SOCIETE GENERALE INTERNATIONAL LIMITED

PILLAR 3 DISCLOSURE DOCUMENT

As at December 2017

SOCIETE GENERALE
Corporate & Investment Banking

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INTRODUCTION

1.1. *BACKGROUND*

The purpose of this document is to outline the Pillar 3 disclosures for Societe Generale International Limited.

SGIL is a UK based Markets in Financial Instrument Directive ('**MiFID**') Investment Firm, authorised and regulated by the Financial Conduct Authority ('**FCA**') and is designated as a Limited Activity Firm ('**LAF**') and significant IFPRU Firm (under the FCA's Prudential Sourcebook for Investment Firms ('**IFPRU**'). SGIL is a non-US Swaps Dealer regulated by the US Commodity Futures Trading Commission ('**CFTC**').

With effect from 1 January 2014, the existing capital requirements were replaced by the Capital Requirements Regulation ('**CRR**') and the Capital Requirements Directive ('**CRD**'), which together comprise ('**CRD IV**'). Under CRD IV, SGIL needs to comply with the EU CRR and the FCA's IFPRU handbook.

This Basel framework is structured around three Pillars:

- Pillar 1 sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk
- Pillar 2 requires a Firm to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') to establish if whether the Pillar 1 capital is adequate to cover all the risks faced by the Firm and also ensures that it can meet its liabilities as they fall due. If the Pillar 1 capital is considered insufficient then the Firm must calculate the additional amount required.
- Pillar 3 sets out market discipline and requires a firm to disclose specific information on its risk management policies and procedures and the firm's capital resources.

The CRR sets out specific disclosure requirements. This document is intended for SGIL to meet those requirements therein.

1.2. *DISCLOSURE POLICY*

SGIL has adopted a formal policy to comply with the disclosure requirements, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency. The disclosures comprehensively convey our risk profile to other market participants.

SGIL publishes this disclosure annually on its website.

1.3. *BUSINESS OVERVIEW*

SGIL is a wholly owned subsidiary of Societe Generale S.A., a global systemically important bank ('**G-SIB**'), incorporated in France and is integrated into the Global Markets Division ('MARK') and benefits from strong financial support and an integrated business platform.

SGIL is part of Societe Generale's global platform for Execution services, Clearing, Prime Brokerage and Cross-Asset Secured Financing.

The Firm provides coverage of Execution services, Clearing, Prime Brokerage and Cross-Asset Secured Financing for a broad range of fixed income, foreign exchange, equity and commodity products in both listed and OTC markets. The Firm also provides clients with value added services, including a Prime Brokerage offering, electronic platforms for trading and order routing, cross margining, the centralised reporting of client portfolios and Cross-Asset Secured Financing.

In line with the stated business model, SGIL will, therefore:

- Not take proprietary speculative positions;
- Not service retail clients;
- Not engage in jurisdictions or business relationships presenting an unacceptable level of risk, as defined by the Compliance, Financial Crime Unit and Risk guidelines;
- Ensure that all employees have the right level of knowledge and understanding of the SGIL's cultural values and principles and that proper operational processes and controls are in place to mitigate the risk of fraud and regulatory breaches;
- Protect the data of our clients;
- Ensure that conduct risk policies and training are in place to ensure that conflicts of interests are avoided and that clients are treated fairly;
- Maintain sufficient liquidity at all times to survive for a period of at least 35 days under an "extreme, but plausible" stress scenario; and,
- Maintain sufficient capital at all times to ensure compliance with regulatory capital requirements.

Following the integration of SGIL within Societe Generale's Global Markets business, SGIL activities span 2 Market sub-Business Units ('**MARK**') and a Treasury function. The two mains Business Units are Prime Services ('**MARK/PRM**') and Commodity ('**MARK/CTY**'), including a joint venture with Global Finance ('**GLFI**') and two other Business Units Equities & derivatives ('**MARK/EQD**'), Fixed Income and currency (**'MARK/FIC**') are joint ventures.

SGIL Activities

Business Units	Descriptions
Prime Services ('**MARK/PRM**');	MARK/PRM provides expertise that offers global access to a complete cross-asset service in cash and listed derivative instruments across Equities, Fixed Income, and Foreign Exchange. Prime Services and Agency Execution is the result of comprising the three businesses: Clearing; Prime Brokerage Services; and Agency Execution. Clearing provide clearing and settlement services across multiple asset classes. SGIL offers straight- through processing serving a range of clients from financial institutions, to hedge funds and corporates.

Business Units	Descriptions
	The Prime Brokerage Services business combines expertise across global exchanges, instruments and asset classes with a detailed understanding of hedge fund and CTA trading strategies, their structure and operational set-up and investor objectives. SGIL makes available solutions to clients that include portfolio cross-margining tools, risk calculation, start-up services, capital introduction, financing and reporting capabilities. The core strategy of the Prime Brokerage Services business is the further development of the Equity Prime Brokerage, CTA and Global Macro hedge fund businesses.
Equities & derivatives (‘**MARK/EQD’)**	MARK/EQD capability spans the full spectrum of cash equity, equity finance, derivative-based services, equity structured products and financing.
Fixed Income and currency (‘**MARK/FIC**’);	MARK/FIC includes credit, interest rate, bond and global currency sales and dedicated client trading. Supported by extensive research, trading and e-commerce capabilities, MARK/FIC offers expert advice, strategy, flow information, competitive pricing and seamless execution to its clients.
Commodity (‘**MARK/CTY**’)	MARK/CTY provides commodity broker services in Energy, Agricultural and Metals products to corporate (producer, processor, merchant), commodity trading advisor (‘CTA’), hedge fund, and institutional clients.

MARK/EQD and MARK/FIC offer fixed income and equity facilitation to PRM business for the expansion of the Prime Brokerage offer to external customers.

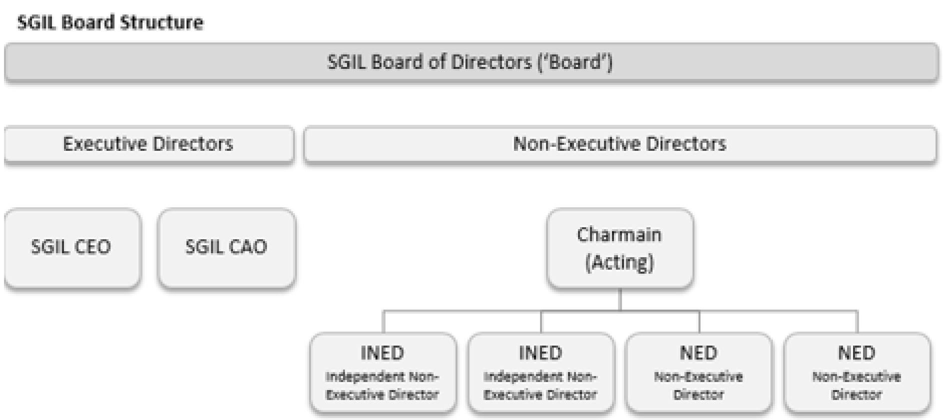
2. SGIL Governance Structure

SGIL has established an appropriate corporate governance structure risk management framework and various policies and procedures to manage its business at all levels of the organisation. This section sets out the principal elements of SGIL's governance arrangements, including the management structure, committees and defined responsibilities.

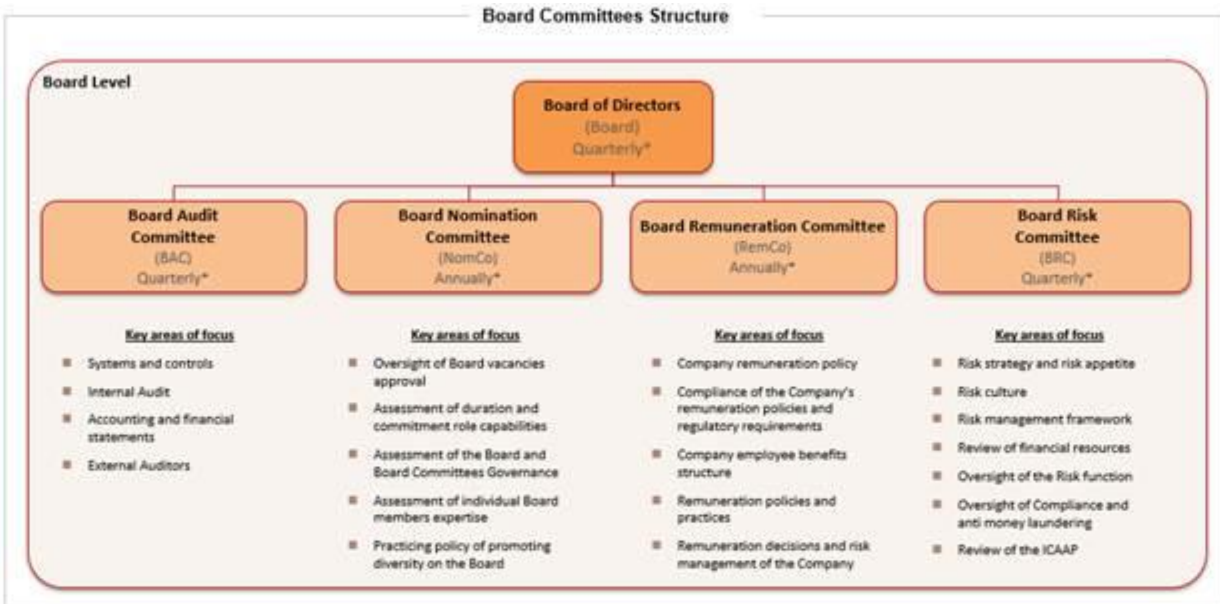
SGIL Board of Directors

The SGIL Board of Directors provides strategic oversight of the business and its operations. The Board is ultimately responsible for the oversight of risk within SGIL and approves the Risk Appetite Framework (including The Risk Appetite Statement).

The composition of the Board of Directors is intended to provide the requisite levels of experience and appropriate challenge to oversight of SGIL's business and corporate activities. The Board comprises of Executive Directors and Non-Executive Directors ('**NEDs**') and Independent Non-Executive Directors ('**INED**'). The NEDs and INED provide and independent challenge and oversight over SGIL's strategy and operations. The Chairman of the Board is a NED.



The Board has established various sub-committees for Audit, Risk, Nomination and Remuneration.



** Frequency is at least quarterly or annually as the case maybe. Each meeting frequency is defined under Board and Committees Terms of Reference*

SGIL Executive Level (Senior Management)

SGIL Senior Management is responsible for the day to day management of the business.

SGIL's Chief Financial Officer ('**CFO**') has a direct reporting line to the SGIL CAO, as well as a functional reporting line to the SG UK CFO. This dual positioning is to ensure that SGIL maintains full independence of financial reporting and control, but also ensures the consistent implementation of Societe Generale's accounting policies and standards. The SGIL CFO is the owner of the ICAAP document.

SGIL's Chief Risk Officer ('**CRO**') is responsible for the development, implementation, maintenance and operational effectiveness of an appropriate framework for identifying, assessing, monitoring and reporting SGIL's risks.

The CRO has a dual reporting line with the SGIL Chief Executive Officer ('**CEO**') and to the Head of SG Group Corporate and Investment Banking Risk team ('**RISQ/CIB**'). The CRO coordinates Group risk resources as per the terms of the CSLA agreed with the Group Risk Department ('**RISQ**'). Another CSLA has been agreed with the Group Market Analysts and Certification Community, which is the department that produces, certifies and provides first-level analysis of risk metrics on market operations.

The CRO also has a dotted line reporting line to the Chair of the BRC, in accordance with good governance principles.

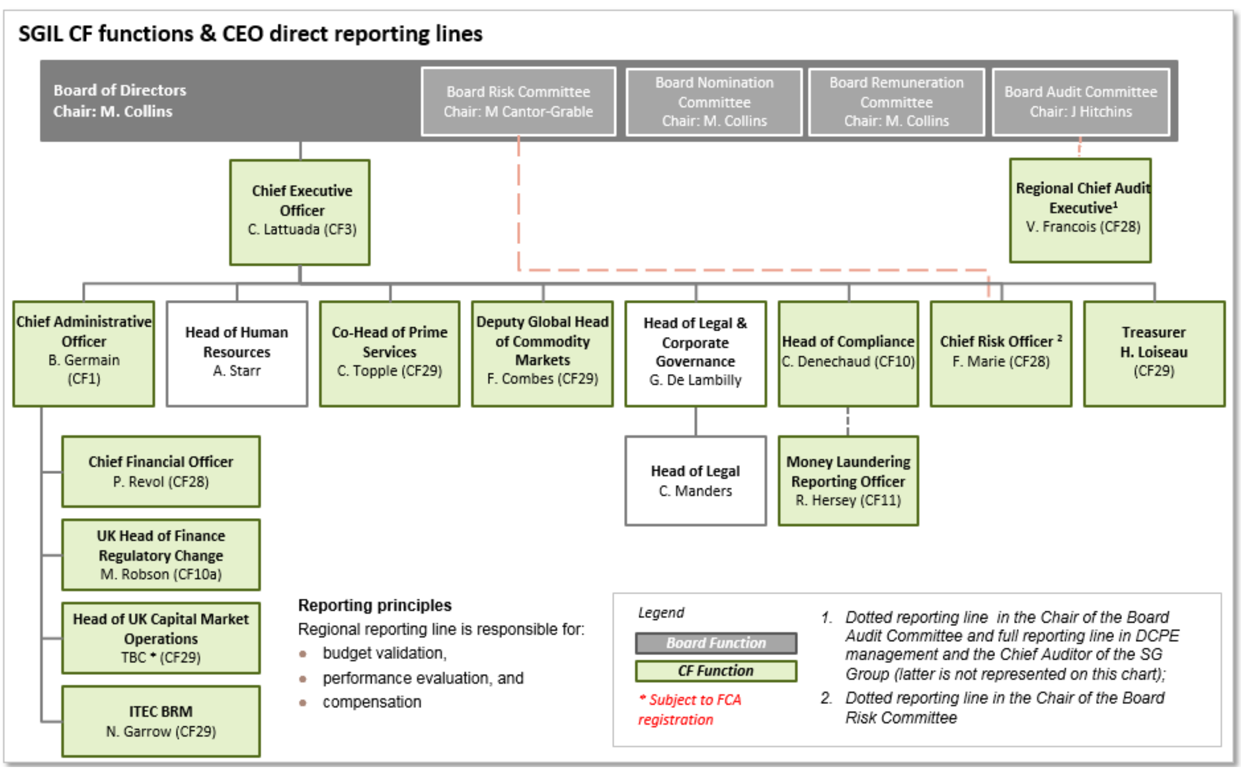
The CRO's main tasks and responsibilities are to:

- Ensure that SGIL has an appropriate Risk Management framework that enables an effective identification, assessment, monitoring and reporting of risk, specifically:

- Key involvement in developing, defining and reviewing SGIL's risk appetite for the Board's approval;
- Providing input in investment, capital and resource allocation decisions (including new business proposals, projects and products), highlighting key risks, the potential impact of these risks and providing suggestions as to mitigating controls;
- Ensuring the development and maintenance of the risk register, highlighting key risks and planned actions to mitigate these risks;
- Overseeing and promoting a robust risk governance, assisting in and ensuring the development and communication of effective risk management policies and procedures specific to SGIL;
- Providing a comprehensive view, through clear and regular management information, to the Board and executive management of the overall risk exposures of the Firm and performance against the risk appetite to enable effective and timely decision making.

- Responsible for ensuring alignment and consistency with SG Group policies, guidelines and procedures, wherever possible;
- Key contact for regulators in relation to SGIL risk management and responsible for ensuring that SGIL risk management framework meets applicable regulatory requirements and standards;
- Serving on various committees involved in business, operations, risk management, control and oversight as a member, chairperson or permanent invitee.

The executive level organisation is summarised in the following organisation chart

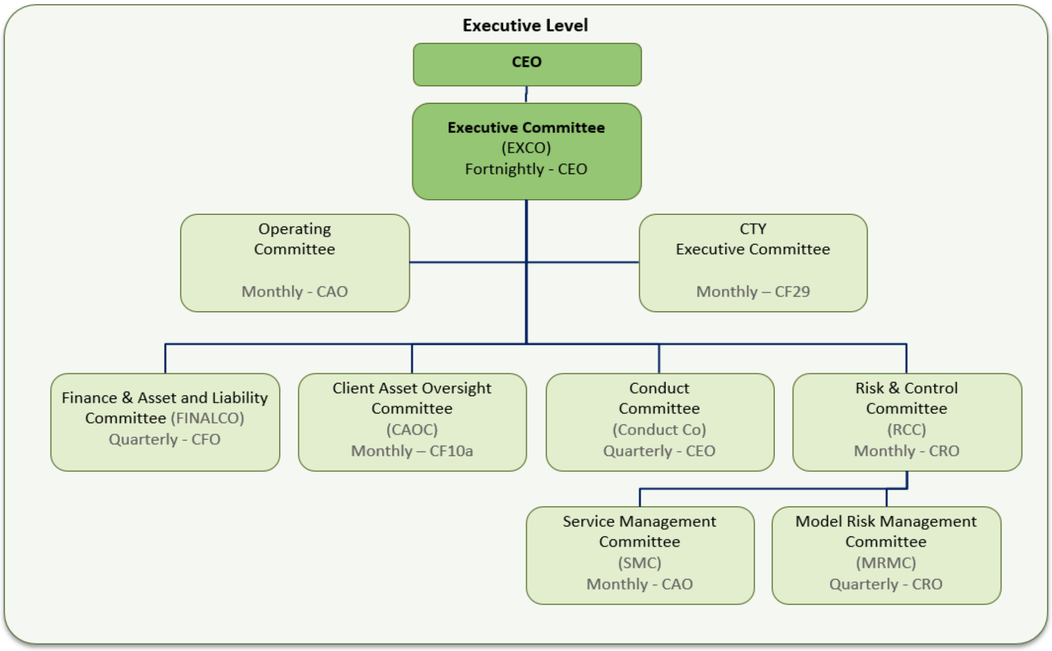


Senior Management Organisation as of 31/12/17

The Executive Committee is responsible for the Board approved actions and day to day decision-making in relation to SGIL activities.

- SGIL CTY EXCO (Fortnightly) is a sub committee of the ExCo ensuring detailed oversight of CTY specific matters within SGIL
- The Operating Committee (Monthly) is responsible for monitoring and overseeing of SGIL operational platform.

The Executive has decided to set up four technical Executive Committees to assist the Board in fulfilling its responsibilities



The Board and the Executive committee structures are aligned to ensure effective management oversight, including:

- At the Board level, the Board of Directors and its sub-committees, including the Board Risk Committee (‘**BRC**’) and the Board Audit Committee (‘**BAC**’);
- At the Executive level, the Executive Committee and its sub-committees, including the Risk & Control Committee (‘**RCC**’).

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3. RISK MANAGEMENT FRAMEWORK

Risk management is recognised as an integral component of good management and governance and is vital in defining achievable business objectives and strategy and ensuring their successful execution.

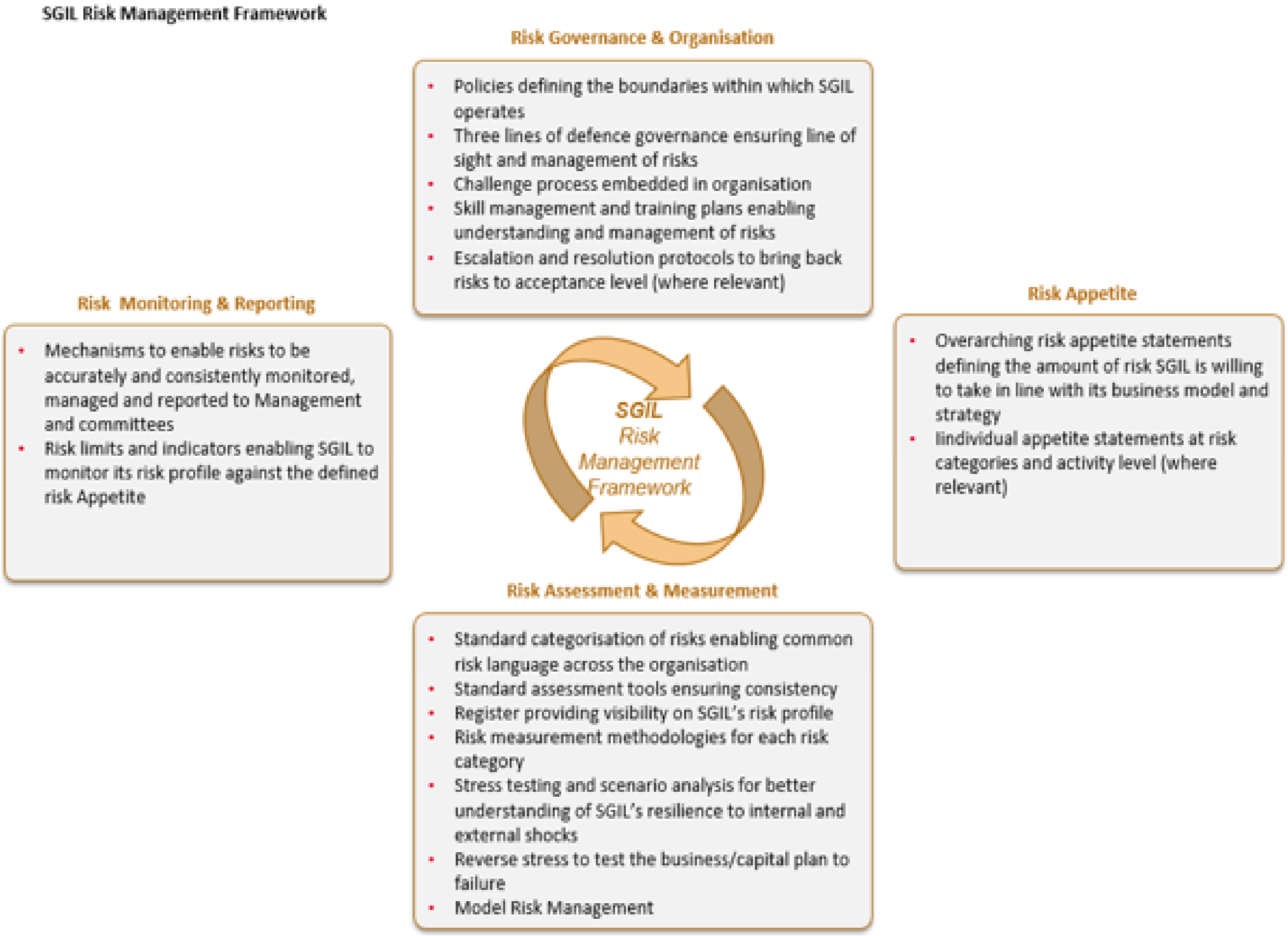
The SGIL Risk Management Framework ('**RMF**') defines the structure within which SGIL identifies, assesses, monitors, manages, and reports potential and realised risk exposure. The embedding of an appropriate risk management framework and culture is of critical importance in meeting the expectations of all stakeholders, including business management, the parent organisation, clients, regulators and staff.

The SGIL RMF utilises the Three Lines of Defence ('**LoD**') model in establishing responsibility for the ownership and management of risk, its oversight and challenge and its assurance.

The objectives of the RMF are to set the standards of risk within SGIL covering:

- Risk Governance and Organisation;
- Risk Appetite;
- Risk Assessment and Measurement;
- Risk Monitoring and Reporting;

SGIL Risk Management Framework

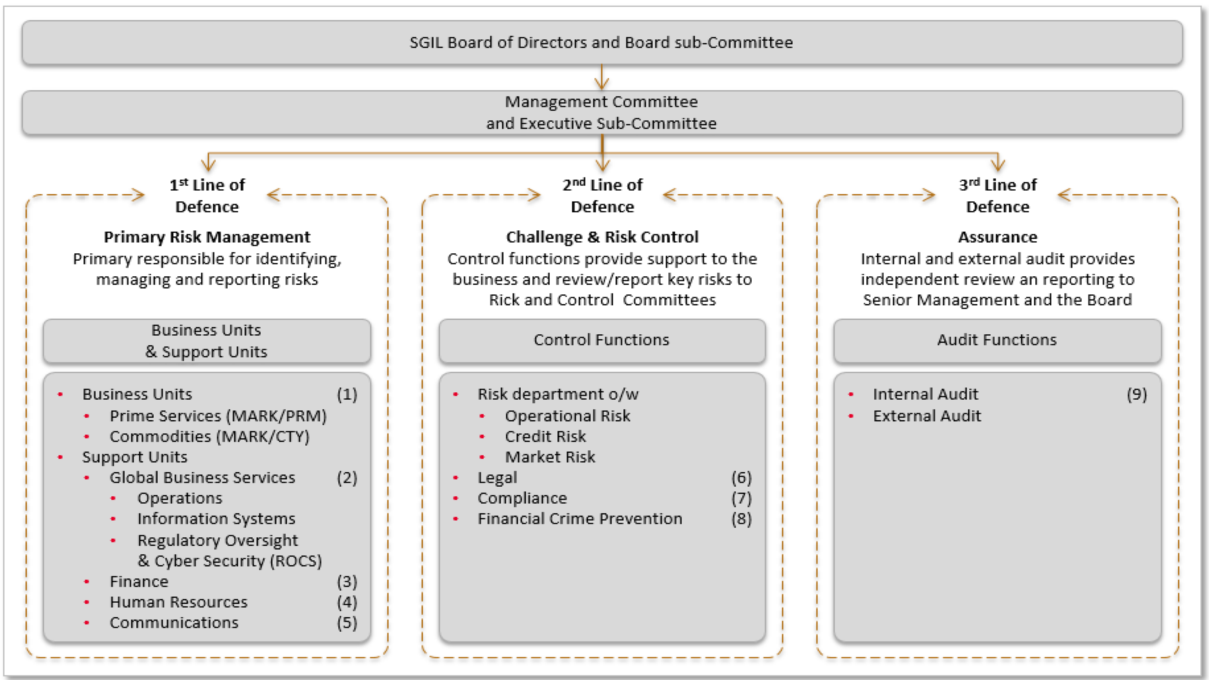


The SGIL Chief Risk Officer ('**CRO**') has primary responsibility for the design of RMF including, its ongoing maintenance to ensure its continued effectiveness.

The implementation of the RMF throughout SGIL is the responsibility of every employee, under the management of their line managers and ultimately of the SGIL CEO. It addresses all risk categories across SGIL Business Units and Support Units.

3.1. *RISK GOVERNANCE AND ORGANISATION*

SGIL has embedded a formalised corporate governance structure, which ensures that the Board Directors has visibility of the risks faced by SGIL and the framework in place to manage and mitigate them. The organisation and risk governance structures ensure that there is sufficient oversight and escalation to manage SGIL's risks and a 'Three Lines of Defence' ('**LoD**') model ensures appropriate responsibility for management, challenge and assurance:



1st Line of Defence

(1) *Within SGIL there are two main Business Units: Prime Services ('**MARK/PRM**') and Commodities ('**MARK/CTY**'). For the Business Unit Prime Services, SGIL has outsourced some front office functions to other SG entities. This specifically relates to the financing function (service provided by the sub Business Unit MARK/PRM/XSF) and execution function (service provided by the sub Business Unit MARK/PRM/GES).*

(2) ***Global Business Services***

- ***The Operations Department ('OPER')*** *has outsourced to the SGGSC entity (India), SGPM (Paris) and SGLB (UK). SGGSC manages many activities of which DCL Reconciliations, Break Management and LME, Confirmations and Settlement, Revenue Services, Client Services, Collateral, Global Position Management, Securities settlement and Regulatory testing. The Regulatory reporting and DPS settlement was outsourced to SGPM. A small project team and KYC are outsourced to the SGLB. The rest of the Operations function remains within SGIL*
- ***The Information System Department ('ITEC')*** *is still lightly outsourced to SGLB entity (mainly for activities on Cash Equity Trading). After the 1 February 2018 TUPE process (76 ITEC headcounts were transferred to SGIL from SGLB) including the FCA approved CF29 ITEC control function.*
- ***The Regulatory Oversight & Cyber Security Department*** *('**ROCS**') - First Line of Defence has outsourced their services to the SGLB entity, including Business Continuity Management ('**BCM**'). However, the Head of Operational Risk (Second Line of Defence) for SGIL is a SGIL employee and has a dual reporting line into the SGIL CRO and the SG UK RISQ/OPE function.*

(3) ***Finance Department*** *has outsourced a part of the activity to SGEBS (European Business Services), SGGSC entity (India) and is still partially outsourced to the SGLB Entity as well after the 1 February 2018 TUPE (23 headcount was transfer to SGIL from SGLB);*

*(4) The **Human Resources Department ('HRCO')** are partly outsourced to the SGLB Entity*
*(5) The **Communication Department ('COMM)'** are partly outsourced to the SGLB Entity*

2nd Line of Defence
*(6) The **Legal Department**: Since February 2018, the Legal team members are dedicated to SGIL under a secondment agreement from SGLB Legal Department. The Global Head of Legal and Company Secretary for SGIL remains an SGIL employee. To be noted, a few legal services such as Data Protection Officer continue to be outsourced to SGLB.*
*(7) The **Compliance Department is partially outsourced** their services **to SGLB** . The Head of Compliance (CF10) is approved by the FCA.*
*(8) The **Financial Crime Prevention** Department is fully outsourced to the SGLB entity. The Anti Money Laundering Reporting Officer (CF11) is approved by the FCA.*

3rd Line of Defence
*(9) The Inspection & Audit Department ('**IGAD**') is fully outsourced to the SGLB entity*
For IT, Operation and Finance: In 2017, in anticipation of the implementation of the Senior Management Regime and to improve the SGIL governance and accountability of management, it was decided to adjust the current organisation by realigning the management team under SGIL and transferring the dedicated staff hosted by Societe Generale London Branch ('SGLB'), but supporting SGIL's activities to be within SGIL. As part of this process, 243 headcounts mainly from IT, Operations and the Finance department were transferred on 1st February 2018 from SGLB to SGIL. As costs were recharged previously from SG London Branch to SGIL, no significant financial impact is expected following the transfer of these staff.

Outsourced Essential Services and Activities

As per SYSC 8 requirements, where essential services are provided by other SG Group entities, these are managed as per the SG Group Outsourced Essential Services ('**OES**') policy adopted by SGIL.

A Client Service Agreement ('**CSA**'), signed on 31 August 2016, defines the general principles (e.g. regulatory provisions, Parties general obligations, etc.) upon which SGIL and the SG Group cooperate. Further Client Service Level Agreements ('**CLSA**') provide guidelines for a detailed service description and daily works organisation for each coherent functional area, where appropriate.

These Client Service Level Agreements ('**CSLAs**') specify the responsibilities of each party, the set of measures which are being monitored and reported, the frequency of the reporting and the escalation / resolution protocols if the commitments set in the SLAs are not met.

The oversight of these arrangements is managed by the Service Management Committee ('**SMC**') at the executive level, but ultimately the Board Risk Committee.

Business Continuity Management

Business Continuity Management ('**ROCS/BCM**') is another core outsourced activity under the responsibility of Regulatory Oversight & Cyber Security Department **('ROCS**'). Considering the close integration of SGIL and SGLB, the ROCS/BCM team reports the status of the BCM framework and tests to the RCC on a monthly basis, including SGIL specific and shared indicators.

New Product Committee

In case a new activity or product relates to SGIL, the SGIL CRO will systematically be included in the relevant New Product Committee ('**NPC**'). All relevant issues and key indicators relating to NPC will be escalated to the SGIL RCC and, where required, the Board via the BRC.

3.2. *RISK APPETITE*

Risk Appetite sets out the level of risk that the Board of Directors of SGIL is comfortable with, whilst allowing profitable business development. SGIL has articulated its Risk Appetite in line with its business model and SG Group requirements.

The SGIL Risk Appetite Framework (‘**RAF**’) presents the governance and implementation framework and the SGIL Risk Appetite Statement (‘**RAS**’) formalises the SGIL appetite for the major risks it faces in the conduct of its business. The RAF and RAS was updated and approved by the SGIL Board of Directors in June 2018 and reviews annually or more frequently in case of substantial changes in the business model, industry or macroeconomic conditions.

Based on 4 pillars, the SGIL Risk Appetite sets out the level of risk that SGIL is comfortable with, whilst allowing profitable business development

- Protect the market stability, as well as the integrity, the interests of the clients and the reputation of the firm in all its activities, relationships and decision making. SGIL has no appetite for risk in the conduct of any of its activities that puts its good reputation in jeopardy, could be in breach of laws and regulations, could lead to adverse publicity, or could lead to loss of confidence by key stakeholders, such as clients or regulatory authorities;
- Preserve the capital of the Firm and maintain its capital adequacy at all times to satisfy its commercial and regulatory obligations;
- Maintain at all times sufficient liquidity to meet its obligations as they fall due;
- Ensure a minimum level of Profitability.

3.3. *RISK ASSESSMENT AND MEASUREMENT*

Risk Categorisation

SGIL utilises a defined risk universe and a common taxonomy across the Firm which enables risks to be clearly and consistently categorised, managed and reported to line management, policy owners and Committees.

The risk universe has been articulated utilising the Basel II definitions.

Risk identification and assessment

The process repository is used by SGIL in the risk assessments, error and incident events capture and permanent supervision controls, which provides a consistent basis with which to assess and measure the risks across SGIL’s processes.

SGIL uses standard industry risk assessment tool to enable risks to be assessed across the firm in a consistent manner. The key elements of the assessment framework include:

- The capture and analysis of historical errors and incidents covering internal, as well as external events where information is available;
- Internal and external auditor findings and recommendations;

- Risk & Control Self-Assessment (‘**RCSA**’) - Risk self-assessments identifying inherent risks and assessing the adequacy of controls to mitigate these risks;
- Compliance Risk Assessment (‘**COMPASS**’) - assessments identifying inherent compliance risks and assessing the existence and adequacy of controls covering to mitigate these compliance risks;
- Confidentiality Availability Traceability Integrity Sign-off (‘**CATIS**’) and Application Sensitivity Assessment (‘**ASA’**) assessments specific to the IT environment and/or applications looking at the associated technology risk;
- New Product Committee (‘**NPC**’);
- Outsourced Essential Services (‘**OES**’) service management reviews;
- Valuation of current risk exposures, where applicable; and,
- Scenario analysis and stress testing assessing potential future losses under extreme, but plausible circumstances.

Risk quantification, stress testing and aggregation

The key elements of the quantification framework are listed below:

- Operational Risk:
  - Historical errors and incidents (number and financial impact);
  - Risk & Control Self-Assessment (a potential loss amount based on the residual risk profile); and,
  - Stress testing on key risks (probability of occurrence and maximum loss).
- Credit Risk:
  - Valuation of credit exposures (Initial Margin Requirement, Variation Risk, Financing Risk, Nominal, Deposit Risk and Delivery Risk, Credit Value at Risk…);
  - Stress testing on top exposures (probability of occurrence and maximum loss at occurrence); and,
  - Basel III and CRD IV Risk Weighted Assets.
- Market Risk:
  - Adverse Stress Test, Nominal/Quantity, Maturity and Basis Point Value.
- Liquidity Risk:
  - Stress testing based on market wide, idiosyncratic and combination scenarios.

SGIL recognises the importance of a robust stress testing framework as a key risk management tool for understanding the firm’s resilience to both internal and external shocks. It enables SGIL to monitor adherence to its risk appetite under stressed circumstances and to calibrate its level of capital.

SGIL’s stress testing framework is:

- Based on a wide range of scenarios of varying nature, severity and duration;
- Forward looking by taking into account systematic and firm-specific changes in the near future;

- One of the key elements informing the capital planning process; and,
- Includes an annual SYSC20 Reverse Stress Test Exercise.

The stress testing framework is represented below:

Risk Appetite Statements

Stress Testing

Scenario analysis	Individual risk stress tests	Business/Group stress test
Use of a range of scenarios translated into relevant internal risk parameters providing a firm-wide view of the risks	Stress testing of specific exposures and risk factors, further broken down by risk sub- category or activity where relevant	Comprehensive stress test assessing how a deteriorating economic environment and increasing competitive pressure might lead to unexpected losses

Capital Planning

3.4. *RISK MONITORING AND REPORTING*

The Risk Monitoring and Reporting Framework is made up of four key elements of the Risk Management Framework:

- **Risk Universe** – Risks are monitored and reported using the SGIL standard risk categorisation to ensure common understanding of the risk profile of the firm across the organisation;
- **Risk Appetite –** The Risk Appetite of the firm is translated into a series of qualitative business acceptance criteria and quantitative limits, thresholds and risk indicators, monitored on a regular basis to ensure that the firm stays within its risk appetite. Should the results of the controls in place imply that SGIL is exposed to a risk exceeding its stated risk appetite, escalation and resolution actions are triggered in line with the applicable policies and procedures;
- **Risk Register** - The Risk Register records the key residual risks faced by the Firm, as well as the actions approved by Senior Management and the Board / Executive Committees to reduce the risk exposure of the firm. These mitigating actions typically result in the establishment of controls captured by the Risk Monitoring and Reporting Framework;
- **Risk Mitigation** — Mitigating actions which are identified during the Risk Control Self-Assessment (‘**RCSA**’) mappings process, following errors and incidents and exceptions raised during permanent supervision controls, are monitored and reported to reduce the risk exposure of the firm;

  Mitigating actions which are identified during the Risk Control Self-Assessment mappings process, following errors and incidents and exceptions raised during permanent supervision controls, are actioned and monitored to reduce the risk exposure of the firm. Those mitigation actions typically consist of the establishment of robust controls captured by the Risk Monitoring and Reporting Framework.

The **Risk Monitoring and Reporting Framework** consists of a variety of controls, including but not necessarily limited to:

- Review of stress test results against the associated limits / thresholds;
- Review of BAU loss exposures against the associated limits;
- Tracking of exceptions to the qualitative business acceptance criteria;
- Tracking of risk indicators against the applicable limits and thresholds;
- Review of errors and incidents;

Permanent supervision

Within the Operational Risk Reporting and Monitoring Framework, the Permanent Supervision process plays a pivotal role. Permanent Supervision controls have the following functions:

- To monitor the main operational controls implemented to mitigate the operational risk exposures of the firm; or,
- To monitor key risks where mitigants are weak to ensure the risk remains within acceptable levels.

This process is supported by using the Group Permanent System ('GPS'). The controls are defined by the operational managers with the support of the ROCS teams (First Line of Defence).

GPS controls are maintained by operational managers or transversal teams, in compliance with the performance guidelines set by the Group and ROCS. In addition, all controls performed are approved (at departmental level) by a manager, unless 'auto-validated'.

Operational risk department ('RISQ/OPE') tracks completion and performs a monitoring of the quality of the results provided called "spot check", including the justification of anomalies / exceptions and the delivery of corrective action plans proposed by the Functions.

ROCS monitors completion on a monthly basis and reports on the quality of the control maintenance on a quarterly basis.

The SGIL RISQ function (Second Line of Defence) oversees the performance of this control as it impacts SGIL's processes and controls.

The result of the control testing is reported through the risk governance process.

Risk register

This sections presents the Risk Register (main risks, financial and non-financial, faced by SGIL to its Management), the Compliance Risk Assessment and Roles & Responsibilities for Risk Register

In addition to the RCSA process, a Risk Register allows SGIL to monitor its risk on a **continuous basis**. Hence, key actions plans are monitored on a regular basis and emerging risks are continuously captured and assessed.

The objective of the Risk Register is to provide a clear view of all the main risks, financial and non-financial, faced by SGIL to its Management, the BRC and the Board of Directors.

The RCSA considers risks which are inherent to the SGIL business activity and assesses the quality of the control environment to determine any residual risk. If the level of this residual risk is above pre-determined thresholds, it is classified as a “High Risk”. However, certain inherent risks rated as ‘High Risk’ are considered unavoidable within the SGIL business model and therefore accepted as a normal part of the overall business offering. Their acceptance is approved by the BRC.

Therefore, the Risk Register consists of the High Risks requiring urgent attention and the related action plans necessary to mitigate the risks, plus any relevant metrics used to monitor the risk.

The Risk Register is the key part of the RCC agenda and is reviewed each month with the risk owner providing an update on :

- The status of any risk mitigation action plans;
- Any overdue Audit & ROCS recommendations;
- Key relevant incidents or events within the last month;
- Relevant risk metrics; and,
- Any reassessed residual risk status.

Therefore, the Risk Register is updated on a monthly basis following the RCC review and the continuous monitoring by the SGIL RISQ function. The Risk Register is reported to the BRC on a quarterly basis.

These ‘High Risks’ are also used to help identify relevant operational risk scenarios used within the ICAAP process.

Regular updates of the R&CSA, the continuous collection and root cause analysis of losses and incidents, insight from experts on emerging risks and all other significant risk issues and concerns are brought monthly to the RCC. The information is used by the Committee to update the Risk Register on an ongoing basis.

Emerging Risks are defined as potential risks that SGIL has not yet fully considered or assessed, so that they are currently not, or insufficiently, managed and monitored using SGIL’s risk monitoring tools and processes. Existing risks can emerge as significant risks, following further risk analysis or information or following internal or external changes, in Group or entity business strategy, or changes in the market organisation or/and regulation. These significant risks are then overseen and monitored by the RCC through the Risk Register process.

Focus on Compliance Risk Assessment

Compliance performs on annual basis a compliance risk assessment across SGIL business and Service Units. The objective of this assessment is to identify key compliance risk areas to determine priorities of actions (such as training, advice, policies) and reviews to be conducted for the coming year.

The Compliance Risk Assessment is focusing on the identification and assessment of the risk of non-compliance (and therefore of the risk of being sanctioned, or suffering a reputational risk or litigation resulting from non-compliance) on specific regulatory requirements such as market abuse, conflicts of interest, pre-trade and pre-sale regulatory requirements, Business Conduct requirements (non-exhaustive list).

The Compliance Risk assessment does not cover the assessment of overall compliance with the Senior Management Arrangement, Systems and controls requirements (SYSC section of the FCA handbook) if it does not relate to such specific regulatory requirements listed earlier. Such assessment is rather covered by the RCSA conducted by the Operational Risk department.

Roles & Responsibilities for Risk Register

The table below sets out the responsibilities associated to the maintenance of the Register:

Group	Responsibility
1st Line of Defence **Primary Risk Management** Business Units and Regulatory Oversight & Cyber Security ('ROCS')	• Review and update high risks on a monthly basis and accepted risks on a yearly basis; • Raise new risks to the Risk department or directly to the RCC; • Develop action plans, where applicable, to address risk items for review by risk management and respective risk committees; • Supported by line control function (ROCS) in documenting risks and controls.
2nd Line of Defence **Operational Risk function** Operational risk ('RISQ/OPE')	• Coordinate the on-going Risk Register update process; • Review Risk Register on a monthly basis and residual risk rating; • Review and approve risk responses and action plans (where applicable) that address exceptions/violations before submission to the Risk & Control Committee; • Present once a year to the RCC high and very high residual risks accepted by Business or Service Units.
Risk & Control Committee ('RCC')	• Executive oversight of the Risk Register; • Review, challenge and approve Risk Register content on a monthly basis.
Board Risk Committee ('BRC')	• Responsibility for oversight and regular review of the Risk Register and Compliance Risk Assessment; • Review and approve action plans that address significant exceptions/violations to these procedures.
Board of Directors ('Board')	• Informed of significant risks escalated via the BRC; • Delegates the review and approval of action plans to the BRC, as necessary.

4. CAPITAL ADEQUACY

4.1. *OWN FUNDS*

SGIL's capital resources comprised of the following as at 31 December 2017.

	£ Millions
Tier 1 Capital	
Core Tier 1 - Share Capital	1,000
Profit and Loss Reserves*	96
Dividend Distribution 2016 profits	(60)
Other deductions from Tier 1	(65)
Total Tier 1 after deductions	**971**
Tier 2 Capital	
Subordinated Debt	145
Total Tier 2 after deductions	**145**
Total Tier 1 and Tier 2 after deductions	**1,116**

**Excluding profit of 2017 financial year of £93m.*

4.2. *CAPITAL REQUIREMENTS*

SGIL's capital resources requirement is calculated as the sum of credit risk, market risk and fixed overheads capital requirement.

	£ Millions
Credit & Counterparty Risk Capital Requirement	495
Market Risk Capital Requirement	8
Fixed Overhead Requirement	29
Total Pillar 1 Requirement	**532**
Capital Resources	**1,116**
Excess Capital Resources	**584**

Under CRD IV SGIL has to satisfy at all times the following own funds requirements

- Common Equity Tier 1 capital ratio of 4.5%
  SGIL CET 1 ratio was 14.59% at 31 December 2017.
- Tier 1 capital ratio of 6%
  SGIL Tier 1 ratio was 14.59% at 31 December 2017.
- Total capital ratio of 8%
  SGIL total capital ratio was 16.77% at 31 December 2017.

4.3. *CRD IV* *COMBINED BUFFERS*

On the 4 April 2016, the FCA announced its proposed approach to the interaction between the Capital Planning Buffer ('**CPB**') and the capital buffers required under the CRD IV during the transition period from 1 January 2016 to 1 January 2019.

In the same FCA announcement it was confirmed that the CRD IV combined buffer is made up of several components but only two are relevant to investment firms regulated by the FCA:

- the Capital Conservation Buffer ('CCoB'); and,
- the Countercyclical Capital Buffer ('CCyB').

It was also stated that no investment firms regulated by the FCA are subject to the Global Systemically Important Institutions (G-SII) buffer or the Systemic Risk Buffer ('**SRB**').

As in the case of SGIL, where a firm has been previously told that it should hold a CPB, the FCA considers that the amount of the CPB can be offset by the amount of the combined buffer calculated by the firm (as considered duplicative) – ie the firm should hold the higher of CPB or the combined buffer.

This approach is to avoid double counting of risks where the CPB has been set based on the impact of a severe but plausible stress scenario.

Capital Conservation Buffer (CCoB)

The CCoB is designed to ensure that firms build up capital buffers outside periods of stress which can be drawn down as losses are incurred. This buffer can be used to absorb losses while avoiding breaching minimum requirements.

Article 129(1) of the CRD IV and as stated in IFPRU 10.2.1 requires firm's to calculate a capital conservation buffer of common equity tier 1 capital equal to 2.5% of its total risk exposure amount. IFPRU TP7.4R modifies IFPRU 10.2.1 for a transitional period between 1 January 2016 and 31 December 2018 as follows:

- from 1 January 2016 until 31 December 2016 0.625%;
- from 1 January 2017 until 31 December 2017 1.25%; and,
- from 1 January 2018 until 31 December 2018 1.875%.

Countercyclical Capital Buffer (CCyB)

The purpose of the CCyB is to ensure that firms have a sufficient capital base, accumulated during periods of credit growth, to absorb losses in stressed periods. This is to address the fact that excessive credit growth will increase the size of a succeeding downturn. The capital accumulated to meet the Countercyclical Capital Buffer can then be utilised to absorb losses during less favourable credit conditions.

Note that, CCyB rates depend on the jurisdictions where SGIL has its client exposures.

At the Bank of England's Financial Policy Committee ('**FPC**') meeting on 03 October 2018, the FPC is setting the UK CCyB rate unchanged at 1% with binding effect from 28 November 2018.

4.4. *INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')*

The ICAAP Report presents the main features and results of the Internal Capital Adequacy Assessment Process ('**ICAAP**') for Societe Generale International Limited ('SGIL').
This document assesses the amount of capital appropriate for the risks SGIL faces currently and to its business plans over the next five years starting from 1 January 2018.
The ICAAP documents SGIL's assessment of the level of capital appropriate with respect to the risks it faces over the next five years starting from 1 January 2018. It is the result of a formalised assessment made by SGIL senior managers across all Business Units and Service Units, supported by a series of challenge sessions by subject area. The ICAAP shows the current and forecast capital adequacy position for the period 1 January 2018 to 31 December 2022.

The Chief Financial Officer ('**CFO**'), in partnership with the Chief Risk Officer ('**CRO**'), has primary responsibility for the ICAAP, including the use and challenge all the assumptions and its overall design, maintenance and the assessment of its on-going effectiveness and by taking into consideration the EU and UK Regulation requirements.

This ICAAP report is:

- Reviewed on at least an annual basis as part of the business planning cycle, or following any significant change to the business strategy and/or its risk profile;
- is the result of a formalised assessment made by SGIL senior managers across all Business Units and Service Units, supported by a series of challenge sessions by subject area;
- submitted by the Board Risk Committee ('BRC') for review and approval to the SGIL Board of Directors (the 'Board') by June 2018.

5. MAIN RISKS

The main risks are the risks which could significantly impact the SGIL going concern capability,

5.1. *CREDIT RISK*

Overview

The Credit Risk (including concentration effects) is defined as the risk of losses arising from the inability of SGIL's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and securitisation activities. In addition, credit risk may be further amplified by counterparty, country and sector concentration risk. They include 3 sub categories:

- Counterparty Risk
- Country Risk
- Concentrations Risk (i. Single-name, ii. country, iii. Sector)

The Firm has adopted the standardised approach to calculating risk weights assets in accordance with Chapter 2 of Title II of the CRR.

SGIL has exposures to Sovereign, Banks, Central Clearing Counterparties ('CCP') and clients, including corporates, hedge funds and other financial institutions.
As the main element of the Pillar 1, Credit represents margin receivable and trade exposures related to client's trading activities. The margin receivable represents margin called from clients, which should typically be paid the following day. The turnover of this balance is high, and the ability of clients to pay is effectively 'tested' daily.
SGIL's business model gives rise to exposure to CCPs. However, client related trade exposures with CCPs are assigned a zero exposure value under the standardised credit rules as SGIL does not guarantee the performance of the CCP to clients. Client margin related deposits with CCPs are also assigned a zero exposure where these margin deposits are assessed as being bankruptcy remote.

In relation to contributions to CCP default funds, SGIL is exposed to the risk of credit loss, this has been assessed based on the c-factors issued by CCPs to which SGIL is a clearing member.

SGIL provides financing to certain customers for initial and variation margin and for selected clients SGIL may also provide cross margining. SGIL will call initial margin and will subsequently, on a daily basis, call variation margin on the client's position less any margin financing or cross margining that SGIL may provide. If the client defaults, SGIL has the right to close out the client's position. SGIL may suffer a loss if the liquidation of the client's position realised a loss greater than the cash/collateral held on account.

However, it should be noted that by virtue of the Firm's stringent credit policies, conservative margining approach and the fact that credit exposures are generally overnight, this type of risk is largely mitigated.

External Credit Assessment Institution

The External Credit Assessment Institution ('ECAI') used by SGIL is Standard & Poors and Moody's. Both of these are recognized by the FCA as eligible ECAI's and are used to assess the credit quality of all exposure classes using the credit quality assessment in Article 135 of the CRR.

5.2. *Operational Risk*

SGIL adapts the Basel II definition of operational risk and aligns this to its RAF and RMF: Operational Risk is defined as the risk of losses resulting from inadequacies or failures in processes, personnel or information systems, or from external events, including 4 sub-categories:

- Risk of Fraud
- Reputation Risk
- Non-Compliance Risk
- Conduct Risk

The nature of SGIL's business exposes it to a diverse number of operational risks. These may lead to operational errors, incidents, loss events and events which do not generate financial losses but could cause regulatory breaches or reputational damage as a direct consequence of the complexity of the markets, technologies and operating environments to which SGIL is exposed.

As SGIL is classified as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under Title III of the CRR. Instead the firm calculates a Fixed Overhead Requirement (FOR) in accordance with Article 97 of the CRR.

The FOR at 31 December 2017 is £29m.

5.3. *Liquidity & Funding Risk*

Overview

The **Liquidity Risk** is defined as the inability of SGIL to meet its financial obligations at a reasonable cost. And, the **Funding Risk** is defined as risk that SGIL will not be able to finance the development of its businesses at a scale consistent with its commercial goals and at a competitive cost compared to its competitors.

SGIL manages its liquidity risk by ensuring adequate liquidity resources are available to meet obligations as they fall due. This is achieved through a high degree of matching of sources and uses, explicit funding limits, conservative investment held in the form of High Quality Liquid Assets ('HQLA'10), and management of external lines to ensure constant headroom. The adequacy of these resources is evaluated daily by a set of liquidity stress tests and is further assured by the SGIL Contingency Funding Plan ('CFP'). Significant liquidity stress requires a management response that implies the sale of assets in stressed market conditions.

Unencumbered Assets

SGIL hold a Liquid Assets Buffer in case of liquidity stress. All securities are less than 12 months to maturity. Securities held are subject to risk oversight and only a defined approved list of securities can be held (HQLA) with a maximum maturity of 10 years. At 31 December 2017 the Liquidity Assets Buffer amounted to £470m.

5.4. *BUSINESS RISK*

The Business Risk is defined as revenue risk related to worsening economic conditions (in addition to the already identified impact of other risks). And The Strategic Risk is defined as the risks inherent in the choice of a given business strategy or resulting from SGIL's inability to execute its strategy;

Hence, the current or prospective risk to earnings and capital due to adverse operating conditions arising from changes in the business or regulatory environment, lack of responsiveness to changes in the business environment, market-driven pressures such as decreased demand, increased competition and cost increases. In 2018-2019, one of the main root-cause of business or regulatory environment is related to Brexit.

The Business Risk is monitored by the SGIL Board of Directors, which approves the SGIL Strategic and review it at least once a year, and hence all the key decisions related to the business strategy is approved by the Board. This strategic should mitigate the Business Risk.

5.5. *STRATEGIC RISK*

The Strategic Risk is defined as the risks inherent in the choice of a given business strategy or resulting from SGIL's inability to execute its strategy: i.e. the current or prospective risk to earnings and capital due to adverse operating conditions arising from adverse business decisions, improper selection of strategic decisions.

SGIL Business environment has experienced another year of continuing difficult external market conditions, highlighted by a continuing lower interest rate environment, concurrent with the increasingly challenging regulatory environment and the uncertainties around Brexit. Within this difficult environment, SGIL has continue to develop its business and its financial position at the end of the year was significantly improved and sustainably strong.

The Strategic Risk is monitored by the SGIL Board of Directors, which approves the SGIL Strategic and review it at least once a year, and hence all the key decisions related to the business strategy is approved by the Board (including any disposal and acquisition)

6. SECONDARY RISK

The following risks are reviewed, but considered as secondary risks for SGIL.

6.1. *MARKET RISK*

The Market Risk is the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets.
SGIL does not take any proprietary positions other than to facilitate Customer's business. Therefore, the Market Risk exposure will be derived from:

- The Foreign Exchange position of SGIL's balance sheet. SGIL applies Article 352 – Calculation of the overall net foreign exchange position of the EU CRR;
- Any residual mismatch between inventory or positions and the related hedges. As at 31 December 2017 this was the case for Hedge Inventory Trading. SGIL applies Article 361 – Extended maturity ladder approach of the EU CRR.

6.2. *STRUCTURAL INTEREST RATE & FOREIGN EXCHANGE RATE RISK*

The Structural Interest Rate & Foreign Exchange Rate Risk ('Structural risk') is the risk of losses of interest margin or of the value of the fixed-rate structural position due to changes in interest or exchange rates. Structural interest and exchange rate risks arise from commercial activities and from corporate centre transactions.

Interest rate risk in the non-trading book

The Interest rate risk in the non-trading book arising from the following:

- Risks related to the mismatch of repricing of assets and liabilities and off balance sheet short and long-term positions;
- Risks arising from hedging exposure to one interest rate with exposure to a rate which reprices under slightly different conditions;
- Risk related to the uncertainties of occurrence of transactions i.e. when expected future transactions do not equal the actual transactions; and Risks arising from customers redeeming fixed rate products when market rates change (not applicable to SGIL).

The balance sheet structure of SGIL demonstrates that the Firm is not exposed to the mismatch of repricing of assets and liabilities and off balance sheet short and long-term positions.

Foreign Exchangn Rate risk in the non-trading book

Foreign Exchange risk is mainly generated from the foreign PL coming from SGIL non-trading book. Those FX positions reported and hedged on a monthly basis by Finance.

6.3. *OTHER SECONDARY RISK*

Model Risk

SGIL makes use of models in the course of its activities. Selecting a particular model and configuring its parameters necessarily involves a simplification of reality and can result in an inaccurate assessment of risk.
As all the identified material models are considered robust and independently reviewed by the second line of defence, this risk is considered to be mitigated.

Group Risk

The Group Risk is defined as the risk that the financial position of SGIL may be adversely affected by its relationships (financial or non-financial) with other Group entities or by risks which may affect the financial position of the whole group, for example reputational contagion.

All the identified material risks relating to intragroup dependencies are managed through a defined governance and oversight structure.

Capital Investment Risk

The Capital Investment Risk is defined as the risk of losses linked to financial holdings of a private equity nature (Otherwise, it’s the reduction in the value of our equity ownership interests).

SGIL has a 50% ownership interest in Altura Markets A.V. S.A (broker Firm in Madrid). Except for this legacy financial participation, SGIL has a limited appetite for financial participations.

Risk related to climate change

The Risks related to climate change is defined as whether physical (increase in the frequency of occurrence of extreme climatic events) or transition-related (new carbon regulations) have been identified as factors which could aggravate existing risks.

As SGIL is active on the CO_2 market as broker and clearer, it does not undertake any direct activities or investment related to the physical or transition related risk.

7. RISKS NOT RELEVANT FOR SGIL

Securitisation Risk

Securitisation Risk is defined as the risk that the capital resources held by SGIL in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.
SGIL does not undertake any securitisation activities or invest in any securitisation assets.

Insurance Risk

The Insurance Risk is defined as the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.
SGIL does not undertake any insurance underwriting activities.

8. NON-APPLICABLE DISCLOSURES

The following disclosures specified in the CRR are not applicable to SGIL:

- Article 441 – SGIL has not been designated a global systemic important institution.
- Article 449 – SGIL does not securitise its assets.
- Article 450 – SGIL's Pillar 3 Remuneration Disclosure for 2017 is published on its website.
- Article 451 – SGIL is not required to comply with the leverage ratio requirements.
- Article 452 – SGIL is subject to the standardised approach to credit risk, not the IRB approach.
- Article 454 – SGIL does not use advanced measurement approach for calculating its operational risk exposure.
- Article 455 – SGIL does not use an internal model to calculate its market risk exposure.