Société Générale Effekten GmbH
Frankfurt am Main

Group Management Report
for the financial year from January 1 to June 30, 2018

A. Basic information about the Group

I. Preliminary remarks

Société Générale Effekten GmbH (SGE), Frankfurt am Main, acquired the interests in Société Générale Securities Services GmbH (SGSS), Unterföhring, and ALD Lease Finanz GmbH (ALD LF), Hamburg, including its subsidiaries, with the execution of the purchase agreement on January 1, 2017. Based on the rules set forth under section 290 of the German Commercial Code (Handelsgesetzbuch, HGB) and section 37y of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), SGE is obligated time to prepare interim consolidated financial statements and a group management report at June 30, 2018.

II. Business model

The SGE Group operates in three segments that are managed respectively by SGE, SGSS and ALD LF.

SGE is a wholly owned subsidiary of Société Générale S.A. Frankfurt, which is a branch of Société Générale S.A., Paris. The purpose of the Company is to issue warrants and certificates that are both sold in their entirety to Société Générale S.A., Paris, Société Générale Option Europe S.A., Paris, Société Générale Madrid branch, and inora LIFE Limited, Dublin. All counterparties are companies of the Société Générale S.A. Group. Another area in which the Company is active is the acquisition and holding and management of equity investments.

Due to the introduction of the "European passport" and the fact that the responsible supervisory authority (BaFin) only has to approve the securities prospectus once, the Company can list its products on various stock markets in the European Union (stock markets in Madrid, Milan, Paris, Luxembourg, London, Stockholm, Helsinki, etc.). In the event of a listing on a stock exchange in a country that is not a member of the European Union, approval is obtained through the corresponding supervisory authority of the respective country.
Following the acquisition by the aforementioned counterparties, Société Générale S.A., Paris, places offerings with the ultimate buyers in a second step in such a manner that it does not have an impact on the economic relationships of the issuer SGE.

As an independent leasing company not affiliated with any manufacturers, **ALD LF** is a professional and reliable partner to car dealers. Its aspiration is to promote the independence of car dealerships with its service portfolio and to increase the profitability of car dealers.

Together with cooperation partners, in particular the subsidiary bank Deutsches Kraftfahrzeuggewerbe GmbH (BDK), Hamburg, car dealerships and their customers are offered financing solutions and services covering all their automotive needs. The product range covers all financial products in the dealership: sales financing and leasing, purchase financing and insurance that increase the loyalty of the customers to the dealership and thus increase earning opportunities. As a subsidiary of ALD LF, BDK also works with several manufacturers and importers together, assuming a portion of the captive business up to and including the complete servicing of a manufacturer bank.

All essential sales and processing functions are shown in connection with the provision of services by employees of BDK. Therefore, the cooperation partners and customers receive the service for all products from one source.

SGSS is an asset management company as defined under sections 17 and 18 of the Investment Code (Kapitalanlagegesetzbuch, KAGB). The business model of SGSS involves the management of investment funds in connection with the so-called Master AMC Model as well as the insourcing of fund management from other asset management companies. Direct investments continue to be managed. These services are provided primarily to European customers.

III. Branches

BDK maintains a branch office in Stuttgart at which lending decisions and loan processing are carried out as part of a cooperation with the FFS Group. The FFS Group comprises three successful companies with specialized expertise: a bank, a leasing company and an insurance service that put their comprehensive expertise and capabilities to work for car dealers.

IV. Internal management system

Due to the different business models of individual Group companies, Group management is carried out locally in the individual segments and a differentiation is made between the segments "Global Banking and Investor Solutions" (SGE's warrant and certificate business), Financial Services to Corporates and Retail (ALD LF's lending and leasing business), and Asset Management (SGSS). Please refer to our comments under B. IV. for the performance indicators and key figures applied with respect to this management.

B. Report on economic position

I. General economic and sector-specific environment

The German economy continues to grow at a healthy pace. The Council of Experts has raised its forecast 2018 slightly and now expects real gross domestic product (GDP) to expand at average annual growth rates of 2.3% and 1.8% for the years 2018 and 2019, respectively. In the labor market, the number of employed persons has reached a new record high and the ratio of jobseekers to open positions has fallen to the lowest level in the past 25 years. The scarcity of workers can be expected to increasingly slow the pace of economic growth. After the strong growth of the last few years, the German economy is in a boom phase. In this economy, the continuously expansive monetary policy of the ECB is putting further pressure on the existing capacity shortages. If the fiscal measures planned under the coalition agreement between the German political parties CDU, CSU and SPD are implemented, they will stimulate the economy further. The modest upward revision of the economic growth forecast is mainly due to the further improvement of the foreign trade environment. The global economy is currently experiencing the first synchronous expansion phase since the outbreak of the financial crisis some ten years ago. The Council of Experts has raised its forecast for global economic growth in 2018 slightly to 3.4%, to be followed by an increase of 3.1% in 2019. For the Eurozone, the Council of Experts is forecasting strong GDP growth rates of 2.3% in 2018 and 1.9% in 2019. Despite the positive growth outlook, the recent trend of increasing economic risks should not be overlooked. Such risks include the election result in

Italy, the uncertain outcome of the Brexit negotiations, and above all the announcement of higher steel and aluminum tariffs on the part of the United States. The continuation of the global upswing is critically dependent on the proper functioning of world trade. An escalation of protectionist measures would have serious negative consequences for the global economy and the German economy in particular.[1]

The changes in underlying amounts (shares and exchange rates, indices, etc.) associated with economic developments are the anchor for investors' expectations and therefore crucial for the concept of products issued in the warrant and certificate business. The Company reacted to the volatility of the markets in the first half of 2018 by introducing new products on a timely basis and launched new products and/or adjusted existing products accordingly.

Issuance business

The complexity of regulation and supervision remains very high (equity rules, detailed requirements for risk management systems; information and frequency of disclosure obligations, amended prospectus laws). The complexity is based essentially on European harmonization and the application to internationally active entities. In order to ensure uniform standards in banking supervision, a standard supervisory mechanism was created. The majority of the rules and procedural provisions applicable in Germany are now determined in light of a European background.

SGE is one of the ten leading issuers of derivative securities in Germany. As a part of Société Générale's Global Banking and Investor Solutions segment, it is the global leader in the segments for derivative and structured products.

Automobile industry

The German automobile market benefited again from the excellent economic environment in the first half of 2018. A total of 1,839,031 new passenger vehicles were registered in the first half of 2018, 2.9% more than in the first half of last year. Individual registrations, which increased by 12.6% to 37.8%, were mainly responsible for the overall increase.

The aftermath of the diesel emissions scandal is still clearly reflected in the registration statistics. The percentage of newly registered diesel cars was only 32.1% in the first half of 2018 (H1 2017: 41.3%).

VW's market share widened further in the first half of 2018 as registrations of VW cars rose by 8.6%. With an overall total market share of 19.7%, VW remained the unchallenged market leader in the first half of 2018.

Fewer Opel-brand vehicles were registered in the first half of 2018 than in the first half of last year. Due to the fact that the market has grown in the meantime, its market share declined from 7.1% to 6.4%.

As a brand-independent automobile financier, the Group entity ALD LF profited from the stable trend in the automotive market. Together with the subsidiary BDK, ALD LF remains the number two in the market of brand-independent automobile financiers.

Asset Management

[1] Council of Experts: Economic Report 2018.

The German investment fund industry increased assets under management modestly in the first half of 2018. Based on the BVI's investment statistics (excluding open-ended real estate funds), assets under management increased by 0.6% to EUR 2,856 billion (H1 2017: EUR 2,839 billion). This increase was the result of net fund inflows (EUR 30 billion), which offset the negative performance in the first half. Of the total net inflows, EUR 8 billion went to mutual funds and EUR 33 billion to special funds. Investment vehicles besides investment funds experienced net fund outflows of EUR 11 billion. With its self-managed assets (excluding open-ended real estate funds), SGSS ranks 11th place in the BVI's investment statistics.

II. Course of business

Global Banking and Investor Solutions

As a result of the intended goal to further extend the market position in Germany in 2018, the number of products issued in the segment of warrants increased by 10% and the number of products issued in the segment of certificates increased by 3% from the first half of last year. Warrants for a total of 198,301 were issued in the first half of 2018 (H1 2017: 181,276). A total of 109,420 warrants were issued for stocks, 59,202 for various indices, 7,837 for currencies and 21,842 for commodities.

In addition, 13,849 certificates were issued (H1 2017: 14,322). These are mainly bonus and discount certificates, as in prior years.

Financial Services to Corporates and Retails

In the first half of 2018, new business in the area of sales financing increased by EUR 13 million (+1.6%) over the first half of last year to reach a total of EUR 839 million. The budgeted value of EUR 813 million was exceeded (+3.2%).

Accordingly, the volume of receivables in sales financing rose by 4.8% to EUR 3,650 million (closing volume H1 2017: EUR 3,483 million). The budgeted amount of EUR 3,453 million was exceeded by 5.7%. The number of credit accounts rose by 3% since the beginning of the year to reach 360,983.

In the segment of dealer financing, the portfolio amounting to EUR 1,040 million at June 30, 2018 was 1.27% less than the prior-period comparison figure (EUR 1053 million) and 12% less than the budgeted amount of EUR 1,182 million. The budget misses resulted from the lower amount of drawdowns on the credit facility by the BDK dealers and the cooperation partners of Hyundai Capital Bank Europe for the KIA and Hyundai makes.

In unit figures, the leasing portfolio, which designates the number of active leasing contracts, developed as follows:

Financial year	2014	2015	2016	2017	1. HJ 2018
Portfolio additions	17,315	16,762	21,313	22,435	12,048
Vehicle portfolio	62,040	60,875	62,941	67,021	70,558

Asset Management

The Asset Management segment did not perform as well as expected in the first half of 2018, posting an operating loss of EUR 6.8 million. Income depends essentially on the development of assets under management. Income for the first six months of 2018 was slightly higher than expected. Due to the increase in assets under management over the prior-year period, the net banking result of EUR 14.9 million was in line with expectations. Due to the high level of project expenses, operating expenses were 8% higher than planned. These additional expenses were particularly caused by the concurrent connection of two new key accounts in the first half of 2018 and the implementation of the Investment Tax Reform Act (project fund taxation).

Overall assessment

In consideration of the developments in the individual segments described above, the Group's course of business in the first half of 2018 is to be regarded as positive on the whole from the perspective of the Management.

III. Financial position, cash flows and liquidity position, financial performance

a) Financial performance

The financial performance of the SGE Group presented in the table below covers the period from January 1, 2018 to June 30, 2018.

(In euro thousands)	01/01/2018-06/30/2018	2017*	01/01/2017-06/30/2017*
Interest and similar income	85,923	168,613	83,833
Interest and similar expenses	-14,144	-25,185	-11,937
Commission income	43,210	86,011	43,101
Commission expenses	-8,326	-17,602	-8,976
Net result from financial transactions	-122	-2,185	-1,891
thereof Net gains or losses from financial instruments measured at fair value through profit or loss	- 243	-2,272	-1,891
thereof Net gains or losses from available-for-sale financial assets		87	
thereof Net gains or losses from financial instruments measured at fair value through other comprehensive income	-		
thereof Net gains or losses on disposal of financial instruments measured at amortized cost	-		
Income from other activities	116,275	227,203	112,960
Expenses for other activities	-128,145	-251,289	-125,893

Net banking income	**94,671**	**185,566**	**91,197**
Personnel expenses	-33,365	-65,007	-32,247
Other administrative expenses	-26,348	-48,880	-23,079
Expenses for amortization, depreciation and impairments of intangible assets and property, plant and equipment	-1,425	-2,783	-1,367
Gross operating result	33,533	68,896	34,504
Risk expenses	-6,316	-10,996	- 6,299
Operating result	27,217	57,900	28,205
Net gains or losses on other assets	-	11	17
Impairments of goodwill	-		-
Profit before taxes	27,217	57,911	28,222
Income taxes	-		-10,897
Net profit/loss of all companies in the consolidation group	27,217	57,911	17,325
Non-controlling interests	-723	112	1,223
Net profit/loss (Group share)	27,940	57,799	16,102

*) With respect to the comparative income statement, we considered the IFRS 9 transition method applied by the SG Group, which states that the first-time application of IFRS 9 on January 1, 2018 should be retroactive in relation to the components of "classification and measurement" and "credit risk". However, the Standard's transitional provisions offer the option chosen by the Group not to adjust the prior-year comparison numbers. Accordingly, the comparison numbers for 2017 that appear beside the numbers for the year 2018 are still presented in accordance with the provisions of IAS 39. The measurement differences in the financial assets and liabilities and in the value adjustments for credit risk were recognized directly in equity in the opening balance sheet of January 1, 2018 due to the retrospective application of IFRS 9.

Net interest income in the first half of 2018 amounted to EUR 72 million and can be attributed primarily to the lending and leasing business in the Financial Services to Corporates and Retail segment.

Net commission income in the first half of 2018 amounted to EUR 34.9 million, of which EUR 21 million can be attributed to the Financial Services to Corporates and Retail segment and EUR 13.9 million to the Asset Management segment.

The result from other activities in the amount of EUR -11.8 million can be attributed mainly to the Financial Services to Corporates and Retail segment and comprises in particular expenses and income from operating leases in connection with lessor relationships.

The consolidated net banking result is EUR 94.6 million.

Key expense items in the Group include Personnel expenses and Other administrative expenses. Personnel expenses amounted to EUR 33 million and Other administrative expenses amounted to EUR 26 million, in both cases, these expenses were primarily incurred in the Financial Services to Corporates and Retail and Asset Management segments.

The Group's net profit after non-controlling interests came to EUR 27.9 million in the first half of 2018.

The financial performance of each segment is detailed in the following.

Global Banking and Investor Solutions

The Company does not generate any profit from new issue activities, because the proceeds from the sale of issued warrants and certificates are always offset by the expenses for the acquisition of corresponding hedging transactions.

As a result of the hedging of currency risks, there are no effects from exchange rate fluctuations on the income statement.

Personnel and other operating expenses are charged to Société Générale S.A., Paris, on the basis of a "cost-plus rule".

This segment incurred a loss of EUR -2,069 thousand in the first half of 2018. This can be attributed mainly to the difference in income collected under the cost-plus method, as well as the interest expenses of EUR 1.5 million on the loan extended by Société Générale S.A. Frankfurt for the acquisition of interests in ALD LF and SGSS.
The financial performance developed in line with the business plan.

Financial Services to Corporates and Retails

Net interest income rose to EUR 73.09 million in the first half of 2017 due to new business and the associated increase in inventories.

Due to new business and the corresponding increase in commission income from the brokerage of insurance policies, net commission income came to EUR 21 million.

The segment's net banking result amounted to EUR 36.3 million.

Asset Management

The Asset Management segment generated a net banking result of EUR 14.9 million in the first half of 2018. It was mainly composed of net commission income. Net interest income amounted to EUR 0.2 million.

At the end of June 2018, administrative expenses amounted to EUR 21.7 million. They were mainly composed of personnel expenses in the amount of EUR 9.0 million and other administrative expenses in the amount of EUR 12.7 million. The latter item included external costs for projects in the amount of EUR 2.1 million.

Including depreciation and amortization and income from other activities, the segment generated a higher-than-planned operating loss of EUR 6.8 million in the period ended June 30, 2018.

b) Cash flows and liquidity position

The nature and execution of the Group's business activities are oriented toward ensuring that its liquidity position is always sufficient.

Liabilities from the issuance of certificates and warrants are generally hedged using financial instruments with matching maturities denominated in the same currency and with identical price risks.

In the segment of Global Banking and Investor Solutions, cash transactions involving warrants and certificates arise from the issues and their hedging transactions, from the payment of personnel and other operating expenses, as well as their cost transfer to Société Générale S.A., Paris and Société Générale Frankfurt. Due to the full reimbursement of all costs incurred by Société Générale S.A. in connection with the issues, the Group has sufficient liquidity at its disposal and is in a position to satisfy all payment obligations in the Global Banking and Investor Solutions segment.

In addition to equity, the Group uses in particular financial funds from Société Générale S.A., Paris, with a fixed interest rate with bullet maturity or an amortizing structure in order to finance its leasing activities. We follow the principle of funding based primarily on matching maturities.

Credit lines based on the business plan were also agreed with Société Générale S.A. and other financial institutions in order to ensure the fundamental liquidity. At the reporting date, these credit lines amounted to EUR 5,106 million, from which 887 million was not drawn down.

In addition, we also use the instrument of the securitization of loan receivables in the Financial Services to Corporates and Retail segment. We bundled and publicly placed receivables from the leasing business in four structures to date under the names "Red & Black", which are used for securitizations on the part of the Société Générale Group. At the reporting date, there were two active structures. We report liabilities to the special purpose entities from securitization under "Securitized liabilities". At the reporting date, these amounted to EUR 798 million (January 1, 2018: EUR 1,385 million).

At June 30, 2018, the Group held cash and cash equivalents in the amount of EUR 118 million (January 1, 2018: EUR 134 million).

Liabilities to banks fell to EUR 3,524 million (January 1, 2018: EUR 3,881 million), primarily as a consequence of lower term deposits.

Compared to January 1, 2018, other financial liabilities declined by EUR 22.8 million to EUR 225 million. They mainly consisted of liabilities for other administrative expenses.

Besides personnel-related provisions, the total provisions in the amount of EUR 18.3 million (January 1, 2018: EUR 17.8 million) mainly consisted of provisions for bonus payments to our cooperation partners.

At June 30, 2018, there were off-balance-sheet liabilities in the form of loan commitments in the amount of EUR 155 million.

c) Financial position

The statement of financial position mainly includes the item of issued securities as well as the associated hedging transactions, and varies in amount with the Group's issuing activity.

Compared to the last reporting date of December 31, 2017, total assets decreased by EUR 207 million to EUR 9,882 million. This resulted mainly from the decrease in financial assets and liabilities measured at fair value through profit or loss in the Global Banking and Investor Solutions segment, due in part to the lower nominal amounts actually placed per product and in part to the delisting measures for unplaced products and the increased breaching of barrier levels leading to more product knock-outs.

Compared to December 31, 2017, receivables from customers increased by EUR 210 million to EUR 3,839 million. This increase is mainly attributable to instalment loans related to sales financing in the Financial Services to Corporates and Retail segment. Sales financing consists of instalment loans with a definite term and fixed interest rate.

Receivables from banks in the amount of EUR 147 million consist primarily of short-term deposits with Société Générale S.A. and Deutsche Bank AG.

The noncurrent assets of EUR 515 million (January 1, 2018: EUR 457 million) consisted mainly of leased assets in the amount of EUR 506 million (January 1, 2018: EUR 448 million) and intangible assets in the amount of EUR 7.3 million (January 1, 2018: EUR 7 million).

Receivables under leases amounted to EUR 445 million at June 30, 2018 (January 1, 2018: EUR 425 million).

Other assets including tax assets consisted mainly of prepaid expenses in the amount of EUR 81 million (January 1, 2018: EUR 77 million) and other receivables in the amount of EUR 34 million (January 1, 2018: EUR 42 million).

Liabilities in the amount of EUR 9,896 million consisted mainly of financial liabilities measured at fair value through profit or loss in the amount of EUR 4,731 million and liabilities to banks in the amount of EUR 3,524 million resulting from the funding of lending and leasing activities and the borrowing of loans to acquire subsidiaries.

The Group's equity amounted to EUR -13,585 million at June 30, 2018 (January 1, 2018: EUR -38,974 million). Please refer to Note 7 in the notes to the consolidated financial statements for more information on this subject.

Overall assessment

Based on the developments in the individual segments described above, the Group's course of business and its financial position, financial performance and cash flows in the first half of 2018 are to be assessed positively on the whole from the perspective of the Management.

IV. Financial/ non-financial performance indicators

Global Banking and Investor Solutions

Due to the fact that SG Effekten GmbH, which makes up the Global Banking and Investor Solutions segment, is a pure issuance vehicle of the Société Générale S.A. Group, which generates its income from the cost-plus agreements in effect with Société Générale S.A. Paris and Société Générale Frankfurt, financial performance indicators are not relevant.

The Company's internal management system is mainly operated through the systems and control procedures of the parent company. As part of its efforts to enhance operational efficiency, the parent company plans to continuously adjust and supplement the existing systems and control processes. Extensive improvements in the execution of the issuance process have led to efficiency enhancements that were necessary for increasing the issuance volume.

No other non-financial performance indicators are used.

Financial Services to Corporates and Retails

The net profit before profit transfer of the individual companies and return on equity (RoE) are used as financial performance indicators in the Financial Services to Corporates and Retail segment. RoE is the ratio of the result after taxes including subsidiaries to standardized equity. At this level, RoE for the current financial year 2018 at this level is 14.9%.

The number of new contracts in the leasing business represents another key figure. In the first half of 2018, 12,048 new lease contracts were concluded. Compared to the number of contracts in effect at the end of 2017, the number of lease contracts rose by 5.3%, from 67,021 to 70,558, in the first half of 2018.

Asset Management

The fund assets managed in self-managed mutual funds and special funds, including funds of funds of SGSS, amounted to approx. EUR 61.9 billion at June 30, 2018. The increase of approx. EUR 0.6 billion (+1%) since December 2017 resulted from fund inflows. At the end of June 2018, managed assets in direct investments amounted to around EUR 3.1 billion, that being modestly higher, by around EUR 0.1 billion, than the corresponding figure at December 2017.

At June 30, 2018, the fund assets managed for other AMCs (insourcing) amounted to approx. EUR 29.6 billion. This is approx. EUR 0.5 billion higher than the figure at December 2017. The increase resulted from fund inflows. Total managed assets amounted to approx. EUR 94.6 billion at June 30, 2018 (EUR 93.5 billion in December 2017).

With respect to the Key Performance Indicators (KPI) defined for our customers, the results were very good, as in the previous year. In total, more than 97% of all KPIs were reached. The number of customer complaints in the first half of 2018 was roughly the same as in the prior-year period and remains at a low level.

C. Report on the Group's future development, opportunities and risks

I. Expected development of the Group (Forecast Report)

General economic developments

With respect to the further development of the world economy, there is a chance of even stronger synchronous growth of the major economies. More dynamic business investment could lead to a stronger increase in productivity. In addition, a greater-than-expected worker potential could counteract the wage and inflation pressures associated with rising capacity utilization and allow for higher production growth than assumed in the forecast. With respect to U.S. tax and fiscal policy, there is a chance that it could increase economic growth momentum in the United States to a greater degree than assumed in the forecast. This could improve the export prospects of trading partners. On the other hand, some risks have worsened since last autumn. In addition to geopolitical risks, U.S. President Trump's latest announcements regarding the imposition of tariffs give cause for concern. An escalation of the trade conflict would damage international value chains and threaten the international, rules-based trading system in the medium term. Such a scenario would particularly affect the growth prospects of especially open and internationally strongly interconnected economies. A more pronounced weakening of Chinese economic growth resulting from excessive debt in the financial system is another risk. Another risk relates to the monetary policy of major central banks. The persistently low interest-rate policy increases the risks of misallocations and harbors risks for the stability of financial markets. In view of the positive economic picture in the Eurozone and the recent acceleration of inflation, the initiation of an exit from the ECB's expansive monetary policy is overdue. The communication of a normalization strategy is very important for avoiding greater turmoil in the financial markets. In addition, an unexpectedly

quick tightening of U.S. monetary policy in reaction to stronger growth and higher inflation could lead to sizable price adjustments in the international financial markets. If this scenario gives rise to market turmoil, it could also spill over to real economic growth. High levels of debt throughout the world increase the relevance of these risks.
A particular risk for economic growth in Europe is the still unclear outcome of the negotiations between the EU and the United Kingdom. A messy Brexit would pose a substantial risk particularly for the United Kingdom. However, it would also have appreciable adverse effects on the remaining member states of the European Union, not least of all as a result of potential turmoil in the financial markets. The debt levels of many EU member states in the Eurozone are still very high, especially in Italy, where government debt is more than 130% of GDP.
If the financial markets lose trust in the viability of public-sector debt as a result of the political uncertainty emanating from the election outcome, a renewed flare-up of the euro crisis cannot be ruled out, given the size of Italy. In addition, financial stability risks are present in some member states due to the fragility of many banks, especially with respect to the still existing non-performing loans.[2]

Global Banking and Investor Solutions

The focus of Société Générale is on Germany as one of the two largest markets for warrants and certificates in the world. Société Générale Effekten GmbH aims to further expand its market position as part of a project to expand its issuing activities.

The Management expects that the entity's issuing activities will continue to expand. This relates in particular to the German market.

This desire can be further met with the help of automation already introduced in the issuing process in the previous years, as well as the associated expansion of capacity and greater efficiency in the issuing process. Furthermore, an increased volume of follow-up issues of turbo warrants must be expected when barrier levels are breached in a volatile market environment.

As in the second half of 2017, a broad range of products will also be offered in the area of warrants and certificates in the second half of 2018.

Including accrued interest on borrowed loans in the amount of around EUR 3 million and the reimbursements paid on the basis of cost-plus agreements, we expect a loss of around EUR 3 million before profit transfer to Société Générale Frankfurt on the basis of the existing profit transfer agreement.

At the Group level, Société Générale Effekten GmbH and its subsidiaries are managed primarily by the parent company Société Générale S.A., Paris, whose subsidiary controlling function covers these companies.

No liquidity shortfalls will occur.

Financial Services to Corporates and Retails

The Company's development is mainly dependent on the success of the Opel brand and the comparable treatment of dealer-owned leasing companies with the captive.

[2] Council of Experts: Economic Report 2018

It remains to be seen what effect the sale of the Opel Group to PSA will have on the sales success of the Opel brand.

It is still not to be expected that Opel's detrimental marketing policy toward dealer-owned leasing companies compared with its own captive will be discontinued and so we expect similar business referral numbers in 2018 as in 2017 and therefore a financial year net profit at around the same level as in the past financial year.

For 2018, we anticipate a slightly higher volume of new business and a profit before profit transfer and a return on equity at around the same levels as in the past financial year.

Asset Management

Despite growing uncertainty, we anticipate a continued positive economic environment in the second half of 2018, supported by expansive monetary and fiscal policies. This should have a positive effect on demand for fund products among both individual and institutional investors and also support the financial markets. Accordingly, we expect our fund volume to rise modestly by around 2% over the first half, which should have a positive effect on our net commission income. In addition, we anticipate a decrease in project expenditures. Some of the freed-up investment budget will be reinvested in customer projects and product optimization measures. We also expect an increase in personnel expenses due to the filling of vacant positions. As part of our product development efforts, we plan to further expand our front-to-back solution and implement the product of "tax-exempt share classes". We will also redesign and successful expand our sustainability reports for investment funds. Overall, we expect to reduce our operating loss by approx. EUR 1 million.

As in the prior-year periods, we want to keep the quality of our services at the same high level and improve it on the basis of feedback from our customers. One of our most important quality indicators is the high degree of KPI target attainment.

For the following years, we expect a steady improvement of the profit before taxes and profit transfer. In addition to a modestly rising cost base, we expect to improve our net commission income substantially by expanding our business with new and existing customers and continually routing income to new products.

Overall assessment

In consideration of the foregoing segment forecasts, the Management anticipates an overall positive development of the Group.

II. Risk Report

Risk management system

Risk management in the Group is carried out at the level of the risk-relevant entities ALD LF/BDK and SGSS. Dedicated risk management and/or internal controlling are not necessary for SGE's business with warrants and certificates at the level of the SGE group, as all risks arising in connection with a "Global Guarantee" are transferred to the Société Générale Group.

Risks incurred by the subgroup are presented on a net basis.

Key elements of the risk management system include the risk strategy, risk inventory, and the risk-bearing capacity, as well as the risk management and controlling processes.

Risk inventory

The following types of risk were identified as significant by the Group companies during the risk inventory that is carried out at least once every year:

- Counterparty default risks
- Market price and residual value risks
- Liquidity risks
- Operational risks
- Business and reputational risks
- Compliance risks

For the special assets held in Asset Management, the focus is on classic investment risks such as market, liquidity, compliance, and counterparty default risk. These “indirect” risks are subsumed under business risk or, in the event of statutory or contractual violations, reflected as loss risk within operational risk from the perspective of the Group.

Risk strategy

Every Group company has its own risk strategy that is based on the respective company’s business strategy and which defines goals and actions for every type of risk. The risk strategies are reviewed annually and adjusted if necessary.

Work instructions coordinated with the risk strategies, structured reporting, and limit systems adapted for the type of risk, as well as the training and further education of our employees, are key elements of the risk management system for all types of risk.

Key risk indicators are also analysed on a monthly and/or quarterly basis and documented in the Société Générale Group tool “GPS”. Protests and complaints are recorded in another central databank, analysed monthly, and reported to the Management and all department heads. Specific measures to minimize risk are derived using these instruments.

a) Counterparty default risks

Global Banking and Investor Solutions

The Company is not exposed to settlement risks since payments from the sale of issued securities always offset payments for hedges and payments related to the exercise of warrants. Receivables from the counter-transactions entered into exist solely from Société Générale S.A., Paris. The creditworthiness of Société Générale S.A., Paris, and its subsidiaries is the determining factor for assessing the Company’s risk.

Financial Services to Corporates and Retails

The Credit Risk Management area (CRM) of the subsidiary BDK manages the credit risks of this segment. Decisions regarding creditworthiness are made here that apply to the granting or rejection of credit. Beginning with a defined credit volume, loan decisions are made with the cooperation of Société Générale’s loan department.

In the area of purchase financing, we manage 1,335 exposures, with the 284 largest borrowers accounting for 69% of the credit volume. CRM prepares a monthly credit risk report for the Management. This is a component of the Bank’s risk report and is made available to the entire Supervisory Board on a quarterly basis.

In connection with our funding activities, we have sold the majority of the purchase financing portfolio (EUR 816 million) within the Group on a non-recourse basis. For this portfolio, we continue to serve the dealers and the financing portfolio; however, we do not bear the credit risk.

In the sales financing business, we have a comparatively low exposure to sector-specific individual risk due to broad diversification. About 91% of our loan agreements have a credit volume of up to 25.000 EUR.
The loan decision in sales financing is made based on a standardized and system-supported loan decision-making process primarily in the Service Centre Purchasing department in Hamburg and Stuttgart. Larger individual loans are also voted on and decided by CRM.

We account for the identified and latent credit risks by recognizing specific and global valuation allowances. The specific allowances for bad debt in sales financing are formed through the application of general valuation allowance rates ranging between 0.31% and 100%, depending on the length of the default and the status of the loan. In total, the existing specific valuation allowances recognized for credit risks amounted to 1.2% of the sales financing portfolio (PY: 1.1%).

The specific valuation allowances in purchase financing are determined by analysing individual cases. In total, valuation allowances (including valuation allowances on the healthy portfolio) have been recognized in the amount of 4.1% (PY: 2.1%) of the purchase financing portfolio presented in the statement of financial position. The risk expenses resulting from the writedowns of receivables and the addition to and reversal of recognized valuation allowances amounted to EUR 2 million in the first half of 2018.

Asset Management

In Asset Management, counterparty default risk from business partners is managed and monitored on a continuous basis at the level of the entity and the fund with the use of ratings, risk analyses, and corresponding limits. As a result of the structure of the receivables, we presume there is no identifiable default risk for the Group.

For more information on the subject of credit risks, please refer to our comments in Note 3.7 of the notes to the consolidated financial statements.

b) Market price and residual value risks

Global Banking and Investor Solutions

All market risks from issued warrants and certificates are fully hedged by means of hedging transactions entered into with Société Générale S.A., Paris. Therefore, there are no price risks, currency risks or interest rate risks.

Financial Services to Corporates and Retails

The residual value risk results in connection with the leasing business from the Financial Services to Corporates and Retail segment.

We assumed the residual value risk for 61% of new contracts in financial year (PY: 49%). Therefore, the percentage of vehicles for which ALD LF assumes the residual value risk is 54% (PY: 51%) of the total volume and is therefore below the internal limit of 60%.

ALD LF relies on the expertise of AutoLeasing D GmbH, Hamburg (ALD D), for the assumption of residual value risk. ALD D's many years of experience in the marketing of individual vehicles and vehicle fleets is an essential basis for a reliable estimate of the sales prices to be realized after the vehicles are returned.

The residual values calculated for new contracts are reviewed and determined in regular meetings of the Residual Value Committee. Forecasts are used to ascertain the risk inherent in the portfolio.

As a general rule, ALD LF strives for break-even results at the end of the term when calculating residual values for the marketing of its used vehicles, taking into account the final invoices at the end of the contract. This goal was not always achieved in the first half of 2018 and it can also be expected that some losses will be incurred in the marketing of lease returns also in the second half.

Overall, our business plan is based on a break-even marketing result for 2018.

Since no loans are extended in foreign currencies in the Financial Services to Corporates and Retail segment and we fund our operations exclusively in euros, foreign currency risk can be ruled out.

The interest rate risk is managed by means of an interest rate sensitivity report that is prepared and analysed on a monthly basis by the Controlling CF Department. In order to measure risk, the key figure "sensitivity" is used, which makes a statement regarding the change in present value on the assets side and liabilities side based on various variations of the yield curve. Sensitivity is defined as a variation in the present value of future positions given a 1% or 2% shift in the yield curve. The highest negative change in value of the portfolio in the respective scenarios is EUR 24,796 thousand (PY: EUR 19,201 thousand).

In connection with the ABS transactions, the Group acquired the complete tranche of class B securities in each case and will hold them for the full term of the transaction. As a result of their structure, these securities bear the counterparty default risk of the loan receivables sold to the special purpose entities.

The risk of default for these securities is already factored into the credit default risk of the loan receivables sold to the special purpose entities.

With respect to funding, the Group uses short and medium-term means of funding as well as interest rate swaps.

Due to the fact that the funding is largely based on matching maturities and the use of derivatives, there is no elevated interest rate risk on the reporting date.

The intention is to hold all instruments until the end of their contracts.

Asset Management

Market price risks from equity investment positions are to be classified as low on the whole, since liquid funds are invested primarily in current accounts and term deposit accounts as well as, to a minor extent, in investment shares. The market price risks on the fund side are measured and managed continuously based on KAGB's specifications.

c) Liquidity risks

Due to the inclusion in the Société Générale Group, there are no identifiable liquidity risks at the present time. The funding requirements are determined annually during the planning process and coordinated with Société Générale. The funding is therefore largely provided in the form of credit lines of Société Générale.

It is ensured that the Company is capable of meeting its payment obligations at all times by monitoring the cash flows on a daily basis and by close coordination with the back office departments in Paris. No liquidity risks are discernible at the present time due to the integration with the Société Générale Group.

As part of liquidity controlling, the management of the individual Group companies is also regularly informed of any liquidity risk. With respect to the management of the liquidity risk, statistical analyses of the past are used, in particular for the purpose of forecasting early loan repayments. The funds' liquidity risks are monitored independently of this, using methods approved by the supervisory authorities.
At June 30, 2018, there was a total of EUR 1,260 million (at December 31, 2017: EUR 887 million).

For more information on the management of liquidity risks, please refer to Note 9 in the notes to the consolidated financial statements.

d) Operational risks

The Group strives to reduce its operational risks to a minimum. Société Générale S.A., Paris, has developed processes and systems to monitor and manage operational risks that are used by the Group. These are based mainly on the principle of permanent monitoring. Processes are documented in specially designed applications and assessed based on specified criteria in order to rule out losses from operational risks. This also includes precautionary measures as part of the Business Continuity Plan (BCP) in order to maintain smooth operations if the infrastructure is disrupted.

The same rules and principles apply for the outsourced processes in the service centers in Bangalore and Bucharest as for Société Générale Effekten GmbH. Compliance with the specified processes is ensured by means of standardized committees and "Key Process Indicators".

The function of fraud prevention, which monitors new business and the loan portfolio, identifies suspicious events, and initiates measures to mitigate losses and also educates our employees, is especially important for the Financial Services to Corporates and Retail segment.

In addition, the use of standardized loan agreements, the review of individual contracts by lawyers, published organizational guidelines and work instructions, and a functioning internal control system also minimize operational risk. Our service providers are integrated into BDK's control system by means of regular reporting and outsourcing monitoring.

In the Asset Management segment, there is a general risk that the Group will be liable to recourse as a result of violations of statutory or contractual provisions or due to breaches of a duty to exercise due care and diligence vis-à-vis investors. The Group counters these risks in particular by means of the careful selection and continuing education of its personnel, as well as through the use of adequate controlling instruments. If necessary, external consultants are also brought in. Furthermore, the Group has extensive insurance policies (personal injury, property damage, financial losses, etc.) to protect against these risks. In connection with the management of special assets, compliance with statutory and contractual provisions is assured by means of organizational, personnel and technical measures. The business processes are performed with the aid of high-performance computer systems. Risk management also analyses and identifies operational errors and reports every two weeks to the Management of SGSS on the current status of errors and implemented countermeasures.

Furthermore, emergency and crisis management is a key component of risk management. The implementation of the concepts is documented in the Company's emergency handbook, which is revised and updated every financial year. The most recent test of the Company's emergency workstations to check functionality and operational readiness was successfully performed in the first quarter of 2018.

By means of the measures and processes described above, we were able to ensure that there were no significant losses resulting from operational risks within the Group in the following areas in the first half of 2018:

- Reports required under supervisory law
- Risks associated with information technology
- Outsourcing risks
- Fraud risks

e) Business and reputational risks

Asset Management monitors customer satisfaction by means of customer KPIs, inquiry and complaint management and regular customer surveys.

Realized business risks are identified by means of variances in the financial/budgetary planning, taking into account their type, scope, and complexity.

f) Compliance risks

Compliance risks are relevant primarily in connection with Asset Management.

The review of adherence to fund compliance rules and the risk limits is conducted by the relevant operational departments in the respective areas. The results of the review are reported to Compliance on a monthly basis. In the event of anomalies, countermeasures are initiated immediately ("Action Plans"). If necessary, a tool intended for ad-hoc reporting is used by the Group. The efficiency of such control measures is inspected periodically and adjusted if necessary. A report of the results is submitted to the Compliance department of Société Générale S.A. on a monthly basis. Furthermore, the Management is informed on a quarterly basis and the Supervisory Board on an annual basis.

<u>Risk management and control processes</u>

The senior managers of the individual Group companies are responsible for risk management. SGE's Management focuses primarily on the "Global Guarantee" of the Société Générale Group. SGE's Management determines the risk strategies and also decides on the design of the risk-bearing concepts, the economic capital, and the amount of the assigned limits. At the Group level, there are no overriding risk management and control processes due to the inclusion in the Société Générale Group.

With respect to both the procedural and organizational structure, rules have been issued to ensure compliance with the requisite separation of functions in all Group companies. The responsibilities for the initiation of risky transactions are separated from the responsibilities for risk management, back office functions, processing, and accounting.

Potential legal risks

The Group is exposed to risks from legal disputes or proceedings involving investors, authorities, or business partners in which we are either currently involved or which could arise in the future. In addition, the Group and its products are subject to constant tax and regulatory audits. The outcome of current, pending, or future audits and proceedings cannot be foreseen; as a result, expenses can be incurred due to decisions handed down by courts or other authorities or the agreement of settlements that are not covered in full or in part by insurance benefits and which could have an impact on the Company and its results. Significant legal risks are covered by counter-guarantees on the part of the Société Générale S.A. Frankfurt.

Ongoing or future investigations and inquiries as a result of potential violations of statutory or regulatory provisions can lead to sanctions under criminal and civil laws, including monetary penalties and other financial disadvantages, have a negative impact on the Group's reputation, and ultimately have a negative impact on the success of the business.

In order to ensure compliance with laws and rules, the Group established a compliance program, which is an integral part of the corporate culture. This program builds on the compliance handbook, in which the rules and standards for compliant behavior and a dedicated compliance organization are established.

III. Report on opportunities

The strategies of the individual Group companies are designed to identify arising opportunities early, to assess them using the risk management systems and/or based on resource estimates and to take advantage of them by means of appropriate actions for the successful development of the Group.

Global Banking and Investor Solutions

As part of its warrants and certificates business, the Group uses a New Products Committee (NPC) convened in each case for the conception of new products, in which all departments participating in the issuing process present their requirements and resource allocations.

The examination focuses on all relevant factors for the Company, such as markets, the competitive situation, strategic orientation, existing organization, personnel, back office technical processing potential and volumes.

The Management anticipates a further increase in business activity.

Financial Services to Corporates and Retails

The strategic orientation of the Financial Services to Corporates and Retail segment in the German market is coordinated with the international strategy of the Société Générale Group. The strategy is compared on an ongoing basis with the Group's strategy as part of regular reporting to Société Générale S.A.

As in the past, our activities are focused on the intensification and expansion of partnerships with car dealers and therefore on greater market penetration. For this purpose, we offer car dealers additional services that enable them to attract customers together with us in a changing market environment. This includes the financial calculator developed by us for the dealer's website, the calculation app for mobile devices, and in particular the integration of our POS systems in the most important dealer management systems available in the business.

The sales success is closely associated with the success of our sales partners – the cooperating dealers. Thanks to the cooperation arrangements in the individual segments with the manufacturer Opel, access was obtained to additional dealers of these brands. In particular thanks to the cooperation with the shareholder ZDK (via the subsidiary of Kfz-Gewerbe mbH) as well as its national associations and affiliated guilds, we succeeded in establishing and expanding relationships with the business-referring car dealerships. All in all, we put our sales financing on sound footing by expanding such cooperation arrangements. More than 4,000 car dealerships actively placed customers with us in the first half of 2018.

In addition, our success depends in part on factors that we cannot directly influence. Above all, the development of the new and used vehicle market prompts us to continuously evaluate the product portfolio in the Financial Services to Corporates and Retail segment and to further develop it based on market demand.

The continued healthy state of the labor market and the rising incomes of private households should support a stable development of individual registrations and the used car market. The discussion about the future of the diesel engine poses risks to the motor vehicle market and dealers.

In light of the positive economic outlook, the German Federation for Motor Trades and Repairs (ZDK) expects the new car market to remain stable at between 3.4 and 3.5 million vehicles in the second half of 2018, along with 7.2 to 7.4 million title transfers in the used car market, despite the discussion about the future of the diesel engine.

Asset Management

The environment for economic growth and investment is currently very positive and should continue to offer good chances for continuous growth. Expansive monetary policy continues to keep borrowing costs low as an incentive for investment and consumption. The primary surplus of the Federal Republic of Germany makes it possible to afford both higher government spending and debt reduction, leading to further economic growth and stable demand for workers. In times of low interest rates on savings deposits, retirement saving has become a topic of sustained interest, with a strong focus on investing in material assets. In this regard, investment funds offer the chance to sustainably earn good returns with appropriate risk diversification in many different investments. The fact that investors have recognized this chance is reflected in the fact that investment fund sales have been rising for years. Therefore, the stable trend of investing in funds should continue, leading to higher fund volumes for the Company.

With respect to investments, the Company is now able to focus again more on new products and customer wishes due to the reduced amount of investments required to implement new legal and regulatory requirements. In this respect, we observe that sustainable investment is becoming increasingly important for clients, who are therefore looking for appropriate solutions. As a service provider, we can develop and offer innovative solutions. SGSS has already begun to develop suitable products for this purpose. We have made substantial progress with the expansion of our European activities in league with our Group, creating very good chances to generate sustainable growth in accordance with the strategy of Société Générale. We see additional growth potential in the Master KVG business.

Overall assessment

Taking into account the risks and opportunities described above, the Management assesses the prospects for the second half of 2018 to be positive, since the current market environment mainly presents opportunities for each segment.

D. Internal control and risk management system as it relates to the accounting process

With respect to the accounting process, the internal control system (ICS) and risk management system (RMS) include the basic principles, processes, and measures to ensure the effectiveness and efficiency of the accounting as well as to ensure compliance with the relevant legal provisions, and also the hedging of risks and the use of hedge accounting. It ensures that the assets and liabilities are recognized, presented, and measured appropriately in the financial statements.

The safeguarding of controls is ensured by means of applications that are centrally prepared by the Group.

Periodically conducted inspections by the internal auditing department as well as the correction of identified weaknesses likewise contribute to more effective monitoring.

Responsibilities in the accounting-related ICS and RMS

The management of SGE manages the Group under its own responsibility and cooperates trustfully with the other governing bodies for the good of the Group. Its responsibilities include overall responsibility for the preparation of the consolidated financial statements.

Management assures according to the best of its knowledge that the consolidated financial statements represent a true and fair view of the Company's financial position, financial performance and cash flows in accordance with the applicable accounting principles.

The scope and orientation of the ICS [3] and RMS[4] are determined for every Group company and steps are taken to further develop the systems and adapt them to changing conditions.

The value systems practiced for years in all the countries of the Société Générale Group, such as the "Code of Conduct" and the "Compliance Rules", form the basis for responsible behavior also for the employees entrusted with carrying out the accounting process. The employees of the Company must complete a course in money laundering and compliance once a year as part of a computer-based learning program.

Despite all risk-mitigating measures established within the scope of the ICS and RMS, established systems and processes that are also adequate and functional cannot guarantee with absolute certainty that risks will be identified and managed. The Accounting Department is responsible for the accounting process and for the process of preparing the consolidated financial statements. The Accounting Department is supported by the back office departments of Société Générale S.A., Paris, in particular with respect to the measurement of financial instruments and receivables.

The data processing systems necessary for the accounting process are provided by Société Générale S.A.

3 Internal Control System (ICS)

4 Risk Management System (RSM)

An Audit Committee comprising six individuals (one staffer from Société Générale Effekten GmbH and five from Société Générale Frankfurt) at the reporting date was set up to support the Management with respect to the accounting process. As the independent auditor, Deloitte also attends the meeting of the Audit Committee. The Audit Committee regularly deals with the development of the Group's financial position, financial performance and cash flows. As part of the process of preparing the consolidated financial statements, the shareholders must approve the consolidated financial statements. In order to fulfil these duties, the financial statement documents are made available to the Audit Committee. The members of the Audit Committee also receive a summary report on SGE's issuing activities and its accounting once every quarter.

Organization and components of the accounting-related ICS and RMS

The transactions to be processed by SGE are recorded centrally by means of data entry in existing product-specific applications by a back office department of Société Générale S.A. in Paris. The transactions (contracts) are recorded in the applications and approved in application of the dual control principle.

Accounts payable for supplier invoices are handled in Bangalore by Société Générale Global Solution Centre Private Limited (99% subsidiary of Société Générale S.A., Paris).

The services to be rendered are defined in the service agreement dated November 29, 2011, between Société Générale Frankfurt and Société Générale Global Solution Centre Private Limited, Bangalore, for Société Générale Effekten GmbH.

The scanned records are recorded and allocated to an account in Bangalore; the funds are approved and released for payment by employees of the company.

The production of the Head Office Report as the basis for the consolidated financial statements as well as the production of the Regulatory Report to the German Bundesbank is carried out in Bucharest by Société Générale European Business Services S.A. (99.95% subsidiary of Société Générale S.A., Paris). The services to be rendered are set forth in the Client Services Agreement dated December 15, 2016, between Société Générale Frankfurt, and Société Générale European Business Services SA, Bucharest, for Société Générale Effekten GmbH.

The Group's accounting is maintained on the central server in Paris; all accounting-related data of the Group companies are processed and stored on this server.

The daily monitoring of the current cash accounts by employees of SGE serves to safeguard accurate accounting treatment as well as the subsequent processing in the service centers. The information recorded in the accounting for business operations in general and for facts and circumstances related to accounting in specific is accessed online over the intranet. Technical system maintenance with respect to the preparation of the financial statements is outsourced to the subsidiary responsible for IT in the Société Générale Group.

Société Générale S.A. is responsible for monitoring. The technical consulting processes in the central advisory unit are governed in the working instructions. The security and archiving of the data sets for application systems is carried out under the responsibility of Société Générale S.A. The statutory retention periods are observed. Contingency plans are updated and monitored by employees of the Company. The central data security systems for the mainframe computers as well as the storage networks for the Open Systems area form the primary basis for data security. The data is mirrored redundantly in Paris.

The necessary protection from unauthorized access and the maintenance of functional separation with respect to the use of the Company's application systems relevant to accounting are ensured in particular by the concept of workstation profiles as well as by processes to create the workstation profiles. The job profiles are issued and monitored by means of a specially developed system to the individual back office departments in Paris as well as to the employees of the service centers in Bangalore and Bucharest by entitled individuals in the Company.

<u>Documentation of processes</u>

As a part of the Société Générale Group, the documentation of the processes is specified. This is summarized in the "Accounting & Finance Manual". The main components of the documented processes are automatic controls that ensure the accuracy of data inputs.

The most important procedures of the accounting process are listed in the application "Global Permanent Supervision (GPS)". The application contributes to completing the documentation process and, in the event of internal as well as external auditing, having an appropriate instrument at the Company's disposal in order to safeguard the accounting process.

<u>Measures for continuous updating of the ICS and RMS</u>

Any changes in legal requirements and regulations with respect to the accounting are to be reviewed to determine whether and what consequences they have for the accounting process. The accounting departments of SGE are responsible for handling the contents. In the event of changes or new provisions having significant effects on the procedural processing of the accounting, the existing process cartography is relied upon, whereby all measures such as computer adjustments, work processes, accounting entry instructions, etc., are analysed and correspondingly implemented in the back office departments in Paris as well as in the outsourced service departments in Bangalore and Bucharest and monitored and controlled by employees of SGE in Frankfurt.

E. Non-financial Group statement

Due to the affiliation with the Société Générale Group, SGE Group avails itself of the exemption granted under section 315b (2) sentence 2 of the German Commercial Code (Handelsgesetzbuch, HGB). Société Générale S.A., Paris, publishes a separate non-financial Group report in English annually on its website (www.societegenerale.com).

Frankfurt am Main, September 27, 2018

The Management

Société Générale Effekten GmbH

Françoise Esnouf	Helmut Höfer	Rainer Welfens

Interim Consolidated Financial Statements of Société Générale Effekten GmbH

Semi-annual Financial Information

at June 30, 2018

(unaudited numbers)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(In euro thousands)	Note	01/01/2018-06/30/2018	2017*	01/01/2017-06/30/2017*
Interest and similar income	Note 3.6	85,923	168,613	83,833
Interest and similar expenses	Note 3.6	-14,144	-25,185	-11,937
Commission income	Note 4.1	43,210	86,011	43,101
Commission expenses	Note 4.1	-8,326	-17,602	-8,976
Net result from financial transactions	Note 3.1	-122	-2,185	-1,891
thereof net gains or losses on financial instruments measured at fair value through profit or loss		- 243	-2,272	-1,891
thereof net gains or losses on available-for-sale financial assets			87	-
thereof net gains or losses on financial instruments measured at fair value through other comprehensive income		-		
Thereof net gains or losses on disposal of financial instruments measured at amortized cost		-		
Income from other activities	Note 4.2	116,275	227,203	112,960
Expenses for other activities	Note 4.2	-128,145	-251,289	-125,893
Net banking income		**94,671**	**185,566**	**91,197**
Personnel expenses	Note 5	-33,365	-65,007	-32,247
Other administrative expenses	Note 8.2	-26,348	-48,880	-23,079
Expenses for amortization, depreciation and impairments of intangible assets and property, plant and equipment		-1,425	-2,783	-1,367
Gross operating result		33,533	68,896	34,504
Risk expenses	Note 3.7	-6,316	-10,996	- 6,299
Operating result		27,217	57,900	28,205
Net gains or losses on other assets		-	11	17
Impairments of goodwill		-		-
Profit before taxes		27,217	57,911	28,222
Income taxes	Note 6	-		-10,897
Net profit/loss of all companies in the consolidation group		27,217	57,911	17,325
Non-controlling interests		-723	112	1,223
Net profit/loss (Group share)		27,940	57,799	16,102

*) With respect to the comparative income statement, we considered the IFRS 9 transition method applied by the SG Group, which states that the first-time application of IFRS 9 on January 1, 2018 should be retroactive in relation to the components of "classification and measurement" and "credit risk". However, the Standard's transitional provisions offer the option chosen by the Group not to adjust the prior-year comparison numbers. Accordingly, the comparison numbers for 2017 that appear beside the numbers for the year 2018 are still presented in accordance with the provisions of IAS 39. The measurement differences in the financial assets and liabilities and in the value adjustments for credit risk were recognized directly in equity in the opening balance sheet of 01/01/2018 due to the

retrospective application of IFRS 9 (see the overall presentation in the table "Consolidated Statement of Financial Position - Assets").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In euro thousands)	01/01/2018-06/30/2018	2017	01/01/2017-06/30/2017
Net profit/loss	**27,217**	**57,911**	**17,325**
Gains and losses recognized directly in equity, that will be subsequently reclassified to profit or loss:			
Currency translation differences			
Remeasurement differences from debt instruments measured at fair value through other comprehensive income			
Remeasurement differences			
Reclassified to profit or loss			
Remeasurement of available-for-sale financial assets		-370	-217
Remeasurement differences			
Reclassified to profit or loss			
Remeasurement differences from hedging instruments	-1,078	1,370	1,664
Remeasurement differences			
Reclassified to profit or loss			
Other			
Tax-related		-430	-540
Gains and losses recognized directly in equity, that will not subsequently be reclassified to profit or loss:			
Actuarial gains and losses on post-employment benefits	26		
Remeasurement of own credit risk of financial liabilities measured at fair value through profit or loss			
Remeasurement of equity instruments measured at fair value through other comprehensive income			
Tax-related			
Total other comprehensive income	**-1,052**	**570**	**907**
Comprehensive income (net profit/loss and other comprehensive income)	**26,165**	**58,481**	**18,232**
thereof Group share	**24,191**	**58,742**	**16,964**
thereof non-controlling interests	**1,973**	**-261**	**1,268**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

(In euro thousands)	Note	06/30/2018	12/31/2017 (IAS 39)	Reclassi-fication	Re-measure-ment	01/01/2018 (IFRS 9)
Financial assets measured at fair value through profit or loss	Note 3.1	4,806,294	5,194,717	74,321		5,269,038
Hedging derivatives	Note 3.2	-				
Financial assets measured at fair value through other comprehensive income		-				-
Available-for-sale financial assets	Note 3.1		74,321	-74,321		
Securities measured at amortized cost		-				-
Loans to and receivables from banks measured at amortized cost	Note 3.4 Note 3.8	147,495	157,587			157,587
Loans to and receivables from customers measured at amortized cost	Note 3.4 Note 3.8	3,838,804	3,629,045		-5,035	3,624,010
Receivables under finance leases	Note 3.4	445,437	428,203		-3,383	424,820
Tax assets	Note 6	9,983	25,537			25,537
Other assets	Note 4.3	115,881	119,456		-41	119,415
Noncurrent assets held for sale		-	-	-	-	-
Property, plant and equipment and intangible assets		515,133	456,817			456,817
Goodwill		3,569	3,569			3,569
Total		**9,882,596**	**10,089,252**		**-8,459**	**10,080,793**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

(In euro thousands)	Note	06/30/2018	12/31/2017 (IAS 39)	Reclassi-fication	Re-measure-ment	01/01/2018 (IFRS9)
Financial liabilities measured at fair value through profit or loss	Note 3.1 Note 3.2	4,731,202	5,192,135	-138		5,191,997
Hedging derivatives	Note 3.2	1,675		138		138
Securitized liabilities	Note 3.5	1,417,084	797,652			797,652
Liabilities to banks	Note 3.5	3,523,785	3,880,971			3,880,971
Liabilities to customers	Note 3.5	1,653	1,997			1,997
Remeasurement differences in portfolios with hedge relationships against interest rate risk		-				-
Tax liabilities	Note 6	-	3,848			3,848
Other liabilities	Note 4.3	202,464	225,289			225,289
Noncurrent liabilities held for sale		-	-			-
Provisions	Note 8.3	18,317	17,160		716	17,876
Subordinated liabilities		-	-			-
Total liabilities		**9,896,181**	**10,119,051**	**-**	**716**	**10,119,767**
EQUITY	Note 7					
Equity, Group share						
Subscribed capital, equity instruments and capital reserves		26	26			26
Profit carried forward		1,138	1,138			1,138
Consolidated provisions		-40,556	-88,765	57,799	-9,021	-39,987
Financial year net profit/ loss		27,940	57,799	-57,799		-
Subtotal		**-11,452**	**-29,803**	**-**	**-9,021**	**-38,824**
Unrealized or deferred capital gains and losses		-1,108	-129		73	-56
Subtotal equity (Group share)		**-12,560**	**-29,932**	**-**	**-8,948**	**-38,880**
Non-controlling interests		-1,025	133		-227	-94
Total equity		**-13,585**	**-29,799**	**-**	**-9,175**	**-38,974**
Total		**9,882,596**	**10,089,252**	**-**	**-8,459**	**10,080,793**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In euro thousands)	Capital and related reserves Subscribed capital	 Consolidated reserves	 Total	Profit carried forward	Net profit/loss (Group share)
Equity at 01/01/2017*)	**26**	**-37,400**	**-37,374**	**1,138**	**-**
Gains and losses recognized directly in equity			-		
Net profit/loss for H1 2017			-		16,102
Other changes		1	1		
Subtotal	-	*1*	*1*	-	*16,102*
Equity at 06/30/2017	**26**	**-37,399**	**-37,373**	**1,138**	**16,102**
Gains and losses recognized directly in equity			-		
Net profit/loss for H2 2017			-		41,697
Other changes		-51,366	-51,366		
Subtotal	-	*-51,366*	*-51,366*	-	*41,697*
Equity at 12/31/2017	**26**	**-88,765**	**-88,739**	**1,138**	**57,799**
Utilization of profit		57,799	57,799		-57,799
First-time application of IFRS 9		-9,021	-9,021		
Equity at 01/01/2018	**26**	**-39,987**	**-39,961**	**1,138**	**-**
Gains and losses recognized directly in equity			-		
Net profit/loss for H1 2018			-		27,940
Other changes		-569	-569		
Subtotal	-	*-569*	*-569*	-	*27,940*
Equity at 06/30/2018 *)	**26**	**-40,556**	**-40,530**	**1,138**	**27,940**

*) The equity at January 1, 2017 corresponds to the audited numbers for the annual financial statements at December 31, 2017, in which the updated carrying amount method was applied. The difference between the carrying amounts of the assets received from ALD Lease Finanz GmbH and the liabilities related to the intragroup restructuring carried out by means of transactions under joint control were presented within equity.

(In euro thousands)	Gains and losses recognized directly in equity				Non-controlling interests			
	To be subsequently reclassified to profit or loss	Not to be subsequently reclassified to profit or loss	Total	Equity, Group share	Capital and reserves	Gains and losses recognized directly in equity	Total	Total consolidated equity
Equity at 01/01/2017	-699		**-699**	**-36,935**	-465		**-465**	**-37,400**
Gains and losses recognized directly in equity	907		907	907			-	907
Net profit/loss for H1 2017			-	16,102	1,222		1,222	17,324
Other changes			-	1	-196		-196	-195
Subtotal	*907*	-	*907*	*17,010*	*1,026*	-	*1,026*	*18,036*
Equity at 06/30/2017	**208**	**-**	**208**	**-19,925**	**561**	**-**	**561**	**-19,364**
Gains and losses recognized directly in equity	-337		-337	-337			-	-337
Net profit H2 2017			-	41,697	-1,110		-1,110	40,587
Other changes			-	-51,366	682		682	-50,684
Subtotal	*-337*	-	*-337*	*-10,007*	*-428*	-	*-428*	*-10,435*
Equity at 12/31/2017	**-129**	**-**	**-129**	**-29,932**	**133**	**-**	**133**	**-29,799**
Utilization of profit			-	-			-	-
First-time application of IFRS 9	59	14	73	-8,948	-227		-227	-9,175
Equity at 01/01/2018	**-70**	**14**	**-56**	**-38,880**	**-94**	**-**	**-94**	**-38,974**
Gains and losses recognized directly in equity	-1,078	26	-1,052	-1,052			-	-1,052
Net profit/loss for H1 2018			-	27,940	-724		-724	27,216
Other changes			-	-569	-206		-206	-775
Subtotal	*-1,078*	*26*	*-1,052*	*26,319*	*-930*	-	*-930*	*25,389*
Equity at 06/30/2018	**-1,148**	**40**	**-1,108**	**-12,561**	**-1,025**	**-**	**-1,025**	**-13,585**

CONSOLIDATED STATEMENT OF CASH FLOWS

(In euro thousands)	01/01/2018 - 06/30/2018	01/01/2017 – 06/30/2017
Net profit/loss	**27,217**	**17,325**
Expenses for depreciation and amortization of property, plant and equipment and intangible assets (including operating leases)	46,930	41,830
Expenses for impairments of property, plant and equipment and intangible assets (including operating leases) and net additions to provisions	3,131	7,528
Changes in deferred taxes*)	-	10,639
Other changes	(4,564)	(84,681)
Non-monetary elements included in the net profit/loss after taxes, and other adjustments, excluding the result from financial instruments measured at fair value through profit or loss	**45,497**	**(24,684)**
Net result from financial instruments measured at fair value through profit or loss	(182)	1,891
Interbank transactions	142,369	115,851
Transactions with customers	(219,765)	(275,084)
Transactions with other financial assets/ liabilities	442,062	(462,485)
Transactions with other non-financial assets/ liabilities	15,441	4,468
Net increases/ decreases in operating assets/ liabilities	**379,924**	**(615,359)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**452,638**	**(622,718)**
Cash flows from purchases and sales of financial assets and equity investments	(15)	-
Cash flows from purchases and sales of property, plant and equipment and intangible assets	(110,952)	(58,699)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(110,967)**	**(58,699)**
Other cash flows from financing activities	(374,348)	592,076
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(374,348)**	**592,076**
NET CASH FLOWS FROM CASH AND CASH EQUIVALENTS	**(32,677)**	**(89,340)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**81,271**	**131,918**
Net amount of accounts, sight deposits and deposits/ loans with banks	(32,677)	(89,340)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**48,594**	**42,578**

*) The elimination of tax effects related to the income tax unity with Société Générale S.A. Frankfurt Branch was only considered in the statement of cash flows at the end of December 31, 2017 since ALD Lease Finanz GmbH (dependent company for tax purposes) and Société Générale Securities Services GmbH (dependent company for tax purposes) were integrated into the income tax unity with retroactive effect to January 1, 2017 upon the conclusion of the profit transfer agreements with Société Générale Effekten GmbH (controlling company for tax purposes).

In accordance with the guideline of Société Générale Group, the SGE Group considers cash on hand, sight deposits, loans and advances with central banks and banks as cash and cash equivalents in preparing the statement of cash flows. At June 30, 2018, cash and cash equivalents consisted only of call deposits with banks in the amount of EUR 118 million (Note 3.4) less loans to banks payable at call in the amount of (deposits and current accounts) in the amount of EUR 70 million (Note 3.5).

The cash flows from interests amounted to EUR 74 million and the cash flows from taxes amounted to EUR 13 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIC INFORMATION ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS

Société Générale Effekten GmbH is a limited liability company under German law, with its registered head office in Frankfurt am Main (Neue Mainzer Str. 46-50, 60311 Frankfurt am Main, Germany). It is entered in the Frankfurt am Main Local Court under record no. HRB 32283. The company's interim financial statements include the company and the subsidiaries it controls (referred to collectively as the "Group"). The Group is primarily active in the issuance of warrants and certificates, the provision of leasing services, and asset management.

The parent company Société Générale Effekten GmbH is a wholly-owned subsidiary of Société Générale Frankfurt, a branch of Société Générale S.A. Paris, in the consolidated financial statements of which it is included.

The interim consolidated financial statements of Société Générale Effekten GmbH cover the period from January 1, 2018 to June 30, 2018. They were prepared in accordance with the International Financial Reporting Standards (IFRS) and the corresponding Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) as they are to be applied in the European Union. The presentation accords with the rules of the IFRS Standard on interim reporting, IAS 34 Interim Financial Reporting.

The interim financial statements at June 30, 2018 should be read in conjunction with the consolidated financial statements at December 31, 2017. The financial reporting principles and calculation methods applied in the interim financial statements are identical to those applied in the consolidated financial statements at December 31, 2017. The only exception relates to the changes described in the section "New Financial Reporting Standards" to be applied for the first time in 2018.

The present interim financial statements are presented in euros, the functional currency of the parent company. Unless otherwise indicated, all financial information presented in euros is rounded to one thousand euros.

Significant events and transactions during the financial year include the integration of the structured entity ABS - Red & Black Auto Germany 5 UG in March 2018, with a total volume of EUR 1 billion, including Class-A Notes in the amount of EUR 933 million. The Class-A Notes amounted to EUR 833 million at June 30, 2018.

NEW FINANCIAL REPORTING STANDARDS AS OF JANUARY 2018

The following Standards and Interpretations relevant for the sub-group had not yet taken effect at the reporting date of June 30, 2017 and were therefore not considered in the preparation of the interim financial statements for the comparison period.

IFRS 9 FINANCIAL INSTRUMENTS

FIRST APPLICATION OF IFRS 9 "FINANCIAL INSTRUMENTS"

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

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

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

IFRS 9 ACCOUNTING PRINCIPLES

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

In the first step, the portfolio of financial assets was analysed at the level of the overarching consolidated financial statements in order to determine the future accounting treatment according to IFRS 9. The necessary adjustments of information systems, the consolidation process and reporting schedules were elaborated further in 2017. Furthermore, an analysis of required disclosures in the notes and information procurement was conducted. The company conducted "dry runs" for the second and third quarters of 2017 in order to test the system in its entirety before the first-time application.

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

CREDIT RISK

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

The application scope and accounting principles for recognizing impairment and provisions for credit risk are detailed in Note 3.7.

HEDGE ACCOUNTING

In accordance with the transitional measures provided by IFRS 9, the Group has elected to continue recognizing hedging transactions under IAS 39 as adopted by the European Union. The Group will continue to follow the IASB's research concerning the accounting methods for macro hedges.

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

TRANSITION REQUIREMENTS

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

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

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

This Standard includes regulations applicable to the recognition of revenue from contracts with customers, with the exception of leases, insurance contracts, financial instruments and guaranties. In accordance with IFRS 15, revenue is recognized on the basis of a five-step model, beginning with the identification of a contract and leading to the recognition of revenue upon the satisfaction of the performance obligation. This Standard is to be applied for the first time in annual periods beginning on January 1, 2018.

The Group is analysing the effects of the new Standard on the Group's net income and equity. As expected, the main contracts affected are service agreements that lead to commission income. However, the Group does not expect any significant effects to result from the introduction of the new Standard. However, the Group does not expect any significant effects to result from the introduction of the new standard because the Group's business is mainly focused on the provision of leasing and financing services. The new rules of IFRS 15 will have only a minor effect on these business segments.

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

The amendments pertain to the accounting treatment of certain kinds of share-based payment: accounting for cash-settled share-based payments that include a performance condition; share-based payments for which the type of settlement depends on future events; share-based payments settled without retention of taxes; and the modification of share-based payments that change the classification.

The Group does not expect any (material) effects to result from the introduction of the new rules.

The amendments to this Standard are to be applied in financial year 2018 and afterwards.

AMENDMENTS TO IFRS 4: APPLICATION OF IFRS 9 "FINANCIAL INSTRUMENTS" WITH IFRS 4 "INSURANCE CONTRACTS"

The amendments pertain to IFRS 4 Insurance Contracts in relation to the first-time application of IFRS 9 Financial Instruments (application of IFRS 9 Financial Instruments jointly with IFRS 4 Insurance Contracts). The amendments introduce two approaches for countering the challenges resulting from different effective dates for IFRS 9 and the successor standard IFRS 4.

The amendments to this Standard are to be applied in financial year 2018. Given the current business model, no effects on the consolidated financial statements are expected.

AMENDMENTS TO IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES AND IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The IASB published amendments to IFRS 12 and IAS 28 as part of the Annual Improvements to International Financial Reporting Standards.

The IASB has postponed the effective date of application of the amendments to a date still to be determined.

The amendments will lead to changes in disclosures concerning investments in structured entities.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

The Interpretation clarifies the accounting treatment of transactions that involve the receipt or payment of advance consideration in foreign currency (payments and advance payments). It applies to transactions in foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, income or expense.

The Interpretation takes effect in financial year 2018. Given the current business model, no material effects on the consolidated financial statements are expected

NEW FINANCIAL REPORTING STANDARDS TO BE APPLIED BY THE GROUP IN THE FUTURE

IFRS 16 LEASES

The new Standard IFRS 16 Leases supersedes the previously applicable Standard IAS 17 for financial years beginning on January 1, 2019. IFRS 16 introduces new rules for the accounting treatment and measurement of leases. Essentially, these amendments affect the lessee; only a few adjustments pertain to lessors. For all leases except short-term leases or leases for low-value objects, the lessor must recognize a right of use as an asset and a payment obligation as a liability.

In the fourth quarter of 2016, the Group launched a project to introduce the new regulations to the existing information systems and processes and to identify the contracts that fall under the scope of IFRS 16 according to the new definition of a lease relationship.

The concrete effects on the Group's consolidated financial statements are currently being analysed and cannot yet be quantified.

NOTE 2 – CHANGES TO THE CONSOLIDATION GROUP

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the parent company Société Générale Effekten GmbH and all companies that it controls. The separate financial statements of the aforementioned companies form the basis for the consolidated financial statements. Intercompany balances, transactions and all unrealized income and expenses from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

SUBSIDIARIES

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to or holds rights to variable returns from its investment in the company and has the ability to affect those returns through its power over the company. The financial statements of subsidiaries are to be included in the consolidated financial statements from the date on which control begins and up to the date on which control ends.

Subsidiaries are fully consolidated.

The Group controls the structured entities. The entities are included in the consolidated financial statements by reason of their design. In particular, the investments consist of holdings in debt instruments in securitization companies, which leads to risks and inflows, depending on the profitability of the structured entity. The only contractual obligations toward the structured entities are the promissory note loans assumed. Apart from the contractual obligations, the Group did not financially support the structured entities and also does not plan to do so at the present time.

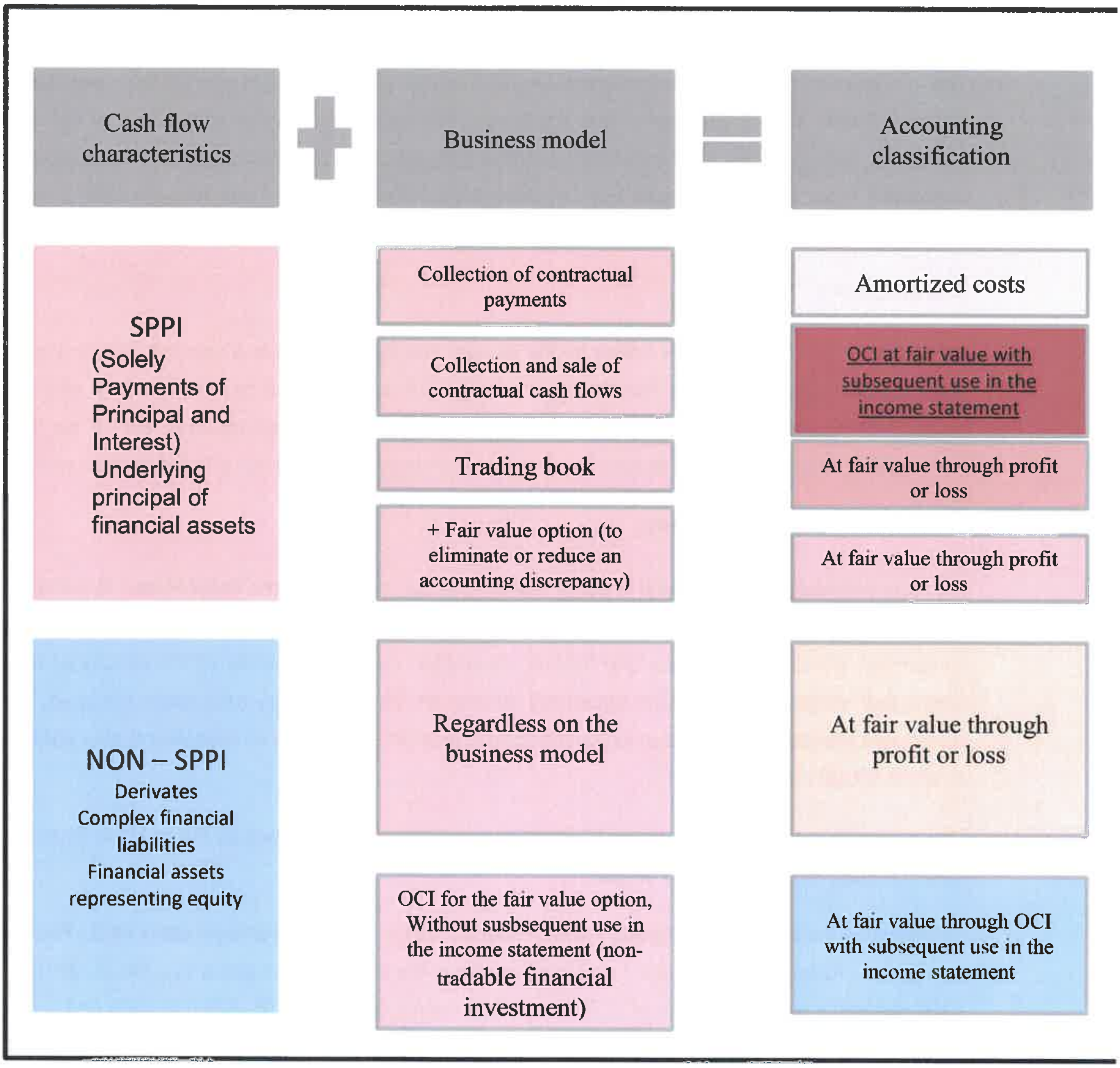
The maximum loss risk of the consolidated structured entities is determined by the carrying amount of the assets held in relation to the structured entities.

Compared to the consolidation group at December 31, 2017, the new structured entity ABS - Red & Black Auto Germany 5 UG mentioned in Note 1 was integrated into the consolidation group at June 30, 2018. At June 30, 2018, this entity had total assets of EUR 914,009 thousand, equity of EUR -806 thousand and a net loss of EUR -814 thousand.

NOTE 3 – FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL ASSETS

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



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

Analysis of contractual cash flow characteristics

The aim of the analysis of contractual cash flow characteristics is to limit the option of recognizing revenues from financial assets using the effective interest method exclusively to instruments whose characteristics are similar to those of a "basic lending arrangement", meaning their associated cash flows are highly predictable. All other financial instruments that do not share these characteristics are measured at fair value through profit or loss, regardless of the business model used to manage them.

Contractual inflows that represent Solely Payments of Principal and Interest (SPPI) are consistent with a basic lending arrangement.

In a basic lending arrangement, interest predominantly consists of a consideration for the time value of money and for credit risk. Interest may also include a consideration for liquidity risk, administrative costs, and a commercial profit margin. Negative interest is not inconsistent with this definition.

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

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

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

Guarantee deposits paid, trade receivables and operating lease receivables are presented among Other assets (see Note 4.3).

Analysis of the business model

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

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

- how the performance of the portfolio is evaluated and reported to the Group's management;

- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- sales of assets realized or expected (size, frequency, purpose).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows ("Collect" business model);
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Collect and Sell" business model);
- and a separate business model for other financial assets, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

Fair value option

A non-SPPI financial asset that is not held for trading purposes can be designated, at initial recognition, at fair value through profit or loss if such designation eliminates or significantly reduces discrepancies in the accounting treatment of certain financial assets and liabilities (accounting mismatch).

CLASSIFICATION OF FINANCIAL LIABILITIES

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

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

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

Guarantee deposits received and trade payables are presented among Other liabilities (see Note 4.3).

RECLASSIFICATION OF FINANCIAL ASSETS

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

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods used by the Group to establish the fair value of financial instruments are detailed in Note 3.3.

INITIAL RECOGNITION

Financial assets are recognized on the balance sheet:

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

The Group only derecognizes all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognized in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

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

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

The prepayment compensation is considered as reasonable especially when:

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

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

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

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

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

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

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

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

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

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

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

	12/31/2017		Reclassifications (IFRS 9 - reconciliation)		01/01/2018		06/30/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets*)**	**Liabilities**)**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Held for trading	2,367,443	2,364,871	-	(138)	2,367,443	2,364,733	2,066,225	2,065,146
Financial instruments mandatorily measured at fair value through profit or loss	-		2,901,595		2,901,595		2,740,069	
Financial instruments optionally measured at fair value through profit or loss	2,827,274	2,827,264	-2,827,274	-	-	2,827,264	-	2,666,056
Total	**5,194,717**	**5,192,135**	**74,321**	**(-138)**	**5,269,038**	**5,191,997**	**4,806,294**	**4,731,202**

The financial instruments optionally measured at fair value through profit or loss are issued certificates. The fair value option was exercised with respect to these certificates due to the presence of separable embedded derivatives. The new item "Financial instruments mandatorily measured at fair value through profit or loss" to account for the corresponding hedging transactions ("PLPs"). This item refers explicitly to non-SPPI instruments. Because the hedging instrument PLP is a synthetic product and most resembles "Loans to and receivables from banks", it is assigned to this new category (EUR 2,827,274 thousand).

*) Available-for-sale financial assets in the amount of EUR 74,321 thousand were reclassified to the category of Financial instruments mandatorily measured at fair value through profit or loss due to the application of the new IFRS 9.

**) Swap instruments amounting to EUR 138 thousand were reclassified from Financial liabilities held for trading to Hedging derivatives (see Note 3.2).

FINANCIAL INSTRUMENTS HELD FOR TRADING

FINANCIAL ASSETS

(In euro thousands)	**12/31/2017**	**Reclassi-fications**	**01/01/2018**	**06/30/2018**
Bonds and other debt instruments	175	-	175	14
Equities and other equity instruments	-	-	-	-
Loans to customers and securities purchased under a repurchase agreement	-	-	-	-
Derivatives	2,367,268	-	2,367,268	2,066,211
Other financial assets	-	-	-	-
Total	**2,367,443**	**-**	**2,367,443**	**2,066,225**

FINANCIAL LIABILITIES

(In euro thousands)	**12/31/2017**	**Reclassifi-cations**	**01/01/2018**	**06/30/2018**
Securitized liabilities	91	-	91	91
Liabilities under loaned securities	-	-	-	-
Bonds and other short-sale debt instruments	-	-	-	-
Equities and other short-sale equity instruments	-	-	-	-
Bonds and securities sold under a repurchase agreement	-	-	-	-
Derivatives	2,364,780	(138)	2,364,642	2,065,055
Other financial liabilities	-	-	-	-
Total	**2,364,733**	**(138)**	**2,364,733**	**2,065,146**

The counterparty of the held derivatives is the Group's parent company. The net position approach allowed by IFRS 13.48 is applied. The CVA and DVA are not calculated because the net position of EUR 1.1 million is deemed to be immaterial for risk management purposes.

FINANCIAL ASSETS MANDITORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ("NON-SPPI")

(In euro thousands)	**12/31/2017**	**Reclassi-fications*)**	**01/01/2018**	**06/30/2018**
Loans to and receivables from banks, mandatorily measured at fair value through profit or loss	-	2,827,274	2,827,274	2,666,082
Loans to customers, measured at fair value through profit or loss	-	-	-	-
Securitized liabilities	-	-	-	
Equities and other equity instruments	-	1,150	1,150	1,183
Securities/ equities held on a long term basis	-	73,171	73,171	72,804
Total		**2,901,595**	**2,901,595**	**2,740,069**

*) See in the lower table the original classification of Loans to and receivables from banks that are mandatorily measured at fair value through profit or loss ("PLPs"), to Financial instruments optionally measured at fair value, in the amount of EUR 2,827,274 thousand.

Equities and other equity instruments and Equities held on a long-term basis were reclassified from Available-for-sale financial assets.

FINANCIAL ASSETS OPTIONALLY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(In euro thousands)	12/31/2017	Reclassi-fications	01/01/2018	06/30/2018
Bonds and other debt instruments	2,827,274	-2,827,274	-	-
Loans to customers and securities purchased under a repurchase agreement	-	-	-	-
Other financial assets	-	-	-	-
Special fund for employee benefits	-	-	-	-
Total	**2,827,274**	**-2,827,274**	**-**	**-**

FINANCIAL LIABILITIES OPTIONALLY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

LIABILITIES

(In euro thousands)	12/31/2017	Reclassi-fications	01/01/2018	06/30/2018
Interbank loans	-	-	-	-
Deposit guarantees received	-	-	-	-
Liabilities under loaned securities	-	-	-	-
Bonds and other short-sale debt instruments	2,827,264	-	2,827,264	2,666,056
Repo transactions – banks	-	-	-	-
Total	**2,827,264**	**0**	**2,827,264**	**2,666,056**

NET RESULT FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(In euro thousands)	01/01/2018-06/30/2018	01/01/2017-06/30/2017
Net result from trading portfolio	3	(109)
Net result from financial instruments measured at fair value through profit or loss	(72,431)	-
Net result from financial instruments for which the fair value option is exercised	72,043	97
Net result from derivative financial instruments and hedging instruments, thereof:	142	(1868)
Net result from derivative financial instruments	-	-
Net result from hedging instruments	-	-
Net result from fair value hedging instruments	-	-
Remeasurement of underlying transactions in relation to the hedged risk	-	-
Ineffective portion of cash flow hedge	-	-
Net result from foreign currency transactions	-	(11)
Total gains or losses on financial instruments measured at fair value through profit or loss	-243	(1,891)
Gains on financial instruments measured at fair value through other comprehensive income	121	-

NOTE 3.2 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are divided into the two categories of "held for trading" and "derivative hedging instruments."

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING

	06/30/2018		01/01/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate instruments	89,702	85,192	72,020	66,451
Foreign currency instruments	93,454	94,847	118,436	121,422
Equity and index instruments	1,578,489	1,580,427	1,890,289	1,890,320
Commodity instruments	304,566	304,589	286,524	286,449
Credit derivatives	-	-	-	-
Other financial futures instruments	-	-	-	-
Total	**2,066,211**	**2,065,055**	**2,367,268**	**2,364,642**

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

	06/30/2018		01/01/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fair value hedge	-	-	-	-
Interest rate instruments	-	-	-	-
Foreign currency instruments	-	-	-	-
Equity and index instruments	-	-	-	-
Commodity instruments	-	-	-	-
Cash flow hedge	-	-	-	-
Interest rate instruments	-	1,675	-	138
Foreign currency instruments	-	-	-	-
Equity and index instruments	-	-	-	-
Commodity instruments	-	-	-	-
Other financial instruments	-	-	-	-
Total	-	**1,675**	-	**138**

Hedging derivatives are financial instruments employed to manage the interest rate risk of the credit receivables securitized by ALD LF.

CASH FLOW HEDGES

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

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

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

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

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

NOTE 3.3 - FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

FAIR VALUE HIERARCHY

For information purposes, the fair value of financial instruments is presented in the notes to the consolidated financial statements on the basis of a fair value hierarchy that reflects the significance of the data used for measurement purposes. This fair value hierarchy consists of the following levels:

Level 1 (L1): Instruments measured on the basis of (non-adjusted) quoted prices in active markets for comparable assets or liabilities

The financial instruments included in this category and recognized in the statement of financial position particularly include equities and government or corporate bonds quoted in an active market, which benefit from direct external quotations (quotations by brokers/traders), derivative financial instruments (futures, options) traded in regulated markets, and fund units (including UCITs – Undertakings for Collective Investment in Transferable Securities), the liquidation value of which is available at the reporting date.

A financial instrument is deemed to be quoted in an active market when price quotations can be easily and regularly obtained from a stock exchange, broker, intermediary, industry association, pricing agency or regulatory authority, and are based on actual transactions that take place regularly under normal competition conditions in the market.

The classification of a market as inactive is based on indicators such as a substantial decline of the trading volume and level of activity in the market, the wide temporal distribution and dispersal of available prices to the aforementioned different market participants, or the fact that the last transaction effected under normal competition conditions did not occur recently.

If a financial instrument is traded in different markets and if the Group has direct access to these markets, the price in the market in which the volume and level of activity is highest is applied for the fair value of the financial instrument.

Transactions that are the result of compulsory sale situations are generally not considered for the purpose of determining the market price.

Level 2 (L2): Instruments measured on the basis of other inputs besides the quoted prices indicated for Level 1, which are observable for the asset or liability in question either directly (i.e. in the form of prices) or indirectly (i.e. in the form of derived price information).

Financial instruments quoted in markets that are not deemed to be sufficiently active and those which are traded in OTC markets are assigned to this level. Derived price information is deemed to be prices derived from the measurement of similar instruments and published by an external source.

The L2 category particularly includes securities measured at fair value for which no direct quotations are available (this can include corporate bonds, mortgage-backed securities or fund units) and unconditional forward transactions and option contracts with derivatives on the OTC market: interest rate swaps, caps, floors, swaptions, warrant rights to shares, indices, exchange rates, commodities, credit derivatives. These instruments have maturities that correspond to maturities that are customarily traded in the market. They may be simple or also feature more complex income profiles (e.g. barrier options, products with underlying multiples). In this case, however, the complexity remains limited. The measurement benchmarks applied for this purpose correspond to the methods customarily applied by the most important market actors.

This category also includes the fair value of loans and receivables at amortized cost that are granted to counterparties whose credit risk is quoted in the form of credit default swaps (CDSs).

Level 3 (L3): Instruments for which the inputs applied for measurement purposes are not based on observable data (non-observable data).

The financial instruments assigned to category L3 include both derivatives with longer maturities than customary in the markets and/or with income profiles that exhibit special features. Liabilities measured at fair value are likewise assigned to the L3 category when the embedded derivatives related to them are also measured on the basis of methods for which the input parameters are not observable.

For purposes of the disclosures in the notes to the financial statements, a fair value analysis of assets measured at cost must be performed; this is done by discounting future cash flows to present value by application of a risk-appropriate interest rate. Due to this method of calculation, these instruments are assigned to Level 3 in Note 11.

As for complex derivatives, the most important instruments assigned to the L3 category are the following:

- Equity derivatives: These are option contracts with long maturities and/or tailored income mechanisms. These instruments are dependent on market parameters (volatilities, dividend ratios, correlations). Due to the lack of market depth and possibility of objectification by regular quotations, they are measured on the basis of proprietary methods (e.g. extrapolation of observable data, historical analysis). Hybrid equity products (i.e. equity products for which at least one underlying asset is not an equity instrument) are likewise assigned to the L3 category due to the correlation between normally unobservable different underlying assets.

- Interest rate derivatives: These are long-term and/or exotic options, i.e. products that are dependent on correlations between different interest rates and exchange rates or between interest rates and exchange rates, such as in the case of quanto products for which the underlying assets are not denominated in the payment currency. They are assigned to the L3 category due to the non-observable measurement parameters in consideration of the liquidity of the currency pairs and the residual maturity of the transactions; for example, the interest rate-interest rate correlations of the USD/JPY pair are deemed to be non-observable.

- Credit derivatives: In this case, the L3 category particularly includes financial instruments aggregated in a basket with exposure to the default time correlation (products of the type "N to default" under which the buyer of the protection is indemnified from the Nth default, with exposure to the credit quality of the signatures that make up the basket and their correlation, or the type "CDO Bespoke," which are CDOs (Collateralized Debt Obligations) with tailored tranches that are specifically created for a group of investors and structured according to their needs), and products which are exposed to the volatility of credit spreads.
- Commodity derivatives: They are assigned to this product category because they refer to non-observable parameters in relation to volatility or correlation (e.g. option rights to commodity swaps, financial assets measured at fair value).

FINANCIAL ASSETS MEASURED AT FAIR VALUE

	06/30/2018			
(In euro thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Held for trading	-	**14**	-	**14**
Bonds and other debt instruments	-	14	-	**14**
Equities and other equity instruments	-	-	-	-
Loans and securities purchased under repo transactions	-	-	-	-
Other financial assets	-	-	-	-
Derivatives in the trading portfolio	-	**2,059,901**	**6,309**	**2,066,211**
Interest rate instruments	-	89,702	-	**89,702**
Foreign currency instruments	-	93,454	-	**93,454**
Equity and index instruments	-	1,572,180	6,309	**1,578,489**
Commodity instruments	-	304,566	-	**304,566**
Credit derivatives	-	-	-	-
Other financial futures instruments	-	-	-	-
	-	-	-	-
Financial assets mandatorily measured at fair value through profit or loss	**1,183**	**2,571,601**	**167,285**	**2,740,069**
Bonds and other debt instruments	-	-	-	-
Equities and other equity instruments	1,183	-	72,804	**73,987**
Loans and securities purchased under repurchase agreements	-	2,571,601	94,481	**2,666,082**
Financial assets for which the fair value option was exercised	-	-	-	-
Bonds and other debt instruments	-	-	-	-
Loans and securities purchased under repo transactions	-	-	-	-
Other financial assets	-	-	-	-
Special fund for employee benefits	-	-	-	-
Hedging derivatives	-	-	-	-
Interest rate instruments	-	-	-	-
Foreign currency instruments	-	-	-	-
Equities and index instruments	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
Bonds and other debt instruments	-	-	-	-
Equity instruments	-	-	-	-
Loans and receivables	-	-	-	-
Total financial assets at fair value	**1,183**	**4,631,517**	**173,594**	**4,806,294**

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

	06/30/2018			
(In euro thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Held for trading	**-**	**91**	**-**	**91**
Securitized liabilities		91		91
Liabilities under loaned securities	-	-	-	-
Bonds and other short sale debt instruments	-	-	-	-
Equities and other short sale equity instruments	-	-	-	-
Loans and securities sold under repo transactions	-	-	-	-
Other financial liabilities	-	-	-	-
Trading derivatives	**-**	**2,058,746**	**6,309**	**2,065,055**
Interest rate instruments	-	85,192	-	85,192
Foreign currency instruments	-	94,847	-	94,847
Equity and index instruments	-	1,574,118	6,309	1,580,427
Commodity instruments	-	304,589	-	304,589
Credit derivatives	-	-	-	-
Other financial futures instruments	-	-	-	-
Financial liabilities for which the fair value option was exercised	**-**	**2,571,575**	**94,481**	**2,666,056**
Hedging derivatives	**-**	**1,675**	**-**	**1,675**
Interest rate instruments	-	1,675	-	1,675
Foreign currency instruments	-	-	-	-
Equity and index instruments	-	-	-	-
Total financial liabilities at fair value	**-**	**4,632,087**	**100,790**	**4,732,877**

CHANGES IN LEVEL 3 FINANCIAL INSTRUMENTS

Financial assets measured at fair value

(In euro thousands)	Balance at 01/01/2018	Acquisi-tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassi-fied from Level 2	Period gains and losses	Exchange rate differ-ences	Other	Balance at 06/30/2018
Held for trading	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Equities and other equity instruments	-	-	-	-	-	-	-	-	-
Loans and securities purchased under repo transactions	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Derivatives in the trading portfolio	**3,844**	-	**(17)**	**(71)**	**2,780**	**(226)**	-	-	**6,309**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	3,844	-	(17)	(71)	2,780	(226)	-	-	6,309
Commodity instruments	-	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-	-
Other financial futures instruments	-	-	-	-	-	-	-	-	-
Financial assets mandatorily measured at fair value through profit or loss	-	**31,130**	**(73,446)**	**(2,667)**	**23,676**	**(7,116)**	-	**195,707**	**167,285**
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Equities and other equity instruments	-	-	-	-	-	(445)	-	73,249	72,804
Loans and securities purchased under repurchase agreements	-	31,130	(73,446)	(2,667)	23,676	(6,671)	-	122,458	94,481
Financial assets for which the fair value option was exercised	**122,458**	-	-	-	-	-	-	**(122,458)**	-
Bonds and other debt instruments	122,458	-	-	-	-	-	-	(122,458)	-
Loans and securities purchased under repo transactions	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Special fund for employee benefits	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-
Interest rate instruments	-	-	-	-	-	-	-	-	-

(In euro thousands)	Balance at 01/01/2018	Acquisi-tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassi-fied from Level 2	Period gains and losses	Exchange rate differ-ences	Other	Balance at 06/30/2018
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-
Loans and receivables	-	-	-	-	-	-	-	-	-
Financial assets held for sale	3,217	-	-	-	-	-	-	(3,217)	[illegible]
Total financial assets at fair value	**126,302**	**31,130**	**(73,463)**	**(2,738)**	**26,456**	**(7,342)**	**-**	**73,249**	**173,594**

Financial liabilities measured at fair value

(In euro thousands)	Balance at 01/01/2018	Acquisi-tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassi-fied from Level 2	Period gains and losses	Exchange rate differ-ences	Other	Balance at 06/30/2018
Held for trading	-	-	-	-	-	-	-	-	-
Liabilities under loaned securities	-	-	-	-	-	-	-	-	-
Bonds and other short sale debt instruments	-	-	-	-	-	-	-	-	-
Equities and other short sale equity instruments	-	-	-	-	-	-	-	-	-
Loans and securities sold under repo transactions	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-
Trading derivatives	**3,844**	**-**	**(17)**	**(71)**	**2,780**	**(226)**	**-**	**-**	**6,309**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	3,844	-	(17)	(71)	2,780	(226)	-	-	6,309
Commodity instruments	-	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-	-
Other financial futures instruments	-	-	-	-	-	-	-	-	-

(In euro thousands)	Balance at 01/01/2018	Acquisi-tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassi-fied from Level 2	Period gains and losses	Exchange rate differ-ences	Other	Balance at 06/30/2018
Financial liabilities for which the fair value option was exercised	**122,458**	**31,130**	**(73,446)**	**(2,667)**	**23,676**	**(6,671)**	-	-	**94,481**
	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Total financial liabilities at fair value	**126,302**	**31,130**	**(73,463)**	**(2,738)**	**26,456**	**(6,897)**	-	-	**100,790**

MEASUREMENT METHODS FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

The fair value of financial instruments measured at fair value through profit or loss is primarily determined on the basis of prices quoted in an active market. These prices may possibly be adjusted if they are not available at the reporting date or if the settlement value does not reflect the transaction prices.

However, most of the financial products traded by the Group are not quoted directly in the markets due to the diverse characteristics of the OTC financial instruments traded in the financial markets. For these products, the fair value is determined with the aid of valuation methods that are commonly used by market participants to measure the value of financial instruments, such as discounted future cash flows or the Black-Scholes model for certain bonds, or measurement parameters the value of which is estimated on the basis of market conditions at the reporting date are applied. These valuation models are subjected to an independent validation by the experts of the Market Risks Department of the Risks Directorate of the higher-ranking corporate group of Société Générale S.A., Paris.

Regardless of whether they are based on observable data in the market or not, the parameters applied in the valuation models are subjected to monthly, detailed reviews by the Finance Directorate for Key Customers and Investors (GBIS) of Société Générale S.A., Paris, in accordance with the methods specified by the Market Risks Department.

Where applicable, these valuations are supplemented by premiums and discounts (particularly including bid-ask or liquidity), which are determined in a meaningful and appropriate manner after reviewing the available information.

Because these instruments are derivative financial instruments and repos at fair value, an adjustment for counterparty default risk ("Credit Valuation Adjustment"/"Debt Valuation Adjustment," CVA/DVA) is also recognized. All customers and clearing centers are included in this adjustment. In determining this adjustment, due consideration is also given to all clearing agreements in effect with all counterparties. The CVA is calculated on the basis of the entity's expected positive exposure to the counterparty, the counterparty's conditional default probability assuming non-default on the part of the affected entity, and the amount of losses to be incurred upon default. The DVA is calculated symmetrically on the basis of the expected negative exposure. The calculations are performed for the life of the potential exposure on the basis of observable and relevant market data.

For derivatives for which no clearing agreements are in effect, an adjustment is similarly applied on the basis of expenses or income related to the funding of these transactions (Funding Valuation Adjustment, FVA).

Observable data must exhibit the following characteristics: It must be non-proprietary (independent of the Group), available, publicly circulated data based on a broad consensus. An amount of only EUR 1,150 thousand worth of instruments traded in financial markets was classified as available-for-sale financial assets. This amount was not adjusted by transfers to or from Level 2 or Level 3 financial instruments in financial year 2017.

Consensus data provided by external counterparties is deemed to be observable if the underlying market is liquid and the stated prices are confirmed by genuine transactions. In the case of long maturities, such consensus data is not deemed to be observable. This is the case with implied volatilities, which are applied to measure equity option instruments with a horizon of longer than 5 years. On the other hand, the instrument may be considered for the purpose of measurement on the basis of observable parameters when its remaining term to maturity is less than the threshold value of 5 years.

In the event of unusual tensions in the markets that result in the absence of the reference data customarily applied to measure the value of a financial instrument, a new model based on the data available at the time may be employed, one that follows the pattern of the methods applied by other market participants as well.

Equities and other variable-yield securities

The fair value of listed securities is equal to their stock exchange price at the reporting date. The fair value of listed securities is determined with the aid of one of the following valuation methods, depending on the financial instrument in question:

- Measurement on the basis of a transaction in the recent past that affected the issuer, including (for example) the recent acquisition of company stock by a third party, measurement on the basis of an expert opinion;
- Measurement on the basis of a transaction in the recent past in the sector in which the issuer is active, including (for example) earnings multiples, asset multiples;
- Share of remeasured net assets held.

In the case of larger volumes of unlisted securities, the measurements performed on the basis of the aforementioned methods are supplemented with the use of methods based on the discounting to present value of the cash flows generated in the company's business activity or derived from business plans, or based on the valuation multiples of similar companies.

Debt instruments held (fixed-income securities), issues of structured securities and derivative financial instruments measured at fair value

The fair value of these financial instruments is calculated with reference to quoted prices at the reporting date or the prices provided by brokers for the same date, if available. The fair value of unlisted financial instruments is determined with the aid of measurement techniques. In the case of financial liabilities measured at fair value, the chosen measurement methods also take the effect of the Group's risk as an issuer into account.

Other liabilities

The fair value of listed financial instruments is equal to the fair value of the quoted prices at the reporting date. The fair value of unlisted financial instruments is determined by discounting future cash flows to present value at the market rate of interest (including counterparty, default and liquidity risk).

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE LEVEL 3

The instruments measured at a fair value that is not based on observable market parameters (Level 3) are the interests in the affiliated companies ALD AutoLeasing und Dienstleistungs GmbH and Nedderfeld 95 Immobilien GmbH & Co.KG. These interests are subject to the measurement exception according to IFRS 5 because there is an intent to sell them. In applying the imparity principle by determining the lower of the carrying amount or fair value less costs to sell, the carrying amount was applied as the lower value for these companies. Therefore, the interests are measured at their carrying amounts before transfer to the Group's parent company and presented as available-for-sale financial assets.

NOTE 3.4 – LOANS AND RECEIVABLES AT AMORTIZED COST

LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

(In euro thousands)	06/30/2018	01/01/2018
Current accounts	118,395	133,887
Term deposits and loans	29,100	23,700
Loans and receivables without impairments	**147,495**	**157,587**
Impairments upon default	-	-
Remeasurement of hedged balance sheet items	-	-
Total net	**147,495**	**157,587**

LOANS TO AND RECEIVABLES FROM CUSTOMERS (INCLUDING FINANCE LEASES)

(In euro thousands)	06/30/2018	12/31/2017	Remeasure-ment*)	01/01/2018
Loans to customers	3,893,176	3,673,755	-	3,673,755
Finance leases	452,611	433,047	-	433,047
Loans to customers without impairments	**4,345,787**	**4,106,802**	**-**	**4,106,802**
Impairments upon default	- 61,546	- 49,554	- 8,418	- 57,972
Customers	*- 54,372*	*- 44,710*	*- 5,035*	*- 49,745*
Finance leases	*- 7,174*	*- 4,844*	*- 3,383*	*- 8,227*
Total net	**4,284,241**	**4,057,248**	**- 8,418**	**4,048,830**
Loans to customers	*3,838,804*	*3,629,045*	*- 5,035*	*3,624,010*
Finance leases	*445,437*	*428,203*	*- 3,383*	*424,820*

Please see Note 3.7 "Impairments and provisions".

NOTE 3.5 - LIABILITIES

LIABILITIES TO BANKS

(In euro thousands)	06/30/2018	01/01/2018
Deposits and current accounts	69,801	52,616
Forward liabilities	3,452,061	3,827,992
Other liabilities	1,923	363
Remeasurement of hedged balance sheet items	-	-
Securities sold under repurchase agreements	-	-
Total	**3,523,785**	**3,880,971**

LIABILITIES TO CUSTOMERS

(In euro thousands)	06/30/2018	01/01/2018
Other sight deposits	1,653	1,997
Total liabilities to customers	**1,653**	**1,997**

SECURITIZED LIABILITIES

(In euro thousands)	06/30/2018	01/01/2018
Interbank market securities and tradable bonds	1,417,009	797,615
Other liabilities	75	37
Total	**1,417,084**	**797,652**

NOTE 3.6 – INTEREST INCOME AND INTEREST EXPENSES

(In euro thousands)	01/01/2018 – 06/30/2018			2017			01/01/2017 – 06/30/2017		
	Income	Expenses	Net	Income	Expenses	Net	Income	Expenses	Net
Financial instruments measured at fair value through profit or loss	**150**	**-**	**150**	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Loans to and receivables from banks	150	-	150	-	-	-	-	-	-
Loans to customers	-	-	-	-	-	-	-	-	-
Securities purchases under repurchase agreements	-	-	-	-	-	-	-	-	-
Hedging derivatives	**733**	**(1,972)**	**(1,239)**	-	-	-	-	-	-
Financial instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Loans to and receivables from banks	-	-	-	-	-	-	-	-	-
Loans to customers	-	-	-	-	-	-	-	-	-
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-	-	-
Financial instruments at amortized cost	**85,040**	**(14,144)**	**70,896**	**168,613**	**(25,185)**	**143,428**	**83,833**	**(11,937)**	**71,896**
Central banks	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-		-	-		-	-
Debentures issued	-	-	-	-	-	-	-	(253)	- 253
Transactions with banks	156	(12,172)	(12,016)	430	(25,185)	(24,755)	212	(11,684)	- 11,472
	-	-	-	-	-	-	-	-	-
Loans to customers and sight deposits	75,018	-	75,018	147,886	-	147,886	73,433	-	73,433
Subordinated liabilities	-	-	-	-	-	-	-	-	-
Other financial instruments	122	-	122	203	-	203	106	-	106
	-	-	-	-	-	-	-	-	-
Securities purchased/ sold under repurchase agreements and loans secured by securities	-	-	-	-	-	-	-	-	-
Finance leases	**9,744**	**-**	**9,744**	**20,094**	**-**	**20,094**	**10,082**	**-**	**10,082**
Real estate finance leases	-	-	-	-	-	-	-	-	-
Equipment finance leases	9,744	-	9,744	20,094	-	20,094	10,082	-	10,082
Total interest income and interest expenses	**85,923**	**(14,144)**	**71,779**	**168,613**	**(25,185)**	**143,428**	**83,833**	**(11,937)**	**71,896**

NOTE 3.7 – IMPAIRMENTS AND PROVISIONS

ACCOUNTING PRINCIPLES

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

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

Observed deterioration of credit risk Since initial recognition of the financial asset			
Credit Risk category	**Stage 1** Performing assets	**Stage 2** Deteriorated assets	**Stage 3** Credit-impaired assets
Transfer criteria	Initial recognition of the instrument in stage 1 → *Maintained if the credit risk has not increased significantly*	Credit risk on the instrument has increased significantly since initial recognition/30 days past due	Evidence that the instrument is become credit-impaired / 90 days past due
Measurement of credit risk	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income recognition basis	Gross carrying amount of the asset before impairments	Gross carrying amount of the asset before impairments	Net carrying amount of the asset after impairment

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are underperforming/credit-impaired on acquisition. Stage 1 exposures are impaired for the amount of credit losses that the Group expects to incur within 12 months (12-month expected credit loss), based on past data and the current situation. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring within the next 12 months.

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

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

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

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

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

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Group expects to incur over the life of the exposures (lifetime expected credit loss), taking into consideration past data, the present situation and reasonable forecast changes in economic conditions, and relevant macroeconomic factors through to maturity. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring through to maturity.

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

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

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

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

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

The adjustments of impairments and provisions upon the first-time application between December 31, 2017 (IAS 39) and January 1, 2018 (IFRS 9) are presented in the table below.

SUMMARY OF IMPAIRMENTS AND PROVISIONS

	06/30/2018	12/31/2017	Remeasure-ment	01/01/2018
Impairments of financial assets at amortized cost	**63,636**	**51,870**	**8,459**	**60,329**
Loans and receivables at amortized cost	*61,546*	*49,554*	*8,418*	*57,972*
Other assets at amortized cost)*	*2,090*	*2,316*	*41*	*2,357*
Provisions for financial commitments	956	-	716	716
Provisions for guarantee commitments	-	-	-	-
Total impairments upon default	**956**	**-**	**-**	**716**

*) Of which EUR 2,090 thousand relates to impairments of receivables under operating leases at June 30, 2018; these receivables are presented under Miscellaneous other debtors (see Note 4.3).

The increase and impairments and provisions for credit risks resulted from the transition from a realized-loss model to an expected-loss model.

IMPAIRMENTS OF FINANCIAL ASSETS

	Impairments at 01/01/2018	Additions	Available reversals of impairments	Net impairment expenses	Recognized reversals of impair-ments	Other changes	Impairments at 06/30/2018
Financial assets at amortized cost	-	-	-	-	-	-	-
Impairments of performing accounts (Level 1)	17,087	4,145	3,050	1,095			18,182
Impairments of poorly performing accounts (Level 2)	1,980	2,379	1,598	781			2,761
Impairments of doubtful accounts (Level 3)	41,262	19,012	13,696	5,316	3,885		42,693
Total	**60,329**	**25,536**	**18,344**	**7,192**	**3,885**		**63,636**
Thereof finance leases and similar contracts							
Impairments of performing accounts (Level 1)	3,222	516	705	189			3,033
Impairments of poorly performing accounts (Level 2)	161	320	146	174			335
Impairments of doubtful accounts (Level 3)	4,844	1,985	2,720	735	303		3,806
Total	**8,227**	**2,821**	**3,571**	**750**	**303**		**7,174**

PROVISIONS

	Impairments at 01/01/2018	Additions	Available reversals of impairments	Net impairment expenses	Recognized reversals of impairments	Other changes	Impairments at 06/30/2018
Financial commitments							
Impairments of performing accounts (Level 1)	716	194	-	194	-	-	910
Impairments of poorly performing accounts (Level 2)	-	-	-	-	-	-	-
Impairments of doubtful accounts (Level 3)	-	46	-	46	-	-	46
Total	**716**	**240**	-	240	-	-	**956**

RISK EXPENSES

	01/01/2018 06/30/2018	2017	01/01/2017-06/30/2017
Credit risk	(6,316)	(11,362)	(6,397)
Net additions to impairments	(7,193)	(14,693)	(7,960)
Financial assets measured at fair value through other comprehensive income	-		
Financial assets at amortized cost	(7,193)	(14,693)	(7,960)
Net additions to provisions	(240)	-	-
Financial commitments	(240)		
Guarantee commitments	-		
Unhedged losses from bad loans	-	-	-
Realized amounts from bad loans	1,117	3,331	1,563
Other risks		366	98
Total	**(6,316)**	**(10,996)**	**(6,299)**

NOTE 3.8 – FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT COST

FINANCIAL ASSETS MEASURED AT COST

	06/30/2018	
(In euro thousands)	**Carrying amount**	**Fair value**
Loans to and receivables from banks	147,495	147,495
Loans to customers	4,284,241	4,161,480
Loans to customers at amortized cost	*3,838,804*	*3,681,402*
Receivables under leases	*445,437*	*480,078*
Total financial assets measured at cost	**4,431,736**	**4,308,975**

FINANCIAL LIABILITIES MEASURED AT COST

	06/30/2018	
(In euro thousands)	**Carrying amount**	**Fair value**
Liabilities to banks	3,523,785	3,523,785
Liabilities to customers	1,653	1,653
Issued bonds	1,417,084	1,417,084
Total financial liabilities measured at cost	**4,942,522**	**4,942,522**

NOTE 4 – OTHER ACTIVITIES

The first-time application of IFRS 15 did not have any material effects on the financial reporting principles for commission income and expenses and income and expenses from other activities.

NOTE 4.1 – COMMISSION INCOME AND EXPENSES

	01/01/2018 – 06/30/2018			2017			01/01/2017 – 06/30/2017		
(In euro thousands)	Income	Expenses	Net	Income	Expenses	Net	Income	Expenses	Net
Transactions with banks	-	(225)	(225)	-	(186)	(186)	-	(23)	(23)
Transactions with customers	20,811	-	20,811	41,420	(14,516)	26,904	20,240	(7,599)	12,641
Loan and guarantee commitments	-	(1)	(1)	-	(87)	(87)	-	(72)	(72)
Services	20,841	-	20,841	41,455	-	41,455	21,330	-	21,330
Other	1,558	(8,100)	(6,542)	3,136	(2,813)	323	1,531	(1,282)	249
Total	**43,210**	**(8,326)**	**34,884**	**86,011**	**(17,602)**	**68,409**	**43,101**	**(8,976)**	**34,125**

NOTE 4.2 – INCOME AND EXPENSES FROM OTHER ACTIVITIES

	01/01/2018 - 06/30/2018			2017			01/01/2017 - 06/30/2017		
	Income	Expenses	Net	Income	Expenses	Net	Income	Expenses	
Equipment leasing	115,124	(100,042)	15,082	223,127	(195,219)	27,908	112,018	(99,927)	12
Other activities	1,151	(28,103)	(26,952)	4,076	(56,070)	(51,994)	942	(25,966)	(25,
Total	**116,275**	**(128,145)**	**(11,870)**	**227,203**	**(251,289)**	**(24,086)**	**112,960**	**(125,893)**	**(12,**

NOTE 4.3 – OTHER ASSETS AND LIABILITIES

OTHER ASSETS

	06/30/2018	01/01/2018	12/31/2017
Prepaid expenses	81,728	77,266	77,266
Miscellaneous other debtors	41,284	49,547	49,547
Total gross	**123,012**	**126,813**	**126,813**
Impairments	(7,131)	(7,398)	(7,357)
Total net	**115,881**	**119,415**	**119,456**

The item of Miscellaneous other debtors mainly includes inventories, outstanding receivables under operating leases, and commission claims.

OTHER LIABILITIES

	06/30/2018	01/01/2018	12/31/2017
Employee benefits	3,335	3,454	3,454
Deferred income	29,519	21,445	21,445
Miscellaneous other creditors	169,610	200,390	200,390
Total	**202,464**	**225,289**	**225,289**

The item of Miscellaneous other creditors mainly includes expenses and liabilities incurred under the profit transfer agreement concluded with the tax unity controlling company under the tax unity, Société Générale S.A. Frankfurt Branch.

NOTE 5 – PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

PERSONNEL EXPENSES

	01/01/2018-06/30/2018	2017	01/01/2017-06/30/2017
Employee compensation	(28,279)	(55,125)	(27,298)
Social security and payroll taxes	(4,643)	(8,968)	(4,510)
Net pension expenses – Special fund	(69)	(167)	(70)
Net pension expenses – Defined benefit pension plan	(369)	(746)	(368)
Employee profit participation and bonuses	(5)	(1)	(1)
Total	**(33,365)**	**(65,007)**	**(32,247)**
Including net expenses of share-based payments	(56)	(50)	(50)

DEVELOPMENT OF PROVISIONS FOR EMPLOYEE BENEFITS

	Balance at 12/31/2017	Additions	Available reversals of impairments	Net additions	Recognized reversals of impairment	Other changes	Balance at 06/30/2018
Provisions for employee benefits	**15,408**	415	(186)	**229**	-	(11)	**15,626**

NOTE 6 – INCOME TAXES

INCOME TAX EXPENSES

The profit transfer agreement of September 7, 2016 between Société Générale Effekten GmbH (subsidiary company) and Société Générale S.A. Frankfurt Branch (parent company) established a consolidated tax group for income tax purposes with Société Générale S.A. Frankfurt Branch with retroactive effect to January 1, 2016. Due to the formation of the consolidated tax group for income tax purposes, Société Générale Effekten GmbH does not recognize deferred taxes in its financial statements. Tax assets include prepaid taxes to the tax office for which the companies have refund claims.

The tax assets relate to prepayments that will be refunded to the Group by the tax authority.

NOTE 7 – EQUITY

The Group's equity amounted to EUR -13.6 million at June 30, 2018. It is composed of Subscribed capital in the amount of EUR 26 thousand (January 1, 2018: EUR 26 thousand) and SGE's profit carried forward, calculated in accordance with the provisions of German commercial law, in the amount of EUR 1.1 million. Other components of equity are the Group reserves arising from consolidation in the amount of EUR -40.5 million, and the consolidated financial year net profit of EUR 27.9 million.

Because the individual companies have positive equity on aggregate, the negative equity status is due to the Group reserves. The Group reserves mainly consist of consolidation factors such as the elimination of consolidated equity investments and the corresponding equity components, and the transfer of the subsidiaries' net profits or losses. Because the carrying amounts of the equity investments, including silent reserves, exceed the recognized equity of the transferred companies, the difference is deducted from the Group reserves in the IFRS consolidated financial statements. The carrying amounts of equity investments were tested for impairment in connection with the preparation of the separate financial statements of Société Générale Effekten GmbH for financial year 2017.

The Group's liquidity position is not influenced by the negative equity.

Changes in equity during the financial year are presented in the consolidated statement of changes in equity.

The individual Group companies manage their capital requirements in dependence on the Group's parent company.

The subsidiary BDK manages its capital requirements in dependence on the regulatory capital regulations.

NOTE 8 – ADDITIONAL DISCLOSURES

NOTE 8.1 – SEGMENT REPORT

As described in the following, the Group has three reportable segments, which represent the Group's strategic business activities. The segments offer different products and services and are managed separately from each other. The business activities in each reportable segment of the Group are described in the table below.

Reportable segments	Business Activity
Global Banking and Investor Solutions	The object of this operating segment is the issuance of warrants and certificates via the Group's parent company Société Générale Effekten GmbH. They are sold to counterparties that are all wholly-owned subsidiaries of the parent company Société Générale S.A., Paris, or the parent company itself.
Financial Services to Corporates and Retails	The segment comprises all activities conducted by a manufacturer-independent leasing company, including the provision of financing solutions and services for automobiles to car dealers and their customers. The product range covers all financing processes in the car dealership, such as sales financing and leasing, purchase financing and insurance. In addition, smart IT solutions such as web services and an internally developed POS system are offered to car dealers.
Asset Management	This segment comprises the management of investment funds under so-called Master KVG Models and the in-sourcing of fund administration from other asset management firms. Direct investments are administered as well. These services are mainly provided to European customers.

(In euro thousands)	Global Banking and Investor Solutions	Financial Services to Corporates and Retails	Asset Management	Group
Net banking result	(1,513)	81,272	14,912	94,671
Administrative expenses	(41)	(39,349)	(21,748)	(61,138)
Gross operating result	**(1,554)**	**41,923**	**(6,836)**	**33,533**
Risk expenses	-	(6,316)	-	(6,316)
Operating result	**(1,554)**	**35,607**	**(6,836)**	**27,217**
Net gains or losses on other assets	-	-	-	-
Profit before taxes	**(1,554)**	**35,607**	**(6,836)**	**27,217**
Income taxes	-	-	-	-
Net profit/loss of all companies in the consolidation group	**(1,554)**	**35,607**	**(6,836)**	**27,217**
Non-controlling interests	-	(723)	-	(723)
Net profit/loss (Group share)	**(1,554)**	**36,330**	**(6,836)**	**27,940**
Assets	4,743,628	5,084,990	54,018	9,882,636
Liabilities	5,219,809	4,647,989	28,422	9,896,221

Differences in the assets and liabilities compared to the items presented in the individual companies representing the segments result from consolidation adjustments and the elimination of deferred taxes.

NOTE 8.2 – OTHER ADMINISTRATIVE EXPENSES

(In euro thousands)	01/01/2018 - 06/30/2018	2017	01/01/2017-06/30/2017
Rents	(1,402)	(2,577)	(1,198)
Taxes	(186)	(542)	(290)
IT and telecom	(7,322)	(15,873)	(7,335)
Consulting	(6,661)	(11,496)	(3,915)
Other	(10,777)	(18,392)	(10,341)
Total	**(26,348)**	**(48,880)**	**(23,079)**

NOTE 8.3 – PROVISIONS

The provisions recognized in the statement of financial position at June 30, 2018 mainly consisted of provisions for employee benefits and provisions for risks and other administrative expenses. Accordingly, the potential outflows for these issues are short-term in nature (within 12 months). Liabilities for employee benefits are characterized by uncertainty regarding the settlement date. No invoices have yet been received for the liabilities for risks and other administrative expenses and therefore the corresponding amounts are deemed to be uncertain, which is why they are accounted for as provisions.

Breakdown of significant provisions at the reporting date:

	Provisions at 01/01/2018	Additions	Available reversals of impairments	Net additions	Recognized reversals of impairments	Other changes	Provisions at 06/30/2018
Provisions for the credit risk of off-balance sheet commitments (see Note 3.7)	716	240	-	240	-	-	956
Provisions for employee benefits (see Note 5)	15,409	415	(186)	229	-	(11)	15,626
Other provisions	1,752		(17)	(17)			1,735
Total	**17,877**	**655**	**(203)**	**452**	**-**	**(11)**	**18,317**

NOTE 9 – DISCLOSURES CONCERNING SIGNIFICANT RISKS

For information on the general organization of risk management, we refer to our comments in the Group management report at June 30, 2018.

COUNTERPARTY DEFAULT RISKS

Overview of counterparty default risks by item of the statement of financial position, based on carrying amounts.

(In euro thousands)	**06/30/2018**
Financial assets measured at fair value through profit or loss	4,806,294
Loans to and receivable from banks	147,495
Loans to and receivables from customers	3,838,804
Tax assets	9,983
Receivables under finance leases	445,437
Other assets	115,881
Total	**9,363,894**

In addition, there are loan commitments with a nominal volume of EUR 154,500 thousand.

Significant counterparty default risks exist only in the segment of Financial Services to Corporates and Retails.

The rating system in this segment is based on a systematic assessment of credit risks utilizing models that estimate the internal parameters according to Basel.

In calculating the capital requirements according to the advanced methods based on internal rating models, (Advanced Internal Ratings Based: A-IRB), the following Basel parameters are applied:

- Default risk (Exposure at Default, EAD) is defined as the Group's risk given a counterparty default. The EAD comprises the risks recognized in the statement of financial position (loans, receivables, outstanding income, market transactions, etc.) and off-balance risks, which are converted into the corresponding balance sheet values through the application of internal or regulatory conversion factors (Credit Conversion Factor, CCF). (Drawing assumption)
- The Probability of Default (PD) is the probability that a counterparty will default in up to one year.
- The Loss Given Default (LGD) is the ratio between the loss sustained from an Exposure at Default of a counterparty and the amount of exposure at the time of the incident.

These parameters make it possible to estimate the regulatory capital requirements for calculating Risk-Weighted Assets (RWAs) and Expected Loss (EL), i.e. the loss that could arise in consideration of the quality of the transaction, the solidity of the counterparty and all measures taken to mitigate the risk.

The Credit-Value at Risk with a confidence level of 99.90% at December 31, 2017 is presented in the table below:

	Sales Financing			
In euro millions	EAD	Expected Loss	Unexpected Loss	Credit Value at Risk
Individual customers	3,154.58	14.83	42.99	57.82
Commercial customers	495.14	6.08	13.41	19.49
Total portfolio	**3,649.72**	**20.91**	**56.40**	**77.31**

	Leasing			
In euro millions	EAD	Expected Loss	Unexpected Loss	Credit Value at Risk
Individual customers	199.51	1.33	5.28	6.61
Commercial customers	778.35	5.31	18.40	23.71
Total portfolio	**977.85**	**6.64**	**23.68**	**30.32**

	Purchase Financing			
In euro millions	EAD	Expected Loss	Unexpected Loss	Credit Value at Risk
Without manufacturer's guarantee	148.20	8.93	4.12	13.05
With manufacturer's guarantee	95.00	0.78	5.45	6.23
Total portfolio	**243.20**	**9.71**	**9.58**	**19.28**

The portfolio sold without recourse within the higher-ranking group was not included in the calculation for purchase financing.

The Group's portfolio in the area of sales financing is divided among individual and commercial customers. Commercial customers include small business owners and self-employed persons. Due to the broad diversification, we have relatively few individual risks in this area. About 91% of the loan agreements are for up to EUR 25,000.

In purchase financing, we have 1,335 exposures, with the 284 biggest borrowers accounting for 69% of the loan volume.

MARKET PRICE RISKS

All the market price risks of issued warrants and certificates are completely hedged by hedging transactions with Société Générale S.A., Paris. Therefore, there are no price risks, currency risks or interest rate risks.

The market price risks of the Group's leasing business mainly include the residual value risks assumed by the Group. Residual value risk was assumed for 61% of new leases in the first half of financial year 2018. Therefore, the percentage of vehicles for which the residual value risk is assumed is 54% of the total volume. Residual value risks are basically assumed for operating leases only and no financial instrument is recognized in such cases. If the residual value risk is secured (usually by means of guaranties or repurchase agreements with dealers), the corresponding lease is classified as a finance lease and therefore a financial instrument is recognized. However, the financial instrument itself is not subject to any market price risk, but only potential counterparty default risks under guaranties.

LIQUIDITY RISK

The Group funds its operations mainly through companies of the higher-ranking group. The principles and rules for managing liquidity risk are established at the level of the departments of Société Générale S.A.

At June 30, 2018, SG Effekten had a credit line with Société Générale S.A. Frankfurt Branch in the amount of EUR 10 million, which was not utilized.

The primary goal of liquidity risk management is to secure the funding of its activities at optimal costs, with well diversified liquidity risk and in compliance with legal requirements. The liquidity management system makes it possible to create a target structure consisting of assets and liabilities for the statement of financial position that conforms to the risk appetite established by the Board of Directors.

- The structure of assets must enable the operating segments to develop their activity in a liquidity-conserving way and in conformance with the structure of the target value of liabilities. This development must be pursued in conformance with the liquidity bottlenecks specified within the Group (or a static or stress scenario) and the regulatory requirements.
- The structure of liabilities depends on the ability of the operating segments to borrow funds from banks and customers and the Group's ability to permanently borrow funds in the markets in accordance with its risk appetite. The control system relies on measuring and limiting the liquidity bottlenecks of the operating segments in reference scenarios or in stress situations, their financing needs with the Group, the financing borrowed by the Group in the market, the available suitable assets and the contribution of the operating segments to the regulatory indicators.

- In conducting their activities, the operating segments must heed static bottlenecks in the event of lacking or low liquidity by turning to the parent company's central Treasury Department. Where appropriate, the Treasury Department can maintain a conversion or counter-conversion position, which it must monitor, manage and control within the scope of the risk limits imposed on it.
- The internal liquidity stress tests conducted on the basis of systemic, specific or combined scenarios are supported at the level of the parent company. They are used to ensure that the time horizon established by the Board of Directors for the company's continuation as a going concern is met, and to calibrate the amount of the liquidity reserve. They are supported by a Contingency Funding Plan, which defines the measures to be taken in the event of a liquidity crisis.
- The financing requirements of the operating segments (short-term and long-term) are limited in accordance with the business development objectives and in accordance with the capacities and objectives for the Group's borrowing of funds.
- A long-term funding plan is prepared to cover future redemptions and fund the growth of the operating segments.
- The Group's short-term funds are scaled in such a way as to fund the short-term needs of the operating segment over the time horizons corresponding to asset management and in line with the requirements applicable to the business. As mentioned above, they are scaled on the assets side according to the liquidity reserve and in accordance with the specified survival horizons under stress conditions and the target set for the regulatory liquidity ratios (LCR/NSFR)
- Finally, the liquidity costs are limited by the internal funding scale. The funds allocated to the operating segments are charged to them on the basis of scales that reflect the Group's liquidity costs. The goal of this system is to optimize the use of external funding sources by the operating segments. It serves to control the equilibrium of financing in the statement of financial position.

According to the assessment of the individual Group companies and the Société Générale Effekten GmbH Group, the Group is currently not exposed to any discernible liquidity risks.

The maturities of the Group's receivables and liabilities at June 30, 2018 are presented in the table below:

Receivables:

(In euro thousands)	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Indefinite term**	**06/30/2018**
Financial assets measured at fair value through profit or loss	230,673	1,232,213	650,641	489,833	2,202,933	4,806,293
Loans to and receivables from banks at amortized cost	119,395	850	23,000	4,250	-	147,495
Loans to and receivables from customer at amortized cost	481,928	969,714	2,324,256	62,906	-	3,838,804
Receivables under finance leases	41,781	99,989	302,892	775	-	445,437
Other assets	185,156	116,655	340,820	1,935	-	644,566
Total receivables	**1,058,933**	**2,419,421**	**3,641,609**	**559,699**	**2,202,933**	**9,882,595**

Liabilities:

(In euro thousands)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indefinite term	06/30/2018
Financial liabilities measured at fair value through profit or loss	155,428	1,231,891	649,335	488,217	2,206,331	4,731,202
Hedging derivatives	1,675					1,675
Securitized liabilities	170,074	454,302	792,708			1,417,084
Liabilities to banks	359,193	862,155	2,093,337	209,100		3,523,785
Liabilities to customers	1,653					1,653
Other liabilities	123,917	29,163	54,647	12,952	102	220,781
Total liabilities	**811,940**	**2,577,511**	**3,590,027**	**710,269**	**2,206,433**	**9,896,181**
Loan commitments received	5,150	23,175	123,600	2,575		154,500
Guarantee commitments received		2,875	125,400			128,275
Total commitments	**5,150**	**26,050**	**249,000**	**2,575**	**-**	**282,775**

NOTE 10 – DEALINGS WITH RELATED PARTIES

Both individuals and entities which the Group controls or has significant influence over and persons and companies which control the Group itself or have significant influence over it are deemed to be related parties within the meaning of IAS 24.

The related parties of the Group include:

- Persons in key positions and their close family members;
- The higher-ranking parent company Société Générale Bank and companies of the same corporate group;
- Companies of the same corporate group as Société Générale Effekten GmbH (subsidiaries).

BUSINESS DEALINGS WITH RELATED PERSONS IN KEY POSITIONS

The managing directors are regarded as members of the company in key positions of SG Effekten GmbH. As of June 30, 2018, the managing directors received compensation totaling EUR 21.6 thousand as short-term benefits for the prior year. As of June 30, 2018, liabilities for salaries totaling EUR 10.8 thousand were owed to the managing directors.

The current managing directors Ms. Françoise Esnouf, Mr. Helmut Höfer and Mr. Rainer Welfens are employees of Société Générale S.A., Frankfurt am Main branch (parent company of Société Générale Effekten GmbH).

BUSINESS DEALINGS WITH SUBSIDIARIES

No transactions were conducted with subsidiaries in the first half of 2018 aside from the settlement of the liability amounting to EUR 13,423 thousand by Société Générale Effekten GmbH vis-a-vis Société Générale Securities Services GmbH in connection with the profit transfer agreement for the year 2017.

BUSINESS DEALINGS WITH ENTITIES OF THE SAME CORPORATE GROUP

The parent company Société Générale Effekten GmbH is a wholly-owned subsidiary of Société Générale Frankfurt, a branch of Société Générale S.A. Paris. For this reason, it is fully consolidated in the higher-ranking consolidated financial statements. The business object of the company is the issuance of warrants and certificates, all of which are sold in full to the parent company Société Générale S.A., Paris, Société Générale Option Europe S.A., Paris, Société Générale Madrid branch, and inora LIFE Limited, Dublin. All counterparties are wholly-owned subsidiaries of Société Générale S.A., Paris, or the parent company itself. The Company conducts hedging transactions with Société Générale S.A., Paris, in relation to the issued warrants and certificates.

Transactions in relation to companies of the same corporate group:

NOTE 11 – TRUST BUSINESS

In addition to the transactions presented in the statement of financial position, the Group operates under a trust agreement with the sole shareholder Société Générale S.A., Paris. As part of this trust activity, Société Générale Effekten GmbH handles the issuance of debt instruments in its own name and for account of Société Générale S.A., Paris. The certificates issued under trust transactions are offset by hedging transactions of the same amount. These transactions are not recognized in the statement of financial position because the Company has no control over them. At the reporting date, trust transactions measured at fair value amounted to EUR 736,498 thousand.

NOTE 12 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No events that would have a significant effect on the company's financial position, cash flows, and financial performance occurred since the interim reporting date.

On July 3, 2018, Société Générale signed an agreement with Commerzbank on the acquisition of the Equity Markets & Commodities Division (EMC). Commerzbank's EMC business includes the issuance and market making of structured trading and investment products, the ComStage brand of exchange-traded index funds (ETFs), and the corresponding platform for ETF market making. The question is whether Société Générale Effekten GmbH will integrate the products belonging to the EMC business is currently being studied.

To protect small investors, the European Securities and Markets Authority (ESMA) will introduce a prohibition of binary options and restrictions on contracts for differences (CFDs). The marketing, distribution, and sale of binary options to individual investors will be prohibited. Leverage restrictions, automatic loss limits, a ban on margin call obligations, marketing restrictions, and an obligatory risk warning will be required for CFDs in the future.

The ESMA announced new rules for CFDs and binary options already in June. Although the measures applicable to CFD trading will only take effect in August, the rules applicable to binary options took effect already in July 2. According to the ESMA, the prohibition will only be in effect for three months initially, but it can be extended after that. Therefore, the marketing, distribution, and sale of binary options to individual investors are prohibited throughout Europe. In the meantime, the prohibition has been extended for another three months after October 2, 2018. Société Générale Effekten GmbH discontinued trading of the affected products on July 2.

Frankfurt am Main, September 27, 2018

The Management

Françoise Esnouf	Helmut Höfer	Rainer Welfens