Societe Generale International Limited (SGIL)

31.12.2018 Annual Report and Financial Statements

One Bank Street,
The SG Canary Wharf Office Building

SOCIETE GENERALE

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COMPANY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS	Christophe Bernard Lattuada Michael John Collins Barry John Pearce John Charles Fortescue Hitchins Tara Marie Palmer Marcia Ina Cantor-Grable Jonathan Simon Whitehead Bruno Germain
COMPANY SECRETARY	Gerard Alfred Marie de Lambilly
REGISTERED OFFICE	10 Bishops Square London E1 6EG
REGISTERED NUMBER	05407520 (England and Wales)
AUDITOR	Deloitte LLP 1 Little New Street London EC4A 3TR

STRATEGIC REPORT

The directors of Societe Generale International Limited (SGIL or "the Company" or "the Firm") present their Strategic Report for the year ended 31 December 2018.

1. BUSINESS MODEL

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.

As a Limited Activity Firm:
- SGIL business is an intermediation business for clients;
- Dealing on own account takes place only to facilitate or execute client orders, or in relation with client activity;
- SGIL does not engage in proprietary trading; and
- Only residual market risk exposure resulting from client activity.

The Company's ultimate parent company is Société Générale ('SGPM') which is incorporated in France. Copies of the Group accounts of Société Générale are available from the registered office at 29, Boulevard Haussmann, 75009 Paris, France.

2. REVIEW OF BUSINESS

During the year under review, the Company made a profit of £106.6 million (2017 profit: £93.3 million). Total shareholders' funds for the year ended 31 December 2018 were £1,215.3 million (2017: £1,129.6 million).

Despite a difficult market environment and uncertainty on EU markets due to Brexit, combined with a challenging regulatory environment, SGIL has posted a good performance over the year, improving the profitability of the firm year on year.

The Company has continued to experience a positive momentum leveraging on last year's investment in the IT platform and the use of the strength of resources to offer our clients services with added value. As such, the directors consider that the Company financial position at the end of the year remains sustainably strong.

3. BREXIT

The central scenario implemented around the impact of Brexit for SGIL involves the change in booking EEA client activity, with recognition of activity from these clients to be performed by Société Générale Paris.

Compared to 2018, 'no deal' Brexit impact would not exceed a loss of more than 15% of SGIL revenues with a positive impact on Capital requirements, as per the recent simulation undertaken. This loss will be mitigated by cost savings.

As there are still possible outcomes of the current negotiations between the United Kingdom and the European Union, it is not possible at this stage to ascertain the full implications for the Company. Management will stay very close to the on-going issues, along with the shareholder of course, SGPM.

4. SUBSEQUENT EVENTS

On 10th January 2019, the Board of Directors approved an increase in SGIL capital resources by £300m which was achieved by an increase of SGIL Ordinary Share Capital by £150m and issuance of an additional subordinated debt for an amount of £150m.

5. KEY PERFORMANCE INDICATORS

The directors of the Company use a number of different measures to monitor the ongoing performance of the Company. The directors assess the following financial key performance indicators ("KPI") in monitoring the performance of the Company.

Criteria

	2018 £'000	2017 £'000
Gross profit	254,712	243,267
Profit before tax	132,064	116,908
Cost / income ratio (Operating Expenses / Net Banking Income)	49%	52%

No non-financial KPIs have been presented, as none are necessary for an understanding of the development, performance or position of the Company's business.

6. STRATEGIC AIMS

The Firm's strategy is to remain a key market participant in its core market activities, gain market share, and provide a robust and resilient platform for growth to enable it to compete actively on new mandates.

SGIL's strategy for the coming years is to concentrate and refocus on its core activities: listed futures execution and clearing, OTC clearing, associated pre and post trade services, supporting its worldwide clients with a seamless and streamlined offering.

The strategy will build on SGIL strengths of Listed Derivatives resources offering higher level of service and flexible solutions for customer and generating profitable growth. The business growth will continue to attract larger clients thanks to the strength of its global platform, and the development of the UK client base for both Institutional and Hedge Funds client segments.

In a post Brexit environment, Management will adjust the global booking model, and leverage on the newly created Société Générale Paris platform to serve clients. In parallel, the Firm will continue to focus on upgrading its risk management processes and control framework, as well as its global IT platform and operational capability.

7. REGULATORY ENVIRONMENT

SGIL is a UK based 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') and a BIPRU firm under the FCA's Prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

Subject to regulatory approval, SGIL will be designated a standard ILAS (Individual Liquidity Adequacy Standards) BIPRU Firm. SGIL is classified by the FCA as a Client Assets Sourcebook ('CASS') Large Firm due to the amount of client money held being greater than £1 billion.

SGIL is a Swaps Dealer regulated by the US Commodity Futures Trading Commission ('**CFTC**') and, as such, the Firm is permitted to conduct execution business for US customers in relation OTC derivatives. But it should be noted that it may not clear these contracts, as it is not regulated as a Futures Commission Merchant ('**FCM**').

SGIL is fully owned subsidiary of Société Générale S.A., a global systemically important bank ('**G-SIB**'), incorporated in France.

Under CRD IV, SGIL needs to comply with the EU CRR (Capital Requirements Regulation) and the FCA's IFPRU handbook.

8. PRINCIPAL RISKS AND UNCERTAINTIES

The Company faces a number of risks as part of its normal day to day business. The principal risks and uncertainties faced by the Company are:

8.1. Operational Risk

SGIL has adopted the Basel II definition of **Operational risk** being the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The SGIL definition of operational risk is further extended to include regulatory risk, fraud, conduct risk and reputational risk, as the causes of these are most often as a result of an operational risk event or control failure.
The nature of SGIL's business exposes it to a diverse range of operational risks. These may lead to operational errors, incidents, loss events as well as events which do not generate financial losses but could cause regulatory breaches or reputational damage. The management of operational risk is described below.

8.2. Liquidity and Funding Risk

The **Liquidity Risk** is defined as the inability for SGIL to meet its financial obligations at a reasonable cost.

The **Funding Risk** is defined as the 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'), 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.
To manage the Liquidity Risk, SGIL defined the Risk Appetite, and Risk Governance related to liquidity and funding risk.
SGIL Liquidity and Funding Risk Management is enhanced with the Liquidity Stress Testing and the Contingency Funding Plan. The Liquidity Stress Testing is described below.

8.3. Business and Strategic Risk

The **Business Risk** is defined as revenue risk related to worsening economic conditions (in addition to the already identified impact of other risks).
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.

8.4. Credit Risk

The **Credit Risk** (including concentration and settlement risk) 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.

8.5. Market Risk

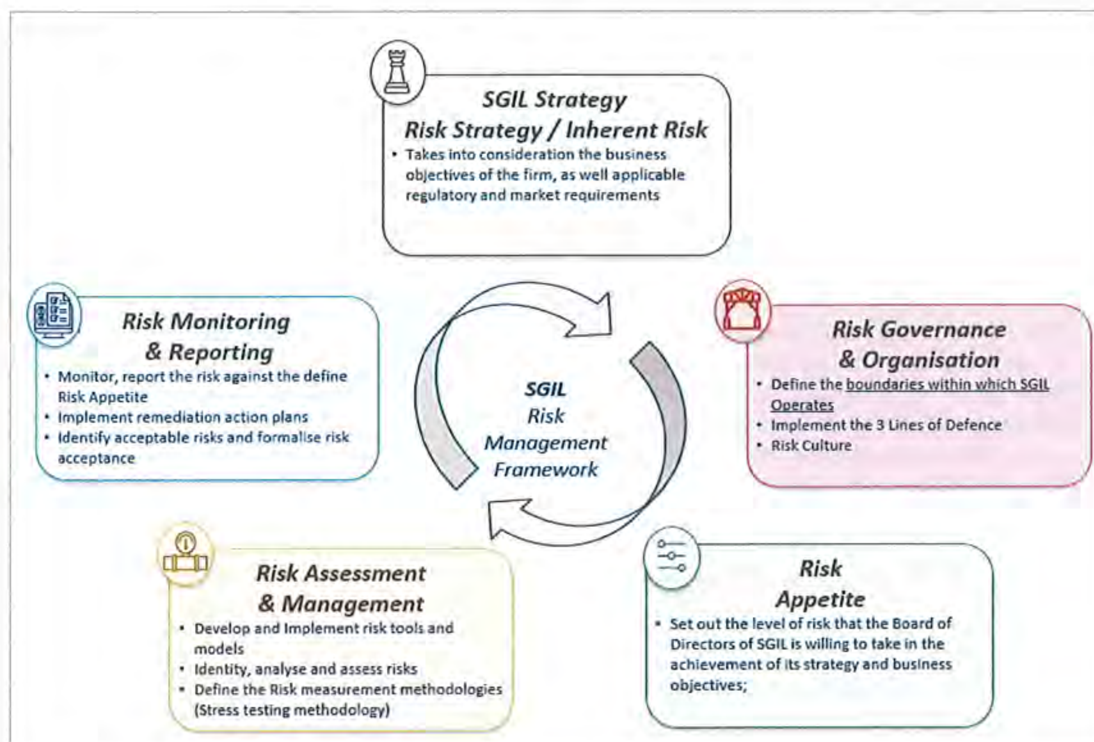
Although not considered one of the main risks for SGIL, the **Market Risk** is the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets.
As a Limited Activity Firm, in compliance with article 96 (1) of the EU CRR, SGIL is an investment Firm that deals on own account only for the purpose of fulfilling or executing a client order or for the purpose of gaining entrance to a clearing and settlement system or a recognised exchange when acting in an agency capacity or executing a client order.
As reflected in SGIL Risk Appetite, SGIL has no appetite for proprietary speculative positions and can only hold residual market risk positions as part of its client facilitation activities.

Further discussion of liquidity risk, credit risk, and market risk can be found at Note 20 to the Financial Statements.

9. OVERVIEW OF RISK MANAGEMENT

Risk management is a fundamental management and control function and is vital for upholding the Company's reputation, performance and future success. It is therefore of critical importance to the Company's stakeholders that risk management processes are fit for purpose and subject to regular review and enhancement.

The standards of risk management of the Company are set out in the Risk Management Framework ("RMF") that has been designed to ensure that risk is appropriately considered within all business decision making in the achievement of business objectives and strategy. The RMF comprises the following components:



10. RISK GOVERNANCE AND ORGANISATION

The Company's strategy, performance and operations are overseen by a Board of Directors. As part of its responsibilities, the Board oversees sound risk management and internal controls to enable risks to be assessed and managed.

10.1. Governance Structure

The Company's Board of Directors provides strategic oversight of the business and its operations. The Board is ultimately responsible for the risks within the Company and approves the risk appetite and the framework to adhere to that appetite.

The composition of the Board of Directors is intended to provide the requisite levels of experience and appropriate challenge to oversee the Company. The Board comprises Executive Directors and Non-Executive Directors ("NED"). The NEDs provide challenge and independent oversight over the Company's strategy and operations. The Chairman of the Board is a NED.
The Company Senior Management is responsible for the day to day management of the Company.
At Executive level, the Company's Chief Risk Officer (CRO) has a direct reporting line to the Company's CEO as well as a functional reporting line to Societe Generale's Risk Division, and to the chair of the Board Risk Committee (BRC). This positioning has been designed to meet the following objectives:

- Ensure the Company maintains full independence of risk assessment and control;
- Ensure a rapid reporting of reliable and comprehensive information about the Company's risks to enable effective decision making; and
- Ensure the quality and consistency of risk principles, procedures and methodologies within the Company and in alignment with the Group.

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

- At the Board level, the Board of Directors and the technical committees the Board of Directors has established, including the Board Risk Committee (BRC);
- At the Executive level, the Executive Committee and its sub-committees including the Risk & Control Committee (RCC).

10.2. Outsourcing services

Where essential services are provided by Group entities, these are managed under the Outsourced Essential Services and Activities policy of the Company. The provision of services between the Company and Group entities are governed by Client Service Level Agreements (CSLAs) and the oversight of these arrangements is managed by the Service Management Committee at the executive level and the BRC at the Board level.

10.3. Three Lines of Defence Organisation

SGIL has embedded a formalised corporate governance structure, which ensures that the Board of Directors has visibility on the risks faced by SGIL and the framework in place to manage and mitigate them. The organisation and risk governance structures establish 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:

- **The First Line of Defence (1st LoD)** is defined as the business and support units within SGIL and they have the direct responsibility for the ownership, use and management of risk within their processes and activities.
- **The Second Line of Defence (2nd LoD)** is defined as being the risk and compliance functions who provide an independent oversight and challenge of the embedding of the Risk Management Framework within the business and ensuring that the framework is current for the SGIL Business Model.
- **The Third Line of Defence (3rd LoD)** is defined as being the Internal Audit function and provides an independent assurance that SGIL's risk management, governance, policies and internal control processes are operating effectively. The Internal Audit function for SGIL is outsourced to the SG Inspection and Audit Division and reports directly to the Board via the Chair of the Board Audit Committee ('BAC').

11. RISK ASSESSMENT AND MEASUREMENT

11.1. Risk Assessment

The Risk Management Process & Methodology processes and activities within the Risk Management Framework are designed to consider the nature and severity of identified risks and enable the development of related risk management actions and strategies.
Risks to the business are identified through various processes and actions, including the reporting of operational risk events, the performance of Risk and Control Self-Assessment process, limit excesses, control testing and new product assessments.
The risk assessment of the identified risks ensures that the root cause of the risk is identified which enables appropriate risk mitigating actions or strategy to be developed and implemented to reduce the level of residual risk. The risk is subject to ongoing risk management and monitoring to ensure the residual risks are fully mitigated on a permanent basis.

The Company assesses its risks mainly through the yearly Risk Control Self-Assessment (RCSA) exercise and the continuous refresh of its Risk Register. In parallel, the identification and validation of the Company's major risks and follow-up of major action plans is managed on a dynamic and continuous basis through an Active Risk Register (ARR) which becomes the core part of the monthly Risk and Control Committee (RCC). As such, the major risks of the Company along with their plans of action and potential emerging risks are reviewed on a monthly basis and formally validated during the year through the RCC and the Board Risk Committee (BRC), thus integrating the Internal Capital Adequacy Assessment Process (ICAAP) operational risk scenario identification exercise in a continuous process. Additionally, once a year, the ARR is reconciled to the output of the RCSA for completeness.

11.2. Risk Quantification

The Company utilises standard risk quantification methodologies. The key elements of the quantification framework are listed below:

- **Operational Risk**

SGIL recognises these inherent risks and seeks to mitigate and manage their occurrence within the levels defined within the SGIL Risk Appetite Statement. The embedding of a robust and effective Operational Risk Management Framework, including a Risk Governance structure, defined policies and procedures and a Three Lines of Defence Model of risk ownership and oversight are critical components in the management of operational risk within SGIL.

SGIL identifies, manages and monitors its operational risk using the following risk processes and methodologies:

- **Reporting of Operational Risk Events** (including Losses, Gains and Near Misses) Root causes of the events are identified and appropriate remedial and preventative action plans are owned and managed to completion;
- **Key controls** within all main processes have been identified and assessed as to their effectiveness in mitigating risk. The controls are reviewed and attested to by the business and control owners on a periodic basis as their continued effectiveness, the status of the implementation of control improvements are confirmed and any remaining residual risk is identified and further assessed;
- Various levels of **control testing** are performed by the business and the 2LoD, including Permanent Control Testing.
- **Risk & Control Self-Assessment ('RCSA')** reviews are completed on an annual basis by the 1LoD process and control owners and any residual risk identified is further mitigated by appropriate action plans. The population of processes identified for review is based upon an assessment of their inherent risk to the business;
- **Key Risk Indicators ('KRIs')** are reported by the business process and activity owners and is used to identify and monitor risk trends and incidents;
- **Transversal or process risk reviews** are performed by the 2LoD based upon risk prioritisation and identification of emerging risks or areas of risk concern;
- **Oversight and review of key inherent and residual risks** are monitored through the reporting and of risk scorecards to the 2LoD and the SGIL Risk & Control Committee (RCC);
- Various thresholds of risk with related management actions have been identified as part of the overall SGIL Risk Appetite Statement and are monitored on an ongoing basis by the RCC and BRC.

- **Liquidity and Funding Risk**

SGIL has identified areas of the Balance Sheet that are subject to liquidity stresses. The effect of a defined liquidity stress on each of these components has then been modelled in two different scenarios:

- The Volatility Stress Scenario: This extreme yet plausible scenario simulates a strong increase of activity generated by extreme volatility where SGIL loses some of its funding sources and faces massive intraday margin calls.
- The Liquidity Crisis Scenario: This extreme yet plausible scenario consists of an accumulation of stresses corresponding to a sharp business reduction. This scenario is more gradual and allows the implementation of more severe management actions.
- Both scenarios are run against idiosyncratic, market-wide and combined stress tests which simulate the occurrence of simultaneously linked liquidity stress events.

- **Business and Strategic Risks**

SGIL has not a specific appetite for the Business Risk and no specific metric for these risk categories. To minimise its exposure to Business Risk, SGIL will:

- Set and publish the firm's strategy and objectives annually, in line with the strategic guidelines from Societe Generale;
- Adhere to an annual financial planning process, covering its capital, liquidity, profit and loss and balance sheet statements; and,
- Establish a selective and prudent new activity/product approval process, ensuring alignment with the defined strategy and adequacy of the delivery capacity.
- These risks are assessed as part of the SGIL Stress Testing Exercise or on ad-hoc basis for any particular event.

- **Credit Risk**

The credit risk exposure (including concentration and settlement risk) faced by SGIL is largely short-term in nature due to the daily monitoring and margining process. The main credit risk exposure arises from the following:

- Cross margining activities;
- Margin financing activities; and,
- Cash held at banks, carrying brokers, clearing houses and group entities.

For cross margining and margin financing, SGIL would only suffer a credit loss if: (i) the client does not pay; (ii) to close out the client's trades SGIL realised a loss greater than the variation margin that had been posted (i.e. on previous days); and (iii) any haircuts applied were less than the negative result from the realised losses.
SGIL has a diverse portfolio of clients which ranges from financial services firms and regulated funds to corporates, such as energy companies and commodity trading houses.

The maintenance of the Credit Risk Management Framework is the responsibility of the CRO, who collaborates with the Societe Generale Risk Division and Finance Division, governed by SLAs to ensure alignment with the policies, procedures, and standards of Societe Generale.

The 4 main sub-categories are:
- Counterparty Credit Risk : The credit risk assessment and measurement is performed via the credit portfolio assessment and the Credit Approval Process. The main metrics are : Net and gross Credit Value at Risk, Debtor Risk, Financing.
- Country Credit Risk : Risks linked to the business environment (legal or fiscal risk, interference of the State, corruption, etc.) are also included in country-risk, in one or other of its strands (political or commercial).
- Concentration Credit Risk: To assess the level of concentration, SGIL is using the Herfindahl-Hirschmann ('HHI') approach as presented by the Prudential Regulation Authority ('PRA') in its Statement of Policy, dated in December 2017.
- Settlement Risk : The Settlement / Delivery Risk that arises when payments are not exchanged simultaneously.

- **Market Risk**

There is no appetite in the Limited Activity Firm to generate income using proprietary or speculative activities. Hedging activity, however, is required in order to neutralise the market risk on client over-the-counter contracts. Intra-day market risk positions are not monitored by SGIL Risk Department, but by the First Line of Defense. Market Risk exposure is measured and framed for each desk using standard Market Risk metrics and limits:
- Volcker Metrics (Stress Test, Stress Value at Risk, Value at Risk, Delta Nominal)
- Overnight outright position allowed
- Max tenor
- Positions / open interest
- Market Risk Limits are assigned to a given desk for a specific list of products.

12. RISK MONITORING AND REPORTING

The SGIL Monitoring and Reporting Framework has been designed with a view to provide on an ongoing basis a comprehensive view of the SGIL risk profile to ensure that the Firm stays within the Risk Appetite Statement ('Management Information' or 'MI'). Its purpose is to enable escalation of breaches (including overruns) and to ensure the resolution of risks and the maintenance of risk mitigation processes. The Management Information ('MI') is made up of four key elements within the Risk Management Framework:

1. **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;
2. **Risk Appetite** – The SGIL Risk Appetite 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 protocols are triggered in line with the applicable policies and procedures;
3. **Risk Register** - The Risk Register records the inherent risks and residual risk faced by the Firm, as well as the risk mitigating actions approved by the RCC, Senior Management and the Board to reduce the risk exposure of the Firm;
4. **Risk Mitigation** – Mitigating actions are determined when all emerging or realised risks reported through the various risk processes are analysed. These actions are assigned an appropriate ownership and target date and are monitored on an ongoing basis until resolved and the risk is mitigated to levels of risk. Escalation and Mitigation to the Board and Executive.

Escalation principles are designed to define the course of action when risk appetite limits or thresholds are breached. They must ensure that the necessary people are duly informed, and actions taken.

ON BEHALF OF THE BOARD:

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Christophe Lattuada - Director
Date: 24th April 2019

DIRECTORS' REPORT

The directors of the Company present their report and the audited financial statements for the year ended 31 December 2018.

1. PROFITS AND APPROPRIATIONS

During the year under review the Company made a profit after tax of £106.5 million (2017 profit: £93.3 million). The directors do not recommend the payment of a dividend on the ordinary shares in respect of this financial year (2017: £18.6m).

Total shareholders' funds for the year ended 31 December 2018 were £1,215.3 million (2017: £1,129.6 million).

The Company's strategic highlights, business and future developments and principal risks and uncertainties are set out in the Strategic Report (pages 2 to 8).

2. DIRECTORS

The directors, who served throughout the year except as noted, were as follows:

Christophe Bernard Lattuada	
Michael John Collins	
Barry John Pearce	
John Charles Fortescue Hitchins	
Tara Marie Palmer	
Marcia Ina Cantor-Grable	(appointed 25 April 2018)
Jonathan Simon Whitehead	(appointed 06 September 2018)
Bruno Germain	(appointed 19 March 2018)
Olivier Paul Hartemann	(resigned 20 March 2018)

The information relating to directors' remuneration is disclosed in Note 4.

No directors have any direct financial interests in the Company.

3. REGULATORY CAPITAL

As the business changes, the Company will continue to proactively monitor and control its ongoing capital requirements to ensure regulatory compliance.

4. EMPLOYMENT POLICIES

The Company employment policies have been developed and are monitored to ensure they reflect best practice and legal and cultural requirements. The Company does not condone unfair treatment of any kind and supports equal opportunities for all employees regardless of age, disability, gender, race, religion, sexual orientation, marital status, nationality or background. The Company is committed to developing and training staff, including disabled staff.

The Company encourages and facilitates employee engagement. The Company also has an intranet which is updated daily and offers employees access to the latest news and announcements along with the opportunity to provide feedback.

5. DIRECTORS' INDEMNITIES AND INSURANCE

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report. In addition, the Company maintains liability insurance for its directors and officers.

6. GOING CONCERN

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. As an integral part of the Société Générale group, the Company benefits from the Group's support and investment to provide technology and infrastructure support to the Company in the normal course of business and ensure the Company has sufficient financial resources to meet its obligations in the foreseeable future. As noted in the strategic report, the directors have considered the implications of Brexit for the Company. Accordingly, the directors believe that preparing the accounts on a going concern basis is appropriate.

7. DIRECTORS' DISCLOSURE TO AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

8. AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

ON BEHALF OF THE BOARD:

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Christophe Lattuada - Director
Date: 24th April 2019

SOCIETE GENERALE

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Societe Generale International Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.Conclusions relating to going concernWe are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directorsAs explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared are consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Syed Zahir Hassan Bokhari
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Syed Bokhari FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24th April 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

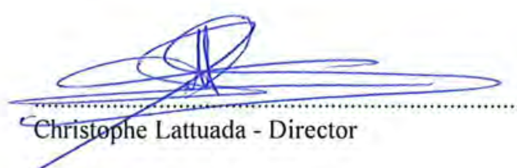
	Notes	2018 £'000	2017 £'000
Profit and loss from continuing operations:			
Turnover	2	1,345,009	1,275,668
Operating costs	2	(1,090,297)	(1,032,401)
Gross profit		254,712	243,267
Administrative expenses	3, 4, 5	(136,002)	(140,150)
Operating profit	5	118,710	103,117
Interest income	6	20,618	22,430
Interest expense	6	(7,264)	(8,639)
Profit before taxation		132,064	116,908
Tax on profit on ordinary activities	7	(25,501)	(23,567)
PROFIT FOR THE YEAR		**106,563**	**93,341**
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Losses on FVTOCI investments		(1,362)	(1,019)
Deferred tax on losses on FVTOCI investments		268	153
Other comprehensive loss, net of tax		(1,094)	(866)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**105,469**	**92,475**
Profit attributable to:			
Equity shareholder of the Company		**106,563**	**93,341**
Total comprehensive income attributable to:			
Equity shareholder of the Company		**105,469**	**92,475**

All profits for the current financial year are from continuing activities.

BALANCE SHEET AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	237	2,392
Other receivables	12	640,000	640,000
Deferred tax assets	7	1,592	1,673
		641,829	644,065
CURRENT ASSETS			
Investments at fair value through OCI	9	1,290,909	767,398
Inventories	10	123,776	224,560
Financial assets at fair value through P&L	11	2,503,454	1,833,546
Trade and other receivables	12	40,538,137	30,680,040
Cash and cash equivalents		2,118,837	3,185,557
		46,575,113	36,691,101
TOTAL ASSETS		**47,216,942**	**37,335,166**
LIABILITIES			
CURRENT LIABILITIES			
Financial liabilities at fair value through P&L	13	(2,474,273)	(1,708,484)
Trade creditors and other payables	14	(43,376,767)	(34,343,732)
		(45,851,040)	(36,052,216)
NON-CURRENT LIABILITIES			
Subordinated debt	15	(145,000)	(145,000)
Provisions	16	(5,597)	(8,350)
		(150,597)	(153,350)
TOTAL LIABILITIES		(46,001,637)	(36,205,566)
NET ASSETS		**1,215,305**	**1,129,600**
EQUITY			
Share capital	17	1,000,000	1,000,000
Other reserves		(1,965)	(1,433)
Retained earnings		217,270	131,033
TOTAL EQUITY AND RESERVES		**1,215,305**	**1,129,600**

The financial statements were approved and authorised for issue by the Board of Directors on 12th April 2019 and were signed on its behalf by:



Christophe Lattuada - Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital £'000	Other reserves £'000	Retained Earnings £'000	Totals £'000
At 1 January 2017	**1,000,000**	**(567)**	**97,192**	**1,096,625**
Issue of share capital	-	-	-	-
Dividend Paid	-	-	(59,500)	(59,500)
Profit for the year	-	-	93,341	93,341
Other comprehensive income/ (loss) for the year	-	(866)	-	(866)
At 31 December 2017	**1,000,000**	**(1,433)**	**131,033**	**1,129,600**
IFRS 9 First Time Application		562	(1,725)	(1,163)
At 1 January 2018	**1,000,000**	**(871)**	**129,308**	**1,128,437**
Dividend Paid	-	-	(18,600)	(18,600)
Profit for the year	-	-	106,562	106,562
Other comprehensive income/ (loss) for the year	-	(1,094)	-	(1,094)
At 31 December 2018	**1,000,000**	**(1,965)**	**217,270**	**1,215,305**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 : ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below.

Basis of preparation

Societe Generale International Limited is a Private Company limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 8.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

These financial statements are prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

A market is considered active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability and the pricing information is released publicly.Disclosure exemptions

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, and related party transactions. Where required, equivalent disclosures are given in the group accounts of Société Générale S.A. The group accounts of Société Générale S.A. are available to the public and can be obtained as set out in Note 23.

Adoption of new and revised Standards

In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Application of IFRS 9 Financial instruments	In the current year, the Group has applied IFRS 9 Financial instruments (as revised in July 2014) and the related consequential amendments to other IFRSs in advance of their effective dates. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) impairment for financial assets and (3) general hedge accounting. The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. Following the implementation of IFRS 9 on 1 January 2018, the Fair Value of equity investments, previously recorded in Other Comprehensive Income under IAS 39, was reclassified to Fair Value Through Profit and Loss for an amount of £562k (see note 11). Additionally, an Expected Credit Loss (ECL) has been recognised on 1 January 2018 amounting to £1.163m net of deferred tax impact (see Note 12).
Application of IFRS 15 Revenue from Contracts with Customers	During the year, the Company adopted IFRS 15 'Revenue from Contracts with Customers'. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revue when (or as) the entity satisfies a performance obligation Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to customers. The Company has assessed the impact on IFRS 15 and concluded there is no significant impact to the financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 8, which also describes the financial position of the Company; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposure to operational and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currencies

The Company's presentation and functional currency is British Pounds Sterling which is the currency of the primary economic environment in which the Company operates. Amounts are presented in thousands (£'000) unless otherwise stated.

Monetary assets and liabilities expressed in foreign currencies are translated into sterling spot rate at the date of the balance sheet (see section Market risk in Note 20). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Transactions in currencies other than the functional currency are converted to sterling spot rate at the date of the transaction. All exchange rate movements are taken to the profit and loss account.

Turnover

Turnover comprises interest income, commission and fee income, income on financial instruments and inventory measured at fair value through profit and loss, and gains and losses on foreign exchange. Income and expenses that arise from back-to-back transactions are presented gross within turnover. Turnover is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Interest income is generated from margin balances held, financing and reverse repo transactions and is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Interest expense is generated from the same type of activity than described above.

Commission and fee income which mainly comprises execution and clearing commissions is recognised as earned.

Operating costs

Operating costs represent the costs of providing brokerage services, and include settlement costs payable to other Group companies, transaction charges from exchanges and third party brokers, and interest expense on margin balances held, financing and reverse repo transactions.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(a) **Classification of financial assets**

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the aforegoing, the Company may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i). Amortised cost and effective interest method

The effective interest method is calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the 'Interest income' within Turnover line item.

(ii). Debt instruments classified as at FVTOCI

Treasury bonds held by the Company are classified as at FVTOCI. The treasury bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these treasury bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these treasury bonds had been measured at amortised cost. All other changes in the carrying amount of these treasury bonds are recognised in other comprehensive income and accumulated under the heading of Other Reserves within Shareholder Equity. When these treasury bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii). Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in 'Net gains and losses' within Turnover line item.

(b) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'Net gains and losses' within Turnover line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'Net gains and losses' within Turnover line item;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'Net gains and losses' within Turnover line item.

(c) Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, amounts due from customers, as well as on loan commitments. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

To determine the amount of impairment or provision to be recorded at each reporting date, these exposures are split among three categories based on the increase in credit risk observed since initial recognition. An impairment or provision shall be recognised for the exposures in each category as follows:

Observed deterioration in credit risk since initial recognition of the financial asset

Credit risk category	**Stage 1** Performing assets	**Stage 2** Under-performing or downgraded assets	**Stage 3** Credit-impaired or defaulted assets
Transfer criteria	Initial recognition of the instrument in stage 1 ⇨ *Maintained if the credit risk has not increased significantly*	Credit risk on the instrument has increased significantly since initial recognition / 30 days past due	Evidence that the instrument has become credit-impaired / 90 days past due
Measurement of credit risk	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income recognition basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i). Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

For loan commitments and financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Company considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due. To identify Stage 2 exposures, the Company uses all available past and forward-looking data (behavioral scores, loan to value indicators, macroeconomic forecast scenarios, etc.) to assess the counterparty's credit risk. A financial asset moves to the stage 2 exposures if its internal credit risk rating decreased by at least two notches in the last 18 months.

(ii). Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collaterals held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii). Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(d) **Derecognition of financial assets**

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

(a) **Classification as debt or equity**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(b) **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(c) **Financial liabilities**

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.
However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Company.

(i). Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.
A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other gains and losses' line item.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.
Gains or losses on financial guarantee contracts and loan commitments issued by the Company that are designated by the Company as at fair value through profit or loss are recognised in profit or loss.

(ii). Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(iii). Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

(iv). Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in 'Net gains and losses' within Turnover line item in profit or loss for financial liabilities that are not part of a designated hedging relationship.
The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

(v). Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.
Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Company designates certain derivatives as hedging instruments in **cash flow hedges**.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in 'Net gains and losses' within Turnover line item.
Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to profit or loss.
The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

The Company issues to certain employees share-value linked deferred bonuses (see Note 3). The Company hedges the effect of the movement of Societe Generale's share price to reduce market risk with cash settled options on SG shares (see Note 13).

Netting of Financial Assets and Liabilities

In accordance with IAS32, the Company reports certain financial assets and liabilities on a net basis in the balance sheet only if there is a legally enforceable right of offset to net the recognised amounts and there is the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Inventories

Inventories arise in the course of broker-dealer activities, are held for trading purposes and thus are stated at fair value less costs to sell, measured at the nearest available exchange quoted price. Changes in valuation of inventories are recorded to profit and loss in 'net gains and losses on financial instruments'.

Cash and Cash Equivalents

Cash and cash equivalents include debit current accounts and short-term deposits at banks with a maturity less than three month.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives.

Impairment of intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any) and the carrying amount of the asset is reduced to its recoverable amount.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss statement except to the extent that it relates to items recognised in the statement of total recognised gains and losses.

Current tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date, and is the expected tax payable or receivable on the taxable profit and loss for the year and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying temporary differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Pension costs and other post-retirement benefits

The Company operates a defined contribution Personal Pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge in Note 3 to the financial statements represents contributions payable by the Company to the fund.

Share-based payment

The Company's employees receive share-based payments from the parent Company, Société Générale SA, the details of these can be found in Note 3.
For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

Client Money Balances

As required by the UK Client Assets rules in line with the Financial Services Market Act (FSMA) 2000, the Company maintains certain balances on behalf of clients with banks, exchanges, clearing houses and brokers in segregated accounts. These amounts and the related liabilities to clients, whose recourse is limited to segregated accounts, are disclosed in Note 18 to the financial statements and are not included in the Company's balance sheet as the Company is not beneficially entitled thereto.

Critical accounting estimates and assumptions

In the application of the Company's accounting policies, which are described in Note 1 above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical judgements in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that had a significant effect on the amounts recognised in financial statements.

The Transfer Pricing are the prices at which the Company receives services provided by other entities of Societe Generale Group. SGIL is recharged on a monthly basis for services performed by Global Business Services (GBS) support functions in the benefit of the Business Lines and, by Head-office departments as well as at Central level, business line level and, in some cases at regional level.
The amounts are based on actual amounts from January to September, then based on estimated accrual figures for the last quarter of year which may end up with adjustments in the course of the following year.

NOTE 2 : GROSS PROFIT

Gross profit is attributable to the principal activities of the Company:

	Interest income £'000	Commission and fee income £'000	Net gains and losses on financial instruments £'000	**Total £'000**
Turnover	294,509	880,344	170,156	1,345,009
Operating costs	(299,409)	(790,888)	-	(1,090,297)
At 31 December 2018	(4,900)	89,456	170,156	254,712
Turnover	237,703	979,330	58,635	1,275,668
Operating costs	(182,369)	(850,032)	-	(1,032,401)
At 31 December 2017	55,334	129,298	58,635	243,267

Net gains and losses on financial instruments (at fair value through profit and loss) arise from the Company's brokerage activities carried out on a matched principal basis. This also include foreign exchange gains and losses on principal treasury positions, and gains and losses on revaluation of monetary assets and liabilities.

Analysis of the Company's turnover by business line:

	2018 £'000	2017 £'000
Prime Services	908,118	812,515
Commodities	436,891	463,153
	1,345,009	1,275,668

Following the integration of SGIL business within Societe Generale, SGIL is organised into two main Business Lines which are Prime Services and Commodity.

Analysis of the Company's turnover remitted from geographic source:

	2018 £'000	Restated 2017 (*) £'000
United Kingdom	443,776	341,218
France	58,462	65,716
Rest of Europe	466,757	413,778
Americas	172,727	233,797
Asia-Pacific	188,671	199,676
Other	14,616	21,483
	1,345,009	1,275,668

(*) New methodology to allocate the turnover based on clients 'residency.

NOTE 3 : STAFF COSTS

	2018 £'000	2017 £'000
Wages and salaries	47,769	37,425
Social security costs	6,854	4,551
Pension and other staff costs	3,686	2,453
	58,309	44,429

As at the year end there were no unpaid pension contributions (2017: £nil).

The number of employees at the end of the year was as follows:

	2018	2017
Management	7	8
Front office	111	104
Support	359	173
	477	285

As part of the preparation for the implementation of the Regulatory Senior Management Regime, it was decided to re-align staff working within SG London Branch but primarily on SGIL business into SGIL. The transfer took place in February 2018.

Share-based payments

The Company's staff participates in the following share schemes offered by Societe Generale SA:

Fidelity plan
The Company issues to certain employees share-value linked deferred bonuses. The vesting periods of these bonuses are between one and three years from the date of declaration of the award and the employees will only be entitled to these bonuses on the condition that they are still employed by the Company at the scheduled payment dates during the vesting period. These bonuses are cash-settled and from the 2015 award onwards, the Company hedges the effect of the movement of Societe Generale's share price to reduce market risk (see note 13).

The element of this valuation relating to variation in the price of Societe Generale shares since declaration was a loss of £1,065k (2017: profit of £695k). The total profit and loss recognised in the year related to the plan was an expense of £1,973k (2017: £1,303k).

UK Share plan
The Share Incentive plan provides the opportunity for all employees to purchase Societe Generale shares out of gross pay. For every four shares bought, Societe Generale will match one additional share. An employee may contribute £10-£125 from gross pay each month, but no more than 10% of gross pay. Matching shares are paid by the Company on a monthly basis.

NOTE 4 : DIRECTORS' EMOLUMENTS

	2018 £'000	2017 £'000
Directors' remuneration	1,187	1,348
Pension contributions to defined contribution schemes	80	92
	1,267	1,440

Remuneration of the highest paid director:

	2018 £'000	2017 £'000
Directors' remuneration	754	649
Pension contributions to defined contribution schemes	50	47
	804	696

NOTE 5 : OPERATING PROFIT

The operating profit is stated after charging:

	2018 £'000	2017 £'000
Amortisation of intangible assets	2,205	1,768
Depreciation of fixed assets	-	59
Impairment provision (ECL)	263	
Operating lease rental recharges	4,079	3,024
Fees payable to Company's auditor for:		
- The audit of the Company's annual accounts	825	847
- Other services	180	174

Included in administrative expenses are amounts recharged from other Société Générale S.A. group companies for £25,921k (2017: £68,554k).

NOTE 6 : INTEREST INCOME AND EXPENSE

	2018 £'000	2017 £'000
Interest income from deposits with Group companies (Note 12)	20,618	22,348
Interest income from loan to joint venture (Note 12)	-	82
	20,618	22,430

	2018 £'000	2017 £'000
Interest expense on borrowings with Group companies (Note 15)	7,264	8,639

NOTE 7 : TAXATION

The UK corporation tax rate was reduced to 19% from 1 April 2017. The average rate applicable for financial reporting is 19% (2017: 19.25%).

(a) **Analysis of the tax charge / (credit) in the year:**

	2018 £'000	2017 £'000
Current tax		
UK corporation tax	24,959	22,927
Adjustment in respect of prior periods	(26)	(200)
Total current tax	24,933	22,727
Deferred tax		
Origination and reversal of temporary differences in the current year	532	857
Adjustment in respect of prior periods	(13)	2
Changes in Corporation tax rate	49	(19)
Total deferred tax	568	840
Total taxation on profit on ordinary activities	25,501	23,567

(b) **Factors affecting the tax charge / (credit):**

The charge for the year can be reconciled to profit and loss as follows:	2018 £'000	2017 £'000
Profit on ordinary activities before tax	132,064	116,908
Tax on loss on ordinary activities at standard tax rate of 19% (2017: 19.25%)	25,092	22,466
Effects of:		
- Expenses not deductible for tax purposes	1,622	1,317
- Adjustment in respect of prior years and other	(1,262)	(198)
- Changes in Corporation Tax rate	49	(19)
	25,501	23,567

(c) **Deferred tax assets/ (liabilities):**

The deferred tax included in the balance sheet is as follows:

	2018 £'000	2017 £'000
Depreciation in excess of capital allowances	653	896
Provision for temporary differences	562	848
Loss (Gain) on investments at FVTOCI	161	(71)
IFRS 9 transition adjustment	216	-
	1,592	1,673

The movement in the deferred tax asset during the period is as follows:

	2018 £'000	2017 £'000
Deferred tax asset at 1 January	1,673	2,359
Amount charged to the income statement	(497)	(277)
Adjustment in respect of prior periods	12	(2)
Changes in Corporation tax rate	(49)	-
Amount credited to other comprehensive income	207	153
IFRS 9 transition adjustment	246	-
Transferred from Current tax	-	(560)
Deferred tax asset at 31 December	1,592	1,673

Deferred tax assets are only recognised to the extent that they are more likely than not to be recovered.

The Company recognised all UK deferred tax assets and liabilities at a blended rate of 17% at which the deferred tax is expected to reverse.

Finance Act 2015 reduced the main rate of corporation tax from 20% to 19% with effect from 1st April 2017 and this was further reduced by Finance Act 2016 to 17% with effect from 1 April 2020.

NOTE 8 : INTANGIBLE ASSETS

	Software £'000	Other Intangibles £'000	**Totals £'000**
COST			
At 1 January 2018	8,578	8,591	17,169
Movement	(1,306)	237	(1,069)
At 31 December 2018	7,272	8,828	16,100
AMORTISATION / IMPAIRMENT			
At 1 January 2018	(6,267)	(8,510)	(14,777)
Movement	1,148	(29)	1,119
Amortisation for the year	(2,153)	(52)	(2,205)
At 31 December 2018	(7,272)	(8,591)	(15,863)
NET BOOK VALUE			
At 31 December 2018	-	237	237
At 31 December 2017	2,311	81	2,392

NOTE 9 : INVESTMENTS AT FAIR VALUE THROUGH OCI

	Treasury notes and bonds £'000	Shares in unquoted investments £'000	**Totals £'000**
At 1 January 2018	765,355	2,043	767,398
IFRS9 reclassification	-	(2,043)	(2,043)
Additions	2,283,967	-	2,283,967
Disposals	(1,752,573)	-	(1,752,573)
Coupon	(153)	-	(153)
Amortisation of premium/ discount	(4,461)	-	(4,461)
Revaluation	(1,226)	-	(1,226)
At 31 December 2018	1,290,909	-	1,290,909

Investments at FVTOCI consist of investments in treasury notes and similar bonds, for which the fair values are determined using quoted prices in active markets.
Following the implementation of IFRS 9 on 1st January 2018, the shares in unquoted investment (Clearing exchange shares in Swift and the London Metals Exchange) have been reclassified from Available for Sale instruments to Financial assets at FVTPL (note 11).

NOTE 10 : INVENTORIES

	2018 £'000	2017 £'000
Coffee	40,399	129,682
Cocoa	83,377	39,814
Metals	-	55,064
	123,776	224,560

Inventories consist of coffee, cocoa and metals stocks held as part of the brokerage activities of the commodities business line, and are measured at their fair value.

NOTE 11 : FINANCIAL ASSETS AT FAIR VALUE THROUGH P&L

	2018 £'000	2017 £'000
Securities held	-	18,796
Derivative financial instruments	2,443,874	1,761,328
Investment in joint venture	57,254	53,422
Equities investment	2,326	-
	2,503,454	1,833,546

Securities held consists of equities for which the fair values are determined utilising prices from observable current market transactions and dealer quotes for similar instruments.

Derivative financial instruments consist of interest rate, foreign exchange, credit derivatives, equity, and commodity contracts for which the fair value is estimated using a discounted cash flow model that includes assumptions supported by observable market prices or rates.

Altura Markets S.V is a 50% joint venture between the Company and Banco Bilbao Vizcaya Argentaria, S.A. that is incorporated in Spain and whose principal place of business is Madrid. The Directors have elected to hold the investment at fair value through profit and loss as the Company is exempt from preparing consolidated financial statements. The Euro denominated investment is economically hedged by a borrowing in euros included in financial liabilities at fair value (Note 13). The revaluation of the investment is performed on a yearly basis based on the net book value.

Financial assets at fair value include amounts receivable from other Société Générale S.A, group companies for £198,762k (2017: £228,590k).

Following the implementation of IFRS 9 on 1st January 2018, the shares in unquoted investment (Clearing exchange shares in Swift and the London Metals Exchange) have been reclassified from Available for Sale instruments (Note 9) to Financial assets at FVTPL (Equities investment). Additional shares were bought in 2018 amounting to £268k.

NOTE 12 : TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Financial assets with brokers, exchanges and clearing houses	9,663,073	6,319,929
Securities purchased under resale agreements	26,906,916	21,206,163
Receivable from customers and banks	3,198,488	2,817,737
Settlement account on securities transactions	593,529	253,863
Trade debtors	115,748	18,030
Other debtors	73,592	79,052
VAT receivable	10,718	5,955
Prepayments	346	622
	40,562,410	30,701,351
Allowance for impairment losses	(24,273)	(21,311)
	40,538,137	30,680,040
Amounts falling due after one year:		
Intragroup loans	640,000	640,000
	640,000	640,000

Included within receivable from customers are assets that are impaired.

Included within trade debtors are aged brokerage receivables that are not impaired:

	2018 £'000	2017 £'000
7-12 months	1,426	2,246
13-18 months	465	-
19-24 months	211	-
25-36 months	-	-
	2,102	2,246

A reconciliation of the allowances for impairment losses is as follows:

	2018 £'000	2017 £'000
At 1 January	21,311	20,856
Expected Credit Loss (IFRS 9) FTA	1,410	-
Impairment Charge	263	3,845
Write off of impairment	-	(1,686)
Exchange rate movement	1,289	(1,704)
	24,273	21,311

Trade and other debtors include amounts receivable from other Société Générale S.A, group companies for £25,332,049k (2017: £13,697,846k). This includes two loans to Société Générale. First loan is a £560,000k (2017: 640,000k) loan for 7 years remaining loan to Société Générale that is repayable in equal annual instalments and bears fixed interest of 2.9% p.a.. The fair value of this loan as at December 2018 amounts to £ 611,140k.. A second 10-year loan to Société Générale of £80,000k bears fixed interest of 2.3075% p.a. from 17th December 2018. The fair value of this second loan as at December 2018 amounts to £ 93,730k.

NOTE 13 : FINANCIAL LIABILITIES AT FAIR VALUE THROUGH P&L

	2018 £'000	2017 £'000
Securities sold short	-	4,389
Fidelity Plan Hedge	1,296	
Derivative financial instruments	2,472,977	1,704,095
	2,474,273	1,708,484

Securities sold short consists of equities for which the fair values are determined using quoted prices in active markets.

Derivative financial instruments consist of interest rate, foreign exchange, equity and commodity contracts for which the fair value is estimated using a discounted cash flow model that includes assumptions supported by observable market prices or rates.

In 2018, the Company has applied hedge accounting on its Fidelity Plan to hedge the market risk exposure on SG share price on cash settled options. The terms of the hedge are designed to exactly match the indexation of the nominal amount of the bonus and the instalment dates and structure. The hedge will be settled in cash, and not in physical shares. The fair value of the hedge item amounts to £ 734k (loss) as at December 2018.

Financial liabilities at fair value include amounts payable to other Société Générale S.A, group companies for £265,515k (2017: £185,992k).

NOTE 14 : TRADE CREDITORS AND OTHER PAYABLES

	2018 £'000	2017 £'000
Securities sold under agreements to repurchase	22,090,299	18,111,911
Payables to customers and banks	20,693,882	15,839,610
Settlement accounts on securities transactions	301,197	134,213
Trade creditors	144,224	181,267
Other creditors	124,657	54,561
Current tax payable	19,728	18,643
Other tax payable	913	800
Accrued interest on subordinated debt	1,346	1,166
Deferred income	521	1,561
	43,376,767	34,343,732

Trade creditors and other payables include amounts payable to other Société Générale S.A, group companies for £27,089,146k (2017: £22,763,335k). This includes £5,953,000k (2017: £2,240,461k) drawn down against a £9,526,000k (2017: £5,915,410k) facility with Société Générale, in tranches that are repayable from overnight to 3 months that bear a weighted average outstanding interest rate of 1.08% (2017: 0.55%), the terms of which are determined by Société Générale S.A. group treasury. This facility with Société Générale has been increased from US$ 8 billion in January 2017 to US$ 12 billion in November 2018.

NOTE 15 : SUBORDINATED DEBT

	2018 £'000	2017 £'000
Subordinated debt	145,000	145,000

The subordinated debt of £145m maturing in 2024 bears interest of US$ Libor +2.7% per annum. The carrying value of the subordinated debt approximates its fair value at 31 December 2018.

NOTE 16 : PROVISIONS AND CONTINGENT LIABILITIES

	Deferred Bonus £'000	Other Provisions £'000	**Totals** £'000
At 1 January 2018	1,374	6,976	8,350
Charge for period	548	2,000	2,548
Utilisation	(1,435)	(550)	(1,985)
Reversals	-	(3,246)	(3,246)
Revaluation	(29)	(41)	(70)
At 31 December 2018	458	5,139	5,597

Other provisions include provision on Brokerage activity and those held for regulatory reserves.

The deferred bonus provision is an assessment of the bonus payable to eligible employees that are deferred for up to 3 years from the date the bonus is awarded.

Contingent liabilities

The Company is in discussions with its regulators in respect of failures to accurately report certain transactions. As these discussions are currently ongoing, it is not possible to predict their ultimate outcome and therefore any potential liability cannot be reliably estimated.

From time to time the Company is required to provide information to regulators and other government agencies as part of informal and formal enquiries or market reviews. Notwithstanding the uncertainties that are inherent in the outcome of such matters, save as outlined above there are no individual matters which are considered to pose a risk of material adverse financial impact on the Company's results or net assets.

NOTE 17 : SHARE CAPITAL

Authorised and issued:

	Number	Nominal value	2018 £'000	2017 £'000
Share capital	1,000,000,000	£1	1,000,000	1,000,000

The authorised share capital of the Company was increased from £1,000 million to £1,500 million on 4 March 2016.

On 11 April 2018, the Company declared dividends of £18.6m at £0.0186 per share paid on 30 April 2018 to the shareholder.

In respect of 2019 financial year, the directors do not recommend the payment of a dividend on the ordinary shares.

NOTE 18 : CLIENT MONEY BALANCES

As at 31 December 2018 segregated Client Money balances held on behalf of clients with banks, exchanges, clearing houses and brokers in segregated accounts amounted to £7,897,104k (2017: £6,732,970k). These balances do not constitute part of the balance sheet of the Company.

NOTE 19 : OTHER FINANCIAL COMMITMENTS

	2018 £'000	2017 £'000
Commitments granted		
Guarantee commitments granted	24,657,212	13,987,457
Foreign currencies to be delivered and Forward financial instruments	349,545,872	345,378,491
Securities pledged as collateral	6,910,454	5,597,721
Total commitments granted	381,113,538	364,963,669
Commitments received		
Guarantee commitments received	28,596,542	17,920,169
Foreign currencies to be received and Forward financial instruments	349,655,988	346,444,265
Securities received as collateral	4,449,674	3,817,302
Total commitments received	382,702,204	368,181,736

SGIL may lend, pledge, re-pledge, hypothecate or re-hypothecate, on any terms, any collateral held in the customer's account or transferred by the customer. The customer agrees that SGIL may grant a security interest over or title to margin or collateral provided by the customer to cover any obligations owed by SGIL to an intermediate broker, counterparty, exchange or clearing organisation, including obligations owed by virtue of the positions held by such entities for other clients.

NOTE 20 : FINANCIAL INSTRUMENTS

Financial assets and liabilities include, but are not limited to, cash and derivative products that primarily represent the investment, trading and customer facilitation activities.

Categorisation of financial assets

	Financial Assets at FVTPL £'000	Financial Assets at FVTOCI £'000	Loans and Receivables £'000	**Totals £'000**
Investments	59,580	-	-	59,580
Inventories	123,776	-	-	123,776
Financial assets	2,443,874	1,290,909	-	3,734,783
Trade and other receivables	-	-	41,191,346	41,191,346
Cash and cash equivalents	-	-	2,118,837	2,118,837
At 31 December 2018	2,627,230	1,290,909	43,310,183	47,228,322

	Financial Assets at FVTPL £'000	Financial Assets at FVTOCI £'000	Loans and Receivables £'000	Totals £'000
Investments	53,422	2,043	-	55,465
Inventories	224,560	-	-	224,560
Financial assets	1,780,124	765,355	-	2,545,479
Trade and other receivables	-	-	31,334,774	31,334,774
Cash and cash equivalents	-	-	3,185,557	3,185,557
At 31 December 2017	2,058,106	767,398	34,520,331	37,345,835

Categorisation of financial liabilities

	Financial Liabilities at FVTPL £'000	Amortised Cost £'000	**Totals £'000**
Subordinated debt	-	145,000	145,000
Financial liabilities	2,474,273	-	2,474,273
Trade and other payables	-	43,355,605	43,355,605
At 31 December 2018	2,474,273	43,500,605	45,974,878

	Financial Liabilities at FVTPL £'000	Amortised Cost £'000	Totals £'000
Subordinated debt	-	145,000	145,000
Financial liabilities	1,708,484	-	1,708,484
Trade and other payables	-	34,322,728	34,322,728
At 31 December 2017	1,708,484	34,467,728	36,176,212

Financial Risk Management

The Company faces a number of risks as part of its normal day to day business. The principal risks and uncertainties faced by the Company are detailed in section 7 of the Strategic Report.

Liquidity Risk

The Liquidity Risk is defined as the inability for SGIL to meet its financial obligations at a reasonable cost. The primary impacts of liquidity risk cannot be mitigated by capital. The Company manages its liquidity risk by ensuring adeqate 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'), 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.

Maturity analysis of financial liabilities

	Less than 1 year £'000	1-5 years £'000	Greater than 5 years £'000	**Totals £000**
Subordinated debt	-	-	145,000	145,000
Financial liabilities	2,474,273	-	-	2,474,273
Trade and other payables	43,355,605	-	-	43,355,605
At 31 December 2018	45,829,878	-	145,000	45,974,878

	Less than 1 year £'000	1-5 years £'000	Greater than 5 years £'000	Totals £'000
Subordinated debt	-	-	145,000	145,000
Financial liabilities	1,708,484	-	-	1,708,484
Trade and other payables	34,322,728	-	-	34,322,728
At 31 December 2017	36,031,212	-	145,000	36,176,212

The amounts above represent the discounted contractual maturities of financial liabilities.

Credit Risk

The Credit Risk (including concentration risk) is defined as the risk of losses arising from the inability of SGIL's customers, issuers or other counterparties to meet their financial commitments.

The largest risk exposures, for clients trading listed futures and options subject to Initial Margin Requirements ("IMR"), are regularly reviewed. These balances comprise 46% (2017: 46%) of the total risk-weighted asset exposure. A further 13% (2017: 11%) consists of excess cash held overnight at banks, central clearing counterparties, and Intermediary Brokers (predominantly with other Societe Generale Group entities) for daily settlement.

The counterparty credit rating of clients subject to IMR as at 31 December 2018 is as follows:

Moody's/S&P or Fitch rating equivalent:	2018 %	2017 %
Investment Grade	**73%**	**67%**
Aa3/AA– and above	10%	10%
A1 to A3/A+ to A–	41%	41%
Baa1 to Baa3/BBB+ to BBB–	22%	16%
Non - Investment Grade	**27%**	**33%**
Ba1 to Ba3/BB+ to BB–	19%	22%
B1 to B3/B+ to B–	8%	11%
	100%	100%

Exposures are largely spread across counterparty types, but concentrated on Investment grade counterparties. The slight decrease in Non Investment grade counterparties is due to a change in the nature of the Company's portfolio. The proportion of Hedge funds has decreased from 30% in 2017 to 21% of all the counterparties in 2018. These counterparties are always classified as Non Investment grade and treated as such in the credit monitoring process through the collateral policy.

Exposures with counterparties are measured at the counterparty level against a set of limits defined and monitored by the Risk Department and trading is allowed only if limits have been validated. Counterparty credit limits are reviewed annually or more often if a specific event necessitates a reassessment.

Market Risk

Although not considered one of the main risks for SGIL, 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.

- The Company is mainly exposed to the US dollar and Euro currencies and a 1% change in Sterling against all foreign currency denominated monetary assets and liabilities at 31 December 2018 would decrease the Company's profit before tax by £20,625k (2017: increase in profit before tax of £11,430k).
- A 1% parallel change in the LIBOR interest rate (holding all other variables constant) at 31 December 2018 would increase the Company's profit before tax by £6,918k (2017: profit before tax of £3,818k).
- Both equity and commodity portfolios arise from fully hedged trading positions and therefore the Company faces minimal market risk exposures.

Capital Management

The FCA stipulates the minimum level of regulatory capital to be maintained by the Company and it is the responsibility of the Company's Board of Directors to ensure the Company maintains sufficient capitalisation.

In order to comply with the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), which together comprise CRD IV and the FCA's IFPRU handbook which all came into force from 1 January 2014, the Company has prepared a Pillar 3 Disclosure Document. A copy of this document can be obtained from the Company Secretary, 10 Bishops Square, London, E1 6EG or online at https://sgildisclosure.societegenerale.com/en/useful-information/crd/

Through a close monitoring, Senior Management ensure that SGIL has adequate financial resources to meet its liabilities as they fall due, and that the level of capital is appropriate with respect to the risks. A Capital Contingency Plan ("CaCP") has a primary focus of maintaining absolute levels of capital to protect SGIL, its clients and its reputation and ensure adherence to minimum Regulatory limits.

	2018 £'000	2017 £'000
Tier 1 capital:		
- Share capital	1,000,000	1,000,000
- Profit and loss reserves	215,305	129,600
- Intangible assets	(237)	(2,392)
Tier 2 capital:		
- Subordinated debt	145,000	145,000
Total capital resources	1,360,068	1,272,208

Fair value measurement of financial assets:

The following table allocates financial assets measured at fair value to the three levels of the fair value hierarchy described in Note 1 (page 18):

	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Totals £'000**
Investments at FVTOCI	1,290,909	-	-	1,290,909
Inventories	-	123,776	-	123,776
Financial assets at FVTPL:				
Shares and other equity instruments	-	-	-	-
Derivative instruments:				
- Interest rate derivatives	-	307,611	-	307,611
- Foreign exchange derivatives	-	1,876,666	-	1,876,666
- Equity and index derivatives	-	183,909	-	183,909
- Commodity derivatives	-	75,688	-	75,688
Investment in joint venture	-	-	57,254	57,254
Equity investment			2,326	2,326
	-	2,443,874	59,580	2,503,454
At 31 December 2018	1,290,909	2,567,650	59,580	3,918,139

	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Totals £'000**
Available for sale financial instruments	765,355	-	2,043	767,398
Inventories	-	224,560	-	224,560
Financial assets at FVTPL:				
Shares and other equity instruments	18,796	-	-	18,796
Derivative instruments:				
- Interest rate derivatives	-	325,938	-	325,938
- Foreign exchange derivatives	-	1,255,633	-	1,255,633
- Equity and index derivatives	-	75,371	-	75,371
- Commodity derivatives	-	104,386	-	104,386
Investment in joint venture	-	-	53,422	53,422
	18,796	1,761,328	53,422	1,833,546
At 31 December 2017	784,151	1,985,888	55,465	2,825,504

Movements in Level 3 financial assets during the year:

	Financial assets at FVTPL £'000	Financial Assets at FVTOCI £'000	**Totals** £'000
At 1 January 2018	53,422	2,043	55,465
IFRS 9 reclassification	2,043	(2,043)	0
Additions	268	-	268
Disposals	-	-	-
Revaluations	3,847	-	3,847
At 31 December 2018	59,580	-	59,580

Fair value measurement of financial liabilities:

The following table allocates financial liabilities measured at fair value to the three levels of the fair value hierarchy described in Note 1 (page 18):

	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Totals** £'000
Financial liabilities at FVTPL:				
Shares and other equity instruments sold short	-	-	-	-
Derivative instruments:				
- Interest rate derivatives	-	330,412	-	330,412
- Foreign exchange derivatives	-	1,947,561	-	1,947,561
- Equity and index derivatives	-	185,204	-	185,204
- Commodity derivatives	-	11,096	-	11,096
At 31 December 2018	-	2,474,273	-	2,474,273

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Totals £'000
Financial liabilities at FVTPL:				
Shares and other equity instruments sold short	4,389	-	-	4,389
Derivative instruments:				
- Interest rate derivatives	-	349,463	-	349,463
- Foreign exchange derivatives	-	1,276,544	-	1,276,544
- Equity and index derivatives	-	76,388	-	76,388
- Commodity derivatives	-	1,700	-	1,700
At 31 December 2017	4,389	1,704,095	-	1,708,484

Changes in value of financial instruments at fair value

Changes in fair value recognised in the profit and loss account arising from inventories (Note 11) and financial assets and liabilities held at fair value (including derivative assets and liabilities - Note 12 and 14) are included in Net gains and losses on financial instruments presented in Note 2.
Changes in fair value recognised in other reserve in respect of financial instruments classified at FVTOCI are presented in Other Comprehensive Income (page 15). Subsequent gains or losses arising on FVTOCI realised during the year and recycled in Net gains and losses on financial instruments presented in Note 2.

Offsetting financial assets and liabilities:

The following table provides an analysis of the amounts that have been offset in the balance sheet:

	Gross amounts £'000	Amounts offset £'000	Net amounts on Balance Sheet £'000	Amount not offset but subject to enforceable master netting agreement £'000
Investments	59,580	-	59,580	-
Inventories	123,776	-	123,776	-
Financial assets at fair value	21,049,158	(17,314,374)	3,734,784	(1,967,626)
Trade and other receivables	91,402,986	(50,211,640)	41,191,346	-
Cash and cash equivalents	2,118,837	-	2,118,837	-
Financial Assets at 31 December 2018	114,754,337	(67,526,014)	47,228,323	(1,967,626)
Subordinated debt	145,000	-	145,000	-
Financial liabilities at fair value	19,788,647	(17,314,374)	2,474,273	(1,967,626)
Trade and other payables	93,567,245	(50,211,640)	43,355,605	-
Financial Liabilities at 31 December 2018	113,500,892	(67,526,014)	45,974,878	(1,967,626)

	Gross amounts £'000	Amounts offset £'000	Net amounts on Balance Sheet £'000	Amount not offset but subject to enforceable master netting agreement £'000
Investments	55,465	-	55,465	-
Inventories	224,560	-	224,560	-
Financial assets at fair value	17,293,846	(14,748,367)	2,545,479	(1,122,006)
Trade and other receivables	64,427,961	(33,093,187)	31,334,774	-
Cash and cash equivalents	3,185,557	-	3,185,557	-
Financial Assets at 31 December 2017	85,187,389	(47,841,554)	37,345,835	(1,122,006)
Subordinated debt	145,000	-	145,000	-
Financial liabilities at fair value	16,456,851	(14,748,367)	1,708,484	(1,122,006)
Trade and other payables	67,415,915	(33,093,187)	34,322,728	-
Financial Liabilities at 31 December 2017	84,017,766	(47,841,554)	36,176,212	(1,122,006)

NOTE 21 : RELATED PARTY TRANSACTIONS

Related Parties

The Company acts as clearing agent on behalf of the following Group companies:

- Altura Market, Sociedad De Valores, SA
- Komercni Banka A.S
- SG Americas Securities Llc
- SG Kleinwort Hambros Bank Limited
- SG Option Europe
- SG Securities (Singapore) Pte. Ltd.
- SG Securities Korea, Ltd
- Societe Generale - Paris
- Societe Generale Bank & Trust
- Societe Generale Capital Canada Inc
- Societe Generale Private Banking (Suisse) S.A.
- Societe Generale Securities Australia PTY LTD
- Descartes Trading
- SG Seoul
- SG Zurich

All trading transactions with related parties are subject to standard commercial terms and conditions.

Retrocession of net income, recharges of expenses, and other transfer pricing arrangements are in place with the following Societe Generale Group companies:

- SG Securities Asia International Holding Ltd (Hong-Kong)
- Societe Generale Securities Australia PTY LTD
- Societe Generale Capital Canada Inc
- Societe Generale Securities Japan Limited
- SG Securities (Singapore) Pte. Ltd.
- Societe Generale Global Solution Centre Private
- SG Securities Korea, Ltd
- SG Americas Securities, Llc
- SG Americas Securities Holdings, Llc
- Societe Generale Dubai
- SG Zurich
- SG Singapour
- SG Hong Kong
- Societe Generale (New York)
- SG London
- Societe Generale – Paris
- Societe Generale European Business Services S.A.

All related parties are 100% owned subsidiaries of Societe Generale S.A. with the exception Altura Markets S.V which is a 50% joint venture between the Company and Banco Bilbao Vizcaya Argentaria, S.A.

The following amounts were outstanding with non-100% owned related parties at the balance sheet date:

	Trade and other receivables		Trade and other payables	
	2018	2017	**2018**	2017
	£'000	£'000	£'000	£'000
Altura Markets, S.V	217,216	54,286	3,958,821	1,208,670
	217,216	54,286	3,958,821	1,208,670

During the year, the Company entered into the following trading transactions with non-100% owned related parties:

	Trade income		Trade expenses	
	2018	2017	**2018**	2017
	£'000	£'000	£'000	£'000
Altura Markets, S.V	38,484	12,217	37,526	4,893
	38,484	12,217	37,526	4,893

NOTE 22 : PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The immediate parent undertaking and the Company's ultimate holding Company is Societe Generale S.A., which is incorporated in France. Copies of the group accounts of Societe Generale are available from the registered office at 29, Boulevard Haussmann, 75009 Paris, France.

NOTE 23 : POST BALANCE-SHEET EVENTS

SGIL Capital resources were increased by £300m in January 2019 through (i) an increase of Ordinary Share Capital of £150m (from £1,000m to £1,150m which is within the company's remaining authorized share capital amount) (ii) an increase of Tier 2 subordinated debt by £150m from the existing £145m up to £295m.