Société Générale Effekten GmbH
Frankfurt am Main

Group Management Report
for the financial half-year from January 1 to June 30, 2019[1]

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 to prepare interim consolidated financial statements and a group management report at June 30, 2019.

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 possibly other subsidiaries of Société Générale S.A., Paris. 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 exchanges in the European Union (stock exchanges 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 from the corresponding supervisory authority of the respective country. The Company’s listing in foreign stock exchanges, which was no longer pursued in the last few years, is to be resumed in the course of the acquisition of parts of the Equity Markets & Commodities (EMC) business (see the comments in Part III: Report on opportunities for more information on this subject).

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 situation 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.

[1] In case of ambiguities or discrepancies, the German original always takes precedence over this English translation.

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, which increase the loyalty of dealership customers and thus increase income opportunities. As a subsidiary of ALD LF, BDK also works with several manufacturers and importers, 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 performed by employees of BDK within the scope of a management services agreement. 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 companies with specialized expertise in automobile trading: a bank, a leasing company and an insurance service.

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. Economic report

I. General economic and sector-specific environment

The rate of expansion of the German economy has slowed appreciably due in part to temporary production declines in the automotive and chemical industries. Moreover, the underlying momentum of the overall German economy has slowed. On the demand side, this is mainly due to considerably weaker export demand in key sales markets. On the supply side, capacity limits and worker shortages in many sectors are playing a role. In consideration of these developments, the Council of Experts has downgraded its growth forecast for the years 2019 and 2020 and now expects average annual growth rates for real gross domestic product (GDP) of 0.8% in 2019 and 1.7% in 2020. The low forecast for the year 2019 is heavily influenced by the weak final quarter of the year 2018 and the associated low statistical overhang. Adjusted for the positive calendar effect resulting from the unusually high number of workdays, the growth rate in 2020 is only expected to be 1.3%. Accordingly,

real GDP growth rates will probably be slightly below the potential growth rate. Therefore, the over-utilization of capacity in the German economy will ease and production will decline to approach its potential rate. However, the number of employed people will probably rise further and wage growth will remain high. Construction investment, consumer spending and the government sector in particular will probably make positive growth contributions in 2019. In view of the strong domestic economy, a recession is not to be expected. Signs of weaker growth can also be observed in the other member states of the Eurozone. The Council of Experts has lowered its 2019 forecast for the real GDP growth rate in the Eurozone to 1.2%. Growth of 1.4% is expected for 2020. The future economic development is currently subject to very high risks. Besides the uncertain outcome of the Brexit negotiations, such risks particularly include the unresolved trade conflicts between the United States, Europe and China and the risk of a stronger than expected economic slowdown in China. Given the already weakening momentum of global economic growth, spiraling protectionist measures have the potential of pushing the German economy into a recession.[2]

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 conception of products issued in the warrant and certificate business. The Company reacted to the volatility of the markets in the first half of 2019 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 (obligation to report OTC contracts (Emir 2); 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 was influenced by a subdued economic environment in the first half of 2019. A total of 1,849,000 new cars were registered in the first half of 2019, corresponding to an increase of 0.5% over the prior-year period. Market growth was driven by new commercial registrations, the percentage of which rose by 3.3% to 63.9%. By contrast, private registrations declined by 4%.
The aftermath of the diesel emissions scandal is still reflected in the registration statistics although the percentage of new registrations did not decline further. Diesel vehicles accounted for 32.9% of new registrations in the first half of 2019, representing an increase of 3% over the prior-year period (H1 2018 = 32.1%, H1 2017 = 41.3%).

The percentage of new registrations of gasoline-powered vehicles declined from 63.1% to 59.4%. By contrast, new registrations of alternative-drive vehicles increased by 61.8% over the prior-year period. The percentage of new alternative-drive vehicle registrations rose from 4.8% in 2018 to now 7.7%. The umbrella term of alternative-drive vehicles encompasses all hybrid, electric and natural gas/liquified natural gas vehicles.

[2] German Council of Economic Experts: Economic Forecast 2019 and 2020, March 2019.

As a brand-independent automobile financier, the Group entity ALD LF benefited 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

The German investment fund industry performed very well in the first half of 2019. According to the BVI (Bundesverband Investment und Asset Management e.V.), assets under management (excluding open-end real estate funds) rose by 9.5% to EUR 3,028 billion in the first half (H1 2018: EUR 2,764 billion). The increase resulted from capital appreciation (EUR 232 billion) and net fund inflows (EUR 32 billion). Net fund inflows to special funds totaled EUR 38 billion. By contrast, mutual funds experienced net fund outflows of EUR 5 billion.

II. Course of business

Global Banking and Investor Solutions

The Company's goal is to further extend its market position. Accordingly, 75% more certificates were issued in the first half of 2019 than in the comparable period in 2018 (H1 2019: 24,181; H1 2018: 13,849). As in the prior year, bonus and discount certificates accounted for most new issues. The number of issued warrants declined by 12% (H1 2019: 174,650; H1 2018: 198,301); however, this decline is attributable to the changed issuance method. A total of 79,523 products were issued for stocks, 53,307 products for various indices, 18,770 products for currencies, and 23,050 products for commodities.

Financial Services to Corporates and Retails

New sales financing business increased by EUR 50 million (+6.1%) to a total of EUR 889 million in the first half of 2019. The budgeted figure of EUR 941 million was not achieved (-5.5%). The cooperation with Emil Frey Gruppe Deutschland (EFGD) that began in 2019 did not achieve its budget figure in the first half of 2019. This budget miss accounts for around 56.6% of the total budget variance.
Compared to June 30, 2018, sales financing receivables increased by 6.4% to EUR 3,885 million (balance at June 30, 2018: EUR 3,645 million). The budgeted figure of EUR 3,945 million was not achieved in June (-1.5%). The number of credit accounts rose by 1.4% to 372,415 since the beginning of the year.

In the segment of dealer financing, ALD LF's portfolio amounted to EUR 1,269 million at the end of June 2019, reflecting a 22.0% increase over the year-ago figure (H1 2018: EUR 1,040 million) and a 9.4% increase over the budgeted figure of EUR 1,160 million. This positive development resulted from higher drawdowns from the credit facility by the cooperation partners of Hyundai Capital Bank Europe for the makes KIA and Hyundai.

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

Financial year	2015	2016	2017	2018	H1 2019
Portfolio additions	16,762	21,313	22,435	23,621	12,077
Vehicle portfolio	60,875	62,941	67,021	73,490	75,771

Asset Management

The Asset Management segment performed better than expected in the first half of 2019, with a loss of only EUR 5.0 million. The net banking result of EUR 15.3 million was below expectations, mainly due to the smaller volume of new customer business. The business with existing customers exceeded expectations.

Expenses were 7% below the forecast expenses, particularly as a result of considerably lower project expenses. Besides the lower project expenses, the lower expenses for services related to outsourced activities contributed to this positive development. A negative factor was the scarcity of skilled workers, which made it difficult to recruit personnel. Vacant positions were temporarily covered with external staffing resources, leading to extra expenses. Significant savings were achieved in the first half by replacing the service provider for risk measurement.

Overall assessment

In consideration of the developments in the individual segments described above, the Group's course of business in the first half of 2019 is to be regarded as positive on the whole from the perspective of SGE's Management.

III. Financial position, cash flows and financial performance

a) Financial performance

The financial performance of the SGE Group presented in the table below covers the period from January 1, 2019 to June 30, 2019.

(in euro thousands)	Note	**01/01/2019-06/30/2019**	**2018**	**01/01/2018-06/30/2018**
Interest and similar income	Note 4.7	89,174	172,813	85,923
Interest and similar expenses	Note 4.7	(14,922)	(27,905)	(14,144)
Commission income	Note 5.1	42,687	84,562	43,210
Commission expenses	Note 5.1	(7,451)	(15,975)	(8,326)
Net result from financial transactions	Note 4.1	158	(724)	(122)
thereof Net gains or losses from financial instruments measured at fair value through profit or loss		158	(845)	(243)
thereof Net gains or losses from financial instruments measured at fair value through other comprehensive income		*0*	*0*	*0*
Thereof Net gains or losses from disposals of financial instruments at amortized cost		*0*	*0*	*0*
Thereof income from dividends on non-current securities measured at fair value through profit or loss (non-SPPI)		*0*	*121*	*121*
Income from other activities	Note 5.2	133,156	239,850	116,275
Expenses for other activities	Note 5.2	(145,862)	(259,173)	(128,145)
Net banking income		**96,940**	**193,448**	**94,671**
Personnel expenses	Note 6	(34,926)	(68,241)	(33,365)
Other administrative expenses	Note 9.2	(21,565)	(49,301)	(26,348)
Expenses for amortization, depreciation and impairments of intangible assets and property, plant and equipment	Note 9.2	(1,112)	(2,808)	(1,425)
Gross operating result		**39,337**	**73,098**	**33,533**
Risk expenses	Note 4.8	(3,385)	(5,781)	(6,316)
Operating result		**35,952**	**67,317**	**27,217**
Net gains or losses on investments in companies accounted for at equity		0	0	0
Net gains or losses on other assets		0	0	0
Impairments of goodwill		(761)	(761)	0
Profit before taxes	Note 7	**35,191**	**66,556**	**27,217**
Income taxes		0	0	0
Net profit/loss on all companies in the consolidation group		**35,191**	**66,556**	**27,217**
Non-controlling interests		(537)	(638)	(723)
Net profit/loss (Group share)		**35,727**	**67,193**	**27,940**

Net interest income in the first half of 2019 amounted to EUR 74 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 2019 amounted to EUR 35 million, of which EUR 20.8 million can be attributed to the Financial Services to Corporates and Retail segment and EUR 14.3 million to the Asset Management segment.

The result from other activities in the amount of EUR -12.7 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 96.9 million.

Key expense items in the Group include Personnel expenses and Other administrative expenses. Personnel expenses amounted to EUR 35 million and Other administrative expenses amounted to EUR 22 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 35.7 million in the first half of 2019.

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 issuance activities because the proceeds from the sales of issued warrants and certificates are always offset by the expenses for the purchases of matching 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 -1,995 thousand in the first half of 2019. This can be attributed mainly to the difference in income collected under the cost-plus method and the interest expenses of EUR 1.8 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 76 million in the first half of 2019 due to new business and the associated portfolio increase.

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 43 million.

Asset Management

The Asset Management segment generated a net banking result of EUR 15.2 million in the first half of 2019. It was mainly composed of net commission income. Net interest income amounted to EUR 0.099 million.

At the end of June 2019, administrative expenses amounted to EUR 19.6 million. They were mainly composed of personnel expenses in the amount of EUR 9.6 million and other administrative expenses in the amount of EUR 9.9 million. The latter item included external costs for projects in the amount of EUR 0.3 million.

Including depreciation and amortization and income from other activities, the segment generated a higher-than-planned operating loss of EUR -4.2 million in the period ended June 30, 2019.

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, the payment of personnel and other operating expenses and the charging of those expenses 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 particularly uses funding from Société Générale S.A., Paris, with a fixed interest rate with bullet maturity or an amortizing structure in order to fund 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 5,898 million, from which EUR 1,058 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 have bundled and publicly placed receivables in five 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 "Liabilities to customers". At the reporting date, these amounted to EUR 796 million (PY: EUR 1,086 million).

At June 30, 2019, the Group held cash and cash equivalents in the amount of EUR 70 million (January 1, 2019: EUR 161million).

Liabilities to banks rose to EUR 4,467 million (January 1, 2019: EUR 4,108 million), primarily as a consequence of higher term deposits.

Compared to January 1, 2019, other financial liabilities declined by EUR 5.6 million to EUR 177million. They mainly consisted of liabilities for other administrative expenses.

Besides personnel-related provisions, the total provisions in the amount of EUR 17.2 million (January 1, 2019: EUR 17 million) mainly consisted of provisions for bonus payments to our cooperation partners.

At June 30, 2019, there were off-balance sheet receivables in the form of loan commitments in the amount of EUR 217 million and off-balance-sheet liabilities in the form of loan commitments in the amount of EUR 78 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, 2018, total assets increased by EUR 177 million to EUR 9,406 million. This resulted mainly from the increase in financial assets and liabilities measured at fair value through profit or loss in the Global Banking and Investor Solutions segment and from the increase in Loans to and receivables from customers at amortized cost and property, plant and equipment and intangible assets in the Financial Services to Corporates and Retails segment.

Compared to December 31, 2018, receivables from customers increased by EUR 133 million to EUR 4,102 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 89 million consisted primarily of short-term deposits with Société Générale S.A. and Deutsche Bank AG.

The noncurrent assets of EUR 811 million (January 1, 2019: EUR 759 million) consisted mainly of leased assets in the amount of EUR 770 million (January 1, 2019: EUR 724 million) and intangible assets in the amount of EUR 24 million (January 1, 2019: EUR 23.8 million).

Receivables under finance leases amounted to EUR 470 million at June 30, 2019 (January 1, 2019: EUR 452 million).

Other assets including tax assets consisted mainly of prepaid expenses in the amount of EUR 87 million (January 1, 2019: EUR 84 million) and other receivables in the amount of EUR 53 million (January 1, 2019: EUR 46 million).

Liabilities in the amount of EUR 9,406 million consisted mainly of financial liabilities measured at fair value through profit or loss in the amount of EUR 3,935 million and liabilities to banks in the amount of EUR 4,467 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 9.9 million at June 30, 2019 (January 1, 2019: EUR -23.4 million). Please refer to Note 8 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 business performance and its financial position, financial performance and cash flows in the first half of 2019 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 first half of financial year 2019 is 15.3%.

The number of new contracts in the leasing business represents another key figure. In the first half of 2019, 12.077 new lease contracts were concluded. Compared to the number of contracts in effect at the end of 2018, the number of lease contracts rose by 3.1% from 73,490 to 75,771 in the first half of 2019.

Asset Management

The fund assets managed in self-managed mutual funds and special funds, including funds of funds of SGSS, amounted to approx. EUR 70.1 billion at June 30, 2019. The increase of approx. EUR 6.2 billion (+9.6%) since December 2018 resulted mainly from capital appreciation (EUR 5.8 billion). Managed assets in direct investments amounted to approx. EUR 2.9 billion at June 30, 2019.

At June 30, 2019, the fund assets managed for other AMCs (insourcing) amounted to approx. EUR 30.4 billion. This is approx. EUR 2,2 billion higher than the figure at December 31, 2018. The increase resulted primarily from capital appreciation. Total managed assets amounted to approx. EUR 103 billion at June 30, 2019 (EUR 95 billion in December 2018).

With respect to the Key Performance Indicators (KPI) defined for our customers, the results were very good; there was only one KPI breach. In total, more than 99% (96% last year) of all KPIs were fulfilled.

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

I. Expected development of the Group (Forecast Report)

General economic developments

The economics team of the Handelsblatt Research Institute (HRI) expects that the economic slowdown will last until at least the end of this year and that the German economy will stagnate for all practical purposes in the second half of the year, due in large part to the latest Ifo Business Climate Index, which sent no growth signals of any kind. Therefore, real domestic product in the final quarter of 2019 will probably be insignificantly higher, if at all, than it was in the summer of 2018.

For the full year 2019, this forecast translates to economic growth of only 0.3 percent. Overall economic momentum will probably resume only gradually in 2020 and reach the trend growth rate of 1.3 percent in the second half of 2020. That would mean GDP growth of 1% in 2020. As the main reason for this subdued forecast, the HRI experts cite the grave disturbances in global trade that will have an especially adverse impact on export-oriented German industrial enterprises. Another factor relates to the self-made problems of the once exemplary German automobile industry.

However, the economic slowdown should not obscure the fact that the German economy is in good shape. Employment is at a record level, government budgets are in the black and the domestic economy and especially the construction industry and services sector are booming. Therefore, a marked increase in unemployment and high public-sector deficits are unlikely from today's perspective.

That is because no fundamental changes in these stabilizing factors are to be expected in the coming months. Thanks to high and stable employment, strong wage gains in collective bargaining agreements in some cases and the generous increases in pensions and other social transfers, the economy is supported by consumer spending, albeit no longer to the same degree as in the years 2015 and 2016, when the growing population caused consumer spending to soar.

Furthermore, the construction boom is likely to continue for now thanks to low interest rates and the housing shortage, even though many construction companies are already operating at their capacity limits, so that the gains of the past few years will probably not be matched. German manufacturing is adversely affected by various factors, including the uncertainty surrounding the further development of the trade war between the United States and China, possible US tariffs on car imports, the recently higher probability of a no-deal Brexit and the threat of war in the Persian Gulf, including the ramifications for the global oil supply.[3] The topic of sustainability will also play an increasingly important role.

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[3] Handelsblatt, Research Institute HRI Economic Forecast: Economic Growth, by graduate economist Dennis Huchzermeier, Prof. Dr. Bernhard Köster, Axel Schrinner, 06/27/19.

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 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 2018, a broad range of products will also be offered in the area of warrants and certificates in the second half of 2019.

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 for 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.

The manufacturer Opel terminated the existing cooperation agreement with effect as of June 30, 2019 in order to have its own captive handle the full-service leasing business. We therefore expect a decline in new business in this segment.

For 2019, we anticipate a smaller volume of new business, a nearly unchanged profit before profit transfer and a return on equity at around the same level as in the past financial year.

Asset Management

We expect a weakening economic environment in the second half of 2019 despite expansive monetary and fiscal policies due to growing global economic risks and political uncertainties, which will tend to restrain the investment propensity of businesses and the spending propensity of consumers. Therefore, we also see growing risks in the financial markets. The demand for fund products in the second half of 2019 will probably not be as strong as in the preceding years, although institutional demand will remain stable. We therefore expect a slight decline in assets under management in investment funds, which should have a negative effect on our net commission income. We expect that our expenses will increase over the level of the first half of 2019 due to wage and price increases, along with higher expenses for projects. We will invest freed-up budgets in the optimization and further development of our products, particularly our global product “Crosswise”, and in automation

solutions. We will also look for synergies on the income and expense side within the Société Générale Group in order to exploit the increasingly international scale of our business. We forecast an operating loss of approx. EUR 6 million in the second half of 2019.

We want to further extend our claim to quality leadership by introducing additional control processes and implementing improvements on the basis of the regular feedback of our customers. Maintaining the constantly high level of target attainment in customer KPIs as a quality indicator plays an important role.

In the subsequent years, we expect that our profit before taxes and profit transfer will improve, despite the still uncertain economic environment. We expect to grow our net commission income by increasing the business we conduct with new and existing customers and by continually plowing income into new products. On the expense side, we expect that our investments will yield positive results, thereby considerably slowing the growth of expenses.

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 “”are transferred to the Société Générale Group under a “global guarantee” and all issued products are completely hedged by matching hedging transactions.

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 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 reputation risks
- Compliance risks

For the special assets held in Asset Management, the focus is on conventional 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 analyzed 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, analyzed monthly and reported to the Management and all department heads. Specific measures to minimize risk are derived with the aid of 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 hedging transactions are only owed by 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, credit decisions are made with the cooperation of Société Générale's loan department.

In the area of purchase financing, we manage 1,373 exposures, with the 362 largest borrowers representing an exposure of EUR 962 million accounting for 76 % of the total credit volume of EUR 1,269 million. 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 1,020 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 89% of our loan agreements have a credit volume of up to EUR 25,000.

The credit decision in sales financing is made on the basis of 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 0.26% and 100%. depending on the length of the default and the status of the loan. In total, the valuation allowances recognized for credit risks amounted to 1.0% (PY: 1.2%) of the sales financing portfolio.

The specific valuation allowances in purchase financing are determined by analyzing individual cases. In total, valuation allowances (including valuation allowances on the healthy portfolio) have been recognized in the amount of 4.1% (PY: 4.1%) 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 0.4 million in the first half of 2019.

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. Due the structure of receivables, we assume 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 4.8 of the notes to the consolidated financial statements.

b) Market price and residual value risks

Global Banking and Investor Solutions

All market price 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

Residual value risk arises in connection with the leasing business from the Financial Services to Corporates and Retail segment.

We assumed the residual value risk for 55% of new contracts in the first half of financial year 2019 (PY: 61%). Therefore, the percentage of vehicles for which ALD LF assumes the residual value risk is 56% (PY: 54%) 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 form 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 2019 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 2019.

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 analyzed 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 different variations of the yield curve. Sensitivity is defined as a variation in the present value of future positions resulting from different parallel shifts of the yield curve. The highest negative change in value of the portfolio appears in the -2% sensitivity scenario and amounts to EUR 25,092 thousand (PY: EUR 17,731 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.

The Group uses short and medium-term means of funding as well as interest rate swaps to fund its operations.

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 at 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 have no direct effect on the Company and 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 from 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.

Available credit lines totaled EUR 5,908 million at June 30, 2019 (December 31, 2018: EUR 6,199 million).

For more information on the management of liquidity risks, please refer to Note 10 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 applicable to Société Générale Effekten GmbH also apply to the outsourced processes in the service centers in Bangalore and Bucharest. Compliance with the specified processes is ensured by means of standardized committees and "Key Process Indicators" (KPIs).

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. BDK's service providers are integrated into the control system by means of regular reporting and outsourcing monitoring.

In the Asset Management segment, we have also identified a non-compliance risk (including legal and tax risks). This refers to the risk of contractual or regulatory penalties or sanctions or other material financial losses resulting from non-compliance with regulatory and contractual provisions. 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 maintains 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. Operational errors are systematically recorded and the current status of errors and implemented countermeasures is reported on a regular basis.

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 verify functionality and operational readiness was successfully performed in the first quarter of 2019.

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 2019:

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

e) Business and reputation 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 mainly relevant primarily in the Asset Management segment.

The review of compliance with 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 reviewed 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

The compliance management system also covers taxation.

Furthermore, the Management is informed on a quarterly basis and the Supervisory Board on an annual basis.

<u>Risk management and controlling 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 integration with 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 continual 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 issued by 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.

Since August 2015, the German criminal prosecution and tax authorities have been investigating various former and current employees of the Société Générale Group for their alleged participation in the so-called "CumEx" transactions related to investment income tax on the dividends of German stock corporations. These investigations relate to a fund managed by SGSS GmbH and trades executed on behalf of clients.

The Bonn Local Court informed SGSS GmbH on June 19, 2019 that a criminal proceeding has been initiated against two persons who worked for a company that advised this fund. In its ruling of August 19, 2019, the Bonn Local Court ordered the involvement of SGSS GmbH in this criminal proceeding as a "secondary participant."

In this connection, Société Générale Frankfurt provided a guarantee to SGSS GmbH that serves to completely cover the risks arising from these legal disputes.

III. Report on opportunities

The strategies of the individual Group companies are designed to identify emerging 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

On February 11, 2019, Société Générale received approval from the Cartel Authority to acquire the Equity Markets & Commodities (EMC) business from Commerzbank. The EMC business comprises the issuance and market making of structured trading and investment products, as well as parts of the asset management business and the business of exchange-traded index funds (ETFs).

In the context of this acquisition, Société Générale Effekten GmbH will act as the future issuer of a significant part of the products. Moreover, the activity of listing the products in other European markets, which had been discontinued in 2016, will be resumed.

The transaction will be carried out in several steps. Smaller parts of the EMC business will be transferred to Société Générale Effekten GmbH before the end of 2019. However, due to the scope of the business activities to be transferred and the complexity of the individual transfer processes, it will not be possible to complete all transfers in 2019 and therefore the remaining transfers will be conducted in the first quarter of 2020.

The Management anticipates a further increase in business activity due to the integration of parts of the EMC business.

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 a sound footing by expanding such cooperation arrangements. More than 4,000 car dealerships actively referred customers to us in the current year.

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.

For the second half of 2019, the German Association of the Automotive Industry (ZDK) expects that new registrations will remain stable at the prior-year level of 3.43 million new passenger vehicle registrations. However, this forecast is conditioned on the non-recurrence of distortions in the course of WLTP 2 changes. The ZDK expects a modestly positive trend of 7.2 to 7.3 title transfers.

Asset Management

Global and domestic economic growth is expected to slow and remain at a low level in the medium term. We expect a return to more growth only in the long term. However, the strong demand for workers and the resulting growth of consumption and investment possibilities for employees, as well as the continuation of expansive monetary policy, create opportunities for overall growth and growth in our sector. Investors are still very interested in retirement planning and investing in material assets such as investment funds because only small returns can be expected from fixed-income investments in the current environment. This is also evidenced by the high level of sector fund inflows, particularly from institutional investors. We see ourselves as being well positioned to benefit from the growth of our sector. In the master investment company business, we see opportunities in the segment of open-end CTA constructions for the management of pension funds and in the in-sourcing business, particularly in the segment of closed-end fund constructions for real estate and private equity.

We see additional opportunities in potential synergies within the Société Générale Group. In particular, the international distribution of our service will open up a bigger market of potential customers for us. This strategy yielded initial successes already in the prior year. Besides sales synergies from the use of the global network, we also anticipate positive effects from the use of group solutions for infrastructure and services in that we can benefit from economies of scale and automation benefits in our cooperation with the Société Générale Group.

Overall assessment

Taking into account the risks and opportunities described above, the Management assesses the prospects for the second half of 2019 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 function and compliance with the relevant legal provisions, as well as the hedging of risks and the representation of valuation units. 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 provided by the Group.
Periodically conducted audits by the internal auditing department and the correction of identified weaknesses likewise contribute to more effective monitoring.

Responsibilities in the accounting-related ICS[4] and RMS[5]

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 affirms 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 and RMS 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 and data protection every two years 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., 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.

An Audit Committee comprising six individuals (one staffer from Société Générale Effekten GmbH and five from Société Générale Frankfurt) at the reporting date has been set up to support the Management with respect to the accounting process. As the independent auditor, Deloitte also attends the meetings 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 by 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).

[4] Internal Control System (ICS)
[5] Risk Management System (RMS)

The services to be provided are specified for Société Générale Effekten GmbH in the Service Agreement of November 29, 2011 between Société Générale Frankfurt and Société Générale Global Solution Centre Private Limited, Bangalore.

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 in Frankfurt.

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, are 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 specifically to accounting is accessed online via 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 regulated in the work instructions. The security and archiving of the data sets for application systems are 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 and 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 and by the processes used 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 and to the employees of the service centers in Bangalore and Bucharest by authorized individuals in the Company.

Documentation of processes

As a part of the Société Générale Group, the documentation of the processes is specified. This is summarized in the "Accounting & Finance Handbook". 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.

Measures for continuous updating of the ICS and RMS

Any changes in legal requirements and regulations with respect to the accounting function 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 analyzed and correspondingly implemented in the back office departments in Paris and 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 20, 2019

The Management

Société Générale Effekten GmbH

Françoise Esnouf	Helmut Höfer	Rainer Welfens

Consolidated Interim Financial Statements of Société Générale Effekten GmbH

Semiannual Financial Information

at 06/30/2019 [1]

(unaudited numbers)

[1] In case of ambiguities or discrepancies, the German original always takes precedence over this English translation.

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(In euro thousands)	Note	**01/01/2019-06/30/2019**	**2018**	**01/01/2018-06/30/2018**
Interest and similar income	Note 4.7	89,174	172,813	85,923
Interest and similar expenses	Note 4.7	(14,922)	(27,905)	(14,144)
Commission income	Note 5.1	42,687	84,562	43,210
Commission expenses	Note 5.1	(7,451)	(15,975)	(8,326)
Net result from financial transactions	Note 4.1	158	(724)	(122)
Thereof net gains or losses on financial instruments measured at fair value through profit or loss		158	(845)	(243)
Thereof net gains or losses on financial instruments measured at fair value through other comprehensive income		*0*	*0*	*0*
Thereof net gains or losses from financial instruments measured at amortized cost		*0*	*0*	*0*
Thereof income from dividends from noncurrent securities measured at fair value through profit or loss (non-SPPI)		*0*	*121*	*121*
Income from other activities	Note 5.2	133,156	239,850	116,275
Expenses for other activities	Note 5.2	(145,862)	(259,173)	(128,145)
Net banking income		**96,940**	**193,448**	**94,671**
Personnel expenses	Note 6	(34,926)	(68,241)	(33,365)
Other administrative expenses	Note 9.2	(21,565)	(49,301)	(26,348)
Expenses for amortization, depreciation and impairments of intangible assets and property, plant and equipment	Note 9.2	(1,112)	(2,808)	(1,425)
Gross operating result		**39,337**	**73,098**	**33,533**
Risk expenses	Note 4.8	(3,385)	(5,781)	(6,316)
Operating result		**35,952**	**67,317**	**27,217**
Net result from equity interests in companies accounted for at equity		0	0	0
Net gains or losses from other assets		0	0	0
Impairment of goodwill		(761)	(761)	0
Profit before taxes		**35,191**	**66,556**	**27,217**
Income taxes	Note 7	0	0	0
Net profit/loss of all companies in the consolidation group		**35,191**	**66,556**	**27,217**
Non-controlling interests		(537)	(638)	(723)
Net profit/loss (Group share)		**35,727**	**67,193**	**27,940**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In euro thousands)	01/01/2019-06/30/2019	2018	01/01/2018-06/30/2018
Net profit/loss	**35,191**	**66,556**	**27,217**
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 differences from hedging instruments	(585)	(967)	(1,078)
Remeasurement differences			
Reclassified to profit or loss			
Unrealized gains and losses of companies accounted for at equity			
Other			
Tax-related			
Gains and losses recognized directly in equity, that will not subsequently be reclassified to profit or loss:			
Actuarial gains and losses from post-employment benefits	(396)	344	26
Remeasurement of own credit risk of financial liabilities measured at fair value through profit or loss			
Remeasurement of equity instruments at fair value through other comprehensive income	0		
Unrealized gains and losses of companies accounted for at equity			
Tax-related	(120)	7	0
Total other comprehensive income	**(1,101)**	**(616)**	**(1,052)**
Comprehensive income (net profit/loss and other comprehensive income)	**34,090**	**65,940**	**26,165**
thereof Group shares	**43,928**	**61,595**	**24,191**
thereof non-controlling interests	**(9,838)**	**4,345**	**1,973**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

(In euro thousands)	Note	06/30/2019	12/31/2018
Financial assets measured at fair value through profit or loss	Note 4.1	4,007,562	3,930,004
Hedging derivatives	Note 4.2	0	0
Financial assets measured at fair value through other comprehensive income		0	0
Securities at amortized cost		0	0
Receivables from banks at amortized cost	Note 4.4 Note 4.8	88,885	189,534
Loans to and receivables from customers at amortized cost	Note 4.4 Note 4.8	4,101,612	3,968,578
Receivables under financial leases	Note 4.4 Note 4.8	470,100	452,370
Tax assets	Note 7	1,641	2,857
Other assets	Note 5.3	133,195	122,928
Noncurrent assets held for sale		0	0
Property, plant and equipment and intangible assets*)		600,185	560,374
Goodwill		2,808	2,808
Total		**9,405,988**	**9,229,453**

*) As a result of the application of IFRS 16 Leases, the Group recognized a right of use representing the right to use the corresponding leased assets under “Property, plant and equipment and intangible assets,” beginning in January 2019 (see Note 1).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

(In euro thousands)	Note	**06/30/2019**	**12/31/2018**
Financial liabilities measured at fair value through profit or loss	Note 4.1 Note 4.2	3,934,914	3,856,117
Hedging derivatives	Note 4.2	2,339	1,712
Securitized liabilities	Note 4.5	796,444	1,086,040
Liabilities to banks	Note 4.5	4,467,046	4,108,093
Liabilities to customers	Note 4.5	1,092	1,317
Remeasurement differences in portfolios with a hedging effect against interest rate		0	0
Statement liabilities	Note 7	130	11
Other liabilities*)	Note 5.3	176,858	182,508
Noncurrent liabilities held for sale		0	0
Provisions	Note 9.3	17,266	17,015
Subordinated liabilities		0	0
Total liabilities		**9,396,088**	**9,252,814**
EQUITY	Note 8		
Equity, Group share			
Subscribed capital, equity instruments and capital reserves		26	26
Profit carried forward		1,138	1,138
Group reserves		(22,362)	(89,506)
Financial year net profit/loss		35,728	67,193
Subtotal		**14,530**	**(21,149)**
Unrealized or deferred capital gains and losses		(1,773)	(672)
Subtotal equity (Group share)		**12,757**	**(21,821)**
Non-controlling interests		**(2,857)**	**(1,539)**
Total equity		**9,900**	**(23,361)**
Total		**9,405,988**	**9,229,453**

*) As a result of the application of IFRS 16 Leases, the Group recognized a lease liability representing the obligation to make leasing payments under "Other liabilities" beginning in January 2019 (see Note 1).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In euro thousands)	Capital and related reserves					Gains and losses recognized directly in equity				Non-controlling interests			
	Subscribed capital	**Consolidated reserves**	**Total**	**Profit carried forward**	**Net profit/loss (Group share)**	**To be subsequently reclassified to profit or loss**	**No to be subsequently reclassified to profit or loss**	**Total**	**Equity, Group share**	**Capital and reserves**	**Gains and losses recognized directly in equity**	**Total**	**Total Group equity**
Equity at 01/01/2018	**26**	**(39,987)**	**(39,961)**	**1,138**	0	**(70)**	14	**(56)**	**(38,880)**	**(94)**		**(94)**	**(38.974)**
Gains and losses recognized directly in equity			0			(1,078)	26	(1,052)	(1,052)			0	(1.052)
Net profit/loss for H1 2018			0		27,940			0	27,940	(723)		(723)	27.217
Other changes*)		(569)	(569)					0	(569)	(206)		(206)	(775)
Subtotal	***0***	***(569)***	***(569)***	***0***	***27,940***	***(1,078)***	***26***	***(1,052)***	***26,319***	***(929)***	***0***	***(929)***	***25.390***
Equity at 06/30/2018	**26**	**(40,556)**	**(40,530)**	**1,138**	**27,940**	**(1,148)**	**40**	**(1,108)**	**(12,561)**	**(1,024)**	**0**	**(1,024)**	**(13.584)**
Gains and losses recognized directly in equity			0			111	325	436	436	0		0	436
Net profit/loss for H2 2018			0		39,253	0		0	39,253	85		85	39.338
Other changes*)		(48,950)	(48,950)					0	(48,950)	(601)		(601)	(49.551)
Subtotal	0	(48,950)	(48,950)	0	39,253	111	325	436	(9,261)	(516)	0	(516)	(9.776)
Equity at 12/31/2018	**26**	**(89,506)**	**(89,480)**	**1,138**	**67,193**	**(1,037)**	**365**	**(672)**	**(21,821)**	**(1,539)**	**0**	**(1,539)**	**(23.360)**
Utilization of profit		67,193	**67,193**		(67,193)			0	0			0	0
Equity at 01/01/2019	**26**	**(22,313)**	**(22,287)**	**1,138**	**0**	**(1,037)**	**365**	**(672)**	**(21,821)**	**(1,539)**	**0**	**(1,539)**	**(23.360)**
Gains and losses recognized directly in equity			0			(585)	(516)	(1,101)	(1,101)			0	(1.101)
Net profit/loss for H1 2019			0		35,728			0	35,728	(537)		(537)	35.191
Other changes*)	0	(49)	(49)	0				0	(49)	(781)		(781)	(830)
Subtotal	0	(49)	(49)	0	35,728	(585)	(516)	(1,101)	34,578	(1,318)	0	(1,318)	33.260

(In euro thousands)	Capital and related reserves					Gains and losses recognized directly in equity				Non-controlling interests			
	Subscribed capital	Consolidated reserves	Total	Profit carried forward	Net profit/loss (Group share)	To be subsequently reclassified to profit or loss	No to be subsequently reclassified to profit or loss	Total	Equity, Group share	Capital and reserves	Gains and losses recognized directly in equity	Total	Total Group equity
Equity at 06/30/2019	**26**	**(22,362)**	**(22,336)**	**1,138**	**35,728**	**(1,622)**	**(151)**	**(1,773)**	**12,757**	**(2,857)**	**0**	**(2,857)**	**9.900**

*) The other changes arise from liabilities to Société Générale S.A. Frankfurt Branch from the transfer of the profit for the year 2018 measured in accordance with the accounting regulations of the German Commercial Code (HGB) in the amount of EUR 49,365 thousand on the basis of a profit transfer agreement concluded by signature of September 7, 2016. The other changes to the 2019 semiannual financial statements do not include the transfer because this is only done at the end of the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In euro thousands)	**01/01/2019-06/30/2019**	**2018**	**01/01/2018-06/30/2018**
Net profit/loss	**35,191**	**66,555**	**27,217**
Expenses for depreciation and amortization of property, plant and equipment and intangible assets (including operating leases)	54,857	97,912	46,930
Expenses for impairments of property, plant and equipment and intangible assets (including operating leases) and net additions to provisions	(2,560)	(3,479)	3,131
Changes in deferred taxes	-	-	-
Result from sales of consolidated subsidiaries and other noncurrent securities – Equity instruments measured at fair value through profit or loss	127	743	-
Other changes	(8,956)	(43,709)	(4,564)
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	**43,468**	**51,467**	**45,497**
Net result from financial instruments measured at fair value through profit or loss	(44)	(596)	(182)
Interbank transactions	93,054	21,930	142,369
Transactions with customers	(131,639)	(346,450)	(219,765)
Transactions with other financial assets/ liabilities	(388,477)	238,940	442,062
Transactions with other non-financial assets/ liabilities	3,988	(19,466)	15,441
Net increases/ decreases in operating assets / liabilities	**(423,118)**	**(105,642)**	**379,924**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(344,460)**	**12,381**	**452,638**
Cash flows from purchases and sales of financial assets and equity investments	-	985	(15)
Cash flows from purchases and sales of property, plant and equipment and intangible assets	(101,189)	(213,568)	(110,952)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(101,189)**	**(212,583)**	**(110,967)**
Other cash flows from financing activities	348,825	271,824	(374,348)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**348,825**	**271,824**	**(374,348)**
NET CASH FLOWS FROM CASH AND CASH EQUIVALENTS	**(96,824)**	**71,622**	**(32,677)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	**152,893**	**81,271**	**81,271**
Net amount of accounts, sight deposits and deposits in/ loans to banks	**(96,824)**	**71,622**	**(32,677)**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**56,069**	**152,893**	**48,594**

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, 2019, cash and cash equivalents consisted only of call deposits with banks in the amount of EUR 70 million (Note 4.4), less loans to banks payable at call (deposits and current accounts) in the amount of EUR 14 million (Note 4.5).

Cash flows from interest amounted to EUR 77 million and cash flows from taxes amounted to EUR -3 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 consolidated financial statements of Société Générale Effekten GmbH cover the period from January 1, 2019 to June 30, 2019. The consolidated financial statements 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, as well as the required statements pursuant to Section 315e (1) of the German Commercial Code (HGB).

The present consolidated 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.

PROFIT TRANSFER AGREEMENT

A profit transfer agreement for an indefinite term has been in effect between Société Générale Effekten GmbH as the controlled company and Société Générale S.A., Frankfurt Branch as the controlling company since January 1, 2016. In addition, a profit transfer agreement for an indefinite term has been in effect between Société Générale Effekten GmbH as the controlling company and ALD Lease Finanz GmbH as the controlled company and Société Générale Securities Services GmbH as the controlled company since January 1, 2017.

CONSOLIDATED TAX GROUP FOR INCOME TAX PURPOSES

From the time of conclusion of the profit transfer agreement between Société Générale Effekten GmbH as the controlled company and Société Générale S.A. Frankfurt Branch as the controlling company, a consolidated tax group for income tax purposes with Société Générale S.A. Frankfurt Branch has been in effect since January 1,

2016. In addition, ALD Lease Finanz GmbH and Société Générale Securities Services GmbH as the controlled companies were integrated into the consolidated tax group for income tax purposes from the time of conclusion of the profit transfer agreements with Société Générale Effekten GmbH as the controlling company at January 1, 2017. Due to the establishment of the consolidated tax group for income tax purposes, Société Générale Effekten GmbH does not recognize deferred taxes in its financial statements.

USE OF DISCRETIONARY DECISIONS AND ESTIMATES

In preparing the consolidated financial statements, the management is required to make discretionary decisions, estimates and assumptions related to the application of accounting methods and the stated amounts of assets, liabilities, income and expenses.

In making these estimates and formulating these assumptions, the management relies on the information available at the time of preparing the consolidated financial statements and makes decisions at its own discretion. Naturally, the measurements based on these estimates involve certain risks and uncertainties regarding the eventual occurrence so that the actual values may differ from the estimates in the future. In that case, they could possibly have a significant influence on the financial statements.

Estimates were applied particularly in the measurement of the following items:

- Measurement of financial instruments that are not traded in an active market, which are presented in the items of “Financial assets and liabilities measured at fair value through profit or loss” or “Hedging derivatives” in the statement of financial position, and the fair value of financial instruments for which this value is disclosed in the notes to the consolidated financial statements;
- Measurement of the amount of impairments in the items of “Receivables from banks at amortized cost,” “Loans to and receivables from customers at amortized cost,” “Receivables under finance leases,” “Property, plant and equipment and intangible assets” and “Goodwill” in the statement of financial position;
- Measurement of the provisions recognized on the equity and liabilities side of the statement of financial position, including the provisions for employee benefits;

NEW FINANCIAL REPORTING STANDARDS AS OF JANUARY 2019

The most important change in the financial reporting standards is the application of IFRS 16 Leases as of January 1, 2019.

IFRS 16 LEASES

The new Standard supersedes IAS 17 and changes the accounting rules for leases, especially with regard to the financial statements of lessees. By contrast, the effects for lessors are immaterial.

The company applies IFRS 16, which was introduced by the European Union on October 31, 2017, as of January 1, 2019. The company opted not to apply the provisions of IFRS 16 early in the preceding reporting period. Consequently, the financial reporting standards applicable to leases and the corresponding disclosures in the notes to the consolidated financial statements were adjusted as of January 1, 2019.

ACCOUNTING TREATMENT ACCORDING TO IFRS 16

Presentation of leases in the statement of financial position

For all leases with the exception of the exemptions indicated in the Standard, the lessee must recognize a right of use representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments in the statement of financial position.

The lessee must recognize the depreciation of the right of use and the interest expenses for the lease liability separately in the income statement.

The accounting principles applied by the company are described in more detail in Note 9.4 of the notes to the consolidated financial statements.

Scope

Due to the company's business activities, these accounting principles apply to leases for real property, computer equipment and motor vehicles, the latter representing only a small percentage of the total. The company exercises the option allowed in the Standard of not applying the provisions of IFRS 16 in relation to leases for intangible assets (e.g. software).

TRANSITIONAL PROVISIONS

The company applies the modified retrospective approach set forth in the Standard for the first-time application of IFRS 16.

The lease liabilities under open leases were calculated at January 1, 2019 by discounting the still outstanding lease payments by application of the incremental borrowing rate of the lessees at this date (this rate is determined in accordance with the provisions described in Note 9.4) based on the remaining terms of the leases. An amount equal to the lease liability is recognized for each right of use in the statement of financial position.

Leases with a remaining term of less than 12 months or automatic extension are deemed to be short-term leases (leases with a term of less than one year) and are not recognized in the statement of financial position by exercising the option allowed in the transitional provisions of IFRS 16.

In accordance with the provisions of IFRS 16 related to the modified retrospective approach, the comparison values for the 2018 financial year that refer to the 2019 financial year have not been adjusted.

EFFECTS OF THE FIRST-TIME APPLICATION OF IFRS 16

The first-time application of IFRS 16 led to an increase in total assets of EUR 3,347 million resulting from the recognition of a lease liability and a corresponding right of use.

The lease liability is presented under Other liabilities and the right of use in Property, plant and equipment, with the exception of the lease liabilities in a group of assets and liabilities that are held for sale and are presented as separate items in the consolidated statement of financial position.

The first-time application of IFRS 16 at January 1, 2019 had no effects on equity.

At the date of initial recognition of the right of use and lease liability, no deferred taxes are recognized because the value of the asset is equal to the value of the liability. Temporary net differences that could possibly result from changes in the right of use and the lease liability in subsequent periods would lead to the recognition of deferred taxes.

Effects on the statement of financial position at January 1, 2019

(In euro thousands)	**01/01/2019**
Right of use – Property, plant and equipment (real properties)	2,413
Right of use for other tangible assets	934
Total	**3,347**

A corresponding lease liability in the amount of EUR 3,347 thousand was presented under Other liabilities.

AMENDMENTS TO IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The amendments state that IFRS 9 Financial Instruments must be applied to financial instruments that represent part of a net investment in an associate or joint venture, but to which the equity method is not applied.

The amendments are being analyzed to determine whether the disclosures regarding investments in structured entities will need to be adjusted.

AMENDMENTS TO IAS 19 PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

These amendments clarify how pension expenses are to be measured in the event of an amendment, curtailment or settlement of defined benefit pension plans. In these cases, IAS 19 states that the net expenses of defined benefit pension plan assets or liabilities must be remeasured.

The amendments require that the entities apply the updated actuarial assumptions from this remeasurement for determining the past service cost and net interest.

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

The IASB has published financial reporting standards and amendments, some of which were not adopted by the European Union as of June 30, 2019. They must be applied at the earliest as of January 1, 2020 or as of the date of introduction by the European Union. Therefore, the Group did not apply them as of June 30, 2019.

Application of the following Standards is expected:

AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS

The amendments are meant to offer clearer application guidelines to facilitate the distinction between the acquisition of a business and the acquisition of a group of assets, the accounting treatment of which is different.

AMENDMENTS TO IAS 1 AND IAS 8 DEFINITION OF MATERIALITY

The amendments are meant to clarify the definition of “material” in order to facilitate the assessment in preparing the annual financial statements and particularly in selecting the information to be disclosed in the notes to the financial statements.

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 parent company. The parent company 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 parent company controls structured entities. The entities are included in the consolidated financial statements by reason of their asset backed 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 consolidated structured entities are the subordinated promissory note loans assumed. Apart from the contractual obligations, the Group did not financially support the consolidated 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.

CHANGE TO THE CONSOLIDATION GROUP

Compared to December 31, 2018, there were no changes to the consolidation group except for the inactivation of the structured entity “RED & BLACK AUTO GERMANY 3 UG (HAFTUNGSBESCHRANKT).”

CONSOLIDATION GROUP

			06/30/2019	
Name of company	Registered head office of the company	Business activities	Share of equity [%]	Share of voting rights [%]
Consolidated companies				
ALD LEASE FINANZ GMBH	Hamburg, Germany	Leasing company	100	100
SOCIÉTÉ GÉNÉRALE SECURITIES SERVICES GMBH	Unterföhring, Germany	Capital management company	100	100
BANK DEUTSCHES KRAFTFAHRZEUGGEWERBE GMBH	Hamburg, Germany	Special financing institution	99.9	51
BDK LEASING UND SERVICE GMBH	Hamburg, Germany	Service company	100	100
RED & BLACK AUTO GERMANY 4 UG (HAFTUNGSBESCHRANKT)	Frankfurt, Germany	Structured entity	-	-
RED & BLACK AUTO GERMANY 5 UG (HAFTUNGSBESCHRANKT)	Frankfurt, Germany	Structured entity	-	-
Non-consolidated companies				
ALD AUTOLEASING UND DIENSTLEISTUNGS GMBH	Hamburg, Germany	Service company	43.8	43.8
NEDDERFELD 95 IMMOBILIEN GMBH & CO.KG	Hamburg, Germany	Real estate company	65	50

The non-consolidated companies ALD AutoLeasing und Dienstleistungs GmbH and Nedderfeld 95 Immobilien GmbH & Co.KG are associates. Due to the acquisition of ALD Lease Finanz GmbH as the parent company of the associates as part of an internal Group restructuring at January 1, 2017, the associates are still measured at the same investment carrying amounts applied in the consolidated financial statements of Société Générale S.A., Paris.

NOTE 3 – ACCOUNTING PRINCIPLES AND MEASUREMENT METHODS

The semiannual financial statements of the subsidiaries included in the consolidated financial statements are based on the IFRS recognition and measurement principles described in the following.

TRANSACTIONS IN FOREIGN CURRENCY

Items of the statement of financial position denominated in foreign currency are translated to the company's functional currency at the reporting date. Currency translation differences are recognized in profit or loss.

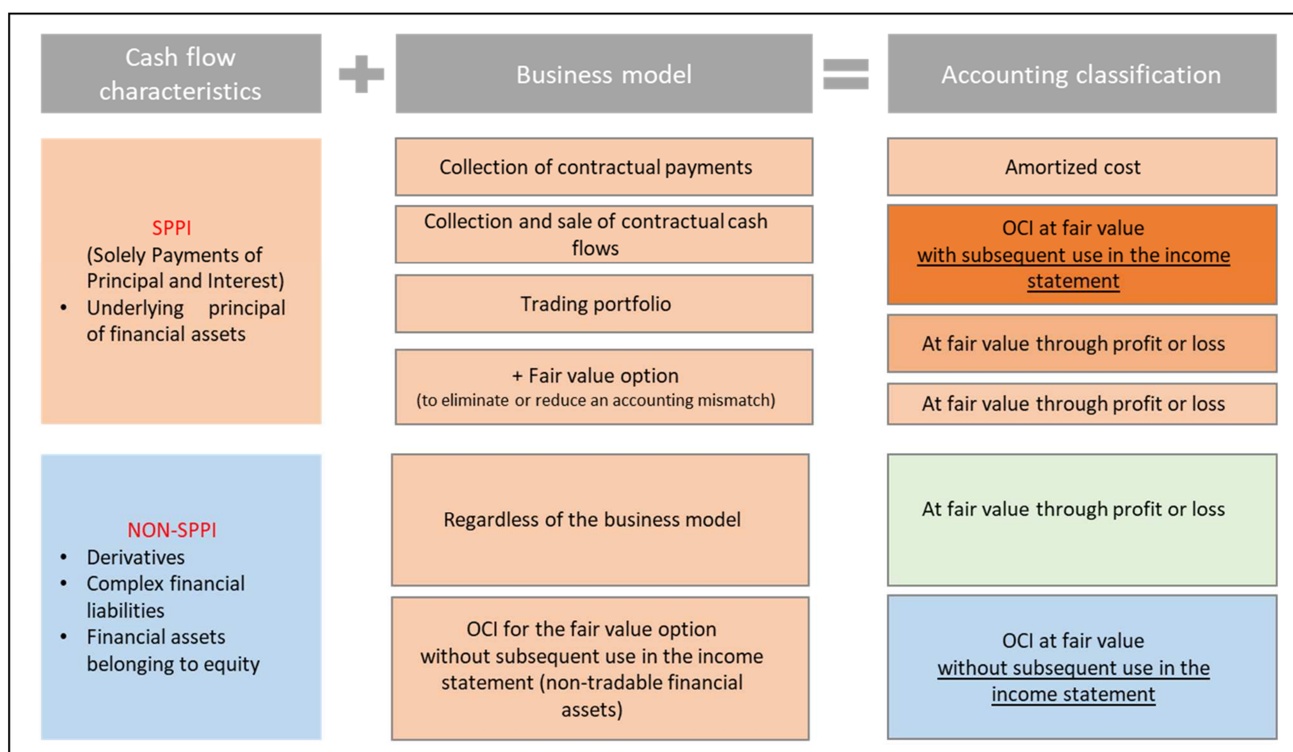
Foreign exchange transactions are measured at fair value on the basis of the current forward exchange rate for the remaining term. Spot exchange positions are translated at the official spot rates at the reporting date. The resulting remeasurement differences are recognized in profit or loss.

Monetary items in foreign currency are translated at the applicable closing rate. Non-monetary items in foreign currency that are measured at fair value are translated at the exchange rates in effect at the date of determination of the fair value. Non-monetary items measured at cost are translated at the exchange rate in effect at the date of initial recognition.

In the case of financial assets and liabilities measured at fair value through profit or loss, the results from currency translation as a component of fair value are recognized in the period result under *"Net gains or losses from financial instruments measured at fair value through profit or loss."*

CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, financial instruments are classified in the consolidated statement of financial position 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 analyze the contractual cash flows generated by the financial instruments and analyze the business model for managing the financial instruments.

Analysis of the 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." All other financial instruments that do not share these characteristics are basically 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 lending arrangements are 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 item of the statement of financial position (see Note 4.2).

The Group can make the irrevocable decision to classify and measure investments in equity instruments that are not held for trading at fair value through other comprehensive income. Subsequently, the gains or losses

recognized in other comprehensive income are not reclassified to profit or loss (only dividends from these investments are recognized as income).

Security deposits paid, trade receivables and operating lease receivables are presented under Other assets (see Note 5.3).

Analysis of the business model

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

Different business models are used for different business lines within the Group. Business models are assessed on the basis of how groups of financial instruments are managed together to achieve a particular business objective. Therefore, the business model is not assessed at the level of the individual instrument, but at the portfolio level, considering relevant information 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 the company's management is compensated;
- realized or expected sales of assets (scope, frequency, purpose).

Three different business models may be applied to determine the classification and measurement of financial assets:

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

Fair value option

Upon initial recognition, a non-SPPI financial asset that is not held for trading may be designated as at fair value through profit or loss if such a 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 to one of the following two categories:

- Financial liabilities at fair value through profit or loss: these are financial liabilities held for trading, which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Group upon initial recognition as at fair value through profit or loss by exercising the fair value option;

- Other financial liabilities: These are other non-derivative financial liabilities and are measured at amortized cost.

Derivative financial assets and liabilities qualifying as hedging instruments are presented in a separate line item of the statement of financial position (see Note 4.2).

Guarantee deposits received and trade payables are presented under 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. If no observable prices for identical assets or liabilities are available, the fair value of financial instruments is determined through the use of another measurement technique in which the use of determining, observable input factors is kept as high as possible, based on the assumptions that market participants would apply in determining the price of the asset or liability.

The measurement methods used by the Group to establish the fair value of financial instruments are detailed in Note 4.3.

INITIAL RECOGNITION

Financial assets are recognized in the statement of financial position:

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

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

Upon initial recognition, financial assets and liabilities are measured at fair value including transaction costs directly attributable to the acquisition or issuance, except for financial assets measured at fair value through profit or loss, the transaction costs of which of which are recognized directly in 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 the valuation inputs are not observable or if the valuation models are not recognized by the market, the sales

margin is generally presented as prepaid expenses in the income statement. For some instruments, due to their complexity, this margin is recognized at the maturity date or in the case of an early sale, at the sale date. When valuation inputs become observable, all parts of the sales margin that have not yet been recognized are recognized in the income statement at that time.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The Group derecognizes all or part of financial assets (or similar assets) when the contractual rights to the cash flows from 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 incident to ownership of the asset.

The Group also derecognizes financial assets for 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 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 statement of financial position 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 recognized 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. Fees charged to borrowers after the early repayment of loans are recognized in the income statement at the prepayment date and presented under Interest and similar income.

The Group only derecognizes all or part of a financial liability when it is extinguished, i.e. when the obligations specified in the contract are 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 FROM FINANCIAL ASSETS

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

All contractual terms must be analyzed, particularly those that could change the timing or amount of contractual cash flows. A contractual term that permits the borrower or the lender to repay or return the debt instrument to the issuer before maturity remains consistent with SPPI cash flows, provided that the early repayment amount primarily represents the outstanding principal plus accrued but unpaid contractual interest (possibly also a reasonable prepayment fee). Such a prepayment fee may be either positive or negative, which is certainly consistent with SPPI cash flows.

The prepayment fee in case of early repayment is considered to be 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, the prepayment fee for early repayment 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 the 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 reference interest rate.

Some loans are prepayable at their current fair value, while others may be prepayable at the fair value of the costs required to terminate an associated hedging swap. It is possible to consider such prepayment amounts as SPPI if they reflect the effect of changes in the relevant reference 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) may not be considered as SPPI unless their effect on the contractual cash flows is only minimal.

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

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

If 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 reference 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 reference 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 Group 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 Group also has to consider whether the curve could change over the life of the instrument according to possible scenarios.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivatives are financial instruments if they fulfill the following criteria:

- Their value changes in reaction to changes in a certain interest rate, exchange rate, share price, price index, commodity price, credit rating, etc.;
- They require little or no investment;
- They will be settled at a later time.

Derivative financial instruments are divided into two categories:

- Financial instruments held for trading

  Derivative financial instruments are generally regarded as derivative instruments held for trading unless they can be classified as hedging instruments for accounting purposes. They are presented in the item of “Financial assets and liabilities measured at fair value through profit or loss” in the statement of financial position. Changes in the fair value of these instruments are recognized in the income statement.

  Changes in the fair value of derivative financial instruments with counterparties that default later are recognized under “Net gains or losses from financial instruments measured at fair value through profit or loss” until the date of their annulment. At this date, receivables from or liabilities to the respective counterparties are recognized at their fair value. Any subsequent impairments of these receivables are recognized under “Risk expenses” in the income statement.

- Derivatives designated as hedging instruments

In order to classify a financial instrument as a derivative hedging instrument, the Group documents this hedging relationship already at the time of inception. This documentation includes the underlying transaction and the hedging transaction, the type of hedged risk, the type of derivative financial instrument used and the valuation method applied to assess the effectiveness of the hedging relationship. The financial instrument designated as a hedging instrument must be highly effective at offsetting the changes in fair value or cash flows arising from the hedged risk. This effectiveness is continually assessed from the date of inception of the hedging relationship over its entire life. If the derivative financial instruments are used for hedging purposes, they are presented under “Hedging derivatives” in the statement of financial position. Depending on the type of hedged risk, the Group designates the derivative financial instrument as a fair value or cash flow hedging instrument.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument. If it is not measured at fair value through profit or loss, the Group accounts for the embedded derivative separately from the host contract. The prerequisite for this accounting treatment is that the economic characteristics and risk of the derivative differ from those of the host contract and meet the definition of a derivative. When the derivative is accounted for separately from the host contract, it is presented at its fair value as a “Financial asset or financial liability measured at fair value through profit or loss” in the statement of financial position.

LEASES

See the comments in Note 9.4 for information on this subject.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets include operating assets. Assets held for operating leases are included in operating property, plant and equipment, whereas buildings held for leases are included in investment property.

Property, plant and equipment and intangible assets are presented at cost less accumulated depreciation, amortization and impairments. They are depreciated or amortized by application of the component approach from the time when the assets are ready for operation. Accordingly, the individual components are depreciated or amortized individually over their economic useful lives. A depreciation period of 10 to 50 years is applied for depreciating the individual components of the Group’s buildings used for its operations. Property, plant and equipment are depreciated over their economic useful lives, which are estimated at 3 to 20 years. Intangible assets such as custom and industry software are amortized over a useful life of 3 to 5 years.

Property, plant and equipment and intangible assets are subjected to impairment tests as soon as indications of an impairment arise. The impairment test is usually performed on the basis of the cash-generating unit to which the tangible or intangible asset is assigned. A cash-generating unit is defined as the smallest identifiable group

of assets that generates cash flows that are largely independent of the cash flows of other assets or other groups of assets.

Gains or losses on disposal of operationally used property, plant and equipment and intangible assets are recognized under “Net gains or losses from other assets.”

BUSINESS COMBINATIONS AND GOODWILL

The Group uses the acquisition method according to IFRS 3 for accounting for company acquisitions in its consolidated financial statements. If the consideration transferred for the acquisition of a subsidiary exceeds the fair value of the acquired net assets at the acquisition date, goodwill arises and must be recognized in the company’s statement of financial position. If the transferred consideration is less than the value of the acquired net assets, negative goodwill (badwill) arises, which must be recognized in profit or loss. The transactions that transferred Société Générale Securities Services GmbH and ALD Lease Finanz GmbH to Société Générale Effekten GmbH at January 1, 2017 were not company acquisitions within the scope of IFRS 3, but internal Group restructurings (so-called transactions under joint control). Any difference between the purchase price and the carrying amounts of the assets and liabilities received was recognized in equity.

According to IFRS 3, the identified assets, liabilities and contingent liabilities of the acquired company are generally to be measured at fair value at the acquisition date for purposes of calculating the goodwill. In addition, the non-controlling interests are measured on the basis of their share of the fair value of the identified assets and liabilities of the acquired company. The difference between the determined net assets at fair value and the transferred consideration is to be capitalized as goodwill. For purposes of regular impairment testing, the determined goodwill is assigned to a cash-generating unit or group of cash-generating units that are expected to derive benefits from the business combination. The costs directly allocable to the business combination are recognized as expenses in the income statement, except for costs that relate to the issuance of equity instruments.

The Group regularly reviews the goodwill and subjects it to an annual impairment test. If there are indications of an impairment, an impairment test may also be necessary during the year. A review to determine whether there are indications of an impairment is performed before every annual and interim reporting date. The company determines an impairment of goodwill by comparing the recoverable amount of the cash-generating unit or group of cash-generating units with the carrying amount. If the recoverable amount is less than the carrying amount, an impairment is recognized in profit or loss.

PROVISIONS

Provisions mainly include provisions for employee benefit and provisions for risks.

A provision is to be recognized when:

- Due to an obligation to a third party, an outflow of economic resources is expected without receiving equivalent consideration in return;

- A reliable estimate of the amount of the obligation is possible.

To calculate the amount of the provision, the expected outflow of resources must be discounted to present value if the effect of discounting is significant. Additions to and reversals of provisions are recognized in profit or loss.

If it is more likely than not that the company will receive a reimbursement for an obligation for which a provision has been recognized, the reimbursement claim is treated as an Other asset. The recognized amount of the reimbursement is limited to the amount of the provision.

LOAN COMMITMENTS

When loan commitments are not deemed to be derivative financial instruments, the Group measures them at fair value upon initial recognition. In subsequent periods, any necessary provisions for these commitments are recognized in accordance with the accounting principles for provisions.

DISTINCTION BETWEEN LIABILITIES AND EQUITY

In accordance with IAS 32, the financial instruments issued by the Group are classified in full or in part as debt instruments or equity instruments, depending on whether the issuer is contractually obligated to distribute cash to the owners of the securities.

If they meet the conditions for debt instruments, the issued securities are presented under “Securitized liabilities” depending on their characteristics.

If they meet the conditions for equity instruments, the securities issued by Société Générale are presented under “Equity instruments and related reserves.” If the equity instruments are issued by subsidiaries to third parties, these instruments are presented under “Non-controlling interests” and the funds distributed to the holders of these instruments are presented under “Non-controlling interests” in the income statement.

NON-CONTROLLING INTERESTS

“Non-controlling interests” represent the interests in fully consolidated subsidiaries that cannot be assigned to the Group directly or indirectly. They include the equity instruments issued by these subsidiaries and not held by the Group.

INTEREST INCOME AND EXPENSES

Interest income and expenses are presented in the income statement under “Interest and similar income/expenses” by application of the effective interest method for all financial instruments measured at amortized cost.

The effective interest rate is the interest rate that exactly discounts future cash inflows and outflows through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. To calculate the effective interest rate, estimated cash flows based on the contractual terms of the financial instrument are applied without regard to any future credit losses. This calculation also includes the commissions paid or received between the parties to the contract if they are comparable with interest, directly allocable transaction fees, premiums or discounts.

If the value of a financial asset or group of similar financial assets is reduced by reason of an impairment in Level 3 of the expected credit loss model, subsequently collected interest income is recognized on the basis of the effective interest rate applied to the impaired net carrying amount.

Interest from the compounding of receivables under finance leases are presented under Interest income.

In addition, all provisions recognized on the equity and liabilities side of the statement of financial position – with the exception of provisions for employee benefits – give rise to interest expenses that are calculated on the basis of the interest rate applied to discount the expected outflows of economic resources.

NET RESULT OF COMMISSIONS FOR SERVICES

The Group recognizes income from fees and commissions for services rendered and expenses for services utilized in profit or loss, depending on the type of service in question.

Fees and commissions representing compensation for ongoing services such as certain fees and commissions for cash, for the safekeeping of securities in custody accounts and for purchases of telecommunications services are recognized as income in the income statement over the period of service provision. Fees and commissions representing compensation for one-time services such as wire transfer fees, brokerage fees, arbitrage fees or penalty interest based on payment events are recognized in profit or loss in full when the service is provided.

NET INCOME FROM FINANCIAL TRANSACTIONS (THEREOF NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS)

Net gains or losses from financial instruments measured at fair value through profit or loss include the unrealized result from fair value measurement, the realized result from disposal of the financial instrument and ongoing income from financial instruments measured at fair value through profit or loss.

In determining the unrealized result, all changes in fair value are considered in determining the unrealized result from fair value measurement, so that changes in interest rates, credit ratings, exchange rates and other price changes affect the net gains or losses from financial instruments measured at fair value through profit or loss.

Interest income and expenses and dividend income and expenses in relation to financial instruments measured at fair value through profit or loss are considered to be ongoing income, which is presented under Net gains or losses from financial instruments measured at fair value through profit or loss.

PERSONNEL EXPENSES

The item of "Personnel expenses" includes all expenses related to personnel. They mainly include expenses for wages and salaries, as well as expenses for the Group's different pension plans.

EMPLOYEE BENEFITS

The Group's companies may grant the following benefits to their employees:

- Post-employment benefits such as pension plans or early retirement settlements
- Long-term benefits such as variable compensation, bonuses for many years of service and work time accounts
- Severance payments

Post-employment benefits

The pension plans established for employees can be defined contribution or defined benefit plans.

Under defined contribution plans, the Group's obligation is limited to the payment of a contribution and the Group has no obligation concerning the amount of benefits to be paid to employees. Paid contributions are recognized as expenses in each financial year.

Defined benefit plans are plans under which the Group is formally or tacitly obligated to pay a certain amount of benefits or a certain benefit level and therefore assumes a risk in the medium or long term.

A provision is recognized on the equity and liabilities side of the statement of financial position to cover the entirety of these pension commitments. It is regularly evaluated by independent actuaries on the basis of the projected unit credit method. This evaluation process considers assumptions about demographics, early departures from the company, wage and salary increases, the discount rate and the inflation rate. If these plans are funded with borrowed funds that meet the definition of plan assets, the provision is reduced by the fair value of these borrowed funds to secure the corresponding obligations.

Differences resulting from changes in calculation assumptions (early retirement, discount rate, etc.) or differences between the actuarial assumptions and the actual circumstances represent actuarial differences (gains or losses). These actuarial gains and losses and the income from plan assets, from which the amount of net interest on net liabilities (or assets) already recognized as expenses is deducted, and the change in the effect of the cap on plan assets are factors necessitating a renewed estimate (or measurement) of the net liabilities (or net assets). These factors are recognized in equity immediately and in the full amount and may not be reclassified to profit or loss in a subsequent period.

In the consolidated financial statements, those items that cannot be subsequently reclassified to profit or loss are presented in a separate line item of the statement of comprehensive income. However, they are reclassified to reserves in the statement of changes in equity so that they are presented directly within “Group reserves” on the equity and liabilities side of the statement of financial position.

The annual expenses for defined benefit plans recognized under “Personnel expenses” include:

- The additionally acquired claims of each employee (current service costs),
- The change in the obligation resulting from a plan amendment or curtailment (past service costs),
- The financial costs arising from the effect of compounding the obligation and the interest income from the plan assets (net interest on net liabilities or net assets),
- The effect of plan settlements.

Long-term benefits

These are benefits paid to employees more than 12 months after the conclusion of the financial year in which they provided the corresponding services. The same measurement model applied for post-employment benefits is applied for this purpose, with the exception of actuarial gains or losses, which are recognized immediately in profit or loss.

RISK EXPENSES

“Risk expenses” comprise the net amounts from value adjustments for identified risks, as well as losses on non-performing loans and the recovery of amortizing loans.

INCOME TAXES

Current taxes

Current tax expenses are calculated on the basis of the taxable profits of each one of the consolidated tax entities.

Tax credits on income from receivables and security portfolios are recognized in the same line item as the income to which they refer if they are actually used to pay the corporate income tax payable for the financial year. The corresponding income tax expenses are presented under “Income taxes” in the income statement.

Deferred taxes

Deferred taxes are recognized as soon as temporary differences are noted between the carrying amounts of assets and liabilities in the statement of financial position and their corresponding tax bases, provided that these differences will affect future tax payments.

Deferred taxes are calculated for each tax entity according to the relevant taxation rules. The applicable or announced tax rate at the time when the temporary differences will reverse are applied for this purpose. These deferred taxes are adjusted when the tax rate is changed. The calculated amounts are not discounted to present value. Deferred tax assets can arise from deductible temporary differences or tax loss carryforwards.

They are only recognized when it is probable that the affected tax entity will be able to apply them within a certain time frame, especially by setting off such temporary differences and tax loss carryforwards against future taxable profits. Tax loss carryforwards are reviewed annually on the basis of the tax law applicable to each affected entity and a realistic forecast of the entity's tax result based on the performance prospects of its activities. By contrast, the carrying amount of deferred tax assets already presented in the statement of financial position is reduced as soon as there is a risk that they cannot be realized in part or in full. Deferred tax assets not yet recognized in the statement of financial position are recognized when it is probable that they can be set off against future taxable profits.

Current and deferred taxes are presented as tax expenses or tax income under "Income taxes" in the consolidated income statement. Deferred taxes recognized in respect of "Gains and losses recognized directly in equity" are presented in the same line item of equity.

Upon the conclusion of the profit transfer agreement between Société Générale Effekten GmbH (controlled company) and Société Générale S.A. Frankfurt Branch (controlling company) on September 7, 2016, a consolidated tax entity for income tax purposes has been in effect with Société Générale S.A. Frankfurt Branch retroactively since January 1, 2016. In addition, ALD Lease Finanz GmbH (controlled company) was integrated into the consolidated tax entity for income purposes upon the conclusion of a profit transfer agreement with Société Générale Effekten GmbH (controlling company) on September 26, 2017 and Société Générale Securities Services GmbH (controlled company) was integrated into the consolidated tax group for income tax purposes upon the conclusion of a profit transfer agreement with Société Générale Effekten GmbH (controlling company) on December 1, 2017, both with effect as of January 1, 2017. 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 aside from the gains and losses recognized directly in equity in connection with the remeasurement of defined benefit plans.

NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED INCOME STATEMENT

NOTE 4 – FINANCIAL INSTRUMENTS

NOTE 4.1 – FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	06/30/2019		12/31/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Held for trading	1,217,537	1,217,249	1,057,110	1,055,986
Financial instruments mandatorily measured at fair value through profit or loss	2,790,025		2,872,894	
Financial instruments optionally measured at fair value through profit or loss	0	2,717,665	0	2,800,131
Total	**4,007,562**	**3,934,914**	**3,930,004**	**3,856,117**

The financial instruments optionally measured at fair value through profit or loss are issued certificates. The fair value option is 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” is recognized 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 closely resembles “Loans to and receivables from banks,” it is assigned to this new category.

FINANCIAL INSTRUMENTS HELD FOR TRADING

FINANCIAL ASSETS

(In euro thousands)	06/30/2019	12/31/2018
Bonds and other debt instruments	0	0
Equities and other equity instruments	0	0
Loans to customers and securities purchased under a repurchase agreement	0	0
Derivatives	1,217,537	1,057,110
Other financial assets	0	0
Total	**1,217,537**	**1,057,110**

FINANCIAL LIABILITIES

(In euro thousands)	06/30/2019	12/31/2018
Securitized liabilities	91	91
Liabilities under loaned securities	0	0
Bonds and other short-sale debt securities	0	0
Equities and other short-sale equity instruments	0	0
Loans and securities sold under a repurchase agreement	0	0
Derivatives	1,217,158	1,055,895
Other financial liabilities	0	0
Total	**1,217,249**	**1,055,986**

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 379 thousand is deemed to be immaterial for risk management purposes.

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

(In euro thousands)	06/30/2019	12/31/2018
Receivables from banks – measured at fair value through profit or loss	2,717,390	2,800,244
Loans to customers – measured at fair value through profit or loss	0	0
Securitized liabilities	0	0
Equities and other equity instruments	1,319	1,207
Securities/equities held on a long-term basis	71,316	71,443
Total	**2,790,025**	**2,872,894**

FINANCIAL LIABILITIES OPTIONALLY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(In euro thousands)	06/30/2019	12/31/2018
Interbank loans	0	0
Deposit guarantees received	0	0
Liabilities under loaned securities	0	0
Bonds and other short-sale debt instruments	2,717,665	2,800,131
Repo transactions – Banks	0	0
Total	**2,717,665**	**2,800,131**

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

(In euro thousands)	01/01/2019-06/30/2019	01/01/2018-06/30/2018
Net result from trading portfolio	9	3
Net result from financial instruments measured at fair value through profit or loss	243,308	(72,431)
Net result from financial instruments for which the fair value option is exercised	(243,628)	72,043
Net result from derivative financial instruments and hedging instruments, thereof:	469	142
Net result from derivative financial instruments	469	142
Net result from hedging instruments	0	0
Net result from fair value hedging instruments	0	0
Remeasurement of underlying transactions in relation to the hedged risk	0	0
Ineffective portion of cash flow hedge	0	0
Net result from foreign currency transactions	(16)	0
Total gains or losses from financial instruments measured at fair value through profit or loss	158	(243)
Gains from financial instruments measured at fair value through other comprehensive income	0	121

NOTE 4.2 - DERIVATIVE FINANCIAL INSTRUMENTS

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

FINANCIAL INSTRUMENTS HELD FOR TRADING

	06/30/2019		12/31/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate instruments	95,348	91,153	83,598	80,174
Foreign currency instruments	88,031	88,811	89,193	89,869
Equity and index instruments	811,189	812,978	664,781	664,687
Commodity instruments	222,969	224,216	219,538	221,166
Credit derivatives	0	0	0	0
Other forward financial instruments	0	0	0	0
Total	**1,217,537**	**1,217,158**	**1,057,110**	**1,055,895**

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

	06/30/2019		12/31/2018	
(In euro thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fair value hedges	0	0	0	0
Interest rate instruments	0	0	0	0
Foreign currency instruments	0	0	0	0
Equity and index instruments	0	0	0	0
Commodity instruments	0	0	0	0
Cash flow hedges	**0**	0	**0**	0
Interest rate instruments	0	2,339	0	1,712
Foreign currency instruments	0	0	0	0
Equity and index instruments	0	0	0	0
Commodity instruments	0	0	0	0
Other financial instruments	0	0	0	0
Total	**0**	**2,339**	**0**	**1,712**

Due dates of cash flow-hedged financial instruments:

(In euro thousands)	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**06/30/2019**
Floating cash flows hedged	2,339			2,339

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

DUE DATES OF HEDGING DERIVATIVES (NOTIONAL VALUES)

(In euro thousands)	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**06/30/2019**
Interest rate swaps (assets)	-	-	-	-
Interest rate swaps (liabilities)	113,529	303,910	376,881	794,320

DUE DATES OF HEDGED FINANCIAL INSTRUMENTS

(In euro thousands)	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**06/30/2019**
Interbank market securities and tradable debt instruments	109,948	295,199	391,297	796,444

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 statement of financial position (loans, securities or floating-rate notes) or with a highly probable future transaction (future fixed interest 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 recognized in 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. Accrued interest income and expenses from interest rate derivatives are recognized in the income statement under Interest and similar income / expenses 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 exhibiting 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 upon inception, 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 of the prospective effectiveness of the hedge.

Amounts directly recognized in equity in respect of the remeasurement 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 to Interest and similar income/ expenses 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 projected hedged transaction ceases to be highly probable, unrealized gains and losses recognized in equity are immediately reclassified to the income statement.

The Group is exposed to future changes in the cash flows for short-term and medium-term funding requirements (Securitized liabilities) and employs hedging relationships based on interest rate swaps, which are recognized as cash flow hedges for accounting purposes. The highest probable need for interest rate hedging is determined through the use of models that are based on historical data.

NOTE 4.3 - 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 comprises 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 as 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

(In euro thousands)	06/30/2019 Level 1	Level 2	Level 3	Total
Held for trading	**-**	**-**	**-**	**-**
Bonds and other debt instruments	-	-	-	**-**
Equities and other equity instruments	-	-	-	**-**
Loans and securities purchased under repurchase agreements	-	-	-	**-**
Other financial assets	-	-	-	**-**
	-	-	-	**-**
Derivatives in the trading portfolio	**-**	**1,207,414**	**10,124**	**1,217,537**
Interest rate instruments	-	95,348	-	**95,348**
Foreign currency instruments	-	88,031	-	**88,031**
Equity and index instruments	-	801,065	10,124	**811,189**
Commodity instruments	-	222,969	-	**222,969**
Credit derivatives	-	-	-	**-**
Other forward financial instruments	-	-	-	**-**
	-	-	-	**-**
Financial assets mandatorily measured at fair value through profit or loss	**1,319**	**2,610,286**	**178,420**	**2,790,025**
Bonds and other debt instruments	-	-	-	**-**
Equities and other equity instruments	1,319	-	71,316	**72,635**
Loans and securities purchased under repurchase agreements	-	2,610,286	107,104	**2,717,390**
	-	-	-	**-**
Financial assets for which the fair value option was exercised	**-**	**-**	**-**	**-**
Bonds and other debt instruments	-	-	-	**-**
Loans and securities sold under repurchase agreements	-	-	-	**-**
Other financial assets	-	-	-	**-**
Special fund for employee benefits	-	-	-	**-**
	-	-	-	**-**
Hedging derivatives	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	**-**
Foreign currency instruments	-	-	-	**-**
Equity 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	**1,319**	**3,817,700**	**188,543**	**4,007,562**

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

	06/30/2019			
(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 purchased under repurchase agreements	-	-	-	-
Other financial liabilities	-	-	-	-
	-	-	-	-
Trading derivatives	**-**	**1,207,034**	**10,124**	**1,217,158**
Interest rate instruments	-	91,153	-	91,153
Foreign currency instruments	-	88,811	-	88,811
Equities and index instruments	-	802,855	10,124	812,978
Commodity instruments	-	224,216	-	224,216
Credit derivatives	-	-	-	-
Other forward financial instruments	-	-	-	-
	-	-	-	-
Financial liabilities for which the fair value option was exercised	**-**	**2,610,561**	**107,104**	**2,717,665**
	-	**-**	**-**	**-**
Hedging derivatives	**-**	**2,339**	**-**	**2,339**
Interest rate instruments	-	2,339	-	2,339
Foreign currency instruments	-	-	-	-
Equity and index instruments	-	-	-	-
	-	-	-	-
Total financial liabilities at fair value	**-**	**3,820,025**	**117,227**	**3,937,253**

CHANGES IN LEVEL 3 FINANCIAL INSTRUMENTS

Financial assets measured at fair value

(In euro thousands)	Balance at 12/31/2018	Acquisi tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassified from Level 2	Period gains and losses	Ex-change rate differ-ences	Other	Balance at 06/30/2019
Held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Equities and other equity instruments	-	-	-	-	-	-	-	-	-
Loans and securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Derivatives in the trading portfolio	**5,604**	**1,985**	**(2)**	**(86)**	**2,827**	**(205)**	**-**	**-**	**10.124**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	5,604	1,985	(2)	(86)	2,827	(205)	-	-	10.124
Commodity instruments	-	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Financial assets mandatorily measured at fair value through profit or loss	**179,265**	**13,396**	**(25,580)**	**(280)**	**4,123**	**7,496**	**-**	**-**	**178.420**
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Equities and other equity instruments	71,443	-	-	-	-	(127)	-	-	71.316
Loans and securities purchased under repurchase agreements	107,822	13,396	(25,580)	(280)	4,123	7,623	-	-	107.104
	-	-	-	-	-	-	-	-	-
Financial assets for which the fair value option was exercised	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments	-	-	-	-	-	-	-	-	-
Loans and securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Special fund for employee benefits	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(In euro thousands)	Balance at 12/31/2018	Acquisi tions	Sales/ redemptions	Reclassi- fied to Level 2	Reclassifie d from Level 2	Period gains and losses	Ex- change rate differ- ences	Other	Balance at 06/30/2019
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign currency instruments	-	-	-	-	-	-	-	-	-
Equity 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	**184,869**	**15,381**	**(25,582)**	**(366)**	**6,949**	**7,291**	**-**	**-**	**188.543**

Financial liabilities measured at fair value

(In euro thousands)	Balance at 12/31/2018	Acquisi- tions	Sales/ redemptions	Reclassi- fied to Level 2	Reclassified from Level 2	Period gains and losses	Exchange rate differences	Other	Balance at 06/30/2019
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 repurchase agreements	-	-	-	-	-	-	-		-
Other financial liabilities	-	-	-	-	-	-	-		-
	-	-	-	-	-	-	-		-
Trading derivatives	**5,604**	**1,985**	**(2)**	**(86)**	**2,827**	**(205)**	**-**		**10.124**

(In euro thousands)	Balance at 12/31/2018	Acquisi-tions	Sales/ redemptions	Reclassi-fied to Level 2	Reclassified from Level 2	Period gains and losses	Exchange rate differences	Other	Balance at 06/30/2019
Interest rate instruments	-	-	-	-	-	-	-		-
Foreign currency instruments	-	-	-	-	-	-	-		-
Equity and index instruments	5,604	1,985	(2)	(86)	2,827	(205)	-		10.124
Commodity instruments	-	-	-	-	-	-	-		-
Credit derivatives	-	-	-	-	-	-	-		-
Other forward financial instruments	-	-	-	-	-	-	-		-
Financial liabilities for which the fair value option was exercised	**107,822**	**13,396**	**(25,580)**	**(280)**	**4,123**	**7,623**	**-**		**107.104**
				-					
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Interest rate instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Foreign currency instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Equity and index instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Total financial liabilities at fair value	**113,426**	**15,381**	**(25,582)**	**(366)**	**6,949**	**7,418**	**-**		**117.227**

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 1,207 thousand worth of instruments traded in financial markets was classified as Equities and

other equity instruments. This amount was not adjusted by transfers to or from Level 2 or Level 3 financial instruments in the reporting period.

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-income securities

The fair value of listed securities is equal to their stock exchange price at the reporting date. The fair value of unlisted 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 measured at fair value and derivative financial instruments

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 are presented as available-for-sale financial assets.

NOTE 4.4 – LOANS AND RECEIVABLES AT AMORTIZED COST

LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

(In euro thousands)	**06/30/2019**	**12/31/2018**
Current accounts	70,285	160,734
Term deposits and loans	18,600	28,800
Loans and receivables without impairments	**88,885**	**189,534**
Impairment upon default	-	-
Remeasurement of hedged balance sheet items	-	-
Net total	**88,885**	**189,534**

LOANS TO AND RECEIVABLES FROM CUSTOMERS (INCLUDING FINANCE LEASES)

(In euro thousands)	**06/30/2019**	**12/31/2018**
Loans to customers	4,150,939	4,019,525
Finance leases	476,869	459,041
Loans to customers without impairments	**4,627,808**	**4,478,566**
Impairment upon default	(56,096)	(57,618)
Customers	*(49,327)*	*(50,947)*
Finance leases	*(6,769)*	*(6,671)*
Remeasurement of hedged balance sheet items	-	
Net total	**4,571,712**	**4,420,948**
Loans to customers	*4,101,612*	*3,968,578*
Finance leases	*470,100*	*452,370*

Please see Note 4.8 “Impairments and provisions.”

As a general rule, BDK’s loan receivables are assigned as security of the financed vehicles; in the leasing business, ALD LF is the owner anyway, so that the average loss rates on default are regularly between 20% and 30%. As of June 2019, the expected default probability in the sales financing business is below 2.0%; in the dealer financing business and leasing portfolio, it is below 3.0%, little changed from the level of the prior year.

NOTE 4.5 – LIABILITIES AT AMORTIZED COST

LIABILITIES TO BANKS

(In euro thousands)	**06/30/2019**	**12/31/2018**
Deposits and current accounts	14,216	7,841
Term liabilities	4,450,527	4,099,837
Other liabilities	2,303	415
Remeasurement of hedged balance sheet items	-	-
Securities sold under a repurchase agreement	-	-
Total	**4,467,046**	**4,108,093**

LIABILITIES TO CUSTOMERS

(In euro thousands)	**06/30/2019**	**12/31/2018**
Other sight deposits	1,092	1,317
Total liabilities to customers	**1,092**	**1,317**
Liabilities secured by bonds and securities	-	-
Securities sold to customers under a repurchase agreement	-	-
Total	**1,092**	**1,317**

SECURITIZED LIABILITIES

(In euro thousands)	**06/30/2019**	**12/31/2018**
Interbank market securities and tradable debt instruments	796,406	1,085,983
Other liabilities	38	57
Total	**796,444**	**1,086,040**

NOTE 4.6 – TRANSFERRED ASSETS

In addition, the instrument of securitizing loan receivables is used in the Financial Services to Corporates and Retails segment. Under the name “Red & Black,” which is used for the securitizations of the Société Générale Group, we have bundled leasing receivables into 5 structures and placed them publicly to date. Two active structures were in effect at the reporting date.

At the reporting date, the carrying amount of transferred receivables was 943,5 Mio. EUR and the carrying amount of the corresponding liabilities was 796,4 Mio. EUR. The transferred receivables are among the assets subject to restrictions on free disposal.

The corresponding market values were 943,5 Mio. EUR for the receivables and 290,9 Mio. EUR for the liabilities, yielding a net receivable of 652,7 Mio. EUR. The receivables are presented under “Loans to and receivables from customers”, the liabilities under “Securitized liabilities.”

NOTE 4.7 – INTEREST AND SIMILAR INCOME / EXPENSES

(In euro thousands)	01/01/2019 - 06/30/2019			2018			01/01/2018 - 06/30/2018		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Financial instruments at amortized cost	**88,458**	**(14,922)**	**73,536**	**171,010**	**(27,905)**	**143,105**	**85,040**	**(14,144)**	**70,896**
Central banks	0	0	0	0	0	0	0	0	0
Bonds and other debt instruments	0	0	0	0	0	0	**0**	0	0
Issued debt instruments	0	0	0	0	0	0	0	0	0
Transactions with banks	278	(13,350)	(13,072)	267	(23,807)	(23,540)	156	(12,172)	(12,016)
	0	0	0	0	0	0	0	0	0
Loans to customers and sight deposits	78,300	0	78,300	151,031	0	151,031	75,018	0	75,018
Subordinated liabilities	0	0	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	122	0	122
	0	0	0	0	0	0	0	0	0
Securities purchased/ sold under a repurchase agreement and loans hedged by securities	0	0	0	0	0	0	0	0	0
Lease agreements	**9,880**	**0**	**9,880**	**19,712**	**0**	**19,712**	**9,744**	**0**	**9,744**
Real estate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Equipment	*9,880*	*0*	*9,880*	*19,712*	*0*	*19,712*	*9,744*	*0*	*9,744*
Hedging derivatives	**612**	**(1,572)**	**(960)**	**1,515**	**(4,098)**	**(2,583)**	**733**	**(1,972)**	**(1,239)**
Financial instruments at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial instruments measured at fair value through profit or loss	**104**	**0**	**104**	**288**	**0**	**288**	**0**	**0**	**0**
Bonds and other debt instruments	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Receivables from banks	*104*	*0*	*104*	*288*	*0*	*288*	***0***	***0***	***0***
Loans to customers	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Securities purchased under a repurchase agreement	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Total interest income and interest expenses	**89,174**	**(14,922)**	**74,252**	**172,813**	**(27,905)**	**144,908**	**85,923**	**(14,144)**	**71,779**

NOTE 4.8 – 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 recognized in Other assets, and also loan commitments and guarantees given, are subject to credit default risks, which are accounted for by means of impairments or loss allowances in the amount of the expected credit losses. These impairments and loss allowances are recognized when the loans are granted, the commitments undertaken or the debt securities purchased, without need of objective indications of impairment.

To determine the amount of impairments 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 is recognized for the exposures in each category as follows:

Observed deterioration of credit risk since initial recognition of the financial asset			
Category of default risk	**Stage 1** Assets upon acquisition	**Stage 2** Assets with a significant increase in default risk	**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/30 days past due since initial recognition	Indication that the instrument is become credit-impaired / 90 days past due
Measurement of default risks	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Measurement basis interest income	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

At the initial recognition date, the exposures are systematically classified to Stage 1 unless they are underperforming/credit-impaired upon 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 losses from loss events), 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 effect of collateral called or liable to be called and the probability of a default event occurring within the next 12 months.

Purchased or originated credit-impaired assets are accounted for separately in that the change in estimated recoverable cash flows from the instrument, discounted at the original effective interest rate and adjusted for credit risk, is recognized.

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 effect is the main criterion for determining if a given exposure should be transferred to Stage 2. If the credit rating has been significantly downgraded since initial recognition, a loss allowance equal to the lifetime expected credit loss is recognized. 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 to Stage 1. Finally, a rebuttable presumption of a significant increase in credit risk is made when 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 are objective indications of an 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 its commitments and thus represents a risk of loss for the Group;
- Concessions are granted in line with the clauses of the loan agreement, in light of the borrower's financial difficulties, that would not have been granted under 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 initiated;
- 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 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 lifetime 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 effect of collateral called or liable to be called 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 by application of 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 recognized in profit or loss under Risk expenses.

For trade receivables, the Group uses the “simplified” approach, under which impairments are calculated as lifetime expected credit losses upon 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 when the borrower is experiencing financial difficulties or insolvency (even when the borrower has already become insolvent or is certain to become insolvent if the loan is not restructured).

When they still pass the SPPI test, restructured loans are still recognized in the statement of financial position 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 lost profit is recognized in the income statement under Risk expenses. As a result, the associated interest income is still subsequently recognized at the original effective interest rate of the loans. Post-restructuring, these assets are systematically classified to Stage 3 for impairments (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 is performed by comparing the credit risk level at the closing date and the level at the initial recognition date of the loan before restructuring.

When they no longer pass the SPPI test, restructured loans are derecognized and the new restructured loans replace the derecognized loans in the statement of financial position at the same date. The new loans are classified as Financial assets measured mandatorily at fair value through profit or loss.

OVERVIEW OF IMPAIRMENTS AND PROVISIONS

(In euro thousands)	06/30/2019	12/31/2018
Impairments of financial assets at fair value through other comprehensive income	0	0
Impairments of financial assets at amortized cost	**58,271**	**59,647**
Loans and receivables at amortized cost	*56,096*	*57,618*
Other assets at amortized cost *)	*2,175*	*2,029*
Provisions for financial commitments	764	702
Provisions for guarantee commitments	0	0
Total impairments upon default	**764**	**702**

*) Of which EUR 2,175 thousand relates to impairments of receivables under operating leases at June 30, 2019; these receivables are presented under Miscellaneous other receivables (see Note 5.3).

IMPAIRMENTS OF FINANCIAL ASSETS

(In euro thousands)	Impairments at 12/31/2018	Additions	Available reversals of impairments	Net impairment expenses	Recognized reversals of impairments	Other changes	Impairments at 06/30/2019
Financial assets at amortized cost	0	0	0	0	0	0	0
Impairments of performing accounts (Stage 1)	17,263	5,403	(4,373)	1,030	0	0	18,325
Impairments of poorly performing accounts (Stage 2)	3,000	404	(2,505)	(2,101)	0	0	3,309
Impairments of doubtful accounts (Stage 3)	39,384	11,637	(10,202)	1,435	(5,890)	0	36,637
Total	**59,647**	**17,444**	**(17,080)**	**364**	**(5,890)**	**0**	**58,271**
Thereof finance leases and similar contracts	0	0	0	0	0	0	0
Impairments of performing accounts (Stage 1)	3,276	1,745	(1,112)	633	0	0	3,909
Impairments of poorly performing accounts (Stage 2)	257	231	(250)	(19)	0	0	238
Impairments of doubtful accounts (Stage 3)	3,138	0	(1,470)	(1,470)	(754)	0	2,622
Total	**6,671**	**1,976**	**(2,832)**	**(856)**	**(754)**	**0**	**6,769**

PROVISIONS

(In euro thousands)	Impairments at 12/31/2018	Additions	Available reversals of impairments	Net impairment expenses	Recognized reversals of impairments	Other changes	Impairments at 06/30/2019
Financial commitments							
Impairments of performing accounts (Stage 1)	618	125	(53)	72	0	0	690
Impairments of poorly performing accounts (Stage 2)	0	0	0	0	0	0	0
Impairments of doubtful accounts (Stage 3)	84	0	(10)	(10)	0	0	74
Total	**702**	**125**	**(63)**	62	**0**	**0**	**764**
Guarantee commitments	0	0	0	0	0	0	0
Impairments of performing accounts (Stage 1)	0	0	0	0	0	0	0
Impairments of poorly performing accounts (Stage 2)	0	0	0	0	0	0	0
Impairments of doubtful accounts (Stage 3)	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**

RISK EXPENSES

(In euro thousands)	01/01/2019-06/30/2019	2018	01/01/2018-06/30/2018
Credit risk	**(3,385)**	*(5,781)*	*(6,316)*
Net additions to impairments	(4,513)	(8,385)	(7,193)
Financial assets at fair value through other comprehensive income	0	0	0
Financial assets at amortized cost	(4,513)	(8,385)	(7,193)
Net additions to provisions	*(61)*	*14*	*(240)*
Financial commitments	*(61)*	*14*	*(240)*
Guarantee commitments	0	0	0
Unsecured losses on bad loans	*(2)*	*(87)*	*0*
Recovered amounts on bad loans	*1,191*	*2,677*	*1,117*
Other risks	**0**	**0**	**0**
Total	**(3,385)**	**(5,781)**	**(6,316)**

NOTE 4.9 – FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT COST

The fair values of financial instruments not measured at fair value in the statement of financial position are presented in this note to the consolidated financial statements.

FINANCIAL ASSETS MEASURED AT COST

	06/30/2019	
(In euro thousands)	Carrying amount	Fair Value
Receivables from banks	88,885	88,885
Loans to customers	4,571,712	4,825,818
Loans to customers at amortized cost	*4,101,612*	4,318,765
Receivables under leases	*470,100*	507,053
Securities	-	-
Total financial assets measured at cost	**4,660,597**	**4,914,703**

FINANCIAL LIABILITIES AMORTIZED AT COST

	06/30/2019	
(In euro thousands)	Carrying amount	Fair value
Liabilities to banks	4,467,046	4,467,046
Liabilities to customers	1,092	1,092
Issued debt instruments	796,444	796,444
Subordinated liabilities	-	-
Total liabilities measured at cost	**5,264,582**	**5,264,582**

MEASUREMENT METHODS

Loans, receivables and finance leases

Due to the absence of an active market for these loans, the fair values of loans and receivables and finance lease receivables from large corporations are calculated by discounting the expected cash flows by application of discount rates based on market interest rates (actuarial reference rate and zero-coupon rate published by the Banque de France) applicable at the reporting date for loans that essentially have the same terms and maturities; these interest rates are adjusted by adding premiums for liquidity and administrative expenses to account for the borrower's credit risk.

Due to the absence of an active market for these loans, the fair values of loans and receivables and finance lease receivables from customers in the retail banking business, mainly composed of private individuals and small and medium-sized enterprises, are calculated by discounting the expected cash flows by application of the market interest rates in effect at the reporting date for loans of the same category and with the same maturity.

In the case of loans, receivables and finance lease receivables with variable interest rates and loans with fixed interest rates, the initial term of which is less than or equal to one year, it is assumed that the fair values are equal to the carrying amounts provided that there have been no significant fluctuations in credit spreads for the corresponding counterparties since the date of initial recognition in the statement of financial position.

Liabilities

Due to the absence of an active market for these liabilities, it is assumed that the fair values of liabilities are equal to the value of future cash flows, discounted by application of the market interest rate in effect on the reporting date. If the liability is securitized by an exchange-listed financial instrument, its value is equal to its market price.

In the case of liabilities with variable interest rates and liabilities with initial terms of less than or equal to one year, it is assumed that the fair values are equal to the carrying amounts. Similarly, the individual fair values of sight deposits are equal to their carrying amounts.

NOTE 5 – OTHER ACTIVITIES

NOTE 5.1 – COMMISSION INCOME AND EXPENSES

(In euro thousands)	01/01/2019-06/30/2019			2018			01/01/2018-06/30/2018		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Transactions with banks	0	(229)	(229)	0	(483)	(483)	0	(225)	(225)
Transactions with customers	19,774	(5,561)	14,213	41,904	0	41,904	20,811	0	20,811
Loan and guarantee commitments	0	(17)	(17)	0	(11)	(11)	0	(1)	(1)
Services	21,309	0	21,309	39,670	0	39,670	20,841	0	20,841
Other	1,604	(1,644)	(40)	2,988	(15,481)	(12,493)	1,558	(8,100)	(6,542)
Total	**42,687**	**(7,451)**	**35,236**	**84,562**	**(15,975)**	**68,587**	**43,210**	**(8,326)**	**34,884**

NOTE 5.2 – INCOME AND EXPENSES FOR OTHER ACTIVITIES

(In euro thousands)	01/01/2019-06/30/2019			2018			01/01/2018-06/30/2018		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Real estate development	0	0	0	0	0	0	0	0	0
Real estate leasing	0	0	0	0	0	0	0	0	0
Equipment leasing	131,927	(114,742)	17,185	234,021	(202,505)	31,516	115,124	(100,042)	15,082
Other activities	1,229	(31,120)	(29,891)	5,829	(56,668)	(50,839)	1,151	(28,103)	(26,952)
Total	**133,156**	**(145,862)**	**(12,706)**	**239,850**	**(259,173)**	**(19,323)**	**116,275**	**(128,145)**	**(11,870)**

The income from equipment leasing and other activities comprises the following items:

(In euro thousands)	01/01/2019-06/30/2019	01/01/2018-06/30/2018
Income from sales of operating lease objects	53,687	48,068
Refund of grants on operating lease objects	1,549	762
Income from operating leases	64,869	56,247
Other income from operating leases	11,758	9,997
Income from fees for late payments	64	50
Other income	1,229	1,151
Total	**133,156**	**116,275**

The expenses for other activities comprise the following items:

(In euro thousands)	01/01/2019-06/30/2019	01/01/2018-06/30/2018
Discounts on operating leases	(114)	(145)
Book losses on sales of operating lease objects	(45,744)	(40,446)

(In euro thousands)	**01/01/2019-06/30/2019**	01/01/2018-06/30/2018
Depreciation of operating lease objects	(52,985)	(45,506)
Other expenses for finance leases	(15,899)	(13,945)
Expenses for inventory	0	0
Expenses for other activities not belonging to the banking business	(30,888)	(28,041)
Other discounts	(232)	(62)
Total	**(145,862)**	**(128,145)**

NOTE 5.3 – OTHER ASSETS AND LIABILITIES

OTHER ASSETS

(In euro thousands)	**06/30/2019**	**12/31/2018**
Deposit guarantees issued	0	0
Clearing accounts for transactions with securities	0	0
Prepaid expenses	87,216	83,785
Miscellaneous other receivables	52,566	45,584
Gross total	**139,782**	**129,369**
Impairments	(6,587)	(6,441)
Net total	**133,195**	**122,928**

At June 30, 29109, the item of “Other assets” mainly consisted of inventories, outstanding receivables under operating leases and commission receivables.

Overview of unimpaired past-due receivables:

(In euro thousands)	**06/30/2019**
Past due 30 to 60 days	430
Past due 61 to 90 days	44
Past due 91 to 180 days	88
Past due longer than 181 days	23

OTHER LIABILITIES

(In euro thousands)	**06/30/2019**	**12/31/2018**
Deposit guarantees received	0	0
Clearing accounts for transactions with securities	0	0
Employee benefits	3,452	3,577
Lease liabilities*)	4,828	
Deferred income	28,839	28,086
Miscellaneous other payables	139,739	150,845
Total	**176,858**	**182,508**

*) Presentation resulting from the application of IFRS 16 as of January 1, 2019 (see Note 1).

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

NOTE 6 – PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

PERSONNEL EXPENSES

(In euro thousands)	**01/01/2019-06/30/2019**	**2018**	**01/01/2018-06/30/2018**
Employee compensation	(29,468)	(57,824)	(28,279)
Social security and payroll taxes	(5,028)	(9,465)	(4,643)
Net pension expenses – Special fund	(81)	(163)	(69)
Net pension expenses – Defined benefit pension plan	(348)	(781)	(369)
Employee profit participation and bonuses	(1)	(8)	(5)
Total	**(34,926)**	**(68,241)**	**(33,365)**
Including net expenses of share-based payments	(13)	(59)	(56)

DEVELOPMENT OF PROVISIONS FOR EMPLOYEE BENEFITS

(In euro thousands)	**Balance at 12/31/2018**	**Additions**	**Available reversals of impairments**	**Net additions**	**Recognized reversals of impairments**	**Other changes**	**Balance at 06/30/2019**
Provisions for employee benefits	**15,673**	304	(118)	**186**	(36)	117	**15,940**

NOTE 7 – INCOME TAXES

The profit transfer agreement of September 7, 2016 between Société Générale Effekten GmbH (controlled company) and Société Générale S.A. Frankfurt Branch (controlling 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 aside from the gains and losses recognized directly in equity in connection with the remeasurement of defined benefit plans.

Tax assets include prepaid taxes to the tax office for which the companies have refund claims.

NOTE 8 – EQUITY

The Group's equity amounted to EUR 9.9 million at June 30, 2019. It is composed of Subscribed capital in the amount of EUR 26 thousand (January 1, 2019: 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 -22.3 million, and the consolidated net profit for the first half of 2019 in the amount of EUR 36 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 2018.

The Group reserves are influenced by the transfer of the results of the subsidiaries to the controlling company Société Générale S.A. Frankfurt Branch only at the end of the year.

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 9 – ADDITIONAL DISCLOSURES

NOTE 9.1 – 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	This 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		
	06/30/2019	12/31/2018	06/30/2018	06/30/2019	12/31/2018	06/30/2018	06/30/2019	12/31/2018	06/30/2018	06/30/2019	12/31/2018	06/30/2018
Net banking result	**(1,968)**	(2,638)	(1,513)	**83,617**	165,064	81,272	**15,291**	31,022	14,912	96,940	193,448	94,671
Administrative expenses	**(27)**	161	(41)	**(38,045)**	(78,513)	(39,349)	**(19,531)**	(41,998)	(21,748)	(57,603)	(120,350)	(61,138)
Gross operating result	**(1,995)**	**(2,477)**	**(1,554)**	**45,572**	**86,551**	**41,923**	**(4,240)**	**(10,976)**	**(6,836)**	**39,337**	73,098	33,533
Risk expenses	**0**	0	0	**(3,385)**	(5,781)	(6,316)	**0**	0	0	(3,385)	(5,781)	(6,316)
Operating result	**(1,995)**	**(2,477)**	**(1,554)**	**42,187**	**80,770**	**35,607**	**(4,240)**	**(10,976)**	**(6,836)**	**35,952**	67,317	27,217
Net gains or losses from other assets	**0**	0	0	**0**	0	0	**0**	0	0	0	0	0
Impairment of goodwill	**0**		0	**0**		0	**(761)**	(761)	0	(761)	(761)	0
Profit/loss before taxes	**(1,995)**	**(2,477)**	**(1,554)**	**42,187**	**80,770**	**35,607**	**(5,001)**	**(11,737)**	**(6,836)**	**35,191**	66,556	27,217
Income taxes	**0**	0	0	**0**	0	0	**0**	0	0	0	0	0
Net profit/loss of all companies of the consolidation group	**(1,995)**	**(2,477)**	**(1,554)**	**42,187**	**80,770**	**35,607**	**(5,001)**	**(11,737)**	**(6,836)**	**35,191**	66,556	27,217
Non-controlling interests	**0**	0	0	**(537)**	(638)	(723)	**0**	0	0	(537)	(638)	(723)
Net profit/loss (Group share)	**(1,995)**	**(2,477)**	**(1,554)**	**42,724**	**81,408**	**36,330**	**(5,001)**	**(11,737)**	**(6,836)**	**35,727**	67,193	27,940
Assets	3,941,626	3,859,920	4,743,588	5,413,321	5,323,736	5,084,990	51,041	45,797	54,018	9,405,988	9,229,453	9,882,596
Liabilities	4,401,120	4,316,916	5,219,769	4,972,291	4,911,076	4,647,989	22,678	24,823	28,422	9,396,089	9,252,815	9,896,181

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

NOTE 9.2 – OTHER ADMINISTRATIVE EXPENSES

(In euro thousands)	01/01/2019-06/30/2019	2018	01/01/2018-06/30/2018
Rents	(1,033)	(3,072)	(1,402)
Taxes	(221)	(132)	(186)
IT & telecom	(8,057)	(15,348)	(7,322)
Consulting	(3,845)	(12,771)	(6,661)
Other	(9,521)	(20,786)	(10,777)
Total	**(22,677)**	**(52,109)**	**(26,348)**

The Other administrative expenses also include depreciation and amortization (EUR 1.8 million).

NOTE 9.3 – PROVISIONS

The provisions recognized in the statement of financial position at June 30, 2019 mainly consisted of provisions for employee benefits and provisions for risks. 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.

Breakdown of significant provisions at the reporting date:

(In euro thousands)	Provisions at 12/31/2018	Additions	Available reversals of impairments	Net additions	Recognized reversals of impairments	Other changes	Provisions at 06/30/2019
Provisions for the credit risk of off-balance sheet commitments (see Note 4.8)	702	125	(63)	62	0	0	764
Provisions for employee benefits (see Note 9.1)	15,673	304	(118)	186	(36)	117	15,940
Provisions for taxes (see Note 10)	0	0	0	0	0	0	0
Provisions for legal disputes				0			0
Provisions for mortgage savings plans and account commitments				0			0
Other provisions	640	0	0	0	(27)	(114)	526
Total	**17,015**	**429**	**(181)**	**248**	**(63)**	**3**	**17,266**

As part of the risk management process, the risk inventory is updated at least once a year and encompasses all relevant risk categories that are significant for BDK / ALD LF.

NOTE 9.4 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Due to the first-time application of IFRS 16 Leases as of January 1, 2019, the Group recognizes rights of use representing the right to use the underlying assets under Property, plant and equipment and intangible assets.

ACCOUNTING GUIDELINES

RIGHTS OF USE TO THE ASSETS LEASED BY THE COMPANY

Lease

Definition of a lease

A contract is, or contains, a lease if it conveys to the lessee the right to control the use of an identified asset for a period of time in exchange for consideration:

- Control is conveyed where the lessee has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use for the entire lease period.
- The existence of an identified asset is dependent on the absence of substantive rights of substitution of the leased asset on the part of the lessor; this is determined on the basis of the facts and circumstances at the inception of the lease. If the lessor has the ability to substitute alternative assets for the leased object at will, the contract is not deemed to be a lease because the purpose of such a contract is to provide a capacity and not an asset.
- A capacity portion of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). Conversely, a capacity or other portion of an asset that is not physically distinct (e.g. in the case of leasing co-working areas within a building unit without a predefined location within this unit) is not an identified asset.

Separating lease components from non-lease components

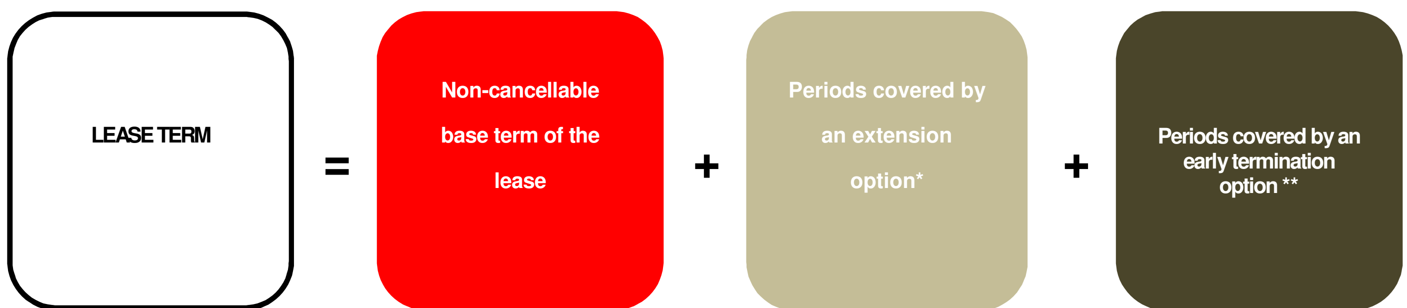
A contract may include the leasing of an asset and the provision of additional services by a lessor. In this case, the lessee may separate the lease components from the non-lease components of the contract and treat them separately. The contractually specified lease payments for lease components and non-lease components should be treated separately on the basis of the relative stand-alone prices (as specified in the contact or estimated on the basis of observable information). If the lessee is unable to separate lease components from non-lease components (or services), the entire contract should be treated as a lease.

Lease term

Definition of lease term

The lease term applied for the calculation of discounted lease payments is the non-cancellable lease term period with due regard to

- Options to extend the lease if the exercise of those options by the lessee is reasonably certain, and
- Early termination options if the lessee is reasonably certain not to exercise those options.



** Which the lessee is reasonably certain to exercise.*

***Which the lessee is reasonably certain not to exercise.*

In evaluating the reasonable certainty that extension or early termination options will be exercised, consideration must be given to all facts and circumstances that could represent economic incentives to exercise or not exercise these options, particularly including:

- The terms and conditions for exercising these options (including the calculation of lease payments in the event of an extension or penalty payments in the event of an early termination),
- Significant changes in the leased areas (certain layouts, e.g. of a bank vault),
- The costs associated with a termination of the lease (including negotiation costs, moving costs, costs for finding a new property that meets the needs of the lessee),
- The importance of the leased assets for the lessee based on special characteristics, location or the availability of similar assets (particularly in the case of properties at locations of strategic business importance due to transport links, expected capacity utilization or the attractiveness of the location),
- Earlier extensions of similar contracts and the future use strategy for the assets (e.g. expected restructuring of a branch network).

If the lessee and the lessor both have a right to terminate the lease without the consent of the other party and without a significant penalty payment, the lease is no longer binding and therefore no longer constitutes a lease liability.

Changes of the lease term

If the circumstances that influence the exercise of lease options by the lessee change under the terms of the lease or if events occur that legally obligate the lessee to exercise (or not exercise) an option that was not previously included or is already included in the lease, the term must be adjusted.

After a change of the lease term, the lease liability must be calculated anew on the basis of these changes and an adjusted discount rate for the estimated remaining lease term.

Accounting for leases by the Group

At the date of commencement of the lease (the date when the right to use the leased asset is transferred), the lessee must recognize a lease liability and a right-of-use asset in the statement of financial position.

In the income statement, the lessee must recognize interest expenses on the basis of the lease liability as Net banking income and amortization of the right-of-use asset in the item of *Depreciation, amortization and impairments of property, plant and equipment and intangible assets*.

The lease payments are apportioned between a reduction of the lease liability and compensation of the liability in the form of interest expenses.

Exemptions and exclusions

The Group does not apply the new lease accounting rules to leases with a term of one year or less (including extension options) and leases for low-value assets less than the threshold value of USD 5,000 according to the “Basis for Conclusions” section of the Standard (the threshold value should be measured on the basis of the replacement costs for each unit of the leased asset).

Amount of lease payments

The payments serving as the calculation basis for the lease liability are composed of fixed and variable lease payments based on an index (e.g. consumer price index of construction costs index) plus, where applicable, amounts that the lessee can be expected to pay to the lessor for residual value guarantees, purchase options or penalty payments for early termination.

Variable lease payments tied to the use of the leased asset (e.g. revenues or kilometer counts) are not considered in the calculation of the lease liability. The variable portion of lease payments is recognized in profit or loss on a long-term basis according to the fluctuations of the contractual indices.

Lease payments are recognized after deduction of value-added taxes. In addition, construction leases transferred to the lessor, hotel taxes and property taxes are not recognized as lease liabilities because these are variable amounts determined by the responsible government authorities.

Recognition of lease liabilities

The original amount of the liability is the present value of lease payments owed over the term of the lease.

The lease liability is measured at amortized cost according to the effective interest method: The lease payments are apportioned between interest expenses in the income statement and successive reductions of the stated lease liability.

After the date of commencement, the amount of the lease liability may be adjusted to reflect lease adjustments, new estimates of the lease term or contractual changes affecting the indices or interest rates upon which the lease payments are based.

The lessee may also have to recognize a provision for the costs of restoring the original condition of the leased asset that are expected to be incurred upon the end of the lease relationship.

Accounting for the right of use

On the day when the leased asset is made available, the lessee must recognize a right-of-use asset in the statement of financial position in the amount of the initial value of the lease liability plus any directly incurred costs (e.g. issuance of a notarized lease, registration fees, transfer expenses, commitment fees, lease right, rent bonus), prepayments and restoration costs.

This asset is then amortized on a straight-line basis over the lease term on which the calculation of the lease liability is based.

After the date of effect, the value of the asset may be changed if the lease is adjusted. This also applies to the lease liability.

The right of use is recognized in the lessee's statement of financial position under Property, plant and equipment in the same line item as similar real properties held as unrestricted property. If the lease stipulates the initial payment of a lease right to the former tenant of the leased areas, the amount of this right is presented as a separate component of the right of use in the same line item.

Discount rates for leases

Lease payments and lease liabilities are discounted by application of the lessee's incremental borrowing rate. For companies that can raise funding directly in their local markets, the incremental borrowing rate is determined at the lessee's company level and not at the Group level, based on the credit terms and credit risk of this company. For companies that receive funding from the Group, the incremental borrowing rate is specified by the Group.

The discount rates are specified on the basis of the currency, registered office of the lessee companies and the estimated lease terms.

(In euro thousands)	Intangible assets	Intangible assets under construction	Operational equipment (excluding assets under operating leases)	Assets under operating leases	Investment property	Rights of use	Total
Acquisition and production costs							
Balance at December 31, 2018	**23,781**	**61**	**10,905**	**724,177**	**0**		**758,924**
Effects of the first-time application of IFRS 16	**0**	**0**	**0**	**0**	**0**	3,347	**3,347**
Acquisitions	124	126	563	133,236	0	2,072	**136,121**
Disposals	0	0	1	(87,115)			**(87,114)**
Other movements	0	0	0	0	0	0	**0**
Balance at June 30, 2019	**23,905**	**187**	**11,469**	**770,298**	**0**	**5,401**	**811,260**
Accumulated depreciation, amortization and impairment expenses							**0**
Balance at December 31, 2018	**(18,367)**	**0**	**(8,236)**	**(171,947)**	**0**	**0**	**(198,550)**
Depreciation and amortization	(966)	0	(339)	(52,985)	0	(568)	**(54,858)**
Impairment expenses	0	0	0	(114)	0	0	**(114)**
Reversals of impairments / disposals	0	0	0	42,443	0	4	**42,447**
Other movements	0	0	0	0	0	0	**0**
Balance at June 30, 2019	**(19,333)**	**0**	**(8,575)**	**(182,603)**	**0**	**(564)**	**(211,075)**
Carrying amounts							
at December 31, 2018	**5,414**	**61**	**2,669**	**552,230**	**0**	**0**	**560,374**
Balance at June 30, 2019	**4,572**	**187**	**2,894**	**587,695**	**0**	**4,837**	**600,185**

FUTURE MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES

(In euro thousands)	06/30/2019	12/31/2018
Breakdown of the total amount of minimum payments to be received	*0*	*0*
Due in less than one year	217,473	186,187
Due in one to five years	432,528	326,734
Due in more than 5 years	0	0
Total future minimum lease payments to be received	**650,001**	**512,921**

INFORMATION ON THE LEASING OF PROPERTY, PLANT AND EQUIPMENT USED BY THE GROUP

PROPERTY AND EQUIPMENT LEASING

The leases relate exclusively to the use of office space.

The other leases relate primarily to motor vehicles and computer equipment.

DETAILS OF LEASING EXPENSES AND INCOME FROM SUB-LEASING

(In euro thousands)	06/30/2019			
	Real estate	**Computer equipment**	**Other**	**Total**
Leases	**(842)**	**(32)**	**(387)**	**(1.261)**
Interest expenses for lease liabilities	-	-	-	-
Depreciation of the assets underlying the rights of use	(295)	-	(273)	(568)
Expenses for short-term leases	(547)	-	(102)	(649)
Expenses for leases for low-value assets	-	(32)	(12)	(44)
Expenses for variable lease payments	-	-	-	-
Sub-leases	**116**	**-**	**-**	**116**
Income from the sub-leasing of rights of use	116	-	-	116

NOTE 10 – 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, 2019.

COUNTERPARTY DEFAULT RISKS

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

(In euro thousands)	**06/30/2019**
Financial assets measured at fair value through profit or loss	4,007,562
Loans to and receivables from banks	88,885
Loans to and receivables from customers	4,101,612
Tax assets	1,641
Receivables under finance leases	470,100
Other assets	133,195
Total	**8,802,995**

In addition, there are irrevocable loan commitments to customers in the nominal amount of EUR 216,631 thousand.

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

For estimating 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 soundness of the counterparty and all measures taken to mitigate the risk, the RWA weightings are assigned on the basis of customer categories.

The credit value at risk with a confidence level of 99.90% at June 30, 2019 is presented in the table below:

	Sales Financing			
In euro millions	EAD	Expected loss	Unexpected loss	Credit value at risk
Individual customers	3,347.85	16.41	45.34	61.75
Commercial customers	536.75	7.21	15.61	22.81
Total portfolio	**3,884.60**	**23.62**	**60.95**	**84.57**

In euro millions	Dealer Financing EAD	Expected loss	Unexpected loss	Credit value at risk
Without manufacturer guarantee	192.69	8.43	7.38	15.81
With manufacturer guarantee	75.63	0.64	4.68	5.32
Total portfolio	**268.31**	**9.07**	**12.06**	**21.13**

In euro millions	Leasing EAD	Expected loss	Unexpected loss	Credit value at risk
Individual customers	221.94	1.19	5.19	6.38
Commercial customers	864.59	3.91	16.36	20.27
Total portfolio	**1,086.52**	**5.10**	**21.55**	**26.64**

The portfolio sold without recourse within the higher-ranking group was not included in the calculation for dealer 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 89% of the loan agreements are for up to EUR 25,000.

In purchase financing, we have 1,373 exposures, with the 362 biggest borrowers accounting for 76% 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 55% in the first half of financial year 2019 (PY: 61%). Therefore, the percentage of vehicles for which the residual value risk is assumed is 56% of the total volume (PY: 54%). 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, 2019, SG Effekten had an unused credit line with Société Générale S.A. Frankfurt Branch in the amount of EUR 10 million and an unused credit line in the Financial Services to Corporates and Retails segment in the amount of EUR 5,898 million, of which EUR 1,058 million has not been drawn down.

The primary goal of liquidity risk management is to secure the funding of the Group's 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 for 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 requirements from 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, 2019 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	06/30/2019
Financial assets measured at fair value through profit or loss	366,687	854,368	501,222	393,146	1,892,139	4,007,562
Receivables from banks at amortized cost	70,385	850	13,400	4,250	0	88,885
Loans to and receivables from customers at amortized cost	532,688	1,027,964	2,453,466	87,494	0	4,101,612
Receivables under finance leases	34,596	115,991	318,900	613	0	470,100
Other assets	186,691	148,626	398,580	3,932	0	737,829
Total receivables	**1,191,047**	**2,147,799**	**3,685,568**	**489,435**	**1,892,139**	**9,405,988**

Liabilities:

(In euro thousands)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indefinite term	06/30/2019
Financial liabilities measured at fair value through profit or loss	338,473	851,327	498,602	351,384	1,895,128	3,934,914
Hedging derivatives	2,339	0	0	0	0	2,339
Securitized liabilities	109,948	295,199	391,297	0	0	796,444
Liabilities to banks	450,003	988,124	2,825,307	203,612	0	4,467,046
Liabilities to customers	1,092	0	0	0	0	1,092
Other liabilities	105,017	26,339	49,130	13,768	0	194,254
Total liabilities	**1,006,872**	**2,160,989**	**3,764,336**	**568,764**	**1,895,128**	**9,396,089**

RISKS OF LEGAL DISPUTES

Since August 2015, various former and current employees of the Société Générale Group have been investigated in connection with their alleged participation in the so-called "CumEx" transactions related to investment income tax on dividends from German equities. These investigations relate to a fund managed by SGSS GmbH and transactions executed on behalf of clients.

On June 19, 2019 SGSS GmbH was informed by the Bonn Local Court that a criminal proceeding has been initiated against two persons who were employed by a company that advised this fund. The Bonn Local Court is currently in the process of determining whether SGSS GmbH should be involved in the criminal proceeding as a “secondary participant.”

In this connection, Société Générale Frankfurt provided a guarantee to SGSS GmbH that serves to completely cover the risks arising from these legal disputes.

NOTE 11 – DEALINGS WITH RELATED ENTITIES AND INDIVIDUALS

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 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, 2019, the managing directors received compensation totaling EUR 21.6 thousand as short-term benefits for the prior year. As of June 30, 2019, 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 2019 aside from the early loss absorption by Société Générale Effekten GmbH vis-à-vis Société Générale Securities Services GmbH in the amount of EUR 12,304 thousand and the early partial profit transfer from ALD Lease Finanz GmbH to Société Générale

Effekten GmbH in the amount of EUR 12,304 thousand in connection with the profit transfer agreement for the year 2018.

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.

An overview of the subsidiaries and associates of Société Générale Effekten GmbH is presented in the description of the consolidation group (see Note 2).

Dealings with entities of the same corporate group:

(In euro thousands)	**Existing balances at 06/30/2019**
Assets	4,728,368
Liabilities*	7,488,149
Expenses	(703,540)
Income	968,636

*Placements with third parties have been subtracted from the amounts presented as liabilities.

NOTE 12 – TRUST BUSINESS

In addition to the transactions presented in the statement of financial position, the Group is active within the scope of 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 1,260,158 thousand.

NOTE 13 – 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 have occurred since the reporting date.

On February 11, 2019, Société Générale received approval from the Cartel Authority to acquire the Equity Markets & Commodities (EMC) business from Commerzbank. The EMC business comprises the issuance and market making of structured trading and investment products, as well as parts of the asset management business and the business of exchange-traded index funds (ETFs).

In the context of this acquisition, Société Générale Effekten GmbH will act as the future issuer of some of the products. Moreover, the activity of listing the products in other European markets, which had been discontinued in 2016, will be resumed.

The transaction will be carried out in several steps. Smaller parts of the EMC business will be transferred to Société Générale Effekten GmbH before the end of 2019. However, due to the scope of the business activities to be transferred and the complexity of the individual transfer processes, it will not be possible to complete all transfers in 2019 and therefore the remaining transfers will be conducted in the first quarter of 2020.

Frankfurt am Main, September 20, 2019

The Management

Françoise Esnouf	Helmut Höfer	Rainer Welfens

Responsibility Statement

We hereby affirm to the best of our knowledge that the consolidated semiannual financial statements prepared in accordance with the applicable financial reporting standards present a true and fair view of the Group's financial position, cash flows and financial performance and that the Group management report presents a true and fair view of the Group's business performance, including its operating results and situation, and accurately describes the significant opportunities and risks of the Group's expected development.

Frankfurt am Main, September 20, 2019

The Management

Société Générale Effekten GmbH

Françoise Esnouf	Helmut Höfer	Rainer Welfens