

**SG Issuer  
Société Anonyme**

**Financial statements and report of the réviseur d'entreprises agréé**

**For the year ended 31 December 2016**

**33, boulevard Prince Henri  
L-1724 Luxembourg  
R.C.S. Luxembourg: B121.363**

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**Executive Board Members:**

For the year ended at 31 December 2016

Chairman:

**Mr Yves CACCLIN**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

Directors:

**Mrs Sophie ROBATCHE-CLAIVE**

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

**Mr Amaury de BELER**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Alexandre GALLICHE**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Marc AUGIER**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mrs Valérie DUMORTIER (Until 12.01.2016)**

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

**Mr Arnaud SERRES (Since 12.01.2016)**

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

**Mrs Laetitia JOURNE**

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

**Supervisory Board Members:**

For the year ended at 31 December 2016

**Chairman:**

**Mrs Véronique DE LA BACHELERIE**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Members:**

**Mr Jérôme AUDRAN**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Didier LALLEMAND**

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

**Mr Vincent ROBILLARD**

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

**Mr Alban ROMANET**

Employee of Société Générale Bank and Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Management and administration:**

For the year ended 31 December 2016

**Issuer**

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

**Guarantor (if applicable, as specified in the Final Terms)**

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

**Arranger and Dealer**

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

**Security Trustee and Security Agent Trustee**

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

**Collateral Custodian**

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

**Collateral Monitoring Agent**

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

**Custodian Agent, Issuing and Paying Agent, Registrar, Exchange Agent and Transfer Agent**

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

**Paying Agents**

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

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

**Warrant Agent**

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

**Legal advisers**

To the Arranger as to English, French and U.S. law

Allen & Overy LLP

Edouard VII

26, boulevard des Capucines, F-75009 Paris, France

To the Trustee as to English Law

Allen & Overy LLP

1 Bishops Square, London E1 6AD, United Kingdom

To the Arranger as to Luxembourg Law

Allen & Overy Luxembourg

33, avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg

**Independent Auditor**

Deloitte Audit S.à r.l.

560, rue de Neudorf L-2220 Luxembourg, Luxembourg

## Report of the Executive Board and Corporate Governance Statement

For the year ended 31 December 2016

The Directors of the Company (each a “Director”, collectively the “Executive Board”) present the annual financial statements and the Report of the Executive Board of the Company for the year from 1 January 2016 to 31 December 2016.

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

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

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

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

Warrants are financial products like turbos, inline warrants, daily leverage certificates, etc, which aim to replicate the same financial exposure as buying (call) or selling (put) an asset such as a share or an index, at a predetermined price (strike price) on a predetermined date (expiry) and to offer different pay-off or exposures to investors.

Warrants are sold by SG Issuer mainly to clients in France, Belgium, Luxembourg, UK, Sweden, Finland, Norway, Spain, Hong-Kong, and Netherlands. During the course of 2017, 2 other countries will be added to the scope: Italy and Singapore.

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

On request of investors, the Company can issue collateralised Notes (“Secured Notes”) in order to propose an additional layer of protection to investors, in case of default of Société Générale. Collateralised Warrants (“Secured Warrants”) will be offered to investors in 2017.

Notes and Warrants issuances are governed by the Base Prospectus prepared by Société Générale as arranger. Notes can be issued under one of the two Debt Instruments Issuance Programmes approved by the CSSF on 6 July 2016 and on 15 September 2016 or under the “Programme d'Emission de Titres de Créance” approved by CSSF on 08 July 2016. For Warrants issuances, there are 2 Base Prospectus, the Warrants Issuance Programme and the Warrants and Turbo Warrants Issuance Programme approved both by the CSSF on 20 July 2016.

The state of business of the Company at the closing of the financial year is adequately presented in the Balance sheet and the Profit and Loss Account, published herewith. The increase in total assets and liabilities is due to the development of the activity of issuing financial instruments. During the annual period ended 31 December 2016, 10 606 Notes were issued (among which 277 Secured Notes) and 11 421 Warrants were issued<sup>1</sup>. The profit for the annual financial period amounts to KEUR 373.

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

The Company did not exercise any research and development activity, neither have a branch, nor acquire own shares.

## **2. RISKS AND UNCERTAINTIES**

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

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

## **3. FUTURE DEVELOPMENTS**

The Executive Board anticipates a major change during the financial year 2017 with the set-up of the new issuance program (the "DLCIP") dedicated to the issuance of leveraged certificates in Europe. This programme should be live during the second semester of 2017.

On the Daily Leverage Certificate business, the Board anticipates a significant increase of volumes. On another hand, the volume of secured and repack transactions should decrease from the second semester of 2017.

## **4. POST BALANCE SHEET EVENTS**

By resolutions adopted on 12 January 2017, the Executive Board decided to increase the capital of the Company from EUR 2 000 120 to EUR 2 000 160 by the issue of one new share with a nominal value of EUR 40 underwritten by the only shareholder. The share capital represents, after this increase, 50 004 shares with an unchanged nominal value.

Such increase also resulted in an allocation by the Company to its capital surplus account of EUR 67 533 006.

By resolutions adopted on 6 February 2017, the Executive Board accepted temporarily the change in the Executive Board until the next General Meeting which was held on 27 April 2017. Thanks to the resignation of Marc Augier, a new director was appointed: Thierry Bodson, remaining professionally at 11, avenue Emile Reuter, L-2420 Luxembourg, as a replacement of the outgoing member of the Executive Board. Also, thanks to Laetitia Journé's internal mobility among the Group, a new director was appointed: Youssef Tali remaining professionally at Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense, France.

## **5. CORPORATE GOVERNANCE STATEMENT**

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

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



### **5.1 Executive Board**

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

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

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

Key tasks of the Executive Board:

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

### **5.2 Supervisory Board**

The Supervisory Board insures permanently and by all means suited the control of the management of the Company carried out by the Executive Board. However this supervision has to be translated in no way by an intervention in the management of the Company. The Supervisory Board can mandate advisory committees comprised of members of the Supervisory Board and/or of other non-members to lead different missions. The Supervisory Board can confer these advisory committees of the power or mandates permanently or temporary. These advisory committees cannot have the effect of restricting the powers of the Executive Board. In 2016, the Supervisory Board didn't create specific committee on SGIS.

### **5.3 Internal Audit**

The Internal Audit of Société Générale Group supports the SG Issuer's Executive Board in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The goal of Internal Audit is to add value by making recommendations designed to improve the Company's functioning. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.

The central task of Internal Audit is to audit the functioning of SG Issuer on a regular basis and evaluate their internal controls, risk management, and administrative practices. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments on behalf of management.

Internal Audit does not have any direct authority over the activities it reviews.

### **5.4 Controls of conformity/compliance**

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

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

### 5.5 New Products Committee

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

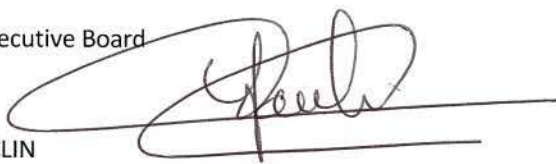
### 5.6 Service legal agreements

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

Service Level Agreements ("SLA" here below) were signed by the Company with SGBT Luxembourg and with Société Générale Group. The SLAs govern the relations between the entities, as well as their respective obligations. The services supplied by SGBT Luxembourg and SG Group are listed in the appendices of the agreements (among others, internal audit, first level of controls of conformity, back office, risk monitoring, compliance...)

The description of the risk management relative to the financial information is described in Note 21 hereafter.

For the Executive Board



Yves CACCLIN

Chairman of the Executive Board



Alexandre GALLICHE

Member of the Executive Board



Amaury de BELER

Member of the Executive Board

SG Issuer S.A.

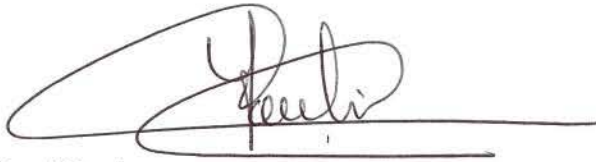
**Global Statement**

**For the financial statements report**

For the year ended 31 December 2016

To the best of our knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and, the management report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that it faces.

Luxembourg, 27 April 2017

A handwritten signature in black ink, appearing to read 'P. Pauli', is written over a horizontal line. The signature is stylized and cursive.

Executive Board Member

For the Executive Board

To the sole Shareholder of  
SG Issuer S.A.  
33, boulevard Prince Henri  
L-1724 Luxembourg

Deloitte Audit  
Société à responsabilité limitée  
560, rue de Neudorf  
L-2220 Luxembourg  
B.P. 1173  
L-1011 Luxembourg  
Tel: +352 451 451  
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## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the financial statements

Following our appointment by the General Assembly of the Shareholders dated April 28, 2016, we have audited the accompanying financial statements of SG Issuer S.A., which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Executive Board for the financial statements*

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

#### *Responsibility of the réviseur d'entreprises agréé*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the financial statements.

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

## *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of SG Issuer S.A. as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## **Other information**

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

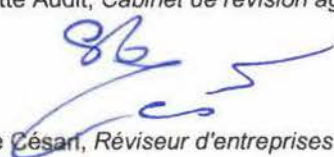
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

## **Report on other legal and regulatory requirements**

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

For Deloitte Audit, *Cabinet de révision agréé*

  
Stéphane César, *Réviseur d'entreprises agréé*  
Partner

April 27, 2017

**Statement of Comprehensive Income**  
For the year ended 31 December 2016  
(Expressed in thousands of EUR)

	Note	31.12.2016	31.12.2015
Interest income	13	1 143	1 643
Net gain from financial instruments through profit and loss	14	89 848	101 325
<b>Total revenue</b>		<b>90 991</b>	<b>102 968</b>
Interest expenses	13	(68 837)	(86 882)
Personnel expenses	15	(236)	(146)
Other operating charges	16	(21 393)	(15 560)
<b>Total expenses</b>		<b>(90 466)</b>	<b>(102 588)</b>
<b>Profit before tax</b>		<b>525</b>	<b>380</b>
Income tax	17	(152)	-
<b>Profit for the financial year</b>		<b>373</b>	<b>380</b>
<b>Total comprehensive income for the year</b>		<b>373</b>	<b>380</b>

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

**Statement of Financial Position**  
As at 31 December 2016  
(Expressed in thousands of EUR)

	Note	31.12.2016	31.12.2015
Cash and cash equivalents	4	89 144	83 446
<b>Financial assets at fair value through profit or loss</b>			
- <i>Designated at fair value through profit or loss</i>	5	44 030 973	34 193 066
- <i>Classified as Held for Trading</i>	5	9 133 362	2 767 202
Loans and receivables	6	53 345	61 675
Other assets	7	3 151	1 979
<b>Total assets</b>		<b>53 309 975</b>	<b>37 107 368</b>
Financial liabilities at amortised cost	8	115 533	133 296
<b>Financial liabilities at fair value through profit or loss</b>			
- <i>Designated at fair value through profit or loss</i>	9	44 023 013	34 193 106
- <i>Classified as Held for Trading</i>	9	9 147 992	2 767 205
Other liabilities	10	15 055	3 604
Deferred tax liabilities		152	-
<b>Total liabilities</b>		<b>53 301 745</b>	<b>37 097 211</b>
Share capital	11	2 000	2 000
Legal reserve	12	200	200
Other reserves	12	5 622	7 533
Retained earnings		35	44
Profit for the financial year		373	380
<b>Total equity</b>		<b>8 230</b>	<b>10 157</b>
<b>Total equity and liabilities</b>		<b>53 309 975</b>	<b>37 107 368</b>

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

**Statement of Changes in Equity**  
For the year ended 31 December 2016  
(Expressed in thousands of EUR)

	Share capital	Legal reserve	Other reserves unavailable	Other reserves available	Total reserve	Capital Surplus	Retained earnings	Profit for the financial year	Total equity
<b>As at 31 December 2014</b>	<b>2 000</b>	<b>200</b>	<b>7 533</b>	<b>1 934</b>	<b>9 667</b>	<b>-</b>	<b>50</b>	<b>209</b>	<b>11 926</b>
Allocation of the result of the previous year before dividend distribution				(1 934)	(1 934)		2 144	(209)	1
Transfer to available reserve			(1 911)	1 911					-
Dividend to the sole shareholder							(2 150)		(2 150)
Capital increase resulted in an allocation of the capital surplus account						92 463			92 463
Reimbursement of the capital surplus account						(92 463)			(92 463)
Profit for the financial year								380	380
<b>As at 31 December 2015</b>	<b>2 000</b>	<b>200</b>	<b>5 622</b>	<b>1 911</b>	<b>7 733</b>	<b>-</b>	<b>44</b>	<b>380</b>	<b>10 157</b>
Transfer to available reserve			(2 240)	2 240	-				-
Allocation of the result of the previous year before dividend distribution				(1 911)	(1 911)		2 291	(380)	-
Dividend to the sole shareholder							(2 300)		(2 300)
Capital increase resulted in an allocation of the capital surplus account						85 296			85 296
Reimbursement of the capital surplus account						(85 296)			(85 296)
Profit for the financial year								373	373
<b>As at 31 December 2016</b>	<b>2 000</b>	<b>200</b>	<b>3 382</b>	<b>2 240</b>	<b>5 822</b>	<b>-</b>	<b>35</b>	<b>373</b>	<b>8 230</b>

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



**Statement of Cash Flows**

For the year ended 31 December 2016 (Expressed in thousands of EUR)

	Note	31.12.2016	31.12.2015
<b>Profit for the financial year</b>		<b>373</b>	<b>380</b>
Variation of the accrued accounts receivables		40	(2 366)
Variation of the accrued accounts payables		67 533	85 040
<b>Total non-monetary adjustments other than financial instruments at fair value through profit or loss</b>		<b>67 573</b>	<b>82 674</b>
<b>Net result on financial instruments at fair value through profit or loss</b>	14	<b>89 848</b>	<b>(101 325)</b>
Inter bank operations		(21 734 834)	(15 324 948)
Operations with other financial assets and liabilities		21 658 344	15 429 117
Operations with other non-financial assets and liabilities		12 002	(2 443)
<b>Net variance of the operating assets and liabilities</b>		<b>(64 489)</b>	<b>101 726</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>93 306</b>	<b>83 455</b>
Payment of capital surplus	*	(85 296)	(92 463)
Dividend paid		(2 300)	(2 150)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(87 596)</b>	<b>(94 613)</b>
Cash and cash equivalent at the beginning of the year	* *	83 434	94 592
Net (decrease) increase in cash and cash equivalent		5 710	(11 158)
<b>Cash and cash equivalent at 31 December 2016</b>		<b>89 144</b>	<b>83 434</b>
<b>Net cash provided / used in operating activities include</b>			
Interest paid		91 066	94 305
Interest and dividends received		1 172	1 669

\* KEUR 85 296 represents the 2016 activity related interest of the Company (see Note 8) and has been allocated to a capital surplus account within the Company which has no impact in terms of cash flows. This process enabling to allocate the activity related result of the Company to its share premium account has been designed to easily and swiftly reinforce the Company's equity in cases where inter alia the business context, rating agencies requirements or regulatory constraints would require it. In such a case most or all the allocated amount would remain at the Company level rather than being paid to the shareholder (this decision would be taken by the sole shareholder).

\*\* The cash and cash equivalents contain KEUR 201 representing the balance of the overdraft account which is part of the normal operational activity of the Company (31 December 2015: KEUR 247).

## **Notes to the financial statements**

As at 31 December 2016

### **1. Corporate information**

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

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

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

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

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

At 31 December 2016, the Company's financial information is included in the consolidated accounts of Société Générale (hereafter the "ultimate parent Company"), whose head-office is located at 29, boulevard Haussmann, 75009 Paris, France, which is the largest body of undertakings of which the Company forms a part as a subsidiary undertaking.

### **2. Basis of preparation**

#### **2.1. Statement of compliance**

The financial statements of the Company as at 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB"). The financial statements were authorised for issue by the Supervisory Board on 25 April 2017.

#### **2.2. Basis of measurement**

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

**Notes to the financial statements**

As at 31 December 2016

- continued -

**2. Basis of preparation (continued)**

**2.3. Functional and presentation currency**

These financial statements are presented in Euro ("EUR"), which is the Company's functional currency. Financial information has been presented in thousands of EUR (KEUR) on these financial statements.

**2.4. Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 3.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to the years presented in these financial statements.

**3.1. Foreign currency transactions**

The transactions in foreign currencies are translated to EUR at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to EUR at the foreign currency exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the statement of comprehensive income.

Non-monetary asset and liabilities denominated in foreign currencies that are measured at fair value are translated to EUR at the foreign currency exchange rates ruling at the dates that the values were determined.

**3.2. Segment information**

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

**3.3. Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**Notes to the financial statements**

As at 31 December 2016

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**3. Significant accounting policies (continued)**

**3.4. Financial assets and liabilities**

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

- Financial assets at fair value through profit and loss
  - o Designated at fair value through profit or loss
  - o Classified as Held for Trading
- Loans and receivables

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

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

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

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

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

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

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

**3.4.1. Financial assets and liabilities at fair value through profit or loss - Designated at fair value through profit or loss**

These assets and liabilities respectively include:

*Funded swaps used to hedge Notes issued (Financial assets measured at fair value through profit and loss);  
Notes issued by the Company (Financial liabilities measured at fair value through profit and loss).*

### **Notes to the financial statements**

As at 31 December 2016

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#### **3. Significant accounting policies (continued)**

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

Funded swaps are financial instruments with Société Générale Group used to economically hedge Company's exposure to market risk arising from its activities and replicating each issued Notes.

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

These financial assets and liabilities are booked at fair value at the balance sheet date and recognised in the balance sheet under financial assets and liabilities at fair value through profit or loss.

Revenues and expenses including changes in fair value are recorded in the profit or loss for the year under "Net gain from financial instruments through profit and loss".

The impact of the application of IFRS 13 on the Company's annual financial statements (Credit Value adjustment (CVA) / Debt Value Adjustment (DVA) recognition) have been recorded in on a net basis in the Balance Sheet, i.e. there is no impact in terms of cash or income / expenses of the Company (except the margin – Bid/Ask – between the sale of the Note and the purchase of the Fully Funded Swap). For the years ended 2016 and 2015, the impact of IFRS 13 is fully embedded in the valuation models while for 2014, it was computed extra-model and added to the value.

#### **3.4.2. Financial assets and liabilities at fair value through profit and loss - Classified as Held for Trading**

These assets and liabilities respectively include:

*Options purchased in order to hedge the issued warrants.*

*Warrants issued by the Company (Financial liabilities measured at fair value through profit and loss held for trading).*

The warrant activity will be booked under the trading portfolio according to IAS 39 (derivative financial instruments held for trading).

The notional amount on the Warrant issuance together with the hedge option is reported Off Balance Sheet. SGIS reports the premium paid on the derivatives bought and the premium received on the derivative sold on the Balance Sheet under "Financial Assets or Liabilities at fair value through the profit or loss - Classified as Held for Trading" according IAS 39. Revenues and expenses including changes in fair value are recorded in the income statement for the period under Net income on financial instruments at fair value through profit or loss.

#### **3.4.3. Offsetting a financial asset and a financial liability**

The Notes are subscribed by the investors through Société Générale as a lead manager during the issuance period and as a market maker for a secondary market. The part of the Notes which remains unsold are held by Société Générale.

## Notes to the financial statements

As at 31 December 2016

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### 3. Significant accounting policies (continued)

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

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

The treatment is applied based on the following paragraph of IAS 32: "A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity: (IAS32 §42)

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

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

The impact of the offsetting of the non sold Notes (a decrease of the balance sheet) and the corresponding fully funded swaps is KEUR 21 401 512 (see Note 5 & Note 21) (2015: KEUR 17 954 546).

#### 3.4.4. Loans and receivables

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate impairments.

Impairments represent the Company's estimate of incurred losses arising from the failure or inability of third parties to make payments when due.

#### 3.4.5. Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial measurement, financial liabilities are recognised at amortised cost using the effective interest rate method (refer to Note 3.7).

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

### 3.5. Fair Value of the financial instruments

IFRS 13 "Fair value measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair market value for the financial instruments measured at fair value through profit or loss is primarily determined based on quoted prices in an active market. These prices may be adjusted if they are not available at the closing date. If the market for a financial instrument is not active, its fair value is determined by valuation techniques (internal models recovery) using valuation parameters based on existing market conditions at the balance sheet date and that are influenced by assumptions used, such as the amount and timing of estimated future cash flows, the discount rate and the volatility of the underlying assets.

**Notes to the financial statements**

As at 31 December 2016

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**3. Significant accounting policies (continued)**

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

For the years ended 2016 and 2015, the impact of IFRS 13 is fully embedded in the valuation models while for 2014, it was computed extra-model and added to the value.

Different calculation methods can exist regarding the CVA-DVA / OCA (Own Credit Adjustment) impact calculation: derived from the yield discounting methodology, other from the Monte-Carlo EPE/ENE (Expected Positive / Negative Exposure).

The methodology applied to SGIS (the same as the SG Group) is the yield discounting methodology.

- For unsecured Notes

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

- For secured and Repack Notes

*Secured Notes are Notes which are collateralized with assets deposited on segregated or pooled accounts with external custodian (BoNY) and pledged in favor of the Noteholders.*

*Repack Notes are Notes which allow investors to calibrate the funding yield of their structure by selecting a bond (the "Reference Bond") issued by a third-party issuer (the "Reference Bond Issuer").*

*The collateral assets are composed of eligible securities.*

*Should SG defaults, the pledge on the assets is to be enforced; the Notes holders are exposed to credit risk of the collateral (external securities). Therefore, as SG and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with SG credit spread. Thus, no additional credit adjustment is needed for the Secured Notes.*

*The fair value of the Secured Notes and the Repack Notes and the associated FFS is computed, for each accounting period by discounting the expected future cash flows by a composite Repo rate curve.*

- For Warrants

*For financial instruments recognised at fair value on the 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 especially to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Group does not have quoted prices in the markets.*

**Notes to the financial statements**

As at 31 December 2016

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**3. Significant accounting policies (continued)**

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

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

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

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

For purposes of information, the financial instruments at fair value on the balance sheet are presented regarding a hierarchy of fair value that reflects the importance of data used for valuations. The fair value hierarchy consists in the following levels:

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

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



**Notes to the financial statements**

As at 31 December 2016

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**3. Significant accounting policies (continued)**

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

In case of specific market power leading to the absence of reference data for normal value of a financial instrument, the Risk Management may be required to implement a new model based on the available relevant data, such as methods used by other market participants.

These instruments are mainly those for which the sales margin is not immediately recognised in profit or loss (derivatives with higher maturities than the ones usually traded) when their valuation is not based on observable data. Unobservable parameters are carefully assessed, particularly in a depressed economic environment and market. By their very nature, unobservable parameters imply a degree of uncertainty in their valuation. However, given the structure of the entity (perfect match between assets and liabilities in terms of market and credit risk), a variation in the assessment of a financial instrument classified in level 3 would have no impact on the result of the Company.

**3.6. Impairments**

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

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

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

When assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjustment for Executive Board's judgements as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

## Notes to the financial statements

As at 31 December 2016

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### **3. Significant accounting policies (continued)**

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

#### **3.7. Interest income and expenses**

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

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

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

#### **3.8. Income tax**

The Company is subject to Luxembourg tax laws and regulations. These taxes are included in current taxes. Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the financial statements. It also arises on temporary differences stemming from tax losses carried forward.

#### **3.9. Other commitments linked to secured Notes**

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

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

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

## Notes to the financial statements

As at 31 December 2016

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### 3. Significant accounting policies (continued)

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

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

The Company borrows the securities to be pledged from Société Générale Group. According to IAS39 securities borrowed are not recorded in SGIS balance sheet. The commitment to pledge the securities is accounted in the Company financial statements as an off balance sheet commitment "Securities pledged". The committed amount is re-measured at each closing to reflect the value of the securities pledged.

#### **3.10. New Standards and Interpretations**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2018 financial statements and could change the classification of financial assets. The Company does not plan to adopt this standard earlier. The date of the adoption of this standard by the Company will also be dependent on the timing of the EU endorsement process.

##### **IFRS 9 Financial Instruments**

IFRS 9 deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

The Company is analyzing the likely impact of the changes on its financial position or performance.

##### **Others**

Various other improvements to IFRS have been dealt with on a standard-by-standard basis. The Company is analyzing the likely impact of the improvements on its financial position or performance. These improvements have not yet been endorsed by the European Union.

**Notes to the financial statements**

As at 31 December 2016

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**4. Cash and cash equivalents**

This caption amounts to KEUR 89 144 as at 31 December 2016 (2015: KEUR 83 446) and refers to amounts held with Société Générale Bank and Trust S.A. ("SGBT") for an amount of KEUR 7 294 (2015: KEUR 2 256) and Société Générale for an amount of KEUR 75 191 (2015: KEUR 78 815), the remaining balance being with other counterparties for an amount of KEUR 6 659 (2015: KEUR 2 375). Bank overdrafts which amount to KEUR 201 form an integral part of the Company's cash management and are included in the balance of KEUR 89 144 disclosed in the Statement of cash flows.

**5. Financial assets measured at fair value through profit or loss**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	EUR' 000	EUR' 000
<b>Financial assets at fair value through profit or loss</b>		
- Designated at fair value through profit or loss (Fully funded Swap )	44 030 973	34 193 066
- Classified as Held for Trading (Options)	9 133 362	2 767 202
<b>Total</b>	<b>53 164 335</b>	<b>36 960 268</b>

As at 31 December 2016, Funded swaps measured at fair value through profit or loss for KEUR 44 030 973 (2015: KEUR 34 193 066) replicates each issued securities (Note 9). And as at 31 December 2016, Options at fair value through profit or loss for KEUR 9 133 362 (2015: KEUR 2 767 202) replicates each issued Warrants (Note 9).

The notional principal amount of the outstanding funded swap contracts at 31 December 2016 was corresponding to the notional of issued securities. And also, the notional principal amount of the outstanding options contracts at 31 December 2016 was corresponding to the notional of issued warrants (Note 9).

Financial assets (measured at fair value through profit or loss) movements were as follows:

	<b>Designated at fair value through profit or loss</b>	<b>Classified as Held for Trading</b>	<b>Total</b>
<b>As at 31 December 2014</b>	<b>23 409 519</b>	<b>-</b>	<b>23 409 519</b>
Acquisition	52 094 613	6 902 582	58 997 195
Cancelled	(26 356 602)	(3 026 386)	(29 382 988)
Liquidation	150 974	-	150 974
Maturity/Disposal	(6 609 416)	(1 733 180)	(8 342 596)
Change in fair value	(3 813 248)	614 788	(3 198 460)
Exchange difference	1 670 636	9 397	1 680 033
Offsetting of Assets and Liabilities (Change)	(6 353 409)	-	(6 353 409)
<b>As at 31 December 2015</b>	<b>34 193 066</b>	<b>2 767 202</b>	<b>36 960 268</b>
Acquisition	56 777 436	48 873 095	105 650 531
Cancelled	(43 465 758)	(29 143 080)	(72 608 838)
Liquidation	(167 612)	-	(167 612)
Maturity/Disposal	(2 909 038)	(12 900 839)	(15 809 877)
Change in fair value	2 520 170	(612 551)	1 907 619
Exchange difference	529 676	149 535	679 211
Offsetting of Assets and Liabilities (Change)	(3 446 967)	-	(3 446 967)
<b>As at 31 December 2016</b>	<b>44 030 973</b>	<b>9 133 362</b>	<b>53 164 335</b>

As reported in Note 3.4.3, the impact of the offsetting (a decrease of the balance sheet) of the non-sold Notes and the corresponding fully funded swaps is KEUR 21 401 512 (2015: KEUR 17 954 546).

**Notes to the financial statements**

As at 31 December 2016

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**6. Loans and receivables**

As at December 31, 2016 and 2015 the amounts owed by affiliated undertakings consist only of receivables from Société Générale Bank and Trust S.A.

In 2016, the receivable from SGBT for KEUR 53 345 (2015: KEUR 61 675) represent the placement of the Company's share capital and reserves.

**7. Other assets**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Other settlement accounts	3 151	1 979
	<b>3 151</b>	<b>1 979</b>

**8. Financial liabilities at amortised cost**

As at 31 December 2016, financial liabilities at amortised cost are mainly made up of a convertible bond with SGBT with maturity in 2022 and for an amount of KEUR 48 000 which has been issued upon the reimbursement of a loan previously existing. Similar conditions have been maintained in the bond issued, to strictly achieve this change of format. Conversion may occur each year.

Under such bond, the Company pays to SGBT both variable interests calculated on Euribor basis plus a margin of 1,731 % and activity related interest. Activity Related Interest means an amount equal to 100% of the activity related profit generated by the Company.

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

As at 31 December 2016 and 31 December 2015, the value of the equity component is estimated to be nil.

**9. Financial liabilities measured at fair value through profit and loss**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
<b>Financial assets at fair value through profit or loss</b>		
- Designated at fair value through profit or loss (Fully funded Swap )	44 023 013	34 193 106
- Classified as Held for Trading (Options)	9 147 992	2 767 205
<b>Total</b>	<b>53 171 005</b>	<b>36 960 311</b>

*As reported in Note 3.4.3, the impact of the offsetting (a decrease of the balance sheet) of the non-sold Notes and the corresponding fully funded swaps is KEUR 21 401 512 (2015: KEUR 17 954 546).*

The Company issued secured and unsecured Notes as at 31 December 2016 for KEUR 44 023 013 (2015: KEUR 34 193 106).

**Notes to the financial statements**

As at 31 December 2016

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**9. Financial liabilities measured at fair value through profit and loss (continued)**

In regards to the Financial assets at fair value through profit - Designated at fair value through profit or loss, the new issuances of Notes as at 31 December 2016 can be detailed as follows:

- 10 329 unsecured Notes were issued (stock) for a nominal of 39 636 083 and a MtM of 36 766 379 (2015: 15 462 unsecured Notes were issued for an amount of KEUR 27 424 001 and a nominal of KEUR 30 331 375);
- 277 secured Notes were issued for a nominal of 6 964 870 and a MtM of 6 163 603 (2015: 511 secured Notes were issued for an amount of KEUR 6 769 105 and a nominal of KEUR 3 484 567).

Secured Notes are collateralized with collateral assets borrowed by the Company to Société Générale for 5 586 871 781 (2015: KEUR 5 156 862). Refer to Note 20.

In regards to the Financial assets at fair value through profit - Classified as Held for Trading, the new issuances of Warrants can be detailed as follows:

As at 31 December 2016, the Company issued Warrants for KEUR 13 871 035. (2015: KEUR 2 767 205)  
Refer to Note 20 for further details on Off-Balance sheet elements related to the Warrants activity.

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

Liquidity analysis of the Issued securities is described in Note 21.

**10. Other liabilities**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Operating charges payables	457	3 359
Other payables	-	58
Other settlement accounts	14 598	187
<b>Total</b>	<b>15 055</b>	<b>3 604</b>

**11. Equity**

The initial share capital of the Company "Société Générale d'Arbitrage et de Participations S.A." (name upon its set up) amounted to EUR 31 000 represented by 100 shares of a nominal value of EUR 310 each, fully owned by Société Générale Bank & Trust S.A..

As at 31 December 2014, the subscribed and fully paid share capital amounted to EUR 2 000 040 and was divided into 50 001 shares with nominal value of EUR 40 each held by Société Générale Bank and Trust S.A..

By resolution adopted on 13 January 2014, the Executive Board decided to increase the capital from EUR 2 000 040 to EUR 2 000 080 by the issuance of a new share with a nominal value of EUR 40 underwritten by the sole Shareholder. The share capital represents, after this increase, 50 001 shares with an unchanged nominal value. Such increase also resulted in an allocation by the Company to its capital surplus account of EUR 92 463 032.

As at 31 December 2015, the subscribed and fully paid share capital amounted to EUR 2 000 080 and was divided into 50 002 shares with nominal value of EUR 40 each held by Société Générale Bank and Trust S.A..

**Notes to the financial statements**

As at 31 December 2016

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**11. Equity (continued)**

As at 31 December 2016, the subscribed and fully paid share capital amounted to EUR 2 000 120 and was divided into 50 003 shares with nominal value of EUR 40 each held by Société Générale Bank and Trust S.A..

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

The capital amount may increase, subject to the approval or the Sole Shareholder, if the Company activity evolves, incurring specific additional risks, in particular market risk.

**12. Reserves**

The Company is required to allocate a minimum of 5% of its annual net profit to a legal reserve until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed. As at 31 December 2016, the legal reserve amounted to KEUR 200 (2015: KEUR 200).

Included in the other reserves at 31 December 2016, an amount of KEUR 3 382 represents a temporarily non distributable reserve equal to five times net worth tax (2015: KEUR 5 622) and an amount of KEUR 2 240 represents distributable reserve. If the amount of the reserve is not maintained (for a reason other than a change in capital) for a five year period, the Company's liability to income tax will be increased by one-fifth of the amount of the reduction for the year in which the reduction took place. The Company decided to keep this reserve in accordance with the above.

**13. Interest income and expense**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Interest income on loans and receivables with financial institutions	1 143	1 643
Interest income on financial liabilities at fair value		
<b>Total interest income</b>	<b>1 143</b>	<b>1 643</b>
Interest expenses on liabilities at amortised cost	(68 405)	(86 288)
Interest expenses on financial liabilities at fair value	(432)	(594)
<b>Total interest expense</b>	<b>(68 837)</b>	<b>(86 882)</b>
<b>Net interest margin</b>	<b>(67 694)</b>	<b>(85 239)</b>

**14. Net gain from financial instruments through profit and loss**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Net gain on financial assets held for trading	17 428 568	2 887 259
Net gain on financial assets at fair value option	3 410 482	3 242 843
Net gain on derivative instruments		
Net gain on financial liabilities held for trading		
Net loss on financial liabilities held for trading	(17 361 864)	(2 886 854)
Net loss on financial liabilities at fair value option	(3 387 338)	(3 141 923)
Net loss on derivative instruments		
Net gain on change		
<b>Total</b>	<b>89 848</b>	<b>101 325</b>

**Notes to the financial statements**

As at 31 December 2016

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**15. Personnel Expenses**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Wages and salaries	(177)	(145)
Social charges and associated costs	(38)	(22)
Recharge of personnel expenses to related parties	(21)	21
<b>Total</b>	<b>(236)</b>	<b>(146)</b>

The Company had 2,5 employees during the year ended 31 December 2016 (2015: 1,8 employees). The employees of the Company are member of a state-managed retirement benefit plan. The Company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme. The only obligation of the Company is to make the required contributions.

As of 31 December 2016 the provision for pension established in 2015 has been recovered as the Company changed its booking and calculation method.

The annual cost of pension is now calculated and invoiced by SGBT, the parent company based on SGBT's group total cost of pensions and according to the number of the Company's full time equivalent employees. Invoices have been established and booked for both 2015 and 2016.

In 2015, the pension established were disclosed as follows:

Employee benefits

## - Post-employment benefits

*Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. As from the 1 January 2015, SGIS has adopted a new pension plan; Defined contribution plan (SGIS has no obligation in regards of the previous pension plan under Defined Benefit Plan.*

*The Post-Employment Benefits paid by SGIS is the retirement and pension plans detailed hereafter.*

## - Defined contribution plans

*Defined contribution plans limit SG Issuer'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 year in question.*

*In the books of SGIS, the amount of provision booked relative to the pension plan is KEUR 34 and the actuarial amount is KEUR 9.*

## - Long-term employee benefits

*Long-term employee benefits are those which payment is deferred and not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. The payment of this benefit may be deferred to a future date but must start while the employee is still an active employee (otherwise the payment would be classified as a post-employment benefit).*

*These long term benefits lead to an actuarial valuation method. They are recognized as a provision in the period in which they are incurred.*

*Those provisions are booked by SGBT Luxembourg and SGIS books an expense in the profit & loss account.*

*Long-term benefits include seniority award plans, deferred bonuses, time saving accounts.*

*For 2015, the amount of long-term employee benefits paid by SGIS is KEUR 15.*



**Notes to the financial statements**

As at 31 December 2016

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**16. Other operating charges**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR' 000</b>	<b>EUR' 000</b>
Issues fee*	(18 464)	(15 073)
Operating charges	(2 929)	(487)
<b>Total</b>	<b>(21 393)</b>	<b>(15 560)</b>

At 31 December 2016 the other operating charges are mainly composed by operating costs related to the Company as well as activities outsourced to SG France and SGBT.

\* (Listing fee, collateral monitoring agent fee, Maintenance of registers fee, trading fee ...)

**17. Taxation**

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

Since 2007, the Company is part of a tax integration group led by Société Générale Bank & Trust S.A., as authorised by the article 164 bis LIR and has concluded a Tax Sharing Agreement (the "Agreement") with Société Générale Bank & Trust S.A. (the "Parent"). Under the Agreement, the Company pays to the Parent with respect to each financial year of the period, an amount in Euro equal to the tax which would be levied on the profits of the Company in the absence of any tax consolidation with the Parent. On 31 December 2016, the amount is KEUR 152 (2015: nil).

In respect of the net wealth provision, the Company may maintain reserves, which allow the tax not to be paid. Société Générale Bank & Trust S.A. may also maintain reserves in the name of the other companies part of the fiscal integration.

For the year ending on 31 December 2016, the theoretical tax rate is 29,22% (2015: 29,22%) while the actual tax rate of the Company is the one from the tax integration Group to which it belongs as explained above.

**18. Related parties**

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at 31 December 2016 and 2015 are presented below. Related parties are considered to be a party that has the ability to control the Company or exercise significant influence over the Company in making financial or operational decisions.

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

All Notes are guaranteed by Société Générale.

Financial assets and liabilities in relation with the securities borrowing operations result from operations made with Société Générale. The underlying securities which serve as collateral for Secured Notes are mainly issued by non-related parties.

**Notes to the financial statements**

As at 31 December 2016

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**18. Related parties (continued)**

<b>As at 31 December 2016</b>	<b>SG</b>	<b>SGBT</b>
<b>EUR' 000</b>	<b>(Ultimate Parent Company)</b>	<b>(Parent Company)</b>
Cash and cash equivalents	75 191	7 294
Financial assets at fair value through profit or loss		
- Designated at fair value through profit or loss	44 030 973	-
- Classified as Held for Trading	9 133 362	-
Loans and receivables	-	53 345
Other assets	3 151	-
<b>Total assets</b>	<b>53 242 677</b>	<b>60 639</b>
Financial liabilities at amortised cost	-	115 533
Financial liabilities at fair value through profit or loss		
- Designated at fair value through profit or loss	44 023 013	-
- Classified as Held for Trading	9 147 992	-
Other liabilities	15 055	-
Other Tax	-	152
<b>Total liabilities</b>	<b>53 186 060</b>	<b>115 685</b>
Interest income	770	373
Net gain from financial instruments through profit and loss	89 848	-
<b>Total revenue</b>	<b>90 618</b>	<b>373</b>
Interest expenses	(432)	(68 405)
Personnel expenses	-	(236)
Other operating charges	-	(21 393)
<b>Total expenses</b>	<b>(432)</b>	<b>(90 034)</b>
<b>Total comprehensive income for the year</b>	<b>90 186</b>	<b>(89 661)</b>
<b>Financial commitment</b>	<b>3 559 596</b>	<b>-</b>
<b>financial commitment-collateral to be returned</b>	<b>5 402 700</b>	<b>-</b>

**Notes to the financial statements**

As at 31 December 2016

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**18. Related parties (continued)**

<b>As at 31 December 2015</b> <b>EUR' 000</b>	<b>Société Générale</b> <b>(Ultimate Parent</b> <b>Company)</b>	<b>SGBT</b> <b>(Parent</b> <b>Company)</b>
Cash and cash equivalents	78 815	2 256
<b>Financial assets at fair value through profit or loss</b>		
- Designated at fair value through profit or loss	34 193 066	-
- Classified as Held for Trading	2 767 202	-
Loans and receivables	-	61 675
Other assets	1 979	-
<b>Total assets</b>	<b>37 041 062</b>	<b>63 931</b>
Financial liabilities at amortised cost	-	133 296
<b>Financial liabilities at fair value through profit or loss</b>		
- Designated at fair value through profit or loss	34 193 106	-
- Classified as Held for Trading	2 767 205	-
Other liabilities	3 555	50
<b>Total liabilities</b>	<b>36 963 866</b>	<b>133 346</b>
Interest income	1 263	380
Net gain from financial instruments through profit and loss	101 325	-
<b>Total revenue</b>	<b>102 588</b>	<b>380</b>
Interest expenses	(594)	(86 288)
Personnel expenses	-	(146)
Other operating charges	-	(12 390)
<b>Total expenses</b>	<b>(594)</b>	<b>(98 824)</b>
<b>Total comprehensive income for the year</b>	<b>101 994</b>	<b>(98 444)</b>
<b>Financial commitment</b>	<b>3 714 548</b>	-
<b>financial commitment-collateral to be returned</b>	<b>5 156 862</b>	-

**19. Remuneration, advances and loans granted to members of the administrative or supervisory body**

As at 31 December 2016 and 2015, no payment, no advance and no loans were given to members of the administrative or supervisory body.

**20. Off-Balance Sheet**

Société Générale is the guarantor of the Company in respect of debt securities issued for both the short and long term.

As at 31 December 2016, deliverable securities to be issued (engagement taken before 31 December 2016 with value after 31 December 2016) amounted to KEUR 3 559 596 (31 December 2015: KEUR 3 714 548).

**Notes to the financial statements**

As at 31 December 2016

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**20. Off-Balance Sheet (continued)**

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured securities issued by the Company benefit from additional collateral assets securing the payment due under the Note terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of guarantor. Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Group Société Générale and are pledged in favour of the Note holders. Securities are deposited as guaranty for secured issuances in Bank of New York for an amount of KEUR 5 586 871 781 (31 December 2015: KEUR 5 156 862).

For financial instruments recognised at fair value held for trading on the balance sheet (Warrants), all issues are fully hedged by concluding identically equipped OTC options by investigating issue proceeds with Société Générale S.A.. The total 11 421 warrants issued during financial year 2016 breaks as follows:

Warrant Type	Category of Underlying	Type of Underlying	Option Type	31/12/2016		31/12/2015	
				Quantity	Volume (000 EUR)	Quantity	Volume (000 EUR)
Commodity Future Warrant	Future	Commodity Future	Call	47	1 279 117	5	10 977
			Put	37	52 839	9	16 697
Commodity Warrant	Commodity	Mutual Fund	Call	61	214 789	6	7 920
			Put	50	124 540	5	10 820
Currency Warrant	Currency		Call	125	44 569	62	12 943
			Put	122	11 396	50	10 045
Equity Warrant	Equity	American Depositary Receipt	Call	30	124 926	18	27 750
			Put	21	58 502	20	29 227
		Ordinary Share	Call	4 995	24 668 459	1 458	4 735 019
			Put	3 150	10 829 952	1 436	4 235 478
		Other Receipt	Call	3	24 370	9	436 902
			Put	4	186 344	3	200 167
		Own Share	Call	109	219 936	23	40 632
			Put	74	151 675	29	41 053
Preference	Call	28	97 750	6	36 000		
	Put	29	83 625	6	26 880		
Index Warrant	Index	Index	Call	1 481	35 952 812	599	11 042 035
			Put	990	16 256 885	499	8 912 173
Fund Warrant	Fund	Mutual Fund	Call	48	1 638 478	-	-
			Put	17	319 864	-	-
Total Call				6 927	64 265 206	2 186	16 350 178
Total Put				4 494	28 075 622	2 057	13 482 540

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management**

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

For any further information on the risks relating to the Group, investors and / or Noteholders should refer to the “Risk and Capital Adequacy” section in the March 2015 Registration Document AMF of Société Générale and any subsequent updates (<http://prospectus.socgen.com/documents-SG Registration part>).

**Market risk**

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

The Company issues Notes (debt instruments and debenture loans) Warrants. The Notes are systematically hedged with a swap with Société Générale Group, with strictly identical characteristics. In the same way, the Warrants are hedged with options with Société Générale Group, with strictly identical characteristics. The legal documentation and the derivatives instruments have been put in place in order to make sure that the assets match the liabilities at any time.

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

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

Because of its structure (perfect match between the assets and the liabilities), the impact of an immediate change of a market parameter as of 31 December 2016 would have no consequence on the net profit of the Company.

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

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

**Credit risk**

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

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)**

The Company only contracts financial instruments with the parent companies, SGBT and Société Générale. Therefore the credit risk of the Company is limited to credit of its parent companies. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred. As at 31 December 2016 and 31 December 2015 no financial assets were past due or impaired.

In addition, all the bonds issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the Notes will be unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

As of 31 December 2016, the rating of Société Générale is AA from Standard & Poor's and A1 from Moody's.

***Interest rate risk***

Investments in Fixed Rate Notes or any Note with a fixed rate component involve the risk that subsequent changes in market interest rates may adversely affect the value of such Notes. Due to the existence of the funded swaps (perfect match between the assets and the liabilities), this risk has no impact on the Company's income.

***Liquidity risk***

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due.

The Company does not face any liquidity risk thanks to the perfect replication between the contractual obligations of i) the debt issued by the Company and ii) financial assets held for hedging by the Company.

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

According to the fair value hierarchy established by IFRS 13, Level 3 (L3) comprises products valued using inputs that are not based on observable market data (referred to as unobservable inputs).

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for Notes or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions as at the 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 parameters used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of GBIS (Global Banking and Investor Solutions), in accordance with the methodologies defined by the Market Risk Department.

Notes (debt) and the related Fully Funded Swaps measured at fair value are classified as Level 3 where the valuation of the associated embedded derivatives (underlyings of the Notes) is also based on unobservable methods.

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

- equity derivatives: options with long maturities and/or incorporating bespoke pay offs mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and of an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e.g. extrapolation from observable data, historical analysis),

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)**

- interest rate derivatives: exotic options, products sensitive to correlation between different interest rates, different exchange rates, between interest rates and exchange rates or, for quanto products for example (in which the instrument is settled in a currency different from the one of the underlying); they are liable to be classified as L3 because the valuation parameters are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (e.g. exchange rate correlations are deemed unobservable for the USD/JPY),
- credit derivatives: L3 credit derivatives mainly include single name or baskets of instruments exposed to time to default correlation.

On each element of an identified list of unobservable parameters, it comes to determining the uncertainty of marking, and cross sensitivities with this uncertainty for a confidence interval of the value of the positions. In parallel, marking the levels of each of these parameters is collected and reported in the Note. The methods for determining the level of uncertainty, as well as calculating the confidence interval from sensitivities depend on each parameter.

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

Type of underlyings	Main underlying products	Valuation techniques used	Significant unobservable inputs	Range of unobservable inputs Min & Max
Equity / funds	Simple and complex instruments or derivatives on funds, equities or baskets on stocks	Various option models on funds, equities or baskets on stocks	Equity volatilities	[2.5% ; 97.9%]
			Equity dividends	[0.0% ; 32.2%]
			Unobservable correlations	[-99.0% ; 100%]
			Hedge funds volatilities	[8.5% ; 11.9%]
			Mutual funds volatilities	[1.7% ; 24.5%]
Rates and Forex	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[12.11% ; 90%]
	Forex derivatives	Forex option pricing models	Forex volatilities	[1.0% ; 28.1%]
	Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayment modeling	Constant prepayment rates	[0.0% ; 45%]
	Inflation instruments and derivatives	Inflation pricing models	Inflation / inflation correlations	[64.40% ; 93%]
Credit	Collateralized Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	[0% ; 100%]
			Recovery rate variance for single name underlyings	[0% ; 100%]
	Other credit derivatives (N to default, etc)	Credit default models	Time to default correlations	[0% ; 100%]
			Quanto correlations	[-50% ; 40%]
			Unobservable credit spreads	[0 bps ; 1 000 bps]
Commodity	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	[-0.89% ; 98.47%]

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

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)**

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

**b. Analysis per remaining maturities**

As at 31 December 2016 analysis per remaining maturities is as follows:

<b>31.12.2016 - EUR' 000</b>	<b>&lt; 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Without fixed maturity</b>	<b>Total</b>
Cash and cash equivalents	89 144	-	-	-	-	89 144
<b>Financial assets at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	1 273 668	5 546 579	18 174 506	19 036 220	-	44 030 973
- <i>Classified as Held for Trading</i>	1 797 992	2 710 398	2 129 998	2 494 974	-	9 133 362
Loans and receivables	-	1 915	3 865	47 565	-	53 345
Current tax assets	-	-	-	-	-	-
Other assets	3 151	-	-	-	-	3 151
<b>Total assets</b>	<b>3 163 955</b>	<b>8 258 892</b>	<b>20 308 369</b>	<b>21 578 759</b>	<b>-</b>	<b>53 309 975</b>
Financial liabilities at amortised cost	-	67 533	-	48 000	-	115 533
<b>Financial liabilities at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	1 273 668	5 546 579	18 174 506	19 028 260	-	44 023 013
- <i>Classified as Held for Trading</i>	1 797 992	2 710 398	2 129 998	2 509 604	-	9 147 992
Other liabilities	15 055	-	-	-	-	15 055
Others tax	152	-	-	-	-	152
<b>Total liabilities</b>	<b>3 086 867</b>	<b>8 324 510</b>	<b>20 304 504</b>	<b>21 585 864</b>	<b>-</b>	<b>53 301 745</b>

As at 31 December 2015 analysis per remaining maturities is as follows:

<b>31.12.2015 - EUR' 000</b>	<b>&lt; 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Without fixed maturity</b>	<b>Total</b>
Cash and cash equivalents	83 446	-	-	-	-	83 446
<b>Financial assets at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	203 755	3 874 218	14 423 201	15 691 892	-	34 193 066
- <i>Classified as Held for Trading</i>	618 267	580 172	217 759	1 351 004	-	2 767 202
Loans and receivables	-	6 955	3 714	51 006	-	61 675
Current tax assets	-	-	-	-	-	0
Other assets	1 979	-	-	-	-	1 979
<b>Total assets</b>	<b>907 447</b>	<b>4 461 345</b>	<b>14 644 674</b>	<b>17 093 902</b>	<b>-</b>	<b>37 107 368</b>
Financial liabilities at amortised cost	-	85 296	-	48 000	-	133 296
<b>Financial liabilities at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	203 755	3 874 218	14 423 201	15 691 932	-	34 193 106
- <i>Classified as Held for Trading</i>	618 267	580 172	217 759	1 351 007	-	2 767 205
Other liabilities	3 604	-	-	-	-	3 604
Others tax	-	-	-	-	-	-
<b>Total liabilities</b>	<b>825 626</b>	<b>4 539 686</b>	<b>14 640 960</b>	<b>17 090 939</b>	<b>-</b>	<b>37 097 211</b>



**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)**

<b>31.12.2016 - EUR' 000</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	89 144	89 144
<b>Financial assets at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	44 030 973	44 030 973
- <i>Classified as Held for Trading</i>	9 133 362	9 133 362
Loans and receivables *	53 345	59 363
Other assets	3 151	3 151
<b>Total assets</b>	<b>53 309 975</b>	<b>53 315 993</b>
Financial liabilities at amortised cost *	115 533	126 896
<b>Financial liabilities at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	44 023 013	44 023 013
- <i>Classified as Held for Trading</i>	9 147 992	9 147 992
Other liabilities	15 055	15 055
Other tax	152	152
<b>Total liabilities</b>	<b>53 301 745</b>	<b>53 313 108</b>
<b>31.12.2015 - EUR' 000</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	83 446	83 446
<b>Financial assets at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	34 193 066	34 193 066
- <i>Classified as Held for Trading</i>	2 767 202	2 767 202
Loans and receivables *	61 675	66 691
Other assets	1 979	1 979
<b>Total assets</b>	<b>37 107 368</b>	<b>37 112 384</b>
Financial liabilities at amortised cost *	133 296	137 706
<b>Financial liabilities at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	34 193 106	34 193 106
- <i>Classified as Held for Trading</i>	2 767 205	2 767 205
Other liabilities	3 604	3 604
Other tax		
<b>Total liabilities</b>	<b>37 097 211</b>	<b>37 101 621</b>

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)****c. The fair values together with the carrying amounts shown in the statement of financial position are as follows:**

- \* The loans and receivables and Financial liabilities at amortized cost are classified in level 2 of the Fair Value hierarchy as defined by IFRS 13. The fair value of deposits and loans is calculated by discounting the expected future cash flows under a EUR risk free curve adjusted with SG Group credit spread curve (EUR swap curve from Bloomberg and SG credit spread curve provided by Risk department Paris).

Determining fair value is dependent on many factors and can only be an estimate of what value may be obtained in the open market at any point in time.

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

The Notes issued and derivative financial instruments are measured at fair value through profit or loss. The fair value of the derivative financial instruments is partly based on unobservable inputs and is therefore classified as Level 3 in the fair value hierarchy of IFRS 13.

As at 31 December 2016 the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

<b>31.12.2016 - EUR' 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss</b>				
- Designated at fair value through profit or loss	- 21 499 373	22 531 600	44 030 973	
- Classified as Held for Trading	- 9 040 237	93 125	9 133 362	
<b>Financial liabilities at fair value through profit or loss</b>			0	0
- Designated at fair value through profit or loss	- 21 491 412	22 531 600	44 023 012	
- Classified as Held for Trading	- 9 054 867	93 125	9 147 992	
<b>Total</b>	-	-6 669	0	-6 669
<b>31.12.2015 - EUR' 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss</b>				
- Designated at fair value through profit or loss*	- 20 958 779	13 234 287	34 193 066	
- Classified as Held for Trading	- 2 765 046	2 156	2 767 202	
<b>Financial liabilities at fair value through profit or loss</b>			0	0
- Designated at fair value through profit or loss*	- 20 958 819	13 234 287	34 193 106	
- Classified as Held for Trading	- 2 765 049	2 156	2 767 205	
<b>Total</b>	-	-43	0	-43

- \* An amount of KEUR 780 133 has been reclassified from Level 2 to Level 3 because of a manual error occurred in the file used to prepare the financial statements on 31.12.2015.

Determining fair value depends on many factors and can only be an estimate of what value may be obtained in the open market at any point in time.

**Notes to the financial statements**

As at 31 December 2016

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**21. Risk Management (continued)**

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

EUR' 000	Level 3 (2016)		Level 3 (2015)	
	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value through profit or loss	
	<i>Designated at fair value through PnL</i>	<i>Classified as Held for Trading</i>	<i>Designated at fair value through PnL</i>	<i>Classified as Held for Trading</i>
<b>Balance as at 1 January *</b>	<b>13 234 287</b>	<b>2 156</b>	<b>11 299 450</b>	<b>0</b>
Acquisition **	9 427 828	178 065	8 419 539	2 156
Change in fair value	1 367 683	-87 095	-1 818 400	0
Reimbursements	-1 498 538	0	138 007	0
Transfer from L2 to L3	0	0	922 204	0
Transfer from L3 to L2	4 692 844	0	-2 905 431	0
Offsetting of the assets and liabilities	-4 692 504	0	-2 821 082	0
<b>Balance as at 31 December</b>	<b>22 531 600</b>	<b>93 126</b>	<b>13 234 287</b>	<b>2 156</b>

\* An amount of KEUR 780 133 has been reclassified from Level 2 to Level 3 because a manual error occurred in the file used to prepare the financial statements on 31.12.2015.

\*\* This amount includes new tranches of existing notes issued.

**Transfer from Level 3 to Level 2:**

As described in Note 3.5 "Fair Value of financial instruments", the consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For high maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.

**Operational risk**

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

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

The monitoring arrangement mainly relies on four processes supervised by the operational risk departments: periodic risk and control self-assessment (RCSA), collecting internal data on losses due to operational risk with exhaustive real-time reporting of incidents, pattern analyses, and permanent control system.

These procedures are supplemented by a crisis management unit and a business continuity plan.

**Notes to the financial statements**

As at 31 December 2016

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**22. Subsequent events**

By resolutions adopted on 12 January 2017, the Executive Board decided to increase the capital of the Company from EUR 2 000 120 to EUR 2 000 160 by the issue of one new share with a nominal value of EUR 40 underwritten by the only shareholder. The share capital represents, after this increase, 50 004 shares with an unchanged nominal value.

Such increase also resulted in an allocation by the Company to its capital surplus account of EUR 67 533 006.

By resolutions adopted on 6 February 2017, the Supervisory Board accepted the change in the Executive Board. Following the resignation of Marc Augier, a new director was appointed: Thierry Bodson, residing professionally at 11, avenue Emile Reuter, L-2420 Luxembourg, as a replacement of the outgoing member of the Executive Board. Following to Laetitia Journée's internal mobility among the Group, a new director was appointed: Youssef Tali residing professionally at Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense, France.