareholders' equity under *Unrealised or deferred gains and losses* and subsequent objective evidence of impairment emerges, the Group recognises the total accumulated unrealised loss previously recorded in shareholders' equity in the income statement under *Cost of risk* for debt instruments and under *Net gains and losses on available-for-sale financial assets* for equity securities.

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

Impairment losses recognised through profit or loss on an equity instrument classified as available-for-sale are only reversed through profit or loss when the instrument is sold. Once an equity instrument has been recognised as impaired, any further loss of value is recorded as an additional impairment loss. For debt instruments, however, an impairment loss is reversed through profit or loss if they subsequently recover in value following an improvement in the issuer's credit risk.

**Provision on loan and guarantee commitments**

Provisions for credit risk on loan and guarantee commitments granted by the Group to a third-party may be recorded:

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

The expected outflows are then discounted to present value to determine the amount of the provision where this discounting has a significant impact. Probable losses incurred by the Group in identifying objective evidence of credit risk related to off-balance sheet loan and guarantee commitments are recorded in the income statement under *Cost of risk* against a provision booked to liabilities.

**NOTE 9 INFORMATION ON RISKS AND LITIGATION**

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange. These provisions for litigations are classified among the “Others provisions” included in the “Provisions” item in the liabilities of the balance-sheet.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

- Beginning in 2006, Societe Generale, along with numerous other banks, financial institutions, and brokers, received requests for information from the US Internal Revenue Service, the Securities and Exchange Commission (“SEC”) and the Antitrust Division of the U.S. Department of Justice (“DOJ”), focused on alleged noncompliance with various laws and regulations relating to the provision to governmental entities of Guaranteed Investment Contracts (“GICs”) and related products in connection with the issuance of tax-exempt municipal bonds. Societe Generale has cooperated with the US authorities. In light of the dormancy of these matters over several years, Societe Generale has determined that they no longer present a material loss contingency risk.
- On 24 October 2012, the Court of Appeal of Paris confirmed the first judgment delivered on 5 October 2010, finding J. Kerviel guilty of breach of trust, fraudulent insertion of data into a computer system, forgery and use of forged documents. J. Kerviel was sentenced to serve a prison sentence of five years, two years of which are suspended, and was ordered to pay EUR 4.9 billion as damages to the bank. On 19 March 2014, the Supreme Court confirmed the criminal liability of J. Kerviel. This decision puts an end to the criminal proceedings. On the civil front, the Versailles Court of Appeal rejected on 23 September 2016 J. Kerviel's request for an expert determination of the damage suffered by Societe Generale, and therefore confirmed that the net accounting losses suffered by the Bank as a result of his criminal conduct amount to EUR 4.9 billion. It also declared J. Kerviel partially responsible for the damage caused to Societe Generale and sentenced him to pay to Societe Generale EUR 1 million. Societe Generale and J. Kerviel did not appeal before the Supreme Court. Societe Generale considers that this decision has no impact on its tax situation. However, as indicated by the Minister of the Economy and Finance

in September 2016, the tax authorities have examined the tax consequences of this book loss and indicated that they intended to call into question the deductibility of the loss caused by the actions of J. Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by an adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In view of the 2011 opinion of the French Supreme Administrative Court (Conseil d'état) and its established case law which was recently confirmed again in this regard, Societe Generale considers that there is no need to provision the corresponding deferred tax assets. In the event that the authorities decide, in due course, to confirm their current position, Societe Generale group will not fail to assert its rights before the competent courts. By a decision handed down on the 20 September 2018, the Investigation Committee of the reviewing and reassessment Criminal Court has furthermore declared inadmissible the request filed in May 2015 by J. Kerviel against his criminal sentence, confirming the absence of any new element or fact that could justify the reopening of the criminal file.

- Between 2003 and 2008, Societe Generale set up gold consignment lines with the Turkish group Goldas. In February 2008, Societe Generale was alerted to a risk of fraud and embezzlement of gold stocks held by Goldas. These suspicions were rapidly confirmed following the failure by Goldas to pay or refund gold worth EUR 466.4 million. Societe Generale brought civil proceedings against its insurers and various Goldas Group entities. Goldas launched various proceedings in Turkey and in the UK against Societe Generale. In the action brought by Societe Generale against Goldas in the UK, Goldas applied to have the action of SG struck-out and applied to the UK court for damages. On 3 April 2017, the UK court granted both applications and will, after an inquiry into damages, rule on the amount due to Goldas, if any. On 15 May 2018, the Court of Appeal discharged entirely the inquiry into damages granted by the High Court to Goldas but rejected Societe Generale's arguments relating to service of the claims issued against Goldas, which are therefore time barred. On 18 December 2018, the Supreme Court refused permission to appeal to both Société Générale and Goldas. On 16 February 2017, the Paris Commercial Court dismissed Societe Generale's claims against its insurers. Societe Generale filed an appeal against this decision.

■ Societe Generale Algeria (“SGA”) and several of its branch managers are being prosecuted for breach of Algerian laws on exchange rates and capital transfers with other countries and on money laundering and the financing of terrorism. The defendants are accused of having failed to make complete or accurate statements to the Algerian authorities on capital transfers in connection with exports or imports made by clients of SGA and on cash payment transactions made at SGA counters. The events were discovered during investigations by the Algerian authorities, which subsequently filed civil claims before the criminal court. Sentences were delivered by the court of appeal against SGA and its employees in some proceedings, while charges were dropped in other ones. To date, fourteen cases have ended in favour of SGA and eleven remain pending, nine of which before the Supreme Court.

■ In the early 2000s, the French banking industry decided to transition to a new digital system in order to streamline cheque clearing. To support this reform (known as EIC – Echange d’Images Chèques), which has contributed to the improvement of cheque payments’ security and to the fight against fraud, the banks established several interbank fees (including the CEIC which was abolished in 2007). These fees were implemented under the aegis of the banking sector supervisory authorities, and to the knowledge of the public authorities.

On 20 September 2010, after several years of investigation, the French competition authority ruled that the joint implementation and the setting of the amount of the CEIC and of two additional fees for related services were in breach of competition law. The authority fined all the participants to the agreement (including the Banque de France) a total of approximately EUR 385 million. Societe Generale was ordered to pay a fine of EUR 53.5 million and Crédit du Nord, its subsidiary, a fine of EUR 7 million. However, in its 23 February 2012 order, the French Court of Appeal, to which the matter was referred by all the banks involved except Banque de France, held that there was no competition law infringement, allowing the banks to recoup the fines paid. On 14 April 2015, the Supreme Court quashed and annulled the Court of Appeal decision on the grounds that the latter did not examine the arguments of two third parties who voluntarily intervened in the proceedings. The case was heard again on 3 and 4 November 2016 by the Paris Court of Appeal before which the case was remanded. On 21 December 2017, the Court of Appeal confirmed the fines imposed on Societe Generale and Crédit du Nord by the French competition authority. On 22 January 2018, Societe Generale and Crédit du Nord filed an appeal before the Supreme court against this decision.

■ Societe Generale Private Banking (Suisse), along with several other financial institutions, has been named as a defendant in a putative class action that is pending in the US District Court for the Northern District of Texas. The plaintiffs seek to represent a class of individuals who were customers of Stanford International Bank Ltd. (“SIBL”), with money on deposit at SIBL and/or holding Certificates of Deposit issued by SIBL as of 16 February 2009. The plaintiffs allege that they suffered losses as a result of fraudulent activity at SIBL and the Stanford Financial Group or related entities, and that the defendants are responsible for those alleged losses. The plaintiffs further seek to recoup payments made through or to the defendants on behalf of SIBL or related entities on the basis that they are alleged to have been fraudulent transfers. The Official Stanford Investors Committee (“OSIC”) was permitted to intervene and filed a complaint against Societe Generale Private Banking (Suisse) and the other defendants seeking similar relief.

The motion by Societe Generale Private Banking (Suisse) to dismiss these claims on grounds of lack of jurisdiction was denied by the court by order filed 5 June 2014. Societe Generale Private Banking

(Suisse) sought reconsideration of the Court’s jurisdictional ruling, which the Court ultimately denied. On 21 April 2015, the Court permitted the substantial majority of the claims brought by the plaintiffs and the OSIC to proceed.

On 7 November 2017, the District Court denied the plaintiffs’ motion for class certification. The plaintiffs sought leave to appeal this decision, which the court of appeal denied on 20 April 2018.

On 22 December 2015, the OSIC filed a motion for partial summary judgment seeking return of a transfer of USD 95 million to Societe Generale Private Banking (Suisse) made in December 2008 (prior to the Stanford insolvency) on the grounds that it is voidable under Texas state law as a fraudulent transfer. Societe Generale Private Banking (Suisse) has opposed this motion.

■ On 4 June 2018, Societe Generale announced that it had reached agreements with (i) the U.S. Department of Justice (“DOJ”) and the U.S. Commodity Futures Trading Commission (“CFTC”) in connection with investigations regarding submissions to the British Bankers Association for setting certain London Interbank Offered Rates and the Euro Interbank Offered Rate (the “IBOR matter”), and (ii) the DOJ and the French *Parquet National Financier* (“PNF”) in connection with investigations regarding certain transactions involving Libyan counterparties, including the Libyan Investment Authority (“LIA”) and the bank’s third-party intermediary (the “Libyan matter”).

On 24 May 2018, Societe Generale entered into a “*Convention Judiciaire d’Intérêt Public*” (“CJIP”) with the PNF, approved by the French court on 4 June 2018, to end its preliminary investigation in respect of the Libyan matter. On 5 June 2018, Societe Generale entered into a three-year deferred prosecution agreement (“DPA”) with the DOJ in respect of the IBOR and Libyan matters. Societe Generale Acceptance N.V. (“SGA”), a subsidiary of Societe Generale dedicated to the issuance of investment products, entered a guilty plea in connection with the resolution of the Libyan matter. Also, on 4 June 2018, Societe Generale consented to an order from the CFTC in respect of the IBOR matter.

As part of the settlements, Societe Generale paid penalties totalling approximately USD 1.3 billion to the DOJ, CFTC, and PNF. These penalties include (i) USD 275 million to the DOJ and USD 475 million to the CFTC in respect of the IBOR matter, and (ii) USD 292.8 million to the DOJ and EUR 250.15 million (USD 292.8 million) to the PNF in relation to the Libyan matter.

In connection with the CJIP, which does not involve a recognition of criminal liability, Societe Generale agreed to have the French Anti-Corruption Agency (Agence Française Anticorruption) assess its anti-corruption programme for two years.

In connection with the DPA, Societe Generale agreed to implement a compliance and ethics program designed to prevent and detect violations of the Foreign Corrupt Practices Act and other applicable anti-corruption laws, anti-fraud and commodities laws throughout the Bank’s operations. These actions are in addition to extensive steps undertaken at Societe Generale’s own initiative to strengthen its global compliance and control framework in order to meet the highest standards of compliance and ethics. No independent compliance monitor has been imposed in connection with the DPA. The charges against Societe Generale will be dismissed if the Bank abides by the terms of the agreement, to which the Bank is fully committed.

Societe Generale received credit from the DOJ, CFTC and PNF for its cooperation with their investigations and the Bank has agreed to continue to cooperate with them pursuant to the settlement agreements.

In connection with the IBOR matter, the Bank continues to defend civil proceedings in the United States (as described below) and to respond to information requests received from other authorities, including the Attorneys General of various States of the United States and the New York Department of Financial Services ("NYDFS").

In the United States, Societe Generale, along with other financial institutions, has been named as a defendant in putative class actions involving the setting of US Dollar Libor, Japanese Yen Libor, and Euribor rates and trading in instruments indexed to those rates. Societe Generale has also been named in several individual (non-class) actions concerning the US Dollar Libor rate. All of these actions are pending in the US District Court in Manhattan (the "District Court").

As to US Dollar Libor, all claims against Societe Generale have been dismissed by the District Court or voluntarily dismissed by the plaintiffs, except in two putative class actions and one individual action that are effectively stayed, and in one individual action in which Societe Generale's motion to dismiss is pending. Certain individual plaintiffs whose claims were dismissed have filed motions for leave to amend their complaints, which Societe Generale has opposed. The class plaintiffs and a number of individual plaintiffs have appealed the dismissal of their antitrust claims to the United States Court of Appeals for the Second Circuit.

As to Japanese Yen Libor, the District Court dismissed the complaint brought by purchasers of Euroyen over-the-counter derivative products and the plaintiffs have appealed that ruling to the United States Court of Appeals for the Second Circuit. In the other action, brought by purchasers or sellers of Euroyen derivative contracts on the Chicago Mercantile Exchange, the District Court has allowed certain Commodity Exchange ("CEA") Act claims to proceed to discovery. The plaintiff's deadline to move for class certification in that action is now 21 August 2019.

As to Euribor, the District Court dismissed all claims against Societe Generale in the putative class action and denied the plaintiffs' motion to file a proposed amended complaint.

In Argentina, Societe Generale, along with other financial institutions, has been named as a defendant in litigation brought by a consumer association on behalf of Argentine consumers who held government bonds or other specified instruments that paid interest tied to US Dollar Libor. The allegations concern violations of Argentine consumer protection law in connection with alleged manipulation of the US Dollar Libor rate. Societe Generale has not yet been served with the complaint in this matter.

- On 10 December 2012, the French Supreme Administrative Court (Conseil d'État) rendered two decisions confirming that the "précompte tax" which used to be levied on corporations in France does not comply with EU law and defined a methodology for the reimbursement of the amounts levied by the tax authorities. However, such methodology considerably reduces the amount to be reimbursed. Societe Generale purchased in 2005 the "précompte tax" claims of two companies (Rhodia and Suez, now ENGIE) with a limited recourse on the selling companies. One of the above decisions of the French Supreme Administrative Court relates to Rhodia. Societe Generale has brought proceedings before the French administrative courts. The latest court decision rendered is a rejection, on 1 February 2016 by the French Administrative Supreme Court, of an appeal lodged by ENGIE and Societe Generale. Several French companies applied to the European Commission, who considered that the decisions handed down by the French Supreme

Administrative Court on 10 December 2012, which was supposed to implement the decision rendered by the Court of Justice of the European Union C-310/09 on 15 September 2011, infringed a number of principles of European law. The European Commission subsequently brought infringement proceedings against the French Republic in November 2014, and since then confirmed its position by publishing a reasoned opinion on 29 April 2016 and by referring the matter to the Court of Justice of the European Union on 8 December 2016. The Court of Justice of European Union rendered its judgement on 4 October 2018 and sentenced France for failure by the the French Supreme Administrative Court to disregard the tax on EU sub-subsidiaries in order to secure the withholding tax paid in error as well as on the absence of any preliminary question. With regard to the practical implementation of the decision, Societe Generale will assert its rights before the competent courts and the French tax authority, from which it expects diligent treatment and in accordance with the law.

- On 19 November 2018, Societe Generale reached settlement agreements with the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), the U.S. Attorney's Office of the Southern District of New York ("SDNY"), the New York County District Attorney's Office ("DANY"), the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (together, the "Federal Reserve"), and the NYDFS (collectively, the "U.S. Authorities"), resolving their investigations relating to certain U.S. dollar transactions processed by Societe Generale involving countries, persons, or entities that are the subject of U.S. economic sanctions and implicating New York State laws. The vast majority by value of the sanctions violations involved in the settlements related to Cuba, and stem from a single revolving credit facility extended in 2000. The remaining transactions involved other countries that are the target of U.S. economic sanctions, including Iran. Under the terms of these agreements, Société Generale agreed to pay penalties totaling approximately USD 1.3 billion (EUR 1.2 billion) to the U.S. Authorities, including EUR 53.9 million to OFAC, USD 717.2 million to SDNY, USD 162.8 million to DANY, USD 81.3 million to the Federal Reserve, and USD 325 million to NYDFS.

The Bank signed deferred prosecution agreements with SDNY and DANY, which provide that, following a three-year probation period, the Bank will not be prosecuted if it abides by the terms of the agreements, to which Societe Generale is fully committed.

The Bank will continue to cooperate with the U.S. Authorities in the future, pursuant to the agreements. The Bank has also committed to continue to enhance its compliance program to prevent and detect potential violations of U.S. economic sanctions laws and New York state laws. The Bank also agreed to enhance its oversight of its sanctions compliance program. The Bank has also agreed with the Federal Reserve to retain an independent consultant that will evaluate the Bank's progress on the implementation of enhancements to its sanctions compliance program.

- Also, on 19 November 2018, Societe Generale agreed to a Consent Order with NYDFS relating to components of the Bank's anti-money-laundering ("AML") compliance program in the New York Branch. The Consent Order requires the Bank paid a civil money penalty of USD 95 million (EUR 82 million) in light of deficiencies noted by NYDFS. The Consent Order requires the Bank to continue a series of enhancements to its New York branch's AML compliance program. After a period of 18 months, an independent consultant will conduct an assessment of the Branch's progress on the implementation of its AML compliance program.



- Societe Generale, along with other financial institutions, has been named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with its involvement in the London Gold Market Fixing. The action is brought on behalf of persons or entities that sold physical gold, sold gold futures contracts traded on the CME, sold shares in gold ETFs, sold gold call options traded on CME, bought gold put options traded on CME, sold over-the-counter gold spot or forward contracts or gold call options, or bought over-the-counter gold put options. The action is pending in the US District Court in Manhattan. Motions to dismiss the action were denied by an order dated 4 October 2016, and discovery is now proceeding. Societe Generale and certain subsidiaries, along with other financial institutions, have also been named as defendants in two putative class actions in Canada (in the Ontario Superior Court in Toronto and Quebec Superior Court in Quebec City) involving similar claims.
- On 30 January 2015, the CFTC served Societe Generale with a subpoena requesting the production of information and documents concerning trading in precious metals done since 1 January 2009. Societe Generale cooperated with the authorities and produced documents in 2015. There has been no contact with the CFTC since that time.
- SG Americas Securities, LLC ("SGAS"), along with other financial institutions, was named as a defendant in several putative class actions alleging violations of US antitrust laws and the CEA in connection with its activities as a US Primary Dealer, buying and selling US Treasury securities. The cases were consolidated in the US District Court in Manhattan, and lead plaintiffs' counsel appointed. An amended consolidated complaint was filed on 15 November 2017, and SGAS was not named as a defendant. By order dated 15 February 2018, SGAS was dropped as a defendant in an individual "opt out" action alleging similar causes of action. There are no actions pending against SGAS in this matter.
- Societe Generale, along with several other financial institutions, was named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with foreign exchange spot and derivatives trading. The action was brought by persons or entities that transacted in certain over-the-counter and exchange-traded foreign exchange instruments. Societe Generale has reached a settlement of USD 18 million, which was preliminarily approved by the Court. A final approval hearing was held on 23 May 2018, and a decision is pending. A separate putative class action behalf of putative classes of indirect purchasers is also pending. An amended complaint was filed on 21 November 2018, and a motion to dismiss was filed on 20 December 2018. On 7 November 2018, a group of individual entities that elected to opt out of the main class action settlement filed a lawsuit against SG, SG Americas Securities, LLC, and several other financial institutions.
- Since August 2015, various former and current employees of the Societe Generale group have been under investigation by German criminal prosecution and tax authorities for their alleged participation in the so called "CumEx" patterns in connection with withholding tax on dividends on German shares. These investigations relate to the administration of a fund, proprietary trading activities and transactions carried out on behalf of clients. The Group entities respond to the requests of the German authorities.

## 6.3 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### ERNST & YOUNG et Autres

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S.A. au capital de € 1.723.040  
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### SOCIÉTÉ GÉNÉRALE

Société anonyme  
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92972 Paris-La Défense

For the year ended 31st December 2018

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Societe Generale,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Société Générale for the year ended 31st December 2018.

In our opinion, the consolidated financial statements give a true and fair view of the results of operations of the Group for the year then ended and of its financial position and of its assets and liabilities as at 31st December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Internal Control Committee.

### Basis for opinion

#### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January

2018 to the issue date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

### Emphasis of Matter

Without qualifying the opinion expressed above, we draw your attention to Note 1 on "Significant accounting principles" to the consolidated financial statements which describes the impacts of the first-time application of IFRS 9 "Financial Instruments".

### Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed to those risks.

These matters were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We do not express an opinion on any components of the consolidated financial statements taken individually.

## Measurement of the provision for disputes

### Risk identified

A provision for disputes in the amount of €340 million (hereafter “the provision for disputes”) is recognized under liabilities in the balance sheet as at 31 December 2018 to cover the risks of future outflows of resources relating to several disputes in which the Société Générale Group is involved, as stated in Note 8.3.2 “Other provisions” to the consolidated financial statements. Société Générale is subject to investigations and requests for information of a regulatory nature from various authorities presented in Note 9 “Information on risks and litigation” to the consolidated financial statements.

During financial year 2018, Société Générale Group paid penalties of 2.7 billion US dollar following settlement agreements with authorities relating to the following matters:

- the investigation of American authorities relating to certain US dollar transactions involving countries, persons, or entities that are the subject of US economic sanctions;
- Investigations regarding certain transactions with Libyan counterparties;
- Investigations regarding IBOR submissions.

We consider that the measurement of the provision for disputes, which is based on the exercise of Management's judgement, is a key audit matter.

### Our response

Our works notably consisted in:

- Monitoring the main legal proceedings and the ongoing investigations undertaken by the judicial authorities and the regulators with the Société Générale Group's legal department;
- Obtaining an understanding of the process for the measurement of the provision for disputes, notably through quarterly discussions with the Société Générale Group's Management;
- Assessing the assumptions used to determine the provision for disputes on the basis of the information that we obtained, in particular from the Société Générale Group's external legal advisers, specialized in these cases;
- Assessing the disclosures on these disputes in the notes to the consolidated financial statements.

## Recoverability of deferred tax assets in France and in the United States

### Risk identified

As at December 31, 2018, an amount of MEUR 4,753 was recorded under deferred tax assets.

As stated in Note 6 “Income tax” to the consolidated financial statements, Société Générale Group calculates deferred taxes at the level of each tax entity and recognizes deferred tax assets at the closing date when it is considered probable that future taxable profits will be available against which the tax entity concerned will be able to charge timing differences and tax loss carryforwards, over a determined period of time.

Furthermore, as stated in Notes 6 “Income tax” and 9 “Information on risks and litigation” to the consolidated financial statements, certain tax loss carryforwards are challenged by the French tax authorities and consequently may be called into question.

Given the assumptions used to assess the recoverability of the deferred tax assets in France and in the United States (which represent the most significant part of these assets) and the judgement exercised by Management in this respect, we identified this issue as a key audit matter.

### Our response

Our audit approach consisted in assessing the probability that the Société Générale Group will be able to make future use of the tax loss carryforwards generated to date, notably based on the ability to make future taxable profits in France and the United States.

With the support of our tax specialists who are part of the audit team, we:

- Compared the projected of the past fiscal years with the actual results of the concerned fiscal years;
- Obtained an understanding of the three-year business plan drawn up by Management and approved by the Board of Directors, and of the assumptions used by Management beyond the three-year period to establish projected results;
- Assessed the sensitivity of these assumptions in the event of unfavourable scenarios defined by Société Générale Group;
- Analyzed Société Générale's situation, and obtained an understanding of the opinion from its external tax advisers regarding its tax loss carryforwards in France, partially challenged by the tax authorities;
- Analyzed the disclosures on deferred tax assets in Notes 6 and 9 to the consolidated financial statements.



## Valuation of complex financial instruments

### Risk identified

Within the scope of its market activities, Société Générale holds complex financial instruments for trading purposes.

To calculate the fair value of complex instruments, the Group uses techniques or in-house valuation models based on parameters and data that are not all observable in the market, as stated in Note 3.4 "Fair value of financial instruments measured at fair value" to the consolidated financial statements. The models and data used to value these instruments are based on Management's estimates.

Due to the use of judgment to determine the instruments' fair value, the complexity of the modelling of the latter and the multiplicity of models used, we consider the valuation of complex financial instruments to be a key audit matter.

### Our response

Our audit approach is focused on the key internal control processes related to the valuation of complex financial instruments.

With the support of our specialists in the valuation of financial instruments, we designed an approach including the following main stages:

- We familiarized ourselves with the procedure for the authorization and validation of new products and their valuation models, including the process for the entry of these models into the information systems;

- We assessed the governance relating to the Risk Department's control of the valuation models used;
- More specifically, based on tests, we considered the valuation formulae for certain categories of complex instruments;
- We analyzed certain market parameters used to provide input for the valuation models;
- As regards the profit and loss explanation process, we familiarized ourselves with the analysis principles used by the bank and performed tests of controls. We also performed "analytical" IT procedures on the database for the controls performed on the daily profit and loss explanation process;
- At each quarterly closing, we obtained the results of the process for the independent price verification, and we analyzed the differences in parameters compared to the market data in the event of a significant impact, as well as the accounting treatment of such differences;
- We performed counter-valuations on a selection of complex derivative financial instruments using our tools;
- We considered the compliance of the documented methods underlying the estimates with the principles described in Note 3.4 "Fair value of financial instruments measured at fair value" to the consolidated financial statements, and we analyzed the criteria, particularly the observability of transactions, used to determine the fair value hierarchy.

## Information technology risk on derivative financial instruments and structured bonds issued

### Risk identified

Société Générale's derivative financial instruments and structured bonds issued constitute an important activity within its market activities, as illustrated by the significance of the net positions of derivative financial instruments in the transaction portfolio in Note 3.2 "Financial derivatives" to the consolidated financial statements.

This activity is highly complex given the nature of the financial instruments processed, the volume of transactions, and the use of numerous information systems interfacing with each other.

The risk of an IT incident could entail the risk of an anomaly in the accounts resulting from an incident in the data processing chains used, or the recording of transactions until they are transferred into the accounting system. Such a risk may notably take the form of:

- Changes made to management and financial information by unauthorized personnel via the information systems or underlying databases;
- A failure in processing or in the transfer of data between systems;
- A service interruption or operating incident, possibly associated with internal or external fraud.

In this context, the monitoring by the Société Générale Group of controls linked to information systems management relating to the above-mentioned activity is essential for the reliability of the accounts and is a key audit matter.

### Our response

Our audit approach for this activity is based on the controls related to the information systems management set up by the Société Générale Group. With the support of our experts in information systems, we tested the IT general controls of the applications that we considered to be significant for this activity.

Our works in particular concerned:

- The controls set up by the Société Générale Group on access rights, notably at sensitive periods of a professional career (recruitment, transfer, resignation, end of contract) with, when necessary, extended audit procedures in the event of ineffective control identified during the year ended December 31, 2018;
- Potential privileged access to applications and infrastructure;
- Change management and, more specifically, the separation between development and business environments;
- Security policies in general and their deployment in IT applications (for example, those related to passwords);
- Handling of IT incidents during the audit period;
- Governance and the control environment on a sample of "end user" applications.

For these same applications, and in order to assess the transfer of information flows, we tested the application controls related to the automated interfaces between the systems.

Our tests of the IT general controls and application controls were supplemented by data analytics work on certain IT applications.

## First-time application of IFRS 9 “Financial Instruments”

### Risk identified

As of 1 January 2018, the Group has applied IFRS 9 “Financial Instruments” (phases 1 and 2) to its financial assets and liabilities except for those related to its insurance activities. This standard introduces new classification and measurement rules for these assets and liabilities, as well as significant changes to rules relating to impairment of financial assets.

As a result of the first-time application of IFRS 9 “Financial Instruments,” Société Générale recognised an impact of €-1.1 billion in equity after tax (mainly with respect to the impairment of loans and receivables classified in stages 1 and 2), published an opening balance sheet as of 1 January 2018, and provided detailed disclosures on the transition of the balance sheet as at 31 December 2017 under IAS 39 to the opening balance sheet under IFRS 9 as of 1 January 2018 (excluding insurance assets and liabilities). The qualitative and quantitative disclosures are mainly described in Notes 1.4 “First-time application of IFRS 9: “Financial Instruments”” and 3 “Financial Instruments”. The determination of that impact including the nature of the disclosures in the notes to the consolidated financial instruments required numerous assumptions and the use of judgement, in particular the significant increase in credit risk criteria, the integration of macro-economic projections and the measurement of expected credit losses.

Furthermore, the Société Générale Group uses its judgement and makes accounting estimates to measure the impairment of the doubtful loans (classified in stage 3).

Given the complexity related to the first-time application of IFRS 9 and the quantity of disclosures to be provided in this respect by the Société Générale Group in the notes to the consolidated financial statements, we considered the first-time application of IFRS 9 “Financial Instruments” to be a key audit matter.

## Specific verifications

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial performance statement provided for in Article L. 225-102-1 of the French Commercial Code is included in the disclosures relating to the Group presented in the management report, it being specified that, in accordance with Article L. 823-10 of the Code, we have not verified the fairness of the information contained in this statement or its consistency with the consolidated financial statements that must be verified in a report by an independent third party.

## Report on Other Legal and Regulatory Requirements

### Appointment of the Statutory Auditors

We were appointed as statutory auditors of Société Générale by your Annual General Meeting held on 18 April 2003 for DELOITTE & ASSOCIES and on 22 May 2012 for ERNST & YOUNG et Autres.

### Our response

We have, with the support of our specialists who are part of the audit team, familiarized ourselves with the measures deployed and the analyses performed by the Société Générale Group to implement IFRS 9.

Concerning classification and measurement, our audit procedures notably consisted in reviewing the analyses made by the Group and their breakdown at activity level and testing, based on a sample of contracts, the compliance of the classification of assets determined in Société Générale analyses with regard to the accounting policies described in the notes to consolidated financial statements.

Concerning impairment, our audit procedures notably consisted in:

- Examining the compliance of policies implemented by the Group and methodologies applied at activity level with IFRS 9;
- Familiarizing ourselves with the governance measures and testing key controls implemented at Group level;
- Performing tests on a selection of models set up in the information systems which are used to prepare financial information;
- Performing counter-valuations of expected credit losses on a selection of portfolios as at 1 January 2018;
- Examining (i) the main parameters used by the Société Générale Group to classify outstandings and assess impairment of stages 1 and 2 as at 1 January 2018, and (ii) the consistency of methods applied as at 31 December 2018;
- Testing as at 31 December 2018, the key assumptions used for estimating impairment on loans classified in stage 3, especially on a selection of the most significant corporate loans in France.

Furthermore, we have examined the qualitative and quantitative disclosures published in the notes to the consolidated financial statements with regard to the first-time application of this standard.

As at 31 December 2018, DELOITTE & ASSOCIES was in the sixteenth year of total uninterrupted engagement and ERNST & YOUNG et Autres in the seventh year.

Previously, ERNST & YOUNG Audit was the statutory auditor of Société Générale from 2000 to 2011.

## Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit and Internal Control Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

## Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

### Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

### Report to the Audit and Internal Control Committee

We submit to the Audit and Internal Control Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Internal Control Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Internal Control Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit and Internal Control Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, 8 March 2019

The Statutory Auditors

*French original signed by*

Ernst & Young et Autres

Micha MISSAKIAN

Deloitte & Associés

Jean-Marc MICKELER

## 6.4 SOCIETE GENERALE MANAGEMENT REPORT

### Summary balance sheet of Societe Generale

(In EUR bn at 31 <sup>st</sup> December)	31.12.2018	31.12.2017	Variation
Interbank and money market assets	170	208	(38)
Customer loans	309	264	45
Securities	659	570	89
<i>o.w. securities purchased under resale agreements</i>	259	201	58
Other assets	146	139	7
<i>o.w. option premiums</i>	53	57	(4)
Tangible and intangible fixed assets	3	2	1
<b>TOTAL ASSETS</b>	<b>1,287</b>	<b>1,183</b>	<b>104</b>

(In EUR bn at 31 <sup>st</sup> December)	31.12.2018	31.12.2017	Variation
Interbank and money liabilities <sup>(1)</sup>	262	254	8
Customer deposits	380	340	40
Bonds and subordinated debt <sup>(2)</sup>	31	31	-
Securities	456	381	75
<i>o.w. securities sold under repurchase agreements</i>	210	189	21
Other liabilities and provisions	123	142	(19)
<i>o.w. option premiums</i>	58	61	(3)
Equity	35	35	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,287</b>	<b>1,183</b>	<b>104</b>

(1) Including negotiable debt instruments.

(2) Including undated subordinated capital notes.

There were many causes for concern in 2018: on the international level first, with the uncertain outcome to Brexit talks between the UK and the EU, the economic and budgetary policy in Italy, plus Sino-American trade tensions. On the national level, the political/social crisis in December did nothing to help. Moreover, markets businesses had to cope with headwinds in the fourth quarter on world capital markets and retail banking performances are still undercut by low interest rates dragging on lines of credit.

Against this backdrop, Societe Generale nonetheless managed to preserve its solid financial structure in a still tight regulatory climate.

The balance sheet amounts to EUR 1,287 billion, up EUR 104 billion versus 31<sup>st</sup> December 2017.

The EUR -38 billion slide in Interbank and money market assets is partially the result of the transfer at the end of 2018 of loans initially granted to a subsidiary to Societe Generale New York and the fall in deposits with various Central Banks, which had been higher in 2017 to meet regulatory requirements, specifically the NSFR (Net Stable Funding Ratio) and the need to strengthen the Group's financing structure.

Customer loan outstandings rose EUR 45 billion in 2018, mainly loans granted for EUR 24 billion, liquidity lines for EUR 13 billion and equipment loans for EUR 5 billion. Mortgage loan production remained dynamic and the home loans item rose EUR 3 billion. Still in a competitive climate and undergoing radical digital transformation, the Retail bank saw substantial growth in sight deposits on special regime savings accounts (already up + EUR 5.4 billion in the last two financial years).

The securities transaction item is up EUR 89 billion mainly via securities received under repos (EUR 58 billion), bond portfolio outstandings for EUR 19.9 billion following the purchase of Medium-term Notes issued by the Group issuance vehicle and treasury bills up EUR 27.6 billion owing to the increase in securities lending increasing debt liabilities on borrowed securities.

Despite world growth estimated at +3.7% this year, stock markets lost a lot of ground, notably in the fourth quarter, hence the equities portfolio is down EUR 14.7 billion.

Lastly, despite the volatility of stock market indices impacting the valuation of derivatives, other asset and liability accounts, rather volatile, barely shifted except premiums on options instruments which are down by EUR 4.4 billion.

Societe Generale boasts a diversified range of funding sources and channels:

- stable resources consisting of equity and subordinated debt (EUR 67 billion);
- customer deposits, up EUR 40 billion, gathered in the form of deposits which make up a significant share (30%) of total balance sheet resources;
- resources (EUR 155 billion) in the form of interbank deposits and borrowings;

- capital raised on the market through a proactive diversification policy, making use of various types of debt (secured and unsecured bonds, etc.), issuance vehicles (EMTNs, Certificates of Deposit), currencies and investor pools (EUR 101 billion);

- resources from securities sold under repurchase agreements to customers and banks (EUR 210 billion) up EUR 21 billion.

The Group's financing structure is based on substantial deposit inflows across all its business lines and on the extension of its funding sources, which reflects Societe Generale's efforts to strengthen the structure of its balance sheet in recent years.

## Summary income statement of Societe Generale

	2018			2017			VARIATIONS 18/17 (in %)		
	France	International	Societe Generale	France	International	Societe Generale	France	International	Societe Generale
(In EUR m)									
<b>Net banking income</b>	<b>7,947</b>	<b>2,662</b>	<b>10,609</b>	<b>7,220</b>	<b>2,719</b>	<b>9,939</b>	<b>10</b>	<b>(2)</b>	<b>7</b>
Total operating expenses	(7,733)	(1,730)	(9,463)	(7,804)	(1,803)	(9,607)	(1)	(4)	(1)
<b>Gross operating income</b>	<b>214</b>	<b>932</b>	<b>1,146</b>	<b>(584)</b>	<b>916</b>	<b>332</b>	<b>(137)</b>	<b>2</b>	<b>245</b>
Cost of risk	(17)	(52)	(69)	(542)	(123)	(665)	(97)	(58)	(90)
<b>Operating income</b>	<b>197</b>	<b>880</b>	<b>1,077</b>	<b>(1,126)</b>	<b>793</b>	<b>(333)</b>	<b>(117)</b>	<b>11</b>	<b>(423)</b>
Net income from long-term investments	(54)	86	32	1,092	(68)	1,024	(105)	(226)	(97)
<b>Operating income before income tax</b>	<b>143</b>	<b>966</b>	<b>1,109</b>	<b>(34)</b>	<b>725</b>	<b>691</b>	<b>(521)</b>	<b>33</b>	<b>60</b>
Income tax	722	(106)	616	490	(381)	109	47	(72)	465
<b>Net income</b>	<b>865</b>	<b>860</b>	<b>1,725</b>	<b>456</b>	<b>344</b>	<b>800</b>	<b>90</b>	<b>150</b>	<b>116</b>

In 2018, Societe Generale generated gross operating income of EUR 1.1 billion, up EUR 0.8 billion on 2017.

- There were transactional agreements in 2018 with American and European Authorities, putting an end to their enquiries relating to IBOR submissions and transactions with Libyan counterparties. There were also agreements with certain American Authorities putting an end to their enquiries regarding economic sanctions and the fight against money laundering. As part of these agreements, Societe Generale has agreed to pay penalties totalling some USD 2.7 billion; concomitantly, the provision booked to Societe Generale's accounts for public law litigation has seen writebacks and its balance has thus been reduced to EUR 340 million at 31<sup>st</sup> December 2018.
- Net banking income (NBI) amounts to EUR 10,609 million in 2018, up EUR 0.7 billion (+7%) on 2017:
  - Retail Banking net banking income in France is down slightly (EUR -0.1 billion) in comparison to 2017. In a still low rates climate and despite the fall in the net interest margin (-9%), the Retail bank put in a resilient financial performance and is pressing on with the transformation of the network and underpinning its business base with target clientele offering growth relays;
  - Global Banking and Investor Solutions businesses show a decline (EUR -1 billion) on 2017, in a negative market context and despite the sound momentum for the Coverage and Investment Banking business. Despite resilient commercial activity the Fixed Income, Credit, Forex and Commodities businesses faced a difficult climate. The Equities business is also down, undercut by a fall in trading business against a backdrop of declining equity markets.

The management of structured portfolios was also undercut by major market movements. The Prime Services businesses are still showing pace, however, and the cash equity businesses are still resilient, with an increase in traded volumes. But this performance is not sufficient to offset the decline in derivatives revenues;

- as regards other financial accounts, which includes the management of the Group's portfolio of stakes, they saw a EUR 1.8 billion increase in net banking income. On the one hand, dividend inflows are up EUR 0.9 billion on 2017. This increase is mainly due to the low amount of dividends paid by the holding company subsidiaries in 2017 owing to the payment of exceptional advances at the end of 2016, while dividends related to FY 2017 were received in 2018. On the other hand, 2017 net banking income was exceptionally undercut to the tune of EUR 963 million for the transactional agreement with the Libyan Investment Authority (LIA) putting an end to the dispute between the two parties.
- General operating costs are down EUR 0.1 billion. Societe Generale has continued with its technological investments to accompany the growth of its businesses while maintaining strict cost control, which is reflected in the limited increase in management fees of EUR -0.2 billion. In 2018, management fees included costs relating to provisions for litigation to the tune of EUR -0.3 billion. Moreover, in December 2018, some defined benefit pension regimes in France have seen a change in scale resulting in a decline of EUR -0.2 billion in related provisions. The favourable variation is also due to the provisions which had been built up in 2017 to the tune of EUR 0.4 billion concerning the transformation of the Retail bank network.

- The CICE amounts to EUR 39 million in 2018 (*versus* EUR 44 million in 2017). It has been used in compliance with the regulation. In 2018, the CICE permitted ongoing technological investments and the underpinning of Societe Generale's commitments in positive transformations: digital strategies, integration of CSR challenges including the climate. Its utilisation has been impacted by the following items:
  - digitalisation of the retail bank offer *via* enrichment and valuation of client knowledge, transformation of networks towards a phygital model (web sites, mobile phones, customer and advisor tablets, process digitalisation) and dematerialisation of proposed services;
  - ongoing development of robust and re-utilisable digital capacities for Global Banking and Investor Solutions, notably in terms of user experience, security, robots (BOTs), and opening of business services (APIs);
  - deployment of Agile@Scale and Continuous Delivery setups in all IT System services, to boost value creation, improve the quality of services, and reduce time-to-market for new products;
  - as part of the technological watch, identification of French startups in a position to provide strategic inspiration and feed the Group with new methodologies, innovative locations and partnerships;
  - continuation of the 'intrapreneurial' programme open to all Societe Generale employees ('Internal Startup Call'), comprising the selection, sponsorship and incubation of internal startups on strategic innovation themes;
  - ongoing digital transformation of tools and usages (private and public Cloud, Big Data and data usage, Open Source, Automation, Security, and collaborative tools, etc.);
  - in the continuity of the technological innovations, continuation of the investments in previous years aimed at providing employees with collaborative, connected and mobile solutions, notably *via* a new ecosystem (Digital Workplace).
- The net cost of risk stands at EUR -69 million at end-2018, down EUR 0.6 billion on 2017. The observed decline reflects the quality of the credit portfolio. Moreover, the net charge for litigation provision which amounted to EUR -0.4 billion in 2017 is now presented in general operating costs.
- The combination of these items pushes up operating income by EUR 1.4 billion in comparison with 2017 and amounts to EUR 1.1 billion at end-2018.
- In 2018, Societe Generale did not book significant gains on fixed assets. Remember that in 2017, Societe Generale generated a gain on fixed assets of EUR 1.0 billion, mainly from the capital gain on the partial disposal of its stake in ALD following its floatation.
- Tax on profits amounts to EUR 0.6 billion (*versus* EUR 0.1 billion in 2017). In 2018, the entity is loss-making from an individual fiscal perspective in France. Moreover, this variation also includes the impact of the French and US fiscal reforms which amounted to EUR 0.4 billion in 2017.
- The after-tax net profit thus amounts to EUR 1.7 billion at end-2018 *versus* EUR 0.8 billion at end-2017.

## Trade payables payment schedule

	31.12.2018						31.12.2017					
	Payables not yet due						Payables not yet due					
	1 to 30 days	31 to 60 days	More than 60 days	More than 90 days	Payables due	Total	1 to 30 days	31 to 60 days	More than 60 days	More than 90 days	Payables due	Total
(In EUR m)												
Trade Payable	44	53	-	-	22	119	42	29	-	-	27	98

Due dates are based on the condition that invoices must be paid within 60 days of receipt.

The processing of Societe Generale France's supplier invoices is largely centralised. The department responsible for this processing books and settles invoices for services requested by all Societe Generale France's corporate and business divisions. The branches of the French network, however, have dedicated teams to process and pay their own invoices.

In accordance with the Group's internal control procedures, invoices are only paid after they have been validated by the departments that

signed for the services. The average time for the payment of invoices after validation is between three and seven days.

In accordance with Article D. 441-4 of the French Commercial Code, as worded pursuant to French Decree No. 2017-350 of 20<sup>th</sup> March 2017 and implemented pursuant to the Order of 20<sup>th</sup> April 2017, the information on supplier payment times is as follows:

The banking, insurance and financial services businesses (financing loans and commissions) are excluded from the scope.



	31.12.2018					
	Payables due					
(In EUR m)	0 day (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)
<b>(A) Payment delay</b>						
Number of invoices concerned	-	620	390	193	2,258	3,461
Total amount (excl. tax) of invoices concerned (In EUR m)	-	15	4	2	1	22
Percentage of total purchases (excl. tax) for the year	-	-	-	-	-	-
<b>(B) Invoices excluded from (A) pertaining to disputed payables and receivables, not recorded</b>						
Number of invoices excluded	-	-	-	-	-	-
Total amount (excl. tax) of invoices excluded	-	-	-	-	-	-
<b>(C) Reference payment times used when calculating delay (Article L. 441-6 or L. 443-1 of the French Commercial Code)</b>						
<input checked="" type="checkbox"/> Statutory payment terms (60 days from invoice date or 45 days end of month)						
Contractual payment terms						

## Payment terms on accounts receivable

Payment times on Accounts Receivable in Respect of Financing Granted or Services Invoiced are fixed by contract. The initial payment terms set for loan repayments may be amended by means of contractual options (such as prepayment options, or options to defer payments). Compliance with contractual payment terms is monitored as part of the Bank's risk management process (see Chapter 4 of this

Registration Document, "Risks and Capital Adequacy"), particularly in respect of credit risk, structural interest rate risk, and liquidity risk. The residual maturities of accounts receivable are indicated in Note 7.4 to the parent company financial statements.

The date schedules equate to conditions calculated at 60 days from invoice date.

	31.12.2018					
	Payables due					
(In EUR m)	0 day (indication)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)
<b>(A) Payment delay</b>						
Number of invoices concerned	-	143	47	35	1,283	1,508
Total amount (excl. tax) of invoices concerned (in EUR m) <sup>(1)</sup>	-	29	3	2	133	167
Percentage of total purchases (excl. tax) for the year	-	-	-	-	-	-
<b>(B) Invoices excluded from (A) pertaining to disputed payables and receivables, not recorded</b>						
Number of invoices excluded	-	-	-	-	-	-
Total amount (excl. tax) of invoices excluded	-	-	-	-	-	-
<b>(C) Reference payment times used when calculating delay (Article L. 441-6 or L. 443-1 of the French Commercial Code)</b>						
<input checked="" type="checkbox"/> Contractual payment terms (to préciser)						
Statutory payment terms						

(1) Including EUR 91 m of debts at issue.

## Five-year summary of Societe Generale

(In EUR m)	2018	2017	2016	2015	2014
<b>Financial position at year-end</b>					
Capital stock (in EUR m) <sup>(1)</sup>	1,010	1,010	1,010	1,008	1,007
Number of shares issued <sup>(2)</sup>	807,917,739	807,917,739	807,713,534	806,239,713	805,207,646
<b>Results of operations (in EUR m)</b>					
Revenue excluding tax <sup>(3)</sup>	30,748	27,207	27,174	28,365	25,119
Earnings before tax, depreciation, amortisation, provisions, employee profit sharing and general reserve for banking risks	(23)	1,678	5,884	5,809	2,823
Employee profit sharing	11	11	13	15	12
Income tax	(616)	(109)	246	(214)	99
Net income	1,725	800	4,223	1,065	996
Total dividends paid	1,777	1,777	1,777	1,612	966
<b>Earnings per share (in EUR)</b>					
Earnings after tax but before depreciation, amortisation and provisions	0.72	2.20	6.96	7.45	3.37
Net income	2.14	0.99	5.23	1.32	1.24
Dividend paid per share	2.20	2.20	2.20	2.00	1.20
<b>Employees</b>					
Headcount	46,942	46,804	46,445	46,390	45,450
Total payroll (in EUR m)	3,128	3,560	3,696	3,653	3,472
Employee benefits (Social Security and other) (in EUR m)	1,525	1,475	1,468	1,452	1,423

(1) At 31<sup>st</sup> December 2018, Societe Generale's fully paid-up capital amounted to EUR 1,009,897,173.75 and comprised 807,917,739 shares with a nominal value of EUR 1.25.

(2) Revenue consists of interest income, dividend income, fee income, income from financial transactions and other operating income.



## Main changes in the investment portfolio in 2018

In 2018, Societe Generale the following transactions affected Societe Generale's investment portfolio:

Outside France	In France
<b>Creation</b>	<b>Creation</b>
	Peers SAS
<b>Acquisition of interest</b>	<b>Acquisition of interest</b>
	Avem Holdings
<b>Acquisition</b>	<b>Acquisition</b>
	Lumo
<b>Increase of interest in</b>	<b>Increase of interest in</b>
	CRH
<b>Subscription to capital increase</b>	<b>Subscription to capital increase</b>
Ohridska Banka, YUP Management, YUP Côte Ivoire, YUP Sénégal, YUP Guinée, YUP Cameroun	
<b>Full disposal</b>	<b>Full disposal</b>
	SG Capital Partenaires SAS
<b>Reduction of interest<sup>(1)</sup></b>	<b>Reduction of interest<sup>(1)</sup></b>
SG Asia Ltd., Delta Credit MF Netherlands BV	Soginfo, SG Services, SG Financial Services Holding, Orpavimob

(1) Including capital reductions, dissolution by transfer of assets, mergers and liquidations.

The table below summaries the significant movements chalked up by the Societe Generale portfolio in 2018:

Threshold	Companies	Increase <sup>(1)</sup>		Threshold	Companies	Decrease <sup>(1)</sup>	
		% of the capital 31.12.2018	% of the capital 31.12.2017			% of the capital 31.12.2018	% of the capital 31.12.2017
5%	Havem holdings <sup>(2)</sup>	5%	0%	5%			
10%				10%			
20%				20%			
33.33%				33.33%			
50%				50%			
	Lumo <sup>(2)</sup>	100%	0%	66.66%	Delta Crédit MF Netherlands BV	0%	100%
					Soginfo <sup>(2)</sup>	0%	100%
66.66%	Peers SAS <sup>(2)</sup>	91%	0%		SG Services <sup>(2)</sup>	0%	100%

(1) Threshold crossings by percentage of direct ownership by Societe Generale SA.

(2) Stakes held in accordance with Article L. 233.6 of the French Commercial Code.

## 6.4.1 INFORMATION REQUIRED PURSUANT TO ARTICLE L. 511-4-2 OF THE FRENCH MONETARY AND FINANCIAL CODE RELATED TO SOCIETE GENERALE SA

As part of its long-standing presence in the commodity markets, Societe Generale proposes agricultural commodity derivatives to meet the various needs of its customers, including the risk management needs of business customers (producers, consumers) and exposure to the commodity markets for investors (asset managers, funds, insurance companies).

Societe Generale's offer includes: sugar, cocoa, coffee, cotton, orange juice, corn, wheat, rapeseed, soybean, oats, cattle, lean hogs, milk and rice). Societe Generale makes markets in vanilla products (e.g. forward contracts), options and option strategies, and structured products with additional complexity. Exposure to agricultural commodities can be provided through a single-commodity product or through multi-commodity products, which are mostly used by investors.

Societe Generale manages risks associated with the related positions either on the OTC market by executing transactions with commodity dealers, commodity traders, banks and brokers, or on organised markets:

- NYSE LIFFE (including Euronext Paris) for cocoa, corn, wheat, rapeseed oil, sugar and coffee;
- ICE FUTURES US for cocoa, coffee, cotton, orange juice, sugar and wheat;
- ICE FUTURES Canada for canola;
- CME group for corn, soybean, soybean oil, soybean meal, wheat, oats, cattle, lean hogs, milk and rice;
- Minneapolis Grain Exchange for wheat;
- SGX for rubber;
- TOCOM for rubber.

The list above is not fixed and may evolve in the future.

A number of measures are in place to prevent or detect any material impact on the price of agricultural commodities as a result of Societe Generale activities described above:

- the trading activity is in particular governed by the regulatory framework promulgated in Europe under MiFID II, as in force since 3<sup>rd</sup> January 2018. It sets limits for positions on certain agricultural commodities, imposes reporting on positions to the trading platform, as well as systematic reporting of all transactions performed to the appropriate regulatory body;
- the business also operates within internal limits, set by teams following risks independently of the operators;
- these teams constantly monitor compliance with these various limits;
- moreover, Societe Generale's trading activity in exchange contracts follows limits set by the Societe Generale clearing broker;
- to prevent behaviour that could be considered disruptive, Societe Generale traders are provided with trading rules and mandates, and receive regular training on business standards and market conduct;
- daily controls are run in order to detect any inappropriate trading. These controls include the monitoring of the CFTC (US Commodity Futures Trading Commission) and exchange requirements on position limits, such that no operator can adopt a market position that poses a danger to market equilibrium.

## 6.4.2 PUBLICATION ON DORMANT ACCOUNTS

Articles L. 312-19 and L. 312-20 of the French Monetary and Financial Code, as introduced by French Act No. 2014-617 of 13<sup>th</sup> June 2014 on dormant bank accounts and unclaimed life insurance accounts, also known as the "Eckert Act", which entered into effect on 1<sup>st</sup> January 2016, require all credit institutions to publish information on dormant bank accounts on an annual basis.

Over 2018, 32,158 dormant bank accounts were closed, and the total sums deposited with the Caisse des Dépôts et Consignations amounted to EUR 31,507,361.03.

At end-December 2018, 344,960 bank accounts were identified as dormant, representing an estimated total of EUR 1,613,533,905.10.

## 6.5 PARENT COMPANY FINANCIAL STATEMENTS

### 6.5.1 BALANCE SHEET

#### ASSETS

(In EUR m)		31.12.2018	31.12.2017
Cash, due from central banks and post office accounts		73,934	90,424
Treasury notes and similar securities	Note 2.1	154,810	127,216
Due from banks	Note 2.3	181,460	191,942
Customer loans	Note 2.3	482,496	390,312
Bonds and other debt securities	Note 2.1	113,202	93,288
Shares and other equity securities	Note 2.1	105,948	120,720
Securities, investments in subsidiaries	Note 2.1	705	592
Investments in subsidiaries	Note 2.1	25,210	26,478
Tangible and intangible fixed assets	Note 7.2	2,596	2,050
Treasury stock	Note 2.1	242	281
Accruals, other accounts receivables and other assets	Note 3.2	146,099	139,355
<b>TOTAL ASSET</b>		<b>1,286,702</b>	<b>1,182,658</b>

#### OFF-BALANCE SHEET ITEMS

(In EUR m)		31.12.2018	31.12.2017
Loan commitments granted	Note 2.3	226,742	197,307
Guarantee commitments granted	Note 2.3	222,259	187,617
Commitments made on securities		30,243	21,883

#### LIABILITIES AND SHAREHOLDERS' EQUITY

(In EUR m)		31.12.2018	31.12.2017
Due to central banks and post office accounts		5,661	5,554
Due to banks	Note 2.4	220,077	241,786
Customer deposits	Note 2.4	524,846	459,690
Liabilities in the form of securities issued	Note 2.4	108,350	83,111
Accruals, other accounts payable and other liabilities	Note 3.2	354,296	318,493
Provisions	Note 7.3	14,618	15,588
Long-term subordinated debt and notes	Note 6.4	23,807	23,508
<b>Shareholders' equity</b>			
Common stock	Note 6.1	1,010	1,010
Additional paid-in capital	Note 6.1	20,602	20,444
Retained earnings	Note 6.1	11,710	12,674
Net income	Note 6.1	1,725	800
<b>SUB-TOTAL</b>		<b>35,047</b>	<b>34,928</b>
<b>TOTAL LIABILITIES</b>		<b>1,286,702</b>	<b>1,182,658</b>

## OFF-BALANCE SHEET ITEMS

(In EUR m)		31.12.2018	31.12.2017
Loan commitments received	Note 2.4	60,532	51,377
Guarantee commitments received	Note 2.4	50,841	47,127

## 6.5.2 INCOME STATEMENT

(In EUR m)		2018	2017
Interest and similar income	Note 2.5	24,106	14,879
Interest and similar expense	Note 2.5	(23,778)	(15,249)
Dividend income	Note 2.1	2,933	2,105
Fee income	Note 3.1	4,286	4,165
Fee expenses	Note 3.1	(1,527)	(1,359)
Net income from the trading portfolio	Note 2.1	4,397	5,955
Net income from short-term investment securities	Note 2.1	140	404
Income from other activities <sup>(1)</sup>		21,747	22,558
Expenses from other activities <sup>(1)(2)</sup>		(21,695)	(23,519)
<b>Net banking income</b>		<b>10,609</b>	<b>9,939</b>
Personnel expenses	Note 4.1	(4,908)	(5,307)
Other operating expenses <sup>(3)</sup>		(4,128)	(3,855)
Impairment and amortisation		(427)	(445)
<b>Gross operating income</b>		<b>1,146</b>	<b>332</b>
Cost of risk	Note 2.6	(69)	(665)
<b>Operating income</b>		<b>1,077</b>	<b>(333)</b>
Net income from long-term investments	Notes 2.1 & 7.2	32	1,024
<b>Operating income before tax</b>		<b>1,109</b>	<b>691</b>
Income tax	Note 5	616	109
<b>Net Income</b>		<b>1,725</b>	<b>800</b>
<b>Earnings per ordinary share</b>	<b>Note 6.3</b>	<b>2.15</b>	<b>1.00</b>
<b>Diluted earnings per ordinary share</b>		<b>2.15</b>	<b>1.00</b>

Information about fees paid to Statutory Auditors is disclosed in the notes to the consolidated financial statements of the Societe Generale Group; consequently, this information is not provided in the notes to the parent company financial statements of Societe Generale.

- (1) As part of its market making activities on commodities derivatives, Societe Generale may hold physical commodities stocks. Related incomes and expenses are included in Other banking income and expense for other activities. For the year 2018, income amounts to EUR 21,323 million (EUR 22,459 million in 2017) and expense to EUR 21,391 million (EUR 22,369 million in 2017).
- (2) During 2017, other operating expenses included a EUR 963 million payment (GBP 813.26 million in original currency) related to the transactional agreement concluded between Societe Generale and the Libyan Investment Authority.
- (3) o.w. EUR 349 million related to the 2018 contribution to the Single Resolution Fund (SRF) (EUR 296 million in 2017).

## 6.6 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

The parent company financial statements were approved by the Board of Directors on 6 February 2019.

### NOTE 1 SIGNIFICANT ACCOUNTING PRINCIPLES

#### Introduction

The preparation and presentation of the parent company financial statements for Societe Generale comply with the provisions of Regulation 2014-07 of the French Accounting Standards Board, the ANC, related to the annual accounts for the banking sector.

As the financial statements of foreign branches were prepared using accounting principles generally accepted in their respective countries, they were subsequently adjusted to comply with the accounting principles applicable in France.

The disclosures provided in the notes to the parent company financial statements focus on information that is both relevant and material to the financial statements of Societe Generale, its activities and the circumstances in which it conducted its operations over the period.

#### Accounting policies and valuation methods

In accordance with the accounting principles applicable to French banks, the majority of transactions are recorded using valuation methods that take into account the purpose for which they were made.

In financial intermediation transactions, assets and liabilities are generally carried at historical cost and Impairment is recognised where counterpart risk arises. Revenues and expenses arising from these transactions are recorded over the life of the transaction in accordance with the time period concept. Transactions on forward financial instruments carried out for hedging purposes or to manage the bank's overall interest rate risk are accounted for using the same principles.

Trading transactions are generally marked to market at year-end, except for loans, borrowings and short-term investment securities which are recorded at nominal value (see below). When financial instruments are not quoted in an active market, the market value used is reduced for reasons of prudence. Moreover, a reserve is recorded to cover valuations established on the basis of in-house models (Reserve Policy), which is determined according to the complexity of the model used and the life of the financial instrument.

#### Translation of foreign currency financial statement

The on- and off-balance sheet items of branches reporting in foreign currencies are translated at the official exchange rate prevailing at year-end. Income statement items of these branches are translated at the average month-end exchange rates. Gains and losses arising from the translation of reserves, retained earnings and net income are included in shareholders' equity under *Other accounts payable* or *Other accounts receivable*. Gains and losses arising from the translation

of the capital contribution of foreign branches are also included in changes in shareholders' equity under the same heading.

Gains and losses arising from the translation of the capital contribution of foreign branches are included under *Other accounts payable* or *Other accounts receivable*. Translation differences relating to branches in the Euro zone (since the Euro implementation) are retained in shareholders' equity and are only recognised in the income statement when these entities are sold.

#### Use of estimates and judgement

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

In order to make these assumptions and estimates, the Management uses information available at the date of preparation of the notes to the parent company financial statements and can exercise its judgement. By nature, valuations based on estimates include risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and may then have a significant impact on the financial statements.

The use of estimates mainly concerns the following valuations:

- fair value in the balance sheet of financial instruments (securities portfolio and forward financial instruments) not quoted in an active market and held for trading activities (described in Notes 2.1, 2.2 and 3.2);
- impairment of financial assets (see Note 2.6);
- provisions recognised under liabilities (see Notes 2.6, 4.2 and 7.3);
- deferred tax assets recognised in the balance sheet (see Note 5).

The United Kingdom has organised on 23<sup>rd</sup> June 2016 a referendum following which a majority of British citizens have voted to leave the European Union (Brexit). This exit must occur on 29<sup>th</sup> March 2019. The technical agreement concluded between the British government and the European Commission to reshape the economic relations between United Kingdom and the European Union has been rejected by the British Parliament in January 2019. In the event of an exit of United Kingdom from the European Union on 29<sup>th</sup> March 2019 without any consent on a transition agreement, Societe Generale is taking actions to ensure the business continuity for its customers from this date. Those changes of Brexit implementation process have been considered in the assumptions and assessments adopted for the preparation of the parent company financial statements.

## Change in accounting estimates of collective provisions

In 2018, Societe Generale made a change in accounting estimates for the recording of collective provisions for credit risk.

In line with the estimates modalities for expected credit losses which are used in the consolidated financial statements of the Group Societe Generale since the application of IFRS 9 as from 1<sup>st</sup> January 2018, Societe Generale has reviewed accounting estimates of collective provisions for credit risk in its parent company financial statements.

Until 31<sup>st</sup> December 2017, the amount of collective provisions was notably determined on the basis of historical data on default rates and incurred losses on assets with credit risk characteristics that are similar to those in the portfolio, adjusted to reflect any relevant current economic conditions and, where necessary, the opinion of an expert.

From 2018, the amount of collective provisions for credit risk is now estimated at the expected credit losses at termination calculated on the basis of the downgraded performing assets (homogenous portfolios of credits and commitments with a significant deterioration in credit risk since the initial recognition). See Note 2.6.

## NOTE 2 FINANCIAL INSTRUMENTS

### NOTE 2.1 Securities portfolio

#### ACCOUNTING PRINCIPLES

Securities are classified according to:

- their type: public notes (Treasury notes and similar securities), bonds and other debt securities (negotiable debt instruments, interbank securities), shares and other equity securities;
- the purpose for which they were acquired: trading, short-term and long-term investment, shares intended for portfolio activity, investments in non-consolidated subsidiaries and affiliates, and other long-term equity investments.

Purchases and sales of securities are recorded in the balance sheet at the date of settlement-delivery.

The classification and valuation rules applied for each portfolio category are as follows and the impairment rules applied by Societe Generale are described in Note 2.6.

#### TRADING SECURITIES

Trading securities are securities acquired or incurred principally for the purpose of selling or repurchasing them in the near-term or held for the purpose of market-making activities. These securities are traded in active markets, and the available market price reflects frequent buying and selling under normal conditions of competition. Trading securities also include securities linked to a sale commitment in the context of an arbitrage operation done on an organised or assimilated market and securities purchased or sold in the specialised management of a trading portfolio containing forward 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.

Trading securities are recognised in the balance sheet at cost, excluding acquisition expenses.

They are marked to market at the end of the financial period.

Net unrealised gains or losses, together with net gains or losses on disposals, are recognised in the income statement under *Net income from the trading portfolio*, or, *from short-term investment securities*. Coupon payments received on fixed-income securities in the trading portfolio are recorded in the income statement under *Net interest income from bonds, or other debt securities*.

Trading securities that are no longer held for the purpose of selling them in the near-term, or no longer held for the purpose of market-making activities, or held in the specialised management of a trading portfolio for which there is no longer evidence of a recent pattern of short-term profit-taking, may be reclassified into the *Short-term investment securities* category or into the *Long-term investment securities* category if:

- exceptional market situations generate a change of holding strategy;
- or, if after their acquisition debt securities become no longer negotiable in an active market and Societe Generale has the intention and the ability to hold them for the foreseeable future or until maturity.

Securities which are then reclassified are recorded in their new category at their fair market value on the date of reclassification.

#### LONG-TERM INVESTMENT SECURITIES

Long-term investment securities are acquired debt securities or reclassified short-term investment securities which Societe Generale intends and has the capacity to hold until maturity.

Societe Generale must therefore have, in particular, the necessary financing capacity to continue holding these securities until their expiry date. These long-term investment securities shall be not subject to any legal or other form of constraint that might call into question its intention to do so.

Long-term investment securities also include trading and short-term investment securities which have been reclassified by Societe Generale following the particular conditions described here before (facing exceptional market situations or when debt securities are no longer negotiable in an active market).

These instruments may be designated as hedged items in hedging transactions using forward financial instruments used to hedge the interest rate risk on identifiable items or groups of similar items.

Long-term investments are recorded according to the same principles as short-term investment securities.

### SECURITIES, INVESTMENTS IN SUBSIDIARIES, AFFILIATES AND OTHER LONG-TERM SECURITIES

This category of securities covers *Investments in subsidiaries and Affiliates*, when it is deemed useful to Societe Generale's business to hold the said shares in the long term. This notably covers investments that meet the following criteria:

- shares in companies that share Directors or senior managers with Societe Generale and where influence can be exercised over the company in which the shares are held;
- shares in companies that belong to the same group controlled by individuals or legal entities, where the said persons or entities exercise control over the group and ensure that decisions are taken in unison;
- shares representing more than 10% of the voting rights in the capital issued by a bank or a company whose business is directly linked to that of Societe Generale.

This category also includes *Other long-term equity investments*. These are equity investments made by Societe Generale with the aim of developing special professional relations with a company over the long term but without exercising any influence on its management due to the low proportion of attached voting rights.

*Investments in subsidiaries, Affiliates and Other long-term securities* are recorded at their purchase price net of acquisition cost s. Dividend income earned on these securities is recognised in the income statement under *Dividend income*.

### SHORT-TERM INVESTMENT SECURITIES

Short-term investment securities are all those that are not classified as trading securities, long-term investment securities, or investments in consolidated subsidiaries and affiliates.

### Shares and other equity securities

Equity securities are carried on the balance sheet at cost excluding acquisition expenses, or at contribution value. At year-end, cost is compared to realisable value. For listed securities, realisable value is defined as the most recent market price. Unrealised capital gains are not recognised in the accounts but a Impairment of portfolio securities is recorded to cover unrealised capital losses, without this depreciation being offset against any unrealised capital gains. Income from these securities is recorded in Dividend income.

### Bonds and other debt securities

These securities are carried at cost excluding acquisition expenses and, in the case of bonds, excluding interest accrued and not yet due at the date of purchase. The positive or negative difference between cost and redemption value is amortised to income over the life of the relevant securities and using the actuarial method. Accrued interest on bonds and other short-term investment securities is recorded as related receivables and under Interest and similar income in the income statement.

Short-term investment securities may be reclassified into the Long-term investment securities category provided that:

- exceptional market situations generate a change of holding strategy;
- or, if after their acquisition debt securities become no longer negotiable in an active market and Societe Generale has the intention and the ability to hold them for the foreseeable future or until maturity.

## NOTE 2.1.1 TREASURY NOTES, BONDS AND OTHER DEBT SECURITIES, SHARES AND OTHER EQUITY SECURITIES

(In EUR m)	31.12.2018				31.12.2017			
	Treasury notes and similar securities	Shares and other equity securities	Bonds and other debt securities	Total	Treasury notes and similar securities	Shares and other equity securities	Bonds and other debt securities	Total
Trading securities	135,243	104,327	69,581	309,151	107,005	120,062	48,828	275,895
Short-term investment securities								
Gross book value	19,494	1,576	11,586	32,656	20,139	600	10,322	31,061
Impairment	(78)	(31)	(75)	(184)	(76)	(18)	(60)	(154)
Net book value	19,416	1,545	11,511	32,472	20,063	582	10,262	30,907
Long-term investment securities								
Gross book value	64	-	32,072	32,136	68	-	34,177	34,245
Impairment				-		-		
Net book value	64	-	32,072	32,136	68	-	34,177	34,245
Related receivables	87	76	38	201	80	76	21	177
<b>TOTAL</b>	<b>154,810</b>	<b>105,948</b>	<b>113,202</b>	<b>373,960</b>	<b>127,216</b>	<b>120,720</b>	<b>93,288</b>	<b>341,224</b>

## ADDITIONAL INFORMATION ON SECURITIES

(In EUR m)	31.12.2018	31.12.2017
Estimated market value of short-term investment securities		
Unrealised capital gains <sup>(1)</sup>	453	677
Estimated value of long-term investment securities:		
Premiums and discounts relating to short-term and long-term investment securities	186	135
Investments in mutual funds:		
- French mutual funds	4,069	2,163
- Foreign mutual funds	6,992	8,660
Of which mutual funds which reinvest all their income	1	52
Listed securities <sup>(2)</sup>	316,997	298,034
Subordinated securities	113	113
Securities lent	56,084	45,923

(1) Not including unrealized gains or losses on forward financial instruments, if any, used to hedge short-term investment securities.

(2) The listed trading securities amounted to EUR 254,324 million at 31<sup>st</sup> December 2018 against EUR 232,955 million at 31<sup>th</sup> December 2017.

## NOTE 2.1.2 SECURITIES, INVESTMENTS IN SUBSIDIARIES, AFFILIATES AND OTHER LONG-TERM SECURITIES

### AFFILIATES AND OTHER LONG-TERM SECURITIES

(In EUR m)	31.12.2018	31.12.2017
Banks	388	371
Others	368	265
<b>Gross book value</b>	<b>756</b>	<b>636</b>
Impairment	(51)	(44)
<b>NET BOOK VALUE<sup>(1)</sup></b>	<b>705</b>	<b>592</b>

(1) o.w. EUR 69 million from the associate's certificates (French deposit guaranty).

### INVESTMENTS IN SUBSIDIARIES

(In EUR m)	31.12.2018	31.12.2017
<b>Banks</b>	<b>26,324</b>	<b>28,539</b>
Listed	5,452	5,618
Unlisted	20,782	22,921
<b>Others</b>	<b>6,509</b>	<b>5,423</b>
Listed	1,156	1,156
Unlisted	5,323	4,267
<b>Gross book value<sup>(1)</sup></b>	<b>32,743</b>	<b>33,962</b>
Impairment <sup>(2)</sup>	(7,533)	(7,484)
<b>NET BOOK VALUE</b>	<b>25,210</b>	<b>26,478</b>

All transactions with the related parties were concluded under normal market conditions.

(1) The main changes involve:

- the capital decrease of SG FSH: EUR -701 million;
- the merger of Soginfo: EUR -149 million;
- the liquidation of Delta Credit MF Netherlands BV: EUR -149 million;
- the capital decrease of Orpavimob: EUR -21 million;
- the capital decrease of SG Asia Ltd.: EUR -17 million.

(2) The main changes in the depreciation are as follow:

- the impairment of Inter Europe Conseil: EUR -258 million;
- the impairment of SG International Ltd.: EUR -64 million;
- the impairment of SG Securities SPA: EUR -38 million;
- the impairment of Banka Societe Generale Albania: EUR -29 million;
- the impairment of Descartes Trading: EUR -17 million;
- the Rosbank recovery: EUR +87 million;
- the recovery following the liquidation of Delta Credit MF Netherlands BV: EUR +147 million;
- the Fidelity recovery: EUR +111 million.



## NOTE 2.1.3 TREASURY SHARES

## ACCOUNTING PRINCIPLES

Societe Generale shares acquired for allocation to employees are recorded as Short-term investment securities and presented under *Treasury stock* on the assets side of the balance sheet.

Societe Generale shares held with a view to underpinning the share price or as part of arbitrage transactions on the CAC 40 index are recorded as *Trading securities*.

(In EUR m)	31.12.2018			31.12.2017		
	Quantity	Book value	Market value	Quantity	Book value	Market value
Trading securities <sup>(1)</sup>	274,599	8	8	232,399	11	11
Short-term investment securities	5,975,497	234	166	6,850,304	270	295
Long-term equity investments						
<b>TOTAL</b>	<b>6,250,096</b>	<b>242</b>	<b>174</b>	<b>7,082,703</b>	<b>281</b>	<b>306</b>

Nominal value: EUR 1.25.

Market value per share: EUR 27.82 at 31st December 2018.

- (1) Societe Generale set up on 22nd August 2011 a liquidity contract which was endowed with EUR 170 million for carrying out transactions on the Societe Generale share. At 31st December 2018, 130,000 Societe Generale shares were held under the liquidity contract, which contained EUR 5 million for the purpose of carrying out transactions in Societe Generale shares.
- (2) The accounting value is assessed according to the notice of the CNC N° 2008-17 approved on 6th November 2008 concerning stock-options and bonus issues of shares.

## NOTE 2.1.4 DIVIDEND INCOME

(In EUR m)	2018	2017
Dividends from shares and other equity securities	10	37
Dividends from investments in non-consolidated subsidiaries and affiliates and other long-term securities	2,923	2,068
<b>TOTAL<sup>(1)</sup></b>	<b>2,933</b>	<b>2,105</b>

(1) Dividends received from investments in the trading portfolio have been classified under "Net income from the trading portfolio and short-term investment securities".

## NOTE 2.1.5 NET INCOME FROM THE TRADING PORTFOLIO AND SHORT-TERM INVESTMENT SECURITIES

(In EUR m)	2018	2017
<b>Net income from the trading portfolio:</b>		
Net income from operations on trading securities	(12,658)	11,629
Net income from forward financial instruments	17,748	(6,224)
Net income from foreign exchange transactions	(693)	550
<b>SUB-TOTAL</b>	<b>4,397</b>	<b>5,955</b>
<b>Net income from short-term investment securities:</b>		
Gains on sale	278	485
Losses on sale	(87)	(52)
Allocation of impairment	(73)	(58)
Reversal of impairment	22	29
<b>SUB-TOTAL</b>	<b>140</b>	<b>404</b>
<b>NET TOTAL</b>	<b>4,537</b>	<b>6,360</b>

## NOTE 2.1.6 NET INCOME FROM LONG-TERM INVESTMENTS

## ACCOUNTING PRINCIPLES

This item covers capital gains or losses realised on disposals, as well as the net allocation to impairment for investments in subsidiaries and affiliates, long-term investment securities.

(In EUR m)	2018	2017
<b>Long-term investment securities:</b>		
Net capital gains (or losses) on sale	-	
Net allocation to depreciations		7
<b>SUB-TOTAL</b>	<b>-</b>	<b>7</b>
<b>Investments in subsidiaries and affiliates:</b>		
Gains on sale <sup>(1)</sup>	174	1,000
Losses on sale <sup>(2)</sup>	(147)	(711)
Allocation to impairment <sup>(3)</sup>	(419)	(340)
Reversal of impairment <sup>(3)</sup>	361	1,060
Subsidies granted to affiliates (subsidiaries)		
<b>SUB-TOTAL</b>	<b>(31)</b>	<b>1,009</b>
<b>Net income from long term investment (see Note 7.2)</b>	<b>63</b>	<b>8</b>
<b>TOTAL</b>	<b>32</b>	<b>1024</b>

(1) o.w. EUR +119 million concerning the partial disposal of Euroclear and EUR +38 million concerning the merger of SG Services and the merger of Soginfo.

(2) o.w. EUR -147 million concerning the liquidation of Delta Credit MF Netherlands BV compensated by a provision reversal of the same amount.

(3) Almost all of allocations and write-backs concerning subsidiaries (cf. Note 2.1.2 - Investments in subsidiaries).

## NOTE 2.2 Operations on forward financial instruments

## ACCOUNTING PRINCIPLES

Operations on forward financial instruments relating to interest rates, foreign exchange or equities are used for trading or hedging purposes.

Nominal commitments on forward financial instruments are recorded as a separate off-balance sheet item. This amount represents the volume of outstanding transactions and does not represent the potential gain or loss associated with the market or counterpart risk on these transactions. Credit derivatives purchased to hedge credit risks on financial assets which are not valued at market value are classified and treated as guarantee commitments received.

The accounting treatment of income or expenses on these forward financial instruments depends on the purpose for which the transaction was concluded, as follows:

## HEDGING TRANSACTIONS

Income and expenses on forward financial instruments used as a hedge and assigned from the beginning to an identifiable item or group of similar items, are recognised in the income statement in the same manner as income and expenses on the hedged items. Income and expenses on interest rate instruments are recorded as net interest income in the same interest income or expense account as the items hedged. Income and expenses on other instruments such as equity instruments, stock market indexes or currencies are recognised under *Net income from the trading portfolio*, or, *from short-term investment securities*.

Income and expenses on forward financial instruments used to hedge or manage an overall interest rate risk are recognised in the income statement over the life of the instrument under *Net income from the trading portfolio*, or, *from short-term investment securities*.

## TRADING TRANSACTIONS

Trading transactions include instruments traded on organised or similar markets and other instruments, such as credit derivatives and composite option products, which are included in the trading portfolio although they are traded over-the-counter on less liquid markets, together with debt securities with a forward financial instrument component for which this classification in the accounts most appropriately reflects the results and associated risks. These transactions are measured at their market value at the balance sheet date. When financial instruments are not quoted in an active market, this value is generally determined on the basis of in-house models. Where necessary, these valuations are adjusted for reasons of prudence by applying a discount (*Reserve Policy*). This discount is determined on the basis of the instruments concerned and the associated risks, and takes into account:

- a conservative valuation of all the instruments, regardless of the liquidity of the corresponding market;
- a reserve calculated according to the size of the position and intended to cover the risk that Societe Generale will be unable to liquidate the investment in one go due to the size of the holding;

- an adjustment for the reduced liquidity of instruments and modelling risks in the case of complex products as well as transactions on less liquid markets (less liquid since they have been developed recently or are more specialised).

Furthermore, for over-the-counter transactions on forward interest rate instruments, the market value takes into account counterpart risks and the discounted value of future management costs. The corresponding gains or losses are directly recognised as income for the period, regardless of whether they are realised or unrealised. They are recognised in

the income statement as *Net income from the trading portfolio*, or, from *short-term investment securities*.

Gains or losses corresponding to contracts concluded within the scope of cash management activities managed by the trading room, in order to benefit from any interest rate fluctuations, are recorded when liquidated or over the life of the contract, depending on the type of instrument. Unrealised losses are provisioned at year-end and the corresponding amount is recorded under Net income from the trading portfolio, or, from short-term investment securities.

## NOTE 2.2.1 FORWARD FINANCIAL INSTRUMENTS COMMITMENTS

(In EUR m)	Fair Value Trading transactions	Hedging transactions	Total at	
			31.12.2018	31.12.2017
Firm transactions				
Transactions on organized markets				
Interest rate futures	692,014		692,014	552,460
Foreign exchange futures <sup>(1)</sup>	1,644,515		1,644,515	1,484,340
Other futures contracts	550,171	121	550,292	561,934
OTC agreements				
Interest rate swaps	8,428,271	11,177	8,439,448	8,526,194
Currency financing swaps	860,895	567	861,462	805,265
Forward Rate Agreements (FRA)	904,689		904,689	1,491,975
Other	47,339		47,339	38,313
Optional transactions				
Interest rate options	1,960,587		1,960,587	2,038,182
Foreign exchange options	525,918	211	526,129	359,238
Options on stock exchange indexes and equities	1,182,292	1	1,182,293	1,000,006
Other options	77,522		77,522	66,230
TOTAL	16,874,213	12,077	16,886,290	16,924,137

(1) Amount reviewed against published 2017 financial statements, further to the incorporation of some foreign exchange future operations which were previously excluded.

## NOTE 2.2.2 FAIR-VALUE OF THE TRANSACTIONS QUALIFIED AS HEDGING

(In EUR m)	31.12.2018
<b>Firm transactions</b>	
<b>Transactions on organized markets</b>	
Interest rate futures	-
Foreign exchange futures	-
Other forward contracts	(19)
<b>OTC agreements</b>	
Interest rate swaps	3,660
Currency financing swaps	108
Forward Rate Agreements (FRA)	-
Other	-
<b>Optional transactions</b>	
Interest rate options	-
Foreign exchange options	-
Options on stock exchange indexes and equities	-
Other options	-
<b>TOTAL</b>	<b>3,749</b>

## NOTE 2.2.3 MATURITIES OF FINANCIAL DERIVATIVES (NOTIONAL AMOUNTS)

(In EUR m)	Less than 3 months	3 months to one year	1 to 5 years	More than 5 years	Total
<b>Firm transactions</b>					
Transactions on organised markets	311,887	1,594,273	478,292	502,369	2,886,821
OTC agreements	47,156	3,019,241	3,194,279	3,992,262	10,252,938
<b>Optional transactions</b>	<b>25,672</b>	<b>1,445,391</b>	<b>1,079,669</b>	<b>1,195,799</b>	<b>3,746,531</b>
<b>TOTAL</b>	<b>384,715</b>	<b>6,058,905</b>	<b>4,752,240</b>	<b>5,690,430</b>	<b>16,886,290</b>

## NOTE 2.3 Loans and borrowings

## ACCOUNTING PRINCIPLES

Amounts due from banks and customer loans are classified according to their initial duration and type: demand deposits (current accounts and overnight transactions) and term deposits in the case of banks, and commercial loans, overdrafts and other loans to customers. They also include securities purchased from banks and customers under resale agreements, and loans secured by notes and securities.

Only amounts due and customer loans which meet the following criteria are offset on the balance sheet: those with the same counterpart, maturity, currency and accounting entity, and those for which an agreement exists with the counterpart allowing the company to combine the accounts and exercise the right of offset.

Interest accrued on these receivables is recorded as *Related receivables* and recognised in the income statement under *Interest income and expenses*.

Fees received and incremental transaction costs related to the granting of a loan are comparable to interest and spread over the effective life of the loan.

Guarantees and endorsements recorded off-balance sheet represent transactions which have not yet given rise to cash movements, such as irrevocable commitments for the undrawn portion of facilities made available to banks and customers or guarantees given on their behalf.

If a commitment carries an incurred credit risk which makes it probable that Societe Generale will not recover all or part of the amounts due under the counterpart's commitment in accordance with the original terms of the contract, despite the existence of a guarantee, the corresponding outstanding loan is classified as a doubtful loan. Moreover, any loan will be classified as doubtful if one or more repayments are more than three months overdue (six months for mortgage loans and nine months for loans to local authorities), or, regardless of whether any payments have been missed, if it can be assumed that there is an identified risk, or if legal proceedings have been started.

If a loan to a given borrower is classified as doubtful, all outstanding loans or commitments to that borrower are reclassified as doubtful, regardless of whether or not they are backed by a guarantee.

Impairment for unrealised losses and for doubtful loans is recorded in the amount of the probable loss (see Note 2.6)

## RESTRUCTURING OF LOANS AND RECEIVABLES

When an asset recorded under *Due from banks* or *Customer loans* is restructured, contractual changes are made to the amount, term or financial conditions of the initial transaction approved by the Group, due to the financial difficulties or insolvency of the borrower (whether insolvency has already occurred or will definitely occur unless the debt is restructured), and these changes would not have been considered in other circumstances. Restructured financial assets are classified as impaired and the borrowers are considered to be in default.

These classifications are maintained for at least one year and for as long as any uncertainty remains for the Group as to whether or not the borrowers can meet their commitments.

At the restructuring date, the carrying amount of the restructured financial asset is decreased to the present amount of the estimated new future recoverable cash flows discounted using the initial effective interest rate. This loss is booked to profit or loss under *Cost of risk*.

Restructured financial assets do not include loans and receivables subject to commercial renegotiations.

Loans and receivables may be subject to commercial renegotiations provided that the borrowing customer is not experiencing financial difficulties and is not insolvent. Such transactions involve customers whose debt the Group is willing to renegotiate in the interest of maintaining or developing a commercial relationship, in accordance with the credit approval procedures in force, and without relinquishing any principal or accrued interest.

Renegotiated loans and receivables are derecognised at the renegotiation date and replaced with the new loans, taken out under renegotiated conditions, which are recorded on the balance sheet at the same date. These new loans are subsequently measured at amortised cost, based on the effective interest rate arising from the new contractual conditions and taking into account the renegotiation fees billed to the customer.

## NOTE 2.3.1 DUE FROM BANKS

(In EUR m)	31.12.2018	31.12.2017
<b>Deposits and loans</b>		
<b>Demand</b>		
Current accounts	15,485	13,176
Overnight deposits and loans	468	500
Loans secured by notes-overnight		
<b>Term</b>		
<b>Term deposits and loans</b>	<b>75,640</b>	<b>99,465</b>
Subordinated and participating loans	4,244	4,104
Loans secured by notes and securities		
Related receivables	121	254
<b>GROSS AMOUNT</b>	<b>95,958</b>	<b>117,499</b>
Impairment	(24)	(24)
<b>NET AMOUNT</b>	<b>95,934</b>	<b>117,475</b>
Securities purchased under resale agreements	85,526	74,467
<b>TOTAL <sup>(1)(2)</sup></b>	<b>181,460</b>	<b>191,942</b>

(1) At 31<sup>st</sup> December 2018 doubtful loans amounted to EUR 48 million (of which EUR 17 million were non-performing loans) against EUR 94 million (of which EUR 17 million were non-performing loans at 31<sup>st</sup> December 2017).

(2) Including amounts receivable from subsidiaries: EUR 79,091 million at 31<sup>st</sup> December 2018 against EUR 94,433 million at 31<sup>st</sup> December 2017.

## NOTE 2.3.2 CUSTOMER LOANS

(In EUR m)	31.12.2018	31.12.2017
Discount of trade notes	1,661	1,814
<b>Other loans</b>		
Short-term loans	74,060	60,816
Export loans	10,705	9,493
Equipment loans	45,782	40,705
Mortgage loans	63,604	60,622
Other loans	99,359	76,236
<b>SUB-TOTAL <sup>(1)(2)(3)</sup></b>	<b>293,510</b>	<b>247,872</b>
Overdrafts	15,596	15,986
Related receivables	1,051	996
<b>GROSS AMOUNT</b>	<b>311,818</b>	<b>266,668</b>
Impairment	(2,963)	(3,287)
<b>NET AMOUNT</b>	<b>308,855</b>	<b>263,381</b>
Loans secured by notes and securities	92	89
Securities purchased under resale agreements	173,549	126,842
<b>TOTAL <sup>(4)(5)</sup></b>	<b>482,496</b>	<b>390,312</b>

(1) Including pledged loan: EUR 60,152 million of which amounts eligible for refinancing with Bank of France: EUR 9,612 million at 31<sup>st</sup> December 2018 (EUR 9,006 million at 31<sup>st</sup> December 2017).

(2) Of which participating loans: EUR 2,834 million at 31<sup>st</sup> December 2018 (EUR 2,605 million at 31<sup>st</sup> December 2017).

(3) At 31<sup>st</sup> December 2018 doubtful loans amounted to EUR 6,759 million (of which EUR 4,002 million were non-performing loans) against EUR 7,839 million (of which EUR 4,494 million were non-performing loans) at 31<sup>st</sup> December 2017.

(4) Of which amounts receivable from subsidiaries: EUR 168,233 million at 31<sup>st</sup> December 2018 (EUR 104,837 million at 31<sup>st</sup> December 2017).

(5) Including restructured loans: EUR 2,297 million at 31<sup>st</sup> December 2018 against EUR 2,865 million at 31<sup>st</sup> December 2017.

## NOTE 2.3.3 COMMITMENTS GRANTED

(In EUR m)	31.12.2018	31.12.2017
<b>Commitments granted<sup>(1)</sup></b>		
<b>Loan commitments</b>		
- To banks	21,465	23,487
- To customers	205,277	173,820
<b>TOTAL</b>	<b>226,742</b>	<b>197,307</b>
<b>Guarantee commitments</b>		
- On behalf of banks	150,762	116,941
- On behalf of customers	71,497	70,676
<b>TOTAL</b>	<b>222,259</b>	<b>187,617</b>

(1) Of which commitments granted to subsidiaries: EUR 92,533 million at 31<sup>st</sup> December 2018 (EUR 70,171 million at 31<sup>st</sup> December 2017).

## NOTE 2.3.4 SECURITISATION

## ACCOUNTING PRINCIPLES

Loans and receivables transferred by Societe Generale to a securitisation undertaking (securitisation fund, securitisation vehicle or equivalent foreign undertaking) are derecognised and the gain or loss on sale calculated as the difference between the selling price and the carrying amount of transferred loans or receivables is recognised in profit or loss.

If the transfer agreement contains an overcollateralisation clause, Societe Generale records on the assets side of its balance sheet, among the loans and receivables, a receivable for the part of the amount of transferred loans and receivables exceeding the sale price.

Ordinary units issued by a gaining securitisation undertaking and acquired or subscribed by Societe Generale are recorded as trading securities or as short-term investment securities according to their purpose.

Specific units, subordinated units and other financial instruments issued by the gaining securitisation undertaking and acquired or subscribed by Societe Generale as collateral at the benefit of the undertaking are recorded as short-term investment securities (see Note 2.1).

If Societe Generale lodges a cash security deposit with the gaining securitisation undertaking to bear the losses resulting from the failure of debtors of loans and receivables transferred, it records such deposit on the assets side of its balance sheet in the section *Accruals, other accounts receivable and other assets* as a receivable from securitisation undertaking, provided that the possible balance of the deposit will be attributed to it in course of liquidation of the securitisation undertaking.

If the guarantee granted by Societe Generale takes the form of a commitment granted, it is recorded in the off-balance sheet as a guarantee commitment granted to customers or to banks, as the case may be.

In 2017, Societe Generale proceeded to a securitisation in order to substitute in the assets, eligible bonds as the eurosystem refinancing guaranty for mortgage loans. For this purpose, Societe Generale has transferred EUR 9,242 million mortgage loans to a securitisation mutual fund. To capitalise the acquisition, the fund has issued bonds which were fully subscribed by Societe Generale, who bears the risks and the profits.

The bonds are presented in the assets on the balance sheet as at 31<sup>st</sup> December 2017 within the investment portfolio for an amount of EUR 7,640 million at 31<sup>st</sup> December 2018 (EUR 8,727 million at 31<sup>st</sup> December 2017).

**NOTE 2.4 Debts****ACCOUNTING PRINCIPLES**

Amounts due to banks and customer deposits are classified according to their initial duration and type: demand (demand deposits and current accounts) and time deposits and borrowings in the case of banks, and regulated savings accounts and other

deposits in the case of customers. They also include securities sold to banks and customers under repurchase agreements.

Interest accrued on these deposits is recorded as related payables and as an expense in the income statement.

**NOTE 2.4.1 DUE TO BANKS**

(In EUR m)	31.12.2018	31.12.2017
<b>Demand deposits</b>		
Demand deposits and current accounts	22,721	13,858
Borrowings secured by notes - overnight	-	-
<b>SUB-TOTAL</b>	<b>22,721</b>	<b>13,858</b>
<b>Term deposits</b>		
Term deposits and borrowings	131,862	158,040
Borrowings secured by notes and securities	-	-
<b>SUB-TOTAL</b>	<b>131,862</b>	<b>158,040</b>
Related payables	429	529
<b>TOTAL DEPOSITS</b>	<b>155,012</b>	<b>172,427</b>
Securities sold under repurchase agreements	65,065	69,359
<b>TOTAL<sup>(1)</sup></b>	<b>220,077</b>	<b>241,786</b>

(1) Including amounts due to subsidiaries: EUR 77,953 million at 31<sup>st</sup> December 2018 (EUR 77,314 million at 31<sup>st</sup> December 2017).

**NOTE 2.4.2 CUSTOMER DEPOSITS**

(In EUR m)	31.12.2018	31.12.2017
<b>Regulated savings accounts</b>		
Demand	43,373	42,093
Term	17,637	18,086
<b>SUB-TOTAL</b>	<b>61,010</b>	<b>60,179</b>
<b>Other demand deposits</b>		
Businesses and sole proprietors	50,722	49,458
Individual customers	33,835	31,206
Financial customers	26,230	24,686
Others	5,935	5,445
<b>SUB-TOTAL</b>	<b>116,722</b>	<b>110,795</b>
<b>Other term deposits</b>		
Businesses and sole proprietors	45,542	53,731
Individual customers	214	352
Financial customers	143,443	107,264
Others	12,458	6,850
<b>SUB-TOTAL</b>	<b>201,657</b>	<b>168,197</b>
Related payables	641	548
<b>TOTAL CUSTOMER DEPOSITS</b>	<b>380,030</b>	<b>339,719</b>
Securities sold to customers under repurchase agreements	144,816	119,971
<b>TOTAL<sup>(1)</sup></b>	<b>524,846</b>	<b>459,690</b>

(1) Including deposits of subsidiaries: EUR 193,951 million at 31<sup>st</sup> December 2018 (EUR 132,477 million at 31<sup>st</sup> December 2017).

## NOTE 2.4.3 DEBT SECURITIES ISSUED

## ACCOUNTING PRINCIPLES

These liabilities are classified by type of security: loan notes, interbank market certificates, negotiable debt instruments, bonds and other debt securities, but exclude subordinated notes which are classified under *Subordinated debt*.

Interest accrued is recorded as related payables and as an expense in the income statement. Bond issuance and redemption

premiums are amortised using the straight-line or actuarial method over the life of the related borrowings. The resulting expense is recorded in the income statement under *Interest and similar expense*.

Bond issuance costs accrued over the period are recorded as expenses for the period, under *Interest and similar expense* in the income statement.

(In EUR m)	31.12.2018	31.12.2017
Term savings certificates		
Bond borrowings	1,792	1,668
Related payables	20	19
<b>SUB-TOTAL</b>	<b>1,812</b>	<b>1,687</b>
Interbank certificates and negotiable debt instruments	105,933	80,900
Related payables	605	525
<b>TOTAL<sup>(1)</sup></b>	<b>108,350</b>	<b>83,111</b>

(1) Including commissions related to subsidiaries: EUR 2,506 million at 31<sup>st</sup> December 2018 (EUR 2,144 million at 31<sup>st</sup> December 2017)

## NOTE 2.4.4 COMMITMENTS RECEIVED

(In EUR m)	31.12.2018	31.12.2017
<b>Commitments received<sup>(1)</sup></b>		
Loan commitments received from banks	60,532	51,377
Guarantee commitments received from banks	50,841	47,127
<b>TOTAL</b>	<b>111,373</b>	<b>98,504</b>

(1) Including commitments received from subsidiaries: EUR 16,561 million at 31<sup>st</sup> December 2018 (EUR 11,871 million at 31<sup>st</sup> December 2017).



**NOTE 2.5 Interests income and expenses****ACCOUNTING PRINCIPLES**

Interest income and expense are recognised in the income statement under *Interest and similar income* or *Interest and similar expense* for all financial instruments measured at amortised cost using the effective interest rate method.

The effective interest rate is taken to be the rate used to discount future cash inflows and outflows over the expected life of the instrument in order to establish the book value of the financial asset or liability. The calculation of this rate considers the future cash flows based on the contractual provisions of the financial instrument without taking account of possible future loan losses and also includes commissions paid or received between the

parties where these may be assimilated to interest, directly linked transaction costs, and all types of premiums and discounts.

When a financial asset or group of similar financial assets has been impaired following an impairment of value, subsequent interest income is recorded on the basis of the effective interest rate used to discount the future cash flows when measuring the loss of value.

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

(In EUR m)	2018			2017		
	Incomes	Expenses	Net	Incomes	Expenses	Net
<b>Interest income from transactions with banks</b>	<b>3,320</b>	<b>(3,433)</b>	<b>(113)</b>	<b>3,109</b>	<b>(3,190)</b>	<b>(81)</b>
Transactions with central banks, post office accounts and banks	2,132	(2,320)	(188)	2,318	(2,566)	(248)
Securities sold under repurchase agreements and borrowings secured by notes and securities	1,188	(1,113)	75	791	(624)	167
<b>Transactions with customers</b>	<b>9,495</b>	<b>(7,473)</b>	<b>2,022</b>	<b>8,221</b>	<b>(5,971)</b>	<b>2,250</b>
Trade notes	33	-	33	64	-	64
Other customer loans	7,577	-	7,577	6,803	-	6,803
Overdrafts	355	-	355	305	-	305
Special savings accounts	-	(622)	(622)	-	(635)	(635)
Other deposits	-	(4,904)	(4,904)	-	(4,111)	(4,111)
Securities sold/bought under repurchase agreements and borrowings secured by notes and securities	1,530	(1,947)	(417)	1,049	(1,225)	(176)
<b>Bonds and other debt securities</b>	<b>9,336</b>	<b>(9,591)</b>	<b>(255)</b>	<b>2,041</b>	<b>(3,609)</b>	<b>(1,568)</b>
<b>Other interest expenses and related income</b>	<b>1,955</b>	<b>(3,281)</b>	<b>(1,326)</b>	<b>1,508</b>	<b>(2,479)</b>	<b>(971)</b>
<b>TOTAL INTEREST INCOMES/EXPENSES</b>	<b>24,106</b>	<b>(23,778)</b>	<b>328</b>	<b>14,879</b>	<b>(15,249)</b>	<b>(370)</b>

The detail of other customer loans is composed of:

(In EUR m)	2018	2017
Short-term loans	1,619	1,357
Export loans	282	236
Equipment loans	881	944
Mortgage loans	1,319	1,571
Other loans	3,476	2,695
<b>TOTAL</b>	<b>7,577</b>	<b>6,803</b>

**NOTE 2.6 Impairment and provisions****NOTE 2.6.1 IMPAIRMENT AND PROVISIONS FOR CREDIT RISKS****NOTE 2.6.1.1 IMPAIRMENT****ACCOUNTING PRINCIPLES**

Depreciations include assets impairment of assets and impairment of securities.

**IMPAIRMENT OF ASSETS**

Impairment for unrealised losses is equal to the difference between the carrying amount of the asset and the present value of estimated future recoverable cash flows, taking into account any guarantees, discounted at the financial assets' original effective interest rate. Furthermore, this impairment may not be less than the full amount of the accrued interest on the doubtful loan. Impairment, reversals of impairment, losses on bad debts and recovery of impaired debts are recognised under *Cost of risk*, along with write-backs of impairment linked to the passage of time.

Doubtful loans can be reclassified as performing loans when the credit risk has been definitively eliminated and regular repayments have resumed according to the original terms of the contract. Similarly, doubtful loans which have been restructured can be reclassified as performing loans. When a loan is restructured, a discount is applied to any differences between the cash flows expected to be received under the initial terms of the contract and the present value of the future flows of capital and interest expected to be received under the new terms, discounted at the original effective interest rate.

The amount deducted is recognised under *Cost of risk*. If the restructured loan is subsequently reclassified as a performing loan, it is reincorporated into net interest income over the remaining term of the loan.

When a borrower's solvency is such that after the loan has been classified as doubtful for a reasonable period, it is not foreseeable that it will be reclassified as a performing loan, the loan is identified as a non-performing loan. A loan is classified as non-performing once the bank asks for an early termination, when the contract is terminated and in any case one year after it was classified as doubtful, except where the original terms of the contract have been respected or where the loan is covered by guarantees which ensure its recovery. Loans which have been restructured and for which the borrower has not respected the new conditions are also classified as non-performing.

**IMPAIRMENT OF SECURITIES****Short-term investment securities**■ **Shares and other equity securities**

At year-end, cost is compared to realisable value. For listed securities, realisable value is defined as the most recent market price. Unrealised capital gains are not recognised in the accounts but a impairment of portfolio securities is recorded to cover unrealised capital losses, without this impairment being offset against any unrealised capital gains.

■ **Bonds and other debt securities**

At year-end, cost is compared to realisable value or, in the case of listed securities, to their most recent market price. Unrealised capital gains are not recognised in the accounts but impairment of portfolio securities is recorded to cover unrealised capital losses, after consideration of any gains made on any related hedging transactions.

Allocations to and reversals of impairment for losses on short-term investment securities together with gains and losses on sales of these securities are recorded under *Net income from the trading portfolio*, or *from short-term investment securities* in the income statement.

**Long-term investment securities**

Long-term investments are recorded according to the same principles as short-term investment securities, except that no impairment is made for unrealised losses, unless there is a strong probability that the securities will be sold in the short term, or unless there is a risk that the issuer will be unable to redeem them.

Allocations to and reversals of impairment for losses on long-term investment securities, together with gains and losses on sales of these securities, are recorded in the income statement under *Net income from long-term investments*.

**Affiliates and investment in subsidiaries**

At year-end, investments in consolidated subsidiaries and affiliates are valued at their value in use, namely the price the company would accept to pay to obtain the said securities if it had to acquire them in view of its investment objective. This value is estimated on the basis of various criteria, such as shareholders' equity, profitability, and the average share price over the last three months. Unrealised capital gains are not recognised in the accounts but a depreciation on portfolio securities is recorded to cover unrealised capital losses.

Allocations to and reversals of impairment as well as any capital gains or losses realised on the disposal of these securities, including any profit or loss generated when tendering these securities to public share exchange offers, are recognised under *Net income from long-term investments*.

(In EUR m)	31.12.2018	31.12.2017
<b>Assets impairment:</b>		
Banks	24	24
Customer loans	2,963	3,287
Other	142	82
<b>Sub-total<sup>(1)</sup></b>	<b>3,129</b>	<b>3,393</b>
Impairment on securities <sup>(2)</sup>	7,768	7,682
<b>TOTAL IMPAIRMENT</b>	<b>10,897</b>	<b>11,075</b>

(1) Of which depreciation for non-performing loans: EUR 2,273 million.

(2) Except Treasury stock.

The change of impairment (excluding securities) breaks down as follows:

(In EUR m)	Net allocations					Amount at 31.12.2018
	Amount at 31.12.2017	Net cost of risk	Other income statement	Used reversals	Change and reclassifying	
<b>Assets' impairment</b>	<b>3,393</b>	<b>303</b>	<b>55</b>	<b>(642)</b>	<b>20</b>	<b>3,129</b>

## NOTE 2.6.1.2 PROVISIONS

### ACCOUNTING PRINCIPLES

Provisions include:

- provisions for off-balance sheet commitments (relative to commitments granted);
- collective provisions for credit risk.

### PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS (PROVISIONS FOR OFF-BALANCE SHEET GUARANTEES)

Provisions for off-balance sheet commitments represent the Societe Generale's potential losses incurred following the identification of an identified credit risk on an off-balance sheet financing or guarantee commitment that would not be considered as a derivative instrument or designated as financial asset through profit or loss.

### COLLECTIVE PROVISIONS FOR CREDIT RISK (LINKED TO DOWNGRADED COMMITMENTS AND LOANS)

In a homogenous portfolio, as soon as a significant deterioration in credit risk is identified on a group of financial instruments, a provision is recognized without waiting for the risk to individually affect one or more receivables.

The provision is calculated for the amount of credit losses that Societe Generale 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

equals to the present value of the expected credit losses, 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.

### Comments relative to the identification of the downgrading of credit risk:

To identify the exposures under collective provision, Societe Generale determines whether or not there is a significant increase of credit risk based on available historical and prospective information (behaviour scoring, credit ratings, loan to value indicators, macroeconomics scenarios, etc.).

The assessment of changes in credit risk takes account of the following criteria:

- 1<sup>st</sup> criteria: changes in the counterpart's credit rating as well as a change in operating sector, macroeconomic conditions and the behaviours of the counterpart that may, above and beyond the review of the credit rating, may be a sign of deteriorating credit risk;
- 2<sup>nd</sup> criteria: changes in the counterpart's credit rating, from contract to contract from the date of first recognition to the balance sheet date;
- 3<sup>rd</sup> criteria: the existence of amounts past due of more than 30 days.

Once any one of these criteria is met, the relative contract is impaired as described before.

(In EUR m)	Amount at 31.12.2017	Net allocations per net cost of risk	Change and reclassifying	Amount at 31.12.2018
Provisions for off-balance sheet commitments to banks	2	(2)		-
Provisions for off-balance sheet commitments to customers	205	(51)	5	159
Collective provisions for credit risks	825	(285)	4	544
<b>TOTAL</b>	<b>1,032</b>	<b>(338)</b>	<b>9</b>	<b>703</b>

#### PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS

Provisions for off-balance sheet commitments represent Societe Generale's probable losses incurred following the identification of a

proven credit risk on an off-balance sheet financing or guarantee commitment that would not be considered as a derivative instrument or designated as financial asset through profit and loss.

#### NOTE 2.6.1.3 COMMITMENTS LINKED TO MORTGAGE SAVINGS AGREEMENTS/PLANS (CEL/PEL)

##### ACCOUNTING PRINCIPLES

*Comptes d'épargne logement* (CEL or mortgage savings accounts) and *plans d'épargne logement* (PEL or mortgage savings plans) are special savings schemes for individual customers which are governed by Law 65-554 of 10<sup>th</sup> July 1965. These products combine an initial deposits phase in the form of an interest-earning savings account, followed by a lending phase where the deposits are used to provide mortgage loans. Under the current regulation, this last phase is subject to the prior existence of the savings phase and is therefore inseparable from it. The savings deposits collected and loans granted are recognised at amortised cost.

These instruments create two types of commitments for Societe Generale: the obligation to subsequently lend to the customer at an interest rate also established at the inception of the savings agreement and the obligation to remunerate customer savings for an indeterminate future period at an interest rate established at the inception of the mortgage savings agreement.

If it is clear that commitments under the PEL/CEL agreements will have negative consequences for the company, a provision is recorded on the liabilities side of the balance sheet. Any changes in these provisions are recognised as net banking income under *Net interest income*. These provisions only relate to commitments

arising from PEL/CEL that are outstanding at the date of calculation.

Provisions are calculated for each generation of mortgage savings plans (PEL), with no netting between different PEL generations, and for all mortgage saving accounts (CEL) which constitute a single generation.

During the deposits phase, the underlying commitment used to determine the amount to be provisioned is calculated as the difference between the average expected amount of deposits and the minimum expected amount. These two amounts are determined statistically on the basis of the historical observed past behaviour of customers.

During the lending phase, the underlying commitment to be provisioned includes loans already granted but not yet drawn at the date of calculation, and future loans that are considered statistically probable on the basis of the amount of balance sheet deposits at the date of calculation and the historical observed past behaviour of customers.

A provision is recorded if the discounted value of expected future earnings for a given generation of PEL/CEL is negative. Earnings are estimated on the basis of interest rates available to individual customers for equivalent savings and loan products (with a similar estimated life and date of inception).

#### OUTSTANDING DEPOSITS IN MORTGAGE SAVINGS AGREEMENTS (PEL/CEL)

(In EUR m)	31.12.2018	31.12.2017
Mortgage savings plans (PEL)		
less than 4 years old	2,752	4,818
between 4 and 10 years old	9,043	7,237
more than 10 years old	4,545	4,485
<b>SUB-TOTAL</b>	<b>16,340</b>	<b>16,540</b>
Mortgage savings accounts (CEL)	1,076	1,119
<b>TOTAL</b>	<b>17,416</b>	<b>17,659</b>

**OUTSTANDING HOUSING LOANS GRANTED WITH RESPECT TO MORTGAGE SAVINGS AGREEMENTS (PEL/CEL)**

(In EUR m)	31.12.2018	31.12.2017
less than 4 years old	1	3
between 4 and 10 years old	22	40
more than 10 years old	10	6
<b>TOTAL</b>	<b>33</b>	<b>49</b>

**PROVISIONS FOR COMMITMENTS LINKED TO MORTGAGE SAVINGS AGREEMENTS (PEL/CEL)**

(In EUR m)	31.12.2017	Allocations	Reversals	31.12.2018
Mortgage savings plans (PEL)				
less than 4 years old	15	-	(14)	1
between 4 and 10 years old	28	-	(8)	20
more than 10 years old	122	-	(4)	118
<b>SUB-TOTAL</b>	<b>165</b>	<b>-</b>	<b>(26)</b>	<b>139</b>
Mortgage savings accounts (CEL)	4	6	-	10
<b>TOTAL</b>	<b>169</b>	<b>6</b>	<b>(26)</b>	<b>149</b>

The level of provisions is sensitive to the long-term interest rates. Since the long-term rates were low during 2018, the provisions for PEL and CEL mortgage saving accounts are linked to the risks attached to the commitment to remunerate the deposits. Provisioning for PEL/CEL savings amounted to 0.85% of total outstandings as at 31<sup>st</sup> December 2018.

**METHODS USED TO ESTABLISH THE PARAMETERS FOR VALUING PROVISIONS**

The parameters used for estimating the future behaviour of customers are derived from historical observations of customer behaviour patterns over long period (more than 10 years). The values of these

parameters can be adjusted whenever changes are made to regulations that may undermine the effectiveness of past data as an indicator of future customer behaviour.

The values of the various market parameters used, notably interest rates and margins, are calculated on the basis of observable data and constitute a best estimate, at the date of valuation, of the future value of These items for the periods in question, in line with the Retail Banking Division's policy of interest rate risk management.

The discount rates used are derived from the zero-coupon swaps vs. Euribor yield curve on valuation date, averaged over a 12-month period.

**NOTE 2.6.1.4 COST OF RISK****ACCOUNTING PRINCIPLES**

Cost of risk includes allocations, net of reversals, to provisions and to impairments for credit risk, the amount of the loan considered uncollectable and the amount of recoveries on loans written off.

(In EUR m)	2018	2017
Identified risks	36	(177)
Losses not covered by impairment and amounts recovered on write-offs	(105)	(84)
Other risks and litigations <sup>(1)</sup>	-	(404)
<b>Net allocation to impairment and provisions for receivables and off-balance commitments</b>	<b>(69)</b>	<b>(665)</b>
<i>Including gain (loss) on revaluation of currency hedge of provisions:</i>		
<i>Counterparty risk</i>	<i>(21)</i>	<i>(63)</i>

(1) In 2018, the movements of provisions for litigations are reported in different operating margins according to the accounting classification of the estimated risk.

**NOTE 2.6.2 PROVISIONS FOR FORWARD FINANCIAL INSTRUMENTS****ACCOUNTING PRINCIPLES**

Provisions on forward financial instruments are related to unrealized losses calculated on homogeneous sets of forward financial contracts recognized in balance sheet as isolated open positions

They are determined as the difference between the market value estimated at balance sheet closing date and determined at previous balance sheet closing date.

They are recognised in balance sheet as provisions for probable risks and expenses. The changes in provisions thus calculated are recorded in net income under *Net income from the trading portfolio*.

(In EUR M)	Amount at 31.12.2017	Net Allocations	Used reversals	Change and reclassifying	Amount at 31.12.2018
Provisions for forwards Financial instruments	9,685	887	-	73	10,646

**NOTE 3 OTHER ACTIVITIES****NOTE 3.1 Net fees for services****ACCOUNTING PRINCIPLES**

Societe Generale recognises fee income and expense for services provided and received in different ways depending on the type of service.

Fees for ongoing services, such as some payment services, custody fees, or web-service subscriptions are recorded as income over the lifetime of the service. Fees for one-off services, such as fund activity, finder's fees received, arbitrage fees, or

penalties following payment incidents are recognised in income when the service is provided.

In syndication deals, the effective interest rate for the share of the issue retained on Societe Generale's balance sheet is comparable to that applying to the other members of the syndicate including, when needed, a share of the underwriting fees and participation fees; the balance of these fees is recorded in the income statement at the end of the syndication period. Arrangement fees are recorded in income when the placement is legally complete.

(In EUR m)	2018			2017		
	Incomes	Expenses	Net	Incomes	Expenses	Net
Transactions with banks	81	(92)	(11)	74	(92)	(18)
Transactions with customers	1,478	(35)	1,443	1,359		1,359
Securities transactions	457	(831)	(374)	507	(771)	(264)
Primary market transactions	44	-	44	112	-	112
Foreign exchange transactions and forward financial instruments	85	(283)	(198)	68	(269)	(201)
Loan and guarantee commitments	657	(174)	483	662	(71)	591
Services	1,484	-	1,484	1,383	-	1,383
Other	-	(112)	(112)	-	(156)	(156)
<b>NET TOTAL</b>	<b>4,286</b>	<b>(1,527)</b>	<b>2,759</b>	<b>4,165</b>	<b>(1,359)</b>	<b>2,806</b>

**NOTE 3.2 Accruals, other assets and liabilities****NOTE 3.2.1 ACCRUALS, OTHER ACCOUNTS RECEIVABLE AND OTHER ASSETS**

(In EUR m)	31.12.2018	31.12.2017
<b>Other assets</b>		
Guarantee deposits paid <sup>(1)</sup>	30,784	27,560
Miscellaneous receivables	3,220	2,253
Premiums on options purchased	53,060	57,497
Settlement accounts on securities transactions	3,144	3,195
Other	626	461
<b>SUB-TOTAL</b>	<b>90,834</b>	<b>90,966</b>
<b>Accruals and similar</b>		
Prepaid expenses	402	359
Deferred taxes	4,113	4,032
Accrued income	2,190	1,761
Other <sup>(2)</sup>	48,702	42,319
<b>SUB-TOTAL</b>	<b>55,407</b>	<b>48,471</b>
<b>GROSS AMOUNT</b>	<b>146,241</b>	<b>139,437</b>
Depreciations	(142)	(82)
<b>NET TOTAL</b>	<b>146,099</b>	<b>139,355</b>

(1) Mainly relates to guarantee deposits paid on financial instruments.

(2) Including derivative instruments valuation for EUR 38,391 million (EUR 34,709 million at 31<sup>st</sup> December 2017).

**NOTE 3.2.2 ACCRUALS, OTHER ACCOUNTS PAYABLE AND OTHER LIABILITIES**

(In EUR m)	31.12.2018	31.12.2017
<b>Securities transactions</b>		
Amounts payable for securities borrowed	190,147	149,444
Other amounts due for securities	55,824	42,387
<b>SUB-TOTAL</b>	<b>245,971</b>	<b>191,831</b>
<b>Other liabilities</b>		
Guarantee deposits received <sup>(1)</sup>	23,440	21,550
Miscellaneous payables	531	444
Premiums on options sold	57,532	61,352
Settlement accounts on securities transactions	3,509	3,856
Other securities transactions	-	530
Related payables	199	192
<b>SUB-TOTAL</b>	<b>85,211</b>	<b>87,924</b>
<b>Accruals and similar</b>		
Accrued expenses	3,799	3,054
Deferred taxes	1	6
Deferred income	1,340	1,465
Other <sup>(2)</sup>	17,974	34,213
<b>SUB-TOTAL</b>	<b>23,114</b>	<b>38,738</b>
<b>TOTAL</b>	<b>354,296</b>	<b>318,493</b>

(1) Mainly relates to guarantee deposits received on financial instruments.

(2) Including derivative instruments valuation for EUR 6,313 million (EUR 22,033 million at 31<sup>st</sup> December 2017).

## NOTE 4 EXPENSES AND EMPLOYEE BENEFITS

### NOTE 4.1 Personnel expenses and remuneration of members of the Board of Directors and Chief Executive Officers

#### ACCOUNTING PRINCIPLES

The *Personnel expenses* account includes all expenses related to personnel, notably the cost of the legal employee profit-sharing, income related to CICE (Tax Credit for Competitiveness and Employment) and incentive plans for the year, as well as the cost of internal restructuring operations.

Employee benefits are divided into four categories:

- short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled within twelve months of the end of the annual reporting period in which the employees render the related service, such as fixed and variable compensation, annual leave, taxes and social security contributions, mandatory employer contributions and profit-sharing;

- post-employment benefits, including defined contributions plans and defined benefit plans such as pension plans and retirement benefits;
- long-term employee benefits are employee benefits that are not expected to be fully settled within twelve months those such deferred remuneration paid in cash and not indexed (long service awards and time saving accounts);
- termination benefits.

Short-term employee benefits are recorded under *Personnel expenses* during the period according to the services provided by the employee.

The accounting principles relating to post-employment benefits and long-term benefits are described in Note 4.2; those related to share-based payments are described in Note 4.3.

#### NOTE 4.1.1 PERSONNEL EXPENSES

(In EUR m)	2018	2017
Employee compensation	3,385	3,633
Social security benefits and payroll taxes	1,300	1,483
Employer contribution, profit sharing and incentives	223	191
<b>TOTAL</b>	<b>4,908</b>	<b>5,307</b>
<b>Average staff</b>	<b>46,942</b>	<b>46,804</b>
In France	42,014	41,160
Outside France	4,928	5,644

Analysis of personnel expenses for the last five years:

(In EUR m)	2018	2017	2016	2015	2014
<b>Societe Generale</b>					
Profit sharing	11	11	13	15	12
Incentives	150	136	99	79	90
Employer contribution	62	44	49	43	44
<b>SUB-TOTAL</b>	<b>223</b>	<b>191</b>	<b>161</b>	<b>137</b>	<b>146</b>
<b>Subsidiaries</b>					<b>2</b>
<b>TOTAL</b>	<b>223</b>	<b>191</b>	<b>161</b>	<b>137</b>	<b>148</b>



**NOTE 4.1.2 REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICERS**

Total attendance fees paid in 2018 to the Company's Directors amounted to EUR 1.7 million.

The remuneration paid in 2018 to the senior management (Chairman of the Board, the Chief Executive Officer and his four deputies)

amounted to EUR 14.8 million (including EUR 5.4 million of variable pay paid in cash or in shares for 2014 to 2017 fiscal years and EUR 3.4 million of long term incentives for the 2012 fiscal year).

**NOTE 4.2 Employee benefits**

Societe Generale, in France and its branches in foreign countries, may award their employees:

- post-employment benefits, such as pension plans or retirement benefits;

- long-term benefits such as deferred variable remuneration, long service awards or the time service account (*Compte épargne temps (CET)*);

- termination benefits.

**DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS:**

(In EUR m)	Amount at 31.12.2017	Net allocations <sup>(1)</sup>	Used reversals	Change and reclassifying	Amount at 31.12.2018
Provisions for employee benefits	1,759	805	(593)	45	2,016

(1) Net allocations include an allocation of EUR 554 million related to the change of hedging strategies for French benefits plans in November 2018 (cf. Note 4.2.1.2) and a decrease of liabilities in December 2018 according to the revision of some employee benefits in France.

**NOTE 4.2.1 POST-EMPLOYMENT BENEFITS****ACCOUNTING PRINCIPLES**

Pension plans may be defined contribution or defined benefit plans.

**DEFINED CONTRIBUTION PLANS**

Defined contribution plans are those that limit Societe Generale's liability to the subscriptions paid into the plan but do not commit the company to a specific level of future benefits. Contributions paid are recorded as an expense for the current year.

**DEFINED BENEFIT PLANS**

Defined benefit plans commit Societe Generale, either formally or constructively, to pay a certain amount or level of future benefits and therefore bear the medium- or long-term risk. The present value of defined benefit obligations is valued by independent qualified actuaries.

Provisions are recognised on the liabilities side of the balance sheet under *Provisions*, to cover the whole of these retirement obligations. These provisions are assessed regularly by independent actuaries using the projected unit credit method. This valuation technique incorporates assumptions about demographics, early retirement, salary rises and discount and inflation rates.

Societe Generale can choose to finance defined benefit plans by assets held by a long-term employee benefit fund or by qualifying insurance policies.

Funding assets are classified as plan assets if assets are held by an entity (a fund) that is legally separate from the reporting entity and are available to be used only to pay employee benefits

When these plans are financed from external funds classified as plan assets, the fair value of these funds is subtracted from the provision to cover the obligations.

When these plans are financed from funds not classified as plan assets, these funds, classified as separate assets, are displayed separately in the assets of the balance sheet.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) or differences between actuarial assumptions and real performance (return on plan assets) are recognised as actuarial gains or losses. They are recorded immediately and in full in the income statement

Where a new or amended plan comes into force the cost of past services is recorded immediately and in full in the income statement. An annual charge is recorded under *Personnel expenses* for defined benefit plans, consisting of:

- the additional entitlements vested by each employee (current service cost);
- the financial expense resulting from the discount rate;
- the expected return on plan assets (gross return);
- the actuarial gains and losses and past service cost;
- the settlement or curtailment of plans.

**DEFINED CONTRIBUTION PLANS**

Main defined contribution plans provided to employees of the Group are located in France. They include state pension plans and other national pension plan such as AGIRC-ARRCO, as well as pension schemes put in place by some branches of the Societe Generale for which the only commitment is to pay annual contributions (PERCO).

**POST-EMPLOYMENT BENEFIT PLANS (DEFINED BENEFIT PLANS)**

Pension plans include pension benefit as annuities and end of career payments. Pension benefit annuities are paid in addition to pensions state plans.

**NOTE 4.2.1.1 RECONCILIATION OF ASSETS AND LIABILITIES RECORDED IN THE BALANCE SHEET**

(In EUR m)	31.12.2018	31.12.2017
Net liabilities recorded in the balance sheet	1,194	874
Assets recorded in the balance sheet	(952)	(469)
<b>Net balance</b>	<b>242</b>	<b>405</b>
<b>Breakdown of the net balance</b>		
Present value of funded defined benefit obligations	2,139	2,459
Fair value of plan assets	(2,012)	(2,182)
<b>A - Actuarial deficit (net balance)</b>	<b>127</b>	<b>277</b>
<b>B - Present value of unfunded defined benefit obligations</b>	<b>115</b>	<b>120</b>
Unrecognised items		
Plan assets impacted by change in asset celling	-	(8)
<b>C - Total unrecognised items</b>	<b>-</b>	<b>(8)</b>
<b>A + B - C Net balance</b>	<b>242</b>	<b>405</b>

(1) This item includes excess in plan assets for EUR 51 million and separate assets for EUR 902 million as of 31<sup>st</sup> December 2018 against EUR 397 million as of 31<sup>st</sup> December 2017 (see Note 4.2.1 §1.2).

**NOTE 4.2.1.2 INFORMATION REGARDING PLAN ASSETS**

Funding assets include plan assets and separate assets.

The breakdown of the fair value of plan assets is as follows: 67% bonds, 26% equities and 7% other investments. Societe Generale's own financial instruments directly held are not significant.

Excess in funding assets are EUR 119 million.

Employer contributions to be paid to post-employment defined benefit plans for 2019 are estimated at EUR 3 million.

In France, plan hedging strategies of some defined benefit plans has been modified in November 2018, implying a requalification of some plan assets into separate assets. The result is an increase of the liabilities of EUR 554 million and the recognition of a separate assets for the same amount. At the transfer date, the impact of this change is nil in profit or loss.

**NOTE 4.2.1.3 MAIN ASSUMPTIONS DETAILED BY GEOGRAPHICAL AREA**

<i>(In percentage)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
Discount rate		
Europe	1.96%	1.77%
Americas	4.29%	3.50%
Asia-Oceania-Africa	4.10%	3.36%
Long-term inflation		
Europe	2.06%	2.17%
Asia-Oceania-Africa	2.00%	2.00%
Future salary increase net of inflation		
Europe	0.45%	0.54%
Asia-Oceania-Africa	3.19%	3.06%
Average remaining working lifetime of employees (in years)		
Europe	7.44	8.83
Americas	7.85	8.25
Asia-Oceania-Africa	11.18	12.77
Duration (in years)		
Europe	15.14	16.10
Americas	15.59	17.53
Asia-Oceania-Africa	11.01	10.81

The assumptions by geographical area are averages weighted by the present value of the Defined Benefit Obligation (DBO) with the exception of the expected returns on plan assets, which are averages weighted by the fair value of assets.

The yield curves used to discount the liabilities are corporate AA yield curves (source: Merrill Lynch) observed in the end of October for USD, GBP and EUR, and corrected at the end of December if the variation in discount rates had a significant impact.

Inflation rates used for EUR and GBP monetary areas are market rates observed in the end of October, and corrected at the end of December if the variation had a significant impact. Inflation rates used for the other monetary areas are the long-term targets of the central banks.

The average remaining working lifetime of employees is calculated taking into account turn over assumptions.

The assumptions described above have been applied on post employment benefit plans.

**NOTE 4.2.2 OTHER LONG-TERM BENEFITS****ACCOUNTING PRINCIPLES**

Long-term employee benefits are benefits other than post-employment and termination benefits, that are paid to employees more than twelve months after the end of the annual period in which they provided the related services. Long-term benefits are measured in the same way as post-employment benefits.

Societe Generale may award their employees long-term benefits, like long-term deferred variable remunerations, time saving accounts (*Compte Épargne Temps*) or long service awards. They are different from post-employment benefits and termination benefits, which are not fully due within twelve months following the financial year during which the services are rendered by the employees.

The amount of net balance of long-term benefits stands at EUR 553 million.

The total cost of long-term benefits is EUR 110 million.

**NOTE 4.3 Free share plans****ACCOUNTING PRINCIPLES**

In the case of share purchase options and free shares plans granted to employees, a provision must be recorded for the loss that the entity will incur when it will deliver treasury shares to the employees.

This provision is recorded under *Personnel expenses* for an amount equal to the difference:

- between the quoted price of the treasury shares at the balance sheet closing date and the exercise price (zero in the case of free shares) if the entity has not already purchased its treasury shares in order to give them to the employees;

- between the acquisition price of treasury shares held and the exercise price (zero in case of free shares) if the entity has already purchased its treasury shares in order to deliver them to the employees.

If vesting conditions such as service or performance conditions must be satisfied for the employees to become entitled to receive shares, the provision expense shall be accounted for the services as they are rendered by the employees during the vesting period.

In the case of share subscription plans, no expense shall be recorded concerning treasury shares that have to be issued.

**NOTE 4.3.1 MAIN CHARACTERISTICS OF THE FREE SHARE PLANS OF THE YEAR**

The plans for employees for the year ended 31<sup>st</sup> December 2018 are briefly described below:

<b>Issuer</b>	<b>Societe Generale</b>
<b>Year of grant</b>	<b>2018</b>
<b>Type of plan</b>	<b>Performance shares</b>
Number of free shares granted	1,319,346
Shares delivered	64
Shares forfeited as at 31.12.18	65,257
Shares outstanding as at 31.12.18	1,254,025
Number of shares reserved as at 31.12.18	1,254,025

*The performance conditions are described in the "Corporate Governance" section of the present document.*

**NOTE 4.3.2 AMOUNT OF THE DEBT RECORDED IN THE BALANCE SHEET FOR 2018 PLANS**

The amount of the debt recorded in the balance sheet for the 2018 plans is EUR 20 million.

**NOTE 4.3.3 INFORMATION RELATIVE TO TREASURY SHARES FOR 2018 PLANS**

The number of treasury shares acquired in relation to the 2018 plans is 1,254,025 for a cost of EUR 50 million.

## NOTE 5 TAXES

### ACCOUNTING PRINCIPLES

#### Current taxes

In the 1989 financial year, Societe Generale opted to apply a tax consolidation regime. At 31<sup>st</sup> December 2018, 243 subsidiaries had signed a tax consolidation agreement with Societe Generale. Accordingly, all of the tax consolidated companies must record in their financial statements the tax expense they would have paid if they had not been consolidated with Societe Generale for tax purposes.

#### Deferred taxes

Societe Generale applies the option allowing it to recognise deferred taxes in its annual financial statements.

Deferred taxes are recognised whenever Societe Generale identifies a temporary difference between the book value and tax value of balance sheet assets and liabilities. They are calculated using the liability method, whereby deferred taxes from previous years are adjusted to account for changes in tax rates. The impact of changes to tax rates is recorded in the income statement under deferred taxes. Net deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set timeframe.

Deferred taxes are determined separately for each taxable entity and are never discounted to present value.

### NOTE 5.1 Income tax

(In EUR m)	2018	2017
Current taxes	565	336
Deferred taxes	51	(227)
<b>TOTAL<sup>(1)</sup></b>	<b>616</b>	<b>109</b>

(1) 2018 income tax includes a gain of EUR 56 million (against a loss of EUR 7.4 million for 2017). The 2017 loss was primarily related to the deneutralization resulting from the exit of the tax group from Ald entities.

In France, the standard corporate income tax rate is 33.33%. It is supplemented by a national contribution payment based on pre-tax earnings (contribution sociale) 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 tax exempt, subject to the taxation of a portion of fees and expenses at the full statutory tax rate. This portion of fees and expenses is equal 12% of gross capital gain. This exemption is applicable only if the company realises a net long-term capital gain.

Furthermore, under the parent-subsidiary regime, dividends from companies in which Societe Generale's equity interest is at least 5% are tax exempt, subject to the taxation of a portion of fees and expenses at the full statutory tax rate.

The 2018 French Finance Act, adopted on 21<sup>st</sup> December 2017, includes a gradual reduction in French tax rate. Until 2022, the standard Corporate Income Tax of 33.33% will be decreased to 25%, plus the existing national contribution of 3.3%.

Deferred taxes in French companies are determined by applying the tax rate in force at the reversal of the temporary difference. Regarding the gradual reduction in French tax rate until 2022:

- for income taxed at the ordinary tax rate, the rate is between 34.43% in 2018 and 25.83% from 2022 (including the national contribution payment);
- for income taxed at reduced rate, the rate is between 4.13% in 2018 and 3.10% from 2022 (including the national contribution payment).

### NOTE 5.2 Provisions for tax adjustments

#### ACCOUNTING PRINCIPLES

Provisions represent liabilities whose timing or amount cannot be precisely determined.

Provisions may be recorded:

- where, by virtue of an obligation related to the corporate income tax towards a tax authority, Societe Generale will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange; and

- when the amount of probable outflow of resources can be reliably estimated.

The probable outflows are then discounted to present value to determine the amount of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax adjustments are booked to current taxes in the income statement under *Income tax*.

Information on the nature and the amount of the associated risks is not disclosed when Societe Generale considers that such disclosure could seriously undermine its position in a dispute with other parties on the object of the provision.

(In EUR m)	Amount at 31.12.2017	Net allocations	Used reversals	Change and reclassifying	Amount at 31.12.2018
Provisions for tax adjustments	110	34	(75)		69

### NOTE 5.3 Deferred taxes

(In EUR m)	31.12.2018	31.12.2017
Tax loss carryforwards	2,815	2,889
Gains on sales of assets to companies included in the tax consolidation, in France	(159)	(155)
Other (primarily relating to other reserves)	1,457	1,299
<b>TOTAL</b>	<b>4,113</b>	<b>4,033</b>

Each year, Societe Generale performs a review of tax loss carryforwards, according to the tax system applicable for each relevant tax entity and a realistic forecast of its tax results. For this purpose, tax results are determined based on the forecast of the performance of each business line entering in Societe Generale budgetary path and/or on the strategic review of entities, after being approved by empowered management bodies. In addition, they include accounting and tax adjustments (of which the reversal of deferred tax assets and liabilities on temporary differences) applicable to concerned entities and jurisdictions. These adjustments are determined based on historical tax results and on the tax expertise. Beyond Societe Generale budgetary path and/or the strategic review, extrapolations are performed particularly from macroeconomic assumptions (for example, the evolution of interest rates).

By nature, the appreciation of macroeconomic factors chosen, and the internal estimations used to determine the tax results contain risks and uncertainties on their realization over the estimated horizon of the losses absorption. These risks and uncertainties concern the possibilities of change of tax rules applicable (tax result computation as well as rules of imputation of tax losses carried forward) or the achievement of the strategic assumptions.

To ensure the robustness of the tax result projections, Societe Generale realizes sensitivity analysis on the achievement of budgetary and strategic assumptions.

At 31<sup>st</sup> December 2018, these analyses confirm the probability for Societe Generale to use tax loss carryforwards subject to deferred tax assets against future taxable profit.

### NOTE 5.4 Deferred tax assets recognised on tax loss carryforwards

At 31<sup>st</sup> December 2018, based on the tax system of each franchise and a realistic projection of their tax income or expense, the projected period for deferred tax asset recovery is indicated in the table below:

(In EUR m)	31.12.2018	Statutory time limit on carryforwards	Expected recovery period
Total deferred tax assets recognised to tax loss carryforwards	2,815	0	0
o.w. French tax group	2,327	unlimited <sup>(1)</sup>	10 years
o.w. US tax group	461	20 years <sup>(2)</sup>	7 years
others	28	0	0

(1) In accordance with the 2013 Finance Law, the deduction of previous losses is limited to EUR 1 million plus 50% of the fraction of the taxable income for the fiscal year exceeding this limit. The nondeductible portion of losses may be carried forward to the following fiscal years with no time limit and under the same conditions.

(2) Tax losses generated before 31.12.2017

Furthermore, at 31<sup>st</sup> December 2018, deferred tax assets not recognised on the asset side of the balance sheet concerned our franchises in the United States of America, for EUR 497 million (versus EUR 266 million at 31<sup>st</sup> December 2017) and in Singapore for EUR 29 million (versus EUR 27 million at 31<sup>st</sup> December 2017).

With regards to the tax treatment of the loss caused by the actions of Jérôme Kerviel, Societe Generale considers that the judgement of the Versailles Court of Appeal of 23<sup>rd</sup> September 2016 is not likely to call into question its validity in light of the 2011 opinion of the French Supreme Administrative Court (*Conseil d'État*) and its established case law which was recently confirmed again in this regard. Consequently, Societe Generale considers there is no need to provision the corresponding deferred tax assets.

However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and confirmed that they intended to call into question the deductibility of the loss caused by the actions of Jérôme Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by a tax adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In the event that the authorities decide, in due course, to confirm their current position, Societe Generale will not fail to assert its rights before the competent courts.

## NOTE 6 SHAREHOLDER'S EQUITY

### NOTE 6.1 Changes in shareholders' equity

(In EUR m)	Capital Stock	Additional paid-in-capital	Reserves, unappropriated retained earnings	Shareholders' equity
<b>At 31<sup>st</sup> December 2016</b>	<b>1,010</b>	<b>20,429</b>	<b>14,437</b>	<b>35,876</b>
Increase/Decrease in capital stock <sup>(1)</sup>	-	8	-	8
Net income for the period	-	-	800	800
Dividends paid <sup>(2)</sup>	-	-	(1,763)	(1,763)
Other movements <sup>(3)</sup>	-	7	-	7
<b>At 31<sup>st</sup> December 2017</b>	<b>1,010</b>	<b>20,444</b>	<b>13,474</b>	<b>34,928</b>
Increase in capital stock	-	-	-	-
Net income for the period	-	-	1,725	1,725
Dividends paid <sup>(5)</sup>	-	-	(1,764)	(1,764)
Other movements <sup>(6)</sup>	-	158	-	158
<b>At 31<sup>st</sup> December 2018<sup>(7)</sup></b>	<b>1,010</b>	<b>20,602</b>	<b>13,435</b>	<b>35,047</b>

(1) In 2017 Societe Generale proceeded with the following capital increase, representing EUR 0.26 million resulting from stock options granted by the Board of Directors, that were exercised by employees with EUR 8.16 million of issuing premiums.

(2) The dividends distribution performed by Societe Generale in 2017 amounted to EUR 1,763 million after elimination of treasury stock dividend for EUR 15.1 million.

(3) EUR 6.35 million related to the merger profit further to the takeover of Eléapart.

(4) At 31<sup>st</sup> December 2017, Societe Generale's fully paid-up capital amounted to EUR 1,009,897,173.75 and comprised 807,917,739 shares with a nominal value of EUR 1.25.

At 31<sup>st</sup> December 2017, the amount of Societe Generale's reserves was EUR 3,632,905,672.87 with:

- EUR 100.96 million for the legal reserve

- EUR 2,097.25 million for the long-term capital gain reserve

- EUR 1,434.69 million for other reserves.

(5) The dividends distribution performed by Societe Generale in 2018 amounted to EUR 1,764 million after elimination of treasury stock dividend for EUR 13.4 million.

(6) EUR 158.34 million related to the merger profit further to the takeover of Soginfo.

(7) At 31<sup>st</sup> December 2018, Societe Generale's fully paid-up capital amounted to EUR 1,009,897,173.75 and comprised 807,917,739 shares with a nominal value of EUR 1.25.

At 31<sup>st</sup> December 2018, the amount of Societe Generale's reserves was EUR 3,632,931,198.50 with:

- EUR 101.99 million for legal reserve.

- EUR 2,097.25 million long term capital gain reserve.

- EUR 1,434.69 million for other reserve.

### NOTE 6.2 Proposal of income assignment

At the Annual General Meeting of 21<sup>st</sup> May 2019, the Board of Directors will propose an allocation of income for the year ended 31<sup>st</sup> December 2018 and dividend distribution under the following terms:

(In EUR m)	
Net income	1,725
Unappropriated retained earnings	8,077
<b>TOTAL INCOME TO BE APPROPRIATED</b>	<b>9,802</b>
Dividend	1,777
Retained earnings	8,025
<b>TOTAL APPROPRIATED INCOME</b>	<b>9,802</b>

The dividend corresponds to EUR 2.20 per share with a par value of EUR 1.25.

The amount of dividend of EUR 1,777 million to be paid to shareholders is calculated on the basis of an existing number of shares

on 31<sup>st</sup> December 2018. It will be proposed to offer of each shareholder the opportunity to opt of payment in new shares of the company, of the dividend to which he is entitled.

**NOTE 6.3 Net earnings per shares**

(In EUR m)	31.12.2018	31.12.2017
<b>Net income attributable to ordinary shareholders</b>	<b>1,725</b>	<b>800</b>
Weighted average number of ordinary shares outstanding	801,909,473	800,596,132
<b>Earnings per ordinary share (in EUR)</b>	<b>2.15</b>	<b>1.00</b>
Average number of ordinary shares used in the dilution calculation <sup>(1)</sup>	-	50
Weighted average number of ordinary shares used in the calculation of diluted net earnings per share	801,909,473	800,596,182
Diluted earnings per ordinary share (in EUR)	2.15	1.00

(1) The number of shares used in the dilution calculation is computed using the "share buy-back" method and takes into account free shares in stock-option plans.

**NOTE 6.4 Subordinated debt****ACCOUNTING PRINCIPLES**

This item includes all dated or undated borrowings, whether or not in the form of securitised debt, which in the event of the liquidation of the borrowing company may only be redeemed after all other creditors have been paid.

Interest accrued and payable in respect of long-term subordinated debt, if any, is recorded as related payables and as an expense in the income statement.

Issuance date	Currency	Amount issued	Maturity date	31.12.2018	31.12.2017
<b>Undated subordinated capital notes</b>					
1 <sup>st</sup> July 1985	EUR	348	Undated	62	62
24 <sup>th</sup> November 1986	USD	500	Undated	216	207
16 <sup>th</sup> June 2008	GBP	700	Undated	-	570
7 <sup>th</sup> July 2008	EUR	100	Undated	-	100
4 <sup>th</sup> September 2009	EUR	1,000	Undated	1,000	1,000
6 <sup>th</sup> September 2013	USD	1,250	Undated	-	1,042
18 <sup>th</sup> December 2013	USD	1,750	Undated	1,528	1,459
7 <sup>th</sup> April 2014	EUR	1,000	Undated	1,000	1,000
25 <sup>th</sup> June 2014	USD	1,500	Undated	1,310	1,251
29 <sup>th</sup> September 2015	USD	1,250	Undated	1,092	1,042
13 <sup>th</sup> September 2016	USD	1,500	Undated	1,310	1,251
6 <sup>th</sup> April 2018	USD	1,250	Undated	1,092	-
4 <sup>th</sup> October 2018	USD	1,250	Undated	1,092	-
<b>SUB-TOTAL<sup>(1)</sup></b>				<b>9,702</b>	<b>8,984</b>
<b>Subordinated long-term debts and notes</b>					
21 <sup>st</sup> July 2000	EUR	78	31 <sup>st</sup> July 2030	12	14
30 <sup>th</sup> January 2003	GBP	450	30 <sup>th</sup> January 2018	-	142
29 <sup>th</sup> December 2003	GBP	150	30 <sup>th</sup> January 2018	-	169
16 <sup>th</sup> August 2005	EUR	226	18 <sup>th</sup> August 2025	216	216
15 <sup>th</sup> May 2006	EUR	135	15 <sup>th</sup> May 2018	-	125
26 <sup>th</sup> October 2006	EUR	120	26 <sup>th</sup> October 2018	-	111
9 <sup>th</sup> February 2007	EUR	124	11 <sup>th</sup> February 2019	116	116
16 <sup>th</sup> July 2007	EUR	135	16 <sup>th</sup> July 2019	130	130
30 <sup>th</sup> October 2007	EUR	134	30 <sup>th</sup> October 2019	129	129
14 <sup>th</sup> February 2008	EUR	225	14 <sup>th</sup> February 2018	-	225
26 <sup>th</sup> March 2008	EUR	550	26 <sup>th</sup> March 2018	-	331
7 <sup>th</sup> April 2008	EUR	250	6 <sup>th</sup> April 2023	155	155
15 <sup>th</sup> April 2008	EUR	321	15 <sup>th</sup> April 2023	321	321
28 <sup>th</sup> April 2008	EUR	50	6 <sup>th</sup> April 2023	50	50
14 <sup>th</sup> May 2008	EUR	90	6 <sup>th</sup> April 2023	90	90
14 <sup>th</sup> May 2008	EUR	50	6 <sup>th</sup> April 2023	50	50
14 <sup>th</sup> May 2008	EUR	150	6 <sup>th</sup> April 2023	150	150
30 <sup>th</sup> May 2008	EUR	79	15 <sup>th</sup> April 2023	79	79



Issuance date	Currency	Amount issued	Maturity date	31.12.2018	31.12.2017
10 <sup>th</sup> June 2008	EUR	300	12 <sup>th</sup> June 2023	260	260
30 <sup>th</sup> June 2008	EUR	40	30 <sup>th</sup> June 2023	40	40
20 <sup>th</sup> August 2008	EUR	1,000	20 <sup>th</sup> August 2018	-	778
7 <sup>th</sup> June 2013	EUR	1,000	7 <sup>th</sup> June 2023	1,000	1,000
17 <sup>th</sup> January 2014	USD	1,000	17 <sup>th</sup> January 2024	873	834
16 <sup>th</sup> September 2014	EUR	1,000	16 <sup>th</sup> September 2026	1,000	1,000
27 <sup>th</sup> February 2015	EUR	1,250	27 <sup>th</sup> February 2025	1,250	1,250
14 <sup>th</sup> April 2015	USD	1,500	14 <sup>th</sup> April 2025	1,310	1,251
15 <sup>th</sup> April 2015	EUR	150	7 <sup>th</sup> April 2025	150	150
2 <sup>nd</sup> June 2015	AUD	125	2 <sup>nd</sup> June 2022	77	81
3 <sup>rd</sup> June 2015	CNH	1,200	3 <sup>rd</sup> June 2025	152	154
10 <sup>th</sup> June 2015	AUD	50	10 <sup>th</sup> June 2025	31	33
12 <sup>th</sup> June 2015	JPY	27,800	12 <sup>th</sup> June 2025	221	206
12 <sup>th</sup> June 2015	JPY	13,300	12 <sup>th</sup> June 2025	106	99
12 <sup>th</sup> June 2015	JPY	2,500	12 <sup>th</sup> June 2025	20	19
22 <sup>th</sup> July 2015	USD	50	23 <sup>rd</sup> July 2035	44	42
30 <sup>th</sup> September 2015	JPY	20,000	30 <sup>th</sup> September 2025	159	148
21 <sup>st</sup> October 2015	EUR	70	21 <sup>st</sup> October 2026	70	70
24 <sup>th</sup> November 2015	USD	500	24 <sup>th</sup> November 2045	437	417
24 <sup>th</sup> November 2015	USD	1,000	24 <sup>th</sup> November 2025	873	834
19 <sup>th</sup> May 2016	SGD	425	19 <sup>th</sup> May 2026	273	265
3 <sup>rd</sup> June 2016	JPY	15,000	3 <sup>rd</sup> June 2026	119	111
3 <sup>rd</sup> June 2016	JPY	27,700	3 <sup>rd</sup> June 2026	220	205
27 <sup>th</sup> June 2016	USD	500	26 <sup>th</sup> June 2036	437	417
20 <sup>th</sup> July 2016	AUD	325	20 <sup>th</sup> July 2028	200	212
19 <sup>th</sup> August 2016	USD	1,000	19 <sup>th</sup> August 2026	873	834
13 <sup>th</sup> October 2016	AUD	150	13 <sup>th</sup> October 2026	92	98
16 <sup>th</sup> December 2016	JPY	10,000	16 <sup>th</sup> December 2026	79	74
24 <sup>th</sup> January 2017	AUD	200	24 <sup>th</sup> January 2029	123	130
19 <sup>th</sup> May 2017	AUD	500	19 <sup>th</sup> May 2027	308	326
23 <sup>rd</sup> June 2017	JPY	5,000	23 <sup>rd</sup> June 2027	40	37
18 <sup>th</sup> July 2017	JPY	5,000	27 <sup>th</sup> July 2027	40	37
18 <sup>th</sup> July 2017	AUD	150	19 <sup>th</sup> May 2027	92	98
23 <sup>rd</sup> February 2018	EUR	1,000	23 <sup>rd</sup> February 2028	1,000	-
7 <sup>th</sup> March 2018	JPY	6,500	7 <sup>th</sup> March 2028	52	-
13 <sup>th</sup> April 2018	JPY	6,500	13 <sup>th</sup> April 2028	52	-
17 <sup>th</sup> April 2018	JPY	6,500	17 <sup>th</sup> April 2028	52	-
24 <sup>th</sup> October 2018	JPY	13,100	24 <sup>th</sup> October 2028	104	-
<b>SUB-TOTAL<sup>(1)</sup></b>				<b>13,727</b>	<b>14,110</b>
Related payables				378	414
<b>TOTAL<sup>(2)(3)</sup></b>				<b>23,807</b>	<b>23,508</b>

(1) The Board of Directors may decide to defer payouts on undated subordinated notes in full or in part in the event that the Ordinary General Meeting called to approve the parent company financial statements has decided not to pay any dividends.

Societe Generale has issued EUR 348 million in undated subordinated notes with warrants for the acquisition of preferential investment certificates attached, all of which are eligible for dividends on income earned from 1<sup>st</sup> July 1985. These certificates shall only be redeemed in the event of the liquidation of the company and once all unsubordinated debt has been reimbursed in full.

The other securities and borrowings have an early redemption clause as of their tenth year which may only be exercised by Societe Generale.

(2) The bank's global subordinated debt expense, net of tax and of the repurchase impact, amounted to EUR 1,266 million in 2018 (compared with EUR 1,342 million in 2017).

(3) Including debt related to subsidiaries EUR 160 million at 31<sup>st</sup> December 2018 (85 million at 31<sup>st</sup> December 2017).

## NOTE 7 OTHER INFORMATION

### NOTE 7.1 Geographical breakdown of net banking income<sup>(1)</sup>

(In EUR m)	France		Europe		Americas	
	2018	2017	2018	2017	2018	2017
Net interest and similar income <sup>(2)</sup>	2,437	1,135	643	480	95	24
Net fee income	2,194	2,241	370	398	117	117
Net income from financial transactions	3,436	4,821	624	1,005	85	188
Other net operating income	(120)	(977)	168	22	7	(5)
<b>NET BANKING INCOME</b>	<b>7,947</b>	<b>7,220</b>	<b>1,805</b>	<b>1,905</b>	<b>304</b>	<b>324</b>

(In EUR m)	Asia		Africa		Total	
	2018	2017	2018	2017	2018	2017
Net interest and similar income <sup>(2)</sup>	76	88	10	8	3,261	1,735
Net fee income	73	45	5	5	2,759	2,806
Net income from financial transactions	392	345	-	-	4,537	6,359
Other net operating income	(3)	(1)	-	-	52	(961)
<b>NET BANKING INCOME</b>	<b>538</b>	<b>477</b>	<b>15</b>	<b>13</b>	<b>10,609</b>	<b>9,939</b>

(1) Geographical regions in which companies recording income is located.

(2) Including Dividend income and Net income from lease financing and similar agreements.

### NOTE 7.2 Tangible and intangible fixed assets

#### ACCOUNTING PRINCIPLES

Premises, equipment and other fixed assets are carried at their purchase price on the assets side of the balance sheet. Borrowing expenses incurred to fund a lengthy construction period for fixed assets are included in the acquisition cost, along with other directly attributable expenses. Investment subsidies received are deducted from the cost of the relevant assets.

Software developed internally is recorded on the asset side of the balance sheet at the amount of the direct cost of development, which includes external expenditure on hardware and services and personnel expenses which can be attributed directly to its production and preparation for use.

As soon as they are fit for use, fixed assets are amortised over their useful life. Any residual value of the asset is deducted from its depreciable amount.

Amortisation is recorded through the income statement under *Impairment and amortisation*.

Where one or several components of a fixed asset are used for different purposes or to generate economic benefits over a different time period from the asset considered as a whole, these components are amortised over their own useful life, through the income statement under *Depreciation and amortisation*.

Societe Generale has applied this approach to its operating property, breaking down its assets into the following minimum components with their corresponding amortisation periods:

Depreciation periods for fixed assets other than buildings depend on their useful life, usually estimated in the following ranges:

Infrastructure	Major structures	50 years
	Doors and windows, roofing	20 years
	Façades	30 years
Technical installations	Elevators	
	Electrical installations	
	Electricity generators	
	Air conditioning, extractors	
	Technical wiring	10-30 years
	Security and surveillance installations	
	Plumbing	
Fixtures and fittings	Fire safety equipment	
	Finishings, surroundings	10 years

Depreciation periods for fixed assets other than buildings depend on their useful life, usually estimated in the following ranges:

Plant and equipment	5 years
Transport	4 years
Furniture	10-20 years
Office equipment	5-10 years
IT equipment	3-5 years
Software, developed or acquired	3-5 years
Concessions, patents, licences, etc	5-20 years

## NOTE 7.2.1 CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS

(In EUR m)	Gross book value 31.12.2017	Acquisitions	Disposals	Other movements	Gross book value at 31.12.2018	Accumulated impairment and amortisation 2018.12	Net book value 31.12.2018
<b>Operating assets</b>							
Intangible assets	3,391	433	(5)	(1)	3,818	(2,449)	1,369
Tangible assets	2,677	234	(142)	492	3,261	(2,036)	1,225
<b>Non-operating assets</b>							
Tangible assets	10	-	-	-	10	(8)	2
<b>TOTAL</b>	<b>6,078</b>	<b>667</b>	<b>(147)</b>	<b>491</b>	<b>7,089</b>	<b>(4,493)</b>	<b>2,596</b>

## NOTE 7.2.2 NET INCOME FROM LONG-TERM INVESTMENTS

## ACCOUNTING PRINCIPLES

This item covers capital gains or losses realised on disposals, as well as the net allocation to impairment in operating fixed assets. Income from non-operating assets is recorded under *net banking income*.

(In EUR m)	31.12.2018	31.12.2017
<b>Operating fixed assets:</b>		
Gains on disposals	65	8
Losses on disposals	(2)	-
<b>TOTAL</b>	<b>63</b>	<b>8</b>

**NOTE 7.3 Provisions****ACCOUNTING PRINCIPLES**

Under balance sheet liabilities, *Provisions* are comprised of provisions for financial instruments (off-balance sheet commitments and loans), provisions for mortgage savings accounts/plans (CEL/PEL), disputes, provisions for employee benefits and provisions for tax adjustments.

**DETAILS OF THE PROVISIONS**

(In EUR m)	31.12.2018	31.12.2017
Provisions on forward financial instruments (See Note 2.6)	10,646	9,685
Provisions on credit Risks (See Note 2.6)	703	1,032
Provisions on employee benefits (See Note 4.2)	2,016	1,759
Provisions on commitments related to mortgage saving agreements (PEL/CEL) (See Note 2.6)	149	169
Provisions for tax adjustments (See Note 5)	69	110
Other provisions on risks and expenses	1,035	2,833
<b>TOTAL</b>	<b>14,618</b>	<b>15,588</b>

Until 31<sup>st</sup> December 2017, the provisions for forward financial instruments, the sectorial provisions, the provisions for off-balance sheet commitments, the other provisions for risks including provision for disputes and the provision to mortgage savings accounts/plans (CEL/PEL) were presented under Provisions for forward financial instruments. From 2018, these provisions have been separately disclosed.

**OTHER PROVISIONS FOR RISKS AND EXPENSES****ACCOUNTING PRINCIPLES**

A description of contingencies and disputes is provided in the Risk Management report.

Provisions for contingencies and disputes are defined as liabilities with no precisely defined amount or due date.

They are only recorded if the company has an obligation to a third party that will probably or necessarily lead to a transfer of funds

to the third party, without compensation for at least an equivalent amount being expected from this third party.

Information on the nature and the amount of the risks is not disclosed when Societe Generale estimates that such disclosure could seriously prejudice its position in a dispute with other parties on the subject matter of the provision.

Net allocations to provisions are classified by type of risk in the corresponding accounts in the income statement.

Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

Societe Generale is subject to an extensive legal and regulatory framework in the countries where it operates. In this complex legal context, Societe Generale and some of its former and current representatives may be involved in various legal actions, including civil, administrative and criminal proceedings. The vast majority of these proceedings are part of Societe Generale's current business. In recent years, litigation with investors and the number of proceedings involving financial intermediaries such as banks and investment advisors has increased, partly due to a difficult financial environment.

It is by nature difficult to foresee the outcome of disputes, regulatory proceedings and acts involving Societe Generale entities, particularly if they are initiated by various categories of complainants, if the amount of claims for damages is not specified or is indeterminate or if the proceedings have no precedent.

In preparing its financial statements, Societe Generale assesses the consequences of the legal, regulatory or arbitration proceedings in which it is involved. A provision is booked when losses from these proceedings become probable and the amount can be estimated reliably.

To assess the probability of losses and the amount of these losses, and thus to determine the amount of provisions to book, estimations are important. Management makes these estimates by exercising its judgement and taking into account all information available when financial statements are prepared. In particular, Societe Generale takes into account the nature of the dispute, the underlying facts, ongoing proceedings and court rulings already handed down, as well as its experience and the experiences of other companies dealing with similar cases (assuming that Societe Generale has knowledge thereof) and, where appropriate, the opinion and reports of experts and independent legal advisers.

Each quarter, Societe Generale carries out a detailed examination of pending disputes that present a significant risk. These disputes are described in the Note 8 "Information on risks and litigation".

During the financial year 2018, Societe Generale concluded settlement agreements with US and European authorities to end investigations related to IBOR and to some transactions with Libyan counterparties, and with some US authorities to end investigations related to

economic sanctions and anti-money laundering. In the context of those agreements, Societe Generale agreed to pay penalties to those authorities for a total amount of USD 2.7 billion ; at the same time, the provision for public right disputes recognised in the Group financial statements has been reversed partially and its outstanding balance amounts to EUR 340 million as at 31 December 2018.

#### NOTE 7.4 Breakdown of assets and liabilities by term to maturity

(In EUR m)	Outstanding at 31.12.2018					Intercompany eliminations: Societe Generale Paris/branches	Total
	Less than 3 months	3 months to one year	1 to 5 years	More than 5 years			
<b>Assets</b>							
Due from banks	119,436	58,293	93,500	58,023	(147,792)		181,460
Customer loans	127,435	84,343	97,431	173,281	6		482,496
Bonds and other debt securities:							
Trading securities	4,738	55,038	-	9,804	-		69,580
Short-term investment securities	457	11,000	39	10	-		11,507
Long-term investment securities	-	-	9	32,106	-		32,115
<b>TOTAL</b>	<b>252,066</b>	<b>208,674</b>	<b>190,979</b>	<b>273,224</b>	<b>(147,786)</b>		<b>777,158</b>
<b>Liabilities</b>							
Due to banks	105,823	88,070	91,606	81,403	(146,825)		220,077
Customer deposits	274,967	94,387	31,196	125,201	(905)		524,846
Liabilities in the form of securities issued	8,726	25,309	36,376	37,939	-		108,350
<b>TOTAL</b>	<b>389,516</b>	<b>207,766</b>	<b>159,178</b>	<b>244,543</b>	<b>(147,730)</b>		<b>853,273</b>

**NOTE 7.5 Transactions in foreign currencies****ACCOUNTING PRINCIPLES**

Gains and losses arising from ordinary activities in foreign currencies are recognised in the income statement. Outright forward foreign exchange transactions and those used to hedge other forward foreign exchange transactions are valued on the basis of the forward foreign exchange rate of the relevant currency for the remaining maturity. Spot and other forward foreign exchange positions are revalued on a monthly basis using official month-end spot rates. Unrealised gains and losses are recognised in the income statement. Premiums and discounts resulting from hedged forward foreign exchange transactions, are amortised to income statement on a straight-line basis over the remaining term to maturity of these transactions.

	31.12.2018				31.12.2017			
	Assets	Liabilities	Foreign exchange bought, not yet received	Foreign exchange sold, not yet delivered	Assets	Liabilities	Foreign exchange bought, not yet received	Foreign exchange sold, not yet delivered
<i>(In EUR m)</i>								
EUR	590,757	617,439	356,411	335,016	533,292	560,212	328,709	330,098
USD	456,555	429,199	673,967	654,999	400,419	374,414	629,816	587,358
GBP	58,509	58,728	161,289	152,706	59,935	60,098	136,767	125,222
JPY	83,732	83,159	79,386	137,679	80,826	78,435	88,130	111,884
Other currencies	97,149	98,177	313,920	293,286	108,186	109,499	280,683	302,420
<b>TOTAL</b>	<b>1,286,702</b>	<b>1,286,702</b>	<b>1,584,973</b>	<b>1,573,686</b>	<b>1,182,658</b>	<b>1,182,658</b>	<b>1,464,105</b>	<b>1,456,982</b>

**NOTE 7.6 Operations in uncooperative states or territories**

Since 2003, Societe Generale has defined strict internal rules to prevent the development of operations in countries qualified as uncooperative tax heavens by the OECD. Any operation, or development of new activities as part of existing operations, may only be authorised by decision of the General Management after approval by the Corporate Secretariat and the Risk Division.

Since 2010, Societe Generale has decided to close (and has therefore taken the necessary steps to do so) all the Societe Generale operations in countries and territories deemed non-cooperative by France, the list of which was updated by the Ministerial order of 8<sup>th</sup> April 2016 (published on 10<sup>th</sup> April 2016).

In 2018, Societe Generale did not hold, directly or indirectly, any operations in the states and territories in question.

**NOTE 7.7 Table of subsidiaries and affiliates****2018***(In thousands of euros or local currency)*

Company/Head Office or Establishment	Activity/Division		Registered capital (local currency) <sup>(1)</sup>	Shareholders' equity other than capital (local currency) <sup>(1)</sup>	Share of capital held (in %)
<b>I – INFORMATION ON INVESTMENTS WITH A BOOK VALUE IN EXCESS OF 1% OF SOCIETE GENERALE'S SHARE CAPITAL</b>					
<b>A) Subsidiaries (more than 50% owned by Societe Generale)</b>					
<b>SG AMERICAS SECURITIES HOLDINGS, LLC</b>	<b>Brokerage</b>				
C/O The Corporation Trust Company 1209 Orange Street 19801 Wilmington – Delaware – USA	Global Banking and Investor Solutions	USD	1,430,976	1,082,582	100.00
<b>SG FINANCIAL SERVICES HOLDING</b>	<b>Portfolio management</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	1,962,193	223,238	100.00
<b>GENEFINANCE</b>	<b>Portfolio management</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	1,000,000	237,443	100.00
<b>INTER EUROPE CONSEIL</b>	<b>Credit institution</b>				
29, boulevard Haussmann – 75009 Paris – France	Global Banking and Investor Solutions	EUR	764,983	86,484	100.00
<b>SG KLEINWORT HAMBROS LIMITED</b>	<b>Asset Management</b>				
St Jame's Square, SW1Y 4JU – London – United Kingdom	Global Banking and Investor Solutions	GBP	518,710	140,735	100.00
<b>SOCIETE GENERALE SECURITIES SERVICES SPA</b>	<b>Credit institution</b>				
Via Benigno Crespi, 19 A – 20159 Milan – Italy	Global Banking and Investor Solutions	EUR	111,309	198,737	100.00
<b>SOCIETE GENERALE SECURITIES JAPAN LIMITED</b>	<b>Brokerage</b>				
1-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan	Global Banking and Investor Solutions	JPY	35,765,000	33,508,000	100.00
<b>SOCIETE GENERALE REAL ESTATE</b>	<b>Real estate and real estate financing</b>				
29, boulevard Haussmann – 75009 Paris – France	French Retail Banking	EUR	327,112	46,604	100.00
<b>SOGEMARCHE</b>	<b>Real estate</b>				
17, cours Valmy – 92800 Puteaux – France	Corporate Centre	EUR	500,000	(25,031)	100.00
<b>SOCIETE GENERALE (CHINA) LIMITED</b>	<b>International Retail Banking</b>				
Taikang International Tower 18 <sup>th</sup> floor, 2, Wudinghou Street, Xicheng District – 100033 Beijing – China	Global Banking and Investor Solutions	CNY	4,000,000	(295,384)	100.00
<b>FIDITALIA SPA</b>	<b>Consumer finance</b>				
Via G. Ciardi, 9 – 20149 Milan – Italy	International Retail Banking and Financial Services	EUR	130,000	134,644	100.00
<b>SOCIETE GENERALE BANKA SRBIJA</b>	<b>International Retail Banking</b>				
Bulevar Zorana Djindjica 50 a/b, 11070 Novi Beograd – Serbia	International Retail Banking and Financial Services	RSD	23,724,274	11,303,043	100.00
<b>BANCO SOCIETE GENERALE BRASIL S/A</b>	<b>Investment banking</b>				
Avenida Paulista, 2300 – Cerqueira Cesar – São Paulo – SP CEP 01310-300 – Brazil	Global Banking and Investor Solutions	BRL	2,956,929	(1,576,657)	100.00

*(1) For foreign subsidiaries and affiliates, shareholders' equity is booked in the Group consolidated financial statements in their consolidated reporting currency.**(2) For banking and finance subsidiaries, revenue refers to net banking income.**(3) Financial statements not yet audited for French companies.*

## 2018

Book value of shares held		Unreimbursed loans and advances made by the Company (in EUR)	Guarantees given by the Company (in EUR)	Revenue excluding tax for the last financial year (local currency) (1) (2) (3)	Net income (loss) for the last financial year (local currency) (1) (3)	Dividends received by the Company during the year (in EUR)	Remarks Revaluation differences
Gross (in EUR)	Net (in EUR)						
3,000,656	3,000,656	995,633	-	576,412	26,379	-	1 EUR = 1,145 USD
2,456,502	2,456,502	2,617,151	-	1,531,455	1,415,166	830,929	
1,076,025	1,076,025	-	-	406,109	301,973	66,000	
3,852,866	908,249	2,108,465	-	78,874	55,352	328,943	
645,636	645,636	0	0	188,074	3,177	-	1 EUR = 0,89453 GBP
745,062	619,377	195	0	143,644	18,373	28,055	
605,297	605,297	0	347	20,121,000	4,510,000	111,471	1 EUR = 125.85JPY
586,505	586,505	3,900	-	738	38,514	16,871	
500,000	500,000	20,000	-	24,414	288	-	
416,783	394,684	63,491	1,917,314	423,008	32,104	-	1 EUR = 7,8751 CNY
335,169	317,383	3,859,450	-	199,088	44,859	-	
258,243	258,243	351,599	16,695	15,404,674	7,180,581	38,784	1 EUR = 118,31865 RSD
935,703	257,582	0	108,494	217,705	65,508	-	1 EUR = 4,444 BRL



2018

(In thousands of euros or local currency)

Company/Head Office or Establishment	Activity/Division	Registered capital (local currency) <sup>(1)</sup>		Shareholders' equity other than capital (local currency) <sup>(1)</sup>	Share of capital held (in %)
<b>VALMINVEST</b>	<b>Office space</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	248,877	11,252	100.00
<b>SOGECAMPUS</b>	<b>Real estate</b>				
17, cours Valmy – 92800 Puteaux – France	Corporate Centre	EUR	241,284	(1,926)	100.00
<b>LYXOR ASSET MANAGEMENT</b>	<b>Alternative Asset Management</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	161,106	59,981	100.00
<b>GENEGIS I</b>	<b>Office space</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	192,900	15,969	100.00
<b>SG SECURITIES KOREA CO, LTD.</b>	<b>Business consulting</b>				
(1-ga, Shinmun-ro), 14F 82, Saemun-ro, Jongno-gu – Seoul – South Korea	Global Banking and Investor Solutions	KRW	205,500,000	29,916,928	100.00
<b>COMPAGNIE FONCIÈRE DE LA MÉDITERRANÉE (CFM)</b>	<b>Office space</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	76,627	2,393	100.00
<b>SOCIETE GENERALE ALGÉRIE</b>	<b>International Retail Banking</b>				
Résidence EL KERMA – 16105 Gué de Constantine – Wilaya d'Alger – Algeria	International Retail Banking and Financial Services	DZD	10,000,000	30,149,739	100.00
<b>SOCIETE GENERALE CAPITAL CANADA Inc</b>	<b>Brokerage</b>				
1501 Avenue McGill College – Suite 1800 H3A 3M8 – Montréal -Canada	Global Banking and Investor Solutions	CAD	150,000	63,439	100.00
<b>SOCIETE IMMOBILIERE DU 29 BOULEVARD HAUSSMANN</b>	<b>Office space</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	90,030	19,394	100.00
<b>ORPAVIMOB</b>	<b>Real estate and real estate financing</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	79,253	5,545	100.00
<b>SG SECURITIES (SINGAPORE) PTE. LTD.</b>	<b>Brokerage</b>				
8 Marina Boulevard – #12-01 – Marina Bay financial Centre Tower 1 – 018981 – Singapore	Global Banking and Investor Solutions	SGD	99,156	9,486	100.00
<b>SG AMERICAS, INC.</b>	<b>Investment banking</b>				
C/O The Corporation Trust Company 1209 Orange Street 19801 Wilmington – Delaware – USA	Global Banking and Investor Solutions	USD	-	432,237	100.00
<b>SG FACTORING SPA</b>	<b>Factoring</b>				
Via Trivulzio, 7 – 20146 Milan – Italy	Global Banking and Investor Solutions	EUR	11,801	29,469	100.00
<b>SOCIETE GENERALE SECURITIES AUSTRALIA PTY LTD.</b>	<b>Brokeragesur on equity markets</b>				
Level 23 – 400 George Street – Sydney – NSW 2000 – Australia	Global Banking and Investor Solutions	AUD	100,000	(31,960)	100.00
<b>INORA LIFE LTD.</b>	<b>Life insurance</b>				
IFSC House International Financial Services Center – Dublin 1 – Ireland	Global Banking and Investor Solutions	EUR	36,500	(16,502)	100.00

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(2) For banking and finance subsidiaries, revenue refers to net banking income.

(3) Financial statements not yet audited for French companies.

## 2018

Book value of shares held		Unreimbursed loans and advances made by the Company (in EUR)	Guarantees given by the Company (in EUR)	Revenue excluding tax for the last financial year (local currency) (1) (2) (3)	Net income (loss) for the last financial year (local currency) (1) (3)	Dividends received by the Company during the year (in EUR)	Remarks Revaluation differences
Gross (in EUR)	Net (in EUR)						
249,427	249,427	-	-	659	2,702	3,186	
241,284	241,284	140,000	-	23,119	3,399	-	
217,348	216,330	-	-	94,416	15,317	29,417	
196,061	196,061	50,484	-	208,189	(1,107)	0	
160,941	160,941	-	-	134,966,023	66,897,916	28,634	1 EUR = 1277,93 KRW
155,837	155,837	-	-	754	1,450	1,346	
110,628	110,628	-	-	22,931,208	9,770,637	20,011	1 EUR = 135,4518 DZD
95,550	95,550	0	0	46,811	8,545	1,281	1 EUR = 1,5605 CAD
89,992	89,992	-	-	7,472	4,263	4,186	
79,253	79,253	-	-	18,517	3,445	3,223	
94,300	71,323	13,100	0	39,064	22,371	11,293	1 EUR = 1,5591 SGD capital = 1 USD
1,612,723	60,207	-	-	17,484	15,163	-	1 EUR = 1,145 USD
46,100	46,100	757,969	1,401,850	11,713	3,753	3,236	
62,745	42,640	98,644	126,387	22,206	(629)	-	1 EUR = 1,622 AUD
36,500	20,373	-	-	2,599	213	-	

2018

(In thousands of euros or local currency)

Company/Head Office or Establishment	Activity/Division		Registered capital (local currency) <sup>(1)</sup>	Shareholders' equity other than capital (local currency) <sup>(1)</sup>	Share of capital held (in %)
<b>SG AUSTRALIA HOLDINGS LTD.</b>	<b>Portfolio management</b>				
Level 25, 1-7 bligh street – Sydney, NSW 2000 – Australia	Global Banking and Investor Solutions	AUD	19,500	3,474	100.00
<b>SG SECURITIES ASIA INTERNATIONAL HOLDINGS LTD. (HONG-KONG)</b>	<b>Investment banking</b>				
Level 38 – Three Pacific Place 1 Queen's Road – East Hong-Kong – Hong Kong	Global Banking and Investor Solutions	USD	154,991	143,790	100.00
<b>SOCIETE GENERALE EQUIPMENT FINANCE SA</b>	<b>Portfolio management</b>				
17, cours Valmy – 92800 Puteaux – France	International Retail Banking and Financial Services	EUR	750,355	3,983	100.00
<b>SOCIETE GENERALE IMMOBEL</b>	<b>Real estate</b>				
11 Rue des Colonies – 1000 Brussels – Belgium	Global Banking and Investor Solutions	EUR	50,062	85,121	100.00
<b>DESCARTES TRADING</b>	<b>Proprietary trading</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	377,000	(18,564)	100.00
<b>SOCIETE GENERALE SFH</b>	<b>Credit institution</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	375,000	149,459	100.00
<b>BOURSORAMA SA</b>	<b>Online brokerage</b>				
18, Quai du Point du Jour – 92100 Boulogne-Billancourt – France	French Retail Banking	EUR	35,548	451,668	100.00
<b>SOCIETE GENERALE SCF</b>	<b>Mortgages</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	150,000	98,142	100.00
<b>SOCIETE GENERALE INTERNATIONAL LIMITED</b>	<b>Brokerage and clearing</b>				
10 Bishops square – London E1 6EG – United Kingdom	Global Banking and Investor Solutions	GBP	1,000,000	127,116	100.00
<b>CREDIT DU NORD</b>	<b>French Retail Banking</b>				
28, place Rihour – 59800 Lille – France	French Retail Banking	EUR	890,263	1,869,389	100.00
<b>SOCIETE GENERALE SECURITIES SERVICES HOLDING</b>	<b>Portfolio management</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	12,487	7,659	100.00
<b>SG EUROPEAN MORTGAGE INVESTMENTS</b>	<b>Portfolio management</b>				
17, cours Valmy – 92800 Puteaux – France	Global Banking and Investor Solutions	EUR	1,000	49,704	99.99
<b>ROSBANK</b>	<b>International Retail Banking</b>				
34, Masha Poryvaeva Street 107078 – Moscow – Russia	International Retail Banking and Financial Services	RUB	17,586,914	105,741,386	99.95
<b>SOCIETE DE LA RUE EDOUARD VII</b>	<b>Office space</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	11,396	867	99.91
<b>SG EXPRESS BANK</b>	<b>International Retail Banking</b>				
92, Bld VI Varnentchik – 9000 Varna – Bulgaria	International Retail Banking and Financial Services	BGN	33,674	660,129	99.74

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(2) For banking and finance subsidiaries, revenue refers to net banking income.

(3) Financial statements not yet audited for French companies.

## 2018

Book value of shares held		Unreimbursed loans and advances made by the Company (in EUR)	Guarantees given by the Company (in EUR)	Revenue excluding tax for the last financial year (local currency) <sup>(1) (2) (3)</sup>	Net income (loss) for the last financial year (local currency) <sup>(1) (3)</sup>	Dividends received by the Company during the year (in EUR)	Remarks Revaluation differences
Gross (in EUR)	Net (in EUR)						
12,024	12,024	-	-	6,760	(142)	0	1 EUR = 1,622 AUD
146,513	146,513	214,416	-	638,775	312,515	227,262	1 EUR = 1,145 USD
754,201	754,201	72,422	-	31,232	53,499	-	
50,061	50,061	-	-	1,669	3,179	-	
376,987	359,535	62,000	-	(2,250)	(18,633)	792	
375,000	375,000	31,900,000	36,367,030	420,904	30,619	-	
783,843	783,843	3,861,447	460,000	152,740	(28,221)	-	
150,000	150,000	8,053,668	11,114,186	14,148	5,585	-	
1,411,017	1,347,364	5,057,539	467,564	265,768	93,237	21,285	1 EUR = 0,89453 GBP
1,410,255	1,410,255	11,549,690	80,000	1,098,724	430,160	228,130	
237,555	21,574	-	-	-	(480)	3,811	
25,604	25,604	-	-	-	14,367	-	
3,628,043	2,127,764	601,762	51,731	43,793,540	9,954,108	-	1 EUR = 79,7153 RUB
59,612	22,753	-	-	0	115	99	
62,470	62,470	0	152,000	280,536	120,916	21,808	The subsidiary was sold on 01.15.2019 1 EUR = 1,9558 BGN

2018

(In thousands of euros or local currency)

Company/Head Office or Establishment	Activity/Division		Registered capital (local currency) <sup>(1)</sup>	Shareholders' equity other than capital (local currency) <sup>(1)</sup>	Share of capital held (in %)
<b>SOCIETE GENERALE INVESTMENTS (UK) LIMITED</b>	<b>Investment banking</b>				
SG House, 41 Tower Hill, EC3N 4SG – London – United Kingdom	Global Banking and Investor Solutions	GBP	157,822	101,820	98.96
<b>SKB BANKA D.D. LJUBLJANA</b>	<b>International Retail Banking</b>				
Adjovscina, 4 – 1513 Ljubljana – Slovenia	International Retail Banking and Financial Services	EUR	52,785	230,936	97.58
<b>SOCIETE GENERALE MAURITANIE</b>	<b>International Retail Banking</b>				
Ilot A, n°652 Nouakchott – Mauritania	International Retail Banking and Financial Services	MRU	600,000	561,627	95.50
<b>SOCIETE GENERALE BANKA MONTENEGRO A.D.</b>	<b>International Retail Banking</b>				
Bulevar Revolucije 17 – 81000 Podgorica – Montenegro	International Retail Banking and Financial Services	EUR	24,731	32,858	90.56
<b>BANKA SOCIETE GENERALE ALBANIA SH.A</b>	<b>International Retail Banking</b>				
BLV Deshmoret e Kombit Blu Towers – Tower1, 9 <sup>th</sup> floor – Tirana – Albania	International Retail Banking and Financial Services	ALL	6,740,900	882,792	88.89
<b>ALD</b>	<b>Automobile leasing and financing</b>				
15, allée de l'Europe – 92110 Clichy sur Seine – France	International Retail Banking and Financial Services	EUR	606,155	403,063	79.82
<b>OHRIDSKA BANKA AD SKOPJE</b>	<b>International Retail Banking</b>				
Orce Nikolov Str. No. 54, Skopje-Centar – Centar – Macedonia	International Retail Banking and Financial Services	MKD	1,368,328	2,184,433	76.25
<b>BANQUE DE POLYNESIE</b>	<b>Retail banking</b>				
355 Bd Pomaré, BP 530, 98713 Papeete – Tahiti – French Polynesia	International Retail Banking and Financial Services	XPF	1,380,000	7,035,835	72.10
<b>SOCIETE GENERALE DE BANQUES EN COTE D'IVOIRE</b>	<b>International Retail Banking</b>				
5 & 7, avenue J. Anoma, 01 BP 1355 – Abidjan 01 – Côte d'Ivoire	International Retail Banking and Financial Services	XOF	15,555,555	106,559,795	71.84
<b>MOBIASBANCA GROUPE SOCIETE GENERALE</b>	<b>International Retail Banking</b>				
Bd. Stefan cel Mare 81A, MD-2012 mun.-Chisinau – Republic of Moldova	International Retail Banking and Financial Services	MDL	99,944	1,164,997	67.85
<b>BANCO SOCIETE GENERALE MOÇAMBIQUE SA</b>	<b>International Retail Banking</b>				
Av. Julius Nyerere no. 140, 1568 – Maputo – Mozambique	International Retail Banking and Financial Services	MZN	1,897,200	1,106,643	65.00
<b>KOMERCNI BANKA A.S</b>	<b>International Retail Banking</b>				
Na Prikope 33 – Building Register number 969 – 114 07 Praha 1 – Czech Republic	International Retail Banking and Financial Services	CZK	19,004,926	64,569,826	60.35
<b>BRD – GROUPE SOCIETE GENERALE</b>	<b>International Retail Banking</b>				
B-dul Ion Mihalache nr. 1-7 Sector 1 – Bucharest – Romania	International Retail Banking and Financial Services	RON	696,902	5,063,815	60.17
<b>SOCIETE GENERALE CAMEROUN</b>	<b>International Retail Banking</b>				
78 Avenue Joss, BP 4042 – Douala – Cameroun	International Retail Banking and Financial Services	XAF	12,500,000	39,813,546	58.08
<b>GENEFIM</b>	<b>Real estate lease finance</b>				
29, boulevard Haussmann – 75009 Paris – France	French Retail Banking	EUR	72,779	29,152	57.62

(1) For foreign subsidiaries and affiliates, shareholders' equity is booked in the Group consolidated financial statements in their consolidated reporting currency.

(2) For banking and finance subsidiaries, revenue refers to net banking income.

(3) Financial statements not yet audited for French companies.

## 2018

Book value of shares held		Unreimbursed loans and advances made by the Company (in EUR)	Guarantees given by the Company (in EUR)	Revenue excluding tax for the last financial year (local currency) <sup>(1) (2) (3)</sup>	Net income (loss) for the last financial year (local currency) <sup>(1) (3)</sup>	Dividends received by the Company during the year (in EUR)	Remarks Revaluation differences
Gross (in EUR)	Net (in EUR)						
189,709	189,709	206,663	-	13,790	14,822	9,534	1 EUR = 0,89453 GBP
220,226	220,226	204,000	560,000	120,567	57,770	54,189	Since 01.01.2018 currency of Mauritania is MRU instead of MRO (1 MRU = 10 MRO)
20,361	20,361	0	Not communicated	791,368	240,884	257	1 EUR = 41,7741 MRU
28,819	28,819	30,000	1,000	27,506	10,713	3,179	
70,149	30,849	19,934	29,052	3,589,966	905,928	3,483	1 EUR = 123,365 ALL
1,156,422	1,156,422	0	0	97,456	535,689	177,399	
37,371	37,371	29,000	2,829	1,704,997	679,508	423	1 EUR = 61,43205 MKD
12,397	12,397	3,800	121,285	5,377,386	1,457,615	7,768	1 EUR = 119,33174 XPF
30,504	30,504	136,226	40,884	123,006,298	43,216,316	19,780	1 EUR = 655,957 XAF
24,960	24,960	-	4,824	753,832	417,343	4,356	1 EUR = 19,67215 MDL
25,711	12,802	10,800	20,897	810,891	(79,761)	-	1 EUR = 70,50275 MZN
1,353,885	1,353,885	1,255,211	341,740	31,477,987	15,270,959	208,568	1 EUR = 25,724 CZK
223,690	223,690	16,332	210,136	2,961,361	1,566,236	147,903	1 EUR = 4,6635 RON
16,940	16,940	21,697	18,214	68,480,953	19,563,055	6,278	1 EUR = 655,957 XAF
89,846	89,846	2,325,678	0	39,885	19,609	12,765	

2018

(In thousands of euros or local currency)

Company/Head Office or Establishment	Activity/Division		Registered capital (local currency) <sup>(1)</sup>	Shareholders' equity other than capital (local currency) <sup>(1)</sup>	Share of capital held (in %)
<b>SG MAROCAINE DE BANQUES</b>	<b>International Retail Banking</b>				
55, boulevard Abdelmoumen – Casablanca – Morocco	International Retail Banking and Financial Services	MAD	2,050,000	7,685,906	57.57
<b>UNION INTERNATIONALE DE BANQUES</b>	<b>International Retail Banking</b>				
65, avenue Habib Bourguiba – 1000A Tunis – Tunisia	International Retail Banking and Financial Services	TND	172,800	181,994	52.34
<b>B) Affiliates (10% to 50% owned by Societe Generale)</b>					
<b>SA SOGEPARTICIPATIONS</b>	<b>Portfolio management</b>				
29, boulevard Haussmann – 75009 Paris – France	Corporate Centre	EUR	411,267	307,270	24.58
<b>SOCIETE GENERALE CALÉDONIENNE DE BANQUE</b>	<b>Retail banking</b>				
44, rue de l'Alma BP G2 98848 Nouméa cedex – New Caledonia	International Retail Banking and Financial Services	XPF	1,068,375	13,667,437	20.60
<b>CAISSE DE REFINANCEMENT DE L'HABITAT</b>	<b>Housing loan refinancing</b>				
35, rue de la Boetie – 75008 Paris – France	Corporate Centre	EUR	539,995	22,580	16.22
<b>CREDIT LOGEMENT</b>	<b>Credit institution</b>				
50, boulevard Sébastopol – 75003 Paris – France	Corporate Centre	EUR	1,259,850	346,838	13.50

(1) For foreign subsidiaries and affiliates, shareholders' equity is booked in the Group consolidated financial statements in their consolidated reporting currency.

(2) For banking and finance subsidiaries, revenue refers to net banking income.

(3) Financial statements not yet audited for French companies.

## 2018

Book value of shares held		Unreimbursed loans and advances made by the Company (in EUR)	Guarantees given by the Company (in EUR)	Revenue excluding tax for the last financial year (local currency) <sup>(1) (2) (3)</sup>	Net income (loss) for the last financial year (local currency) <sup>(1) (3)</sup>	Dividends received by the Company during the year (in EUR)	Remarks Revaluation differences
Gross (in EUR)	Net (in EUR)						
141,887	141,887	5,016	288,171	4,418,032	1,101,293	12,564	1 EUR = 10,9181 MAD
153,211	153,211	11,472	110,268	367,961	97,126	3,584	1 EUR = 3,4867 TND
234,000	234,000	310,000	-	305,531	315,417	81,875	
16,266	16,266	119,583	77,000	9,282,532	2,553,286	4,306	1 EUR = 119,33174 XPF
98,811	98,811	-	-	1,055,388	18	-	
171,037	171,037	257,982	-	266,189	102,486	35,716	



**Table of subsidiaries and affiliates (cont.)**

	Book value of shares held	Unreimbursed loans and advances made by the Company	Guarantees given by the Company	Dividends received by the Company during the year		Remarks					
(in thousands of euros)	Gross						Net				
II - INFORMATION REGARDING OTHER SUBSIDIARIES AND AFFILIATES											
A) Subsidiaries not included in paragraph 1 :											
1°) French subsidiaries	65,842	61,959	13,726,084	0	49,028	Revaluation difference: 0					
2°) Foreign subsidiaries	378,370	93,084	3,530,256	40,985	28,568	Revaluation difference: 1,447					
B) Affiliates not included in paragraph 1 :											
1°) French companies	7,803	7,198	130,600	0	301	Revaluation difference: 0					
2°) Foreign companies	10,646	10,646	48,965	61,112	2,944	Revaluation difference: 0					
	462,661	172,887	17,435,905	102,097	80,841						

## NOTE 8 INFORMATION ON RISKS AND LITIGATION

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange. These provisions for litigations are classified among the “Other provisions” included in the “Provisions” item in the liabilities of the balance-sheet.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

- Beginning in 2006, Societe Generale, along with numerous other banks, financial institutions, and brokers, received requests for information from the US Internal Revenue Service, the Securities and Exchange Commission (“SEC”) and the Antitrust Division of the US Department of Justice (“DOJ”), focused on alleged noncompliance with various laws and regulations relating to the provision to governmental entities of Guaranteed Investment Contracts (“GICs”) and related products in connection with the issuance of tax-exempt municipal bonds. Societe Generale has cooperated with the US authorities. In light of the dormancy of these matters over several years, Societe Generale has determined that they no longer present a material loss contingency risk.
- On 24<sup>th</sup> October 2012, the Court of Appeal of Paris confirmed the first judgement delivered on 5<sup>th</sup> October 2010, finding J. Kerviel guilty of breach of trust, fraudulent insertion of data into a computer system, forgery and use of forged documents. J. Kerviel was sentenced to serve a prison sentence of five years, two years of which are suspended, and was ordered to pay EUR 4.9 billion as damages to the bank. On 19<sup>th</sup> March 2014, the Supreme Court confirmed the criminal liability of J. Kerviel. This decision puts an end to the criminal proceedings. On the civil front, the Versailles Court of Appeal rejected on 23<sup>rd</sup> September 2016 J. Kerviel's request for an expert determination of the damage suffered by Societe Generale, and therefore confirmed that the net accounting losses suffered by the Bank as a result of his criminal conduct amount to EUR 4.9 billion. It also declared J. Kerviel partially responsible for the damage caused to Societe Generale and sentenced him to pay to Societe Generale EUR 1 million. Societe Generale and J. Kerviel did not appeal before the Supreme Court. Societe Generale considers that this decision has no impact on its tax situation. However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and indicated that they intended to call into question the deductibility of the loss caused by the actions of J. Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by an adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In view of the 2011 opinion of the French Supreme Administrative Court (*Conseil d'État*) and its established case law which was recently confirmed again in this regard, Societe Generale considers that there is no need to provision the corresponding deferred tax assets. In the event that the authorities decide, in due course, to confirm their current position, Societe Generale group will not fail to assert its rights before the competent courts. By a decision handed down on the 20<sup>th</sup> September 2018, the Investigation Committee of the reviewing and reassessment Criminal Court has furthermore declared inadmissible the request filed in May 2015 by J. Kerviel against his criminal sentence, confirming the absence of any new element or fact that could justify the reopening of the criminal file.
- Between 2003 and 2008, Societe Generale set up gold consignment lines with the Turkish group Goldas. In February 2008, Societe Generale was alerted to a risk of fraud and embezzlement of

gold stocks held by Goldas. These suspicions were rapidly confirmed following the failure by Goldas to pay or refund gold worth EUR 466.4 million. Societe Generale brought civil proceedings against its insurers and various Goldas Group entities. Goldas launched various proceedings in Turkey and in the UK against Societe Generale. In the action brought by Societe Generale against Goldas in the UK, Goldas applied to have the action of SG struck-out and applied to the UK court for damages. On 3<sup>rd</sup> April 2017, the UK court granted both applications and will, after an inquiry into damages, rule on the amount due to Goldas, if any. On 15<sup>th</sup> May 2018, the Court of Appeal discharged entirely the inquiry into damages granted by the High Court to Goldas but rejected Societe Generale's arguments relating to service of the claims issued against Goldas, which are therefore time barred. On 18<sup>th</sup> December 2018, the Supreme Court refused permission to appeal to both Societe Generale and Goldas. On 16<sup>th</sup> February 2017, the Paris Commercial Court dismissed Societe Generale's claims against its insurers. Societe Generale filed an appeal against this decision.

- 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 – *Échange d'images chèques*), which has contributed to the improvement of cheque payments' security and to the fight against fraud, the banks established several interbank fees (including the CEIC which was abolished in 2007). These fees were implemented under the aegis of the banking sector supervisory authorities, and to the knowledge of the public authorities.
- On 20<sup>th</sup> 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. However, in its 23<sup>rd</sup> February 2012 order, the French Court of Appeal, to which the matter was referred by all the banks involved except Banque de France, held that there was no competition law infringement, allowing the banks to recoup the fines paid. On 14<sup>th</sup> April 2015, the Supreme Court quashed and annulled the Court of Appeal decision on the grounds that the latter did not examine the arguments of two third parties who voluntarily intervened in the proceedings. The case was heard again on 3<sup>rd</sup> and 4<sup>th</sup> November 2016 by the Paris Court of Appeal before which the case was remanded. On 21<sup>st</sup> December 2017, the Court of Appeal confirmed the fines imposed on Societe Generale and Crédit du Nord by the French competition authority. On 22<sup>nd</sup> January 2018, Societe Generale and Crédit du Nord filed an appeal before the Supreme court against this decision.
- On 4<sup>th</sup> June 2018, Societe Generale announced that it had reached agreements with (i) the US Department of Justice (“DOJ”) and the US 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<sup>th</sup> May 2018, Societe Generale entered into a “*Convention judiciaire d'intérêt public*” (“CJIP”) with the PNF, approved by the French court on 4<sup>th</sup> June 2018, to end its preliminary investigation in respect of the Libyan matter. On 5<sup>th</sup> 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 NV (“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<sup>th</sup> June 2018, Societe Generale consented to an order from the CFTC in respect of the IBOR matter.

As part of the settlements, Societe Generale paid penalties totalling approximately USD 1.3 billion to the DOJ, CFTC, and PNF. These penalties include (i) USD 275 million to the DOJ and USD 475 million to the CFTC in respect of the IBOR matter, and (ii) USD 292.8 million to the DOJ and EUR 250.15 million (USD 292.8 million) to the PNF in relation to the Libyan matter.

In connection with the C.JIP, which does not involve a recognition of criminal liability, Societe Generale agreed to have the French Anti-Corruption Agency (*Agence française anticorruption*) assess its anticorruption 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 anticorruption laws, antifraud and commodities laws throughout the Bank's operations. These actions are in addition to extensive steps undertaken at Societe Generale's own initiative to strengthen its global compliance and control framework in order to meet the highest standards of compliance and ethics. No independent compliance monitor has been imposed in connection with the DPA. The charges against Societe Generale will be dismissed if the Bank abides by the terms of the agreement, to which the Bank is fully committed.

Societe Generale received credit from the DOJ, CFTC and PNF for its cooperation with their investigations and the Bank has agreed to continue to cooperate with them pursuant to the settlement agreements.

In connection with the IBOR matter, the Bank continues to defend civil proceedings in the United States (as described below) and to respond to information requests received from other authorities, including the Attorneys General of various States of the United States and the New York Department of Financial Services ("NYDFS").

In the United States, Societe Generale, along with other financial institutions, has been named as a defendant in putative class actions involving the setting of US Dollar Libor, Japanese Yen Libor, and Euribor rates and trading in instruments indexed to those rates. Societe Generale has also been named in several individual (non-class) actions concerning the US Dollar Libor rate. All of these actions are pending in the US District Court in Manhattan (the "District Court").

As to US Dollar Libor, all claims against Societe Generale have been dismissed by the District Court or voluntarily dismissed by the plaintiffs, except in two putative class actions and one individual action that are effectively stayed, and in one individual action in which Societe Generale's motion to dismiss is pending. Certain individual plaintiffs whose claims were dismissed have filed motions for leave to amend their complaints, which Societe Generale has opposed. The class plaintiffs and a number of individual plaintiffs have appealed the dismissal of their antitrust claims to the United States Court of Appeals for the Second Circuit.

As to Japanese Yen Libor, the District Court dismissed the complaint brought by purchasers of Euroyen over-the-counter derivative products and the plaintiffs have appealed that ruling to the United States Court of Appeals for the Second Circuit. In the other action, brought by purchasers or sellers of Euroyen derivative contracts on the Chicago Mercantile Exchange, the District Court has allowed certain Commodity Exchange ("CEA") Act claims to proceed to discovery. The plaintiff's deadline to move for class certification in that action is now 21<sup>st</sup> August 2019.

As to Euribor, the District Court dismissed all claims against Societe Generale in the putative class action and denied the plaintiffs' motion to file a proposed amended complaint.

In Argentina, Societe Generale, along with other financial institutions, has been named as a defendant in litigation brought by a consumer association on behalf of Argentine consumers who held government bonds or other specified instruments that paid interest tied to US Dollar Libor. The allegations concern violations of Argentine consumer protection law in connection with alleged manipulation of the US Dollar Libor rate. Societe Generale has not yet been served with the complaint in this matter.

- On 10<sup>th</sup> December 2012, the French Supreme Administrative Court (*Conseil d'État*) rendered two decisions confirming that the "précompte tax" which used to be levied on corporations in France does not comply with EU law and defined a methodology for the reimbursement of the amounts levied by the tax authorities. However, such methodology considerably reduces the amount to be reimbursed. Societe Generale purchased in 2005 the "précompte tax" claims of two companies (Rhodia and Suez, now ENGIE) with a limited recourse on the selling companies. One of the above decisions of the French Supreme Administrative Court relates to Rhodia. Societe Generale has brought proceedings before the French administrative courts. The latest court decision rendered is a rejection, on 1<sup>st</sup> February 2016 by the French Administrative Supreme Court, of an appeal lodged by ENGIE and Societe Generale. Several French companies applied to the European Commission, who considered that the decisions handed down by the French Supreme Administrative Court on 10<sup>th</sup> December 2012, which was supposed to implement the decision rendered by the Court of Justice of the European Union C-310/09 on 15<sup>th</sup> September 2011, infringed a number of principles of European law. The European Commission subsequently brought infringement proceedings against the French Republic in November 2014, and since then confirmed its position by publishing a reasoned opinion on 29<sup>th</sup> April 2016 and by referring the matter to the Court of Justice of the European Union on 8<sup>th</sup> December 2016. The Court of Justice of European Union rendered its judgement on 4<sup>th</sup> October 2018 and sentenced France for failure by the French Supreme Administrative Court to disregard the tax on EU sub-subsidiaries in order to secure the withholding tax paid in error as well as on the absence of any preliminary question. With regard to the practical implementation of the decision, Societe Generale will assert its rights before the competent courts and the French tax authority, from which it expects diligent treatment and in accordance with the law.
- On 19<sup>th</sup> November 2018, Societe Generale reached settlement agreements with the Office of Foreign Assets Control of the US Department of the Treasury (OFAC), the US Attorney's Office of the Southern District of New York ("SDNY"), the New York County District Attorney's Office ("DANY"), the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (together, the "Federal Reserve"), and the NYDFS (collectively, the "US Authorities"), resolving their investigations relating to certain US dollar transactions processed by Societe Generale involving countries, persons, or entities that are the subject of US economic sanctions and implicating New York State laws. The vast majority by value of the sanctions violations involved in the settlements related to Cuba, and stem from a single revolving credit facility extended in 2000. The remaining transactions involved other countries that are the target of US economic sanctions, including Iran. Under the terms of these agreements, Société Générale agreed to pay penalties totalling approximately USD 1.3 billion (EUR 1.2 billion) to the US Authorities, including EUR 53.9 million to OFAC, USD 717.2 million to SDNY, USD 162.8 million to DANY, USD 81.3 million to the Federal Reserve, and USD 325 million to NYDFS.

The Bank signed deferred prosecution agreements with SDNY and DANY, which provide that, following a three-year probation period, the Bank will not be prosecuted if it abides by the terms of the agreements, to which Societe Generale is fully committed.

The Bank will continue to cooperate with the US Authorities in the future, pursuant to the agreements. The Bank has also committed to continue to enhance its compliance program to prevent and detect potential violations of US economic sanctions laws and New York

state laws. The Bank also agreed to enhance its oversight of its sanctions compliance program. The Bank has also agreed with the Federal Reserve to retain an independent consultant that will evaluate the Bank's progress on the implementation of enhancements to its sanctions compliance program.

- Also, on 19<sup>th</sup> November 2018, Societe Generale agreed to a Consent Order with NYDFS relating to components of the Bank's antimoney-laundering ("AML") compliance program in the New York Branch. The Consent Order requires the Bank paid a civil money penalty of USD 95 million (EUR 82 million) in light of deficiencies noted by NYDFS. The Consent Order requires the Bank to continue a series of enhancements to its New York branch's AML compliance program. After a period of 18 months, an independent consultant will conduct an assessment of the Branch's progress on the implementation of its AML compliance program.
- Societe Generale, along with other financial institutions, has been named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with its involvement in the London Gold Market Fixing. The action is brought on behalf of persons or entities that sold physical gold, sold gold futures contracts traded on the CME, sold shares in gold ETFs, sold gold call options traded on CME, bought gold put options traded on CME, sold over-the-counter gold spot or forward contracts or gold call options, or bought over-the-counter gold put options. The action is pending in the US District Court in Manhattan. Motions to dismiss the action were denied by an order dated 4<sup>th</sup> October 2016, and discovery is now proceeding. Societe Generale and certain subsidiaries, along with other financial institutions, have also been named as defendants in two putative class actions in Canada (in the Ontario Superior Court in Toronto and Quebec Superior Court in Quebec City) involving similar claims.
- On 30<sup>th</sup> January 2015, the CFTC served Societe Generale with a subpoena requesting the production of information and documents concerning trading in precious metals done since 1<sup>st</sup> January 2009. Societe Generale cooperated with the authorities and produced documents in 2015. There has been no contact with the CFTC since that time.
- Societe Generale, along with several other financial institutions, was named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with foreign exchange spot and derivatives trading. The action was brought by persons or entities that transacted in certain over-the-counter and exchange-traded foreign exchange instruments. Societe Generale has reached a settlement of USD 18 million, which was preliminarily approved by the Court. A final approval hearing was held on 23<sup>rd</sup> May 2018, and a decision is pending. A separate putative class action behalf of putative classes of indirect purchasers is also pending. An amended complaint was filed on 21<sup>st</sup> November 2018, and a motion to dismiss was filed on 20<sup>th</sup> December 2018. On 7<sup>th</sup> November 2018, a group of individual entities that elected to opt out of the main class action settlement filed a lawsuit against SG, SG Americas Securities, LLC, and several other financial institutions.
- Since August 2015, various former and current employees of the Societe Generale group have been under investigation by German criminal prosecution and tax authorities for their alleged participation in the so called "CumEx" patterns in connection with withholding tax on dividends on German shares. These investigations relate to the administration of a fund, proprietary trading activities and transactions carried out on behalf of clients. The Group entities respond to the requests of the German authorities.

## 6.7 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

### DELOITTE & ASSOCIES

6, place de la Pyramide  
92908 Paris-La Défense Cedex  
S.A. au capital de € 1.723.040  
572 028 041 R.C.S. Nanterre

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

### ERNST & YOUNG et Autres

Tour First - TSA 14444  
92037 Paris-La Défense cedex  
S.A.S. à capital variable  
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

### SOCIÉTÉ GÉNÉRALE

Société Anonyme  
17, cours Valmy  
92972 Paris-La Défense

Year ended December 31, 2018

*This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.*

*This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Annual General Meeting of Société Générale,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Société Générale for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Internal Control Committee.

### Basis for Opinion

#### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

### Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

## Measurement of the provision for disputes

### Risk identified

A provision for disputes in the amount of MEUR 340 (hereafter “the provision for disputes”) is recognized under liabilities in the balance sheet as at 31 December 2018 to cover the risks of future outflows of resources relating to several disputes in which the Company is involved, as stated in Note 7.3 “Provisions” to the financial statements. Société Générale is subject to investigations and requests for information of a regulatory nature from various authorities presented in Note 8 “Information on risks and litigation” to the financial statements.

During the financial year 2018, Société Générale paid penalties of 2.7 billion US dollar following settlement agreements with authorities relating to the following matters:

- the investigations of American authorities relating to certain US dollar transactions involving countries, persons, or entities that are the subject of US economic sanctions;
- investigations regarding certain transactions with Libyan counterparties;
- investigations regarding IBOR submissions.

We consider that the measurement of the provision for disputes, which is based on the exercise of Management’s judgment, is a key audit matter.

### Our response

Our works notably consisted in:

- monitoring the main legal proceedings and the ongoing investigations undertaken by the judicial authorities and the regulators with Société Générale’s legal department;
- obtaining an understanding of the process for the measurement of the provision for disputes, notably through quarterly discussions with Société Générale’s Management;
- assessing the assumptions used to determine the provision for disputes on the basis of the information that we obtained, in particular from Société Générale’s external legal advisers, specialized in these cases;
- assessing the disclosures on these disputes in the notes to the financial statements.

## Recoverability of deferred tax assets in France and in the United States

### Risk identified

As at December 31, 2018, an amount of MEUR 4,113 was recorded under deferred tax assets.

As stated in Note 5 “Taxes” to the financial statements, Société Générale calculates deferred taxes at the level of each tax entity and recognizes deferred tax assets at the closing date when it is considered probable that future taxable profits will be available against which the tax entity concerned will be able to charge timing differences and tax loss carryforwards, over a determined period of time.

Furthermore, as stated in Notes 5 “Taxes” and 8 “Information on risks and litigation” to the financial statements, certain tax loss carryforwards are challenged by the French tax authorities and consequently may be called into question.

Given the assumptions used to assess the recoverability of the deferred tax assets in France and in the United States (which represent the most significant part of these assets) and the judgment exercised by Management in this respect, we identified this issue as a key audit matter.

### Our response

Our audit approach consisted in assessing the probability that Société Générale will be able to make future use of the tax loss carryforwards generated to date, notably based on the ability to make future taxable profits in France and the United States.

With the support of our tax specialists who are part of the audit team, we:

- compared the projected results of the past fiscal years with the actual results of the concerned fiscal years;
- obtained an understanding of the three-year business plan drawn up by Management and approved by the Board of Directors and of the assumptions used by Management beyond the three-year period to establish projected results;
- assessed the sensitivity of these assumptions in the event of unfavourable scenarios defined by Société Générale;
- analyzed Société Générale’s situation, and obtained an understanding of the opinion from its external tax advisers regarding its tax loss carryforwards in France, partially challenged by the tax authorities;
- analyzed the disclosures on deferred tax assets in Notes 5 and 8 to the financial statements.



## Valuation of complex financial instruments

### Risk identified

Within the scope of its market activities, Société Générale holds complex financial instruments for trading purpose.

To calculate the market value of complex instruments, Société Générale uses techniques or in-house valuation models based on parameters and data that are not observable in the market, as stated in Note 2.2 "Operations on forward financial instruments" to the financial statements. The models and data used to value these instruments are based on Management's estimates.

Due to the use of judgment to determine the instruments' market value, the complexity of the modelling of the latter and the multiplicity of models used, we consider the valuation of complex financial instruments to be a key audit matter.

### Our response

Our audit approach is focused on the key internal control processes related to the valuation of the complex financial instruments. With the support of our specialists in the valuation of financial instruments, we designed an approach including the following main stages:

- we familiarized ourselves with the procedure for the authorization and validation of new products and their valuation models, including the process for the entry of these models into the information systems;

- we assessed the governance relating to the Risk Department's control of the valuation models used;
- more specifically, based on tests, we considered the valuation formulae for certain categories of complex instruments;
- we analyzed certain market parameters used to provide input for the valuation models;
- as regards the profit and loss explanation process, we familiarized ourselves with the analysis principles used by the bank and performed tests of controls. We also performed "analytical" IT procedures on the database for the controls performed on the daily profit and loss explanation process;
- at each quarterly closing, we obtained the results of the process for the independent price verification, and we analyzed the differences in parameters compared to the market data in the event of a significant impact, as well as the accounting treatment of such differences;
- we performed counter-valuations on a selection of complex derivative financial instruments using our tools;
- we considered the compliance of the documented methods underlying the estimates with the principles described in Note 2.2 "Operations on forward financial instruments" to the financial statements.

## Information technology risk on derivative financial instruments and structured bonds issued

### Risk identified

Société Générale's derivative financial instruments and structured bonds issued constitute an important activity within its market activities, as illustrated by the significance of the net positions of derivative financial instruments in the transaction portfolio in Note 2.2 "Operations on forward financial instruments" to the financial statements.

This activity is highly complex given the nature of the financial instruments processed, the volume of the transactions, and the use of numerous information systems interfacing with each other.

The risk of an IT incident could entail the risk of an anomaly in the accounts resulting from an incident in the data processing chains used, or the recording of transactions until they are transferred into the accounting system. Such a risk may notably take the form of:

- changes made to management and financial information by unauthorized personnel via the information systems or underlying databases;
- a failure in processing or in the transfer of data between systems;
- a service interruption or operating incident, possibly associated with internal or external fraud.

In this context, the monitoring by the Company of controls linked to information systems management relating to the above-mentioned activity is essential for the reliability of the accounts and is a key audit matter.

### Our response

Our audit approach for this activity is based on the controls related to the information systems management set up by Société Générale. With the support of our experts in information systems, we tested the IT general controls of the applications that we considered to be significant for this activity.

- Our works concerned in particular the following:
- the controls set up by Société Générale on access rights, notably at sensitive period of a professional career (recruitment, transfer, resignation, end of contract) with, when necessary, extended audit procedures in the event of ineffective control identified during the year ended December 31, 2018;
- potential privileged access to applications and infrastructure;
- change management and, more specifically, the separation between development and business environments;
- security policies in general and their deployment in IT applications (for example, those related to passwords);
- handling of IT incidents during the audit period;

governance and the control environment on a sample of "end user" applications.

For these same applications, and in order to assess the transfer of information flows, we tested the application controls related to the automated interfaces between the systems.

Our tests of the IT general controls and application controls were supplemented by data analytics work on certain IT applications.

## Change in accounting estimates of collective provisions and measurement of impairment and provisions on loans and other commitments granted to corporate clients

### Risk identified

Loans and receivables to corporate clients carry a credit risk that exposes Société Générale to a potential loss if its client or counterparty is unable to meet its financial commitments.

The accounting principles used for measuring the impairment and collective provisions are described in Note 2.6 "Impairment and provisions" to the financial statements.

In the financial year 2018, Société Générale changed its accounting estimates for the recording of collective provisions for credit risk as stated in Note 1 "Significant accounting principles" to the financial statements. The amount of collective provisions for credit risk is now measured based on lifetime expected credit losses calculated on under-performing loans. Société Générale's management uses its judgment to set the assumptions and parameters used to calculate these collective provisions.

Furthermore, Société Générale uses its judgment and makes accounting estimates to measure the impairment of the doubtful loans.

We consider (i) the change in accounting estimates of collective provisions and (ii) the measurement of impairment and provisions of loans and other commitments, especially for corporate clients with significant individual exposures, to be a key audit matter.

## Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

### Information given in the Management Report and in the Other Documents with respect to the financial position and the financial statements provided to the Shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents with respect to the financial position and the financial statements provided to the Shareholders except for the point described below.

We have the following matter to report regarding the fair presentation and consistency with the financial statements of the information relating to payment terms referred to in article D. 441-4 of the French Commercial Code (Code de commerce): As stated in the management report, this information does not include bank and other related operations as your Company considers that such operations fall outside the scope of disclosable information.

### Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (Code de commerce).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements

### Our response

Our audit approach consisted in obtaining an understanding of the process of measuring impairment and collective provisions in place at Société Générale. We tested the key controls set up by Management for determining the assumptions and parameters used as a basis for this measurement.

Regarding under-performing loans for which provisions are determined on a collective basis, with the support of our experts, our works consisted in:

- assessing the assumptions and documentation of Société Générale used to identify a significant increase in credit risk;
- obtaining an understanding of the governance framework set up by Société Générale;
- analyzing the key parameters used by Société Générale to measure collective provisions;
- analyzing the disclosures on the change in accounting estimates performed in the year ended December 31, 2018.

Regarding doubtful loans, our works consisted in testing the key assumptions used for estimating impairment as at December 31, 2018, especially on a selection of the most significant corporate loans in France.

We also analyzed the qualitative and quantitative disclosures described in Note 2.6 "Impairment and provisions" to the financial statements.

and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a public purchase offer or exchange, provided pursuant to Article L. 225-37-5 of the French Commercial Code (Code de commerce), we have agreed these to the source documents communicated to us. Based on our work, we have no observations to make on this information.

### Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders or holders of the voting rights and cross-shareholdings has been properly disclosed in the management report.

## Report on Other Legal and Regulatory Requirements

### Appointment of the Statutory Auditors

We were appointed as statutory auditors of Société Générale by your Annual General Meeting held on April 18, 2003 for DELOITTE & ASSOCIES and on May 22, 2012 for ERNST & YOUNG et Autres.

As at December 31, 2018, DELOITTE & ASSOCIES was in the sixteenth year of total uninterrupted engagement and ERNST & YOUNG et Autres in the seventh year.

Previously, ERNST & YOUNG Audit was the statutory auditor of Société Générale from 2000 to 2011.



## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Internal Control Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

## Statutory Auditors' Responsibilities for the Audit of the Financial Statements

### Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to

provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Report to the Audit and Internal Control Committee

We submit to the Audit and Internal Control Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Internal Control Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Internal Control Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French code of ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit and Internal Control Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, March 8, 2019

The Statutory Auditors

*French original signed by*

DELOITTE & ASSOCIES

Jean-Marc MICKELER

ERNST & YOUNG et Autres

Micha MISSAKIAN

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