REGISTERED NUMBER: 05407520 (England and Wales)

Annual Report and Financial Statements

for the Year Ended 31 December 2016

for

Societe Generale International Limited
(formerly Societe Generale Newedge UK Limited)

SOCIETE GENERALE

Societe Generale International Limited (Registered number: 05407520)

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for the Year Ended 31 December 2016

SOCIETE
GENERALE

Societe Generale International Limited

Company Information
for the Year Ended 31 December 2016

DIRECTORS:	Christophe Lattuada Tanya Castell Michael Collins Olivier Hartemann Barry Pearce
COMPANY SECRETARY:	Gerard 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 ("the Company") present their Strategic Report for the year ended 31 December 2016.

BUSINESS MODEL

The Company offers a full range of clearing and execution services for futures and options on listed financial, over-the-counter ("OTC") clearing, and commodity markets. The Company does not take proprietary positions but in the normal course of business facilitation can hold limited residual positions to accommodate its customer activities. In addition, the Company provides coverage for a broad range of fixed income, foreign exchange ("FX"), equity and commodity products in both listed and OTC markets. The Company also provides clients with value added services including a prime brokerage offering, electronic platforms for trading and order routing, cross margining and the centralised reporting of client portfolios.

The Company's ultimate shareholder is Societe Generale ("the Group") which is incorporated in France. Copies of the Group accounts of Societe Generale S.A. are available from the registered office at 29, Boulevard Haussmann, 75009 Paris, France.

REVIEW OF BUSINESS

During the year under review the Company made a profit of £79.9 million (2015 profit: £33.1 million)
Total shareholders' funds for the year ended 31 December 2016 were £1,097 million (2015: £1,016 million)

The directors consider that within the context of the continuing difficult external market conditions, highlighted by a continuing lower interest rate environment, concurrent with the increasingly challenging regulatory environment and the inherent uncertainty around Brexit, that the continued development and expansion of the Company's business during the year and its financial position at the end of the year, were significantly improved and sustainably strong.

Completion of the purchase of the Company by Societe Generale has given strong impetus to ongoing business development given the complementary nature of the two businesses. Both are strong in their selected areas and both committed to the capital markets where they have operated for decades. The combined organisations share a similar culture and understanding of the way the industry operates and they fully understand their clients' needs.

However, it is noted that following the integration within Societe Generale, the Company has, during 2016, been subject to various regulatory reporting issues which will result in some remedial back reporting to the local regulator. The Company has also faced operational challenges which are in the process of being remediated. This is being achieved through a sustained and significant investment to increase the robustness of its operational and technical infrastructure, with the goal of reducing, even further, the operational risk of the organisation.

In anticipation of further business developments, on 4th March 2016, the authorised share capital of the Company was increased by the immediate parent Company by £500 million to £1,500 million. Currently £1,000 million are issued.

On 22nd September, SGIL Board approved to change the corporate name of Societe Generale Newedge UK (SGNUK) to Societe Generale International Limited (SGIL).

During 2015, the Company transitioned from the previously extant UK GAAP to Financial Reporting Standard 101 - Reduced Disclosure Framework ("FRS 101") and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, Societe Generale, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. There were no recognition or measurement differences arising on the adoption of FRS 101 in these financial statements.

SUBSEQUENT EVENTS

On 29 March 2017 the Board of SGIL approved a proposed reduction to the subordinated debt of SGIL from the existing £317m down to £145m; the decision was made to reduce the current capital surplus and in tandem generate interest cost savings within the legal entity. This will be achieved by a one-off repayment of £172m once the appropriate regulatory notifications have been completed.

On 12 April 2017, the Company declared dividends of £59.5m at £0.0596 per share.

After both these events the Board are of the opinion that SGIL continues to have adequate capital to meet its anticipated capital requirements

In order for SGIL to fulfil its shareholder obligations vis-à-vis its Spanish subsidiary (Joint venture 50% owned with BBVA), it was approved on 29th March to inject an amount of €41m corresponding to SGIL contribution to the overall €82m Capital increase of Altura Markets, Sociedad de Valores S.A.

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	31.12.16	31.12.15
	£'000	£'000
Gross profit	228,224	176,082
Profit before tax	100,151	42,551
Cost / income (total cost divided by net banking income)	0.53	0.69

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.

STRATEGIC AIMS AND FUTURE DEVELOPMENTS

The strategic aim of the Company is to continue to strengthen its positions as a leading agency broker and clearing firm. It is to be viewed as a global multi-asset, multi-instrument prime brokerage proposition that offers agile solutions via a single platform.

On 7 May 2014, Societe Generale completed the acquisition from Credit Agricole SA of the additional 50% stake in Newedge Group S.A. which brought its shareholding to 100%. The transaction was completed after the appropriate consultation and agreement of local employee representative bodies and after all the necessary regulatory and anti-trust approvals had been obtained. On 28 October 2015, Newedge Group SA was merged fully into Societe Generale such that the Group controls all subsidiaries previously owned by Newedge Group SA. The Company is now a 100% fully owned subsidiary of Societe Generale.

As such, both 2015 and 2016 were years of integration of the Company's activities into the Global Markets Division of Societe Generale Corporate & Investment Banking. This integration is now well advanced and comes at an opportune time when regulatory, economic and broader changes within the financial services framework are shaping the way both our businesses work. With this approach the Company can, for example, address clients' increasing needs for clearing services in the new regulatory landscape. The backing of a single, major global financial group, and a simpler governance structure, also provides the transparent and efficient framework that is important for both employees and clients.

The Company is well-positioned to provide a greater product offering for clients, an enhanced listed and OTC execution platform, and increased financing capabilities. The Company is now seeing the benefits of integration by continuing to develop

Prime Brokerage activities (both cash and synthetic) and capitalising on cross selling opportunities, as well as scale and geographic presence to become the partner of choice for its clients. Client revenues and confidence are increasing and sustainable cost efficiencies and process improvements have been delivered. The capital base of the Company has been strengthened last year and there has been a significant improvement in profitability and stability in 2016, which the Company believes will continue into the future.

Ultimately, the transaction has enabled the Company and its parent Societe Generale to leverage off of their combined strengths for the benefits of both our growing business and our clients. It is the Company's aim to remain a Top 10 player in its core market activities, gain market share, particularly in multi-asset activities, and provide a robust and resilient platform for growth to enable it to compete actively on new mandates.

REGULATORY ENVIRONMENT

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") and is designated as a Limited Activity Firm ("LAF") and a Significant IFPRU Firm under the FCA's Prudential Sourcebook for Investment Firms ("IFPRU").

The FCA stipulates the minimum level of regulatory capital to be maintained by the Company.

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 http://sgildisclosure.societegenerale.com/en/crd/.

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:

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

The Company's definition of operational risk is derived from the texts of the Basel Committee as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events", and includes:

- Regulatory risk: risk of non-compliance with existing laws and regulations governing the jurisdictions in which the Company operates being overlooked and/or the impact of such changes on the daily operational environment of the Company being misjudged.
- Legal risk: risk of occurrence of liability and losses arising from inadequate contractual documentation or breach of contract, breaches of employment, regulatory and tax (or other applicable) laws, and failure to adhere to appropriate levels of corporate governance.
- Technology risk: risk of loss arising from inadequate systems, usage of technology or IT security management.
- Business continuity risk: risk of loss arising from serious incidents or disasters that interrupt daily operations.

Liquidity Risk
Liquidity risk is defined as the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Credit Risk
Credit Risk is defined as the risk which affects the current or prospective earnings and capital of the Company due to counterparty failure to meet the terms of a contract or its failure to perform as agreed.

Market Risk
Market Risk is defined as the risk to the Company's financial condition resulting from adverse market movements in the Company's (predominantly) trading book attributable to changes in market variables such as interest rates, foreign exchange rates, equity, commodity prices and structural balance sheet positions.

Model Risk
Model risk refers to the potential for adverse consequences resulting from using a model containing errors, or from inappropriate use of the model outputs. Model risk can lead to financial loss, erroneous risk measurement or inappropriate prudential capital level computation, poor business and strategic decision making, or reputational damage.

Strategic Risk
Strategic Risk is defined as the current or prospective risk to earnings and capital due to adverse operating conditions arising from changes in the business or regulatory environment, adverse business decisions, improper selection of strategic decisions, lack of responsiveness to changes in the business environment, market-driven pressures such as decreased demand, increased competition and cost increases.

The Company has undertaken a study on the potential impact of the Brexit. As there are numerous possible outcomes of the negotiations between the United Kingdom and the European Union following the "leave" vote in the referendum on 23 June 2016, it is not possible at this stage to comment on the implications for the Company of such an event.

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

At all times the Company will appropriately manage its relationships, both financial and non-financial with other Group entities. To achieve this, provision of services between the Company and Group entities are governed by SLAs. These specify the responsibilities of each party, the set of measures which will be monitored and reported, the frequency of the reporting and the escalation / resolution protocols if the commitments set in the Service Level Agreements ("SLAs") are not met.

Further discussion of liquidity risk, credit risk, and market risk can be found at Note 21 to the Financial Statements (page 39).

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").

The risk management ("Risk") objective is to ensure that the necessary framework, practices and culture are in place across the Company so that all employees own and manage risks effectively. Risk is an independent function within the Company. It articulates the risk appetite approved at the Board and measures, monitor and reports on the Company's risk relative to that appetite. The Company Risk function also ensure consistency with and leverages, the Societe Generale Risk organisation.

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.

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 BRC;
- At the Executive level, the Management Committee and the executive technical committees the Management Committee has established, including the Risk & Control Committee.

Three Lines of Defence Organisation
The Company employs a 'three lines of defence' governance model to ensure that appropriate responsibility is allocated for the management, reporting and escalation of risk.

- The first line of defence is defined as 'primary risk management'. This includes the Business Lines and Support Functions having the responsibility for identifying, managing and reporting their risks.
- The second line of defence is composed of the Control Functions. This provides challenge and risk control for the Company. The CRO and Chief Compliance Officer are pivotal in the second line of defence. The Control Functions provide support to the business and review and report key risks to the relevant executive committees.
- The third line of defence provides assurance to the Company that all risks are being appropriately managed, monitored and reported. The Group's Internal Audit function provides independent review and reports directly to senior management and the Board Audit Committee ("BAC").

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 UK Service Management Committee at the executive level and the BRC at the Board level.

RISK ASSESSMENT AND MEASUREMENT

Risk Assessment
The Company assesses its operational risks mainly through the yearly Risk Control Self-Assessment (RCSA) exercise and the continuous refresh of its Risk Register. On a yearly basis, Operational Risk Department performs the mandatory RCSA exercise on the Company risk entities (i.e. departments): the outputs are the entities' individual risk assessments and consolidated assessment of the Company. 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 along 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.

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

- Operational Risk:
  - Operational incidents are recorded and trends are analysed. An investigation including the analysis of root causes and action plans is performed for significant events;
  - Results of permanent supervision controls including completion rate and anomalies;
  - Spot checks (controls performed by Operational Risk Department ensuring that permanent supervision is properly performed) results;
  - Anti-fraud controls including the monitoring of staff leave of absence and analysis of potentially risky types of deal entries and
  - Business continuity including completion of Business Impact Analysis and Business Continuity Plan.

- Credit Risk:
  - Valuation of credit exposures through various credit risk measurements such as Credit Value at Risk, Delivery Risk and Deposit Risk.;
  - Credit portfolio stress testing; and
  - Credit Concentration Risk ratios computed for exposures per individual counterparty, per industry and per region.

  Client Credit Risk quantification is also provided through:
  - Basel III Risk Weighted Assets; and
  - Internal Risk Rating Methodology.

  The Company monitors credit concentration risk by using the Herfindahl-Hirschman Index (HHI) approach.

- Market Risk: Market Risk exposures are measured through:
  - Stress Test, Stress Value at Risk, Value at Risk, Delta Nominal;
  - Max tenor; and
  - Positions / open interest.

  Market Risk Limits are assigned to a given desk for a specific list of products.

- Liquidity Risk: The Company 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, an extreme yet plausible scenario simulating a strong increase of activity generated by extreme volatility where the Company loses some of its funding sources and faces massive intraday margin calls.
  - The Liquidity crisis scenario consisting of an accumulation of stresses corresponding to a sharp business reduction.

  Both scenarios are run against idiosyncratic, market-wide and combined stress tests which simulate the occurrence of simultaneously linked liquidity stress events.

  The Company also defined a reverse liquidity stress test to understand the effects of a severe liquidity event, which the Company is not able to survive.

The responsibility of the BRC is to review and assess the appropriateness of the risk assessment and measurement methodologies.

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

RISK MONITORING AND REPORTING

The Monitoring and Reporting Framework has been designed with a view to:
- Monitoring adherence to the risk appetite of the firm;
- Providing a comprehensive view of the Company risk profile;
- Enabling escalation of breaches/overruns;
- Enforcing the resolution of issues and the maintenance of risk mitigation processes.

The reports are circulated to the entity Management through the Risk Control Committee and the governance bodies through the Board Risk Committee.

The Monitoring and Reporting Framework is made up of a wide range of controls, including but not necessarily limited to:
- Review of stress test results against the associated limits / thresholds;
- Review of BAU loss exposures against the associated limits;
- Tracking of exceptions to the qualitative business acceptance criteria;
- Tracking of risk indicators against the applicable limits and thresholds; and
- Review of errors and incidents.

Within the Operational Risk Reporting and Monitoring Framework, the Permanent Supervision process plays a pivotal role. Permanent supervision controls are formalised level controls that have one of two functions:
- To monitor the operational controls implemented to mitigate the operational risk exposures of the firm; and
- To monitor key risks where mitigating factors are weak to ensure the risk remains within acceptable levels.

ON BEHALF OF THE BOARD:

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Barry Pearce - Director

Date: 24 April 2017

DIRECTORS' REPORT

The directors of the Company present their report and the audited financial statements for the year ended 31 December 2016.

PROFITS AND APPROPRIATIONS

During the year under review the Company made a profit after tax of £79.9 million (2015 profit: £33.1 million). The directors recommend the payment of a dividend of £59.5m on the ordinary shares in respect of this financial year (2015: £nil).

Total shareholders' funds for the year ended 31 December 2016 were £1,097 million (2015: £1,016 million).

The Company's strategic highlights, business developments and future developments are set out in the Strategic Report on pages 2 to 8.

DIRECTORS

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

Christophe Lattuada	(appointed 11 May 2016)
Michael Collins	(appointed 15 June 2016)
Tanya Castell	
Olivier Hartemann	
Barry Pearce	
David Escoffier	(resigned 26 April 2016)
Ian Fisher	(resigned 1 July 2016)
Gary Wolens	(resigned 9 April 2016)

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

No directors have any direct financial interests in the Company.

REGULATORY CAPITAL

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

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.

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.

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 Societe Generale 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. Accordingly, the directors believe that preparing the accounts on a going concern basis is appropriate.

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.

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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Barry Pearce - Director

Date: 24 April 2017

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 the 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.

Independent Auditor's Report to the Shareholders of
Societe Generale International Limited

We have audited the financial statements of Societe Generale International Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 is 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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Syed Zahir Hassan Bokhari

Syed Bokhari FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
24th April 2017

SOCIETE GENERALE

Statement of Comprehensive Income
for the Year Ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit and loss from continuing operations:			
Turnover	2	1,124,188	750,485
Operating costs	2	(895,964)	(574,403)
Gross profit		228,224	176,082
Administrative expenses	3, 4, 5	(144,699)	(125,438)
Other losses		-	(356)
Operating profit	5	83,525	50,288
Interest income	6	26,159	1,089
Interest expense	6	(9,532)	(8,826)
Profit before taxation		100,151	42,551
Tax on profit on ordinary activities	7	(20,229)	(9,425)
PROFIT FOR THE YEAR		**79,922**	**33,126**
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Gains / (losses) on available-for-sale securities		1,225	(805)
Deferred tax on gains / losses on available-for-sale securities		(410)	193
Other comprehensive income / (loss) net of tax		815	(612)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**80,737**	**32,514**
Profit attributable to:			
Equity shareholder of the Company		**79,922**	**33,126**
Total comprehensive income attributable to:			
Equity shareholder of the Company		**80,737**	**32,514**

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

The notes on pages 15 to 48 form part of these financial statements

Societe Generale International Limited (Registered number: 05407520)

Balance Sheet as at
31 December 2016

	Notes	2016 £'000	2015 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	4,224	6,024
Tangible fixed assets	9	59	297
Other receivables	13	720,000	800,000
Deferred tax assets	7	2,359	2,352
		726,642	808,673
CURRENT ASSETS			
Available-for-sale investments	10	790,642	1,245,840
Inventories	11	203,881	239,238
Financial assets at fair value	12	2,917,932	2,258,707
Trade and other receivables	13	44,446,023	30,208,643
Cash and cash equivalents		3,534,948	1,165,177
		51,893,426	35,117,605
TOTAL ASSETS		52,620,068	35,926,278
LIABILITIES			
CURRENT LIABILITIES			
Financial liabilities at fair value	14	(2,672,250)	(2,301,532)
Trade creditors and other payables	15	(48,529,852)	(32,286,236)
		(51,202,102)	(34,587,768)
NON-CURRENT LIABILITIES			
Subordinated debt	16	(317,000)	(317,000)
Provisions	17	(4,342)	(5,622)
		(321,342)	(322,622)
TOTAL LIABILITIES		(51,523,444)	(34,910,390)
NET ASSETS		1,096,625	1,015,888
EQUITY			
Share capital	18	1,000,000	1,000,000
Other reserves		(567)	(1,382)
Retained earnings		97,192	17,270
TOTAL EQUITY AND RESERVES		1,096,625	1,015,888

The financial statements were approved and authorised for issue by the Board of Directors on 12 April 2017 and were signed on its behalf by:

....

Barry Pearce - Director

The notes on pages 15 to 48 form part of these financial statements

Societe Generale International Limited (Registered number: 05407520)

Statement of Changes in Equity
for the Year Ended 31 December 2016

	Share Capital £'000	Other reserves £'000	Retained Earnings £'000	Totals £'000
At 1 January 2015	**833,755**	**(770)**	**(15,856)**	**817,129**
Issue of share capital	166,245	-	-	166,245
Loss for the year	-	-	33,126	33,126
Other comprehensive income for the year	-	(612)	-	(612)
At 31 December 2015	**1,000,000**	**(1,382)**	**17,270**	**1,015,888**
Issue of share capital	-	-	-	-
Profit for the year	-	-	79,922	79,922
Other comprehensive income for the year	-	815	-	815
At 31 December 2016	**1,000,000**	**(567)**	**97,192**	**1,096,625**

The notes on pages 15 to 48 form part of these financial statements

1. ACCOUNTING POLICIES

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

Basis of preparation

Societe Generale International Limited is a Company incorporated in the United Kingdom under the Companies Act. 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 net realisable value in IAS 2 or 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, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Societe Generale S.A. The group accounts of Societe Generale S.A. are available to the public and can be obtained as set out in Note 23.

1. **ACCOUNTING POLICIES - continued**

Adoption of new and revised Standards
In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 *Disclosure Initiative*	The Company has adopted the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Company.
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	The Company has adopted the amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a) when the intangible asset is expressed as a measure of revenue; or b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. As the Company already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively, the adoption of these amendments has had no impact on the Company's financial statements.
Amendments to IAS 27 *Equity Method in Separate Financial Statements*	The Company has adopted the amendments to IAS 27 *Equity Method in Separate Financial Statements* for the first time in the current year. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: • at cost; • in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or • using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*. The same accounting must be applied to each category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs. If required the Company would account for and the adoption of such amendments would have no impact on the Company's financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity.

1. **ACCOUNTING POLICIES - continued**

Annual Improvements to IFRSs 2012-2014 Cycle	The Company has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2012-2014 Cycle* for the first time in the current year. The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The adoption of these amendments has had no effect on the Company's 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. 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.

1. ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument, and are classified into the following specified categories depending upon their nature and purpose, determined at the time of initial recognition:

a) Loans, receivables, borrowings and payables, measured at amortised cost; or
b) Financial assets and liabilities at fair value through profit and loss ("FVTPL"); or
c) Available-for-sale ("AFS") financial assets; or
d) Held-to-maturity investments (a category not used).

a) Loans, receivables, borrowings and payables, measured at amortised cost

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables', which includes collateral (securities secured by bills and related receivables) and deposits with brokers, exchanges and clearing houses; reverse repo and cash collateral from stock borrowing operations; interbank receivables such as debit current accounts, amounts due from banks and customers, as well as margins and guarantee funds paid on brokerage activities.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is calculated by estimating future cash flows considering all contractual terms of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities classified as 'borrowings and payables' are initially measured at fair value, net of transaction costs. These include repo and cash collateral from stock lending operations; interbank payables such as credit current accounts, amounts due to banks and customers, as well as margins and guarantee funds received on brokerage activities and subordinated debt. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

b) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities are classified as at FVTPL when the financial asset or liability is either held for trading purposes or it is designated as at FVTPL. A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing in the near term; or
- on initial recognition it is a 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 that is not designated and effective as a hedging instrument.

A financial asset or liability 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.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. For securities held at fair value, the net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset, or any interest paid on the financial liability, and is included in 'net gains and losses on financial instruments' in the income statement. Fair value is determined in the manner described in Note 1 (page 17).

1. **ACCOUNTING POLICIES - continued**

c) Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as: (a) loans and receivables, or (b) financial assets at FVTPL.

Purchases and sales of AFS financial assets are recognised in the balance sheet on the trade date and subsequently re-measured at fair value at the balance sheet date; income accrued or paid is recognised in profit and loss, whereas any gains or losses, excluding income, are reported on a separate line in shareholders' equity. The Company only records these gains or losses in the profit and loss account in the event of derecognition or other-than-temporary impairment. Impairment losses on equity instruments cannot be reversed through profit or loss.

Fair value is determined in the manner described in Note 1 (page 17). The fair value of AFS monetary assets denominated in a foreign currency is determined in accordance with the Foreign Currencies accounting policy (page 19) and any foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

A financial asset is considered impaired when fees and commissions or loan payments (principal and interest) are in arrears three months or over and in addition each case of arrears is assessed individually. If, however, each receivable cannot be examined individually, owing for example to the large number of receivables, receivables are combined into homogeneous portfolios of financial assets based on comparable credit risk characteristics such as time periods. The impairment loss on a homogeneous group of assets is determined on the basis of historical data on default rates and loss rates observed per homogeneous portfolio.

At the balance sheet date, impairment losses are recognised in the following manner:

- on fees and commissions, impairment is calculated individually, based on the associated risk.
- in respect of loans and financing, impairment on the principal is calculated individually, based on the associated risk, whereas a 100% impairment loss is recognised on the interest.

If there is objective evidence of impairment of a financial asset measured at amortised cost, the Company recognises impairment charge equal to the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Impairment losses and reversals, losses on uncollectible loans and advances, and amounts recovered on loans and advances previously written off are included in the administrative expenses line item in the profit and loss accounts.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

1. **ACCOUNTING POLICIES - continued**

Derecognition of financial assets
A financial asset (or group of financial assets) is partially or fully derecognised:

- When the contractual rights to the cash flows from the asset expire; and
- When substantially all the risks and rewards of owning the asset have been transferred.

In cases in which the Company has transferred the cash flows from a financial asset, but has neither transferred nor retained substantially all the risks and rewards of ownership and has not, in practice, retained control over the asset, the Company derecognises the financial asset, and all the rights and obligations created or retained at the time of transfer are accounted for separately as assets or liabilities.

If the contractual rights to the cash flows of a financial asset are transferred, but only part of the risks and rewards as well as control over the asset are retained, the Company continues to recognise the financial asset to the extent to which it has a continuing involvement in the asset.

Derecognition of financial liabilities
A financial liability is fully or partially derecognised when, and only when, the liability is discharged, cancelled or expires.

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivative instruments are initially recognised at fair value on trade date and are subsequently remeasured to their fair value at each balance sheet date with the resulting gain or loss recognised in profit or loss.

Derivatives are classified by default as instruments 'held for trading' as described in the accounting standards. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Market transactions include instruments traded on organised markets and similar exchanges and other instruments traded over-the-counter on less liquid markets. The resulting gains or losses, regardless of whether they are realised or unrealised, are directly recognised in profit and loss under 'net gains and losses on financial instruments at fair value through profit and loss' in Note 2, and in the balance sheet under financial assets (or liabilities) at fair value through profit and loss.

The Company has considered the impact of counterparty credit risk in the valuation of their assets and when measuring the fair value of liabilities, including derivatives, securities owned, securities sold, not yet purchased and derivative transactions are carried at fair value and are classified and disclosed using the fair value categories used to measure financial assets and liabilities in Note 1 (page 17).

Changes in unrealised gains and losses relating to assets or liabilities held at the balance sheet date are reported in turnover. The Company maintains a matched book, which means positions with one counterparty are generally offset with opposite transactions with other dealers or counterparties. These transactions and the associated underlying financial instruments are often classified in different levels in the fair value hierarchy.

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.

1. **ACCOUNTING POLICIES - continued**

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 months.

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.

Intangible assets with indefinite useful lives that are acquired separately, such as goodwill, are carried at cost less accumulated impairment losses.

Internally generated intangible assets
An internally-generated intangible asset, such as capitalised internal-use software costs, is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible assets so that it will be available for use;
- the intention to complete the intangible asset and the ability to use it;
- how the intangible asset will generate probable future economic benefits; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the profit and loss in the period in which it is incurred.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. For capitalised internal-use software costs, this includes the external direct costs of materials and services consumed in developing or obtaining the software, payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The expected useful lives of intangible assets subject to amortisation are reviewed annually.

Tangible fixed assets
Tangible fixed assets are stated at historical purchase cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight-line basis at the following terms:

- Furniture and equipment: 5 to 10 years
- Computer equipment: 3 to 5 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed annually.

1. **ACCOUNTING POLICIES - continued**

Impairment of intangible and tangible fixed assets
At each balance sheet date, the Company reviews the carrying amounts of its tangible and 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 timing 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 timing 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 timing 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, Societe Generale 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.

1. **ACCOUNTING POLICIES - continued**

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 19 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
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Valuation of financial instruments
Certain financial instruments are measured at fair value for financial reporting purposes. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Note 21 highlights those financial instruments that are not traded on an active market.

b) Provision for loans and receivables
The Company regularly reviews the provision for overdue loans and receivables. Allowances are calculated on an individual basis; overdue loans are valued based on estimated net future cash flows. Where individual examination is not possible or practical due to a large volume of transactions of low unit amounts a provision is calculated based on a globally defined percentage for all overdue balances. These are contained in Note 13 to the financial statements.

c) Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Company's domicile.

Deferred taxes are recognised based on the estimated future profitability of the business, further details are available on note 7. These are estimates made in relation to the allocation of the bank levy made at year end as this is not finalised by group until after signing the financial statements this could be higher or lower than the amount accrued.

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	168,311	903,654	52,223	1,124,188
Operating costs	(89,114)	(806,850)	-	(895,964)
At 31 December 2016	79,197	96,804	52,223	228,224
Turnover	162,752	602,695	(14,962)	750,485
Operating costs	(84,786)	(489,617)	-	(574,403)
At 31 December 2015	77,966	113,078	(14,962)	176,082

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:

	2016 £'000	2015 £'000
Prime Services	680,566	481,639
Commodities	443,622	268,846
	1,124,188	750,485

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

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

	2016 £'000	2015 £'000
United Kingdom	719,580	609,283
France	300,454	77,851
Rest of Europe	13,886	9,980
Americas	83,224	43,959
Asia-Pacific	7,044	9,412
	1,124,188	750,485

3. STAFF COSTS

	2016 £'000	2015 £'000
Wages and salaries	41,249	46,612
Social security costs	4,958	4,876
Pension and other staff costs	2,598	2,793
	48,805	54,821

As at the year end there were no unpaid pension contributions (2015: £nil).

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

	2016	2015
Management	3	4
Front office	98	108
Support	188	220
	289	332

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.

The valuations of the Fidelity Plan as accrued in the financial statements are based on the prevailing market price as at 31 December 2016; the element of this valuation relating to variation in the price of Societe Generale shares since declaration was £1,094k (2015: 53k). The total profit and loss recognised in the year related to the plan was an expense of £1,929k (2015: £4,513k).

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.

4. DIRECTORS' EMOLUMENTS

	2016 £'000	2015 £'000
Directors' remuneration	2,383	3,517
Pension contributions to defined contribution schemes	140	55
	2,523	3,572

During the year the highest paid director was paid £589,382 (2015: £1,825,163).

5. OPERATING PROFIT

The operating profit is stated after charging:

	2016 £'000	2015 £'000
Property lease rentals	-	1,162
Amortisation of intangible assets	1,916	2,137
Depreciation of fixed assets	238	1,008
Operating lease rental recharges	3,667	1,927
Fees payable to Company's auditor for:		
- The audit of the Company's annual accounts	648	528
- Other services	161	105

Included in administrative expenses are amounts recharged from other Societe Generale S.A. group companies for £55,739k (2015: £32,602).

6. INTEREST INCOME AND EXPENSE

	2016 £'000	2015 £'000
Interest income from deposits with Group companies (Note 13)	26,002	1,045
Interest income from loan to joint venture (Note 13)	157	44
	26,159	1,089

	2016 £'000	2015 £'000
Interest expense on borrowings with Group companies (Note 16)	9,532	8,826

7. TAXATION

The UK corporation tax rate was reduced to 20% from 1 April 2015. The rate applicable for financial reporting is 20% (2015: 20.25%).

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

	2016 £'000	2015 £'000
Current tax		
UK corporation tax	19,675	10,120
Adjustment in respect of prior periods	(5)	(10)
Total current tax	19,670	10,110
Deferred tax		
Origination and reversal of temporary differences in the current year	(313)	(722)
Adjustment in respect of prior periods	585	29
Changes in Corporation Tax rate	287	8
Total deferred tax	559	(685)
Total taxation on profit on ordinary activities	20,229	9,425

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

The charge for the year can be reconciled to profit and loss as follows:	2016 £'000	2015 £'000
Profit on ordinary activities before tax	100,151	42,551
Tax on loss on ordinary activities at standard tax rate of 20% (2015: 20.25%)	20,030	8,615
Effects of:		
- Expenses not deductible for tax purposes	128	1,561
- Non taxable income	(796)	
- Adjustment in respect of prior years	580	19
- Movements of deferred tax in the current year	-	(778)
- Changes in Corporation Tax rate	287	8
	20,229	9,425

7. **TAXATION - continued**

c) Deferred tax assets/ (liabilities):

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

	2016 £'000	2015 £'000
Depreciation in excess of capital allowances	1,066	1,347
Provision temporary differences	957	557
Gains on available for sale assets	(224)	(174)
Non-trade loan relationships	560	622
	2,359	2,352

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

	2016 £'000	2015 £'000
Deferred tax asset at 1 January	2,352	1,030
Amount credited to the income statement	25	714
Adjustment in respect of prior periods	31	(29)
Amount (debited) / credited to other comprehensive income	(49)	15
Transferred from Current Tax	-	622
	2,359	2,352

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 18% at which the deferred tax is expected to reverse.

Legislation was introduced in Finance Act 2015 to reduce the main rate of corporation tax from 20% to 19% with effect from 1 April 2017, and to 18% with effect from 1 April 2020. A further measure in the 2016 Finance Act reduced the main rate of corporation tax to 17% with effect from 1 April 2020. These reductions are taken into account when calculating the deferred tax blended rate used in the accounts.

8. INTANGIBLE ASSETS

	Software £'000	Other Intangibles £'000	Totals £'000
COST			
At 1 January 2016	8,527	8,590	17,117
Additions	115	1	116
At 31 December 2016	8,642	8,591	17,233
AMORTISATION / IMPAIRMENT			
At 1 January 2016	(5,966)	(5,127)	(11,093)
Amortisation for the year	(597)	(1,319)	(1,916)
At 31 December 2016	(6,563)	(6,446)	(13,009)
NET BOOK VALUE			
At 31 December 2016	2,079	2,145	4,224
At 31 December 2015	2,561	3,463	6,024

Transfers of client relationships and related account balances (included in Note 13) were undertaken from SG Americas Securities (US Treasury Repo activity) for which no consideration was paid or received for the transfer and no intangible asset was recognised.

9. TANGIBLE FIXED ASSETS

	Computer Equipment £'000
COST	
At 1 January 2016	5,266
Additions	-
Transferred out	-
At 31 December 2016	5,266
DEPRECIATION	
At 1 January 2016	(4,969)
Depreciation for the year	(238)
Transferred out	-
At 31 December 2016	(5,207)
NET BOOK VALUE	
At 31 December 2016	59
At 31 December 2015	297

10. AVAILABLE FOR SALE FINANCIAL INSTRUMENTS

	Treasury notes and bonds £'000	Shares in unquoted investments £'000	Totals £'000
At 1 January 2016	1,242,859	2,981	1,245,840
Additions	3,389,562	-	3,389,562
Disposals	(3,846,057)	-	(3,846,057)
Revaluation	1,223	74	1,297
At 31 December 2016	787,587	3,055	790,642

Available for sale financial instruments comprise:

(a) Investments in treasury notes and similar bonds, for which the fair values are determined using quoted prices in active markets;

10. **AVAILABLE FOR SALE FINANCIAL INSTRUMENTS - continued**

(b) Unquoted investments in:

- Global Markets Exchange Group ("GMEX") Limited, where a 6% participation in GMEX was acquired in 2015 by way of a contribution for services performed that consisted of external expenditure of £279k; and
- Clearing exchange shares in Swift and the London Metals Exchange, in which the investments are held at fair value.

11. **INVENTORIES**

	2016 £'000	2015 £'000
Coffee	25,037	102,807
Cocoa	156,874	101,872
Metals	21,970	34,559
	203,881	239,238

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.

12. **FINANCIAL ASSETS AT FAIR VALUE**

	2016 £'000	2015 £'000
Securities held	510,847	478,677
Derivative financial instruments	2,391,687	1,766,752
Investment in joint venture	15,398	13,278
	2,917,932	2,258,707

Securities held consists of equities and treasury bills for which the fair values are determined using discounted cash flow models 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 investment consists of 126 Class A shares, each with a nominal value of €100k, which comprises 100% of the Class A shares issued and 50% of the participation and voting rights. It was acquired from the former Newedge Group S.A (prior to its dissolution) at a fair value of €18 million on 5 August 2015, which was determined by reference to the net book value of the investment at the date of acquisition. The Euro denominated investment is economically hedged by a rolling 3-month EUR/GBP currency swap included in financial liabilities at fair value (Note 14).

12. **FINANCIAL ASSETS AT FAIR VALUE - continued**

Financial assets at fair value include amounts receivable from other Societe Generale S.A, group companies for £71,069k (2015: £46,440k).

13. **TRADE AND OTHER RECEIVABLES**

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Financial assets with brokers, exchanges and clearing houses	6,171,400	3,244,023
Securities purchased under resale agreements	32,608,532	21,964,679
Receivable from customers and banks	5,550,684	4,918,393
Trade debtors	16,254	22,000
Other debtors	110,047	56,970
VAT receivable	9,579	3,617
Prepayments	384	877
	44,466,879	30,210,559
Allowance for impairment losses	(20,856)	(1,916)
	44,446,023	30,208,643
Amounts falling due after one year:		
Other debtors	720,000	800,000
	720,000	800,000

Included within receivable from customers are assets that are impaired.

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

	2016 £'000	2015 £'000
7 - 12 months	3,281	867
13-18 months	1,699	574
19-24 months	442	956
25-36 months	-	189
	5,422	2,586

13. TRADE AND OTHER RECEIVABLES- continued

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

	2016 £'000	2015 £'000
At 1 January	1,916	3,143
Impairment Charge	18,566	-
Write off of impairment	-	(1,273)
Exchange rate movement	374	46
	20,856	1,916

Trade and other debtors include amounts receivable from other Societe Generale S.A, group companies for £21,791,944k (2015: £12,184,461k). This includes a £720,000k (2015: £800,000k) 10-year loan to Societe Generale that is repayable in equal annual instalments and bears fixed interest of 2.9% p.a.

14. FINANCIAL LIABILITIES AT FAIR VALUE

	2016 £'000	2015 £'000
Securities sold short	501,346	339,599
Derivative financial instruments	2,170,904	1,961,933
	2,672,250	2,301,532

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.

Financial liabilities at fair value include amounts payable to other Societe Generale S.A, group companies for £98,581k (2015: £79,536k).

15. TRADE CREDITORS AND OTHER PAYABLES

	2016 £'000	2015 £'000
Securities sold under agreements to repurchase	31,404,187	19,966,926
Payables to customers and banks	16,820,666	12,127,346
Trade creditors	205,487	121,582
Other creditors	85,934	58,231
Current tax payable	10,467	6,143
Other tax payable	493	451
Accrued interest on subordinated debt	1,197	4,246
Deferred income	1,420	1,311
	48,529,852	32,286,236

Trade creditors and other payables include amounts payable to other Societe Generale S.A, group companies for £24,894,226k (2015: £11,337,760k). This includes £2,784,338k (2015: £1,051,886k) drawn down against a £4,531,548k facility with Societe Generale, in tranches that are repayable from overnight to 3 months that bear a weighted average outstanding interest rate of 0.55% (2015: 0.55%), the terms of which are determined by Societe Generale S.A. group treasury.

16. SUBORDINATED DEBT

	2016 £'000	2015 £'000
Subordinated debt	317,000	317,000

The £172 million subordinated loan from Newedge Group S.A. was transferred to Societe Generale London Branch following the dissolution of Newedge Group S.A on 28 October 2015. An additional subordinated loan of £145million was provided by Societe Generale London Branch on 28 May 2015. Both loans mature in 2024 and bear interest of $USD LIBOR +2.7% per annum. The directors consider to reduce the subordinated debt by £172m (one-off repayment) from £317m to £145m by Q2 2017.

17. PROVISIONS

	Deferred Bonus £'000	Other Provisions £'000	Totals £'000
At 1 January 2016	4,346	1,276	5,622
Charge for period	1,395	126	1,521
Utilisation	(2,664)	(291)	(2,955)
Reversals	157	-	157
Revaluation	(113)	110	(3)
At 31 December 2016	3,121	1,221	4,342

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.

Other provisions include mainly bad debt provision on brokerage receivables.

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, there are no individual matters which are considered to pose a significant risk of material adverse financial impact on the Company's results or net assets.

18. SHARE CAPITAL

Authorised and issued:

	Number	Nominal value	2016 £'000	2015 £'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.

19. CLIENT MONEY BALANCES

As at 31 December 2016 segregated Client Money balances held on behalf of clients with banks, exchanges, clearing houses and brokers in segregated accounts amounted to £7,604,512k (2015: £4,387,443k). These balances do not constitute part of the balance sheet of the Company.

20. OTHER FINANCIAL COMMITMENTS

Commitments granted:

	2016 £'000	2015 £'000
Guarantee commitments granted	11,612,953	10,878,115
Foreign currencies to be delivered	135,831,658	157,408,715
Forward financial instrument commitments	119,882,121	113,247,191
Securities pledged as collateral	6,102,090	4,822,812
Total commitments granted	273,428,822	286,356,833

Commitments received:

	2016 £'000	2015 £'000
Guarantee commitments received	25,521,546	12,327,646
Foreign currencies to be received	170,165,751	150,612,885
Forward financial instrument commitments	85,797,360	120,503,040
Securities received as collateral	3,757,648	2,536,361
Total commitments received	285,242,305	285,979,932

21. 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	Available-for-Sale Assets £'000	Loans and Receivables £'000	Totals £'000
Investments	15,398	3,055	-	18,453
Inventories	203,881	-	-	203,881
Financial assets	2,902,534	787,587	-	3,690,121
Trade and other receivables	-	-	44,446,023	44,446,023
Cash and cash equivalents	-	-	3,534,948	3,534,948
At 31 December 2016	3,121,813	790,642	47,980,972	51,893,426

	Financial Assets at FVtPL £'000	Available for Sale Assets £'000	Loans and Receivables £'000	Totals £'000
Investments	13,278	2,981	-	16,259
Inventories	239,238	-	-	239,238
Financial assets	2,245,429	1,242,859	-	3,488,288
Trade and other receivables	-	-	30,208,643	30,208,643
Cash and cash equivalents	-	-	1,165,177	1,165,177
At 31 December 2015	2,497,945	1,245,840	31,373,820	35,117,605

Categorisation of financial liabilities

	Financial Liabilities at FVtPL £'000	Amortised Cost £'000	Totals £'000
Subordinated debt	-	317,000	317,000
Financial liabilities	2,672,250	-	2,672,250
Trade and other payables	-	48,529,852	48,529,852
At 31 December 2016	2,672,250	48,846,852	51,519,102

21. FINANCIAL INSTRUMENTS (continued)

	Financial Liabilities at FVtPL £'000	Amortised Cost £'000	Totals £'000
Subordinated debt	-	317,000	317,000
Financial liabilities	2,301,532	-	2,301,532
Trade and other payables	-	32,286,236	32,286,236
At 31 December 2015	2,301,532	32,603,236	34,904,768

Financial Risk Management

The Company is primarily exposed to operational risk and liquidity risk, but also faces credit risk, market risk, business/strategic risk, and group risk.

The maintenance of the Liquidity Risk, Credit Risk and Market Risk Management Framework is the responsibility of the Chief Risk Officer ("CRO") working in close cooperation with the Societe Generale Risk and Finance functions to ensure alignment of methodologies and protocols. The Operational Risk function, which reports to the CRO, provides oversight over all operational risk.

Liquidity Risk

Liquidity risk is defined as the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The primary impacts of liquidity risk cannot be mitigated by capital. The Company 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 a Liquid Asset Buffer, and management of external lines to ensure constant headroom. The adequacy of these resources is evaluated by regular liquidity stress testing and is further assured by the Company Contingency Funding Plan (CFP). Significant liquidity stress requires a management response that implies the sale of assets in stressed market conditions.

The Company Liquidity Risk Appetite is defined as the amount of liquidity the firm requires to survive for a period of 35 days under an "extreme but plausible" stress scenario. Stress testing takes place on a daily basis and the results are monitored by the Risk Department.

Complementary operational limits, controls and reports are in place as an additional safeguard in case the stress test fails to detect a liquidity crisis situation. They cover the following elements:

- Funding Line consumption level;
- Liquid Assets Buffer level;
- Sources and uses of liquidity;
- Overnight FX position;
- Business Line funding level ; and
- Treasury (ALM) balance sheet report, including any funding gap.

21. **FINANCIAL INSTRUMENTS (continued)**

Maturity analysis of financial liabilities

	Less than 1 year £'000	1-5 years £'000	Greater than 5 years £'000	Totals £'000
Subordinated debt	-	-	317,000	317,000
Financial liabilities	2,672,250	-	-	2,672,250
Trade and other payables	48,529,852	-	-	48,529,852
At 31 December 2016	51,202,102	-	317,000	51,519,102

	Less than 1 year £'000	1-5 years £'000	Greater than 5 years £'000	Totals £'000
Subordinated debt	-	-	317,000	317,000
Financial liabilities	2,301,532	-	-	2,301,532
Trade and other payables	32,286,236	-	-	32,286,236
At 31 December 2015	34,587,768	-	317,000	34,904,768

The amounts above represent the discounted contractual maturities of financial liabilities. For the subordinated debt, the Directors consider to reduce it by £172m (one-off repayment) from £317m to £145m by Q2 2017.

Credit Risk

Credit risk is defined as the risk which affects the current or prospective earnings and capital of the Company due to counterparty failure to meet the terms of a contract or its failure to perform as agreed.

The credit risk exposure faced by the Company 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, the Company would only suffer a credit loss if: (i) the client does not pay; (ii) to close out the client's trades the Company realised a loss greater than the variation margin that had been posted (i.e. on the previous day); and (iii) any haircuts applied were less than the negative result from the realised losses.

The Company has a diverse portfolio of clients which ranges from financial services firms and regulated funds to corporate, such as energy companies and commodity trading houses. As the Company targets clients that trade futures there may occur inherent counterparty concentration, especially from a sector perspective.

The largest risk exposures, for clients trading listed futures and options subject to Initial Margin Requirements ("IMR"), are regularly reviewed. These balances comprise 45% (2015: 39%) of the total risk-weighted asset exposure. A further 11% (2015: 36%) consists of excess cash held overnight at banks, central clearing counterparties, and Intermediary Brokers (predominantly with other Societe Generale Group entities) for daily settlement.

21. FINANCIAL INSTRUMENTS (continued)

The counterparty credit rating of clients subject to IMR as at 31 December 2016 is as follows:

Moody's/S&P or Fitch rating equivalent:	2016 %	2015 %
Aa3/AA– and above	11.2%	6.5%
A1 to A3/A+ to A–	41.5%	44.3%
Baa1 to Baa3/BBB+ to BBB–	21.8%	23.7%
Ba1 to Ba3/BB+ to BB–	16.6%	15.6%
B1 to B3/B+ to B–	8.8%	9.8%
Caa1/CCC+ and below	0.1%	0.2%
	100.0%	100.0%

Exposures are largely spread across counterparty types, but concentrated on Investment grade counterparties. 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

Market Risk is defined as the risk to the Company's financial condition resulting from adverse market movements in the Company's (predominantly) trading book attributable to changes in market variables such as interest rates, foreign exchange rates, equity, commodity prices and structural balance sheet positions.

The Company business model is to generate net income from fees, commission, mark up and interest. 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 for client trades such as over-the-counter contracts for difference. Also, to facilitate client orders, very short-term market risk can arise in the commodity and financial futures markets, foreign exchange, bullion, repo, security lending & borrowing and fixed income markets.

The Company has a low risk appetite for these risk factors. The Company consequently takes a conservative approach in its market risk limit setting and monitoring. The Company has not been granted a market risk delegation, as such all new market risk limit requests and amendments must be approved by Group. The Company's Board reviews and approves the overall Stress Loss limit.

Market risk exposures are measured using value-at-risk (VaR) analyses supplemented by sensitivity analyses. There has been no significant change to the Group's exposure to market risks or the manner in which these risks are managed and measured:

- The Company is mainly exposed to the US dollar (USD), Swiss Franc (CHF) and Euro (EUR) currencies and a 1% change in Sterling (GBP) against all foreign currency denominated monetary assets and liabilities at 31 December 2015 would increase the Company's profit before tax by £11,168k (2015: increase in profit before tax of £9,188k).

- A 1% parallel change in the LIBOR interest rate (holding all other variables constant) at 31 December 2016 would increase the Company's profit before tax by £3,750k (2015: loss before tax of £3,721k).

21. **FINANCIAL INSTRUMENTS (continued)**

- Both equity and commodity portfolios arise from fully hedged trading positions and therefore the Company faces minimal market risk exposures.

Capital Management

The Company is authorised and regulated by the Financial Conduct Authority (FCA) and is designated as a Limited Activity Firm (LAF) under the FCA's Prudential Sourcebook for Investment Firms (IFPRU). 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.

	2016 £'000	2015 £'000
Tier 1 capital:		
- Share capital	1,000,000	1,000,000
- Profit and loss reserves	96,625	15,888
- Intangible assets	(4,224)	(6,024)
Tier 2 capital:		
- Subordinated debt	317,000	317,000
Total capital resources	1,409,401	1,326,864

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 17):

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Totals £'000
Available for sale financial instruments	787,587	-	3,055	790,642
Inventories	-	203,881	-	203,881
Financial assets at FVTPL:				
Shares and other equity instruments	510,847	-	-	510,847
Derivative instruments:				
- Interest rate derivatives	-	213,926	-	213,926
- Foreign exchange derivatives	-	1,850,171	-	1,850,171
- Equity and index derivatives	-	82,672	-	82,672
- Commodity derivatives	-	244,918	-	244,918
Investment in joint venture	-	-	15,398	15,398
	510,847	2,391,687	15,398	2,917,932
At 31 December 2016	1,298,434	2,595,568	18,453	3,912,455

21. FINANCIAL INSTRUMENTS (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Totals £'000
Available for sale financial instruments	1,242,859	-	2,981	1,245,840
Inventories	-	239,238	-	239,238
Financial assets at FVTPL:				
Treasury notes and similar securities	33,869	-	-	33,869
Shares and other equity instruments	444,808	-	-	444,808
Derivative instruments:				
- Interest rate derivatives	-	334,170	-	334,170
- Foreign exchange derivatives	838	1,211,443	-	1,212,281
- Equity and index derivatives	-	35,632	-	35,632
- Commodity derivatives	3,918	180,751	-	184,669
Investment in joint venture	-	-	13,278	13,278
	483,433	1,761,996	13,278	2,258,707
At 31 December 2015	1,726,292	2,001,234	16,259	3,743,785

Movements in Level 3 financial assets during the year:

	Financial assets at FVtPL £'000	Available for sale financial instruments £'000	Totals £'000
At 1 January 2016	13,278	2,981	16,259
Fair value through P&L and other comprehensive income	2,120	74	2,914
At 31 December 2016	15,398	3,055	18,453

21. **FINANCIAL INSTRUMENTS (continued)**

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 17):

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Totals £'000
Financial liabilities at FVTPL:				
Shares and other equity instruments sold short	501,346	-	-	501,346
Derivative instruments:				
- Interest rate derivatives	-	239,130	-	239,130
- Foreign exchange derivatives	-	1,683,795	-	1,683,795
- Equity and index derivatives	-	91,076	-	91,076
- Commodity derivatives	-	156,903	-	156,903
At 31 December 2016	501,346	2,170,904	-	2,672,250

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Totals £'000
Financial liabilities at FVTPL:				
Shares and other equity instruments sold short	339,599	-	-	339,599
Derivative instruments:				
- Interest rate derivatives	-	354,494	-	354,494
- Foreign exchange derivatives	1,092	1,208,853	-	1,209,945
- Equity and index derivatives	-	64,906	-	64,906
- Commodity derivatives	4,915	327,673	-	332,588
At 31 December 2015	345,606	1,955,926	-	2,301,532

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 a revaluation reserve in respect of financial instruments classified as available-for-sale are presented in the Other Comprehensive Income (page 14). Subsequent gains or losses arising on available for sale financial instruments realised during the year and recycled in Net gains and losses on financial instruments presented in Note 2.

21. FINANCIAL INSTRUMENTS (continued)

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	18,453	-	18,453	-
Inventories	203,881	-	203,881	-
Financial assets	10,904,073	(7,213,953)	3,690,121	(2,050,473)
Trade and other receivables	44,446,023	-	44,446,023	(25,461,106)
Cash and cash equivalents	3,534,948	-	3,534,948	-
Financial Assets at 31 December 2016	59,107,379	(7,213,953)	51,893,426	(27,511,579)
Subordinated debt	317,000	-	317,000	-
Financial liabilities	9,886,202	(7,213,953)	2,672,250	(2,050,473)
Trade and other payables	48,529,852	-	48,529,852	(25,461,106)
Financial Liabilities at 31 December 2016	58,733,054	(7,213,953)	51,519,102	(27,511,579)

	Gross amounts £'000	Amounts offset £'000	Net amounts on Balance Sheet £'000
Investments	16,259	-	16,259
Inventories	239,238	-	239,238
Financial assets	4,412,530	(924,242)	3,488,288
Trade and other receivables	30,304,546	(95,903)	30,208,643
Cash and cash equivalents	1,165,177	-	1,165,177
Financial Assets at 31 December 2015	36,137,750	(1,020,145)	35,117,605
Subordinated debt	317,000	-	317,000
Financial liabilities	3,156,510	(854,978)	2,301,532
Trade and other payables	32,382,139	(95,903)	32,286,236
Financial Liabilities at 31 December 2015	35;855,649	(950,881)	34,904,768

22. RELATED PARTY TRANSACTIONS

Related Parties

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

- Societe Generale Securities Australia PTY LTD
- Societe Generale Capital Canada Inc
- Altura Market, Sociedad De Valores, SA
- Newedge Financial Hong Kong Ltd
- SG Americas Securities Llc
- SG Hong Kong
- Societe Generale - Paris
- Societe Generale Bank & Trust
- Societe Generale Private Banking (Suisse) S.A.
- SG Option Europe
- Komercni Banka A.S
- SG Securities (Singapore) Pte. Ltd.
- SG Hambros Bank Limited
- 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.
- Newedge Financial Hong KongLtd
- SG Securities Korea, Ltd
- SG Zurich
- SG Singapour
- Societe Generale (New York)
- Societe Generale - Paris
- SG Americas Securities Holdings, Llc
- SG Americas Securities, Llc
- Societe Generale Dubai
- SG Hong Kong
- SG London
- Societe Generale Global Solution Centre Private
- SG Mumbai

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. Note that Komercni Banka is now fully owned by Societe Generale and Amundi is no longer part of Societe Generale Group.

22. RELATED PARTY TRANSACTIONS (continued)

Related Party Balances

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

	Trade and other receivables		Trade and other payables	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Altura Markets, S.V	86,795	78,800	1,045,269	1,009,958
Komercni Banka A.S	-	-	-	88
Amundi (Asset Management) S.A	-	361	-	361
	86,795	79,161	1,045,269	1,010,407

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

	Trade income		Trade expenses	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Altura Markets, S.V	11,090	9,538	1,599	662
Komercni Banka A.S	-	-	-	-
Amundi (Asset Management) S.A	-	-	-	5
	11,090	9,538	1,599	667

23. 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.

24. POST BALANCE-SHEET EVENTS

On 29 March 2017 the Board of SGIL approved a proposed reduction to the subordinated debt of SGIL from the existing £317m down to £145m; the decision was made to reduce the current capital surplus and in tandem generate interest cost savings within the legal entity. This will be achieved by a one-off repayment of £172m once the appropriate regulatory notifications have been completed.

On 12 April 2017, the Company declared dividends of £59.6m at £0.0596 per share.

In order for SGIL to fulfil its shareholder obligations in respect of its Spanish subsidiary (Joint venture 50% owned with BBVA), it was approved on 29th March to inject an amount of €41m corresponding to SGIL's contribution to the overall €82m Capital increase of Altura Markets, Sociedad de Valores S.A.