Groupe Crédit du Nord

Registration document and annual financial report

2018

This document is a free translation into English of the Registration Document (Document de Référence) issued in French. Only the French version of the Registration Document has been submitted to the AMF. It is therefore the only version legally binding.

The original document was filed with the AMF (French Securities Regulator) on April 17, 2019, in accordance with article 212-13 of its General Regulation. As such, it may be used to support a financial transaction if accompanied by a prospectus duly approved by the AMF. This document was produced by the issuer and is binding upon its signatory.

CONTENTS

Group structure 4

1 **Activity** 5
- 1.1 Key figures as at December 31, 2018 6
- 1.2 2018 highlights 8

2 **Corporate Governance** 13
- 2.1. Corporate Governance as at December 31, 2018 14
- 2.2 Board of Director's report on corporate governance 15
  - Information on the Corporate Officers 18
  - Senior management remuneration policy 25
  - Draft Resolutions: Combined Shareholders' Meeting of May 23, 2019 37
- 2.3 Statutory auditors' special report on related party agreements and commitments 41

3 **Management Report** 45

Management Report 46
- 1. Presentation of Crédit du Nord Group's situation during Fiscal Year 2018 46
- 2. Internal control and risk management procedures relating to the preparation and processing of accounting and financial information 61

4 **Financial statements** 73
- 4.1 Consolidated financial statements 74
  - Consolidated financial statements 74
  - Notes to the consolidated financial statements 81
  - Statutory Auditors' report on the consolidated financial statements 195
- 4.2 Annual financial statements 200
  - 2018 Management Report 200
  - Five-year financial summary 203
  - Main changes in the securities portfolio in 2018 204
  - Parent Company Balance Sheet 205
  - Parent Company Income Statement 207
  - Notes to the annual financial statements 208
  - Statutory auditors' report on the financial statements 247

5 **Risks and Capital Adequacy** 253
- 5.1 Key figures 254
- 5.2 Risk management 256
- 5.3 Capital management and adequacy 258
- 5.4 Credit risks 266
- 5.5 Market risks 280
- 5.6 Operational risks 286
- 5.7 Structural interest rate risk 291
- 5.8 Liquidity risk 294
- 5.9 Non-compliance, reputational and legal risks 299
- 5.10 Risk Appetite 301

6 **Corporate Social Responsibility (CSR)** 303
- 6.1 A business model that sets CSR as the foundation of the company's transformation programme 305
- 6.2 Non-financial risk policy for sustainable management of the business 317
- 6.3 Independent auditor's report on the consolidated non-financial information disclosed in the Management Report 354

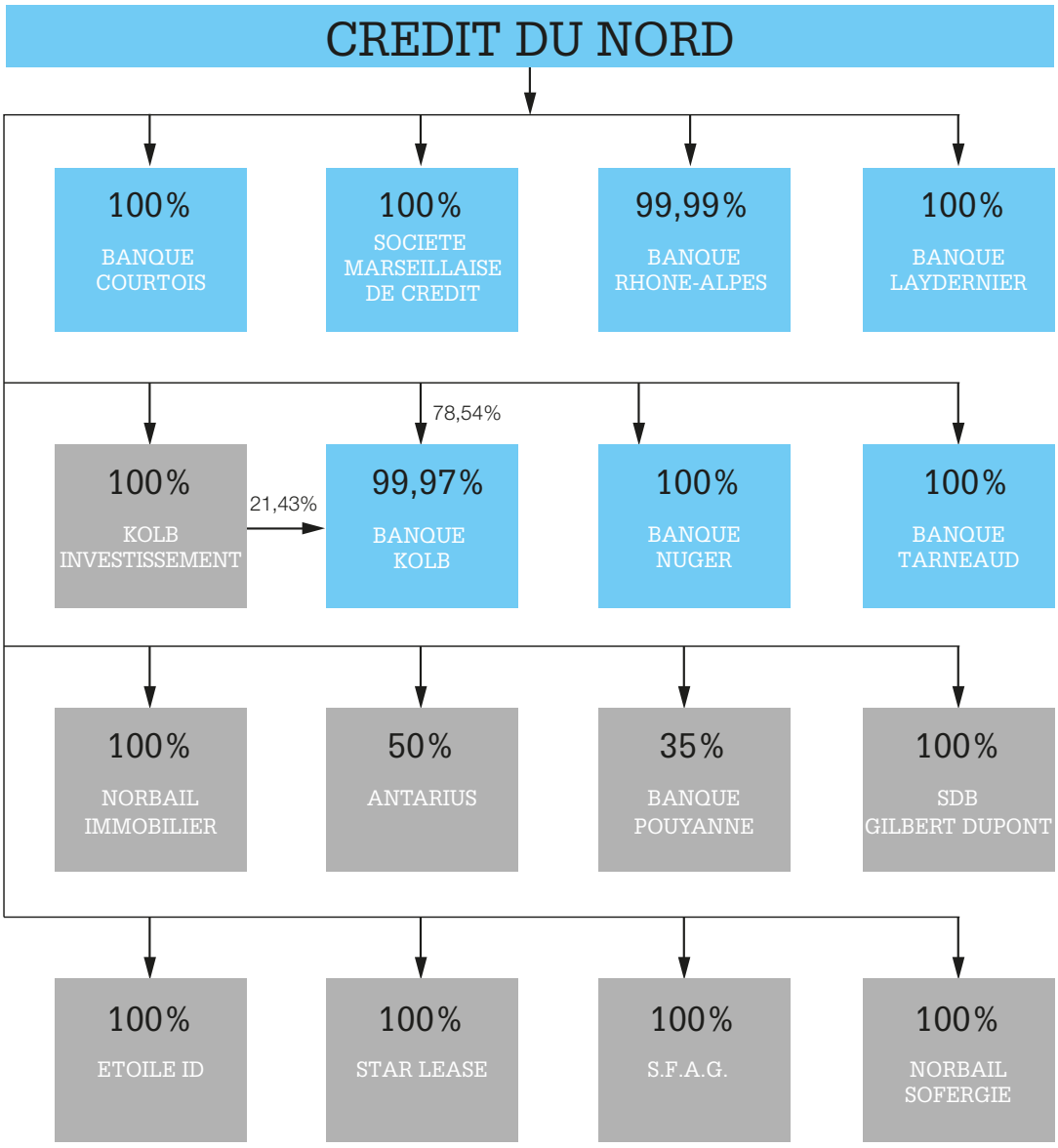
7 **Additional information** 357
- 7.1 General description of Crédit du Nord 358
- 7.2 Group activity 361

8 **Person responsible for the Registration Document** 363
- 8.1 Person responsible for the Registration Document 364
- 8.2 Certification by the person responsible for the Registration Document and the Annual Financial Report 364
- 8.3 Statutory Auditors 365

9 **Cross Reference tables** 367
- 9.1 Cross Reference table for the Registration Document 368
- 9.2 Cross Reference table for the Annual Financial Report 371

Group structure

The diagram below shows the links between the main Crédit du Nord Group entities. Direct shareholdings are listed as well as the overall percentage of capital directly or indirectly held by the Group. The consolidation scope is presented in its entirety in Note 7.5.



1 Activity

1.1 Key figures as at December 31, 2018 _____ 6

1.2 2018 highlights _____ 8

1.1 Key figures as at December 31, 2018

Consolidated Group data

Balance sheet

(in €m)	31/12/2018	01/01/2018 [1]	31/12/2017	31/12/2016	% change 12/2018 vs. 01/2016
Customer deposits	44,651.3	43,702.4	43,702.4	41,489.8	+2.2
Customer loans [2]	43,151.8	41,525.5	41,587.9	39,328.5	+3.9
Shareholders' equity [2]	3,533.5	3,368.2	3,418.9	3,091.0	+4.9
Doubtful loans (gross)	2,273.6	2,563.3	2,563.3	2,774.9	-11.3
Impairments of individually impaired loans	-1,397.1	-1,516.0	-1516.0	-1,435.7	-7.8
TOTAL BALANCE SHEET [2]	**70,651.8**	**70,419.2**	**70,471.4**	**62,928.9**	**+0.3**
ASSETS UNDER MANAGEMENT (off-balance sheet)	**27,669.5**	**28,531.0**	**28,531.0**	**27,146.7**	**-3.0**

Results

(in €m)	31/12/2018	31/12/2017	31/12/2016	% change 2018/2017
Net banking income [2]	1,908.8	1,891.3	2,005.5	+0.9
Gross operating income [2]	620.5	605.4	773.7	+2.5
Earnings before tax [2]	592.1	531.3	670.9	+11.4
Consolidated net income [2]	419.1	372.1	505.0	+12.6

(1) First-time application of IFRS 9 "Financial Instruments".

(2) Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).

Ratios

	31/12/2018	31/12/2017
Cost of risk/Outstanding loans	0.15%	0.23%
Common Equity Tier 1 Ratio (Basel 3 fully-loaded)	11.2%	11.1%
Total capital ratio (Basel 3 fully-loaded)	14.1%	14.6%

Ratings

		31/12/2018	31/12/2017
Standard and Poor's	ST	A - 1	A - 1
	LT	A	A
Fitch	ST	F1	F1
	LT	A	A
	Intrinsic*	bbb+	bbb+

* *The intrinsic rating is Crédit du Nord Group's individual rating as determined by the rating agency, i.e. separate from Societe Generale Group.*

1.2 2018 highlights

Digital solutions, entrepreneurship, customers

Multidoc aggregation: an innovative invoice management solution

Multidoc aggregation is available to individual, professional and corporate customers on all channels: website, mobile website, smartphone and tablet apps. After account aggregation, invoice aggregation was launched in February 2018. Once the various companies and other institutions have been entered, customers are able to automatically recover and save their invoices, notices and account statements available online. The documents, which are automatically downloaded to an e-safe that is accessible free of charge, are linked to corresponding bank transactions in customer accounts. All documents are stored for at least 5 years.

New partnership with iRaiser to promote online donations

In February 2018, Crédit du Nord Group entered into a partnership with iRaiser to promote online donations via a collection platform. In addition to its offer for associations and institutional organisations, the Bank wants to help its customers make the digital transition and develop their fund-raising activities. iRaiser's online donation solution is more specifically targeted towards organisations appealing to the public's generosity, including in particular associations, museums, hospitals, foundations, research institutes, etc. This partnership falls in line with the Bank's general innovative, open approach to trusted external companies to expand the range of banking services offered to its customers.

Launch of PassBtoB with Ellisphere to secure the growth of VSEs and SMEs

In March 2018, Crédit du Nord Group banks, in partnership with Ellisphere, began offering an innovative solution to secure the development of VSEs and SMEs.

With PassBtoB, professional and corporate customers of Crédit du Nord Group gain access to the economic and financial information of their partners. The new offer combines very specific criteria (geographic area, revenue, financial ratios, etc.) to select high-performance companies.

Business leaders thus have a unique and detailed map of the economic players, customers and prospects with which they do business. PassBtoB also includes a guarantee for higher-risk transactions.

Combating fraud: launch of the dynamic-encryption card

To strengthen the authentication and security of online payments more secure, Crédit du Nord Group launched dynamic-encryption cards in April 2018.

The cards use a new technology, Motion Code™, developed by French group IDEMIA. Instead of a three-digit security code on the back of the card, there is a screen that displays a new code every hour. If the card details are stolen, it becomes impossible for the thief to reuse them because the security code is soon obsolete.

This innovative solution does not change the process for making online purchases.

Credit transfers from accounts held with other banks

Crédit du Nord Group pioneered with the launch of account aggregation, followed that up with invoice aggregation. Now the group has expanded its offer with multi-bank credit transfers, simplifying account management for customers holding accounts with multiple banks. This new online service, available since July 2018, allows customers to debt a current account held with another bank to credit registered beneficiaries. The feature can be accessed on Crédit du Nord Group websites, mobile sites and apps for external accounts aggregated in its interface.

Home protection: launch of a remote surveillance service

In the interest of enhancing the protection of its customers and their homes against the risks of break-ins, theft and fire, in July 2018 Crédit du Nord Group added a new remote surveillance system to its range, developed in partnership with Societe Generale Insurance.

Electronic signature for consumer loans

Crédit du Nord Group simplified the consumer loan application process by offering electronic signature in August 2018. At their local branch or from the comfort of home, customers can sign a consumer loan agreement in just a few minutes, once their application has been reviewed and approved by the Bank.

This quick and easy solution can be accessed from the Crédit du Nord Group websites, mobile sites and apps. The proposal of electronic signatures is part of the overall strategy to reduce the environmental impact generated by Crédit du Nord Group. It also aims to improve customer satisfaction by cutting down on administrative processing times.

Pop-up digital workshops open to the public

In a bid to promote innovation and help drive the digital transition, Crédit du Nord teamed up with LeChaudron.io to organise a series of workshops and conferences open to the public in October 2018 at its offices on Boulevard Haussmann in Paris and at Banque Nuger in Clermont-Ferrand.

The goal of the pop-up workshops was to offer concrete illustrations of digital practices and to disseminate shared knowledge to customers and employees of the Group. This innovation will be expanded to other Group banks in 2019.

Availability of Apple Pay

In November 2018, the eight banks of the Crédit du Nord Group launched Apple Pay, a simple, secure and confidential payment solution.

Appointments

Michel GASSIE appointed Chief Financial Officer of Crédit du Nord Group

February 2018: Michel GASSIE was appointed Chief Financial Officer of Crédit du Nord Group. As such, he became a member of the Group Executive Committee. He assumed the position formerly held by Clara LEVY-BAROUCH, who joined the French Retail Banking division of Societe Generale.

Jean-Marc CHAUVIERE appointed Data Protection Officer of Crédit du Nord Group

March 2018: Jean-Marc CHAUVIERE was appointed Data Protection Officer of Crédit du Nord Group. Reporting to the Compliance Division, he is the Group's chief contact with the CNIL (French Data Protection Agency) for matters relating to the European General Data Protection Regulation (GDPR). In the course of performing his duties, Jean-Marc CHAUVIERE oversees the compliance of the personal data collected and processed by the Bank. He is responsible for maintaining a culture of data protection among employees and handles any complaints regarding personal data processing in accordance with data subjects' rights.

Philippe DELACARTE appointed Chairman of the Management Board of Banque Rhône-Alpes

April 2018: Philippe DELACARTE, previously Head of Corporate Customer Relations for Crédit du Nord Group, was appointed Chairman of the Management Board of Banque Rhône-Alpes. He joined the Management Committee (CODIR) of Crédit du Nord Group. His predecessor, Yvon LEA, took up a new position with Crédit du Nord and is still a member of the Management Committee.

Evelyne GINGUAY appointed Chief Executive Officer of Star Lease

May 2018: Evelyne GINGUAY, previously Corporate Secretary of Star Lease, was appointed Chief Executive Officer of this Crédit du Nord subsidiary, replacing Laurent CHASSAGNAC who joined the Management Board of Société Marseillaise de Crédit. Star Lease specialises in lease financing and equipment leasing for corporate and professional customers of the Group.

Appointments to the Crédit du Nord Group Management Committee

Alain QUENTIN, previously Deputy Head of the Northwestern France region, was appointed Head of Specialised Financing in June 2018. As such, he supervises Star Lease, Norbail Immobilier (real estate finance) and the Real Estate Finance division.

Ludovic VAN DE VOORDE, previously Deputy Head of the Northern France region, was appointed Head of Group Transformation. He is in charge of overhauling the customer experience under the Bank's internal transformation programme.

In their new positions, Alain QUENTIN and Ludovic VAN DE VOORDE report to General Management and have joined the Management Committee of Crédit du Nord Group.

Frédéric LARGERON, Head of Private Banking for the Group, also joined the Management Committee.

Sponsorship

Founding Sponsor of *Atelier des Lumières* in Paris

Crédit du Nord Group has undertaken a true sensory experience as the founding sponsor of *Atelier des Lumières*, the first-ever digital arts centre in Paris.

In the course of developing digital exhibitions, Crédit du Nord decided to continue its partnership with Culturespaces, one of the leading private-sector operators in the management and promotion of monuments, museums and art centres. Atelier des Lumières organises monumental immersive exhibits covering more than 2,000 m^2 in an old foundry located in the 11th arrondissement of Paris.

Monet-Clemenceau Exhibit at the Musée de l'Orangerie

As a Major Sponsor of the Mission du Centenaire, celebrating the 100th anniversary of World War I, and the Public Institution of the Musée d'Orsay and the Musée de l'Orangerie, Crédit du Nord supports the Monet-Clemenceau exhibit (November 2018 – March 2019).

Loyal to its steadfast sponsorship policy spanning more than 30 years, centred on culture, sports and society, Crédit du Nord's support of the Money-Clemenceau exhibit is a natural extension of its commitment to combining its various sponsorship initiatives and contributing to the cultural expansion of the regions in which its eight regional banks are established.

Silvère Jarrosson "Figures" exhibit

Le Crédit du Nord is hosting an exhibit of seven works by painter Silvère Jarrosson at its Haussmann branch in Paris (December 2018 – March 2019).

"Figures" is a hybrid experience bridging a live show and a painting.

The artist created 3 diptychs (180 X 130 cm) and one large-scale painting (220 X 220 cm) especially for the exhibit.

Corporate Governance

2

2.1. Corporate Governance as at December 31, 2018 ____ 14

2.2 Board of Director's report on corporate governance ____ 15

Information on the Corporate Officers 18

Senior management remuneration policy 25

Draft Resolutions: Combined Shareholders' Meeting of May 23, 2019 37

2.3 Statutory auditors' special report on related party agreements and commitments ____ 41

2.1. Corporate Governance as at December 31, 2018

Board of Directors

Director	Date of 1st appointment [1]	Term of office expires at the Shareholders' Meeting in May [4]
Chairman of the Board of Directors		
Philippe AYMERICH	May 18, 2018	2019
Director		
Philippe AYMERICH	January 11, 2012	2019
Sophie-Ségolène BENHAMOU	May 28, 2014	2022
Véronique CHAUFFERT-YVART	May 19, 2016	2020
Caroline DELCOURT [3]	November 9, 2018	2021
Thierry DIGOUTTE [3]	July 26, 2013	2021
Bruno FLICHY	April 28, 1997	2019
Anne MARION-BOUCHACOURT	May 16, 2013	2021
Françoise MERCADAL DELASALLES [2]	May 18, 2018	2022
Thierry MULLIEZ	May 6, 2011	2019
Anne PERRIN	May 19, 2016	2020
Annie PRIGENT [3]	December 4, 2012	2021
Jean-François SAMMARCELLI	January 1, 2010	2021
Patrick SUET	May 3, 2001	2019

(1) Term of office: 4 years (with the exception of worker directors, whose term of office is 3 years).
(2) Chief Executive Officer.
(3) Employee director.
(4) With the exception of employee representatives, who are elected.

The Board of Directors met six times in 2018 to discuss changes in the General Management and the Board, examine the budget, yearly and half-yearly financial statements, and analyse and discuss important strategic decisions concerning commercial, organisational and investment policies.

At the Shareholders' Meeting of May 18, 2018, all resolutions submitted were approved, including the appointment of Françoise MERCADAL DELASALLES as a Director, the reappointment of Sophie Ségolène BENHAMOU and the reappointment of both principal Statutory Auditors for a term of six years. Finally, the budget reserved for directors' fees was readjusted.

Executive Committee

Philippe AYMERICH, Deputy Chief Executive Officer until May 14, 2018,

Françoise MERCADAL DELASALLES, Chief Executive Officer from May 14, 2018 (previously Deputy Chief Executive Officer),

Jean-Louis KLEIN, Deputy Chief Executive Officer from May 14, 2018

Yves BLAVET, Head of Group Resources,

Philippe CALMELS, Head of Human Resources,

Bruno DESCHAMP, Chairman of the Management Board of Société Marseillaise de Crédit,

Jean DUMONT, Regional Manager - Northern France,

Michel GASSIE, Chief Financial Officer,

Stéphane LABAT SAINT VINCENT, Corporate Secretary,

Gerald MANZANARES, Head of Marketing,

François ORAIN, Regional Manager - Ile de France and Loiret,

Pierre SOUVRAS, Chief Risk Officer,

Eric l'HOTE, Head of Communications (attends Executive Committee meetings).

2.2 Board of Director's report on corporate governance

This report was prepared for the first time during the 2017 financial year subsequent to the publication of Order No. 2017-1162 of July 12, 2017 and Decree No. 2017-1174 of July 18, 2017.

The duties of Chairman of the Board and Chief Executive Officer were split on January 1, 2010.

The term of office of the Chief Executive Officer is determined by the Board of Directors.

The Chief Executive Officer is vested with the broadest powers to act under all circumstances on behalf of the company. The Chief Executive Officer exercises his powers within the limits set out by the corporate purpose and subject to the powers expressly attributed by law to the Shareholders' Meetings and the Board of Directors.

The Chief Executive Officer's powers in the area of credit risk are specified in the rules adopted at the Board of Directors' Meeting of October 25, 2012.

List of directors as at December 31, 2018:

Philippe AYMERICH
Chairman of the Board of Directors

Françoise MERCADAL DELASALLES
Director and Chief Executive Officer

Sophie-Ségolène BENHAMOU
Independent Director

Véronique CHAUFFERT-YVART
Independent Director

Caroline DELCOURT*
Employee Director

Thierry DIGOUTTE**
Employee Director

Bruno FLICHY
Director

Anne MARION-BOUCHACOURT
Director

Thierry MULLIEZ
Independent Director

Anne PERRIN
Independent Director

Annie PRIGENT**
Employee Director

Jean-François SAMMARCELLI
Independent Director

Patrick SUET
Director

* *Elected as an employee-representative director on 9/11/2018 (Non-Executive staff).*
* *Re-elected as employee-representative directors on 9/11/2018 (Executive staff).*

The Board of Directors comprised **13 members** at December 31, 2018, including **5 independent directors** chosen for their expertise and commitment to the company, and three employee-elected directors. Directors are appointed for four years, except for employee representative directors, who are elected for three years. New elections were held to elect employee-representative directors on November 9, 2018: two members were re-elected and one new director was elected.

Crédit du Nord complies with the law of January 27, 2011 governing the principle of balanced representation of women and men on the Board. At December 31, 2018, five women sat on the Board of Crédit du Nord, bringing the representation rate of women to 50%, excluding employee directors.

Like its parent company, Societe Generale, of which it is a wholly-owned subsidiary, Crédit du Nord applies the "AFEP-MEDEF Code" (revised in June 2018, document available at www.hcge.fr), with the exception of certain provisions:

- assessment of the Board of Directors: this recommendation will be observed in 2019;
- provision of a biography on candidates proposed during Shareholders' Meetings: each candidate's qualifications are carefully reviewed by the Appointment Committee, which transmits the necessary information to the Board members at the meeting prior to the co-opting of the candidate or the establishment of the agenda for the Shareholders' Meeting. It should be noted that the Chairman of the Appointment Committee is also the legal representative of Crédit du Nord's sole shareholder, and that each candidate is approved by the European Central Bank in light of Crédit du Nord's status as a credit institution;
- Committee rules: given the specific regulation applicable to credit institutions, which stipulates the attributions of each committee, it was not necessary to formally define a specific set of rules;
- succession plan: the succession plan is handled by Societe Generale;
- Compensation Committee: the Chief Executive Officers of Crédit du Nord are bound by an employment contract to the Crédit du Nord's sole shareholder. As such, it is appropriate for a legal representative of the sole shareholder to chair the Compensation Committee and for no employee director to sit on that committee.

Preparation and organisation of the Board's activities

The Board of Directors meets at least once per quarter.

The agenda of all Board meetings is set by the Chairman of the Board after consultation with the Chief Executive Officer.

For the purposes of setting the agenda, the following are reviewed:

- items that must be examined by the Board pursuant to the law;
- business allowing the Board to ascertain that the company is being efficiently run and that its strategic choices are being implemented: sales strategy, risk appetite, organisation, work conducted by the audit bodies, investments, labour relations, etc.).

The Directors are convened no less than 15 days before the meeting. Their notification includes:

- the agenda of the meeting;
- the draft minutes of the preceding Board meeting;
- an information pack covering the key items on the agenda.

When the Board meets to approve the annual financial statements, the following information is also be provided:

- to each Director: a list of all other company offices held by the Director, it being the responsibility of each Director to verify and amend the list as necessary, as well as a "Related Parties" questionnaire, with each Director required to report his or her undertakings with the entity or one of its subsidiaries greater than or equal to a given amount;
- to the Chairman and Statutory Auditors, by virtue of current regulations: a list of all significant agreements entered into between Crédit du Nord and its senior managers and/or those companies with which Crédit du Nord shares senior managers or shareholders.

In addition to the directors, the following individuals also participate in Board meetings:

- the Deputy Chief Executive Officer;
- members of the Executive Committee and other company managers, depending on the matters being discussed;
- the Statutory Auditors;
- the Secretary of the Board;
- the Secretary of the Central Works Council, or the Secretary's representative.

The Board Rules stipulate the conditions under which directors can participate in meetings through video conferencing or other telecommunication methods. The Board Rules may be consulted on the bank's website under "Vie de la banque".

Board meetings last approximately three hours.

The agenda items are presented by the Chairman, the Chief Executive Officer, the Deputy Chief Executive Officer or the person responsible for the items in question (Chief Financial Officer, Head of the Central Risk Division, etc.). A deliberation process ensues during which views and opinions are expressed. At the end of deliberations, the Board is asked to vote, where necessary.

The draft minutes of the meeting are prepared by the Secretary of the Board, who submits the same to the Chairman, the Chief Executive Officer and the various participants (for the items concerning them). The draft minutes are then submitted for the approval of the Board at the start of the following meeting.

On July 29, 2011, the Board of Directors approved the creation of a **Risk Committee**. Currently made up of four directors, including three independent directors, the Risk Committee is responsible for examining matters related to risks, compliance and permanent control. Crédit du Nord's Risk Committee met in February, March, July and October 2018, reporting to the Board on its work.

The Capital Requirements Directive of June 26, 2013 (CRD4) also calls for the creation of other specialised committees, reporting to the management body.

At its meeting on February 19, 2015, the Board of Directors decided to delegate the duties provided for by Law to the **Appointment Committee** (AppCom) of its sole shareholder. Then, in 2018, it elected to create its own committee in 2018. As of March 16, 2018, Société Marseillaise de Crédit (SMC) delegated the duties of the appointment committee to Crédit du Nord's App Com (CDN AppCom). CDN AppCom met twice in 2018 to examine the appointment of a new SNC member, reappoint directors for both entities, and appoint a new Chief Executive Officer and Deputy Chief Executive Officer for Crédit du Nord. Initially comprising Bernardo SANCHEZ INCERA and Jean-François SAMMARCELLI, the committee welcomed Philippe AYMERICH after Bernardo SANCHEZ INCERA left office.

Furthermore, at its meeting of July 27, 2017, the Board decided to create an **Audit Committee** with the following main duties:

- oversight of matters related to the production and verification of accounting and financial information;
- verification of the independence of the Statutory Auditors (selection and recommendation regarding their appointment or re-appointment by the General Shareholders' Meeting, oversight of Statutory Auditors' fees, etc.);
- oversight of the effectiveness of internal control, risk measurement, supervision and management systems covering risks associated with accounting and financial processes;
- follow-up to the results of internal audit assignments (periodic control).

Where applicable, it formulates recommendations and shares its opinions with the Board.

Comprised of four members, including three independent members, the Audit Committee of Crédit du Nord met on February 9, 2018. It examined the financial statements for fiscal year 2018 and approved the non-audit-related services performed by the Statutory Auditors. The committee met five times in 2018. The Audit Committee consists of Jean-Francois-SAMARCELLI, Patrick SUET, Sophie-Ségolène BENHAMOU and Véronique CHAUFFERT-YVART.

Information on the Corporate Officers

The Directors were notified of the rules on holding several corporate offices, which took effect on November 6, 2014.

They are asked to provide the list of their offices held during the fiscal year in progress and those held in the last five years at the start of the subsequent fiscal year to ensure that they observe the rules on holding several corporate offices.

At the General Shareholders' Meeting of May 18, 2018, Sophie-Ségolène BENHAMOU was re-appointed as a Director for another four-year term by the majority of the shareholders present or having authorised others to represent them. At the same meeting, Françoise MERCADAL DELASALLES was appointed as Director for a four-year term by the majority of the shareholders present or having authorised others to represent them.

Positions held and duties performed over the last five years

Positions held for at least the past five years.

Bernardo SANCHEZ INCERA (09/03/1960)

- Chairman of the Board of Directors: Crédit du Nord (from 10/2014 to 05/2018); Boursorama SA (from 10/2015 to 05/2018);
- Chief Executive Officer of Boursorama SA (from 10/2017 to 11/2017);
- Deputy Chief Executive Officer of Societe Generale (from 01/2010 to 05/2018);
- Director: ALD (since 08/2018); Boursorama SA (since 11/2014); Compagnie Financière Richelieu (since 07/2018); Crédit du Nord (from 05/2014 to 05/2018); Sogécap (from 12/2010 to 05/2018); Banque Roumaine de Développement (BRD) – Groupe Societe Generale (from 07/2011 to 06/2018); Franfinance (from 04/2010 to 10/2014); Compagnie Générale de Location d'Equipements (from 05/2011 to 12/2014); ALD Automotive Group (United Kingdom) (from 12/2010 to 10/2014); National Societe Generale Bank (Egypt) (from 04/2010 to 03/2013); Societe Generale de Banques en Côte d'Ivoire (from 06/2010 to 06/2015); Societe Generale de Banques au Sénégal (from 06/2010 to 11/2015); Societe Generale de Banques au Cameroun (from 06/2010 to 06/2015);
- Member of the Supervisory Board: Banque Richelieu France (since 07/2018); PJSC Rosbank (Russia) (since 06/2010); Societe Generale Marocaine de Banques (from 03/2010 to 09/2018); Komercni Banka (from 10/2010 to 04/2015).

Philippe AYMERICH (12/08/1965)

- Chief Executive Officer: Crédit du Nord (from 01/2012 to 05/2018);
- Deputy Chief Executive Officer: Societe Generale (since 05/2018);
- Chairman of the Board of Directors: Crédit du Nord (since 05/2018); Boursorama (since 05/2018); Norbail Immobilier (from 12/2017 to 05/2018);
- Chairman of the Supervisory Board: Société Marseillaise de Crédit (from 02/2012 to 05/2018); Banque Courtois (from 02/2012 to 05/2018); Banque Rhône-Alpes (from 05/2013 to 10/2018); Banque Laydernier (from 09/2016 to 10/2018);
- Chairman of the Supervisory Board: Société de Bourse Gilbert Dupont (from 11/2016 to 05/2018);
- Vice-Chairman of the Supervisory Board: Banque Kolb (from 03/2012 to 05/2013); Banque Rhône-Alpes (from 04/2012 to 05/2013);
- Director: Crédit du Nord (since 01/2012); Franfinance (since 04/2014); Boursorama (since 05/2018); Antarius (from 12/2016 to 05/2018); Amundi Group (from 02/2012 to 11/2015); Sogécap (from 03/2012 to 12/2016); Norbail Immobilier (from 12/2017 to 05/2018);
- Member of the Supervisory Board: Banque Courtois (from 02/2012 to 05/2018); Société Marseillaise de Crédit (from 02/2012 to 05/2018); Banque Tarneaud (from 03/2012 to 05/2018); Banque Rhône-Alpes (from 04/2012 to 10/2018); Banque Laydernier (from 09/2016 to 10/2018); Banque Kolb (from 03/2012 to 05/2013);
- Member of the Supervisory Board: Société de Bourse Gilbert Dupont (from 11/2016 to 05/2018);
- Permanent Representative of Societe Generale on the Supervisory Board of the Deposit Guarantee and Resolution Fund (from 10/2014 to 03/2016).

Françoise MERCADAL DELASALLES (23/11/1962)

- Chief Executive Officer: Crédit du Nord (since 05/2018);
- Deputy Chief Executive Officer: Crédit du Nord (from 06/2017 to 05/2018);
- Chairman of the Board of Directors: Star Lease (from 11/2017 to 06/2018); Societe Generale Global Solution Centre Private (from 12/2008 to 06/2017); Transactis (from 04/2012 to 10/2017);
- Chairman of the Supervisory Board: Banque Courtois (since 05/2018); Société Marseillaise de Crédit (since 05/2018); Banque Rhône-Alpes (since 10/2018); Banque Kolb (from 10/2017 to 10/2018);
- Vice-Chairman of the Supervisory Board: Banque Courtois (from 09/2017 to 05/2018); Société Marseillaise de Crédit (from 10/2017 to 05/2018);
- Director: Crédit du Nord (since 05/2018); Societe Generale Cameroun (since 06/2015); Eurazeo (from 05/2015 to 12/2018); Antarius (from 06/2017 to 10/2018); Sogécap (from 07/2016 to 04/2018); Star Lease (from 11/2017 to 06/2018); Societe Generale Global Solution Centre Private (from 12/2008 to 09/2017); Compagnie Générale de Location d'Équipements (from 10/2010 to 03/2017); Societe Generale European Business Services SA (from 12/2010 to 06/2017); Transactis (from 04/2011 to 10/2017);
- Member of the Supervisory Board: Banque Courtois (since 09/2017); Société Marseillaise de Crédit (since 10/2017); Banque Rhône-Alpes (since 10/2018); PJSC Rosbank (since 03/2011); Banque Kolb (from 10/2017 to 10/2018).

Sophie-Ségolène BENHAMOU (07/09/1974)

- Chairman of Hôpital Privé Nord Parisien (SA)*;
- Chief Executive Officer of Hôpital Privé Nord Parisien (SA)*;
- Director: Crédit du Nord (since 05/2014); Hôpital Privé Nord Parisien (SA)*;
- Co-Manager: Santé Pluriel Holding - SPH (SARL)*; Société Civile Hospitalière (SCI)*.

Véronique CHAUFFERT-YVART (12/06/1952)

- Director: Crédit du Nord (since 05/2016); Valmy-Participations (since 06/2018); Charbonneaux-Brabant SA (since 06/2018).

Bruno FLICHY (25/08/1938)

- Director: Crédit du Nord*; Aviva France (from 11/2008 to 12/2016); Aviva Participations (from 10/2002 to 06/2014); Eiffage (from 04/2002 to 04/2015, then since 04/2017);
- Non-Voting Director: Eiffage (SA) (from 04/2015 to 04/2017).

* *Positions held for at least the past five years.*

Anne MARION-BOUCHACOURT (10/12/1958)

- Chairman: Societe Generale China Ltd CAOA (from 09/2008 to 08/2018);
- Chief Executive Officer: Societe Generale China Ltd CAOA (from 11/2017 to 08/2018, since 09/2018); Societe Generale Zurich (since 10/2018);
- Director: Societe Generale China Ltd CAOA (from 09/2008 to 08/2017, then from 02/2018 to 08/2018); SGBT Luxembourg (from 11/2011 to 12/2017); Crédit du Nord (since 05/2013); BRD – Groupe Societe Generale (from 02/2012 to 12/2013); Societe Generale Leasing and Renting CO. LTD (from 10/2016 to 03/2018); IPSOS (since 04/2017); Societe Generale Private Banking (Suisse) (since 12/2018): Mécénat Musical Societe Generale (from 06/2010 to 06/2017); Societe Generale Bank & Trust (from 11/2011 to 12/2017); Comité France Chine (since 10/2012);
- Member of the Supervisory Board: ALD Fortune Auto Leasing & Renting Shanghai CO Ltd (from 11/2013 to 12/2018); Fortune SG Fund Management CO Ltd (Chine) (since 03/2014).

Thierry MULLIEZ (26/08/1954)

- Chairman of the Board of Directors: HTM Group SA*; Agapes SA (since 09/2014); Mobilis SAS (from 05/1998 to 05/2014); Boulanger SA (from 04/2003 to 07/2013);
- Chairman of the Supervisory Board: Oosterdam BV SA (from 01/2012 to 12/2015);
- Director: HTM Group SA*); Agapes SA (since 09/2014); Décathlon SA (from 06/2014 to 12/2017); Groupe Adéo SA (from 05/2012 to 10/2014); Auchan Retail International SA (from 03/2017 to 12/2018); Crédit du Nord SA*; SECOM SA*;
- Member of the Supervisory Board: Oosterdam BV SA (from 01/2012 to 12/2015);
- Permanent Representative of Holympiades SAS on the Supervisory Board of Décathlon SA (from 12/2009 to 06/2014).

Anne PERRIN (20/11/1964)

- Director: Crédit du Nord (since 05/2016).

Jean-François SAMMARCELLI (19/11/1950)

- Deputy Chief Executive Officer of Societe Generale (from 01/2010 to 09/2014);
- Chairman of the Board of Directors: Crédit du Nord (from 01/2010 to 10/2014);
- Chairman of the Supervisory Board: NexStage (since 06/2015);
- Director: Crédit du Nord*; Sogeprom*; Boursorama*; Sopra Stéria Group*; Societe Generale Private Banking (Monaco) (since 05/2015); Sogecap (from 03/2005 to 02/2015); Amundi Group (from 12/2009 to 12/2014); Riverbank (since 04/2017);
- Member of the Supervisory Board: Societe Generale Marocaine de Banques*; NexStage (since 06/2015); Banque Tarneaud (from 05/2011 to 11/2014);
- Permanent Representative of Societe Generale on the Supervisory Board of the Deposit Guarantee and Resolution Fund (from 06/2009 to 10/2014);
- Permanent Representative of Crédit du Nord on the Supervisory Boards of Banque Rhône-Alpes (from 05/2010 to 12/2014) and Société Marseillaise de Crédit (from 12/2010 to 12/2014);
- Non-Voting Director – Ortec Expansion*.

Patrick SUET (13/01/1954)

- Chairman of the Board of Directors: SGBT Luxembourg*; Sofrantem (from 10/2011 to 10/2015); Institution de Prévoyance Valmy (from 06/2011 to 06/2013);
- Vice-Chairman of the Board of Directors: Institution de Prévoyance Valmy (from 06/2013 to 06/2015);
- Director: Crédit du Nord*; SGBT Luxembourg*; Societe Generale de Banques en Côte d'Ivoire (since 06/2015); Sofrantem (from 10/2011 to 10/2015); Institution de Prévoyance Valmy (from 06/2005 to 06/2015).

* *Positions held for at least the past five years.*

Employee directors:

Caroline DELCOURT (07/11/1975)

- Employee-elected director (incoming) : Crédit du Nord (since 11/2018).

Thierry DIGOUTTE (15/05/1957)

- Employee-elected director (renewed) : Crédit du Nord (since 07/2013).

Annie PRIGENT (15/07/1957)

- Employee-elected director (renewed) : Crédit du Nord (since 12/2012).

Mehdi MADJI (10/03/1993)

- Employee-elected director (outgoing): Crédit du Nord (from 11/2015 to 11/2018).

Additional information on Directors

• Complementary and experienced directors

The Board of Directors consists of Directors chosen for their experience, knowledge, expertise, honour and integrity.

Pursuant to the decision of the Board of Directors of Crédit du Nord (CDN) at its meeting of February 19, 2015, CDN delegated the duties of the Appointment Committee Societe Generale, its parent company, for a period of 3 years Crédit du Nord has since created its own Appointment Committee, which identifies and recommends appropriate candidates as Directors for both Crédit du Nord and SMC.

• Appropriate training for directorships

The following directors receive training:

– directors without a background in the banking industry. Upon taking office, they each receive individually appropriate training organised by Bank representatives;

– directors elected by company employees. In accordance with Decree No. 2015-606 of June 3, 2015, Crédit du Nord's Board of Directors has granted employee directors 20 hours of preparation time per meeting so that they can perform their duties. As the Decree also calls for appropriate training throughout their term of office, the Board has also authorised training time of 20 hours per year. Professional training agency CEGOS has organised a three-day training course for all Crédit du Nord Group directors since 2016. The cost of this training is paid for by Crédit du Nord. In addition to this training, employee-representative directors receive training tailored to their profile, if necessary, upon taking office.

• Director profile

All Crédit du Nord directors are French nationals, with the exception of Bernardo SANCHEZ INCERA, who is Spanish.

Director	Professional area of expertise: Banking, Finance	Professional area of expertise: Other activities	Professional area of expertise: International	Brief description
Bernardo SANCHEZ INCERA (from 10/2014 **to 05/2018)**	✓	✓	✓	Societe Generale Group, from 2010 to May 2018, as Deputy Chief Executive Officer. Previously served successively as International Director at Inditex Group, Chairman of Europe LVMH, Chief Executive Officer - France of Monoprix Group.
Philippe AYMERICH	✓		✓	Societe Generale Group since 1987. Supervised the resource functions in the US for 5 years. Deputy Group Head of Risk Management from 2006 to 2012, then Chief Executive Officer of Crédit du Nord until May 2018, he is currently Deputy Chief Executive Officer of Societe Generale.
Françoise MERCADAL DELASALLES	✓	✓	✓	Societe Generale Group since October 2008. First Head of Operational Efficiency and Innovation, then Head of Resources and Innovation and member of the Group Executive Committee, she joined Crédit du Nord in 2017 as Deputy Chief Executive Officer and then Chief Executive Officer in 2018. She previously spent 5 years with Caisse des Dépôts as assistant to the Corporate Secretary, Head of Finance Control, Information Systems and Group Resources, and Head of the Optimisation Programme. She also worked in the Budget Division of the Finance Ministry (1995-2002).
Sophie-Ségolène BENHAMOU		✓		Since 1999, Chairman of Hôpital privé Nord Parisien.
Véronique CHAUFFERT-YVART	✓	✓	✓	Consultant specialising in corporate fraud since 2012. Chief Administrative and Financial Officer, and member of the Management Committee of Inditex France from 1997 to 2012. Worked at Crédit Lyonnais Group in France and abroad from 1987 to 1997.
Bruno FLICHY	✓			Retired from Societe Generale Group, Chairman and Chief Executive Officer of Crédit du Nord from 1997 to 2002.
Jean-François SAMMARCELLI	✓			Societe Generale Group from 1974 to 2014, Deputy Chief Executive Officer since 2010, and Chairman of Crédit du Nord from 2010 to 2014. Retired in 2014.
Anne MARION-BOUCHACOURT	✓		✓	Societe Generale (SG) since 2004. Chairman of Societe Generale China from 2012 to 2018. She has since been Country Head for SG Group in Switzerland, and is now Chief Executive Officer of SG Zurich.
Thierry MULLIEZ		✓	✓	Since 1975 in Auchan Group, including 6 years in Spain as Head of Hypermarkets; since 1998, Chairman of the Mulliez Family Association.
Anne PERRIN	✓	✓		Associate Director of Meteojob.com since 2011. Executive Director at Banque UBS France from 2006 to 2010. Corporate Secretary and member of the Executive Committee of Oddo and Cie Gestion Privée from 2004 to 2006. Before 2004, private banker at Merrill Lynch PFS France and HSBC.
Patrick SUET	✓	✓		Societe Generale Group since 2000 as Associate Corporate Secretary. Corporate Secretary and Head of Compliance from 2009 to 09/2015. Secretary of the Board of Directors since then. Formerly Head of Edouard BALLADUR in 1993; Treasurer and Paymaster General of the Hauts-de-Seine region from 1995 to 1999, then Chief Operating Officer of Elf Aquitaine.
Caroline DELCOURT	✓			Appointed in November 2018. Since 2011, Crédit du Nord employee, Private Banking Customer Advisor.
Thierry DIGOUTTE	✓			Since 1984, Crédit du Nord employee and portfolio manager.
Mehdi MAJDI (from 11/2015 **to 11/2018)**	✓			Since 2011, Crédit du Nord employee. Customer service representative in the regional customer service department (Lille). Not a candidate for the 11/2018 elections.
Annie PRIGENT	✓			Since 1983, Crédit du Nord employee, legal specialist.

• Absence of conflicts of interest

To the best of Crédit du Nord's knowledge, there are no conflicts of interest between Crédit du Nord and the members of the Board of Directors, with respect to either their personal or professional interests. Article 7 of the Internal Rules of the Board of Directors, available on the Bank's website, governs conflicts of interest involving directors. Furthermore, there is no family link between the different Crédit du Nord Directors.

Directors are independent in their analyses, judgements, decisions and actions at all times. They do not seek out or accept any benefits liable to compromise their independence.

• Absence of criminal conviction

To the best of the Board of Directors' knowledge, none of the Crédit du Nord Directors has been convicted of fraud in the past five years.

In addition, none of the Directors has been associated with a bankruptcy, receivership or liquidation in the past five years, nor have they been incriminated or penalised by a statutory or regulatory authority.

Finally, none of the Crédit du Nord Directors has been prevented by a court from acting as a member of an administrative, supervisory or management body, or from participating in the management and conduct of a company's business in the past five years.

• Independent Directors

The number of independent Crédit du Nord directors increased from two before the 2016 General Shareholders' meeting to five in 2017: Véronique CHAUFFERT-YVART and Anne PERRIN (appointed by the General Shareholders' Meeting of May 19, 2016), Sophie-Ségolène BENHAMOU, Thierry MULLIEZ and Jean-François SAMMARCELLI. They were chosen by General Management and the shareholder according to the criteria set forth in the AFEP/MEDEF Code and they hold the personal and professional qualities sought after to carry out the duties of their office.

• Shares held by directors

In accordance with Article 11 of the by-laws, the Directors must hold at least 10 shares each.

• Ethics

All Directors refrain from carrying out transactions in the shares of the companies for which (and to the extent that), by virtue of their offices, they are privy to information that has not yet been made public.

General Shareholders' Meetings

Crédit du Nord General Shareholders' Meetings are convened in accordance with all currently applicable laws and regulations. All shareholders and the Statutory Auditors receive a meeting notice.

The next Crédit du Nord General Shareholders' Meeting will be held on May 23, 2019.

The draft resolutions of the General Shareholders' Meeting are presented on page 37 of this chapter.

Remuneration of corporate officers

The Compensation Committee, comprised of two directors (including one independent director), examines the remuneration granted to Chief Executive Officers, which is then approved by the Board based on the recommendations of the Remuneration Committee.

This remuneration contains a fixed portion and a variable portion, based on criteria recommended by the Compensation Committee in accordance with the regulatory provisions governing credit institutions.

Detailed information is provided hereafter.

Related-party agreements

No agreements have been entered into between a corporate officer/shareholder and Crédit du Nord. Only standard agreements entered into under normal conditions were counted.

Authorisation to carry out a capital increase (currently valid)

Not applicable.

Information liable to have an impact in the event of a public offering

Not applicable.

Senior management remuneration policy

The corporate officer remuneration policy, presented below, is determined based on the guidelines recommended by the Compensation Committee and approved by the bank's Board of Directors.

Pursuant to the Act of December 9, 2016 on transparency, prevention of corruption and modernisation of the economy ("Sapin 2 Act"), this policy is subject to the approval of the General Shareholders' Meeting. In the event of a negative vote, the Board of Directors will meet in a timely manner, and in the meantime the principles implemented in 2018 will continue to apply.

Furthermore, since 2018, no variable remuneration (including long-term incentives), annual or exceptional remuneration has been paid to Chief Executive Officers before shareholder approval has been obtained.

Remuneration guidelines

The remuneration of Chief Executive Officers is determined in compliance with Directive 2013/36/EU, known as CRD4, and according to Societe Generale Group's principles, in line with the recommendations of the AFEP-MEDEF Corporate Governance Code.

The remuneration of Chief Executive Officers includes:

- annual fixed pay that recognises experience and duties fulfilled and takes market practices into consideration. It accounts for a significant portion of total remuneration;
- annual variable pay granted at the end of each fiscal year, after the accounts are closed, the amount of which is determined based on an assessment of multiple criteria (customer satisfaction, sales and financial performances, risk management, Group synergy, etc.) specific to each corporate officer;
- a long-term incentive.

In accordance with CRD4, the variable component (annual variable portion + long-term profit-sharing) is capped at 200% of fixed compensation.

Pursuant to regulations, the variable component for corporate officers can be broken down into:

- a vested portion, paid partly in cash and partly in Societe Generale share equivalents (minimum 50%), and
- an unvested portion, comprising at least 40% of total variable pay, whose payment is deferred over 3 to 5 years (also awarded partly in cash and partly shares or share equivalents (minimum 50%)), and is based on the achievement of economic targets.

Philippe AYMERICH

Philippe AYMERICH, Chief Executive Officer of Crédit du Nord from January 11, 2012 to May 14, 2018, has an employment contract with Societe Generale and has been seconded to Crédit du Nord for his term of office as Chief Executive Officer.

As Chief Executive Officer of Crédit du Nord, Philippe AYMERICH is a member of Societe Generale Group's Management Committee.

The multi-criteria assessments serving as a basis for the remuneration granted to the Chief Executive Officer in respect of fiscal year 2018 primarily included:

- customer satisfaction (Crédit du Nord must remain a leader in this area);
- Crédit du Nord's commercial performance (particularly development of customer bases, outstanding loans and deposits) and financial performance (in particular the change in Net Banking Income, Gross Operating Income after cost of risk, and Return on Equity);
- the activation of all the levers available to help trigger transformation (including new technologies, the redesign of processes, the pooling of resources within Crédit du Nord, synergies with the Groupe Société Générale and outside partners) with a view to deploying the strategic guidelines approved by the February 2017 Board of Directors' Meeting (relational model, banking/business model and Human Resources model) which are designed to enable Crédit du Nord Group to increase its effectiveness and cultivate its differences in an environment undergoing profound change;
- the focus placed on HR management (strengthening of employee expertise, quality of recruitment, work environment, multi-annual oversight of the workforce, internal communication, etc.);
- the management of all risks, with special attention paid to compliance risks;

- the contribution to Societe Generale Group's developments, in terms of the developments affecting Retail Banking in France and the search for synergies between Societe Generale, Boursorama and Crédit du Nord, in accordance with Crédit du Nord's specific inter-relational and operational characteristics.

Furthermore, from 2012, attendance fees and other compensation paid to Boards of Directors or Supervisory Boards on which Philippe AYMERICH sat as a representative of Crédit du Nord or as a representative of Societe Generale Group remained with the company where the office was held

Philippe AYMERICH resigned from all offices held with Crédit du Nord Group companies, with the exception of Crédit du Nord. Serving as a member of CDN's Board of Directors since January 11, 2012, he was appointed Chairman of the Board on May 18, 2018.

Françoise MERCADAL DELASALLES

Appointed Chief Executive Officer of Crédit du Nord by the Board of Directors on May 3, 2018, with effect from May 14, 2018, Françoise MERCADAL DELASALLES took over the office from Philippe AYMERICH.

Françoise MERCADAL DELASALLES, who has an employment contract with Societe Generale, has been seconded to Crédit du Nord.

As Chief Executive Officer of Crédit du Nord, Françoise MERCADAL DELASALLES is a member of Societe Generale Group's Management Committee.

The variable pay granted to Françoise MERCADAL DELASALLES in respect of fiscal year 2018 is related to her duties as Deputy Chief Executive Officer until May 14, 2018, then her duties as Chief Executive Officer from that date, and to the achievement of the targets associated with said duties, including:

- upholding the promise of customer satisfaction (Crédit du Nord must remain a leader in this area);
- reaching the sales and financial targets included in the 2018 budget;
- implementing the 2018 leg of the 2018-2020 roadmap;
- maintaining a strong goal in terms of HR management (strengthening of employee expertise, quality of recruitment, work environment, multi-annual oversight of the workforce, internal communication, etc.);
- seeing to the proper governance of the entire Crédit du Nord Group and to strict management of all risks incurred by the Group (counterparty risk, operational risk, ALM risk, compliance risk, image risk, etc.).
- contributing to the work of the Societe Generale Management Committee and the Executive Committees of the SG Group's French networks.
- representing Crédit du Nord Group in the public forum: with customers, control and supervisory authorities, press, etc.

Attendance fees and other compensation paid to Board of Directors or the Supervisory Board on which Françoise MERCADAL DELASALLES sits as a representative of Crédit du Nord or as a representative of Societe Generale Group are paid by company where the office is held.

Jean-Louis KLEIN

Jean-Louis KLEIN was appointed Deputy Chief Executive Officer of Crédit du Nord by the Board of Directors on May 3, 2018 with effect at May 14, 2018. He took up the office from Françoise MERCADAL DELASALLES, who was appointed Chief Executive Officer at the same Board meeting.

Jean-Louis KLEIN has an employment contract with Societe Generale. He had been seconded to Crédit du Nord.

Jean-Louis KLEIN is a member of the Societe Generale Group Management Committee.

His variable compensation as Deputy Chief Executive Officer in respect of fiscal year 2018 is related to his role as Deputy Chief Executive Officer and the achievement of the following objectives:

- upholding the promise of customer satisfaction;
- reaching the sales and financial targets included in the 2018 budget;
- expanding the Group's corporate customer base in accordance with the 2018-2020 roadmap;
- maintaining a high goal in terms of HR management;
- contributing to the proper governance of Crédit du Nord Group and strict management of all risks incurred by the Group;
- representing Crédit du Nord Group both inside and outside the Group, and particularly in the Corporate segment.

Attendance fees and other compensation paid to Boards of Directors or Supervisory Boards on which Jean-Louis KLEIN sits as a representative of Crédit du Nord remain with the company where the office is held.

Jean-Louis KLEIN resigned from his offices held with Societe Generale Group subsidiaries.

Long-term incentive

Each year, the Board of Directors can recommend to Societe Generale that it grant Societe Generale shares to Françoise MERCADAL DELASALLES and Jean-Louis KLEIN in accordance with the terms and conditions established under the relevant plans, provided this is permitted by national legislation and regulations in force.

The vesting of Societe Generale shares is contingent upon meeting performance conditions established by the rules of the relevant plans, subject to national legislation and regulations in force

Furthermore, as salaried employees of Societe Generale, Françoise MERCADAL DELASALLES and Jean-Louis KLEIN are eligible for Société Generale's profit- sharing and incentive programmes and are therefore ineligible for programmes offered by Crédit du Nord.

Obligation to hold and to keep Societe Generale shares

In accordance with Articles 225-197-1 and 2 of the French Commercial Code, and based on the proposal of the Compensation Committee, the Board of Directors resolved that Françoise MERCADAL DELASALLES and Jean-Louis KLEIN are required to hold a minimum number of shares acquired under Societe Generale share plans or from the exercise of options awarded under stock option plans in a registered account until the end of their office. This minimum number is set at 8,500 shares for Françoise MERCADAL DELASSALLES and 5,000 shares for Jean-Louis KLEIN.

Provisions related to post-employment benefits

• Termination benefit

Neither Françoise MERCADAL DELASALLES nor Jean-Louis KLEIN will receive a termination benefit when their term of office expires.

• Retirement

Crédit du Nord CEOs are eligible for Societe Generale's supplementary pension allocation plan for "Unclassified" executive level employees.

Supplementary pension allocation plan

This complementary scheme, set up in 1991 and complying with the provisions of Article L. 137-11 of the French Social Security Code, granted beneficiaries, on the date of settlement of their Social Security pension, a total pension equal to the product of the following two terms:

- the average, over the last ten years of the beneficiary's career, of the proportion of base salaries exceeding "Tranche B" of the AGIRC pension increased by a variable part limited to 5% of the base salary,
- the rate equal to the ratio between the number of years of professional service within Societe Generale and 60, i.e., the vesting of potential entitlements equal to 1.67% per year. Years of service taken into account cannot exceed 42.

AGIRC's "Tranche C" pension vested in respect of professional services within Societe Generale was deducted from this total pension. The complementary allocation to be paid by Societe Generale was increased for beneficiaries who have brought up at least three children, as well as for those retiring after the age that Social Security pensions may legally be claimed. It could not be less than one-third of the full-rate value of service of AGIRC "Tranche B" points acquired by the beneficiary since his or her entry in Societe Generale's "Unclassified" category.

This plan was revised on January 17, 2019 and the potential future entitlements were frozen at December 31, 2018 based on seniority and the AGIRC "Tranche B" and "Tranche C" points vested at that date, and the average over the last three fiscal years of fixed compensation exceeding AGIRC "Tranche B", plus variable compensation within the limit of 5% of fixed compensation.

Only minimum entitlements, previously defined as one-third of the AGIRC "Tranche B" points vested since the beneficiary was appointed to Societe Generale's "Unclassified" category, were carried over from January 1, 2019 as annual annuity entitlements equivalent to 0.4% of the portion of gross annual compensation ranging from 1 to 4 annual Social Security earnings caps.

The amount of entitlements vested at the retirement date will comprise the sum of the entitlements frozen at December 31, 2018 and the new entitlements vested from January 1, 2019. Liquidation will be subject to ending the beneficiary's career with Societe Generale.

Each year potential annuity entitlements are calculated according to seniority and projected salary at the date of retirement, based on actuarial assumptions. These entitlements are prefunded with an insurance company.

Entitlements are subject to the employee still working at the company upon taking retirement.

Supplementary pension plan (Art. 82)

Subsequent to the revision of the supplementary pension plan for "Unclassified" executives at December 31, 2018, and in particular the elimination of the differential portion of the plan exceeding the four annual Social Security earnings caps, a defined-contribution supplementary pension plan (Art. 82) was established for the members of the Management Committee and the Deputy Chief Executive Officers with effect from January 1, 2019.

This plan calls for the company to pay an annual contribution to an Art. 82 individual pension account opened in the eligible employee's name, based on the portion of the employee's fixed compensation exceeding the four annual Social Security earnings caps. Vested entitlements will be paid, at the earliest, at the effective liquidation date of the pension in respect of the general old-age insurance plan.

For 2019, the company's rate was set at 8%.

Valmy pension plan (formerly Ip Valmy)

This defined-contribution plan, established under Article 83 of the French General Tax Code, was set up in 1995 and amended at January 1, 2018 (under the new name "Epargne Retraite Valmy". All employees with at least six months' seniority at the company are required to join the plan, the purpose of which is to build up retirement savings, paid out as annuities upon retirement. The plan is funded in amount of 2% of compensation, capped at two annual Social Security earnings caps, 1.5% of which is covered by the company. It is now managed by Sogécap (as opposed to Institution de Prévoyance Valmy).

Attendance fees paid to directors*

The amount of attendance fees was set at €160,000 by the General Shareholders' Meeting of May 18, 2018.

The rules for distributing attendance fees among Board members, as resolved by the Board of Directors on March 12, 1998, are as follows:

- half of the attendance fees are distributed in equal amounts among the directors*;
- the balance is divided up among directors* in proportion to the number of Board meetings attended by each director during the fiscal year. The share belonging to absentees is not redistributed to other directors but is retained by Crédit du Nord.

* *Excluding corporate officers that are employees of Societe Generale Group, who may not receive attendance fees. Attendance fees paid to Bernardo SANCHEZ INCERA, Chairman until May 2018, are deducted from his variable compensation.*

AFEP/MEDEF and AMF recommendations

The Board of Directors of Crédit du Nord examined and decided to apply the AFEP/MEDEF recommendations on compensation of Chief Executive Officers. The standardised presentation of their compensation, prepared in accordance with AFEP/MEDEF recommendations, is presented below:

Standard tables compliant with AFEP/MEDEF and AMF recommendations

Table 1

SUMMARY OF REMUNERATION AND STOCK OPTIONS AND SHARES ALLOCATED TO EACH CHIEF EXECUTIVE OFFICER [1]	Fiscal Year 2017	Fiscal Year 2018
Bernardo SANCHEZ INCERA, Chairman from October 31, 2014 to May 14, 2018		
Remuneration due for the fiscal year (detailed in Table 2)	1,509,617	299,513 [3]
Value of options awarded during the fiscal year (see Table 4)	0	0
Value of shares or share equivalents awarded under a long-term incentive programme during the fiscal year [2]	570,000	0
TOTAL	2,079,617	299,513
Philippe AYMERICH, Chief Executive Officer from January 11, 2012 to May 14, 2018 then Chairman of the Board since that date		
Remuneration due for the fiscal year (detailed in Table 2)	805,617	1,195,335
Value of options awarded during the fiscal year (see Table 4)	0	0
Value of shares awarded under a long-term incentive programme during the fiscal year [2]	0	268,501
Value of share equivalents awarded under a long-term incentive programme during the fiscal year [2]	0	0
TOTAL	805,617	1,463,836
Françoise MERCADAL DELASALLES, Deputy Chief Executive Officer from July 1, 2017 to May 14, 2018, then Chief Executive Officer since that date		
Remuneration due for the fiscal year (detailed in Table 2)	802,728	754,724
Value of options awarded during the fiscal year (see Table 4)	0	0
Value of shares awarded under a long-term incentive programme during the fiscal year [2]	0	0
Value of share equivalents awarded in connection with a long-term incentive programme during the fiscal year [2]	0	0
TOTAL	802,728	754,724
Jean-Louis KLEIN, Deputy Chief Executive Officer since May 14, 2018		
Remuneration due for the fiscal year (detailed in Table 2)	N/A	431,056 [4]
Value of options awarded during the fiscal year (see Table 4)	N/A	0
Value of shares awarded under a long-term incentive programme during the fiscal year [2]	N/A	0
Value of share equivalents awarded in connection with a long-term incentive programme during the fiscal year [2]	N/A	0
TOTAL	N/A	431,056 [4]

(1) These amounts are in euros, gross, before tax.
(2) This programme is detailed in Chapter 3 of the Societe Generale Registration Document on remuneration of Chief Executive Officers.
(3) Fixed compensation received in respect of his term as Deputy Chief Executive Officer at SG, which ended on May 14, 2014 subsequent to his compulsory departure. Bernado SANCHEZ INCERA left the Group on August 14, 2018.
(4) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The reported amount includes the share of remuneration granted in respect of his duties as an employee prior to becoming Deputy Chief Executive Officer of CDN.

Table 2

STATEMENT OF COMPENSATION PAID TO EACH CHIEF EXECUTIVE OFFICER [1]	Fiscal Year 2017		Fiscal Year 2018	
	Amount paid	Amount due in respect of the fiscal year	Amount paid	Amount due in respect of the fiscal year
Bernardo SANCHEZ INCERA, Chairman (this compensation is not billed to Crédit du Nord, with the exception of attendance fees paid in respect of the office held at CDN)				
– fixed compensation	800,000	800,000	295,556 [3]	295,556 [3]
– non-deferred variable compensation [2]	117,955	140,488	137,487	0
- deferred variable compensation [2]	626,579	609,172	615,948 [4]	0
- other remuneration paid	0	0	0	0
- exceptional remuneration	0	0	0	0
- attendance fees	34,338	0	3,000	0
- benefits in kind [5]	7,179	7,179	3,957	3,957
TOTAL	1,586,051	1,509,617	1,055,949	299,513
Philippe AYMERICH, Chief Executive Officer from January 11, 2012 to May 14, 2018 then Chairman of the Board since that date				
- fixed compensation [6]	255,000	255,000	598,652	598,652 [a]
- annual fixed bonus [6]	20,000	20,000	7,389	7,389 [b]
– non-deferred variable compensation [2] [6]	131,500	132,500	132,500	127,921 [c]
- deferred variable compensation [2] [6]	377,711	392,500	289,996	456,184 [d]
- other remuneration paid				
- multi-annual variable compensation	0	0	0	0
- attendance fees	0	0	0	0
- exceptional remuneration	0	0	0	0
- benefits in kind [5]	5,617	5,617	5,189	5,189
TOTAL	789,828	805,617	1,033,726	1,195,335
Françoise MERCADAL DELASALLES, Deputy Chief Executive Officer from July 1, 2017 to May 14, 2018, then Chief Executive Officer since that date				
– fixed compensation	162,500	162,500	325,000	325,000
– non-deferred variable compensation [2]	0	52,632	62,500	115,000
- deferred variable compensation [2]	0	147,368	52,102	310,000
- other remuneration paid [9]	729,066	437,500	297,943	0
- multi-annual variable compensation	0	0	0	0
- benefits in kind [5]	2,728	2,728	4,724	4,724
TOTAL	894,294	802,728	742,269	754,724
Jean-Louis KLEIN, Deputy Chief Executive Officer since May 14, 2018				
– fixed compensation	N/A	N/A	145,028	145,028
– non-deferred variable compensation [2]	N/A	N/A	0	23,310
- deferred variable compensation [2]	N/A	N/A	0	54,390
- other remuneration paid	N/A	N/A	221,751 [7]	197,494 [7]
- multi-annual variable compensation	N/A	N/A	0	0
- benefits in kind	N/A	N/A	10,834 [8]	10,834 [8]
TOTAL	N/A	N/A	377,613	431,056

(1) Compensation figures are in euros, gross, before tax.
(2) The criteria used to determine these figures are detailed in the Chapter covering the remuneration of Chief Executive Officers (SG and CDN).
(3) Fixed compensation received in respect of his term as Deputy Chief Executive Officer at SG, which ended on May 14, 2014 subsequent to his compulsory departure. Bernado SANCHEZ INCERA left the Group on August 14, 2018.
(4) For more details, see the chapter of the Societe Generale Registration Document on remuneration of corporate officers (page 127).
(5) Provision of a company car.
(6) Philippe AYMERICH finished his term of office as Chief Executive Officer of CDN on May 14, 2018. Reported amounts include the portion of fixed and variable compensation granted for the period from May 14 to December 31, 2018 and covered by SG in respect of his duties as Chief Executive Officer of SG.
(a) Amount includes CDN salary from January 1 to the evening of May 13, 2018 (€94,652) + SG share of the €800K salary in respect of his office, i.e. €504,000 (prorata temporis 67%).
(b) Fixed bonus for his position at CDN (pro-rated).
(c) Immediate cash payment for his office as Chief Executive Officer of CDN (€43,300) + immediate cash payment for his office as Deputy Chief Executive Officer of SG (€84,621).
(d) Total of deferred pay for his office as Chief Executive Officer of CDN and Deputy CEO of SG (€117,700 + €338,484, respectively).
(7) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The amount reported under "Other remuneration paid" comprises the fixed and variable components granted in respect of his duties as an employee prior to becoming Deputy Chief Executive Officer of CDN.
(8) Provision of a company car and residence.
(9) Françoise MERCADAL DELASALLES began her term of office on July 1, 2017. Reported amounts comprise the fixed and variable components granted and covered by SG in respect of her duties as an employee prior to taking up her office at CDN.

In accordance with Article L. 511-79 of the French Monetary and Financial Code, a discount rate of no more than one-fourth of total variable pay may be applied, provided that the payment is made in deferred instruments for a period of at least 5 years.

Table 3

STATEMENT OF ATTENDANCE FEES RECEIVED BY CORPORATE OFFICERS

Members of the Board that receive attendance fees*	Attendance fees awarded in respect of 2017 and paid in 2018 (1)	Attendance fees awarded in respect of 2018 and paid in 2019 (1)
Bernardo SANCHEZ INCERA	7,000	5,366
Sophie-Ségolène BENHAMOU (2)	7,525	10,733
Véronique CHAUFFERT YVART (2)	8,400	12,600
Thierry DIGOUTTE (3)	8,280 (4)	8,280 (4)
Bruno FLICHY	7,000	7,000
Medhi MADJI (3)	4,140	6,899 (4)
Thierry MULLIEZ	6,125	6,416
Anne PERRIN	7,000	7,700
Annie PRIGENT (3)	7,245 (5)	7,590 (5)
Jean-François SAMMARCELLI (2)	8,400	10,850
TOTAL	71,115	83,434

* *The individual allocation of attendance fees has been reviewed since the General Shareholders' Meeting of May 2016. It was increased from €6,000 to €10,000 per Board member and to €2,000 per member of the Risk and Audit committees.*

(1) Net amounts paid to individuals after deducting mandatory withholding tax and social security contributions.

(2) Also a member of the Risk Committee and the Audit Committee.

(3) Employee representative director.

(4) Gross amount paid to the CDN union (CFDT), net of tax.

(5) Gross amount paid to the CDN union (SNB), net of tax.

Table 4

WARRANTS OR STOCK OPTIONS GRANTED DURING THE FISCAL YEAR TO EACH CHIEF EXECUTIVE OFFICER BY THE ISSUER AND BY ANY COMPANY BELONGING TO THE GROUP

The Board of Directors of Societe Generale (SG) did not award any stock options in 2018.

Table 5

SOCIETE GENERALE STOCK OPTIONS EXERCISED DURING THE FISCAL YEAR BY EACH CHIEF EXECUTIVE OFFICER

The last Societe Generale (SG) stock option plan expired in 2017.

Table 6

SOCIETE GENERALE SHARES AWARDED TO EACH CHIEF EXECUTIVE OFFICER

Amount in EUR	Grant date	Reason for award	Number of shares awarded during the fiscal year	Value of shares awarded, according to the method used for the consolidated financial statements [1]	Date of observation of performance criterion	Release date	Performance-based
Bernardo SANCHEZ INCERA	14/03/2018 [1]	Terms of payment of annual variable compensation due in respect of 2017	3,042	122,866	31/03/2020	01/10/2020	yes [2]
			3,043	117,429	31/03/2021	01/10/2021	yes [2]
		Long-term incentive due in respect of fiscal year 2017	11,789	311,230	31/03/2022	01/04/2023	yes [2]
			11,789	288,005	31/03/2024	01/04/2025	yes [2]
Philippe AYMERICH	14/03/2018 [1]	Terms of payment of variable component due in respect of 2017	1,407	54,296	31/03/2021	01/10/2021	yes [2]
			1,408	55,151	31/03/2023	01/10/2023	yes [2]
Françoise MERCADAL DELASALLES	14/03/2018 [1]	Terms of payment of variable component due in respect of 2017	1,218	47,003	31/03/2021	01/10/2021	yes [2]
			1,218	47,709	31/03/2023	01/10/2023	yes [2]
Jean-Louis KLEIN [3]	14/03/2018 [1]	Terms of payment of variable component due in respect of 2017	389	15,012	31/03/2021	01/10/2021	yes [2]
			390	15,276	31/03/2023	01/10/2023	yes [2]

(1) The amounts of the variable component were determined by the SG Board of Directors at its meeting of February 7, 2018. The corresponding performance shares were awarded by the SG Board of Directors at its meeting of March 14, 2018.

(2) The applicable performance conditions are described in Chapter 3 on Corporate Governance in the Societe Generale Group 2019 Registration Document.

(3) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The shares granted by SG during the fiscal year were attributed in respect of his previous duties as an employee.

Table 7

SOCIETE GENERALE SHARES GRANTED DURING THE REPORTING YEAR TO EACH CHIEF EXECUTIVE OFFICER

	Grant date	Number of shares received during the fiscal year
Bernardo SANCHEZ INCERA	06/05/2013	20,825 [1]
	18/05/2016	4,616 [2]
Philippe AYMERICH	N/A	N/A
Françoise MERCADAL DELASALLES	N/A	N/A
Jean-Louis KLEIN	N/A	N/A

(1) Under the long-term incentive plan awarded in 2013 in respect of 2012 (for more details, see the chapter of the Societe Generale Registration Document on remuneration of corporate officers).

(2) Comprises the deferred variable compensation awarded in 2016 in respect of 2015 (for more details, see the chapter of the Societe Generale Registration Document on remuneration of corporate officers).

Note: Shares arising from the share buyback programme.

SOCIETE GENERALE SHARE EQUIVALENTS RECEIVED DURING THE FISCAL YEAR BY EACH CHIEF EXECUTIVE OFFICER			
	Grant date	Number of share equivalents vested during the fiscal year	Amount paid (in euros)
Bernardo SANCHEZ INCERA (1)	31/03/2015	2,442	94,003
	31/03/2017	3,453	165,994
Philippe AYMERICH	31/03/2015	1,477	56,856
	31/03/2018	2,869	110,440
Françoise MERCADAL DELASALLES (2)	31/03/2015	1,500	57,741
	31/03/2018	2,707	104,204
Jean-Louis KLEIN (3)	31/03/2015	560	21,557
	31/03/2018	1,169	45,000

(1) Share equivalents received as deferred variable compensation awarded in 2015 and 2017, in respect of fiscal years 2014 and 2016, respectively.

(2) Françoise MERCADAL DELASALLES began her term of office on July 1, 2017. The reported number of share equivalents and amounts include the share of remuneration granted in respect of her duties as an employee prior to taking up her office at CDN.

(3) Jean-Louis KLEIN began his term of office at CDN on May 14, 2018. The reported number of share equivalents and amounts include the remuneration granted in respect of his duties as an employee prior to taking up his office at CDN.

Table 8

The last Societe Generale (SG) stock option plan expired in 2017.

Table 9

No stock option plan was established by Societe Generale during fiscal year 2018. The last Societe Generale (SG) stock option plan expired in 2017.

Table 10

HISTORY OF PERFORMANCE SHARES AWARDED DISCLOSURES ON PERFORMANCE SHARES AWARDED					
Date of SG Shareholders' meeting	18/05/2016	18/05/2016	18/05/2016	20/05/2014	22/05/2012
Date of SG Board of Directors' meeting	14/03/2018	15/03/2017	18/05/2016	12/03/2015	13/03/2014
Total number of shares awarded	110,665 (1)	113,849	149,210	97,032	79,302
o/w number awarded to corporate officers (1)					
Corporate Officer 1 : Bernardo SANCHEZ INCERA	29,663	28,846	39,225	-	-
Corporate Officer 2 : Philippe AYMERICH	2,815	2,857	3,626	-	-
Corporate Officer 3: Françoise MERCADAL DELASALLES (2)	2,436	4,136	5,905		
Corporate Officer 4 : Jean-Louis KLEIN (3)	779	816 (2)	1,093	-	-
Total number of beneficiaries	347	420	401	514	521
Vesting date	see table below	see table below	see table below	31/03/2017 (R)	31/03/2016 (R)
				31/03/2019 (NR)	31/03/2018 (NR)
End date of holding period (4)	see table below	see table below	see table below	31/03/2019	31/03/2018
Performance-based (5)	yes	yes	yes	yes	yes
Fair value (in €) (6)				36.4 (R)	37.8 (R)
	see table below	see table below	see table below	34.9 (NR)	38.1 (NR)
Number of shares vested at 31/12/2018	0	0 (3)	10,125	95,209	77,698
Total number of cancelled or expired shares	10,125	113	3,994	1,823	1,604
Performance shares outstanding at year-end	1,034	113,736	135,091	0	0

(1) For Chief Executive Officers, see also Tables 6 and 7 of the 2018 Registration Document.

(2) Françoise MERCADAL DELASALLES' began her term of office as Deputy Chief Executive Officer on July 1, 2017. The number of shares reported under the 2018 share award includes the portion granted in respect of her previous duties as Head of Resources and Innovation of Societe Generale Group. The shares awarded in 2016 and 2017 were granted before she began her term of office, in respect of her previous duties as Head of Resources and Innovation of Societe Generale Group. The corresponding shares are therefore not included in the total number of shares awarded to CDN employees.

(3) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The shares awarded in 2016, 2017 and 2018 were granted in respect of his duties as a CDN employee prior to taking up his office. These shares are therefore not included in the total number of shares awarded to CDN employees.

(4) Applicable to beneficiaries who are French tax residents only.

(5) The applicable performance conditions are described in the SG Registration Document under "Employee share plans".

(6) Performance shares are marked to market, including a holding period discount.

R = French tax residents.
NR = Non-French tax residents.

DETAILED INFORMATION ON THE 2016 PERFORMANCE SHARE PLAN [1]				
Date of the SG Shareholders' meeting	18/05/2016			
Date of SG Board of Directors' meeting	18/05/2016			
Total number of shares awarded	149,210			
o/w number awarded to corporate officers [2]				
Corporate Officer 1 : Bernardo SANCHEZ INCERA	9,233	-	29,992	-
Corporate Officer 2 : Philippe AYMERICH	1,813	-	-	1,813
Corporate Officer 3: Françoise MERCADAL DELASALLES [4]		-	-	
Corporate Officer 4 : Jean-Louis KLEIN [3]	1,968	-	-	3,937
Vesting date	29/03/2018 (First tranche)	29/09/2019	31/03/2020 (First tranche)	31/03/2021
	29/03/2019 (Second tranche)	-	31/03/2022 (Second tranche)	-
End date of holding period	30/09/2018 30/09/2019	N/A	01/04/2021 01/04/2023	02/10/2021
Performance-based [6]	yes	yes	yes	yes
Fair value (in €) [5]	30.18 (First tranche)	29.55	22.07 (First tranche)	32.76
	28.92 (Second tranche)		21.17 (Second tranche)	

(1) Under the annual long-term employee incentive and performance share plan, in accordance with the retention and compensation policy for regulated categories of employees within the meaning of banking regulations (including corporate officers and members of the Executive Committee).

(2) For Chief Executive Officers, see also Tables 6 and 7 of the 2018 Registration Document.

(3) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The shares awarded in 2016 were granted in respect of his duties as a CDN employee prior to taking up his office.

(4) Françoise MERCADAL DELASALLES' began her term of office as Deputy Chief Executive Officer on July 1, 2017. The shares awarded in 2016 were awarded by SG in respect of her previous duties as Head of Resources and Innovation of Societe Generale Group.

(5) The applicable performance conditions are described in the SG Registration Document under "Employee share plans".

(6) Performance shares are marked to market, including a holding period discount.

DETAILED INFORMATION ON THE 2017 PERFORMANCE SHARE PLAN [1]				
Date of the SG Shareholders' meeting	18/05/2016			
Date of SG Board of Directors' meeting	15/03/2017			
Total number of shares awarded	113,849			
o/w number awarded to corporate officers [2]				
Corporate Officer 1 : Bernardo SANCHEZ INCERA	6,906	-	21,940	-
Corporate Officer 2 : Philippe AYMERICH	1,428	-	-	1,429
Corporate Officer 3: Françoise MERCADAL DELASALLES [4]	1,378	-	-	2,758
Corporate Officer 4 : Jean-Louis KLEIN [3]	408	-	-	408
Vesting date	29/03/2019 (First tranche)	31/03/2020	31/03/2021 (First tranche)	31/03/2022
	31/03/2020 (Second tranche)	-	31/03/2023 (Second tranche)	-
End date of holding period	30/09/2019 02/10/2020	N/A	01/04/2022 01/04/2024	02/10/2022
Performance-based [5]	yes	yes	yes	yes
Fair value (in €) [6]	42.17 (First tranche)	41.05	27.22 (First tranche)	43.75
	40.33 (Second tranche)		26.34 (Second tranche)	

(1) Under the annual long-term employee incentive and performance share plan, in accordance with the retention and compensation policy for regulated categories of employees within the meaning of banking regulations (including corporate officers and members of the Executive Committee).

(2) For Chief Executive Officers, see also Tables 6 and 7 of the 2018 Registration Document.

(3) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The shares awarded in 2017 were granted in respect of his duties as a CDN employee prior to taking up his office.

(4) Françoise MERCADAL DELASALLES' began her term of office as Deputy Chief Executive Officer on July 1, 2017. The shares awarded in 2017 were awarded by SG in respect of her previous duties as Head of Resources and Innovation of Societe Generale Group.

(5) The applicable performance conditions are described in the SG Registration Document under "Employee share plans".

(6) Performance shares are marked to market, including a holding period discount.

DETAILED INFORMATION ON THE 2018 PERFORMANCE SHARE PLAN [1]				
Date of the SG Shareholders' meeting	18/05/2016			
Date of SG Board of Directors' meeting	14/03/2018			
Total number of shares awarded	110,665			
o/w number awarded to corporate officers [2]				
Corporate Officer 1 : Bernardo SANCHEZ INCERA	6,085	-	23,578	-
Corporate Officer 2 : Philippe AYMERICH	1,407	-	-	1,408
Corporate Officer 3: Françoise MERCADAL DELASALLES [3]	1,218	-	-	1,218
Corporate Officer 4 : Jean-Louis KLEIN [4]	389	-	-	390
Vesting date	31/03/2020 (First tranche)	31/03/2021	31/03/2022 (First tranche)	31/03/2023
	31/03/2021 (Second tranche)	-	31/03/2024 (Second tranche)	-
End date of holding period	01/10/2020 01/10/2021	N/A	01/04/2023 01/04/2025	01/10/2023
Performance-based [5]	yes	yes	yes	yes
Fair value (in €) [6]	40.39 (First tranche)	39.18	26.40 (First tranche)	39.17
	38.55 (Second tranche)		29.43 (Second tranche)	

(1) Under the annual long-term employee incentive and performance share plan, in accordance with the retention and compensation policy for regulated categories of employees within the meaning of banking regulations (including corporate officers and members of the Executive Committee).

(2) For Chief Executive Officers, see also Tables 6 and 7 of the 2018 Registration Document.

(3) Françoise MERCADAL DELASALLES' began her term of office as Deputy Chief Executive Officer on July 1, 2017. The number of shares reported under the 2018 share award includes the portion granted in respect of her previous duties as Head of Resources and Innovation of Societe Generale Group.

(4) Jean-Louis KLEIN began his term of office as Deputy Chief Executive officer on May 14, 2018. The shares awarded in 2018 were granted in respect of his duties as a CDN employee prior to taking up his office.

(5) The applicable performance conditions are described in the SG Registration Document under "Employee share plans".

(6) Performance shares are marked to market, including a holding period discount.

Table 11

SITUATION OF THE CHIEF EXECUTIVE OFFICERS										
	Dates of offices		Employment contract with Crédit du Nord [1]		Supplementary pension plan [2]		Compensation or benefits due as a result of termination or change of position		Compensation related to a non-compete clause	
	start	end	yes	no	yes	no	yes	no	yes	non
Bernardo SANCHEZ INCERA, Chairman until May 14, 2018	2014 [4]	2018		X	X [3]			X		X
Philippe AYMERICH Chairman of the Board since May 14, 2018	2012	2019 [5]		X	X [3]			X		X
Françoise MERCADAL DELASALLES Chief Executive Officer	2017			X	X [3]			X		X
Jean-Louis KLEIN Deputy Chief Executive Officer	2018			X	X [3]			X		X

(1) As regards the combination of a corporate office with an employment contract, the only positions addressed by the AFEP/MEDEF recommendations are Chairman of the Board of Directors, the Chairman and Chief Executive Officer, and the Chief Executive Officer of companies with a Board of Directors.

(2) Detailed information on the supplementary pension plans is provided in the section entitled "Information on Corporate Officers" in the CDN Registration Document and in the "Corporate Governance" chapter of the Societe Generale 2019 Registration Document.

(3) Paid by SG.

(4) Appointed as a Director at the General Shareholders' Meeting of May 28, 2014 and as Chairman of the Board on October 31, 2014. Resigned on May 14, 2018.

(5) Term ending at the 2019 Shareholders' Meeting, called to approve the financial statements for the year ending December 31, 2018.

(6) Deputy Chief Executive Officer since May 14, 2018, replacing Françoise MERCADAL DELASALLES, who was appointed Chief Executive Officer at that same date.

Draft Resolutions: Combined Shareholders' Meeting of May 23, 2019

Calling for the approval of the Ordinary Shareholders' Meeting

First resolution
Approval of the consolidated financial statements

"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, after considering the report of the Board of Directors and the Statutory Auditors' report on the consolidated financial statements, approves the transactions cited therein, the balance sheet closed December 31, 2018, and the income statement for fiscal year 2018.

The General Meeting approves the net income after taxes (Group share) of €419,131,000.00."

Second resolution
Approval of annual financial statements and discharge of Directors

"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, after considering the report of the Board of Directors and the Statutory Auditors' report on the annual financial statements, approves the transactions cited therein, the balance sheet closed December 31, 2018, and the income statement for fiscal year 2018. The General Meeting approves the net income after taxes of €430,159,743.85.

Consequently, the General Meeting fully and without reservation releases the Directors from their mandates for said fiscal year."

Third resolution
Distribution of earnings

"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, resolves to allocate net income for the period amounting to €430,159,743.85.

Profits plus earnings carried forward from the previous period, i.e. €441,444,510.61, resulted in total income available for distribution of €871,604,254.46, which the General Meeting resolves to allocate as follows:

- allocation of a dividend of €340,525,692.36 to shareholders, i.e. a dividend per share of €3.06;
- allocation of €531,078,562.10 to retained earnings.

Dividends are eligible for the 40% tax deduction referred to in Article 158-3-2 of the French General Tax Code.

In accordance with the law, shareholders are hereby reminded that the following dividends were distributed over the past three years:

- Fiscal Year 2017: €2.05 per share;
- Fiscal Year 2016: €1.53 per share;
- Fiscal Year 2015: €2.50 per share.

Fourth resolution
Agreements and undertakings addressed by Articles L. 225-38 et seq. of the French Commercial Code

"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, formally acknowledges the Statutory Auditors' Special Report on agreements and undertakings addressed by Articles L 225-38 et seq. of the French Commercial Code, approves this report and notes that there are no new agreements to submit for approval."

Fifth resolution **Consultative opinion on the compensation paid in 2018 to the persons referred to in Article L. 511-71 of the French Monetary and Financial Code**	"The General Meeting, under the conditions required by Ordinary General Meetings as to quorum and majority, having read the report of the Board of Directors, consulted in accordance with Article L.511-73 of the French Monetary and Financial Code, issues a favourable opinion of the overall budget of €9,542,000 for all types of remuneration paid during fiscal year 2018 to the persons referred to in Article L.511-71 of the French Monetary and financial Code."
Sixth resolution **Approval of the remuneration policy for the Chief Executive Officer and Deputy Chief Executive Officers, in accordance with Article L. 225-37-2 of the French Commercial Code**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, having read the report of the Board of Directors, in accordance with Article L. 225-37-2 of the French Commercial Code, approves the compensation policy for the Chief Executive Officer and Deputy Chief Executive Officers as presented in the Registration Document."
Seventh resolution **Approval of the components of total remuneration and benefits of any kind paid or awarded to Philippe AYMERICH, Chief Executive Officer until May 14, 2018, in accordance with Article L. 225-100 of the French Commercial Code**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, having read the report of the Board of Directors, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of total remuneration and benefits of any kind paid or awarded to Philippe AYMERICH, Chief Executive Officer until May 14, 2018, as presented in the Registration Document."
Eighth resolution **Approval of the components of total remuneration and benefits of any kind paid or awarded to Françoise MERCADAL DELASALLES, Deputy Chief Executive Officer until May 14, 2018, then Chief Executive Officer replacing Philippe AYMERICH, in accordance with Article L. 225100 of the French Commercial Code**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, having read the report of the Board of Directors, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of total remuneration and benefits of any kind paid or awarded to Françoise MERCADAL DELASALLES, outgoing Deputy Chief Executive Officer then Chief Executive Officer in respect of the months spent in this office during fiscal year 2018, as presented in the Registration Document."

Ninth resolution **Approval of the components of total remuneration and benefits of any kind paid or awarded to Jean-Louis KLEIN, Deputy Chief Executive Officer since May 14, 2018, in respect of the months spent in this office during fiscal year 2018, in accordance with Article L. 225-100 of the French Commercial Code**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, having read the report of the Board of Directors, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of total remuneration and benefits of any kind paid or awarded to Jean-Louis KLEIN, Deputy Chief Executive Officer since May 14, 2018, in respect of the months spent in this office during fiscal year 2018, as presented in the Registration Document."
Tenth resolution **Reappointment of a Director**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, hereby reappoints **Philippe AYMERICH** as Director for a term of four years. His office will expire at the General Meeting called in 2023 to approve the 2022 financial statements."
Eleventh resolution **Reappointment of a Director**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, hereby reappoints **Thierry MULLIEZ** as Director for a term of four years. His office will expire at the General Meeting called in 2023 to approve the 2022 financial statements."
Twelfth resolution **Reappointment of a Director**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, hereby reappoints **Patrick SUET** as Director for a term of four years. His office will expire at the General Meeting called in 2023 to approve the 2022 financial statements."
Thirteenth resolution **Appointment of a Director**	"The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, hereby appoints **Alexandre MAYMAT** as Director for a term of four years. His office will expire at the General Meeting called in 2023 to approve the 2022 financial statements."

Calling for the approval of the Extraordinary Shareholders' Meeting

Fourteenth resolution **Amendment to the by-laws**	"The General Meeting of Shareholders, under the conditions required by Extraordinary General Meetings as to quorum and majority, and in accordance with Order No. 2015-1127 of September 10, 2015, implementing Article 23 of Act No. 2014-1545 of December 20, 2014 on the simplification of corporate operations, resolves to review the text of Article 11 of the by-laws entitled "Directors": **Previous wording**: *"The Company is run by a Board of Directors comprising two categories of directors.* *A director's term of office expires at the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the fiscal year ended, held during the year in which the term of office expires.* *Directors may be reappointed, subject to the relevant legal provisions, particularly regarding their age.* *Each director shall own at least 10 shares."* **New wording**: *"The Company is run by a Board of Directors comprising two categories of directors.* *A director's term of office expires at the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the fiscal year ended, held during the year in which the term of office expires.* *Directors may be reappointed, subject to the relevant legal provisions, particularly regarding their age."*
Fifteenth resolution **Powers**	"All powers are granted to bearers of a copy or extract of the minutes of this General Meeting of Shareholders to carry out all formalities and publications relating to the preceding resolutions."

2.3 Statutory Auditors' report on related-party agreements and commitments

Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2018

This is a translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users.This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the annual general meeting of Crédit du Nord,

In our capacity as Statutory Auditors of your Company, we hereby report on certain related-party agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, as well as the reasons justifying why they benefit the Company, without expressing an opinion on their usefulness and appropriateness or identifying other such agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (Code de commerce), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized and concluded during the year

We hereby inform you that we have not been advised of any agreement or commitment authorized and concluded during the year to be submitted to the approval of the Shareholders' Meeting pursuant to Article L. 225-38 of the French Commercial Code (Code de commerce).

Agreements and commitments unauthorized beforehand

In accordance with Article L. 225-42 and L. 823-12 of the French Commercial Code, we hereby inform you that the following agreements and commitments have not been the subject of prior authorization by your Board of Directors.

It is up to us to communicate you the circumstances in which the authorization procedure was not followed.

With Société Générale, shareholder of your company

a) Nature and purpose

Management of Crédit du Nord IT infrastructure by Société Générale's ITIM team.

Terms and conditions

Crédit du Nord, retail bank, outsourced the management and evolution of its information system to Société Générale's ITIM team, namely CHANGE IT (dedicated to Crédit du Nord and corresponding to the projects

and developments of information system of Crédit du Nord or mutualized between Crédit du Nord and Société Générale) and RUN which are non-Projects and Evolutions prestations' corresponding of the maintenance or the exploitation of Crédit du Nord's existing tools. This contract with Société Générale was signed in December 2016. It cancels and replaces the contract signed with Société Générale SIOP team in 2012 which had been the object of an authorization of the Board of Directors of May 6, 2011.

For the 2018 financial year, billing for services performed under the Contract signed between ITIM and Crédit du Nord amounts to K€ 123 559 excluding tax.

b) Nature and purpose

Management of Crédit du Nord IT infrastructures by Société Générale's RESG/GTS team.

Terms and conditions

As part of the management of Crédit du Nord Group's IT infrastructures, RESG/GTS ensures the evolution, deployment, production and maintenance of IT technical infrastructure services for the network or headquarters. This contract with Société Générale was signed in December 2016. This contract cancels and replaces the previous contract signed with RESG/GTS in 2011 which had been the object of an authorization of the Board of Directors of May 6, 2011.

For the 2018 financial year, billing for services performed under the Contract signed between Société Générale and Crédit du Nord amounts to K€ 50 409 excluding tax.

c) Nature and purpose

Management of Crédit du Nord's Human Resources Information System (SIRH) by Société Générale's RESG/BSC team.

Terms and conditions

Crédit du Nord calls on RESG/BSC team for the management of its Information system related to Human Resources (SIRH) and for certain applications described in the RESG/BSCG catalog including the Service of Conservation and Electronic Archiving of Documents and Data. This contract with Société Générale was signed in December 2016.

For the 2018 financial year, billing for services performed under the Contract signed between Société Générale and Crédit du Nord amounts to K€ 2 510 excluding tax.

d) Nature and purpose

Endorsements to the mutualization contract of payment back office activities signed with Société Générale's Business Unit GTPS.

Terms and conditions

The April 14, 2016, a framework agreement for the provision of payment services was signed between Société Générale and Crédit du Nord to include "Mutualisable IT projects" spinneret, an application contract dedicated was signed the same day to cover the processing of this service by Société Générale on behalf of Crédit du Nord.

On April 20, 2017, a framework agreement for the provision of payment services was signed between Société Générale and Crédit du Nord to include, on the one hand, the processing decentralized activities "cheques and electronic banking" and the monitoring of cheque's external prestation that are detailed in application contract "Cheque spinnerets – Back office cheques prestation and Flow management provision and cheques recipient and cheques evolutions' steering" and, on the other hand, the management of Crédit du Nord's monetic cryptographic key management detailed in the application contract "Electronic banking spinneret – Electronic banking back office services: holders, tradespeople and ATMs". These new versions of framework contracts application agreements replaced those previously signed between the parties on April 14, 2016.

On June 28, 2017, a first amendment of the framework contract mentioned above was signed between Société Générale et Crédit du Nord with the effect to add within the spinneret "Payment and Exchanges" the treatment of SEPA flows et ETECE by Société Générale and to amend Article 2 "Object" of the said contract in this sense. A dedicated application contract to this service was signed the same day.

On May 4, 2018, a framework contract of payment services was signed between Société Générale and Crédit du Nord to include the elements of the first amendment of June 28, 2017 as mentioned above, to modify and complete Article 1 "Definitions" and to include organizational evolutions of GTPS et BDDF/PAY.

For the 2018 financial year, all contracts signed between GTPS business unit of Société Générale and Crédit du Nord were billed globally as described below.

Due to an omission of your board of Directors, the agreements listed above have not been object of a prior authorization in accordance with article L. 225-38 of the French Commercial Code (Code de commerce).

Agreements and commitments previously approved by the Shareholders' Meeting

In accordance with Article R. 225-30 of the French Commercial Code, we have been advised that the following agreements and commitments already approved by the Shareholders' Meeting during previous years, continued during the year

With Société Générale, shareholder of your company

a) Nature and purpose

Pooling of the payment back office activities with the Société Générale GTPS Business Unit.

Terms and conditions

As part of the payment back office pooling project, three platforms were created for all France networks located in Paris of cheques, cash flows and electronic banking, in Schiltigheim for electronic banking and in Lille for flows.

This project is linked to Société Générale Group's regulatory obligations, rated as a systemic institution, which must therefore implement a particularly resilient device for payment.

Your board of Directors of May 28, 2014 authorized the signing of texts required for the implementation of this project, i.e. the signature of:

- a framework agreement (RESPAY) on July 1, 2014 which defines the general conditions under which Société Générale's teams will perform the treatment of "means of payment" activities of the Crédit du Nord Group;
- application contracts on July 11, 2014, which detail the services provided by Société Générale on behalf of Crédit du Nord Group.

For the financial year 2018, the amount of services billed to Crédit du Nord amounted to K€ 26 291 excluding tax, with K€ 23 594 excluding taxes for "means of payments" services and K€ 2 697 excluding taxes for mutualized projects.

Paris-La Défense, April 15th 2019

The Statutory Auditors,
French original signed by

DELOITTE & ASSOCIES
Jean-Marc MICKELER

ERNST & YOUNG et Autres
Vincent ROTY

2 Corporate Governance

Management Report

3

Management Report 46

1. Presentation of Crédit du Nord Group's situation during Fiscal Year 2018 46
2. Internal control and risk management procedures relating to the preparation and processing of accounting and financial information 61

Management Report

1. Presentation of Crédit du Nord Group's situation during Fiscal Year 2018

Economic environment

The growth cycle that began mid-2016 continued in 2018, but showed signs of imbalances. The United States maintained robust GDP growth. The US economy was driven by an extensive fiscal stimulus plan. Job growth also played a key role. However, economic activity slowed in other major economies, and particularly in the euro zone and China, amid trade tensions and political uncertainty.

Growth slowed its pace in the euro zone under the impact of factors impeding economic activity. Poor export performance was the main cause of the slowdown, further compounded by the introduction of new anti-pollution standards impacting automotive production in Germany, political uncertainties in Italy (primarily over public debt) and recent social protests in France.

The United Kingdom was plagued by uncertainty surrounding growth forecasts. Despite the positive impact of efforts to reduce the budget deficit, the outcome of Brexit remained highly uncertain.

Trade tensions between the United States and China also added to the uncertainties and weighed on economic sentiment, mitigated somewhat by recent negotiations at the G20 Summit with the suspension of the tariff hike scheduled for January 2019. The US federal government shutdown created an additional source of concern for the markets.

In light of these factors, risks underlying global GDP growth were on the rise. These uncertainties are liable to discourage investments and adversely affect market momentum.

In spite of it all, the world's major central banks adopted a conservative approach. The ECB confirmed it would be ending its economy-stimulating Quantitative Easing programme in January 2019.

It also announced, at its January 24 meeting, that it would be keeping its key rates at an ultra-low level of 0% for the refi rate and -0.40% for the deposit facility rate. It is not expected to raise its interest rates until the end of summer 2019.

In the wake of a highly dynamic fourth-quarter 2017, which boosted growth to 2.3% for the full year, French growth slowed to 2.5% in 2018, according to initial INSEE estimates. This slowdown can be attributed to weaker domestic demand stemming from the downturn in household consumption and business investment. Growth was driven instead by foreign trade, helped by substantial aircraft and ship deliveries at the very end of the year. The likely dip in inflation in 2019, coinciding with the steep drop in energy prices towards the end of the year, coupled with social measures undertaken by the government in response to recent social movements, should significantly enhance household purchasing power and stimulate private-sector consumption.

The unemployment rate held steady at 9.1% in 2018, after sliding significantly in 2017 due to labour cost reduction measures.

The French government posted a budget deficit of €76.1 billion in 2018, an increase of €8.4 billion compared to 2017, linked to the cost of cuts in mandatory contributions implemented last year, including in particular the reduced housing tax and employee contributions.

Crédit du Nord Group delivered resilient financial earnings despite persistently low interest rates

Compared to end-December 2017, consolidated NBI was up +0.9% to €1,908.8 million at December 31, 2018. Operating expenses were stable (+0.9%), coming out at -€1,288.2 million, in line with the budget plan.

Cost of risk hit a record low (€70 million versus €113.5 million in 2017 and €136m in 2016) under the impact of one-off items and model recalibrations associated with IFRS 9.

As a result, operating income rose +11.9% to €550.5 million relative to end-2017. Drawing on the improvement in NBI and cost of risk, consolidated net income amounted to €592.1 million, an increase of +11.4%.

Crédit du Nord Group's ROE came to 12.3% and its fully loaded Basel 3 Common Equity Tier 1 ratio to 11.2% at December 31, 2018.

Restated for the provision on PEL/CEL outstandings, non-economic items (credit value adjustment on XVA derivatives), the TLTRO bonus, capital gains on disposal of HQLA shares and the valuation difference on the securities portfolio (IFRS 9 impact), Group NBI was down -2.6% at December 31, 2018.

Net interest income restated for the above items shed -4.0%, mainly owing to the negative impacts of the low interest rate environment and substantial deposit outflows.

Net fee income picked up +0.7%, buoyed by service fee momentum.

Net income from financial transactions, restated for capital gains on the disposal of HQLA shares and the revaluation of the securities portfolio (IFRS 9 impact), fell -24.3%.

Persistently dynamic growth drivers

Life insurance inflows were once again robust in 2018, with gross inflows totalling €2.3 billion and unit-linked assets on the rise (+2.5 pts compared to December 2017) given their higher return in a low interest rate environment.

The Private Banking business line recorded another strong performance:

- a total of nearly 4,100 clients at end-December 2018, up +7% year-on-year, and net inflows of €860 million;
- NBI of €63 million, up +5% compared to December 2017.

Crédit du Nord further expanded its role as a **Bancassurance** provider. Robust new business in bancassurance, personal protection insurance and non-life insurance, with nearly 100,000 contracts sold. After launching multi-risk insurance for professional customers in 2017, Crédit du Nord expanded its range in June 2018 to include remove surveillance for individual customers.

Crédit du Nord is ramping up its digitisation and digital transformation projects, aimed at improving sales efficiency and customer satisfaction

2018 saw the following main achievements:

- **continuous enhancement of transaction security** with the roll-out of the VP@ss strong authentication solution on mobile channels for all individual, corporate and professional customers, and the implementation of the voice recognition authentication system for customers using the interactive voice server subsequent to approval by the CNIL (French data protection agency);
- **expansion of online services**: among the new features available on Group websites and mobile apps, customers can now set an appointment with their advisor or a specialist, submit documents and manage debit cards (limit increase/modification, cancellation, activation/deactivation of contactless payment);
- **gradual roll-out of electronic signatures**: already available remotely for most transactions conducted by professional customers, now all consumer loan agreements (Etoile Express and Etoile Avance) can be signed electronically;
- **simplified management of everyday banking** for customers holding bank accounts with multiple banks, and multi-bank credit transfers with the extension of account aggregation to the Corporate Customers market;
- **incorporation of big data and artificial intelligence** to improve the Group's understanding of its customers' needs and support its CRMs: Crédit du Nord Group continued to roll out artificial intelligence solutions to enhance the customer experience and introduced several chatbots. The Group is able to draw on these new technologies to provide CRMs and customers alike with appropriate targeted information.

Sales activity

The present analysis of Crédit du Nord Group's sales activity extends across the entire scope of the Group's banks, i.e. Crédit du Nord and its subsidiary banks.

The indicators shown relate to euro-based businesses, which account for virtually all of the Group's activities. Outstanding loans and growth in customer bases are based upon period-end figures.

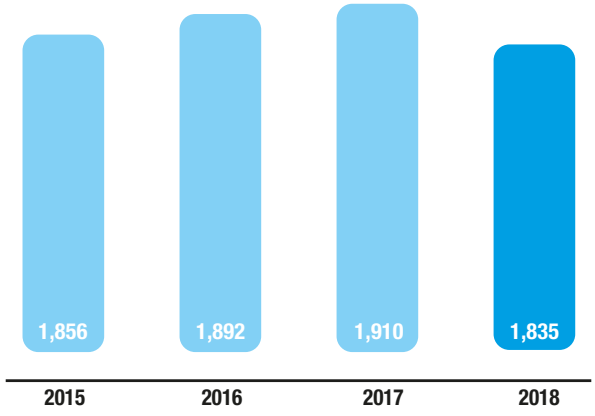
Quality-driven individual customer acquisition

Crédit du Nord Group welcomed more than 94,000 new individual customers in 2018 while focusing on core target segments. After revising its IT databases in Q4, the individual customer base decreased to 1.8 million active individual customers [(1)].

Individual Customer Base

(at December 31)

Number of customers (thousands)



The bank remains deeply committed to serving enterprising customers across the French regions, drawing on its Professional and Corporate customer base to expand its relations with business leaders to include their personal banking needs and to recommend partner offers for their employees.

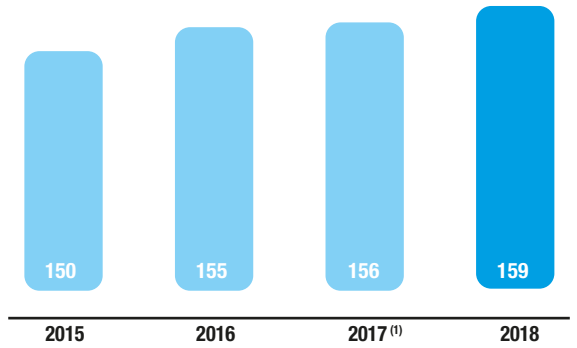
A growing Professional Customer base (+2% excluding the personal banking segment)

Development of our Professional Customer base was once again driven by solid customer acquisition momentum, with more than 20,200 new professional customers gained in 2018. The Group focused in particular on the quality of customer acquisition, targeting companies created more than 2 years ago (+3.7%). Customer acquisition was also very strong in the Independent Professionals segment, with over 4,900 new customers recorded in 2018, backed by specialist advisors and a range of partnerships.

Professional Customer Base

(at December 31)

Number of customers (thousands)



(1) Pro forma applied in 2017 subsequent to the change in classification.

Crédit du Nord's emphasis on close relations and convenience means that each Professional or Business customer has a dedicated advisor keen on addressing business and personal banking needs alike. Nearly 70% of our professional customers also rely on Crédit du Nord for their personal banking needs.

(1) Intrinsically active customers or customers belonging to an active household.

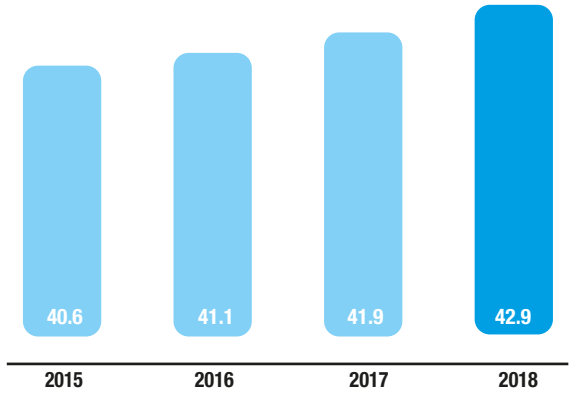
Ongoing development of the Corporate customer base (+2.4%)

The active **Corporate Customer** base grew by +2.4%. Crédit du Nord serves as the main bank for more than one third of its Corporate customers.

Business Customer Base

(at December 31)

Number of companies (in thousands)



At the same time, loyal to its tradition of partnerships, Crédit du Nord stepped up its open banking approach to offer its customers a range of banking and non-banking products and services tailored as closely as possible to their needs, with market leaders

The multi-bank service platform is constantly being expanded, broadening the account aggregation feature provided by Crédit du Nord, the first retail bank in France to offer it free of charge starting in 2016 via online and mobile channels (all devices and OS). All individual, professional and corporate customers now enjoy additional services:

- **Budget Management** includes artificial intelligence solutions providing customers with a **predictive overview of account activity and balances** at the end of the month for accounts held at all banks;
- **Multidoc aggregation** allows customers to view the corresponding **invoices** associated with account transactions in just one click (utilities, online purchases, taxes, etc.), which are also stored and organised by date in a **smart safe**;
- • and, since June 2018, taking advantage of the possibilities offered by the second Payment Services Directive (PSD2), the **multi-bank credit transfer** offer allows customers to carry out **credit transfers from another bank** to a previously registered beneficiary using their Crédit du Nord online banking interface.

Moving forward with its open banking strategy, Crédit du Nord has also entered into various agreements or partnerships with a number of fintechs and traditional economic players with the aim of offering personalised solutions to its customers:

- on the **Individual Customers market**, the **dynamic-encryption Visa card** allows customers to make secure online purchases and has met with resounding success. In partnership with French security firm **EPS**, Crédit du Nord added a remote surveillance offer in June 2018. And more recently, Apple announced that **Apple Pay** would soon be available to Crédit du Nord customers.
- on the **Professional and Corporate Customers market**, the **Mastercard Executive business card** was launched mid-May. New non-banking partnerships were initiated with **Fizen**, which offers easy invoicing solutions for VSEs, and **iRaiser**, with manages online donations. And, given the success of its partnership with Payzen, this innovative online payment solution available since 2017 will be fully included with Crédit du Nord's e-commerce offer starting in February 2019, under the brand name "Clic&Pay by Groupe Crédit du Nord".

"Bank as a platform" is the result of careful thought and analysis of our current business models.

This open banking solution fits in perfectly with Crédit du Nord Group's longstanding philosophy of bringing tailor-made advisory services and solutions to our customers.

To that end, we plan to seek out the best partners on the market to expand our range of products and services to non-banking fields and businesses.

We are as determined as ever to remain focused on our core business, but it is imperative that we:

- set ourselves apart from the competition;
- provide solutions aligned with new customer practices and preferences;
- offer turnkey packaged solutions (e.g. Business card + Expensya, Clic&Pay + Oxatis, etc.);
- and, of course, identify a strong NBI growth driver while sharing value with our partners.

Under our AGIR 3.0 programme, Crédit du Nord Group aims to ramp up the "Bank as a Platform" approach by applying it to today's digital world.

We are currently building a digital platform of banking and non-banking services for existing customers and prospects alike, with the goal of providing a seamless experience for our customers that is also shared with our employees to bring them fully on-board with our offers.

We have targeted 28 different areas in which Crédit du Nord can legitimately provide new services to its customers. To name a few:

- simplifying day-to-day operations for business leaders (running my business, supporting my employees, working on the go, etc.);
- securing my environment (data, payments);
- E-commerce;
- Investing in rental properties;
- etc.

On-balance sheet savings stabilised in second-half 2018

Driven by demand deposits (up +8.8%), deposit inflows continued to climb, with outstandings hitting €43.6 billion, an increase of +1.7% compared to end-December 2017. This improvement reflects the sharp uptrend initiated in 2014, with deposit outstandings tending to stabilise in the second half of 2018.

Demand deposits climbed +7.9% year-on-year in the Individual Customer market and +9.4% in the Professional and Corporate Customers market.

Overall, on-balance sheet deposit inflows picked up +€0.8 billion year-on-year, once again reflecting a cash surplus for our Corporate Customers, in addition to low-rate investment loans.

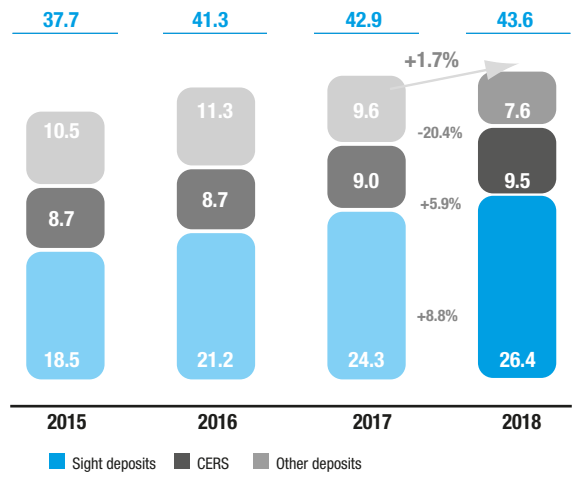
Regulated savings account deposits were up +5.9% to €9.5 billion at end-December 2018. Deposits to Livret A savings books (+12.2%) accelerated faster than deposits to regular savings books for Individual Customers (+9.4%), while LDD sustainable development savings book deposits held relatively steady (+1.4%). PEL home savings plan inflows posted another gain of +1.1% year-on-year, whereas CEL home savings account deposits fell -3.0%.

Term deposits recorded a steep decline of -20.4% relative to end-December 2017, due to their lower rate of return, particularly in Term Accounts (-21.2%) and CDs/medium-term notes (-54.2%). The only gain was posted in Institutional savings book deposits (+6.3%).

On-Balance Sheet Savings Deposits

(at December 31)

(in €bn)



Off-balance sheet savings on the decline at year-end

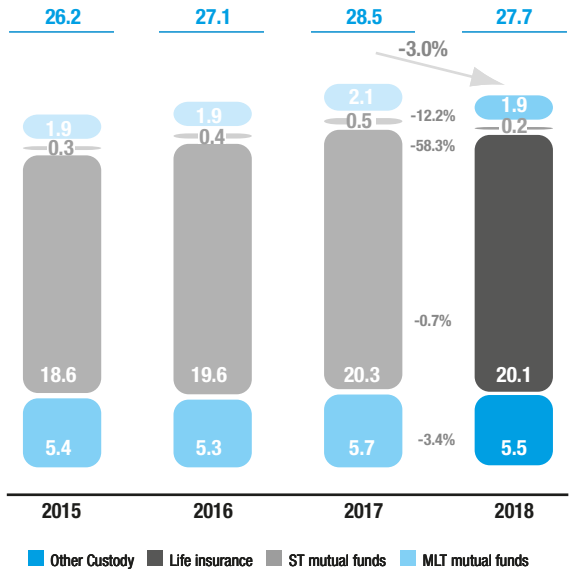
With gross Life Insurance inflows down -1.6% in volume terms over the year, Life Insurance assets under management decreased -0.7% compared to December 2017, mainly owing to the December market effect. Average annual Life Insurance AuM was up +2.7% year-on-year at end-December 2018. New UCITS inflows were persistently robust, however, climbing +7.8% vs. 2017, thanks to the strategy of focusing asset allocation on unit-linked and SICAV/FCP vehicles.

Overall, savings under management (on- and off-balance sheet) dipped -0.9% year-on-year.

Off-balance sheet savings deposits

(at December 31)

(in €bn)



New real estate lending hit a major speed bump in 2018 as the wave of interbank loan repurchasing activity dried up

Volumes of renegotiated loans returned to a structurally normal level in 2018.

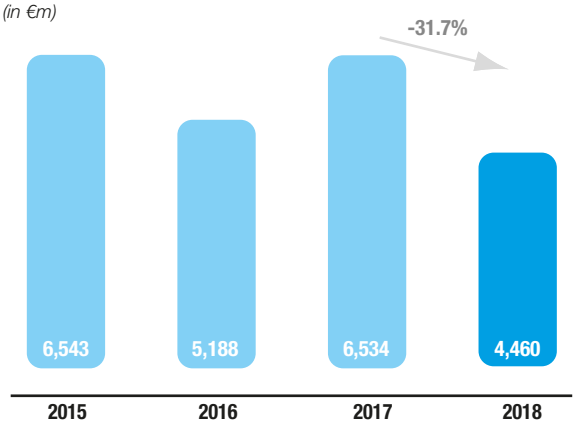
Outstanding Home Loans amounted to €22.8 billion at end-December, up +2% year-on-year.

Crédit du Nord continued to apply a selective risk policy to the amounts of customer down payments, debt ratios and sales of loans limited to terms of less than 20 years in the vast majority of cases.

New housing loans

(at December 31)

(in €m)



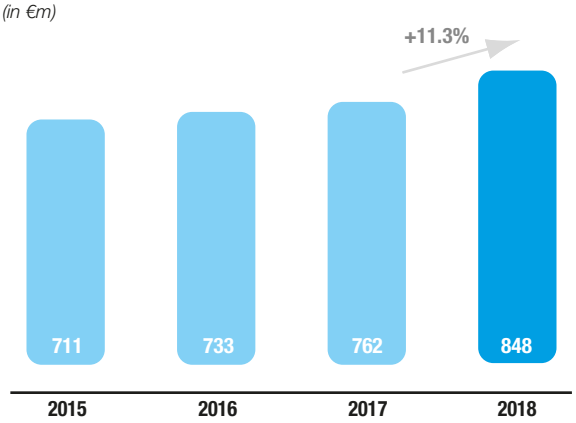
Robust growth in consumer loans

All Crédit du Nord Group advisors strive to help customers achieve their goals with respect for their individual financial situation. Momentum was strong throughout the year in terms of new personal loans, ending the year up +11.3%.

New personal loans

(at December 31)

(in €m)

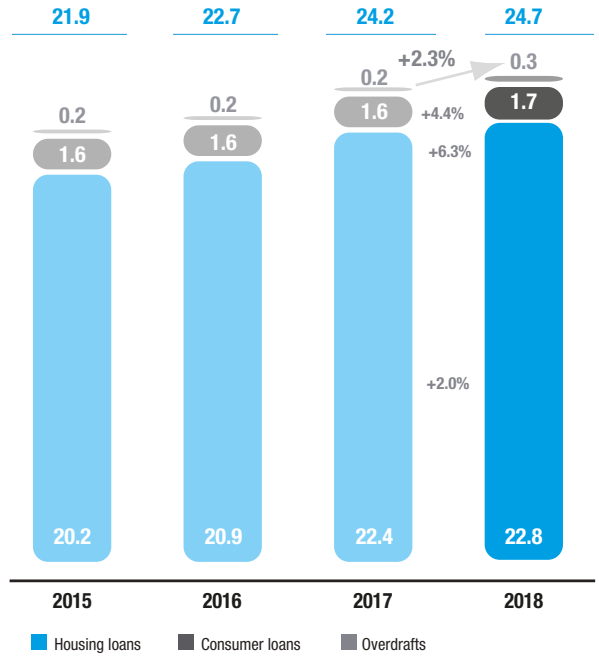


Total outstanding loans to Individual Customers totalled €24.7 billion, up +2.3% year-on-year.

Outstanding loans to Individual customers

(at December 31)

(in €bn)



Through its longstanding relations with the customers of French SMEs, Crédit du Nord actively contributes to the funding of the economy

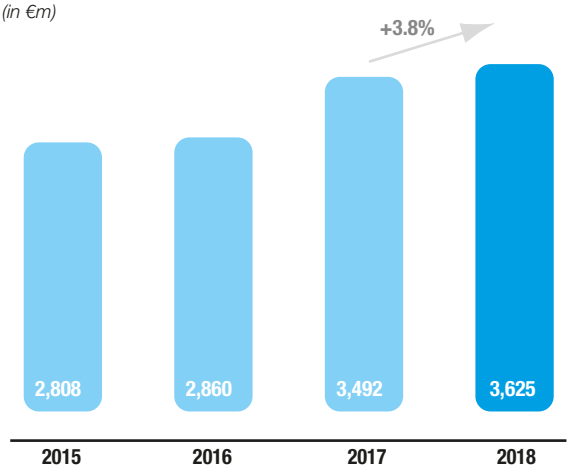
New equipment loans improved +3.8% despite a substantial comparison base effect, with 2017 benefiting from the ECB's TLTRO. Outstanding equipment loans recorded yet another impressive gain (+9.3%), topping €11.3 billion at end-December.

The total volume of loans to the economy in the business customers segment came to €14.4 billion at end-2018, a year-on-year improvement of +8.6%.

New equipment loans

(at December 31)

(in €m)

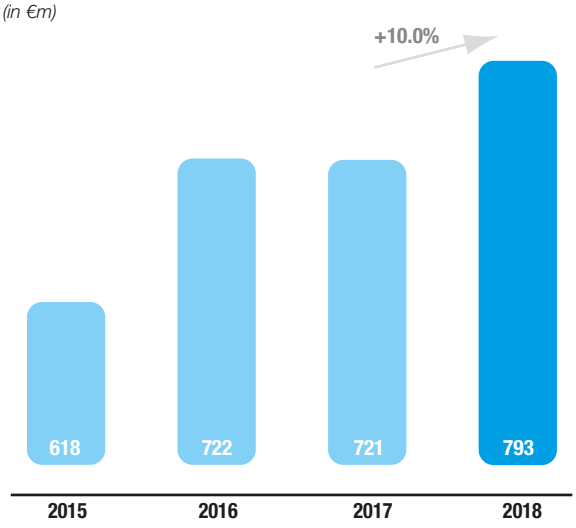


New leasing activity proved highly robust in 2018 (+10% vs. 2017), beating the record level achieved in 2016. Outstandings also remained on an uptrend (+7%).

New equipment leasing activity

(at December 31)

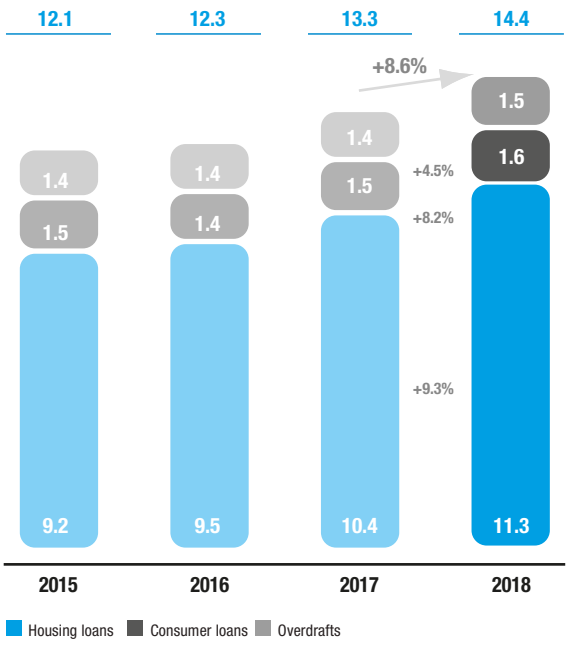
(in €m)



Outstanding business loans

(at December 31)

(in €bn)



Financial developments

The financial information presented below was taken from the consolidated financial data for Crédit du Nord Group, prepared in compliance with IFRS (International Financial Reporting Standards).

(in €m) (including change in PEL/CEL provision)	31/12/2018	31/12/2017	% change 2018/2017
Net interest and similar income (1)	1,049.9	1,038.2	+1.1
Net fee income (1)	858.9	853.1	+0.7
NBI (1)	**1,908.8**	**1,891.3**	**+0.9**

(1) Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).

In order to provide an economic approach to financial performance, the following data are restated in the analyses of Group results:

- TLTRO bonus (+€12.1 million in 2018 before tax);
- capital gains on the sale of HQLA shares (+€15.9 million in 2018 before tax);
- valuation difference on the securities portfolio related to IFRS 9 (€69.1 million in 2018 before tax);
- provision on PEL/CEL outstandings (+€2.2 million before tax);
- credit value adjustment on XVA derivatives (-€5.6 million before tax).

Restated for these items, Group NBI fell -2.6%.

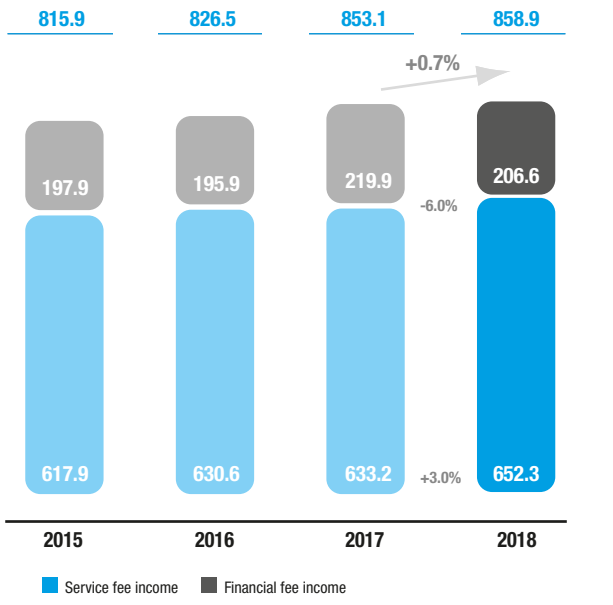
Net interest income restated for these items was down -4.0%, adversely affected by the low interest rate environment and the lower sales margin on home loans stemming from the 2017 comparison base (substantial renegotiations carried out in 2017).

Consolidated net fee income improved by +0.7%. Solid momentum in service fee income helped offset the steep drop in renegotiation fees.

Net fee income

(at December 31)

Consolidated Group scope (in €m)



Operating expenses

(in €m)	31/12/2018	31/12/2017	% change 2018/2017
Personnel expenses	-692.0	-689.9	+0.3
Taxes	-38.3	-48.4	-20.9
Other operating expenses	-482.4	-474.8	+1.6
Depreciation and amortisation	-75.5	-72.8	+3.7
TOTAL OPERATING EXPENSES	**-1288.2**	**-1,285.9**	**+0.2**

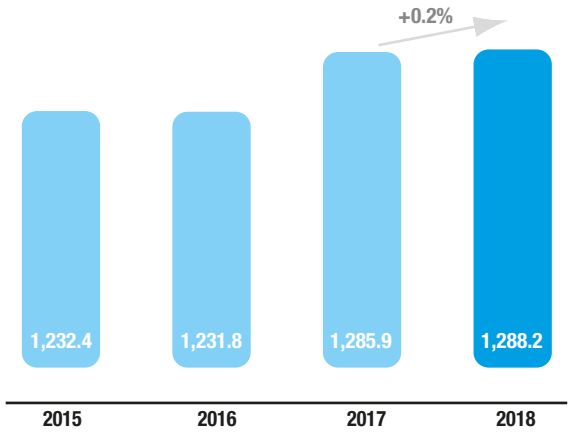
Operating expenses climbed +0.2% in 2018:

- personnel expenses were stable;
- taxes were down -20.9%;
- other operating expenses (+1.6%) and depreciation/amortisation (+3.7%) rose on the back of a higher percentage of IT investments associated with the Group transformation programme and stricter regulatory requirements.

Operating expenses

(at December 31)

Consolidated Group scope (in €m)



At end-December 2018, the Group had 7,548 active employees, bringing the headcount down slightly (-0.9%) year-on-year.

	31/12/2018	31/12/2017	% change 2018/2017
Pro-rata active staff count - Group	7,548	7,615	-0.9

Gross operating income

(in €m)	31/12/2018	31/12/2017	% change 2018/2017
NBI [1]	1,908.8	1,891.3	+0.9
Operating expenses	-1,288.2	-1,285.9	+0.2
GOI [1]	**620.5**	**605.4**	**+2.5**

(1) Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).

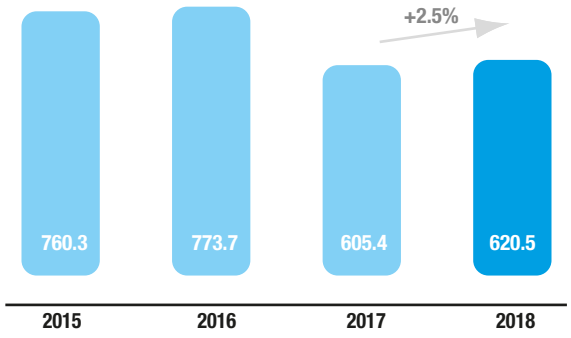
Book GOI totalled €620.5 million in 2018, up +2.5% compared to 2017. Restated for the above items, GOI fell by -8%.

The book cost-to-income ratio was 67.5%. Restated, it was 71% versus 69% in 2017, an increase of +1.97 points.

Gross operating income (GOI)

(at December 31)

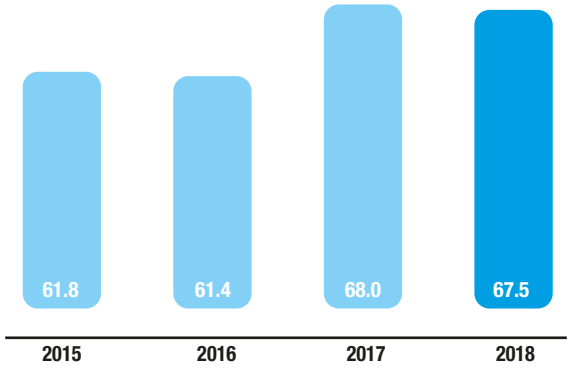
Consolidated Group scope (in €m)



Cost-to-income ratio

(at December 31)

Consolidated Group scope (%)



Cost of risk

(in €m)	31/12/2018	01/01/2018	% change 2018/2017
Cost of risk	-70.0	-109.7	-36.2
Gross outstanding loans (on-balance sheet)	48,272.2	47,168.9	2.3
Cost of risk/outstanding loans	0.15%	0.23%	-0.8 pt

Crédit du Nord Group's consolidated cost of risk for 2018 amounted to €70.0 million versus €109.7 million (€113.5 million, restated for €3.8 million in disputes for pro forma) in 2017. Divided by total loans issued by the Group, cost of risk came out at 0.15%, i.e. a surface decline of 8 basis points compared to 2017, reflecting a combination of decreased cost of risk and increased performing exposures.

This record-low cost of risk can be attributed to one-off items and the recalibration of provision model inputs. Restated for these items, cost of risk amounted to €122 million in 2018 versus €102 million in 2017 (based on identical restatements).

On the corporate customers market, 2018 cost of risk on defaulted exposures remained under control despite the impact of one major loan that single-handedly made up half of cost of risk for the year.

On the individual and professional customers markets, cost of risk on defaulted exposures was down significantly by -47% compared to 2017, thanks in large part to a substantial gain recorded from the recalibration of statistical provision model inputs. Restated for the recalibration of statistical provision model inputs, cost of risk was down 21%, reflecting a lower base of defaulted exposures and more effective collections. In fact, collections positively impacted the recalibration of provision model inputs for the year, without materially affecting the overall level of provisions.

It should be noted that S1 and S2 provisions under IFRS 9 replaced collective provisions as of January 1, 2018. A significant gain was observed in 2018 in terms of impairments of performing exposures (S1 and S2), mainly attributable to the updated inputs used in the IFRS 9 provision models.

The provision ratio for doubtful and disputed exposures (S3), net of collateral, improved slightly to 77.9%, with an overall decline in the level of defaulted exposures (-12% year-on-year).

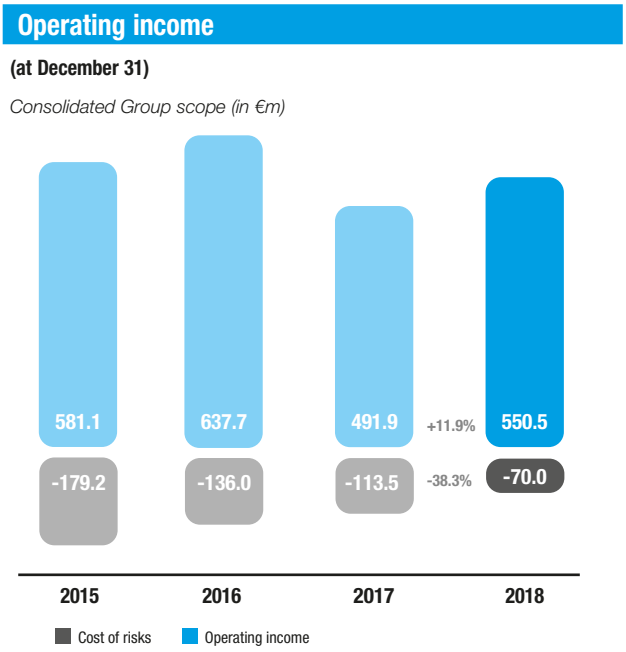
The provision ratio for S1+S2 performing exposures came out at 0.35%.

(in €m)	31/12/2018	01/01/2018	% change 2018/2017
S3 doubtful and disputed loans (gross on-balance sheet amount)	2,273.6	2,563.3	-11.3
Impairments of individually impaired S3 loans (on-balance sheet amount)	-1,238.0	-1,345.0	-8.0
Ratio of doubtful and disputed loans (gross) to total loans (gross on-balance sheet amount)	4.7%	5.4%	-0.7 pt
Provision ratio for doubtful and disputed loans net of guarantees received on on-balance sheet defaulted loans	77.9%	76.4%	1.5 pt

(in €m)	31/12/2018	01/01/2018	% change 2018/2017
Performing exposures (on-balance sheet)	45,998.6	44,605.6	3.1
Impairments of individually impaired S1+S2 loans (on-balance sheet)	-159.1	-170.9	-6.9
Provisioning ratio for performing S1+S2 exposures (on-balance sheet)	0.35%	0.38%	-0.03 pt

Operating income

Taking cost of risk into account, Crédit du Nord Group generated operating income of €550.5 million in 2018, up +11.9% in relation to 2017. Restated operating income shed -1.1%.



Operating income before corporation tax

(in €m)	31/12/2018	31/12/2017	% change 2018/2017
GOI (1)	**620.5**	**605.4**	**+2.5**
Cost of risk	-70.0	-113.5	-38.3
OPERATING INCOME (1)	**550.5**	**491.9**	**+11.9**
Net income from companies accounted for by the equity method	40.7	38.4	+6.0
Gains or losses on fixed assets	0.8	1.0	nm
OPERATING INCOME BEFORE CORPORATION TAX (1)	**592.1**	**531.3**	**+11.4**

(1) Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).

Net income

Consolidated net income amounted to €412.1 million at December 31, 2018, up +12.6% versus 2017.

Restated for the aforementioned items, consolidated net income rose +2.1%.

(in €m)	31/12/2018	31/12/2017	% change 2018/2017
OPERATING INCOME BEFORE CORPORATION TAX (1)	**592.1**	**531.3**	**+11.4**
Corporation tax (1)	-172.9	-159.2	+8.6
CONSOLIDATED NET INCOME (1)	**419.1**	**372.1**	**+12.6**

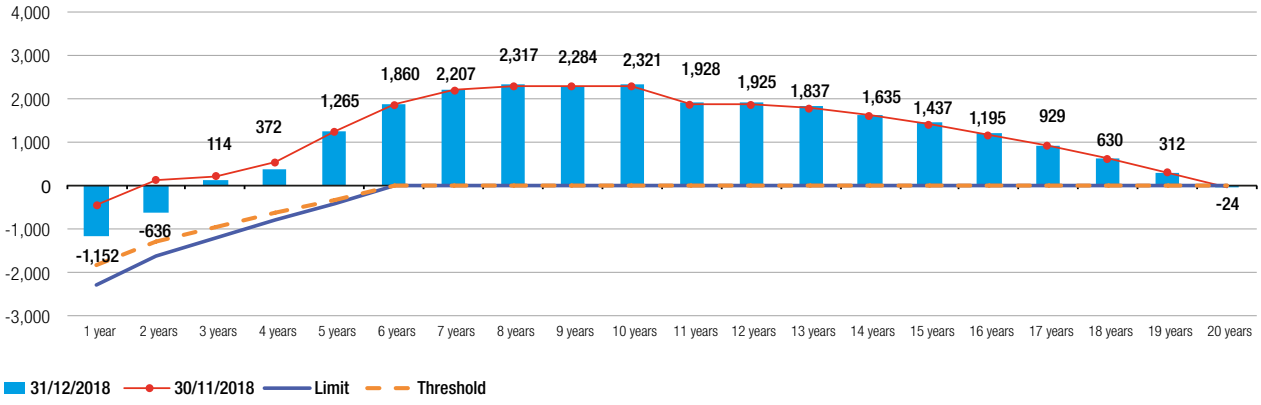
(1) Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).

Capital adequacy and liquidity

Crédit du Nord Group reiterated its zero tolerance for structural interest rate and liquidity risks under its risk appetite framework. ALM oversight is subject to a governance system in accordance with a perfectly centralised organisational structure, with a single decision-making body and strict management of its positions based on internal and regulatory limits. Crédit du Nord Group is classified as a Category 1 institution by the ECB. As such, it is supervised on an individual basis and is subject to the STE and ILAAP pertaining to liquidity risk.

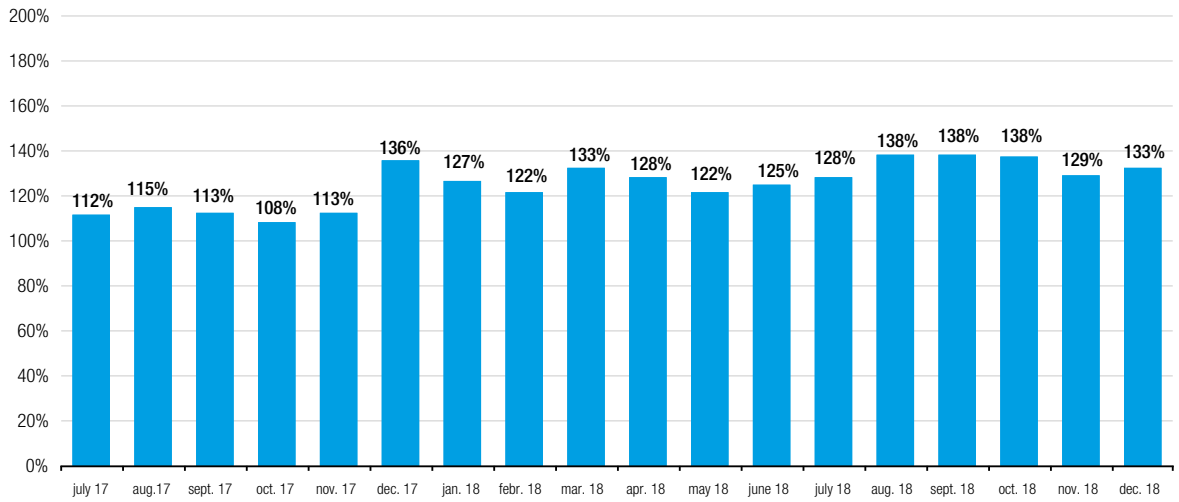
The rapid development of on-balance sheet deposits and growing use of collateralised loans have secured a strong positioning for the Group in terms of funding. It boasts surplus liquidity positions in the "over one year" maturity segment and exceeds the limits set by the Societe Generale Finance Committee at December 31, 2018.

Group long-term liquidity gap



Crédit du Nord Group's regulatory liquidity position is in line with the targets defined by Societe Generale Group: LCR exceeding 110% (133% at the end of Q4) and NSFR exceeding 102% (120% at the end of Q4).

Crédit du Nord Group LCR



Interest rate positions are governed by internal limits, expressed as the sensitivity of the present value of the modelled position. Whenever the limits set by the Societe Generale Group Finance Committee are reached, hedges are systematically initiated in order to maintain a very low residual balance sheet exposure. At December 31, 2018, all limits governing interest rate risk indicators were observed.

ALM data are produced by a central team, which operates under the principles of governance defined by Societe Generale Group. All metrics generated by the team are reported to the DFIN/ALM, DFIN/GTR and RISQ/ALM teams, which work closely with the Crédit du Nord teams. Fusion Risk, the application used by Crédit du Nord, in addition to the IT system reserved for ALM and regulatory data production, are covered by comprehensive documentation and subject to assessments ensuring that they meet the requirements set for the robustness and security of production processes.

Outlook

2019 may well see a slowdown in growth. More rapid-fire changes can be expected to arise in the banking industry as customer preferences evolve, competition heats up and interest rates remain structurally low.

Against this backdrop, Crédit du Nord Group is dedicated to its unique positioning and remains steadfast in its commitment to contribute to the economic development of all enterprising customers across the regions.

Crédit du Nord Group is forging ahead with its transformation programme, with the help of all its employees:

- **Being the bank for enterprising customers**. We are committed to combining all high-level areas of expertise to help our customers achieve their goals in accordance with their needs and with the ambition of obtaining the highest level of customer satisfaction.
- **Being a Bank that is there for its customers when and where it is needed, in person and through digital channels**. Our bankers and experts are increasingly on the go to be as accessible as possible to our Corporate, Professional and Individual customers, and we are reinventing the concept of the bank branch to better meet our customers' expectations. Our customer experience covers all channels and is co-built under an open-banking approach, offering the best of digital solutions and placing a premium on the user experience;
- **Being a Bank that makes quick decisions**. Our history, drawing extensively on the cooperation of our 80 regional institutions pooling their many talents, has resulted in a decentralised governance model that we are determined to preserve and develop through an agile structure and strong managerial culture. Our vision of the banking industry informs our CSR strategy, which faithfully reflects that vision, our communication and the oversight of our sales force.

2. Internal control and risk management procedures relating to the preparation and processing of accounting and financial information

Internal control procedures apply to all entities within Crédit du Nord Group.

The activities of Crédit du Nord Group take place within a secure framework guaranteed by banking regulations and the control system put in place by its shareholder (1).

As a network bank with strong regional roots and a customer base essentially comprised of individuals and SMEs, Crédit du Nord and its subsidiaries are exposed to various risks (2).

Internal Control at Crédit du Nord Group is based on a system that draws a distinction between Permanent Control and Periodic Control (3).

As regards accounting and financial management, a pooled information system is shared by virtually all the companies in the Group, and in particular the banking subsidiaries. This system provides the means to enforce Crédit du Nord's rules and procedures while allowing the bank to centralise all the data needed to monitor the results and activities of Group companies in real time (4).

1. A secure framework

Regulatory reporting

The annual report on internal control and on risk measurement and oversight, prepared in accordance with Articles 258 to 266 of the Ministerial Decree of November 3, 2014, was sent to the Risk Committee in April 2017 and was the subject of a report to the decision-making body.

The ACPR (French Prudential Supervisory and Resolution Authority) receives the individual annual reports from each Crédit du Nord subsidiary and the consolidated annual report for Crédit du Nord Group.

In addition to reports addressing specific topics that it might request, each year the Group's RSCIs (Investment Services Compliance Officers) provide the AMF (French securities regulator) with the completed questionnaire on compliance with investment service provider requirements. These reports are also submitted to each entity's decision-making body.

Controls performed by the shareholder

As a member of Societe Generale Group since 1997, Crédit du Nord also benefits from the control system established by its shareholder.

This system focuses primarily on risk exposure, the accuracy of financial and management accounting data and the quality of information systems.

Systematic controls are performed by the majority shareholder as part of a programme of regular inspections of Group entities aimed at ensuring that procedures are being applied.

As the shareholder also conducts retail banking activities, comparisons between the two networks make it easier to control risk.

2. Banking risks

1 - Overall interest rate, foreign exchange and liquidity risks (excluding market activities)

With regard to overall risk management, Crédit du Nord Group draws a distinction between structural balance sheet risks (Asset and Liability Management or ALM) and risks related to trading activities.

1-1 Asset and liability management (ALM)

Reporting directly to the Finance Division of Crédit du Nord (DGF), the ALM unit comes under the authority of Crédit du Nord's Chief Financial Officer. It measures and oversees liquidity and interest rate risks for each Group entity (banking and non-banking subsidiaries). The ALM unit is responsible for monitoring and analysing Crédit du Nord Group's exposure to mismatched interest rate and liquidity positions.

The ALM unit applies the liquidity and interest rate risk management standards and principles defined by Societe Generale Group's Finance Division.

An ALM Committee, chaired by the Chief Executive Officer, meets once a month to make decisions on how to manage liquidity and interest rate risks based on the associated risk metrics produced.

Shareholder control is exercised through a series of reports and participation in the ALM Committee by a member of the Finance Division and a member of the Risk Division of Societe Generale Group.

The ALM unit uses an application called "Fusion Risk" to prepare the dashboard for the ALM Committee as well as the various reports submitted to the shareholder and the ACPR.

Crédit du Nord Group now relies on Societe Generale's IT infrastructure and maintenance, shared by the various ALM tools used by Societe Generale Group, to centralise relations with the software publisher and sync version upgrades of SG Group's Fusion Risk.

The gaps presented at the ALM Committee meetings are produced using "Fusion Risk". These gaps are then entered into the community tool, "Basyliq", used by Societe Generale Group to consolidate the indicators of the various Group entities.

Liquidity risk

Crédit du Nord measures and oversees liquidity risk* and its issuance programme using gaps (static and stressed), based on "asset-liability" scenarios, and using regulatory liquidity ratios (LCR and NSFR).

Liquidity risks reflect a mismatch between balance sheet assets and liabilities over the short, medium or long term. Funding requirements or surpluses are measured by the liquidity gap, governed by thresholds and limits defined by the Societe Generale Group Finance Committee. Threshold breaches are subject to action plans aimed at resolving and preventing the recurrence of the breach.

The Group oversees its cash management within this framework. Changes in the structure of the balance sheet and its run-off are managed by the ALM unit and monitored by the ALM Committee, which in turn determines the refinancing requirements of the Group's entities.

Since mid-2014, Crédit du Nord Group has been required to report the liquidity ratios defined by the CRD4 and has complied with these ratios since October 2015. The ALM unit is currently responsible for producing and analysing the CRD4 liquidity ratios (LCR and NSFR) of Crédit du Nord Group and the liquidity sub-group via a process coordinated with Societe Generale Group. It submits the LCR monthly and the NSFR quarterly to the ACPR. The ALM unit is also in charge of oversight and projections of the short-term LCR. Responsibility for overseeing Crédit du Nord Group's LCR is shared with the Treasury and Foreign Exchange Department (which reports to the Chief Financial Officer) for the purpose of implementing the necessary actions. These items are discussed by the ALM Committee.

Finally, the liquidity risk supervision and management tools have been expanded. Since 2015, two Asset Encumbrance reports, consistent with FINREP, have been submitted to the ACPR on a quarterly basis. Since April 2016, new Additional Monitoring Tools (funding concentration, financing cost and renewal, concentration of liquid assets) have also been submitted to the ACPR on a monthly basis.

Crédit du Nord Group has also taken part in the Short-Term Exercise, at the ECB's request, since end-2015, and reports information on liquidity risk.

Interest rate risk

All assets and liabilities of Group banks, excluding those related to trading activities, are subject to an identical set of rules governing interest rate risk management.

Crédit du Nord bases the measurement of its interest rate risk on a calculation of the fixed interest rate gap and its sensitivity to several interest rate shocks.

Fixed-rate gaps are calculated monthly for the Group and for each banking entity in the Group. NPV sensitivity is also calculated monthly for the Group. This calculation covers the entire banking book. It is subject to thresholds and limits defined by the Societe Generale Group Finance Committee. Threshold breaches are subject to action plans aimed at resolving and preventing the recurrence of the breach.

Within this framework, Crédit du Nord Group enforces a consistent hedging policy against interest rate risk by instituting the appropriate hedges to reduce the exposure of Group entities to interest rate fluctuations. The hedges recommended by ALM and validated by the ALM Committee, cover all Group entities, each of which is specifically monitored.

* *In accordance with regulatory provisions, regulatory liquidity ratios are not determined for each legal entity, but rather for a broader scope including Crédit du Nord parent company, its banking subsidiaries and brokerage firm Gilbert Dupont. This scope is referred to as the "liquidity sub-group" and is subject to general oversight.*

In a bid to improve internal oversight and meet its regulatory reporting requirements, Societe Generale launched an IRRBB (Interest Rate Risk in the Banking Book) project in March 2015. The purpose of the project was to centralise the management and measurement of Societe Generale Group's interest rate and option risks in a shared software tool, and to expand the interest rate and option risk oversight system.

Crédit du Nord Group's ALM unit joined the project in 2015. The first deliveries were made in 2016 and work on the project has been since been continued in conjunction with Societe Generale Group.

In 2018, the Societe Generale Group Finance Committee approved the implementation of the new IRRBB oversight system. Supervision and oversight indicators include:

- NPV sensitivity to +10 bp and -10 bp shocks (including dependent interest rate models);
- NPV sensitivity in two stress scenarios identical to those defined by RISQ/MAR for the supervision of interest rate risk in market activities.

Crédit du Nord Group implemented this new interest rate risk oversight framework on June 30, 2018.

Crédit du Nord Group has also taken part in the Short-Term Exercise (STE), at the ECB's request, since end-2015, and reports information on interest rate risk.

1-2 Trading activity

Barring exceptions, transactions in derivatives linked to customer transactions are hedged by Crédit du Nord's shareholder, with Crédit du Nord holding only residual proprietary positions in such products.

Controls of limits assigned to these trading activities by General Management are performed by the Treasury and Foreign Exchange Department in accordance with the standards adopted by the majority shareholder.

The results of these activities are checked by the appropriate control teams (see paragraph on "Market risks" below).

2- Market risks linked to customer-driven transactions

Crédit du Nord consistently matches customer orders, mainly through its shareholder, thus significantly reducing its exposure to market risks.

A specialised team drawn from staff in the Treasury and Foreign Exchange Department and the Central Risk Division monitors market and counterparty risks on market transactions.

These risks are calculated on a daily basis and compared with the limits. Any market limit breaches are reported to the Chief Risk Officer, the heads of the Treasury and Foreign Exchange Department, and the Chief Executive Officer.

A breach control report is submitted to the majority shareholder once every day. The Chief Financial Officer receives a monthly report on changes in limits and oversight of results. The Chief Executive Officer also receives a quarterly report on changes in limits from the Treasury and Foreign Exchange Department.

3 - Climate change risks

Climate change risks, whether physical (increased frequency of extreme climate-related events) or transitional (new carbon regulations), are not a new category of risk, but rather are identified as aggravating factors of the Group's existing risks, and particularly credit and operational risks.

Crédit du Nord Group applies the general environmental and social (E&S) principles and the E&S sector policies of Societe Generale, in particular the "coal" sector policy, to the implementation of its credit policy.

In the day-to-day management of credit risks, both physical risks and transitional risks are incorporated in sector micro and macro analyses as well as individual credit risk analysis for countries and sectors with the highest exposure. Changes in sensitivity to these risks is monitored by the Risk Committee, which plans to further include this risk factor as it continues its work and conducts specific initiatives, such as raising the awareness of credit analysis to changes in these risks.

3. Organisation of internal control

Crédit du Nord's Inspector General reports directly to the Chief Executive Officer, who guarantees the independence of this office, and operates under the authority of Societe Generale's General Inspection and Audit Division (IGAD).

As a member of the Executive Committee, the Corporate Secretary supervises the Permanent Control, Compliance, Investment Services Compliance (RCSI), Financial Security, Group Affairs, and Legal Affairs and Disputes divisions.

An Internal Control Coordination Committee (CCCI) is chaired by the Chief Executive Officer, and comprises the members of the Executive Committee and the Heads of Periodic Control, Permanent Control, Compliance, Operational Risks, Information System Security, Financial Security and the RCSI. This committee met five times in 2018.

1 - Periodic Control System

Crédit du Nord Group's Periodic Control system covers all Crédit du Nord Group activities. Its role is to assess the compliance of transactions carried out, the level of risk incurred, observation of procedures and the efficiency and suitability of the permanent control system. It also performs any special analyses requested by Crédit du Nord's General Management. Periodic Control is staffed by recent university graduates and experienced managers with a background in the banking or audit field. The periodic control system is part of Societe Generale's General Inspection and Audit Division (IGAD). The shareholder's audit teams or combined teams also regularly conduct periodic controls of Crédit du Nord Group, particularly regarding IT issues.

The annual audit plan is prepared based on the regular and methodical identification of the risk areas to which the Bank and its Subsidiaries are exposed while taking into account the key areas of focus of the Group's Management, Internal Control Coordination Committee, Risk Committee and regulators. The plan is approved by Crédit du Nord's General Management based on the recommendation of Crédit du Nord's Inspector General, in conjunction with IGAD.

Periodic Control assignments include an evaluation phase, aimed at identifying the risk areas calling for investigation in the scope of audit, plus an on-site audit and a reporting phase. The Crédit du Nord Inspector General submits the resulting report directly to General Management at the end of the assignment.

Periodic Control directly monitors the application of the recommendations contained in the report.

A review of the work performed and observations made by Periodic Control, and the application of its recommendations, are monitored by Crédit du Nord Group's Periodic Control Committee and Internal Control Coordination Committee.

Furthermore, the Inspector General reports on his work to the Crédit du Nord Board of Directors' Risk Committee, which meets in the presence of an IGAD representative.

2 - Permanent Control

The head of each entity must perform a **Level One control** on transactions and operations conducted within his remit. Branch and Business Centre managers must adhere to a predefined plan (detailing frequency and risks to be controlled) and must record and report on certain controls performed; specialised supervisory staff also assist the branches with the day-to-day monitoring of accounts.

A **Level Two control** is conducted by dedicated personnel, who report directly to the head of local control (Region, Subsidiary or Operating Division), who in turn reports directly to the Regional or Subsidiary Director and operate under the authority of Crédit du Nord Group's Head of Permanent Control.

The controllers of the Group Compatibility Department (DCIG report to the Finance Division, but operate under the authority of Crédit du Nord Group's Head of Permanent Control.

The scheduling and details of these controls are determined for each of these entities.

The Head of Permanent Control reports on permanent controls to the General Management of Crédit du Nord and to the members of the Executive Committee at each meeting of the Internal Control Coordination Committee.

Regional and Subsidiary Level One and Two administrative and accounting controls

The Line Management Control Manual sets out both the requirement for vigilance (day-to-day security: reception, opening of mail, filing, etc.) and a limited number of controls to be formally established by the hierarchy (recognition of value at branches, sensitive procedures such as anti-money laundering, compliance with MiFID, CRS, etc.). These controls may be delegated on the condition that each delegation of authority is subject to supervisory control.

Level Two controls are performed by dedicated personnel using control forms prepared together with the Head of Permanent Control and a predefined plan that specifies the frequency of controls based on the degree of risk that the process or transaction represents.

Whenever an on-site control of a procedure is performed, the procedure is rated for its degree of compliance with applicable rules using a GPS (Global Permanence Supervision, SG Group) software tool. This allows the Head of Permanent Control to map procedural compliance at both the local and national level.

At the conclusion of its assignments, the Periodic Control department writes up an assessment of the Permanent Control conducted for each area being audited.

4. Production and control of financial and accounting data

The Chief Financial Officer, who reports to the Chief Executive Officer, is responsible for the production and control of financial and accounting data.

As such, he oversees the proper application of applicable accounting rules and guidelines, and monitors recommendations issued by the Statutory Auditors.

Applicable accounting standards are French standards for the preparation of parent company financial statements and the standards formulated by Societe Generale Group's Finance Division for the preparation of the consolidated financial statements, which are based on IFRS accounting standards as adopted by the European Union.

Pursuant to European Regulation No. 1606/2002 of July 19, 2002, Crédit du Nord Group is required to prepare its consolidated financial statements in compliance with IFRS.

In addition, Crédit du Nord Group is also required to publish the regulatory reports (SURFI, COREP, FINREP, etc.) submitted to the national supervisory authorities (ACPR and Banque de France).

The Finance-Accounting function is divided into three Shared Service Centres (CSP), reporting to the Group Accounting Division (DCG), located in Paris, Lille and Aubagne.

The CSPs centralise the accounting oversight activity and accounting production activities for all Crédit du Nord Group banks.

1- Production of accounting data

1-1 Role of the Group Accounting Division (DCG)

Placed under the authority of the Chief Financial Officer, the DCG comprises centres of expertise encompassing the following activities:

- **organisation and accounting procedures**: definition of a set of accounting rules for the whole of the Group that comply with current accounting regulations (definition of accounting frameworks and procedures, management of the internal chart of accounts, definition of reporting requirements, etc.);
- **production and analysis of accounting and financial statements**: preparation of the individual and consolidated financial statements of Crédit du Nord Group and of other statements required by the regulatory authorities;
- **accounting oversight**: day-to-day supervision of accounting activities at the branches (operational and administrative staff), analysis of accruals and adjustment of automatic or manual accounting entries that do not comply with established accounting treatment controls.

1-2 Accounting information system

Crédit du Nord's information system is a multi-bank network, i.e. all Group banks are managed on the same information network. As such, they share the same processing systems for banking transactions and the same summary reporting systems.

For accounting purposes, the summary accounting system comprises the reference summary database, "Base de Synthèse de Référence" (BSR), into which the accounting entries of the different operating systems are entered on a daily basis. This database incorporates non-accounting details to form the enriched reference summary database, "Base de Synthèse de Référence Enrichie" (BSRE).

At the hub of Crédit du Nord Group's summary system, the BSRE is used to:

- provide data for all accounting and tax-related reports;
- prepare the different regulatory reports (SURFI, COREP, FINREP, etc.);
- provide data for risk drivers in the Basel II ratio determination process, thus ensuring "native" accounting consistency.

This unified information system is instrumental in ensuring accounting consistency and regularity among the banks of the Group, with DCG overseeing the definition and validity of accounting rules and procedures, as well as the flow of accounting information from input to output:

- the accounting treatment of Group-wide transactions is based on automated procedures. Regardless of whether the accounting frameworks are defined at the accounting user level (over two-thirds of book entries) or defined automatically by operating system software, all accounting procedures have been defined, tested and approved by DCG;
- manual entries, which are on the decline, are subject to Group control procedures;
- accounting databases are interfaced to automatically input data into the consolidation packages and reports intended for the French Prudential Supervisory and Resolution Authority (ACPR) and the Banque de France.

1-3 Production of accounting data

Preparation of individual financial statements and individual consolidation packages

The figures presented in regulatory reports and individual consolidation packages are pre-estimated using parameters managed centrally by DCG.

Each CSP, using the same accounting information system, then records all non-automated items at the balance sheet date (representing a very low volume of entries).

The CSPs verify, analyse and record, where applicable, any adjustment entries in all financial reports for all Group banking entities.

Once approved, the entities transmit the regulatory reports to the supervisory authorities and the individual financial statements are published.

In addition, all other entities, having their own accounting information systems, transmit, above and beyond the regulatory reports forwarded to the supervisory authorities, a separate consolidation package generated by their internal accounting application, compliant with Group regulations and procedures.

Account consolidation process

This phase culminates with the production of the consolidated financial statements used in managing the Group, legal and regulatory publications as well as reports to the shareholders.

To this end, the individual consolidation packages of Group companies from the CSPs are checked and validated. Consolidation entries are input and reciprocal transactions eliminated.

The consolidated financial statements are then analysed and validated before being published internally and externally. The majority of these operations are performed on a monthly basis, which increases the reliability of the process. Group tax consolidation and reporting are also carried out during this phase.

2- Internal accounting control

2-1 Accounting supervision

In the Finance Function, daily accounting supervision is conducted by accounting oversight managers reporting to the Heads of the Shared Service Centres (CSP).

They use a day-to-day account monitoring application developed and maintained by DCG, which identifies accounts requiring further examination (balance or directional anomaly, failure to comply with regulatory thresholds, manual entries).

Level One controls, reporting on the proper performance of this oversight, are formalised and conducted by the Heads of the CSPs, who report to the Chief Accounting Officer for all Group entities.

Level Two controls are performed quarterly by the Permanent Control department of the Group Finance Division.

2-2 Control of the preparation of individual and consolidated financial statements

The process of consolidating accounting data and preparing consolidated financial statements is subject to several types of control:

Data controls

The software used to generate the consolidated reports includes configurable data consistency tests.

As long as the reporting company has not satisfied control requirements, it may not transmit accounting information to DCG.

Once received, the consolidated reporting packages sent in by each consolidated company are analysed, corrected as necessary, and approved, notably via controls checking consistency with previous monthly consolidated reporting packages, available budgets and unusual events for the month.

Entries specific to consolidation are then recorded. Finally, DCG performs controls of consolidated data output and analyses variations, particularly those relating to changes in shareholders' equity.

Controls on consolidation tools

A Group chart of accounts specific to consolidation is managed by DCG. and aids in breaking down information to improve analysis.

The configuration of the Group consolidation system is monitored and the various automated consolidation processes are verified and approved.

Lastly, the automation of the monthly consolidated reporting process in itself helps to control changes in data over time by detecting any problems as they arise.

All of these controls help guarantee the quality of accounting documents.

Accounting controls

The purpose is to ensure the quality of accounting document preparation by setting up a certification process.

Crédit du Nord Group participated in the quarterly certification of Societe Generale Group based on key controls, indicators, real accounting control data.

This certification provides Societe Generale Group with a consolidated view of accounting controls in order to:

- strengthen the accounting control system;
- ensure the quality of the financial statement preparation process and of the accounting and financial information published (certification process);
- meet requests from the Group's Audit Committee.

2-3 Structure established to guarantee the quality and reliability of the audit trail

Each Crédit du Nord Group bank has an end-to-end audit trail of the information chain. Given the complexity of the different banking systems and data production channels, this trail consists of various tools interconnected by references that represent search keys.

It is defined by procedures established at each phase of the data production process.

The audit trail is organised to be able to optimally respond to different types of queries.

In fact, different tools are used depending on whether the user wishes to locate a specific event or to recreate a regulatory filing comprising a large number of accounting entries and requiring the tracking of reference tables.

The tools used by Crédit du Nord Group include:

- a query tool ranging from Event Reports (CREs) to accounting entries, with an audit trail at the accounting user level;
- accounting database query tools (accounting flows and balances);
- query tools that work within data output applications (regulatory reporting software packages, consolidation software packages, etc.).

Furthermore, the accounting documents used to monitor and control accounting operations are retained for the lengths of time specified by laws and agreements.

2-4 Isolation and monitoring of assets held for third parties

As an investment service provider, Crédit du Nord is required to:

- protect the rights of its customers to the financial instruments belonging to them;
- prevent the use of said financial instruments for proprietary purposes, except with the customer's consent.

Assets held for third parties are segregated from assets held for proprietary activities and are managed by separate departments and accounts.

IT authorisations for the applications used for both activities are restricted and separate, thus facilitating their separate management.

The Statutory Auditors issue an annual report on the measures taken by the Group to ensure the protection of customer assets.

3- Preparation and control of financial and management accounting data

3-1 Production of financial and management accounting data

Crédit du Nord Group bases its financial management upon financial accounting data.

Analytical accounting data needed for the financial management of Crédit du Nord Group are generated by the accounting information system and operating systems, which are able to break down data by item and by entity. This information is stored in a **unified management database** that covers the scope of Crédit du Nord and its banking subsidiaries.

The Financial Management Division (DGF), under the authority of the CFO, manages the allocation of general accounting data to the various cost accounting line items. On the basis of the rules defined by the Group ALM unit regarding the match-funding of assets and liabilities, the analytical accounting system allows users to switch from an interest paid/received accounting view to an analytical approach in terms of margins on notional match-funding.

Information from the management database is available from the branch level up to the Group level and is identical from one level to the next. As a result, the data can be used by all Crédit du Nord Group control teams: subsidiaries, regional divisions, functional divisions and the Financial Management Division, which use this information in particular to prepare the half-yearly management report.

3-2 Verification of financial and management information

This information is checked during the monthly data entry process by verifying the cost accounting category to which the collected data is assigned, the income statement, the balance sheet and operating procedures, and by systematic analysis of variations in totals and significant changes. A monthly reconciliation is also performed by comparing the financial accounting figures with the management reporting figures for the main intermediate balances.

Budget monitoring is carried out twice a year in the presence of General Management: in the first half of the year at the regional and subsidiary Meetings and in the second half at the annual budget meeting. During these meetings, changes in NBI, operating expenses, investments and key risk indicators are systematically reviewed.

A **Cost Control Committee**, which includes the Chief Executive Officer, meets four times a year to review other operating expenses, investments and staff in the operating network and all the head office divisions.

Glossary of key technical terms used

Acronyms

Acronym	Definition
CRD	*Capital Requirements Directive*
EAD	*Exposure at Default*
EL	*Expected Loss*
LCR	*Liquidity Coverage Ratio*
NSFR	*Net Stable Funding Ratio*
PD	*Probability of Default*
RWA	*Risk-Weighted Assets*
ROE	*Return on Equity*
VaR	*Value at Risk*

Basel 1 (... Accord): a prudential framework established in 1988 by the Basel Committee on Banking Supervision, aimed at ensuring the solvency and stability of the international banking system by setting an international standardised minimum limit on the amount of capital held by banks. Basel I notably set a minimum ratio of capital to risk-weighted assets of more than 8%. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Basel 2 (... Accord): a prudential framework aimed at better understanding and limiting the risks incurred by credit institutions, focusing in particular on credit risk, market risks and operational risk. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Basel 3 (... Accord): changes to prudential standards in the banking industry, supplementing the Basel 2 Accord by strengthening the quality and quantity of minimum capital requirements for banks. Basel 3 also implemented minimum requirements in terms of liquidity risk management (quantitative ratios), defined measures aimed at limiting the procyclicality of the financial system (capital buffers varying according to the economic cycle) and enhancing requirements for systemic institutions. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012). The Basel 3 Accord was transposed in Europe via Directive 2013/36/EU (CRD4) and Regulation 575/2013 (CRR), which have been in effect since January 1, 2014.

Bond: a bond is a fraction of a borrowing, issued as a security, that is negotiable and which, in a given issue, awards the bondholders the same claim to the issuer's assets for a given nominal value (the issuer being a corporation, public-sector entity or government).

Collateral: transferable assets or guarantee pledged as security for repayment of a loan, in the event the loan beneficiary is unable to meet its payment obligations. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Common Equity Tier 1 capital: a bank's core capital including common shares, additional paid-in capital and reserves, less regulatory deductions.

Common Equity Tier 1 ratio: ratio of Common Equity Tier 1 capital to risk-weighted assets, in accordance with CRD4/CRR rules. The definition of Common Equity Tier 1 capital is more restrictive under CRD4/CRR compared to CRD3 (Basel 2).

Core Tier 1 ratio: ratio of Core Tier 1 capital to risk-weighted assets.

Cost of commercial risk in basis points: cost of risk in basis points is calculated by dividing the net cost of commercial risk by outstanding loans at the start of the period. Net cost of commercial risk is equal to

cost of risk calculated for loan commitments (on- and off-balance sheet), i.e. Allowances-Reversals (used or unused) + Losses on bad debts - Amounts recovered on amortised loans and receivables. Allowances and reversals of provisions for disputes are excluded from this calculation.

Cost-to-income ratio: ratio indicating the portion of NBI (net banking income) used to cover operating expenses (company overheads. It is determined by dividing OPEX by NBI.

CRD3 (Capital Requirements Directive): a European directive governing capital requirements, incorporating the provisions of Basel 2 and 2.5, including in particular the provisions in respect of market risk: improved incorporation of the risk of default and rating migration of assets comprising the trading book (tranched and untranched assets) and reduced procyclicality of Value-at-Risk (see definition).

Credit and counterparty risk: risk of losses arising from the inability of the Group's customers, issuers or other counterparties to meet their financial commitments. Credit risk also includes the counterparty risk linked to market transactions, as well as that stemming from securitisation activities.

CRR/CRD4 (Capital Requirements Regulation): Directive 2013/36/EU (CRD4) and Regulation (EU) No. 575/2013 (CRR) form the body of texts transposing Basel 3 in Europe. They define the European regulations governing capital adequacy ratios, large exposures, leverage and liquidity, and are supplemented by the technical standards set by the European Banking Authority (EBA).

Derivative: a financial security or financial contract whose value changes according to the value of an underlying financial asset (equity, bond, currency, etc.) or non-financial asset (commodity, agriculture product, etc.). This change in value may be accompanied by a leverage effect, depending on the case. Derivatives may be securities (warrants, certificates, structured EMTNs, etc.) or contracts (forwards, options, swaps, etc.). Derivative contracts quoted on the market are called futures.

EAD (Exposure at Default): exposure incurred by the financial institution in the event the counterparty defaults.

Earnings per share: ratio of the company's net profits (restated for remuneration of hybrid shares recognised as equity instruments) to the average weighted number of shares outstanding.

Equity: a capital share issued by a publicly traded company, representing an ownership stake and entitling the holder (shareholder) to proportionate rights to any distribution of profits or net assets, and to voting rights at General Shareholders' Meetings.

Expected Losses (EL): losses liable to be incurred due to the arrangement quality of the transaction and of any measured taken to mitigate risk such as real collateral.

Fair value: the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Gross doubtful exposures coverage ratio: ratio of provisions and impairments recorded on the loan book to gross doubtful exposures (customer loans and receivables, bank loans and receivables, finance leases and operating leases).

Gross doubtful exposures ratio: ratio of gross doubtful exposures to gross outstanding loans recognised on the balance sheet (customer loans and receivables, bank loans and receivables, finance leases and operating leases).

Haircut: percentage deducted from the market value of securities to reflect their value in a stressed environment (counterparty risk or market stress). The higher the haircut, the higher the perceived risk.

Impairment: accounting recognition off a probable capital loss on an asset. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Insurance risk: in addition to management of asset/liability risks (interest rate risk, valuation risk, counterparty risk and foreign exchange risk), insurance risk includes the pricing risk associated with premiums on mortality risk and structural risks in life insurance and property & casualty insurance activities, including pandemics, accidents and disasters (e.g. earthquakes, hurricanes, industrial accidents, acts of terrorism and military conflicts).

Internal Capital Adequacy Assessment Process (ICAAP): a process provided for in Pillar II of the Basel Accord, under which the Group evaluates its capital adequacy in light of all risks incurred. Investment Grade: a long-term rating of a given counterparty or underlying issue, as determined by an external rating agency, ranging from AAA/Aaa to BBB-/Baa3. A rating of BB+/Ba1 or below qualifies an instrument as Non-Investment Grade.

LCR (Liquidity Coverage Ratio): the objective of this ratio is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid resources to survive an acute stress scenario lasting for one month. (Source: Basel 3, December 2010).

Leverage ratio: the leverage ratio is meant to be straightforward, with the aim of governing the size of a bank's balance sheet. To that end, the leverage ratio divides Tier 1 capital by the bank's average total consolidated assets (on- and off-balance sheet), restated for certain items. A new definition of the leverage ratio was implemented with the enactment of the Capital Requirements Regulation.

Liquidity: for a bank, liquidity is the institution's ability to meet its short-term obligations as they come due. For an asset, liquidity designates the degree to which the asset can be quickly bought or sold on the market with a limited haircut. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Market risk: risk of a loss in value on financial instruments arising from changes in market inputs, the volatility of these inputs, and the correlations between them. These inputs include, but are not limited to, exchange rates, interest rates, prices of securities (equities or bonds), commodities, derivatives and other assets such as real estate assets.

Maturity transformation risk: risk arising when assets are funded using resources (liabilities) with a different maturity. Given that their traditional activity is to transform resources with a short-dated maturity into assets with longer-dated maturities, banks naturally deal with transformation risk, which in turn generates illiquidity and interest rate risk. Positive period transformation occurs when long-term assets are purchased using short-term liabilities, as opposed to negative period transformation, when short-term assets are purchased using long-term liabilities.

Netting agreement: agreement under which two parties to a financial contract, securities lending agreement or repo agree to offset their reciprocal debts arising from said contracts, the settlement of which thus exclusively pertains to an offset net balance, particularly in the event of default or termination. A master netting agreement extends this mechanism to different families of transactions, subject to different master agreements covered by an umbrella agreement.

NSFR (Net Stable Funding Ratio): the objective of this ratio is to promote resilience over a longer time horizon by creating additional incentives for a bank to fund its activities with more stable sources of funding on an ongoing structural basis. The NSFR has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities. (Source: Basel 3, December 2010).

Operational risk (including accounting and environmental risk): risk of losses or penalties due in particular to failures or inadequacies of internal procedures and systems, human error or external events.

Probability of Default (PD): the probability that a counterparty of the bank will default within one year.

Rating: an evaluation, by a financial rating agency (Moody's, FitchRatings, Standard & Poor's), of the financial solvency risk of a given issuer (corporation, government or other public authority) or a given transaction (bond, securitisation, covered bond). The rating has a direct impact on the cost of raising capital. (Source : Banque de France Glossary – Documents and Debates – No. 4 – May 2012).

Real collateral: collateral comprising tangible or intangible, movable or immovable assets, such as commodities, precious metals, cash, financial instruments or insurance contracts.

Return on Equity (ROE): ratio of net income restated for remuneration of hybrid securities recognised as equity instruments to restated shareholders' equity (mainly restated for hybrid securities), used to measure the profitability of equity.

Risk appetite: level of risk, by type and by business line, that the Group is willing to assume in pursuit of its strategic objectives. Risk appetite is measured on the basis of quantitative and qualitative criteria. The Risk Appetite exercise is one of the strategic oversight tools available to the Group's management bodies.

Risk-weighted assets (RWA): value of an exposure multiplied by its risk weight.

Securitisation: transaction consisting in transferring a credit risk (loan receivables) to an organisation that issues, to that end, negotiable securities subscribed for by investors. This transaction may give rise to a transfer of receivables (physical securitisation) or exclusively to a transfer of risks (credit derivatives). Securitisation transactions may, depending on the case, give rise to subordination of securities (tranches).

Structural interest rate and foreign exchange risk: risks of losses or impairments on Group assets in the event of fluctuations in interest rates and exchange rates. Structural interest rate and foreign exchange risks arise from commercial activities and from corporate centre transactions.

Structured issue or structured product: a financial instrument combining a fixed income product and an instrument (e.g. an option) exposing the holder to any type of asset (equities, currencies, interest rates, commodities). The instruments may offer a full or partial guarantee of the invested capital. The term “structured product” or “structured issue” may also refer to securities resulting from securitisation transactions, in which case a ranking is established to determine priority in terms of repayment.

Tier 1 capital: consists of CET1 capital and Additional Tier 1 capital. AT1 capital comprises capital instruments that are continuous, i.e. with no fixed maturity and thus no incentive for the issuer to redeem them, less regulatory deductions.

Tier 1 ratio: ratio of Tier 1 capital to risk-weighted assets.

Tier 2 capital: supplementary capital mainly consisting of subordinated debt, less regulatory deductions.

Total capital ratio: ratio of total capital (Tier 1 and Tier 2 capital) to risk-weighted assets.

Value-at-Risk (VaR): a synthetic indicator used to monitor the market risks incurred by the Group on a daily basis, particularly in its trading activities (99% VaR in accordance with the regulatory internal model). 99% VaR is the largest loss obtained after eliminating the 1% of the most adverse occurrences over a one-year history. Under this definition, it equals the average of the second and third largest losses observed.

Financial statements

4

4.1 Consolidated financial statements ____ 74

Consolidated financial statements **74**

Notes to the consolidated financial statements **81**

Statutory Auditors' report on the consolidated financial statements **195**

4.2 Annual financial statements ____ 200

2018 Management Report **200**

Five-year financial summary **203**

Main changes in the securities portfolio in 2018 **204**

Parent Company Balance Sheet **205**

Parent Company Income Statement **207**

Notes to the annual financial statements **208**

Statutory auditors' report on the financial statements **247**

4.1 Consolidated financial statements

Consolidated financial statements

Consolidated balance sheet

Assets

(in €m)	Note	31/12/2018	01/01/2018	31/12/2017
Cash, due from central banks	3.5	9,660.2	8,444.0	8,443.1
Financial assets at fair value through profit or loss	3.1, 3.2, 3.4	443.9	387.7	242.7
Hedging derivatives	3.2, 3.4	1,147.6	1,265.2	1,265.2
Financial assets at fair value through other comprehensive income	3.3, 3.4	4,430.1	5,801.3	
Available-for-sale financial assets				5,956.0
Securities at amortised cost	3.5, 3.8, 3.9	8.7	10.1	
Due from banks and equivalent at amortised cost	3.5, 3.8, 3.9	10,196.9	11,259.7	11,259.9
Customer loans at amortised cost*	3.5, 3.8, 3.9	42,925.1	41,238.4	41,300.8
Revaluation differences on portfolios hedged against interest rate risk		226.7	287.1	287.1
Held-to-maturity financial assets				-
Tax assets		43.7	69.7	60.6
Other assets	4.3	256.8	243.7	243.7
Non-current assets held for sale		0.2	0.2	0.2
Investments in subsidiaries and affiliates accounted for by the equity method		226.1	351.7	351.7
Tangible and intangible fixed assets		577.8	552.4	552.4
Goodwill	2.2	508.0	508.0	508.0
TOTAL*		**70,651.8**	**70,419.2**	**70,471.4**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Liabilities

(in €m)	Note	31/12/2018	01/01/2018	31/12/2017
Due to central banks	3.6	-	-	-
Financial liabilities at fair value through profit or loss	3.1, 3.2, 3.4	695.1	2,010.6	2,010.6
Hedging derivatives	3.2, 3.4	242.0	259.8	259.8
Due to banks and equivalent	3.6, 3.9	14,524.7	12,481.1	12,480.2
Customer deposits	3.6, 3.9	43,509.5	42,397.0	42,397.0
Debt securities	3.6, 3.9	5,262.3	6,778.8	6,778.8
Revaluation differences on portfolios hedged against interest rate risk		1,141.8	1,305.4	1,305.4
Tax liabilities*		279.2	267.1	289.2
Other liabilities	4.3	846.3	865.3	865.3
Underwriting reserves of insurance companies				-
Provisions	3.8, 7.4	167.2	166.8	147.1
Subordinated debt	3.6, 3.9	450.2	519.1	519.1
TOTAL DEBT*		**67,118.3**	**67,051.0**	**67,052.5**
SHAREHOLDERS' EQUITY				
Capital and associated reserves		1,522.8	1,520.7	1,519.1
Consolidated reserves*		1,561.1	1,419.0	1,447.1
Net income*		419.1	372.1	372.1
Sub-total*		**3,503.0**	**3,311.9**	**3,338.3**
Gains or losses booked directly to other comprehensive income		30.4	56.3	80.6
Sub-total, equity, Group share*		**3,533.4**	**3,368.2**	**3,418.9**
Non-controlling interests		**-**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY*		**3,533.5**	**3,368.2**	**3,418.9**
TOTAL*		**70,651.8**	**70,419.2**	**70,471.4**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Consolidated income statement

(in €m)	Note	2018	2017
Interest and similar income*	3.7	1,198.8	1,392.5
Interest and similar expenses	3.7	-266.2	-411.1
Fee income*	4.1	960.4	954.1
Fee expenses	4.1	-101.5	-101.0
Net income from financial transactions		123.9	60.0
o/w net gains or losses on financial instruments at fair value through profit or loss	*3.1*	*100.0*	*41.5*
o/w net gains or losses on available-for-sale financial assets			*18.5*
o/w net gains or losses on financial instruments at fair value through other comprehensive income	*3.3*	*23.9*	
o/w net gains or losses resulting from derecognition of instruments at amortised cost		-	
Income from other activities	4.2	26.2	18.9
Expenses due to other activities	4.2	-32.8	-22.1
Net banking income*		**1,908.8**	**1,891.3**
Personnel expenses	5	-692.0	-689.9
Other administrative costs	7.1	-520.7	-523.2
Amortisation and depreciation expense on intangible and tangible fixed assets		-75.5	-72.8
Total operating expenses		**-1,288.2**	**-1,285.9**
Gross operating income*		**620.5**	**605.4**
Cost of risk (1)	3.8	-70.0	-113.5
Operating income*		**550.5**	**491.9**
Share of net income of companies accounted for by the equity method		40.7	38.4
Net gains or losses on other assets		0.8	1.0
Goodwill impairment	2.2	-	-
Earnings before tax*		**592.1**	**531.3**
Income tax*	6	-172.9	-159.2
Consolidated net income*		**419.1**	**372.1**
Non-controlling interests		-	-
CONSOLIDATED NET INCOME AFTER TAXES*		**419.1**	**372.1**
Earnings per ordinary share (in euros)*		**3.77**	**3.34**
Number of shares comprising the share capital		**111,282,906**	**111,282,906**

(1) The presentation of the Group's consolidated income statement changed as of fiscal year 2018 due to the implementation of IFRS 9:
– "Cost of risk" is now exclusively reserved for credit risk (see. Note 3.8);
– changes in fair value attributable to own credit risk of the Group's financial liabilities measured using the fair value option through profit or loss are now recognised under "Gains and losses booked directly to other comprehensive income" (see Note 3.1).

** Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Statement of net income and gains and losses booked directly to other comprehensive income

(in €m)	2018	2017
Net income*	**419.1**	**372.1**
Gains and losses booked directly to other comprehensive income that will be subsequently reclassified to profit or loss	**-28.9**	**2.1**
Translation gain (loss)	-	-
Revaluation of debt instruments at fair value through other comprehensive income	-33.6	
Revaluation difference for the period	*-9.2*	
Reclassified to profit or loss	*-24.4*	
Revaluation of available-for-sale financial assets		1.7
Revaluation difference for the period		*11.1*
Reclassified to profit or loss		*-9.4*
Revaluation of hedging derivatives	-0.3	-0.1
Revaluation difference for the period	*-0.3*	*-0.1*
Reclassified to profit or loss	-	-
Share of gains and losses booked directly to other comprehensive income of companies accounted for by the equity method	-6.4	-0.3
Other items	0.1	-
Related taxes	11.3	0.8
Gains and losses booked directly to other comprehensive income that will not be subsequently reclassified to profit or loss	**3.0**	**11.6**
Actuarial gains/losses in respect of defined-benefit plans	-0.1	15.6
Revaluation of own credit risk of financial liabilities measured at fair value through profit or loss	8.4	
Revaluation of equity instruments at fair value through other comprehensive income	0.1	
Share of gains and losses booked directly to other comprehensive income of companies accounted for by the equity method	-	-
Related taxes	-5.3	-4.0
Total gains and losses booked directly to other comprehensive income	**-25.9**	**13.7**
NET INCOME AND GAINS AND LOSSES BOOKED DIRECTLY TO OTHER COMPREHENSIVE INCOME*	**393.2**	**385.8**
*o/w Group share**	*393.2*	*385.8*
o/w non-controlling interests	-	-

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Change in shareholders' equity

(in €m)	Capital and associated reserves			
	Common stock	Equity instruments and associated reserves	**Elimination of treasury stock**	Total
SHAREHOLDERS' EQUITY AT JANUARY 1, 2017*	**890.3**	**627.6**	**-**	**1,517.9**
Capital increase	-	-	-	-
Elimination of treasury stock	-	-	-	-
Issuance/redemption of equity instruments	-	-	-	-
Equity component of share-based payment plans	-	1.2	-	1.2
Equity component of hybrid instruments	-	-	-	-
2017 dividends paid	-	-	-	-
Impact of acquisitions and disposals of non-controlling interests	-	-	-	-
Sub-total of changes linked to relations with shareholders	**-**	**1.2**	**-**	**1.2**
Change in gains and losses booked directly to other comprehensive income	-	-	-	-
Other changes	-	-	-	-
2017 net income	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**
Share of change in equity of associates and joint ventures accounted for using the equity method	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2017*	**890.3**	**628.8**	**-**	**1,519.1**
Distribution of earnings	-	219.1	-	219.1
Impact of IFRS 9 application (see Note 1)	-	-	-	-
Other reclassifications	-	1.6	-	1.6
SHAREHOLDERS' EQUITY AT JANUARY 1, 2018	**890.3**	**849.5**	**-**	**1,739.8**
Capital increase	-	-	-	-
Elimination of treasury stock	-	-	-	-
Issuance/redemption/remuneration of equity instruments (2)	-	-	-	-
Equity component of share-based payment plans	-	2.9	-	2.9
Equity component of hybrid instruments	-	-	-	-
2018 dividends paid (1)	-	-228.1	-	-228.1
Impact of acquisitions and disposals of non-controlling interests	-	-	-	-
Sub-total of changes linked to relations with shareholders	**-**	**-225.2**	**-**	**-225.2**
Change in gains and losses booked directly to other comprehensive income	-	-	-	-
Other changes	-	8.3	-	8.3
2018 net income	-	-	-	-
Sub-total	**-**	**8.3**	**-**	**8.3**
Share of change in equity of associates and joint ventures accounted for using the equity method	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2018	**890.3**	**632.6**	**-**	**1,522.8**

(1) The amount of dividends distributed by the Group during fiscal year 2018 totalled €228.1 million.

(2) Furthermore, the interest expense after tax on deeply subordinated notes issued by the Group amounted to €2.6 million.

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

At December 31, 2018, Crédit du Nord SA's fully paid-up share capital amounted to €890,263,248 and consisted of 111,282,906 shares each with a par value of €8.

Consolidated reserves	Consolidated net income	Gains and losses (net of tax) booked directly to other comprehensive income			Shareholders' equity, Group share	Non-controlling interests			Total consolidated shareholders' equity
		that will be subsequently reclassified to profit or loss	**that will not be subsequently reclassified to profit or loss**	Total		**Share capital and reserves**	Gains and losses booked directly to other comprehensive income	Total	
1,493.4	**-**	**79.6**	**-**	**79.6**	**3,090.9**	**0.1**	**-**	**0.1**	**3,091.0**
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
110.0	-	-	-	-	110.0	-	-	-	110.0
2.4	-	-	-	-	3.6	-	-	-	3.6
-	-	-	-	-	-	-	-	-	-
-170.3	-	-	-	-	-170.3	-	-	-	-170.3
-	-	-	-	-	-	-	-	-	-
-57.9	**-**	**-**	**-**	**-**	**-56.7**	**-**	**-**	**-**	**-56.7**
11.6	-	-0.5	-	-0.5	11.1	-	-	-	11.1
-	-	-	-	-	-	-0.1	-	-0.1	-0.1
-	372.1	-	-	-	372.1	-	-	-	372.1
11.6	**372.1**	**-0.5**	**-**	**-0.5**	**383.2**	**-0.1**	**-**	**-0.1**	**383.1**
-	-	1.5	-	1.5	1.5	-	-	-	1.5
-	**-**	**1.5**	**-**	**1.5**	**1.5**	**-**	**-**	**-**	**1.5**
1,447.1	**372.1**	**80.6**	**-**	**80.6**	**3,418.9**	**-**	**-**	**-**	**3,418.9**
153.0	-372.1	-	-	-	-	-	-	-	-
-26.3	-	-30.5	6.1	-24.4	-50.7	-	-	-	-50.7
-1.6	-	-	-	-	-	-	-	-	-
1,572.2	**-**	**50.1**	**6.1**	**56.2**	**3,368.2**	**-**	**-**	**-**	**3,368.2**
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-2.6	-	-	-	-	-2.6	-	-	-	-2.6
-	-	-	-	-	2.9	-	-	-	2.9
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-228.1	-	-	-	-228.1
-	-	-	-	-	-	-	-	-	-
-2.6	**-**	**-**	**-**	**-**	**-227.8**	**-**	**-**	**-**	**-227.8**
-	-	-22.5	3.0	-19.5	-19.5	-	-	-	-19.5
-8.5	-	-	-	-	-0.2	-	-	-	-0.2
	419.1	-	-	-	419.1	-	-	-	419.1
-8.5	**419.1**	**-22.5**	**3.0**	**-19.5**	**399.4**	**-**	**-**	**-**	**399.4**
-	-	-6.4	-	-6.4	-6.4	-	-	-	-6.4
-	**-**	**-6.4**	**-**	**-6.4**	**-6.4**	**-**	**-**	**-**	**-6.4**
1,561.1	**419.1**	**21.3**	**9.2**	**30.4**	**3,533.4**	**-**	**-**	**-**	**3,533.5**

Statement of cash flows

(in €m)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (I)*	**419.1**	**372.1**
Net amortisation and depreciation expense on tangible and intangible fixed assets (including operating leases)	75.5	73.7
Net allocation to provisions	-135.2	-96.0
Share of net income of companies accounted for by the equity method	-40.7	-38.4
Change in deferred taxes*	7.8	13.8
Net income from the sale of long-term available-for-sale assets and consolidated subsidiaries		-2.5
Net income from the sale of long-term assets and consolidated subsidiaries	-15.9	
Other changes	192.7	435.9
Non-monetary items included in net income and other adjustments (not including income on financial instruments measured at fair value through profit or loss) (II)*	**84.2**	**386.5**
Net income on financial instruments measured at fair value through profit or loss (1)	**-63.7**	**-41.5**
Interbank transactions	3,017.3	1,545.7
Transactions with customers*	-556.5	28.2
Transactions related to other financial assets and liabilities	-1,581.0	1,523.3
Transactions related to other non-financial assets and liabilities	25.2	-334.4
Net increase/decrease in cash related to operating assets and liabilities (III)*	**841.3**	**2,721.3**
CASH FLOWS FROM OPERATING ACTIVITIES (A)=(I)+(II)+(III)	**1,344.6**	**3,479.9**
NET CASH FLOW FROM INVESTING ACTIVITIES		
Cash flows from the acquisition and disposal of financial assets and long-term investments	219.4	108.5
Cash flows from the acquisition and disposal of tangible and intangible fixed assets	-97.8	-82.7
NET CASH FLOW FROM INVESTING ACTIVITIES (B)	**121.6**	**25.8**
NET CASH FLOW FROM FINANCING ACTIVITIES		
Cash flow from/to shareholders	-230.7	-170.3
Other net cash flows from financing activities	-66.0	210.0
NET CASH FLOW FROM FINANCING ACTIVITIES (C)	**-296.7**	**39.7**
NET FLOW OF CASH AND CASH EQUIVALENTS (A) + (B) + (C)	**1,169.5**	**3,545.4**
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the start of the year	**8,517.3**	**4,972.1**
Net balance of cash accounts and accounts with central banks (excluding related receivables)	8,444.0	4,755.6
Net balance of accounts, demand deposits and loans with banks	73.3	216.6
Cash and cash equivalents at the close of the year	**9,686.7**	**8,517.4**
Net balance of cash accounts and accounts with central banks (excluding related receivables)	9,660.2	8,444.0
Net balance of accounts, demand deposits and loans with banks	26.5	73.3
NET FLOWS OF CASH AND CASH EQUIVALENTS	**1,169.5**	**3,545.4**

(1) Net income on financial instruments measured at fair value through profit or loss includes realised and unrealised income.

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Notes to the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on February 20, 2018.

Note 1 Main valuation and presentation rules for the consolidated financial statements 82

Note 2 Consolidation 102

2.1 Scope of consolidation 105
2.2 Goodwill 106
2.3 Additional information on consolidated entities and entities accounted for by the equity method 108
2.4 Unconsolidated structured entities 109
2.5 Non-current assets held for sale and associated liabilities 111

Note 3 Financial instruments 112

3.1 Financial assets and liabilities at fair value through profit or loss 117
3.2 Derivative financial instruments 121
3.3 Financial assets at fair value through other comprehensive income 128
3.4 Fair value of financial instruments measured at fair value 131
3.5 Loans, receivables and securities at amortised cost 138
3.6 Debt 142
3.7 Interest income and expenses 144
3.8 Provisions and impairments 146
3.9 Fair value of financial instruments measured at amortised cost 155
3.10 Commitments and assets pledged and received as collateral 157
3.11 Transferred financial assets 159
3.12 Contractual maturities of financial liabilities 160

Note 4 Other activities 161

4.1 Fee income and expenses 161
4.2 Income and expenses from other activities 162
4.3 Other assets and liabilities 163

Note 5 Personnel expenses and employee benefits 164

5.1 Personnel expenses and related-party transactions 164
5.2 Breakdown of provisions for employee benefits 166
5.3 Detailed information on performance share grants 172

Note 6 Taxes 175

6.1 Breakdown of the tax expense 176
6.2 Tax provisions 177
6.3 Breakdown of tax assets and liabilities 177

Note 7 Other disclosures 178

7.1 Other operating expenses 178
7.2 Foreign exchange transactions 179
7.3 Tangible and intangible fixed assets 180
7.4 Breakdown of provisions 182
7.5 Detailed consolidation scope 183
7.6 Statutory Auditors' fees 185
7.7 Gains and losses booked directly to other comprehensive income 186

Note 8 Accounting principles applicable to financial instruments at December 31, 2017 187

Information on risk categories, management of risks associated with financial instruments, and information on capital management and the observation of the regulatory ratios required by IFRS, as adopted in the European Union, are presented in Chapter 5 of this Registration Document (Risks and capital adequacy).

This information is an integral part of the notes to the consolidated financial statements of Crédit du Nord Group and are covered by the Statutory Auditors opinion on the consolidated financial statements; it is identified as such in Chapter 5 of this Registration Document.

NOTE 1 Main valuation and presentation rules for the consolidated financial statements

1. Introduction

Accounting Standards

In accordance with European Regulation No. 1606/2002 of July 19, 2002 on the application of international accounting standards, Crédit du Nord Group (the "Group") has published its consolidated financial statements for the period ended December 31, 2018 in compliance with IFRS (*International Financial Reporting Standards*) as adopted by the European Union and applicable at said date.

The most significant change to the rules governing measurement and the presentation of the consolidated financial statements is the application of IFRS 9, "Financial Instruments", as from January 1, 2018.

The Group made the choice, offered by IFRS 9 transition guidance, to continue recognising its hedging transactions in accordance with IAS 39, as adopted by the European Union, including the provisions related to macro-fair value hedge accounting (IAS 39, "Carve out").

Presentation of the financial statements

In the absence of a model imposed by IFRS, the format of the financial reports for fiscal year 2018 complies with the format for financial reports proposed by the Autorité des Normes Comptables (French accounting standards authority) in Recommendation No. 2017-02 of June 2, 2017. The presentation of comparative data for fiscal year 2017 has not been modified and still complies with the provisions of ANC Recommendation No. 2013-04 of November 7, 2013.

The information presented in the notes to the consolidated financial statements focuses on relevant and material data pertaining to the Group's financial statements, activities and the circumstances in which these activities were conducted over the period.

Currency of the consolidated financial statements

The consolidated financial statements are presented in euros.

Where they are presented in local currencies, the balance sheets of consolidated companies are translated into euros based on the official exchange rates prevailing at the reporting date. Income statement items are translated into euros based on the average exchange rate over the month in which they are realised.

The amounts presented in the financial statements and in the notes are expressed in millions of euros, unless otherwise indicated. Rounding effects may generate gaps between the amounts presented in the financial statements and those presented in the notes.

2. New standards applied by the Group from January 1, 2018

IFRS 9 “Financial Instruments” (see paragraph 4 below)
IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications
Amendments to IFRS 4: Application of IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (see paragraph 4 below)
Annual improvements (2014-2016)
Amendments to IFRS 2 “Clarifications of Classification and Measurement of Share-Based Payment Transactions”
Amendments to IAS 40 “Investment Property”
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
Amendments to IFRS 9 “Prepayment features with negative compensation” (see paragraph 4 below)

IFRS 9 “Financial Instruments”, subsequent amendments and amendments to IFRS 4 Applying IFRS 9 “Financial Instruments” with Insurance Contracts

The impacts of the first-time are presented in paragraph 4, First-time application of IFRS 9 “Financial Instruments”, below.

The application of the other standards, amendments, improvements and interpretations presented in the above table is not expected to have a material impact on Group net income or shareholders’ equity.

IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications

This standard, which replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and their interpretations, defines new principles for recognising revenues applicable to all contracts entered into with customers, with the exception of leases, insurance contracts, financial instrument contracts and guarantee contracts.

The method for recognising these revenues on the income statement shall reflect the rate of transfer to the client of control over the goods or services sold, for the amount the seller expects to receive in exchange for those goods or services.

The approach developed by IFRS 15 includes 5 successive steps, from the identification of the contract with the customer through the recognition of revenue when a performance obligation is met:

Step 1: identifying the contract

Step 2: identifying the performance obligations

Step 3: determining the transaction price

Step 4: allocating the transaction price

Step 5: recognising revenue

In the Group’s activities, the main contracts covered by these new provisions are:

- banking service contracts that give rise to the recognition of fee income (service packages, asset management fees, syndication fees, etc.);
- leasing service contracts (maintenance contracts covering leased assets);
- sales of real estate assets in the real estate development activity.

According to the analyses conducted by the Group, the accounting treatments applied in 2017 for the recognition of revenue generated by these contracts comply with the treatments presented in IFRS 15.

IFRS 15 and the other standards, amendments, improvements and interpretations presented above, applicable to fiscal years beginning on or after January 1, 2018, are not expected to have a material impact on Group net income or shareholders' equity.

Annual improvements (2014-2016)

For the purposes of the annual improvement to IFRS, the IASB published minor amendments to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 12 "Disclosures of Interests in Other Entities."

The amendment to IAS 28 concerns the valuation by venture capital and similar organisations of their investments in associates or joint ventures.

The amendment to IFRS 12 clarifies the disclosures to be made in the notes to the financial statements regarding entities classified as held for sale or discontinued operations under IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations."

Amendments to IFRS 2 "Clarifications of Classification and Measurement of Share-Based Payment Transactions"

These amendments clarify the methods for recognising certain types of share-based payment transactions: modelling of performance conditions no matter how settlement is made, the impact of tax withholdings on plans, accounting treatment of changes in the way plans are settled (cash versus shares).

Amendments to IAS 40 "Investment Property"

The amendments were made to clarify the principle under which an entity is required to transfer a property from (or to) the Investment Property category. This transfer is required if, and only if, the property meets or ceases to meet the definition of an investment property, and if a change of use is determined, i.e. when the property becomes, or ceases to be, an investment property/

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

This interpretation clarifies the accounting treatment of foreign currency transactions (receipt or payment of advance considerations). It covers transactions for which the corresponding income or expense is denominated or established in a foreign currency. Prior to this transaction, the entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration. The transaction date, necessary for determining the exchange rate used, is the date of initial recognition of the non-monetary asset or non-monetary liability, except for multiple payments or receipts in advance, in which case it will be determined for each payment or receipt.

3. Accounting standards, interpretations or amendments that the Group will apply in the future

The IASB has published standards, amendments and interpretations that had not yet been adopted by the European Union as at December 31, 2018. Their application shall only be mandatory for fiscal years beginning on or after February 1, 2019 at the earliest, or upon their adoption by the European Union. Consequently, they were not applied by the Group at December 31, 2018.

The projected timetable for the application of these standards is as follows:

2019

- IFRS 16 "Leases" (Adopted by the EU) (see paragraph 5)
- IFRIC 23 "Uncertainty over Income Tax Treatment" (Adopted by the EU)
- Amendments to IAS 28 "Long-Term Interests in Associates and Joint Ventures"
- Annual improvements (2015-2017)
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

2020

- Amendments to IFRS 3 "Business Combinations"
- Amendments to IAS 1 and IAS 8 "Definitions of Material"

2021

- IFRS 17 "Insurance Contracts"

IFRS 16 "Leases"

IFRS 16 is presented in paragraph 5, 'Preparation for the first-time application of IFRS 16 "Leases"' below.

IFRIC 23 "Uncertainty over Income Tax Treatment"

Adopted by the European Union on October 23, 2018

This interpretation clarifies the methods for recognising and measuring income tax in the event of uncertainty over the tax treatment applied. The reporting entity shall use the approach that provides better predictions of the resolution of the uncertainty.

The process for collecting, analysing and monitoring uncertainty over tax treatment has been reviewed. The Group does not expect this interpretation to have a material impact on shareholders' equity.

Amendments to IAS 28 "Long-Term Interests in Associates and Joint Ventures"

Published by the IASB on October 12, 2017

The amendments clarify that a company applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Annual improvements (2015-2017)

Published by the IASB on December 12, 2017

For the purposes of the annual improvements to IFRS, the IASB published minor amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Tax" and IAS 23 "Borrowing Cost."

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

Published by the IASB on February 7, 2018

These amendments clarify the determination of pension expenses in the event of the amendment, curtailment or settlement of defined-benefit plans. In such cases, the standard currently calls for the net cost of plan assets and liabilities to be remeasured.

The amendments clarify that the entity shall use corrected actuarial assumptions resulting from this revaluation to determine past service cost and net interest.

Amendments to IFRS 3 "Business Combinations"

Published by the IASB on October 22, 2018

These amendments clarify the guide for the application of IFRS 3 in a bid to facilitate the distinction between the acquisition of a company and the acquisition of a group of assets for which the accounting treatment is different.

Amendments to IAS 1 and IAS 8 "Definitions of Material"

Published by the IASB on October 31, 2018

These amendments clarify the definition of material in a bid to facilitate the use of judgement in preparing the financial statements, particularly for the selection of information presented in the notes.

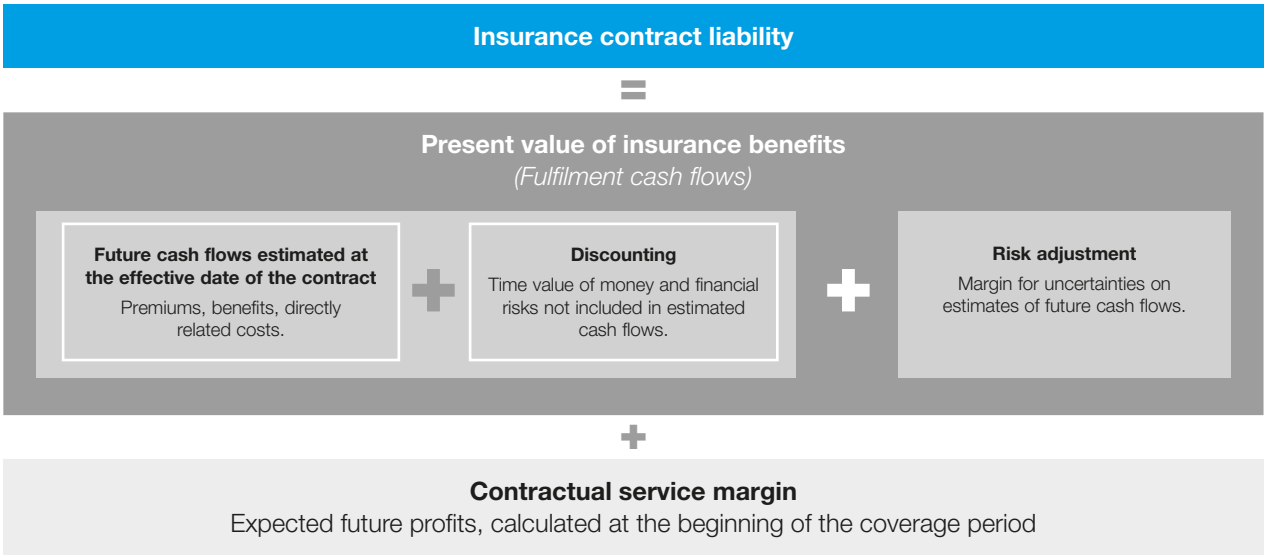
IFRS 17 "Insurance Contracts"

Published by the IASB on May 18, 2017

This new standard will replace IFRS 4 "Insurance Contracts", published in 2004 and authorising the recognition of insurance contracts in accordance with methods defined by local GAAP.

IFRS 17 defines new rules for recognising, measuring and presenting insurance contracts that fall under its remit (insurance contracts, reinsurance contracts and investment contracts with discretionary participation). Technical provisions, currently recognised as liabilities on the balance sheet, will be replaced by a measurement of insurance contracts on a current basis.

The general model used to measure insurance contract liability will be based on a Building Block Approach: discounted FCF, risk adjustment and contractual service margin.



Positive contractual service margins will be gradually recognised in profit or loss over the term of the coverage period, while negative CSMs will be immediately taken to profit or loss when the contract is expected to be loss-making.

This general model will be applied by default to all insurance contracts.

In addition, IFRS 17 has also modified the general model to account for insurance contracts with direct

participation features. This alternate approach is the "Variable Fee Approach" incorporates in the measurement of the insurance liability the obligation to pay the policyholder an amount equal to a substantial share of the returns from the underlying items net of a variable fee deducted by the entity in exchange for the future service provided by the insurance contract (changes in the value of underlying assets payable to policyholders being neutralised in the contractual service margin).

Subject to conditions, IFRS 17 also allows the reporting entity to apply a simplified approach, called the Premium Allocation Approach, to contracts with a coverage period of one year or less.

These insurance liability measurement models shall be applied to portfolios of insurance contracts, broken down according to three criteria:

- a group of contracts subject to similar risks and managed together;
- a breakdown by year of issuance; and
- a distinction between contracts that are onerous at initial recognition, and contracts that at initial recognition have no significant
- possibility of becoming onerous subsequently, and other contracts.

The IASB is in the process of examining some of the implementation problems raised by different stakeholders since the publication of IFRS 17 and will determine if the standard needs to be amended. Furthermore, in November 2018, the members of the IASB announced that they were in favour of a one-year delay of the first-time application of IFRS 17, meaning implementation will be pushed back to fiscal years beginning on or after January 1, 2022 if the amendment is confirmed.

4. First-time application of IFRS 9 "Financial Instruments".

IFRS 9, which replaces IAD 39, defines new rules for classifying and measuring financial assets and liabilities, a new impairment methodology for financial assets and for determining provisions for loan and guarantee commitments, and changes in the treatment of hedging transactions, with the exception of macro-hedges, for which a separate draft standard is currently being reviewed by the IASB.

As of January 1, 2018, the Group applies IFRS 9 as adopted by the European Union on November 22, 2016. The Group did not early-apply the provisions of IFRS 9 to previous accounting periods. Consequently, the accounting principles applicable to financial instruments have been modified and the disclosures provided in the notes to the consolidated financial statements have been supplemented in accordance with the modifications made to IFRS 7 when IFRS 9 was adopted.

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

4.1 IFRS 9 accounting principles

Classification and measurement of financial assets and liabilities

Under IFRS 9, financial assets are classified in three categories ("amortised cost", "fair value through profit and loss", and "fair value through other comprehensive income"), depending on their contractual cash flow characteristics and the way the entity manages its financial instruments (business model).

The rules governing the classification and measurement of financial liabilities set forth in IAS 39 are reiterated without change in IFRS 9. The only exception involves financial liabilities that the entity elects to measure at fair value through profit or loss (fair value option), for which revaluation differences related to changes in own credit risk are recorded under "Gains and losses booked directly to other comprehensive income" without subsequent reclassification to profit or loss

(other changes are still recognised in profit or loss). The application of IFRS 9 does not change the scope of financial liabilities to which the Group applies the fair value option. IFRS 9 also stipulates the accounting treatment of changes in financial liabilities not resulting in the derecognition of such liabilities.

The rules governing the classification and measurement of financial instruments are detailed in Note 3.

Credit risk

IFRS 9 replaces the estimate model based on the recognition of incurred credit losses provided for by IAS 39 with a model based on the recognition of expected credit losses. Accordingly, impairments and provisions are recognised on initial recognition of the financial assets, loan commitments and financial guarantees without waiting for a trigger event to occur.

The scope of application and accounting recognition principles governing impairments and provisions for credit risk are detailed in Note 3.8.

Hedging

The Group made the choice, offered by IFRS 9 transition guidance, to continue recognising its hedging transactions in accordance with the provisions of IAS 39, as adopted by the European Union.

Nevertheless, additional disclosures on hedging relationships are provided in Note 3.2 in accordance with the amendments to IFRS 7.

4.2 Transition methods

The new requirements of IFRS 9 for "classification and measurement" of financial instruments as well as for "credit risk" have been applied retrospectively as at January 1, 2018. However, as allowed by the transition guidance of IFRS 9, the Group has not restated the comparative figures for prior periods.

Consequently, as far as financial instruments are concerned, comparative figures for 2017 that are provided with figures related to 2018 remain as determined according to IAS 39 as adopted by the European Union.

Differences in the measurement of financial assets and liabilities resulting from the first-time application of IFRS 9 at January 1, 2018 are booked directly to other comprehensive income at that date.

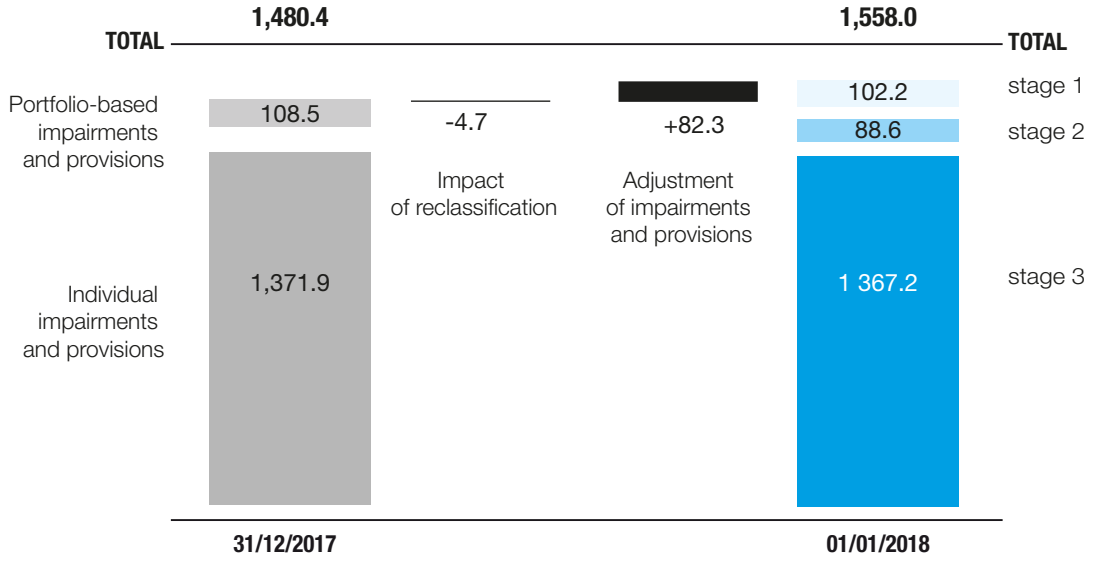
The accounting principles applicable to financial instruments until December 31, 2017 are presented in Note 8.

4.3 Impacts on impairments and provisions

Adjustment of impairments and provisions for credit risk at the date of first-time application

The following diagram presents the adjustments recorded on impairments and provisions for credit risk between December 31, 2017, established in accordance with the provisions of IAS 39, and January 1, 2018, established in accordance with the provisions of IFRS 9.

The Group continued assessing and validating the impacts of the first-time application of IFRS 9 in the second half of 2018. Based on its conclusions, the Group adjusted the impacts at January 1, 2018 relative to the impacts published in the summary interim consolidated financial statements at June 30, 2018. Recognition of this adjustment to impairments and provisions decreased to +€82.3 million before the impact of deferred taxes versus +€97.1 million previously.



The increase in impairments and provisions is predominantly attributable to the transition from a model based on the recognition of incurred losses to a model based on the recognition of expected losses.

There is an immediate correspondence between individual impairments and provisions under IAS 39 and Stage 3 impairments and provisions under IFRS 9, with the exception of impairments on financial assets, which are measured under IFRS 9 at fair value through profit or loss either because they do not meet the SPPI criterion (reclassified exposures: €148.2 million), or because they comprise loans and receivables reclassified to the trading book due to their business model. The definition of default remains unchanged between the two standards.

Furthermore, the Group did not classify any exposures as financial assets that were credit impaired when they were initially acquired or issued.

Impairments on groups of homogeneous assets were replaced, however, by impairments measured at an amount equal to 12-month or to lifetime expected credit losses:

- financial assets on counterparties which have encountered financial difficulties since they were initially recognised, without any objective evidence of impairment having yet been identified at the individual level (sensitive assets), have been partially included in Stage 2, with provisions measured at an amount equal to lifetime expected credit losses;
- financial assets on counterparties linked to economic sectors considered as being in crisis further to the occurrence of loss events, or on geographic sectors or countries in which a deterioration of credit risk has been assessed, have been spread between Stage 1 (provisions measured at an amount equal to 12-month expected credit losses) and Stage 2 (provisions measured at an amount equal to lifetime expected credit losses) depending on their individual credit risk, taking into account the deterioration in the sector or country between the origination of the loan and the balance sheet date.

Accordingly, the net increase related to the first-time application of IFRS 9 was limited to €77.6 million and can be mainly attributed to impairments and provisions measured at an amount equal to 12-month expected credit losses.

Breakdown of adjustments to impairments and provisions by balance sheet item

(in €m)	Balance at 31/12/2017 IAS 39/IAS 37			Impact of reclas-sification	Adjustment of impairments for credit risk under IFRS 9	Balance at 01/01/2018 IFRS 9			
	Individual measurement	Collective measurement	Total			Stage 1	Stage 2	Stage 3	Total
Impairment of financial assets	1,349.7	108.5	1,458.2	-4.7	62.6	87.7	83.4	1,345.0	1,516.1
Customer loans at amortised cost	1,345.0	108.5	1,453.5	-	62.4	87.5	83.4	1,345.0	1,515.9
Due from banks and equivalent at amortised cost	-	-	-	-	0.2	0.2	-	-	0.2
Securities at amortised cost						-	-	-	-
Held-to-maturity financial assets	-	-	-	-	-				
Available-for-sale financial assets	4.7	-	4.7	-4.7	-				
Financial assets at fair value through other comprehensive income						-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Provisions for credit risk on off-balance sheet commitments	22.2	-	22.2	-	19.7	14.4	5.2	22.2	41.9
TOTAL IMPAIRMENTS AND PROVISIONS	**1,371.9**	**108.5**	**1,480.4**	**-4.7**	**82.3**	**102.2**	**88.6**	**1,367.2**	**1,558.0**

4.4 Impacts on the balance sheet

Reconciliation of balance sheet assets between IAS 39 and IFRS 9

To determine the IFSR 9 accounting classification of financial assets recognised on the balance sheet at December 31, 2017, the Group performed detailed analyses of:

- contractual cash flow characteristics based on facts and circumstances at the initial recognition date of the instruments in question;
- the business models of its financial assets based on facts and circumstances at January 1, 2018.

The Group also implemented a new ECL estimation model for the measurement of impairments of financial assets at amortised cost, financial assets at fair value through other comprehensive income, and receivables classified as “Other assets” (e.g. operating lease receivables and sundry debtors), and for the measurement of provisions for loan and guarantee commitments.

The balance sheet value of in subsidiaries and affiliates accounted for by the equity method has been adjusted for the impacts of IFRS 9 on their financial assets.

The following tables reconcile balance sheet assets at December 31, 2017, established in accordance with IAS 39, and balance sheet assets at January 1, 2018, established in accordance with IFRS 9.

		Reclassification					
	Balance at 31/12/2017 IAS 39	of Available-for-sale financial assets	of Held-to-maturity financial assets	of Non-SPPI loans and receivables	of loans and receivables based on business model	others	Reclassified balance
(in €m)		A	B	C	D	E	
Cash, due from central banks	8,443.1	-	-	-	-	0.9	8,444.0
Financial assets at fair value through profit or loss	242.7	145.0	-	-	-	-	387.7
Hedging derivatives	1,265.2	-	-	-	-	-	1,265.2
Financial assets at fair value through other comprehensive income		5,801.3	-	-	-	-	5,801.3
Available-for-sale financial assets	5,956.0	-5,956.0	-	-	-	-	
Securities at amortised cost		10.1	-	-	-	-	10.1
Due from banks and equivalent at amortise cost	11,259.9	-	-	-	-	-	11,259.9
Customer loans at amortised cost*	41,300.8	-	-	-	-	-	41,300.8
Revaluation differences on portfolios hedged against interest rate risk	287.1	-	-	-	-	-	287.1
Held-to-maturity financial assets	-	-	-	-	-	-	
Tax assets	60.6	-	-	-	-	-	60.6
Other assets	243.7	-	-	-	-	-	243.7
Non-current assets held for sale	0.2	-	-	-	-	-	0.2
Investments in subsidiaries and affiliates accounted for by the equity method	351.7	-	-	-	-	-	351.7
Tangible and intangible fixed assets	552.4	-	-	-	-	-	552.4
Goodwill	508.0	-	-	-	-	-	508.0
TOTAL*	**70,471.4**	**0.4**	**-**	**-**	**-**	**0.9**	**70,472.7**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Paragraph 7).*

Description of reclassifications

Reclassification of available-for-sale financial assets and held-to-maturity financial assets (Columns A and B)

With the application of IFRS 9, "Available-for-sale financial assets" and "Held-to-maturity financial assets" were eliminated as categories. Consequently, the instruments previously recorded in both categories were classified in new IFRS 9 categories based on their contractual cash flow characteristics and business model.

At December 31, 2017, available-for-sale financial assets were measured at €5,956.0 million and comprised debt securities (bonds and other fixed-income securities) totalling €5,759.0 million and equity instruments (equities and other variable-income securities) totalling €197.1 million. With the application of IFRS 9, they were reclassified as:

- "Financial assets at fair value through profit or loss" in the amount of €145.0 million (o/w €134.4 million related to equity instruments, reclassified by default to this category, and €10.6 million related to Eirless debt securities, classified as non-SPPI due to their contractual cash flow characteristics);
- "Fair value through other comprehensive income" in the amount of €5,801.3 million (o/w €5,748.7 million related to debt securities held for the purposes of proprietary cash management and management of HQLA securities portfolios included in liquidity reserves, which pass the SPPI test in accordance with their business model, calling for regular disposals from the liquidity portfolios, and €52.6 million related to Crédit Logement equity instruments that the Group elected to measure at fair value through other comprehensive income that may not be subsequently reclassified to profit or loss;
- "Securities at amortised cost" in the amount of €10.1 million related to certificates of association.

(in €m)	Reclassified balance	Reclassification: Impact of reclassification F	Reclassification: Impairment for credit risk G	Reclassification: Impact on deferred taxes H	Balance at 01/01/2018 IFRS 9
Cash, due from central banks	8,444.0	-	-	-	8,444.0
Financial assets at fair value through profit or loss	387.7	-	-	-	387.7
Hedging derivatives	1,265.2	-	-	-	1,265.2
Financial assets at fair value through other comprehensive income	5,801.3	-	-	-	5,801.3
Available-for-sale financial assets					
Securities at amortised cost	10.1	-	-	-	10.1
Due from banks and equivalent at amortised cost	11,259.9	-	-0.2	-	11,259.7
Customer loans at amortised cost*	41,300.8	-	-62.4	-	41,238.4
Revaluation differences on portfolios hedged against interest rate risk	287.1	-	-	-	287.1
Held-to-maturity financial assets					
Tax assets	60.6	-	-	9.1	69.7
Other assets	243.7	-	-	-	243.7
Non-current assets held for sale	0.2	-	-	-	0.2
Investments in subsidiaries and affiliates accounted for by the equity method	351.7	-	-	-	351.7
Tangible and intangible fixed assets	552.4	-	-	-	552.4
Goodwill	508.0	-	-	-	508.0
TOTAL*	**70,472.7**	**-**	**-62.6**	**9.1**	**70,419.2**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Paragraph 7).*

Description of credit value adjustments

Increase in impairments for credit risk (Column G)

The application of the new credit risk accounting model resulted in the adjustment of impairments on financial assets at amortised cost (increase of €62.6 million). Most of this adjustment concerned customer loans. The analysis of these adjustments is presented in the section entitled “Impacts on impairments and provisions.”

Tax impacts (Column H)

The tax effects of these adjustments corrected the amount of tax assets and liabilities on the Group balance sheet.

Reconciliation of balance sheet liabilities between IAS 39 and IFRS 9

The following table reconciles balance sheet liabilities at December 31, 2017, established in accordance with IAS 39, and balance sheet liabilities at January 1, 2018, established in accordance with IFRS 9.

		Reclassification			Credit value adjustment			
	Balance at 31/12/2017 IAS 39	of financial assets	of revaluation differences on own credit risk	Others	Impact of reclassification	Impairments and provisions for credit risk	Impact on deferred taxes	Balance at 01/01/2018 IFRS 9
(in €m)		A	B	C	D	E	F	
Due to central banks	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	2,010.6	-	-	-	-	-	-	2,010.6
Hedging derivatives	259.8	-	-	-	-	-	-	259.8
Due to banks and equivalent	12,480.2	-	-	0.9	-	-	-	12,481.1
Customer deposits	42,397.0	-	-	-	-	-	-	42,397.0
Debt securities	6,778.8	-	-	-	-	-	-	6,778.8
Revaluation differences on portfolios hedged against interest rate risk	1,305.4	-	-	-	-	-	-	1,305.4
Tax liabilities*	289.2	-	-	-	-	-	-22.1	267.1
Other liabilities	865.3	-	-	-	-	-	-	865.3
Underwriting reserves of insurance companies	-							
Provisions	147.1	-	-	-	-	19.7	-	166.8
Subordinated debt	519.1	-	-	-	-	-	-	519.1
TOTAL DEBT*	**67,052.5**	**-**	**-**	**0.9**	**-**	**19.7**	**-22.1**	**67,051.0**
SHAREHOLDERS' EQUITY								**-**
Capital and associated reserves	1,519.1	-	-	1.6	-	-	-	1,520.7
Consolidated reserves*	1,447.1	17.4	9.7	-1.6	-	-82.3	28.8	1,419.1
Net income*	372.1	-	-	-	-	-	-	372.1
Sub-total*	**3,338.3**	**17.4**	**9.7**	**-**	**-**	**-82.3**	**28.8**	**3,311.9**
Gains or losses booked directly to other comprehensive income	80.6	-17.0	-9.7	-	-	-	2.4	56.3
Sub-total, equity, Group share*	**3,418.9**	**0.4**	**-**	**-**	**-**	**-82.3**	**31.2**	**3,368.2**
Non-controlling interests	-	-	-	-	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY*	**3,418.9**	**0.4**	**-**	**-**	**-**	**-82.3**	**31.2**	**3,368.2**
TOTAL*	**70,471.4**	**0.4**	**-**	**0.9**	**-**	**-62.6**	**9.1**	**70,419.2**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Paragraph 7).*

Description of reclassifications

Financial assets (Column A)

As a result of the reclassification of financial assets previously measured at fair value through other comprehensive income as financial assets measured at fair value through profit or loss, the unrealised capital gains and losses associated with these financial assets were reclassified from “Gains or losses booked directly to other comprehensive income” to “Consolidated reserves.”

Own credit risk (Column B)

Revaluation differences on financial liabilities measured using the fair value option associated with the Group’s own credit risk are now recorded under “Gains and losses booked directly to other comprehensive income” that will not be subsequently reclassified to profit or loss. Accumulated revaluation differences amounted to €9.7 million at December 31, 2017.

Description of credit value adjustments

Limited increase in provisions for credit risk (Column E)

The application of the new credit risk accounting model resulted in an adjustment of €19.7 million in provisions for loan and guarantee commitments, in addition to adjustments of impairments recorded under balance sheet assets. The analysis of these adjustments is presented in section “2. Impacts on impairments and provisions.”

Tax impacts (Column F)

The tax effects of these adjustments corrected the amount of tax assets and liabilities on the Group balance sheet.

Shareholders’ equity (Columns D, E and F)

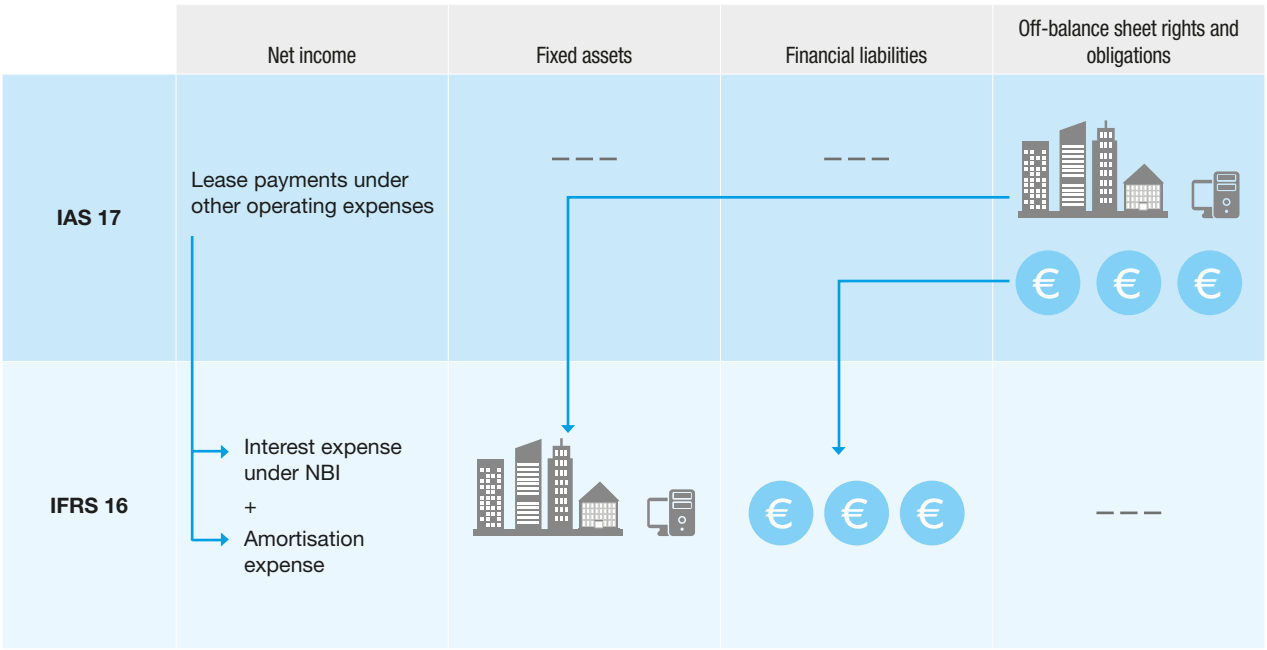
The credit value adjustments recognised at January 1, 2018 on Group assets and liabilities, in accordance with IFRS 9, were taken to other comprehensive income. These adjustments were predominantly attributable to the application of the new credit risk accounting model (-€82.3 million).

5. Preparation for the first-time application of IFRS 16 “Leases”

This new standard will supersede the existing standard, IAS 17, as of January 1, 2019. and modify accounting requirements for leases, and more specifically in relation to the lessees’ financial statements, with very few impacts for the lessors.

5.1 IFRS 16 accounting principles

For all lease agreements, the lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In its income statement, the lessee will separately recognise the depreciation of the right-of-use assets and the interest expense on lease liabilities. This treatment is currently applied by lessees to finance-lease transactions and it will then be extended to operating leases as well:



Scope of application

IFRS 16 will apply to any contract meeting the definition of a lease except for:

- leases to explore for or use non-regenerative resources and leases of biological assets;
- service concession arrangements;
- licences of intellectual property;
- rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Lessees are not required to apply this standard to intangible assets leases (software for example). In preparing for the application of the standard, the Group elected to use this optional exclusion.

Until December 31, 2018, the Group, as lessee, recorded its leases as operating leases and lease payments as income according to the straight-line method over the term of the lease, in compliance with IAS 17.

These annual lease payments amounted to €40.3 million in 2018 versus €40.1 million in 2017 (see Note 7.1).

Property leases

Most lease payments (over 80%) concerned property leases entered into for commercial properties and office buildings:

- commercial properties are network branches;
- office buildings are leased for certain departments belonging to the Group's French registered office.

The Group recorded a total of around 775 property leases at December 31, 2018.

Most leases entered into in France are 9-year commercial leases with early termination options at 3 and 6 years ("3/6/9 leases").

Equipment leases

Other lease payments (less than 20%) predominantly concern vehicles and, very incidentally, IT equipment.

Simplification measures

Lessees may elect not to apply the new requirements to short-term leases (including options to extend the leases) and leases for which the underlying asset qualifies as a low-value asset. The latter simplification applies to leases of small devices (such as tablets and personal computers, small items of office furniture and telephones). In its basis for conclusions, the IASB suggested a value, when new, in the order of magnitude of USD 5,000 or less.

The Group elected to apply this exemption threshold of $5,000 and also considered the possibility of excluding some contracts once the impact of these exclusions becomes immaterial with respect to its financial statements.

Most vehicle leases are entered into with consolidated Societe Generale Group entity ALD Automotive. Few leases are *taken out with lessors outside the Group*. These leases are excluded, as they are not material.

Distinguishing between lease contracts and service contracts

IFRS 16 includes new requirements to distinguish a lease contract from a service contract.

In the financial statements of lessees, the standard will no longer separate operating leases from finance-leases.

However, contracts must be analysed in order to determine whether they meet the definition of a lease contract and to separate, if applicable, each lease component from non-lease components (or services).

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

- controlling the use of an asset assumes the right to obtain substantially all of the economic benefits from use of the asset over the entire term of the lease and the ability for the lessee to direct the use of the asset;

- the existence of an identified asset will be subject in particular to the lack of substantive rights to substitute the leased asset for the lessor, this condition being assessed in light of the facts and circumstances existing at the start of the lease. If the lessor has the practical ability to readily substitute the leased asset, the contract does not contain a lease, as the purpose of the contract is to provide a capacity and not an asset.
- an identified asset may consist of a physically distinct portion of a larger asset (e.g. a floor of a building). However, a capacity or other portion of an asset that is not physically distinct is not an identified asset (e.g. leasing of co-working spaces in a larger workspace that were not predefined as such).

If the lessee is not able to separate lease components within the same contract from non-lease components, the contract will be accounted for as a single lease component.

The Group has entered into contracts allowing it to use back-up offices in the event its usual offices are unavailable. Where such contracts include lease components and services, they will be fully recognised as leases.

Accounting treatment of lease contracts by the lessee

Recognition of a lease liability by the lessee

At the commencement date of the contract, the lessee shall recognise a lease liability. The initial amount of the lease liability is the present value of the lease payments payable over the term of the lease.

Subsequently, this lease liability is measured at amortised cost using the effective interest rate method: each lease payment is recognised, for one part, in Interest and similar expense and, for the other part, as an amortisation of the lease liability on the balance sheet.

The amount of the lease liability shall be adjusted subsequently in case of a change in the lease contract, change in the lease term or change in future lease payments resulting from a change in an index or a rate.

And, if any, the lessee shall recognise a provision for costs in dismantling or restoring the underlying asset to the conditions required by the terms of the lease.

Term of the lease

In determining the lease term used for the present value of the lease payments, the lease period is the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the lessee shall consider all relevant facts and circumstances that create an economic incentive to exercise the option to extend the lease, or not to exercise the option to terminate the lease, including in particular:

- contractual terms and conditions for the optional periods compared with market rates (e.g. the amount of payments for the lease in any optional period or the amount of early termination penalties);
- significant leasehold improvements undertaken (special arrangements such as a safety deposit box room);
- costs relating to the termination of the lease (e.g. negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, etc.);
- the importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives (particularly for branches located in strategic areas from a commercial standpoint, for example due to their accessibility, expected foot traffic or prestige);
- history of similar contract renewals, in addition to the strategy for the future use of the assets (based on the prospects for redeployment or reorganisation of a commercial network of branches, for example).

When the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the lease is no longer enforceable and no longer generates a lease liability.

In France, most commercial property leases are 9-year commercial leases with early termination options at 3 and 6 years ("3/6/9 leases"). At the end of the 9-year period, if no new contract has been signed, the initial lease is tacitly renewed.

3/6/9 leases are generally enforceable for a 9-year period, with an initial non-cancellable period of 3 years.

Discount rate of leases

The interest rates implicit in leases are generally not known, and cannot be easily determined, particularly for property leases. The Group has thus elected to use the lessee's incremental borrowing rate to discount lease payments and thus determine the amount of lease liabilities.

The lessee's incremental borrowing rate is determined at the legal entity of the lessee and not at Group level, taking into account borrowing conditions and own credit risk.

Lease amounts

The lease payments included in the measurement of the lease liability comprise fixed lease payments, variable lease payments that depend on an index (consumer price index or index of construction costs, etc.) or a rate (Euribor, etc.), amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option and payments of penalties for terminating the lease.

However, variable lease payments are not included in the measurement of the lease liability, such as those based on a use model (index based on turnover or kilometres covered). These variable leases are recognised on the income statement over time according to fluctuations of the contractual index.

In France, the lease payments are recorded on the basis of their amount without VAT. For property leases, the housing and property taxes reinvoiced by the lessors are excluded from lease liabilities insofar as their amount, determined by the competent public authorities, is variable.

Recognition of a right-of-use by the lessee

At the time that the asset is made available for use, the lessee shall recognise the right-of-use asset for an initial amount equal to the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, and any initial direct costs.

This asset is subsequently amortised on a straight-line basis over the same term of the lease as the one defined to measure the lease liability.

The accounting value of the asset can be adjusted subsequently if the lease is modified in case of change in the lease contract, change in the lease term or change in future lease payments resulting from a change in an index or a rate.

Rights of use are presented in the lessee's balance sheet on the same fixed assets lines as other properties of the same nature held in full ownership. When lease contracts call for the initial payment of leasehold rights to a former lessee, the amount of said rights shall be treated as a component of the right of use and presented under the same heading. At December 31, 2018, leasehold rights recorded by the Group under "Intangible assets" amounted to €29 million.

On the income statement, amortisation of rights of use is presented with depreciation of assets held in full ownership.

Income tax

A deferred tax is recognised based on the net amount of taxable and deductible time differences.

At the initial recognition date of the right of use and the lease liability, no deferred tax is recognised if the value of the asset equals the value of the liability.

A deferred tax will be recognised for any net time differences arising from subsequent changes in the right of use and the lease liability.

5.2 Organisation of the IFRS 16 implementation programme

After a preliminary analysis of the provisions of IFRS 16, in Q4 2016 the Group began working to establish a framework to adapt its information systems and processes and to define the scope of the contracts in question.

To that end, a project structure was established by the Group Finance Division and Resources Division.

In 2017, the Group began collecting data on lease contracts for property assets and on lease contracts for IT equipment for the purposes of building a lease database.

At the same time, the Group undertook the development of a tool to be used to perform calculations and operate lease databases, and which will generate the data necessary for the recognition of leases under IFRS 16.

In 2018, the Group finalised the development of this tool, drawing on data from the lease databases, and tested its features. All users were given training on IFRS 16 and its implementation, and on the new tools and operational processes put in place. A trial run was conducted in the second half to test the entire IFRS 16 application system.

Transition

For the first-time application of IFRS 16, the Group chose to take the modified retrospective approach proposed by the standard.

At January 1, 2019, the amount of the lease liability for outstanding leases will be determined by discounting residual lease payments using the rates in force at that date, taking into account the estimated residual terms of the leases. The corresponding rights of use will be recognised on the balance sheet for an amount equal to that of the lease liability. The first-time application of IFRS 16 will therefore have no impact on the amount of the Group's shareholders' equity at January 1, 2019.

At that date, leases with a residual term of less than 12 months and leases subject to tacit renewal will be classified as short-term leases (contracts of less than 1 year) and will not be restated, in accordance with the option provided by IFRS 16.

Pursuant to the provisions of IFRS 16 on the modified retrospective approach, comparative data for fiscal year 2018 presented with respect to data for fiscal year 2019 will not be restated.

5.3 First-time application of IFRS 16

The collection and analysis of lease contracts were validated by the Group by December 31, 2018. The inclusion of outstanding leases at January 1, 2019 in the lease databases and their transfer to the calculation tool for the determination of the final amount of the lease liability and rights of use at the date of first-time application will be finalised in the first quarter of 2019.

At the closing date of the consolidated financial statements for fiscal year 2018, the Group estimated that the first-time application of IFRS 16 would lead to the recognition of a lease liability and a right-of-use asset for an amount of €108.6 million.

6. Use of estimates and judgement

In drawing up the consolidated financial statements, the application of the accounting principles and methods described in the notes to the consolidated financial statements led Management to develop assumptions and make estimates that may have an impact on the amounts booked to the income statement or under "Gains and losses booked directly to other comprehensive income", the valuation of balance sheet assets and liabilities, and the disclosures presented in the notes to the consolidated financial statements.

In order to make these estimates and develop these assumptions, Management uses data available at the date on which the consolidated accounts are prepared and may be called upon to use its own judgement. By nature, the valuations based on these estimates contain risks and uncertainties as to whether they will materialise in the future. Consequently, the final future results of the transactions in question may differ from these estimates and therefore have a significant impact on the financial statements.

The use of estimates primarily concerns the following valuations:

- the fair value as reported on the balance sheet of financial instruments that are not quoted on an active market is recognised under "Financial assets or liabilities at fair value through profit or loss", "Hedging instruments" or "Financial assets at fair value through other comprehensive income" (see Notes 3.1, 3.2, 3.3 and 3.4), as well as the fair value of instruments measured at amortised cost for which such information must be presented in the notes (see Note 3.9);

- impairments and provisions for credit risk on financial assets at amortised cost, financial assets at fair value through other comprehensive income and loan and guarantee commitments whose measurement depends on internal models and inputs based on historical, current and forward-looking data (see Note 3.8);
- provisions recognised on the liabilities side of the balance sheet (particularly provisions for employee benefits) (see note 5.2);
- the amount of deferred tax assets recognised on the balance sheet (see Note 6);
- the assessment of control to determine the scope of consolidated entities, particularly in the case of structured entities (see Note 2);
- the initial value of goodwill recognised for business combinations (see Notes 2.1 and 2.2).

First the application of IFRS 9, the Group expanded its use of estimates and judgement to analyse the contractual cash flow characteristics of financial assets, assess the increase in credit risk observed since the initial recognition of financial assets, and assess the amount of expected credit losses on these same financial assets.

7. Error correction

Loans subject to commercial renegotiations, where the customer is not experiencing financial hardship or insolvency, are derecognised at the renegotiation date and the new loans contractualised under the renegotiated terms and conditions replace the previous loans on the balance sheet at this same date. The residual portion of fees assimilated to interest initially paid or received, and of transactions costs directly associated with the initial loan, are immediately taken to profit or loss at the renegotiation date. The renegotiation fees received are included in the effective interest rate of the new loan.

Until December 31, 2017, the Group immediately booked renegotiation fees to profit or loss and continued spreading out fees assimilated to interest and initial transaction costs over the estimated life of the renegotiated loans. These treatments were corrected as of January 1, 2018.

This correction was recognised retrospectively by adjusting the net opening position for the comparative fiscal year, 2017 (deducted from consolidated reserves at January 1, 2017 for -€9.8 million before tax, -€7.2 million after tax at a rate of 25.83%), and net income for fiscal year 2017 (correction of “Interest and similar income” for -€3.5 million, “Fees and similar income” for -€9.4 million, and adjustment of “Income tax” at a rate of 25.83% for +€3.3 million, bringing 2017 “Consolidated net income” to €372.1 million versus the reported amount of €381.2 million). This correction reduced earnings per share at December 31, 2017 to €3.34 versus the reported amount of €3.43. The balance sheet lines affected by these corrects are “Customer loans at amortised cost” for -€22.7 million, “Tax liabilities” for -€5.9 million, “Consolidated reserves” for -€7.2 million and “Net income” for -€9.6 million; only the corrected comparative amounts of December 31, 2017 are presented in the notes, as the impact on these lines was not material at January 1, 2017 with respect to the consolidated financial statements.

NOTE 2 Consolidation

Accounting principles

The consolidated financial statements include the financial statements of Crédit du Nord and the entities over which the Group exercises exclusive control, joint control or significant influence.

Consolidated entities

Subsidiaries

Subsidiaries are entities controlled exclusively by the Group. The Group controls an entity when the following conditions are met:

- the Group holds power over the entity (ability to run its relevant activities, i.e. those having a material impact on the entity's profits) by holding voting rights or other rights; and
- the Group is exposed or entitled to variable returns as a result of its ties to the entity;
- the Group is able to exercise its power over the entity in such a way as to influence the amount of returns it obtains.

Power over an entity

The voting rights taken into consideration in order to determine the Group's degree of control over an entity and the corresponding consolidation method include potential voting rights where these can be freely exercised at the control evaluation date or, at the latest, when management decisions concerning the relevant activities must be taken. Potential voting rights are instruments such as call options on ordinary shares outstanding on the market or rights to convert bonds into new ordinary shares.

Where voting rights are not relevant to determine the Group's control or lack of control over an entity, the evaluation of said control must take all events and circumstances into account, including any contractual agreements. Power can be exercised through substantial rights, i.e. the practical ability to run the entity's relevant activities without obstacles or constraints.

The aim of some rights is to protect the interests of the party holding them (protective rights), though without giving power over the entity to which the rights are related.

If several investors each have effective rights giving them the ability to unilaterally run different relevant activities, the one effectively able to run the activities with the greatest impact on the entity is assumed to hold the power.

Exposure to variable returns

The Group only has control over an entity where it is significantly exposed to the variability of variable returns generated by its investment or involvement in the entity. Variable returns include any type of exposure (dividends, interest, fees and commissions, etc.); they can be only positive, only negative, or sometimes positive and sometimes negative.

Link between power and variable returns

Power over relevant activities does not give the Group control if this power does not give it influence over the variable returns to which the Group is exposed as a result of its ties with the entity. If the Group has decision-making powers delegated by external third parties and it mainly exercises these powers in favour of said third parties, it is presumed to be acting as an agent of the delegating parties and, consequently, does not control the entity despite being a decision-maker. In the asset management business, an analysis is performed to determine if the asset manager is acting as an agent or as the principal in managing the fund's assets. The fund is deemed to be controlled by the asset manager where the latter is acting as the principal.

Structured entities

A structured entity is an entity designed so that voting rights are not the dominant factor in deciding who controls the entity. Such is the case, for example, where the voting rights only concern administrative tasks and the entity's relevant activities are run in accordance with contractual agreements.

A structured entity often has certain features such as a restricted activity, a narrow and well-defined objective, and insufficient equity to allow it to finance its activities without subordinated financial support. Structured entities can have different legal forms: capital companies, partnerships, securitisation vehicles, investment funds, entities without legal persons, etc.

Determination of control over the entity must take into account all events and circumstances, including in particular:

- the entity's activities and objective;
- the entity's structure;
- the risks incurred by the entity and the Group's exposure to all or part of these risks;
- the potential benefits enjoyed by the Group through its investment in the entity.

Unconsolidated structured entities are entities that are not exclusively controlled by the Group. When consolidating structured entities controlled by the Group, the portion of the structured entities that is not held by the Group is recognised as Debt on the balance sheet.

Joint arrangements

In a joint arrangement (joint operation or joint venture), the Group exercises joint control over the entity in consideration if the decisions concerning the entity's relevant activities require the unanimous consent of the parties sharing control. Determination of joint control is based on an analysis of the rights and obligations of the partners to the agreement.

In a joint operation, the different parties exercising joint control have rights to the assets and obligations for the liabilities relating to the arrangement. In its financial statements, the Group must therefore distinguish between its share in each of the assets and liabilities as well as its share in the associated income and expenses.

In a joint venture, the different parties have rights to the net assets relating to the arrangement.

Associates

Associates are entities over which the Group exercises significant influence. Associates are accounted for using the equity method in the Group's consolidated financial statements. Significant influence is the power to participate in an entity's financial and operational policies without exercising exclusive or joint control over the entity. This can result from representation on governing or supervisory bodies, participation in strategic decisions, the implementation of major inter-company transactions, interchange of managerial personnel, or the provision of essential technical information. The Group is presumed to exercise significant influence over an entity's financial and operational policies if it directly or indirectly holds at least 20% of the entity's voting rights.

Consolidation rules and methods

The consolidated financial statements are prepared on the basis of the annual financial statements of all significant controlled entities that make up the Group. Companies that do not qualify as significant under the Group's accounting standards have been excluded from the consolidation scope. The financial statements of consolidated companies are if necessary restated in accordance with Group principles.

All significant balances, profit and transactions between Group companies are eliminated.

The results of acquired subsidiaries are included in the consolidated financial statements from their effective acquisition date, while the results of subsidiaries sold during the fiscal year are included up to the date on which control or significant influence was relinquished.

Methods of consolidation

Subsidiaries, including structured entities controlled by the Group, are fully consolidated.

On the consolidated balance sheet, full consolidation consists in replacing the value of equity securities in the subsidiary held by the Group with each of the subsidiary's assets and liabilities, plus the goodwill recognised when the Group took control of the subsidiary (see Note 2.2). On the income statement and the statement of net income and gains and losses booked directly to other comprehensive income, each of the subsidiary's income and expense items is aggregated with those of the Group.

The share of non-controlling interests in the subsidiary's shareholders' equity and income is recorded on a separate line of the consolidated balance sheet and income statement. However, when consolidating structured entities controlled by the Group, the share of the structured entities that is not held by the Group is recognised as Debt on the consolidated balance sheet.

For joint activities or joint operations, the Group separately recognises its share in each of the assets and liabilities over which it holds rights and obligations and its share of the related income and expenses.

Joint ventures and associates are accounted for using the equity method in the Group's consolidated financial statements. The equity method is an accounting method under which the acquisition cost of the Group's share in the joint venture or associate is initially recorded under "Investments in subsidiaries and affiliates accounted for by the equity method" on the consolidated balance sheet, including goodwill, and this initial cost is subsequently adjusted to reflect changes in the Group's share in the issuing entity's net assets that take place after the acquisition.

Investments in companies accounted for by the equity method are subject to an impairment test where there is objective evidence of impairment. If the recoverable value of the investment (the higher of the value in use and the market value net of disposal costs) is lower than its carrying value, impairment is recorded on the carrying value of the equity-accounted investment on the balance sheet. Allocations to and reversals of impairments are recorded under "Share of net income of companies accounted for by the equity method" on the consolidated income statement.

The Group's share in the entity's net income and in gains and losses booked directly to other comprehensive income are recorded on separate lines of the consolidated income statement and the consolidated statement of net income and gains and losses booked directly to other comprehensive income. If the Group's share in the losses of an equity-accounted company becomes greater than or equal to its investment in the company, the Group no longer recognises its share in subsequent losses, unless required to do so in accordance with the law or an implicit obligation, in which case a provision is recorded for these losses. Capital gains or losses generated during the sale of equity affiliates are recognised under "Net gains/losses on other assets".

Changes in equity interests in consolidated entities

If the Group increases its equity interest in a subsidiary, the difference between the acquisition cost of the additional equity interest and the acquired portion of the acquired entity's net assets at that date is recorded under "Consolidated reserves, Group share".

Likewise, if the Group reduces its equity interest in a subsidiary that remains exclusively controlled, the difference between the selling price and the book value of the portion of assets sold is recognised under "Consolidated reserves, Group share".

The related costs are booked directly to shareholders' equity.

When control of a consolidated subsidiary is lost, any equity interest retained by the Group is remeasured at fair value simultaneously with the recognition of the gain or loss on disposal under "Net gains/losses on other assets" on the consolidated income statement.

2.1 Scope of consolidation

2.1.1 Change in scope during fiscal year 2018

The consolidation scope is presented in Note 7.5.

The consolidation scope includes subsidiaries and structured entities controlled by the Group, joint arrangements (joint activities or joint ventures) and associates whose financial statements are material relative to the Group's consolidated financial statements, particularly with respect to total balance sheet assets, the income statement and gross operating income.

The consolidation scope at December 31, 2018 included 17 companies:

- 15 fully consolidated companies;
- 2 companies accounted for by the equity method, including one joint venture and one entity under significant influence.

The main change to the consolidation scope at December 31, 2018 compared with the scope at December 31, 2017 was as follows: All assets belonging to Credinord Cidize were transferred to Crédit du Nord.

2.1.2 Post-closing events

There were no significant post-closing events to report.

2.2 Goodwill

Accounting principles

Crédit du Nord Group uses the acquisition method to account for its business combinations.

In line with IFRS 3, "Business Combinations", identifiable assets, liabilities, off-balance sheet items and contingent liabilities of the acquired entity are measured individually at their fair value, at the acquisition date, regardless of their purpose. The analyses and appraisals necessary for the initial measurement of such items, and any adjustments to the value based on new information associated with events and circumstances at the acquisition date, must be carried out within 12 months of the acquisition date. At this same date, non-controlling interests are measured at their proportion of the fair value of identifiable assets and liabilities in the acquired entity. However, the Group may also elect, for each business combination, to measure non-controlling interests at fair value, with a fraction of such goodwill then being allocated.

The entity's acquisition cost is measured based on the total of the acquisition-date fair value of the identifiable assets acquired, the liabilities assumed and the equity instruments issued in the exchange for the acquired entity. Costs directly associated with business combinations are recorded as income for the period, with the exception of those related to the issuance of equity instruments.

Earn-out is subsumed into the acquisition cost at fair value at the acquisition date even where said earn-out is of a contingent nature. This item is accounted for as an asset or a liability based on how the earn-out is settled. If they are classified as a debt instrument, subsequent adjustments to the earn-out are recognised in profit or loss for financial liabilities covered by IFRS 9 and, for liabilities not addressed by IFRS 9, in accordance with the standards that apply. If they are classified as an equity instrument, these adjustments are not recognised. Any positive difference between the acquisition cost of the acquired entity and the acquired portion of its remeasured net assets is recognised on the asset side of the balance sheet as "Goodwill". Any negative difference is directly recognised in profit or loss. At the date on which control of an acquired entity is obtained, the Group remeasures its pre-combination equity interest in the acquired entity at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss. For business combinations achieved in stages, goodwill is determined by reference to fair value at the date control of the acquire entity is obtained.

At the acquisition date, each item of goodwill is allocated to one or more Cash-Generating Units (CGUs) expected to benefit from the synergies of the combination. In the event the restructuring of the Group results in a change in the composition of CGUs, the goodwill allocated to the units that were restructured is reassigned to other existing or new units. This reassignment is usually pro-rated according to the normative capital requirements of the different parts of the restructured CGUs.

Crédit du Nord Group is a single CGU and did not record any goodwill impairment at December 31, 2018.

The table below presents the change in goodwill over fiscal year 2018:

(in €m)	Net value at 01/01/2018	Acquisitions and other increases	Disposals and other decreases	Impairment losses	Net value at 31/12/2018
Banque Courtois	10.2	-	-	-	10.2
Banque Laydernier	12.8	-	-	-	12.8
Banque Kolb	22.3	-	-	-	22.3
Banque Tarneaud	3.3	-	-	-	3.3
Société Marseillaise de Crédit	454.2	-	-	-	454.2
Fortis branches	5.2	-	-	-	5.2
TOTAL	**508.0**	**-**	**-**	**-**	**508.0**

Crédit du Nord Group is a single CGU

At December 31, 2018, Societe Generale Group performed an annual impairment test on the Crédit du Nord Group CGU to which goodwill was allocated.

A CGU is defined as the smallest identifiable group of assets generating cash income, independent of the cash income earned from other assets or groups of assets in the company. An impairment tests consists in assessing the recoverable value of each CGU and comparing it with its carrying value. An irreversible impairment loss is recorded on the income statement if the carrying value of a CGU, including allocated goodwill, exceeds its recoverable value. This loss is allocated to goodwill impairment. The recoverable value of a CGU is calculated using the most appropriate method, which is usually the discounted cash flow (DCF) method applied to the entire CGU. The cash flows consist of dividends that may be distributed by the entities comprising the CGU, including the target amount of Group capital allocated to each entity.

Cash flows were determined over a five-year period, based on projected four-year budgets (2019-2022) extrapolated over 2023, which constitutes a “normative” year over which the terminal value was calculated:

- capital allocated to the Crédit du Nord Group CGU comprised 10.5% of risk-weighted assets at December 31, 2018;
- the discount rate is calculated based on a risk-free interest rate, plus a risk premium associated with the underlying activity. The risk premium is determined using a series of equity risk premiums published by SG Cross Asset Research and based on the specific estimated volatility of the activity. Where applicable, a sovereign risk premium is also added to the risk-free rate, representing the difference between the euro zone risk-free rate and the interest rate of liquid long-term bonds issued by the government (in EUR);
- the growth rate used for the terminal value is based on the projected growth of the economy and long-term sustainable inflation. This rate is estimated using data from two main sources: the International Monetary Fund and the economic analysis performed by SG Cross Asset Research, which supplies forecasts through 2023.

The annual impairment test on the Crédit du Nord Group CGU did not result in the recognition of goodwill impairment at December 31, 2018.

A discount rate of 8% was used. The long-term growth rate used was 2%.

Sensitivity tests were conducted to measure the impact of the change in certain assumptions on the recoverable value of the Crédit du Nord Group CGU. At December 31, 2018, given the risks associated with the business in the current environment (market volatility, regulatory uncertainties), sensitivities to the change in the discount rate and the long-term growth rate were recorded.

The results of these sensitivity tests showed that:

- a 50 bp increase applied to the CGU’s discount rate would result in a 23.9% decrease in the total recoverable value, without requiring the recognition of additional impairment on the CGU;
- a 50 bp decrease applied in the long-term growth rate would result in a 7.7% decrease in the total recoverable value, without requiring the recognition of additional impairment on the CGU.

2.3 Additional information on consolidated entities and entities accounted for by the equity method

The information presented in this note pertains to consolidated structured entities, joint ventures and associates.

This note covers entities under joint or exclusive control and entities under significant influence whose financial statements are material relative to the Group's consolidated financial statements. Materiality is notably assessed with respect to the Group's total consolidated balance sheet assets and consolidated gross operating income.

2.3.1 Consolidated structured entities

Consolidated entities include in particular:

- investment funds (open-ended mutual funds, mutual funds, etc.) managed by the Group's asset management subsidiaries;
- securitisation funds issuing financial instruments that can be subscribed for by investors and that bear credit risks inherent in a given exposure or basket of exposures which can be divided into tranches;
- financing structures for aviation, railway, maritime or real estate assets.

At December 31, 2018, Crédit du Nord did not own any consolidated structured entities.

2.3.2 Entities accounted for by the equity method (joint ventures and associates)

Companies consolidated using the equity method are:

- joint ventures, i.e. joint arrangements in which the parties exercising joint control over the operation have rights to the joint venture's net assets;
- associates, i.e. entities over which the Group exercises significant influence.

Summarised financial information for joint ventures and associates

(in €m)	Joint ventures		Associates		Total entities accounted for by the equity method	
Group share in:	2018	2017	2018	2017	2018	2017
Net income	40.5	37.8	0.3	0.6	40.7	38.4
Gains and losses booked directly to other comprehensive income (net of tax)	11.3	14.9	-	-	11.3	14.9
NET INCOME AND GAINS AND LOSSES BOOKED DIRECTLY TO OTHER COMPREHENSIVE INCOME	**51.8**	**52.7**	**0.3**	**0.6**	**52.0**	**53.3**

At December 31, 2018, two entities were consolidated using the equity method:

- Antarius, identified as a joint venture;
- Pouyanne, identified as an associate.

2.4 Unconsolidated structured entities

The information presented below pertains to entities structured by the Group. They are grouped by type of family exercising similar activities: asset financing, asset management and others (including securitisation and issuance structures).

Asset financing includes economic interest groups, partnerships and equivalent structures carrying aviation, railway, shipping or real estate financing vehicles.

Asset management brings together investment funds (open-ended mutual funds, mutual funds, etc.) managed by the Group's asset management subsidiaries.

Securitisation includes securitisation funds and equivalent structures issuing financial instruments that can be subscribed for by investors and that bear credit risks inherent in a given exposure or basket of exposures which can be divided into tranches.

The Group's interests in entities structured by third parties are classified under consolidated balance sheet headings by type.

Crédit du Nord only includes asset financing structures carrying shipping, power plant, wind farm and co-generation financing vehicles.

2.4.1 Interests in unconsolidated structured entities

The Group's interests in an unconsolidated structured entity cover the contractual or non-contractual links exposing it to the risk of change in returns associated with the structured entity's performance. These interests include:

- equity or debt instruments of any subordination rank;
- financing contributions (loans, credit facilities, loan commitments, cash facilities, etc.);
- credit enhancement (guarantees, subordinated shares, credit derivatives);
- guarantees given (guarantee commitments);
- derivatives that absorb some or all of the risk of a change in the structured entity's returns, excluding Credit Default Swaps (CDS) and options purchased by the Group;
- contracts earning fees based on the structured entity's performance;
- tax consolidation agreements.

	Asset financing	
(in €m)	31/12/2018	31/12/2017
ENTITIES' TOTAL BALANCE SHEET ASSETS	**279.9**	**298.2**
Net carrying amount of the Group's interests in these entities		
Assets	**100.1**	**0.1**
Financial assets at fair value through profit or loss	0.1	-
Financial assets at fair value through other comprehensive income	-	
Available-for-sale financial assets		0.1
Due from banks and customer loans	100.0	-
Securities at amortised cost	-	
Others	-	-
Liabilities	**-**	**-**
Financial liabilities at fair value through profit or loss	-	-
Due to banks and customer deposits	-	-
Others	-	-

At December 31, 2018, the Group had not given any financial support to these entities outside normal market conditions.

Its maximum exposure to the risk of losses linked to its interests in a structured entity is equivalent to:

- the amortised cost or fair value [1], of non-derivative financial assets entered into with the structured entity, based on how they are measured on the balance sheet;
- the fair value [1] of derivatives recorded as assets on the balance sheet;
- the nominal value of CDS sold (maximum amount payable);
- the nominal value of loan or guarantee commitments given.

	Asset financing	
(in €m)	31/12/2018	31/12/2017
Amortised cost or fair value [1], depending on how they are measured on the balance sheet, of non-derivative financial assets entered into with the structured entity	-	-
Fair value [1] of derivatives recorded as assets on the balance sheet	-	-
Nominal value of CDS sold (maximum amount payable)	-	-
Nominal value of financing or guarantee commitments given	-	-
MAXIMUM EXPOSURE TO RISK OF LOSSES	**-**	**-**

(1) Fair value at the balance sheet date, which may fluctuate in subsequent fiscal years.

Items reducing maximum exposure to risk of losses include:

- the nominal amount of guarantee commitments received;
- the fair value [1] of assets received as collateral;
- the carrying amount of security deposits received recorded as liabilities on the balance sheet.

2.4.2 Information on unconsolidated structured entities sponsored by the Group

The Group cannot hold interests in a structured entity but may be considered as the entity's sponsor if it has or has had a role as:

- a structurer;
- a promoter to potential investors;
- a third-party asset manager;
- an implicit or explicit guarantor of the entity's performance (in particular via capital or return guarantees granted to fund unitholders).

Furthermore, a structured entity is considered to be sponsored by the Group where its name includes the name of the Group or one of its subsidiaries.

However, entities structured by the Group in response to specific needs expressed by one or more customers or investors are deemed to be sponsored by said customers or investors.

The total balance sheet assets of unconsolidated structured entities sponsored by the Group amounted to €279.9 million and only related to asset financing. Income earned from these entities totalled €0.7 million.

2.5 Non-current assets held for sale and associated liabilities

Accounting principles

A non-current asset (or disposal group) is considered as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale within 12 months must be highly probable.

The Group must have undertaken a plan to dispose of the asset or group of assets and liabilities and must be actively seeking a buyer. Furthermore, the asset or disposal group must be sold at a reasonable price in relation to its present fair value.

Assets and liabilities falling under this category are reclassified as "Non-current assets held for sale" and "Liabilities directly associated with non-current assets classified as held for sale", with no netting.

Any negative differences between the fair value less costs to sell of non-current assets and groups of assets held for sale and their net carrying value is recognised as an impairment loss in profit or loss. Furthermore, non-current assets held for sale are no longer amortised as from their reclassification.

(in €m)	31/12/2018	31/12/2017
Assets	**0.2**	**0.2**
Fixed assets and goodwill	0.2	0.2
Financial assets	-	-
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Due from banks and equivalent at amortised cost	-	-
Customer loans at amortised cost	-	-
Other assets	-	-
Liabilities	**-**	**-**
Provisions	-	-
Financial liabilities	-	-
Financial liabilities at fair value through profit or loss	-	-
Due to banks and equivalent	-	-
Customer deposits	-	-
Other liabilities	-	-

NOTE 3 Financial instruments

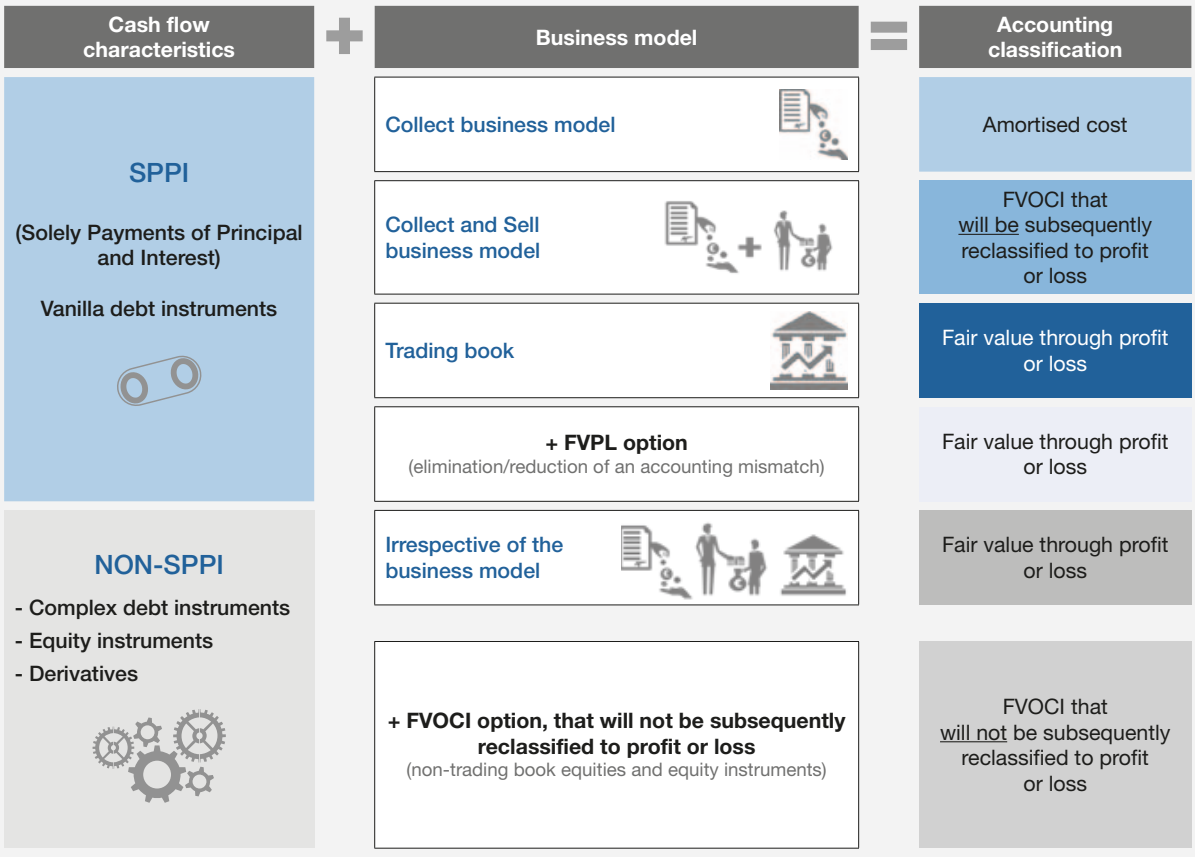
Accounting principles

Classification of financial assets

The accounting principles applicable to financial instruments at December 31, 2017 are presented in Note 8. The accounting principles presented in this note are those applied from January 1, 2018, in accordance with the provisions of IFRS 9.

On their initial recognition, financial assets are classified on the Group balance sheet in three categories (amortised cost, fair value through profit or loss and fair value through other comprehensive income) that determine their accounting treatment and subsequent measurement method. This classification is based on their contractual cash flow characteristics and how the entity manages its financial instruments (business model).

The diagram below shows how financial assets are classified under IFRS 9.



The principles applied to classify financial assets call for i) an analysis of the contractual cash flows generated by the financial instruments and ii) an analysis of the business model used to manage the instrument.

Analysis of contractual cash flow characteristics

The purpose of the analysis of contractual cash flow characteristics is to limit the option of recognising revenues from financial assets using the effective interest method exclusively to instruments whose characteristics are similar to those of a basic lending arrangement, meaning their associated cash flows are highly predictable. All other financial assets not having those characteristics are measured at fair value through profit or loss, regardless of the business model applied.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement (SPPI cash flows: Solely Payment of Principal and Interest).

In a basic lending arrangement, interest is mainly consideration for the time value of money and credit risk. Interest can also include consideration for liquidity risk and for administrative costs associated with holding the financial asset, and a commercial profit margin. Negative interest is not inconsistent with this definition of a basic lending arrangement.

All financial assets that are not basic are mandatorily measured at fair value through profit or loss, regardless of the business model applied.

Derivative financial assets qualifying as hedging instruments for accounting purposes are presented on a separate line of the balance sheet (see Note 3.2).

The Group can make the irrevocable election to classify and measure an investment in an equity instrument that is not held for trading purposes at fair value through other comprehensive income. Subsequently, the profit or loss accumulated in other comprehensive income may not be subsequently reclassified to profit or loss (only dividends from those investments shall be recognised as income).

Analysis of the business model

The business model refers to how financial instruments are managed to generate cash flows and revenues.

When carrying on its different business activities, the Group makes use of various business models. Business models are assessed on how groups of financial instruments are managed together to achieve a particular business objective. The business model is not assessed on an instrument-by-instrument basis, but at a portfolio level, considering relevant evidence such as:

- how the performance of the portfolio is evaluated and reported to the Group's management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- and also, sales of assets realised or expected (size, frequency, purpose).

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

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

Fair value option

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

Classification of financial liabilities

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

- Financial liabilities at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that are not considered to be hedging instruments, as well as non-derivative financial liabilities initially designated by the Group to be measured at fair value through profit or loss (fair value option);
- Debts: this category comprises other non-derivative financial liabilities, which are measured at amortised cost.

Derivative financial assets qualifying as hedging instruments for accounting purposes are presented on a separate line of the balance sheet (see Note 3.2).

Reclassification of financial assets

Reclassifications of financial assets are only obligatory in the exceptional event of a change in business model used to manage the assets in question.

Fair value

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an arm's length transaction between market intermediaries at the valuation date. The valuation methods used by the Group to determine the fair value of financial instruments are presented in Note 3.4.

Initial recognition

Financial assets are recognised on the balance sheet:

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

For instruments measured at fair value, fair value variations between the trading date and the settlement-delivery date are recorded under profit or loss or under shareholders' equity depending on the accounting category of the financial assets in question. The trade date is the date at which the Group commits itself to purchase or sell the financial asset.

On initial recognition, financial assets and liabilities are measured at fair value including costs directly attributable to their acquisition or issuance (with the exception of financial instruments recognised at fair value through profit or loss, whose costs are taken directly to the income statement).

If the fair value is primarily based on observable market data, the difference between this fair value and the transaction price, representative of the sales margin, is directly recognised in profit or loss. However, if the valuation inputs used are not observable or if the valuation models are not recognised by the market, the sales margin is generally recognised differently in profit or loss. Given the complexity of some instruments, this margin is only recognised at maturity or when the instruments are sold prior to maturity. Where an instrument's valuation criteria become observable, the part of the sales margin not yet booked is recognised on the income statement.

Derecognition of financial assets and liabilities

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

The Group also derecognises financial assets over which it has maintained the contractual rights to receive the associated cash flows, but has the contractual obligation to pass these same cash flows on to a third party (known as a "pass-through agreement), and for which it has transferred virtually all associated risks and rewards.

Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has not retained control of the financial asset in practice, the Group derecognises it and recognises separately an asset or liability representing any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it on the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded on the income statement for the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in other

comprehensive income and for the value or any management asset or liability. Prepayment penalty fees charged to borrowers are recorded on the income statement at the repayment date under "Interest and similar income."

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

A financial liability may also be derecognised in the event of a substantial modification in its contractual terms and conditions or an exchange with the lender against an instrument having substantially different contractual terms and conditions.

Analysis of contractual cash flows of financial assets

The Group has established procedures for subjecting financial assets to the SPPI test on their initial recognition (issuance of loans, acquisition of securities, etc.).

All contractual terms are analysed, particularly those that could change the timing or amount of contractual cash flows. A contractual term that permits the borrower or the lender to prepay or to put the debt instrument back to the issuer before maturity remains consistent with SPPI cash flows, provided the prepayment amount substantially represents the principal amount outstanding and accrued but unpaid contractual interest, which may include a reasonable compensation. The possibility of said compensation being negative does not necessarily mean that the contractual cash flows fail the SPPI test.

Compensation is particularly considered as reasonable when:

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

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

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

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

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

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

- derivatives,
- shares and other equity instruments held by the entity,
- units in undertakings for collective investment (UCITS, mutual funds, etc.),
- debt financial assets that can be converted or redeemed into a fixed number of shares (convertible bonds, equity-linked securities, etc.).

When the time value component of interest can be modified according to the contractual term of the instrument, it may be necessary to compare the contractual cash flow with cash flow that would arise from a benchmark instrument. Such is the case, for example, if the interest rate of the financial instrument is periodically revised, but the frequency of revisions does not match the period for which the interest rate is established (e.g. interest rate revised monthly according to the one-year interest rate) or if the interest rate of the financial instrument is periodically revised according to an average of short-term and long-term interest rates.

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

Depending on the contractual terms, comparison with benchmark cash flow may be performed through a qualitative assessment; but in other cases, a quantitative test will be required. The difference between contractual and benchmark cash flows is considered in each reporting period and cumulatively over the life of the instrument. The analysis also considers factors liable to have an impact on the undiscounted amount of future contractual cash flows. To that end, the Group uses interest rate curves at the initial recognition date of the financial asset, but also assesses the change in the curves over the life of the instrument under reasonably possible scenarios.

Groupwide, such instruments include for example variable-rate home loans, whose interest rates are revised yearly based on the average 12-month Euribor rates observed over the two months preceding the revision, or loans granted to real estate I, whose interest rates are revised every three months based on the average 1-month Euribor rates observed over the three months preceding the revision. The analyses conducted by the Group concluded that these loans qualify as basic lending arrangements.

Furthermore, a specific analysis of contractual cash flows is applied when financial assets are instruments issued by a securitisation vehicle or a similar entity that prioritises payments between the holders. When assessing whether contractual cash flows are SPPI or not, the entity must analyse the contractual terms, as well as the credit risk of each tranche and the exposure to credit risk in the underlying pool of financial instruments. To that end, the entity must apply a “look-through approach” to identify the underlying instruments that are creating the cash flows.

Comparative data for the balance sheet items and commitments associated with the financial instruments presented in Note 3 are the balances at January 1, 2018. These amounts are the balances at December 31, 2017, corrected for reclassifications and credit value adjustments resulting from the first-time application of IFRS 9 (see Note 1).

Comparative data at December 31, 2017 and the applicable accounting principles are available in the consolidated financial statements for fiscal year 2017, presented in Chapter 3 of the Group’s 2017 Registration Document, while the accounting principles applicable to financial instruments at December 31, 2017 are reiterated in Note 8.

3.1 Financial assets and liabilities at fair value through profit or loss

Overview of the IFRS 9 transition

(in €m)	Balance at 31/12/2017 IAS 39	Reclassification resulting from the application of IFRS 9: of Available-for-sale financial assets	of Non-SPPI loans and receivables	of Loans and receivables based on business model	Others	Other reclassifications	Credit value adjustments	Balance at 01/01/2018 IFRS 9
Trading book	239.6	-	-	-	-	-	-	239.6
Financial assets measured mandatorily at fair value through profit or loss		145.0	-	-	3.1	-	-	148.1
Financial assets at fair value through profit or loss (fair value option)	3.1	-	-	-	-3.1	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**242.7**	**145.0**	**-**	**-**	**-**	**-**	**-**	**387.7**
Trading book	309.4	-	-	-	-	-	-	309.4
Financial liabilities at fair value through profit or loss (fair value option)	1,701.3	-	-	-	-	-	-	1,701.3
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**2,010.6**	**-**	**-**	**-**	**-**	**-**	**-**	**2,010.6**

Overview of financial instruments at fair value through profit or loss

(in €m)	31/12/2018 Assets	31/12/2018 Liabilities	01/01/2018 Assets	01/01/2018 Liabilities
Trading book	237.6	255.8	239.6	309.4
Financial instruments measured mandatorily at fair value through profit or loss	206.4	-	148.1	-
Financial instruments at fair value through profit or loss (fair value option)	-	439.3	-	1,701.3
TOTAL	**443.9**	**695.1**	**387.7**	**2,010.6**
o/w securities purchased under resale agreements/sold under repurchase agreements	-	-	-	-

3.1.1 Trading book

Accounting principles

The trading book combines financial assets and liabilities which, on initial recognition:

- are acquired or held with the intention of selling or repurchasing them in the short term;
- or held for market making purposes;
- or acquired or held for a specialised trading book management purpose, including derivative instruments, securities or other financial instruments managed together, and showing indications of a recent short-term profit-taking profile.

Derivative financial instruments are classified as trading financial derivatives by default, unless they are designated as hedging instruments (see Note 3.2).

Trading book financial instruments are measured at fair value at the balance sheet date and recorded on the balance sheet under "Financial assets and liabilities at fair value through profit or loss". Changes in fair value are booked on the income statement under the heading "Net gains or losses on financial instruments at fair value through profit or loss."

Assets

(in €m)	31/12/2018	01/01/2018
Bonds and other debt securities	0.2	0.1
Shares and other equity securities	1.6	1.5
Loans, receivables and repurchase agreements	-	-
Trading derivatives (1)	235.7	238.0
Other trading assets	-	-
TOTAL	**237.6**	**239.6**
o/w loaned securities	-	-

(1) see Note 3.2 "Derivative financial instruments."

Liabilities

(in €m)	31/12/2018	01/01/2018
Debt securities	-	-
Amounts payable on borrowed securities	-	-
Bonds and other debt securities sold short	-	-
Shares and other equity securities sold short	-	0.2
Borrowings and repurchase agreements	-	-
Trading derivatives (1)	255.8	309.1
Other trading liabilities	-	-
TOTAL	**255.8**	**309.3**

(2) see Note 3.2 "Derivative financial instruments."

3.1.2 Financial assets measured mandatorily at fair value through profit or loss

Accounting principles

"Financial assets measured mandatorily at fair value through profit or loss" include:

- loans, bonds and other fixed-income securities not held for trading purposes and whose contractual cash flows are not solely payments of principal and interest on the principal outstanding (non-basic or non-SPPI instruments);
- equities and other variable-income securities that are not classified in another sub-category: trading book at fair value through profit or loss, instruments designated by the Group to be measured at fair value through other comprehensive income that will not be subsequently reclassified to profit or loss.

The fair value of these assets is recorded on the balance sheet under "Financial assets at fair value through profit or loss" and changes in their fair value are recorded on the income statement under "Net gains/losses on financial instruments at fair value through profit."

Breakdown of financial assets measured mandatorily at fair value through profit or loss

(in €m)	31/12/2018	01/01/2018
Bonds and other debt securities	5.2	13.7
Shares and other equity securities	201.1	134.4
Loans, receivables and repurchase agreements	-	-
TOTAL	**206.4**	**148.1**
o/w loaned securities	-	-

Breakdown of loans, receivables and repurchase agreements

Crédit du Nord Group did not hold any loans, receivables and repurchase agreements measured mandatorily at fair value through profit or loss at December 31, 2018.

3.1.3 Financial instruments at fair value through profit or loss (fair value option)

Accounting principles

In addition to financial assets and liabilities held for trading, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in fair value are booked on the income statement under the heading "Net gains or losses on financial instruments at fair value through profit or loss."

This option is only applied in the following cases:

- to eliminate or significantly reduce discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should alternatively be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

Assets

Crédit du Nord Group did not hold any financial assets measured at fair value through profit or loss under the FVPL option at December 31, 2018.

Liabilities

Fair value through profit or loss (fair value option) predominantly consist of Crédit du Nord Group structured issues. The change in fair value attributable to own credit risk generated an unrealised gain of €8.4 million at December 31, 2018, booked directly to other comprehensive income, bringing total gains and losses attributable to own credit risk to -€1.4 million (see "Statement of net income and gains and losses booked directly to other comprehensive income" and "Statement of change in shareholders' equity"). At December 31, 2017, the change in fair value attributable to own credit risk was taken to profit or loss. Revaluation differences linked to the Group's issuer credit risk are measured using models incorporating the Group's most recent actual refinancing terms and conditions on the markets and the residual maturity of the relevant liabilities.

At December 31, 2018, the difference between the fair value of financial liabilities at fair value through profit or loss (fair value option) (€439.3 million vs. €1,701.3 million at December 31, 2017) and their amount repayable at maturity (€478.6 million vs. €1,690.8 million at December 31, 2017) amounted to -€39.3 million (vs. +€10.5 million at December 31, 2017).

3.1.4 Net gains/losses on financial instruments at fair value through profit or loss

(in €m)	2018	2017
Net income from trading book	0.4	0.4
Net income on financial instruments measured mandatorily at fair value through profit or loss (4)	71.2	
Net gain/loss on financial instruments at fair value (fair value option)	-5.9	2.8
Gain/loss on derivative financial instruments held for trading	5.8	10.4
Net gain/loss on hedging transactions (2) (3)	-6.5	-4.2
Net gain/loss on fair value hedging derivatives	*-104.7*	*-68.6*
Revaluation of hedged items attributable to hedged risks	*98.2*	*64.4*
Ineffective portion of cash flow hedge	-	-
Net income from foreign exchange transactions	35.0	32.1
TOTAL (1)	**100.0**	**41.5**
o/w dividend income on financial instruments at fair value through profit or loss	*2.2*	

(1) Since income and expenses presented on the income statement are categorised by type and not by the recipient, net income on transactions in financial instruments at fair value through profit or loss must be assessed as a whole. It is worth noting that the above earnings do not include the cost of refinancing these financial instruments, which is included in interest income and expense.

(2) This item only contains income from hedging transactions involving financial instruments. For hedging transactions involving non-financial assets or liabilities, net income from fair value hedging derivatives is recorded on the income statement line impacted by the hedged item.

(3) In fiscal year 2018, CVA and FVA effects generated:
- in respect of CVA: an expense of €3.3 million (versus income of €32.2 million for fiscal year 2017);
- in respect of FVA: an expense of €3.7 million (versus an expense of €7.8 million for fiscal year 2017).
The CVA effect in respect of Societe Generale Group generated an expense of €3.6 million for fiscal year 2017 (versus income of €31.7 million for fiscal year 2017).

(4) This item contains unrealised gains recorded during fiscal year 2018 on Sicavam Holding shares in the amount of €47.1 million.

3.2 Derivative financial instruments

Accounting principles

Derivatives are instruments that meet the following criteria:

- their value fluctuates according to changes in the underlying (interest rates, exchange rates, equities, indices, commodities, credit ratings, etc.);
- they require little to no initial investment;
- they are settled at a future date.

All derivative financial instruments are recognised at their fair value under financial assets or liabilities on the balance sheet. By default they are recognised as trading instruments, unless they are designated as hedging instruments.

Recognition of embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host instrument.

Where the host contract is a financial asset, the hybrid contract is measured entirely at fair value through profit or loss because its contractual cash flows do not pass the SPPI test.

Where the host contract is a financial liability and it is not measured at fair value through profit or loss, the embedded derivative is separated from its host instrument where, on initiation of the transaction, the economic characteristics and risks associated with the embedded derivative are not closely linked to the characteristics and risks of the host contract that meets the definition of a derivative instrument.

Once separated, the derivative financial instrument is booked at fair value on the balance sheet under "Financial assets" or "Financial liabilities at fair value through profit or loss" under the terms described above. The host contract is classified and measured as a financial liability based on its accounting category.

3.2.1 Trading derivatives

Accounting principles

Trading derivatives are recorded on the balance sheet at their fair value under "Financial assets or liabilities at fair value through profit or loss." Changes in fair value are booked on the income statement under the heading "Net gains or losses on financial instruments at fair value through profit or loss."

Changes in the fair value of derivative contracts entered into with counterparties which end up defaulting are booked under "Net gains or losses on financial instruments at fair value through profit or loss" until the date the instruments are cancelled and recognised on the balance sheet, for the fair value at this same date of the receivable or debt vis-à-vis the counterparties in question. Any subsequent impairment on these receivables is recorded under "Cost of risk" on the income statement.

Breakdown of the fair value of trading derivatives

	31/12/2018		01/01/2018	
(in €m)	Assets	Liabilities	Assets	Liabilities
Interest rate instruments	192.6	222.6	198.0	259.0
Foreign exchange instruments	43.1	33.1	40.0	50.1
Equity and index instruments	-	-	-	-
Commodity instruments	-	-	-	-
Credit derivatives	-	-	-	-
Other forward financial instruments	-	-	-	-
TOTAL	**235.7**	**255.8**	**238.0**	**309.1**

Breakdown of trading derivative commitments (notional amounts)

	31/12/2018		01/01/2018	
(in €m)	Assets	Liabilities	Assets	Liabilities
Interest rate instruments				
Firm instruments				
Swaps	*6,797.3*	*6,797.3*	*9,583.1*	*9,583.1*
Options				
Caps, floors, collars	*391.4*	*416.0*	*306.0*	*341.4*
Foreign exchange instruments				
Firm instruments				
Swaps	*85.5*	*85.5*	*83.5*	*83.5*
Options				
Foreign exchange options	*396.3*	*396.3*	*259.1*	*259.1*
Other forward financial instruments				
Instruments on organised markets	897.7	897.7	1,269.4	1,269.4
TOTAL	**8,568.2**	**8,592.8**	**11,501.0**	**11,536.4**

3.2.2 Hedging derivatives

In accordance with IFRS 9 transition guidance, the Group elected to continue applying the provisions of IAS 39 on hedge accounting. Consequently, the equity instruments held by the Group (equities and other variable-income securities) are not eligible for hedge accounting, regardless of their accounting classification.

Accounting principles

In order to guard against certain market risks, the Group sets up hedges using derivative financial instruments. From an accounting standpoint, they may be designated as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation, depending on the risks or instruments to be hedged.

To qualify as hedges for accounting purposes, the Group produces detailed documentation covering the hedging relationship from its inception. This documentation indicates the asset, liability or future transaction hedged, the risk to be hedged and the associated risk management strategy, the type of derivative used and the evaluation method applied to measure the effectiveness of the hedge.

The hedge must be highly effective, such that changes in the fair value or cash flows are offset. The hedge is deemed effective if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument, i.e. the ratio between the two changes

is expected to be in the 80%-125% range. This effectiveness is measured when the hedge is first set up and throughout its life. It is measured prospectively each quarter (expected effectiveness over future periods) and retrospectively (actual effectiveness). If the effectiveness falls outside the aforementioned rate, hedge accounting is discontinued.

Derivative hedging instruments are recognised on the balance sheet at their fair value under "Hedging derivatives."

Fair value hedge

The aim of this hedging relationship is to guard against an adverse change in the fair value of an item liable to affect the income statement if the hedged item is removed from the balance sheet.

Changes in the fair value of the hedging derivative are taken to the income statement under "Net gains or losses on financial instruments at fair value through profit or loss." For interest rate derivatives, however, the corresponding accrued interest income or expenses on the hedging derivative are booked to the income statement under "Interest and similar income/expenses" with a corresponding entry under interest income or expenses related to the hedged item.

On the balance sheet, the carrying value of the hedged item is adjusted for gains or losses attributable to the hedged risk, which are recognised on the income statement under "Net gains or losses on financial instruments at fair value through profit or loss." Where the hedging relationship is highly effective, changes in the fair value of the hedged item are offset on the income statement by changes in the fair value of the hedging derivative, with the difference comprising a gain or loss on ineffectiveness.

The future effectiveness of the hedge is determined using a sensitivity analysis that includes probable scenarios for changes in market inputs, or a regression analysis through an analysis drawn from a statistical relationship (correlation) between certain components of the hedged item.

Retrospective effectiveness is assessed by comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hedged item for as long as it is recognised on the balance sheet.

The Group discontinues the hedge, on a forward-looking basis, if the effectiveness criteria for the hedging instrument are no longer met, or the derivative is sold or terminated. As a result, the balance sheet value of the hedged item is no longer adjusted to reflect change in fair value attributable to the hedged risk, and cumulative gains or losses on the previously hedged item are amortised over the remaining life of the item. Hedge accounting is also discontinued if the hedged item is sold before maturity or terminated early.

Cash-flow hedge

Interest rate cash flow hedges are used to hedge items exposed to future cash flow fluctuations linked to a financial instrument recorded on the balance sheet (loans, securities, variable-rate debt) or to a highly probable future transaction (future fixed rates, future prices, etc.). The aim of this hedging relationship is to guard against an adverse change in the future cash flows of an item liable to affect the income statement. The effective portion of changes in the fair value of derivative financial instruments are recorded under "Gains and losses booked directly to other comprehensive income", while the ineffective portion is booked to the income statement under "Net gains or losses on financial instruments at fair value through profit or loss." For interest rate derivatives, accrued interest income or expenses on the hedging derivative are booked to profit or loss under "Interest and similar income/expenses" with a corresponding entry under interest income or expense related to the hedged item.

The effectiveness of the hedge is measured using the hypothetical derivative method, which consists in creating a hypothetical derivative that exactly replicates the characteristics of the hedged items (in terms of notional value, the date the interest rates are reset, interest rates, etc.), taking the opposite approach to the hedged item, and whose value is nil at the inception of the hedging relationship. Then the expected changes in the fair value of the hypothetical derivative are compared with those of the hedging instrument (sensitivity analysis) or a regression analysis is conducted to examine the future effectiveness of the hedge. Here, only any "over-hedging" is deemed ineffective.

Amounts booked to other comprehensive income in respect of the revaluation of cash flow hedges are recorded under "Interest and similar income/expenses" on the income statement at the same rate as the hedged cash flows.

The Group discontinues the hedge, on a forward-looking basis, if the effectiveness criteria for the hedging instrument are no longer met, or the derivative is sold or terminated. Amounts previously booked to other comprehensive income are reclassified under "Interest and similar income/expenses" on the income statement during the periods in which the interest margin is impacted by the variability of cash flows arising from the hedged item. If the hedged item is sold or redeemed prior to the projected maturity or if the hedged future transaction is no longer highly probable, the unrealised gains and losses booked to other comprehensive income are immediately reclassified to profit or loss.

Macro fair value hedge

In this type of hedge, interest rate derivatives are used to hedge the Group's overall structural interest rate risk, mainly arising from retail banking activities. Crédit du Nord Group has elected to use the carve-out provisions of IAS 39 as adopted by the European Union, which facilitates:

- the use of fair value hedge accounting for macro hedges used in Asset & Liability Management, including customer demand deposits in the fixed-rate positions being hedged;
- the performance of the hedge effectiveness tests provided for by IAS 39, as adopted by the European Union.

The accounting treatment of derivatives used for macro fair value hedges is similar to that of derivatives used in fair value hedges. Changes in the fair value of portfolios of macro-hedged financial assets and liabilities are booked under "Revaluation differences on portfolios hedged against interest rate risk" through profit or loss.

Breakdown of the fair value of hedging derivatives

	31/12/2018		01/01/2018	
(in €m)	Assets	Liabilities	Assets	Liabilities
Fair value hedge [1]				
Interest rate instruments	1,147.6	241.3	1,265.1	259.8
Foreign exchange instruments	-	-	-	-
Equity and index instruments	-	-	-	-
Other financial instruments	-	-	-	-
Cash-flow hedges				
Interest rate instruments	-	-	-	-
Foreign exchange instruments	-	-	-	-
Equity and index instruments	-	-	-	-
Other financial instruments	-	0.7	0.1	-
TOTAL	**1,147.6**	**242.0**	**1,265.2**	**259.8**

(1) Including Macro Fair Value Hedge derivatives

The Group sets up hedging positions classified for accounting purposes as fair value hedges to hedge fixed-rate financial assets and liabilities (predominantly loans/borrowings, security issues and fixed-rate securities) against long-term interest rate fluctuations. Fair value hedges are mainly set up as swaps in order to guard against interest rate variations.

Breakdown of hedging derivative commitments (notional amounts)

	301/12/2018		01/01/2018	
(in €m)	Assets	Liabilities	Assets	Liabilities
Interest rate instruments				
Firm instruments				
Swaps	*27,958.0*	*27,958.0*	*33,059.8*	*33,059.8*
Options				
Caps, floors, collars	*1,248.7*	-	*1,615.5*	-
Foreign exchange instruments				
Firm instruments				
Swaps	-	-	*6.7*	*7.5*
Options				
Foreign exchange options	-	-		-
Other forward financial instruments				
Instruments on organised markets	2.6	-	2.5	-
TOTAL	**29,209.4**	**27,958.0**	**34,684.4**	**33,067.3**

Breakdown of fair value-hedged items

(in €m)	31/12/2018 Carrying amount of hedged item [1]	Total change in fair value of hedged item [2]	Change in fair value of hedged item recorded over the period
Interest rate risk hedges	**29,363.4**	**1,417.4**	**98.1**
Hedged assets	8,815.1	275.6	-68.9
Due from banks, at amortised cost	-	-	-
Customer loans at amortised cost	-	-	-
Debt securities at amortised cost	-	-	-
Financial assets at fair value through other comprehensive income	3,055.1	48.9	-8.5
Macro-hedged customer loans	5,760.0	226.7	-60.4
Hedged liabilities	20,548.3	1,141.8	167.0
Debt securities	-	-	-
Due to banks	-	-	0.9
Customer deposits	-	-	-
Subordinated debt	-	-	2.5
Macro-hedged customer deposits	20,548.3	1,141.8	163.6
Foreign exchange risk hedges	**-**	**-**	**-**
Hedged assets	-	-	-
Hedged liabilities	-	-	-

(1) *The carrying amount of macro-hedged items is the sum of hedged exposures and the revaluation difference on portfolios hedged against interest rate risk.*

(2) *Change in fair value attributable to the hedged risk only and used to determine the ineffective portion of the fair value hedging instrument. This change excludes accrued interest for items hedged against interest rate risk.*

Breakdown of fair value hedging instruments

(in €m)	31/12/2018 Commitments (notional amount)	Fair value* Assets	Fair value* Liabilities	Change in fair value recorded over the period	Ineffective portion of hedge taken to profit or loss over the period
Interest rate risk hedges	**29,206.7**	**1,147.6**	**241.3**	**-104.9**	**-6.7**
Firm instruments - *Swaps*	27,958.0	1,145.2	241.3	-105.0	-6.6
used to hedge assets	2,918.0	0.1	58.2	7.6	-0.9
used to hedge portfolios of assets (macro-hedge) [1]	5,625.0	7.4	129.3	25.6	-34.6
used to hedge liabilities	-	-	-	-3.6	-0.3
used to hedge portfolios of liabilities (macro-hedge) [1]	19,415.0	1,137.7	53.8	-134.5	29.1
Firm instruments - Interest rate futures	-	-	-	-	-
Options	1,248.7	2.4	-	0.1	-0.1
used to hedge portfolios of assets (macro-hedge) [1]	1,248.7	2.4	-	0.1	-0.1
Foreign exchange risk hedges	**-**	**-**	**-**	**-**	**-**
TOTAL	**29,206.7**	**1,147.6**	**241.3**	**-104.9**	**-6.7**

(1) *For macro-hedging transactions, the commitment shown here is the net position of hedging derivatives, reflecting the economic exposure generated by these instruments. This position should be compared with the balance sheet value of the hedged items, representing the exposure to be hedged.*

* *The fair value of hedging derivatives includes accrued interest for interest rate instruments.*

Breakdown of cash flow-hedged items

The following table presents the change in fair value of the hedged item used for the purpose of recognising the ineffective portion of the hedge over the period. For cash flow hedging relationships, the change in fair value of the hedged item is measured using the hypothetical derivative method described in the "Accounting principles" section above.

(in €m)	2018
Interest rate risk hedges	-
Foreign exchange risk hedges	-
Equity risk hedges	**0.3**
Futures transactions	0.3

Breakdown of cash flow hedging instruments

	31/12/2018					
		Fair value		Change in fair value recorded over the period		Total change in fair value recorded in gains and losses booked directly to other comprehensive income
(in €m)	Hedging derivative commitments (notional amounts)	Assets	Liabilities	Portion recorded in gains and losses booked directly to other comprehensive income	Ineffective portion taken to profit or loss	
Interest rate risk hedges	-	-	-	-	-	-
Foreign exchange risk hedges	-	-	-	-	-	-
Equity risk hedges	**2.6**	**-**	**0.7**	**-0.3**	**-0.3**	**-0.3**
Options	2.6	-	0.7	-0.3	-0.3	-0.3
Used to hedge futures transactions	*2.6*	*-*	*0.7*	*-0.3*	*-0.3*	*-0.3*
TOTAL	**2.6**	**-**	**0.7**	**-0.3**	**-0.3**	**-0.3**

Maturities of derivative commitments (notional amounts)

These items are presented based on the contractual maturities of the financial instruments.

(in €m)	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	31/12/2018
Interest rate instruments					
Firm instruments	-	-	-	-	-
Swaps					
Options					
Caps, floors, collars	*9.3*	*15.3*	*1,084.1*	*115.4*	*1,224.1*
Foreign exchange instruments	-	-	-	-	-
Firm instruments	-	-	-	-	-
Swaps					
Options	-	-	-	-	-
Foreign exchange options					
Other forward financial instruments	**-**	**-**	**-**	**-**	**-**
Other forward instruments	2.6	-	-	-	2.6

3.3 Financial assets at fair value through other comprehensive income

Overview of the IFRS 9 transition

(in €m)	Balance at 31/12/2017 IAS 39	Reclassification resulting from the application of IFRS 9: of Available-for-sale financial assets	of Held-to-maturity financial assets	of Loans and receivables based on business model	Other reclassifications	Credit value adjustments	Balance at 01/01/2018 IFRS 9
Bonds and other debt securities		5,748.7	-	-	-	-	5,748.7
Loans, receivables and repurchase agreements		-	-	-	-	-	-
Sub-total - Debt instruments		**5,748.7**	**-**	**-**	**-**	**-**	**5,748.7**
Shares and other equity securities		52.6	-	-	-	-	52.6
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**5,801.3**	**-**	**-**	**-**	**-**	**5,801.3**

Overview of financial assets at fair value through other comprehensive income

	31/12/2018		01/01/2018	
(in €m)	*Balance sheet value*	o/w total unrealised gains and losses	*Balance sheet value*	o/w total unrealised gains and losses
Bonds and other debt securities	4,377.4	*13.7*	5,748.7	*46.3*
Loans, receivables and repurchase agreements	-	-	-	-
Sub-total - Debt instruments	**4,377.4**	***13.7***	**5,748.7**	***46.3***
Shares and other equity securities	52.7	*13.8*	52.6	*13.8*
TOTAL	**4,430.1**	***27.6***	**5,801.3**	***60.1***
o/w loaned securities	-	-	-	-

(1) At December 31, 2018, bonds and other debt securities at fair value through other comprehensive income comprised:
- €2,057.4 million in treasury notes and equivalent (versus €3,578.7 million at January 1, 2018);
- €2,320.0 million in bonds, negotiable debt securities and equivalent (versus €2,170.0 million at January 1, 2018).
(2) At December 31, 2018, shares and other equity securities at fair value through other comprehensive income exclusively consisted of Crédit Logement shares.

3.3.1 Debt instruments

Accounting principles

Debt instruments (loans and receivables, bonds and other fixed-income securities) are recorded under "Fair value through other comprehensive income" where their contractual cash flows are representative of basic lending arrangements (SPPI) and they are managed under a Collect and Sell business model.

Accrued or earned income on fixed-income securities is recorded in profit or loss based on the effective interest rate under "Interest and similar income."

At the balance sheet date, these instruments are measured at their fair value, and changes in fair value (excluding income) are recorded under "Gains and losses booked directly to other comprehensive income", except for foreign exchange differences on money market assets denominated in local currencies, which are recorded on the income statement. Furthermore, as these financial assets are subject to the credit risk impairment model, changes in expected credit losses are taken to profit or loss under "Cost of risk" with a corresponding entry to "Gains and losses booked directly to other comprehensive income." The applicable impairment rules are described in Note 3.8.

If these instruments are sold, the associated impairments for credit risk are reversed with a corresponding entry to "Cost of risk" on the income statement, and the unrealised gains and losses booked to other comprehensive income are reclassified to profit or loss under "Net gains or losses on financial assets at fair value through other comprehensive income.".

"Collect and Sell" business model

The aim of this business model is to generate cash flows by collecting contractual cash flows and selling financial assets. In this type of business model, the sales of financial assets are not incidental or exceptional, but they are integral to achieving the business's objectives.

Cash management activities

Within the Group, the "Collect and Sell" business model is mainly applied by cash management activities for managing HQLA securities (*High Quality Liquid Assets*) included in the liquidity reserve.

Changes in debt instruments at fair value through other comprehensive income

(in €m)	2018
Balance at January 1	**5,748.7**
Acquisitions/disbursements	2,030.5
Disposals/redemptions	-3,328.9
Transfers subsequent to reclassification to (or from) another accounting category	-
Changes in scope and other changes	-31.6
Changes in fair value over the period	-33.5
Change in related receivables	-7.6
Foreign exchange differences	-0.2
BALANCE AT DECEMBER 31	**4,377.4**

Breakdown of unrealised gains and losses booked directly to other comprehensive income that will be subsequently reclassified to profit or loss

(in €m)	2018
Unrealised capital gains	24.3
Unrealised capital losses	-11.7
TOTAL	**12.7**

3.3.2 Equity instruments

Accounting principles

If they are not held for trading, equity instruments (shares and other variable-income securities) are recorded under "Fair value through other comprehensive income" where the Group designated them at initial recognition to be measured at fair value through other comprehensive income.

The Group has elected to systematically measure equity instruments at fair value through profit or loss, barring exceptions.

Regardless of the circumstances leading to the recognition of an instrument in this category, this designation option is irreversible.

Dividend income, where it represents a return on investment, is recorded under (Net gains or losses on financial assets at fair value through other comprehensive income" on the income statement.

At the balance sheet date, these instruments are measured at their value and changes in fair value, excluding income, is recorded under "Gains and losses booked directly to other comprehensive income."

.If these instruments are sold, the associated gains and losses booked to other comprehensive income are reclassified to "Consolidated reserves" at January 1 of the following fiscal year.

3.3.3 Net gains or losses on financial instruments at fair value through other comprehensive income

(in €m)	2018
Capital gains or losses on disposal of debt instruments	15.9
Dividend income on financial assets at fair value through other comprehensive income	7.9
TOTAL	**23.8**

3.4 Fair value of financial instruments measured at fair value

Accounting principles

Definition of fair value

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an arm's length transaction between market intermediaries at the valuation date.

In the absence of observable prices for an identical asset or liability, the fair value of the financial instruments is determined using another valuation technique that maximises the use of observable market data, by taking assumptions that market participants would use to set the price of the instrument in question.

Fair value hierarchy

For information purposes, in the notes to the consolidated financial statements, the fair value of financial instruments is presented as a hierarchy of fair values, which reflects the importance of the data used to measure these values. The fair value hierarchy comprises the following levels:

Level 1 (L1): Instruments measured using unadjusted prices quoted on active markets for identical assets or liabilities.

Instruments measured at fair value on the balance sheet, classified as Level 1, notably include equities listed on an active market, government or corporate bonds with direct external ratings (by brokers/dealers), derivatives traded on organised markets (futures, options) and units of funds (including UCITS) whose net asset value is available at the balance sheet date.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, business sector, pricing service or regulatory agency, and those prices represent real and regularly occurring transactions on an arm's length basis.

A market is considered to be inactive on the basis of indicators such as a significant decline in trading volumes and the level of activity on the market, high disparity between prices available over time and between the different market operators mentioned above, or how much time has transpired since the most recent transactions took place on the market on an arm's length basis.

Where the financial instrument is traded on different markets and the Group has immediate access to these markets, the financial instrument's fair value is represented by the price on the market where trading volumes and levels are the highest for the instrument in question.

Level 2 (L2): Instruments measured using data other than the quoted prices referred to in Level 1 and which are observable for the asset or liability in question, either directly (i.e. prices) or indirectly (i.e. data derived from prices).

Financial instruments listed on markets considered to be insufficiently active and financial instruments traded over the counter are included in this level. Prices published by an external source, derived from the valuation of similar instruments, are considered to be data derived from prices.

L2 includes in particular financial instruments measured at fair value on the balance sheet that are not directly quoted (e.g. corporate bonds, mortgage-backed securities, units of funds), as well as derivatives and options traded over the counter: interest rate swaps, caps, floors, swaptions, options on equities, indices, exchange rates, commodities and credit derivatives. The maturities of these instruments meet the terms generally used in the market, and can be simple or present more complex remuneration profiles (e.g. barrier options, products with multiple underlyings), though this complexity is limited. The Level 2 valuation techniques used rely on the usual methods shared by the principal market participants.

Level 3 (L3): Instruments for which the valuation data are not based on observable market data (unobservable data).

This category primarily includes financial instruments measured at fair value on the balance sheet, for which the sales margin is not immediately booked to profit or loss (see Note 3).

3.4.1 Financial assets measured at fair value on the balance sheet

	31/12/2018				31/12/2017			
(in €m)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading book	**1.8**	**-**	**-**	**1.8**	**1.6**	**-**	**-**	**1.6**
Bonds and other debt securities	0.2	-	-	0.2	0.1	-	-	0.1
Loans, receivables and repurchase agreements	-	-	-	-	-	-	-	-
Shares and other equity securities	1.6	-	-	1.6	1.5	-	-	1.5
Other trading assets	-	-	-	-	-	-	-	-
Trading derivatives	**-**	**235.7**	**-**	**235.7**	**-**	**238.0**	**-**	**238.0**
Interest rate instruments	-	192.6	-	192.6	-	198.0	-	198.0
Foreign exchange instruments	-	43.1	-	43.1	-	40.0	-	40.0
Equity and index instruments	-	-	-	-	-	-	-	-
Commodity instruments	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-
Financial assets measured mandatorily at fair value through profit or loss	**-**	**5.2**	**201.1**	**206.4**	**-**	**10.7**	**137.5**	**148.1**
Bonds and other debt securities	-	5.2	-	5.2	-	10.7	3.1	13.7
Loans and receivables	-	-	-	-	-	-	-	-
Shares and other equity securities	-	-	201.1	201.1	-	-	134.4	134.4
Financial assets at fair value through profit or loss (fair value option)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and other debt securities	-	-	-	-	-	-	-	-
Loans, receivables and repurchase agreements	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**4,205.0**	**172.4**	**52.7**	**4,430.1**	**4,851.8**	**896.9**	**52.6**	**5,801.3**
Debt instruments	4,205.0	172.4	-	4,377.4	4,851.8	896.9	-	5,748.7
Equity instruments	-	-	52.7	52.7	-	-	52.6	52.6
Loans and receivables	-	-	-	-	-	-	-	-
Hedging derivatives	**-**	**1,147.6**	**-**	**1,147.6**	**-**	**1,265.1**	**-**	**1,265.2**
Interest rate instruments	-	1,147.6	-	1,147.6	-	1,265.1	-	1,265.1
Foreign exchange instruments	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	0.1	-	0.1
TOTAL FINANCIAL INSTRUMENTS AT FAIR VALUE - ASSETS	**4,206.8**	**1,560.9**	**253.8**	**6,021.6**	**4,853.4**	**2,410.7**	**190.1**	**7,454.2**

3.4.2 Financial liabilities measured at fair value on the balance sheet

	31/12/2018				31/12/2017			
(in €m)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading book	**-**	**-**	**-**	**-**	**0.2**	**-**	**-**	**0.2**
Debt securities	-	-	-	-	-	-	-	-
Amounts payable on borrowed securities	-	-	-	-	-	-	-	-
Bonds and other debt securities sold short	-	-	-	-	-	-	-	-
Shares and other equity securities sold short	-	-	-	-	0.2	-	-	0.2
Borrowings and repurchase agreements	-	-	-	-	-	-	-	-
Other trading liabilities	-	-	-	-	-	-	-	-
Trading derivatives	**-**	**255.8**	**-**	**255.8**	**-**	**309.1**	**-**	**309.1**
Interest rate instruments	-	222.6	-	222.6	-	259.0	-	259.0
Foreign exchange instruments	-	33.1	-	33.1	-	50.1	-	50.1
Equity and index instruments	-	-	-	-	-	-	-	-
Commodity instruments	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss (fair value option)	**-**	**439.3**	**-**	**439.3**	**-**	**1,701.3**	**-**	**1,701.3**
Hedging derivatives	**-**	**242.0**	**-**	**242.0**	**-**	**259.8**	**-**	**259.8**
Interest rate instruments	-	241.3	-	241.3	-	259.8	-	259.8
Foreign exchange instruments	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-
Other financial instruments	-	0.7	-	0.7	-	-	-	-
TOTAL FINANCIAL INSTRUMENTS AT FAIR VALUE - LIABILITIES	**-**	**937.1**	**-**	**937.1**	**0.2**	**2,270.2**	**-**	**2,270.4**

3.4.3 Change in Level 3 financial instruments

Financial assets measured at fair value on the balance sheet

(in €m)	Balance at 01/01/2018	Acquisitions	Disposals/ redemptions	Transfers to Level 2	Transfers from Level 2	Gains and losses	Foreign exchange differences	Changes in scope and other changes	Balance at 31/12/2018
Trading book	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and other debt securities	-	-	-	-	-	-	-	-	-
Loans, receivables and repurchase agreements	-	-	-	-	-	-	-	-	-
Shares and other equity securities	-	-	-	-	-	-	-	-	-
Other trading assets	-	-	-	-	-	-	-	-	-
Trading derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Commodity instruments	-	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-	-
Financial assets measured mandatorily at fair value through profit or loss	**137.4**	**38.7**	**-24.9**	**-**	**-**	**49.9**	**-**	**-**	**201.1**
Bonds and other debt securities	3.1	-	-3.1	-	-	-	-	-	-
Loans and receivables	-	-	-	-	-	-	-	-	-
Shares and other equity securities	134.3	38.7	-21.8	-	-	49.9	-	-	201.1
Financial assets at fair value through profit or loss (fair value option)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and other debt securities	-	-	-	-	-	-	-	-	-
Loans, receivables and repurchase agreements	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**52.6**	**-**	**-**	**-**	**-**	**0.1**	**-**	**-**	**52.7**
Debt instruments	-	-	-	-	-	-	-	-	-
Equity instruments	52.6	-	-	-	-	0.1	-	-	52.7
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-	-	-
TOTAL FINANCIAL INSTRUMENTS AT FAIR VALUE - ASSETS	**190.0**	**38.7**	**-21.8**	**-**	**-**	**79.0**	**-**	**-29.0**	**253.8**

Financial liabilities measured at fair value on the balance sheet

(in €m)	Balance at 01/01/2018	Issues	Redemptions	Transfers to Level 2	Transfers from Level 2	Gains and losses	Foreign exchange differences	Changes in scope and other changes	Balance at 31/12/2018
Trading book	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
Amounts payable on borrowed securities	-	-	-	-	-	-	-	-	-
Bonds and other debt securities sold short	-	-	-	-	-	-	-	-	-
Shares and other equity securities sold short	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	-	-	-	-	-	-	-	-
Other trading liabilities	-	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-	-
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Commodity instruments	-	-	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-	-	-
Other forward financial instruments	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss (fair value option)	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-	-	-
TOTAL FINANCIAL INSTRUMENTS AT FAIR VALUE - LIABILITIES	-	-	-	-	-	-	-	-	-

3.4.4 Valuation methods for financial instruments measured at fair value on the balance sheet

For financial instruments measured at fair value on the balance sheet, fair value is mainly determined using prices quoted on an active market. These prices can be adjusted if necessary if they are not available at the closing date or if the clearing price does not reflect the transaction prices.

However, given the multitude of characteristics of financial instruments traded over the counter, a large number of financial products traded by the Group are not directly quoted on the markets.

For these products, fair value is determined using valuation techniques commonly used by market participants to measure the value of financial instruments.

Where applicable, reservations or adjustments (notably bid-ask or liquidity), determined conservatively and appropriately after reviewing available information, are added to these valuations.

For derivatives and repurchase agreements at fair value, a value adjustment is also made for counterparty risk (CVA/DVA - Credit Valuation Adjustment/Debt Valuation Adjustment). The Group includes all customers and clearing houses in this adjustment, which also takes into account the netting agreements existing for each counterparty.

The CVA is determined on the basis of the Group entity's expected positive exposure to the counterparty, the counterparty's probability of default on the condition of the lack of default by the entity in question, and the loss given default. The DVA is calculated symmetrically based on the expected negative exposure. These calculations are performed over the life of the potential exposure and favour the use of observable, relevant market data.

Similarly, an adjustment reflecting the costs or benefits associated with the funding of these transactions (FVA, Funding Valuation Adjustment) is also carried out.

Observable data must meet the following characteristics: non-proprietary (data independent of the bank), available, distributed publicly, based on a narrow consensus and backed by transaction prices.

For example, consensus data supplied by external counterparties are considered observable if the underlying market is liquid and the prices supplied are confirmed by real transactions. At high maturities, these consensus data are not considered as observable, as is the case for the implied volatilities used to measure equity options with maturities of more than 5 years. However, when the residual maturity of the instrument falls below 5 years, it becomes sensitive to observable inputs.

In the event of strong tensions on the markets, causing the usual data used as a reference to measure a financial instrument to be unavailable, the Risk Division may need to implement a new model incorporating the available relevant data, much like the methods also used by other market participants.

Shares and other equity securities

The fair value of listed securities is their market price at the closing date. The fair value of unlisted securities is determined according to the financial instrument and using one of the following valuation methods:

- valuation based on a recent transaction relative to the issuing company (third party having recently purchased a stake, valuation based on expert opinion, etc.);
- valuation based on a recent transaction relative to the issuing company's sector of operation (earnings multiple, asset multiple, etc.);
- share of net asset value held.

The valuations of significant unlisted securities are based on the aforementioned methods, in addition to methodologies based on the discounting of future cash flows generated by the issuing company's activity and determined using business plans or on the valuation multiples of equivalent companies.

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

The fair value of these financial instruments is determined relative to their closing quoted prices or prices provided by brokers at the closing date, where available. The fair value of unlisted financial instruments is determined using valuation techniques. For financial liabilities measured at fair value, the valuations used incorporate the impact of the Group's issuer credit risk.

Other debts

For listed financial instruments, fair value is taken as their quoted price on the balance sheet date. The fair value of unlisted financial instruments is determined by discounting the market rate (including counterparty, non-performance and liquidity risks) of future cash flows.

Loans and receivables

In the absence of an active market, the fair value of loans and receivables is calculated by discounting expected cash flows at a discount rate based on market interest rates in force at the closing date for loans with substantially the same conditions and maturities, with these interest rates adjusted to take account of the borrower's credit risk.

3.5 Loans, receivables and securities at amortised cost

Overview of the IFRS 9 transition

(in €m)	Balance at 31/12/2017 IAS 39	Reclassification resulting from the application of IFRS 9: of Available-for-sale financial assets	of Held-to-maturity financial assets	of Loans and receivables based on business model	Other reclassifications[1]	Impairments for credit risk under IFRS 9	Balance at 01/01/2018 IFRS 9
Due from banks and equivalent at amortised cost	11,259.9	-	-	-	-	-0.2	11,259.7
Customer loans at amortised cost*	41,300.8	-	-	-	-	-62.4	41,238.4
Securities at amortised cost		10.1	-	-	-	-	10.1
TOTAL FINANCIAL ASSETS AT AMORTISED COST	**52,560.7**	**10.1**	**-**	**-**	**-**	**-62.6**	**52,508.2**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

(1) *At December 31, 2018, individual loans classified in Stage 3 for impairment (doubtful loans) amounted to €2,121.1 million versus €2,382.6 million at January 1, 2018.*

Overview of financial assets at amortised cost

(in €m)	31/12/2018 Balance sheet value	31/12/2018 *o/w impairment*	01/01/2018 Balance sheet value	01/01/2018 *o/w impairment*
Due from banks and equivalent	10,196.9	*-0.2*	11,259.7	*-0.2*
Customer loans	42,925.1	*-1,397.1*	41,238.4	*-1,516.0*
Securities	8.7	-	10.1	-
TOTAL	**53,130.7**	***-1,397.3***	**52,508.2**	***-1,516.2***
o/w securities purchased/sold under resale/repurchase agreements	*0.6*	-	*1,114.4*	-

Accounting principles

Loans and receivables include non-derivative fixed- or determinable-income financial assets which are not listed on an active market and which are not held for trading purposes or held for sale from the time of their acquisition or issuance, nor initially designated to be measured at fair value through profit or loss (fair value option).

Loans and receivables are presented on the balance sheet under the line item "Due from banks" or "Customer loans", depending on the counterparty. After their initial recognition, they are measured at amortised cost, based on the effective interest rate, and may be subject to impairment if appropriate on an individual or collective basis (see Note 3.8).

Loans and receivables may be subject to commercial renegotiations where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which the Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans and receivables are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans and receivables on the balance sheet at this same date. These new loans are subsequently measured at amortised cost, based on the effective interest rate resulting from the new contractual terms and conditions.

Customer loans and receivables include lease receivables where they are considered to be finance lease receivables. Leases granted by the Group are considered to be finance leases if their impact is to transfer to the lessees virtually all the risks and rewards associated with ownership of the leased asset. Otherwise, they are classified as operating leases (see Notes 4.2 and 7.1).

Finance lease receivables represent the Group's net investment as a fund provider in the lease, calculated as the present value of the minimum lease payments to be received from the lessee, plus any unguaranteed residual value, discounted at the interest rate implicit in the lease. In the event of a subsequent decline in unguaranteed residual value, used in calculating the lessor's investment in the lease financing contract, the discounted value of this decline is booked to "Expenses from other activities" on the income statement, offset by a reduction in the lease receivable on the asset side of the balance sheet.

3.5.1. Due from banks and equivalent

(in €m)	31/12/2018	01/01/2018
Current accounts	441.0	388.0
Loans and accounts	9,666.4	9,628.9
Subordinated and participating loans	58.1	98.0
Securities purchased under resale agreements	0.5	1,114.2
Related receivables	31.1	30.7
Due from banks and equivalent before impairment	**10,197.1**	**11,259.8**
Impairment for credit risk	-0.2	-0.2
Revaluation of hedged items	-	-
DUE FROM BANKS	**10,196.9**	**11,259.6**

It should also be noted that, of the total amount due from banks at December 31, 2018, €5,837.3 million represented transactions with Societe Generale Group (€6,503.8 million at December 31, 2017).

3.5.2. Customer loans

(in €m)	31/12/2018	01/01/2018
Overdrafts (1)	1,890.3	1,814.8
Other customer loans (1)	39,958.6	38,592.8
Finance leases (1)	2,416.1	2,290.6
Related receivables	57.1	56.0
Securities purchased under resale agreements	0.1	0.2
Customer loans (before impairment)	**44,322.2**	**42,754.4**
Impairment for credit risk	-1,397.1	-1,516.0
Revaluation of hedged items	-	-
CUSTOMER LOANS	**42,925.1**	**41,238.4**

(1) At December 31, 2018, individual loans classified in Stage 3 for impairment (doubtful loans) amounted to €2,273.6 million versus €2,563.3 million at January 1, 2018.

The provision ratio for doubtful and disputed loans net of guarantees received is 77.86%. The guarantees taken into account do not include guarantees on finance lease outstandings. Prepayment penalty fees collected in 2018 amounted to €20.8 million vs. €33.5 million in 2017.

The activities of Star Lease, the equipment leasing subsidiary, break down as follows: 48% industrial equipment, 49% transport equipment, 2% IT hardware and 1% office equipment.

Breakdown of other customer loans

(in €m)	31/12/2018	01/01/2018
Trade notes	323.8	437.8
Short-term loans	5,571.3	5,116.8
Export loans	40.2	35.7
Capital expenditure loans	8,196.8	7,521.1
Housing loans	23,698.3	23,091.9
Loans secured by notes and securities	-	-
Other loans	2,128.3	2,389.5
OTHER CUSTOMER LOANS	**39,958.6**	**38,592.8**

Additional disclosures on finance leases

(in €m)	31/12/2018	01/01/2018
Gross investment	**2,533.5**	**2,440.5**
Less than one year	736.5	751.3
1-5 years	1,456.6	1,335.1
More than five years	340.4	354.1
Present value of minimum payments receivable	**2,314.9**	**2,197.4**
Less than one year	703.7	710.3
1-5 years	1,317.8	1,197.2
More than five years	293.4	289.9
Unearned financial income	**113.8**	**145.8**
Non-guaranteed residual values receivable by the lessor	**107.6**	**97.2**

3.5.3. Securities at amortised cost

(in €m)	31/12/2018	01/01/2018
Treasury notes	-	-
Negotiable debt securities, Bonds and other fixed-income securities	8.7	10.1
Related receivables	-	-
Debt securities before impairment	**8.7**	**10.1**
Impairment	-	-
Revaluation of hedged items	-	-
DEBT SECURITIES	**8.7**	**10.1**

At December 31, 2018, securities at amortised cost consisted exclusively of certificates of association.

3.6 Debt

The balance sheet value of financial liabilities at amortised cost was not impacted by the first-time application of IFRS 9.

Accounting principles

Debts comprise non-derivative financial liabilities that are not measured at fair value through profit or loss.

They are presented on the balance sheet under "Amounts due to banks", "Customer deposits", "Debt securities" and "Subordinated debt." Subordinated debt covers all dated or undated subordinated borrowings which, in the event of the liquidation of the borrower, may only be redeemed after all other creditors have been paid.

Debts are initially recorded at cost, i.e. at the fair value of the borrowed amounts net of transaction costs.

At the closing date, they are measured at amortised cost using the effective interest rate method. As a result, bond issuance and redemption premiums are amortised over the lifetime of the instruments in question.

Outstanding debts related to home savings accounts and home savings plans are included in regulated savings accounts and recorded under "Customer deposits." A provision is recorded for the commitments generated by these instruments, where applicable (see Note 3.8).

3.6.1 Due to banks

(in €m)	31/12/2018	31/12/2017
Current accounts	223.6	157.7
Overnight deposits	221.3	92.1
Term deposits [(1)]	13,270.3	11,759.1
Related payables	8.1	6.0
Revaluation of hedged items	-	0.9
Securities sold under repurchase agreements	801.4	465.3
TOTAL	**14,524.7**	**12,481.1**

(1) o/w €2 billion in respect of TLTRO (Targeted Long-Term Refinancing Operation) drawdowns at December 31, 2018 versus €2 billion at December 31, 2017.

It should also be noted that, at December 31, 2018, €11,935.8 million of the total amount due to banks represented transactions with Societe Generale Group (€9,881 million at December 31, 2017).

3.6.2 Customer deposits

(in €m)	31/12/2018	31/12/2017
Regulated savings accounts	13,435.6	12,629.5
Demand	*10,780.6*	*10,073.1*
Term	*2,655.0*	*2,556.4*
Other demand deposits [1]	26,235.9	25,004.8
Other term deposits [2]	3,406.4	4,197.5
Related payables	29.7	32.3
Revaluation of hedged items	-	-
TOTAL CUSTOMER DEPOSITS	**43,107.6**	**41,864.1**
Borrowings secured by notes and securities	-	-
Securities sold to customers under repurchase agreements	402.0	532.7
TOTAL	**43,509.5**	**42,396.9**

(1) o/w €161.0 million associated with governments and central administrations at December 31, 2018 versus €313.2 million at December 31, 2017.
(2) o/w €11.7 million associated with governments and central administrations at December 31, 2018 versus €10.7 million at December 31, 2017.

Breakdown by type of customer

(in €m)	31/12/2018	31/12/2017
Other demand deposits		
Companies and individual entrepreneurs	15,737.2	15,077.6
Individual customers	8,959.3	8,270.2
Financial customers	39.9	44.7
Other [1]	1,499.5	1,612.3
SUB-TOTAL	**26,235.9**	**25,004.8**

(1) This line includes deposits related to governments and central administrations.

3.6.3 Debt securities

(in €m)	31/12/2018	31/12/2017
Short-term notes	0.5	0.7
Bonds	-	335.1
Money market and negotiable debt securities	5,260.4	6,437.9
Related payables	1.3	5.1
Revaluation of hedged items	-	-
TOTAL	**5,262.3**	**6,778.8**
o/w amount of variable-rate debt	*5,194.7*	*5,912.1*

3.7 Interest income and expenses

Accounting principles

Interest income and expenses are booked to the income statement under “Interest and similar income” and “Interest and similar expenses” for all financial instruments using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income).

The effective interest rate is taken to be the rate that discounts the future cash inflows and outflows over the expected life of the instrument to the book value of the financial asset or liability. The rate is calculated using the estimated cash flows based on the contractual provisions of the financial instrument without taking account of possible future loan losses. The calculation includes commissions paid or received between the parties where these can be assimilated to interest, transaction costs and all types of premiums and discounts.

Where a financial asset is classified in Stage 3 for impairment, subsequent interest income is taken to profit or loss by applying the effective interest rate to the net carrying amount of the financial asset with a corresponding entry to the financial asset before impairment.

In addition, provisions that are booked as balance sheet liabilities, except for those related to employee benefits, generate interest expenses for accounting purposes. This expense is calculated using the risk-free interest rate to discount to present value the expected outflow of resources that gave rise to the provision.

	2018			2017		
(in €m)	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	**853.3**	**-107.9**	**745.4**	**983.3**	**-204.2**	**779.1**
Central banks	-	-	-	-	-	-
Bonds and other debt securities held/issued	-0.2	-1.7	-1.9	-	-13.9	-13.9
Due from banks (1)	-22.2	15.4	-6.8	39.2	-54.7	-15.5
Customer loans*	875.7	-114.3	761.4	940.3	-119.9	820.4
Subordinated debt	-	-7.3	-7.3	-	-15.7	-15.7
Securities lending/borrowing	-	-	-	-	-	-
Securities purchased under resale/sold under repurchase agreements	-	-	-	3.8	-	3.8
Hedging derivatives	**259.8**	**-158.3**	**101.5**	**306.8**	**-206.9**	**99.9**
Financial instruments at fair value through other comprehensive income	**34.2**	**-**	**34.2**	**-**	**-**	**-**
Available-for-sale financial assets	**-**	**-**	**-**	**47.6**	**-**	**47.6**
Held-to-maturity financial assets	**-**	**-**	**-**	**-**	**-**	**-**
Finance leases	**51.4**	**-**	**51.4**	**54.8**	**-**	**54.8**
Real estate lease financing agreements	17.7	-	17.7	18.3	-	18.3
Non-real estate lease financing agreements	33.7	-	33.7	36.5	-	36.5
Financial instruments measured mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL INTEREST INCOME/EXPENSES	**1,198.8**	**-266.2**	**932.6**	**1,392.5**	**-411.1**	**981.4**
o/w interest income related to impaired financial assets	*27.7*	*-*	*27.7*	*32.4*	*-*	*32.4*

(1) In 2016 the European Central Bank (ECB) launched Targeted Longer-Term Refinancing Operations (TLTRO) at an interest rate based on the lending performance of borrowing institutions. Institutions having increased their outstanding loans by at least 2.5% over the period from January 2016 to January 2018 can borrow at a reduced rate (i.e. the Eurosystem deposit facility rate) over the entire term of the loan. In the second quarter of 2018, after confirming that the necessary lending targets had been reached, the ECB notified the relevant institutions of their eligibility for the reduced rate. In Crédit du Nord Group's financial statements, this interest rate reduction resulted in a retroactive modification of the effective interest rate applied to its debt with the ECB; the carrying amount of said debt was adjusted by a gain of €12.1 million to "Interest and similar income" in the annual consolidated income statement.

** Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

These interest expenses include the refinancing costs of financial instruments at fair value through profit or loss, whose income is recorded under net gains and losses on these instruments (see Note 3.1). Since income and expenses presented on the income statement are categorised by type and not by purpose, net income on transactions in financial instruments at fair value through profit or loss must be assessed as a whole.

Breakdown of interest income on customer loans

(in €m)	2018	2017
Overdrafts	88.2	79.8
Other customer loans	760.0	828.1
Short-term loans	143.4	155.4
Export loans	0.5	0.7
Capital expenditure loans	154.8	163.7
Housing loans	453.1	476.9
Other loans	8.2	31.4
Doubtful loans (Stage 3)	27.6	32.4
TOTAL	**875.7**	**940.3**

The above table shows the breakdown of interest income on customer loans, and not the breakdown of interest income on other customer loans, in line with the "Income" column of the "Customers loans" line of this same note.

3.8 Provisions and impairments

Accounting principles

Recognition of expected credit losses

Debt instruments (loans, receivables, bonds and other fixed-income securities) classified as financial assets at amortised cost or as financial assets at fair value through other comprehensive income, operating lease receivables, trade receivables and income receivable under "Other assets", and loan and guarantee commitments given, are systematically subject to impairment or a provision for expected credit losses.

This impairment or provision is recognised as soon as loans are granted, a soon as commitments are issued or as soon as debt securities are acquired, without waiting for objective evidence of impairment to occur.

To determine the amount of impairments or provisions to be recorded at each balance sheet date, these assets and commitments are divided into three categories, based on the increase in credit risk observed since their initial recognition. An impairment or provision for credit risk shall be recorded on the outstanding amount of each category as follows:

Increase in credit risk observed since initial recognition of the financial asset

Risk category	Stage 1 Performing exposures	Stage 2 Underperforming exposures	Stage 3 Non-performing/ credit-impaired exposures
Transfer criteria	Initial recognition in Stage 1 *Remains in this category if no significant increase in credit risk*	If significant increase in credit risk since initial recognition on the balance sheet/payment more than 30 days past due	If evidence that the instrument is becoming credit-impaired identified/ payment more than 90 days past due
Measurement of credit risk	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income calculation basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

Stage 1 exposures

At the date of their initial recognition, exposures are systematically classified in Stage 1, except for non-performing loans (doubtful loans/loans in default) on acquisition.

Stage 2 exposures

The assessment of the increase in credit risk examines the following three criteria:

Counterparty rating

The Group analyses the change in the counterparty's rating and the change in its business sector, macroeconomic conditions and the counterparty's behaviour which may, in addition to the rating review, reflect an increase in credit risk.

After the review, if a counterparty is determined to be "at-risk" (placed on the watchlist), all contracts entered into by the Group with that counterparty are

transferred to Stage 2, and the related impairments and provisions are enhanced in the amount of lifetime expected credit losses. After the counterparty is placed on the watchlist, any new exposures to that counterparty are classified in Stage 1.

Magnitude of the change in the counterparty's rating.

The magnitude of the rating change is examined on a contract-by-contract basis, from the date of initial recognition to the balance sheet date.

To determine if the downgrade or upgrade in the rating between the date of initial recognition of a contract and the balance sheet date is significant enough to call for a Stage transfer, thresholds are established each year by the Risk Division. Stage 1/Stage 2 transfer thresholds are determined for a portfolio of similar contracts (by risk segment) and calculated using probability of default curves for each portfolio (the threshold is different for a portfolio of Sovereign debts versus a portfolio of loans to Large Corporates, for example). The thresholds are thus differentiated by 1-year probability of default curve; it being understood that there is no distortion relative to any comparison made with lifetime probability of default curves.

Payment more than 30 days past due.

There is a rebuttable presumption on a significant increase in credit risk where payment on a financial asset is more than 30 days past due.

Where any one of these three criteria is met, the exposure in question is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

The first two criteria are symmetrical; if there is a sufficient improvement in rating, or the counterparty is removed from the watchlist, the relevant exposures are reclassified in Stage 1.

Stage 3 exposures

To identify exposures classified in Stage 3 (doubtful loans), the Group determines whether or not there is objective evidence of impairment (default events):

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

The Group applies the impairment contagion principle to all of the defaulting counterparty's outstanding loans. When a debtor belongs to a group, all of the group's outstanding loans may be impaired as well.

If the counterparty is reclassified in Stage 2, the contracts are held in Stage 2 for a minimum period before being considered for reclassification in Stage 1. This minimum period ranges from 6 months to 2 years, depending on the type of risk portfolios to which the contracts belong.

Exposures in default on acquisition or creation

Assets in default on acquisition or creation are subject to special accounting treatment. As a result, any subsequent change (positive or negative) in the estimated recoverable cash flows on the instrument in question, discounted at the effective interest rate for that instrument, adjustment for creditworthiness, is taken to profit or loss.

Assessment of impairments and provisions

Stage 1 exposures are impaired for 12-month expected credit losses based on historical data and current conditions. The amount of the impairment is the difference between the gross carrying amount

of the asset and the present value of estimated recoverable future cash flows, including the impact of collateral called up or likely to be called up and the probability of a default event occurring in the following year.

Stage 2 and 3 exposures are impaired for lifetime expected credit losses, based on historical data, current conditions and reasonable economic and macroeconomic forecasts over the life of the contract. The amount of the impairment is the difference between the gross carrying amount of the asset and the present value of estimated recoverable future cash flows, including the impact of collateral called up or likely to be called up and the probability of a default event occurring over the life of the contract.

The method used to calculate expected credit losses is described in Chapter 5 (Risk factors and capital adequacy), section 5.4, of this Registration Document.

Regardless of the stage of impairment for credit risk, cash flows are discounted using the initial effective interest rate of the financial asset. The amount of this impairment is included in the net carrying amount of the impaired financial asset. Impairment allowances and reversals are recorded on the income statement under "Cost of risk". The reversal over time of discounting impacts constitutes the accounting return on impaired receivables and is booked to "Interest and similar income" on the income statement.

For operating lease receivables and trade receivables, the Group uses the "simplified" approach: impairments are recorded in the amount of lifetime expected credit losses on initial recognition, regardless of the increase in the counterparty's credit risk.

Restructured loans and receivables

Loans issued or acquired by the Group may be restructured due to financial hardship. Restructuring involves contractual changes to the initial terms of the transaction (e.g. reduced interest rate, rescheduled payments, partial debt write-offs or additional collateral requirements). This change in the contractual terms of the instrument is exclusively related to the borrower's financial hardship and insolvency (whether the insolvency has already occurred or is certain to occur without restructuring).

If they still pass the SPPI test, restructured loans are maintained on the balance sheet. Their amortised cost before impairment is corrected for a discount representing the lost revenue resulting from the restructuring operation. This discount, recorded under "Cost of risk" on the income statement, is the negative difference between the present value of the new contractual cash flows resulting from the restructuring operation and the amortised cost before impairment, less any partial debt write-offs. The amount of interest income taken to profit or loss is still calculated using the initial effective interest rate of the loans.

Once restructured, the financial assets are systematically classified in Stage 3 for impairment (non-performing exposures), as the borrowers are deemed to be in default. Classification in Stage 3 is maintained for at least one year, or longer if the Group is uncertain as to the borrowers' ability to meet their commitments. Once the loan is loan is no longer classified in Stage 3, the assessment of the significant increase in credit risk will be performed by comparing credit risk at the balance sheet date with credit risk at the initial recognition date of the loan before restructuring.

If, based on the new contractual terms resulting from the restructuring operation, the restructured loans no longer pass the SPPI test, they are derecognised and replaced with new financial assets resulting from the new contractual terms. The new loans are then recognised as "Financial assets mandatorily measured at fair value through profit or loss."

Restructured exposures exclude loans and receivables that have already undergone commercial renegotiations and that concern customers whose debt the Group has agreed to renegotiate in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

Presentation of the statistical provisioning model

Description and principles of operation

Crédit du Nord uses a statistical method to determine provisions for loans in default in its retail banking book (individual and professional customer markets). Use of a statistical model to determine provisions for these loans in these particular markets is justified by the high volume of loans issued for relatively low individual amounts.

The loans are divided up into six classes of homogeneous assets in terms of risk, defined in accordance with Basel asset classes:

- Home loans to individuals and "SCI Patrimoniales" (family-owned non-trading real estate company);
- Revolving loans to individuals;
- Consumer loans to individuals;
- Current accounts and overdrafts extended to individuals and "SCI Patrimoniales";
- MLT loans to professional customers and "SCI" (non-trading real estate company);
- ST loans to professional customers and "SCI Commerciales" (commercial non-trading real estate company);

Upon defaulting, the most substantial loans are excluded from this statistical provisioning approach, in favour of impairment determined on the basis of an expert opinion. These loans are identified by applying operational thresholds defined for each asset class. They account for approximately 1% of all retail loans in default.

Home loans guaranteed by Crédit Logement and signed commitments are excluded from the statistical provisioning approach and are thus not subject to a provision. For home loans guaranteed by Crédit Logement, the lack of provision is justified because Crédit Logement covers all losses in the event of default, and for signed commitments by the exceptional nature of the losses recognised for this type of off-balance sheet commitment.

Provision inputs

The statistical provision model is applied to the entire portfolio in default (doubtful and disputed loans).

Provision inputs are determined by observing past data and are:

- the probability of being transferred from doubtful to disputed (LGD1);
- the loss given default (LGD) rate, where the loan is disputed (LGD2).

These rates are determined for classes of homogeneous assets and reflect how long the loans have been classified as doubtful or disputed.

Calculation of impairments on doubtful loans

The impairment rate on doubtful loans is calculated for classes of homogeneous assets by multiplying the LGD1 and LGD2 rates.

Calculation of impairments on disputed loans

The impairment rate on disputed loans is the LGD rate, which is separate, based on the class of homogeneous assets to which the loan belongs.

Classes of homogeneous disputed loans are divided up into quarterly generations (according to their date of transfer to the disputed loans category), each of which is subject to a different LGD rate. For each generation, the LGD2 rate is calculated on the basis of collections and losses observed in past quarters. Collections may be observed in as many as 50 quarters.

Updating of inputs used in the statistical model

Collections actually observed over the fiscal year are compared with collections predicted in the model in order to assess the model's predictive capacity.

The inputs used in the statistical provisioning model are updated twice a year to factor in any recent trends in collections.

Reconciliation of impairments between IAS 39 and IFRS 9

The impacts of the IFRS 9 transition on impairments and provisions for credit risk are presented in Note 1.

Overview of impairments and provisions

(in €m)	31/12/2018	01/01/2018
Impairment of financial assets at fair value through other comprehensive income	-	0.4
Impairment of financial assets at amortised cost	-1,397.5	-1,516.4
Loans, receivables and securities at amortised cost	-1,397.3	-1,516.2
Other assets at amortised cost	-0.2	-0.2
Total impairment of financial assets	**-1,397.5**	**-1,516.0**
Provisions for loan commitments	18.7	16.3
Provisions for guarantee commitments	27.2	25.6
Total provisions for credit risk	**45.9**	**41.9**
NET IMPAIRMENTS AND PROVISIONS	**1,443.4**	**1,557.9**

3.8.1 Impairment of financial assets

Breakdown of impairment on financial assets

(in €m)	Impairments at 01/01/2018	Allocations	Reversals available	**Net allocations**	Reversals used	Others	Impairments at 31/12/2018
Financial assets at fair value through other comprehensive income	**0.4**	**-**	**-**	**-**	**-**	**-0.4**	**-**
Impairments of performing exposures (Stage 1)	-	-	-	**-**	-	-	-
Impairments of underperforming exposures (Stage 2)	-	-	-	**-**	-	-	-
Impairments of non-performing exposures (Stage 3)	0.4	-	-	**-**	-	-0.4	-
Financial assets at amortised cost	-1,516.4	-406.9	357.0	-49.9	164.6	4.2	-1,397.5
Impairments of performing exposures (Stage 1)	-87.7	-47.3	48.7	**1.4**	-	-	-86.4
Impairments of underperforming exposures (Stage 2)	-83.4	-47.9	58.4	**10.5**	-	-	-72.9
Impairments of non-performing exposures (Stage 3)	-1,345.2	-311.8	249.9	**-61.9**	164.6	4.3	-1,238.2
o/w Lease financing and similar agreements	**-82.9**	**-38.3**	**32.4**	**-5.9**	**8.6**	**4.3**	**-75.8**
Impairments of performing exposures (Stage 1)	-8.9	-1.9	3.6	**1.7**	-	-	-7.2
Impairments of underperforming exposures (Stage 2)	-3.5	-2.8	2.9	**0.1**	-	-	-3.4
Impairments of non-performing exposures (Stage 3)	-70.6	-33.6	26.0	**-7.6**	8.6	4.3	-65.3
TOTAL	**-1,516.0**	**-406.9**	**357.0**	**-49.9**	**164.6**	**3.8**	**-1,397.5**

Change in impairments based on changes in financial asset exposures

(in €m)	Impairments at 01/01/2018	Newly created and acquired exposures	Derecognised (o/w debt write-offs) and redeemed exposures	Transfers between impairment stages	Changes in scope	Impairments at 31/12/2018
Financial assets at fair value through other comprehensive income	**0.4**	**-0.4**	**-**	**-**	**-**	**-**
Impairments of performing exposures (Stage 1)	-	-	-	-	-	-
Impairments of underperforming exposures (Stage 2)	-	-	-	-	-	-
Impairments of non-performing exposures (Stage 3)	0.4	-0.4	-	-	-	-
Financial assets at amortised cost	**-1,516.4**	**-546.8**	**665.6**	**-**	**-**	**-1,397.5**
Impairments of performing exposures (Stage 1)	-87.7	-46.0	47.3	-	-	-86.4
Impairments of underperforming exposures (Stage 2)	-83.4	-41.3	51.8	-	-	-72.9
Impairments of non-performing exposures (Stage 3)	-1,345.2	-459.5	566.5	-	-	-1,238.2
o/w Lease financing and similar agreements	**-82.9**	**-46.7**	**53.8**	**-**	**-**	**-75.9**
Impairments of performing exposures (Stage 1)	-8.9	-24.8	26.5	-	-	-7.2
Impairments of underperforming exposures (Stage 2)	-3.5	-0.4	0.5	-	-	-3.4
Impairments of non-performing exposures (Stage 3)	-70.6	-21.4	26.7	-	-	-65.3
TOTAL	**-1,516.0**	**-547.2**	**665.6**	**-**	**-**	**-1,397.5**

Breakdown of provisions for credit risk

Breakdown of provisions

(in €m)	Provisions at 01/01/2018	Allocations	Reversals available	**Net allocations**	Reversals used	Other changes	Provisions at 31/12/2018
Loan commitments	**16.3**	**15.1**	**-12.6**	**2.5**	**-**	**-**	**18.7**
Impairments of performing exposures (Stage 1)	11.7	7.5	-8.4	**-0.9**	-	-	10.8
Impairments of underperforming exposures (Stage 2)	4.2	1.5	-3.8	**-2.3**	-	-	1.9
Impairments of non-performing exposures (Stage 3)	0.4	6.0	-0.4	**5.6**	-	-	6.1
Guarantee commitments	**25.6**	**6.5**	**-10.0**	**-3.5**	**-**	**5.1**	**27.2**
Impairments of performing exposures (Stage 1)	2.7	1.0	-1.7	**-0.7**	-	-	2.1
Impairments of underperforming exposures (Stage 2)	1.1	0.8	-0.7	**0.1**	-	-	1.1
Impairments of non-performing exposures (Stage 3)	21.8	4.7	-7.6	**-2.9**	-	5.1	24.0
TOTAL	**41.9**	**21.6**	**-22.6**	**-1.0**	**-**	**5.1**	**45.9**

Change in provisions based on changes in loan and guarantee commitments

(in €m)	Provisions at 01/01/2018	Newly created and acquired exposures	Derecognised (o/w debt write-offs) and redeemed exposures	Transfers between impairment stages	Changes in scope	Provisions at 31/12/2018
Loan commitments	**16.3**	**12.8**	**-10.3**	**-**	**-**	**18.7**
Impairments of performing exposures (Stage 1)	11.7	3.5	-4.4	-	-	10.8
Impairments of underperforming exposures (Stage 2)	4.2	0.7	-3.0	-	-	1.9
Impairments of non-performing exposures (Stage 3)	0.4	8.6	-2.9	-	-	6.1
Guarantee commitments	**25.6**	**5.6**	**-4.0**	**-**	**-**	**27.2**
Impairments of performing exposures (Stage 1)	2.7	2.3	-2.9	-	-	2.1
Impairments of underperforming exposures (Stage 2)	1.1	-	-	-	-	1.1
Impairments of non-performing exposures (Stage 3)	21.8	3.3	-1.1	-	-	24.0
TOTAL	**41.9**	**18.4**	**-14.3**	**-**	**-**	**45.9**

3.8.3 Home savings agreement commitments

Accounting principles

Home savings accounts and plans are savings schemes for individual customers (in accordance with Law No. 65-554 of July 10, 1965), which combine an initial deposit phase in the form of an interest-earning savings account with a lending phase where the deposits are used to provide property loans. The latter phase is subject to the previous existence of the savings phase and is therefore inseparable from it. The deposits collected and loans granted are booked at amortised cost.

These instruments generate two types of commitments for the Group: the obligation to subsequently lend to the customer at an interest rate established upon the signing of the agreement, and the obligation to pay interest on the customer's savings in the future at an interest rate set upon the signing of the agreement, for an indefinite period.

Commitments with future adverse effects for the Group are subject to provisions booked as balance-sheet liabilities, any changes in which are recorded as interest income under "Net banking income". These provisions relate exclusively to commitments under home savings accounts and schemes existing at the date of the provision's calculation. These provisions only relate to commitments arising from PEL/CEL that are outstanding at the date of calculation. Provisions are calculated for each generation of housing savings plans (PEL), with no netting between different PEL generations, and for all housing saving accounts (CEL) which constitute a single generation.

During the savings phase, provisions are calculated according to the difference between average expected outstanding savings and minimum expected outstanding savings, both of which are determined statistically based on historic observations of actual customer behaviour.

During the lending phase, provisions are calculated according to loans already issued but not yet due at the balance sheet date, as well as future loans considered as statistically probable on the basis of customer savings deposits on the balance sheet at the date of calculation and on historic observations of actual customer behaviour.

A provision is booked if the discounted value of expected future earnings for a given generation of home savings products is negative. These results are measured on the basis of interest rates available to individual customers for equivalent savings and loan instruments, with similar estimated life and date of inception.

Outstanding deposits in PEL/CEL accounts

(in €m)	31/12/2018	31/12/2017
PEL home savings plans	**2,198.3**	**2,174.9**
Less than 4 years old	435.4	717.8
Between 4 and 10 years old	1,222.3	917.3
More than 10 years old	540.5	539.8
CEL home savings accounts	**205.0**	**210.6**
TOTAL	**2,403.3**	**2,385.8**

Outstanding housing loans granted in respect of PEL/CEL accounts

(in €m)	31/12/2018	31/12/2017
Less than 4 years old	0.1	0.6
Between 4 and 10 years old	3.6	5.9
More than 10 years old	1.0	0.4
TOTAL	**4.7**	**6.9**

Provisions for commitments linked to PEL home savings plans and CEL home savings accounts

(in €m)	31/12/2017	Allocations	Reversals	31/12/2018
PEL home savings plans	**22.0**	**0.3**	**-5.2**	**17.0**
Less than 4 years old	2.2	-	-2.2	-
Between 4 and 10 years old	3.1	-	-3.0	-
More than 10 years old	16.7	0.3	-	17.0
CEL home savings accounts	**0.4**	**2.8**	**-**	**3.1**
Drawn down loans	**0.2**		**-0.1**	**0.1**
TOTAL	**22.5**	**3.0**	**-5.3**	**20.3**

Given that long rates (to which provision level is sensitive) were low in 2018, the provision was mainly linked to the risks associated with the commitment to pay a given rate of return on deposits. The provision level was 0.84% of total deposits at December 31, 2018.

Determination of inputs for measuring provisions

The inputs used to estimate future customer behaviour are derived from historical observations of customer behaviour patterns over long periods (more than ten years). The value of these inputs can be adjusted if any changes are subsequently made to regulations with the potential to undermine the reliability of past data as an indicator of future customer behaviour.

The values of the different market inputs used, notably interest rates and margins, are calculated on the basis of observable data and constitute a best estimate, at the valuation date, of the future value of these items for the relevant period, in line with the retail banking division's policy of interest rate risk management.

The discount rates used are derived from zero coupon swaps vs. the Euribor yield curve at the valuation date, averaged over a 12-month period

3.8.4 Cost of risk

Accounting principles

"Cost of risk" exclusively comprises net reversals of impairment losses and provisions for credit risk, losses on bad debts and amounts recovered on amortised loans.

The Group records bad debts as losses and subsequently reverses the associated impairments in "Cost of risk" when loans are written off or where there is no expectation of residual collection. For the Group to have no expectation of residual collection, it shall obtain a non-recoverability certified issued by a competent authority or a history of established indicators (age of default, provision recorded on 100% of the exposure, no recent collections or other characteristics specific to the exposure).

Even if there is no expectation of residual collection, the collection process is not permanently discontinued, particularly in the event the counterparty's financial situation improves. In the event funds are collected or recovered on a previously written-off loan, the amounts received are recorded under "Amounts recovered on bad debts" during the fiscal year in question.

(in €m)	2018	2017
Net allocation for impairment	**-50.0**	**-92.3**
Of financial assets at fair value through other comprehensive income	-	
Of financial assets at amortised cost	-50.0	-92.3
o/w Lease financing and similar agreements	*-5.8*	*-1.2*
Net allocation to provisions	**1.1**	**2.8**
For loan commitments	-2.4	-
For guarantee commitments	3.5	2.8
Uncovered losses on bad debts	**-29.1**	**-33.8**
Amounts recovered on bad debts	**8.0**	**13.6**
Other risks (1)		**-3.8**
TOTAL	**-70.0**	**-113.5**

(1) *As from fiscal year 2018, "Cost of risk" exclusively comprises profit or loss items related to the recognition of credit risk, as defined by IFRS 9, including for the portion relating to investments in insurance activities (changes in provisions and impairments covering credit losses, losses on bad debts and amounts recovered on previously written-off loans). As a result, changes in provisions for disputes previously recorded in this category now impact, depending on type, "Personnel expenses", "Other administrative costs", "Interest and similar income/Interest and similar expenses" or "Income tax."*

3.9 Fair value of financial instruments measured at amortised cost

Accounting principles

Definition of fair value

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an arm's length transaction between market intermediaries at the valuation date.

In the absence of observable prices for an identical asset or liability, the fair value of the financial instruments is determined using another valuation technique that maximises the use of observable market data, by taking assumptions that market participants would use to set the price of the instrument in question.

This note presents the fair value of financial instruments not measured at fair value on the balance sheet Fair value should not be taken as an estimate of the amount that would be collected if all such financial instruments were settled immediately.

The fair values of financial instruments include any accrued interest as applicable.

3.9.1 Financial assets measured at amortised cost

	31/12/2018				
(in €m)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due from banks	10,196.9	10,089.2	-	-	10,089.2
Customer loans	42,925.1	43,183.2	-	-	43,183.2
Debt securities	8.7	8.7	-	-	8.7
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST ON THE BALANCE SHEET	**53,130.7**	**53,281.1**	**-**	**-**	**53,281.1**

	31/12/2017				
(in €m)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due from banks	11,259.9	11,259.8	-	-	11,259.8
Customer loans	41,300.8	41,929.1	-	-	41,929.1
Debt securities	-	-	-	-	-
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST ON THE BALANCE SHEET	**52,560.7**	**53,188.9**	**-**	**-**	**53,188.9**

3.9.2 Financial liabilities measured at amortised cost

	31/12/2018				
(in €m)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due to banks	14,524.7	14,525.0	2.0	14,465.7	57.3
Customer deposits	43,509.5	43,568.8	-	43,565.5	3.3
Debt securities	5,262.3	5,258.8	-	5,258.8	-
Subordinated debt	450.2	710.9	-	710.9	-
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST ON THE BALANCE SHEET	**63,746.7**	**64,063.5**	**2.0**	**64,000.9**	**60.6**

	31/12/2017				
(in €m)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due to banks	12,480.2	12,480.2	-	12,480.2	-
Customer deposits	42,397.0	42,496.8	-	42,496.8	-
Debt securities	6,778.8	6,782.8	-	6,782.8	-
Subordinated debt	519.1	518.6	-	518.6	-
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST ON THE BALANCE SHEET	**62,175.1**	**62,278.4**	**-**	**62,278.4**	**-**

3.9.3 Valuation methods for financial instruments measured at amortised cost

Loans, receivables and lease finance transactions

In the absence of an active market, the fair value of loans, receivables and lease finance receivables to credit institutions and large corporates is calculated by discounting expected cash flows at a discount rate based on market interest rates (reference actuarial rate published by the Banque de France and zero-coupon rate) in force at the closing date for loans with substantially the same conditions and maturities, with these interest rates adjusted to take account of the borrower's credit risk.

The fair value of loans, receivables and lease financing transactions for retail banking customers, essentially comprised of individuals and small- or medium-sized companies, is determined, in the absence of an actively-traded market for these loans, by discounting the associated future cash flows to present value at the market rates in force on the balance sheet date for each type of loan and each maturity.

For variable-rate loans, receivables and lease finance receivables, and fixed-rate loans whose initial maturity is less than or equal to one year, fair value is presumed to be the net carrying value of impairments, where there has not been a significant fluctuation in credit spreads for the counterparties in question since these items were recorded on the balance sheet.

Debts

In the absence of an active market for these debts, their fair value is presumed to be the value of the future cash flows discounted at the market rate in force at the closing date.

If the debt is represented by a listed instrument, its fair value is its market price.

The fair value of variable-rate debts and those whose initial maturity is less than or equal to one year is presumed to be their carrying amount. Similarly, the individual fair value of current accounts is their carrying amount.

Securities

If the debt is an instrument quoted on an active market, its fair value is its market price.

In the absence of an active market, the fair value of securities is calculated by discounting future cash flows at the market rate prevailing at the balance sheet date. For variable-rate securities and fixed-rate securities with an initial maturity of one year or less, fair value is presumed to be the net carrying amount of impairments, where there has not been a significant fluctuation in credit spreads for the counterparties in question since these items were recorded on the balance sheet.

3.10 Commitments and assets pledged and received as collateral

Accounting principles

Loan commitments

Loan commitments that are neither considered as derivative financial instruments nor measured at fair value through profit or loss in respect of a trading activity are initially recognised at fair value. They are subsequently subject to provisions, if necessary, in accordance with the accounting principles governing "Impairments and provisions" (see Note 3.8).

Guarantee commitments

The Group initially recognises financial guarantees given as non-derivative financial instruments at their fair value on the balance sheet. The guarantees are subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, where appropriate, amortisation of the guarantee commission. Where there is objective evidence of impairment, provisions are set aside for financial guarantees given and recognised as balance sheet liabilities (see Note 3.8).

Security commitments

Purchases and sales of securities classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" are recognised on the balance sheet at the settlement-delivery date. Between the trade date and the settlement-delivery date, commitments on receivable or deliverable securities are not recorded on the balance sheet. Changes in the fair value of securities measured at fair value through profit or loss between the trade date and the settlement-delivery date are taken to profit or loss or booked to other comprehensive income depending on the accounting classification of the securities in question.

The amount of commitments and assets pledged/received as collateral was not impacted by the first-time application of IFRS 9.

3.10.1 Commitments

(in €m)	31/12/2018	31/12/2017
COMMITMENTS GIVEN		
Loan commitments	**4,625.0**	**4,143.1**
To banks	256.2	76.9
To customers	4,368.8	4,066.2
Guarantee commitments	**18,470.6**	**14,360.1**
On behalf of banks	162.5	160.1
On behalf of customers	2,201.7	2,243.3
Others	16,106.4	11,956.7
Security commitments	**289.2**	**288.8**
Securities to be delivered	289.2	288.8
Forward foreign exchange transaction commitments	**2,065.0**	**2,806.7**
Currency to be delivered	2,065.0	2,806.7
COMMITMENTS RECEIVED		
Loan commitments	**2,104.0**	**649.5**
From banks	2,104.0	649.5
Guarantee commitments	**18,120.9**	**18,094.0**
From banks	18,016.7	18,029.8
Other (1)	104.2	64.2
Security commitments	**0.1**	**0.3**
Securities to be received	0.1	0.3
Forward foreign exchange transaction commitments	**2,078.1**	**2,799.1**
Currency to be received	2,078.1	2,799.1

(1) o/w guarantees received from the government, other authorised organisations and customers for €88.9 million at December 31, 2018 versus €58.5 million at December 31, 2017.

Crédit du Nord Group recorded the following commitments given to/received from Societe Generale Group at December 31, 2018:

- loan or guarantee commitments given amounted to €8,846.7 million versus €7,529.9 million at December 31, 2017;
- securities and currency to be delivered amounted to €242.3 million versus €205.9 million at December 31, 2017;
- loan or guarantee commitments received amounted to €260.1 million versus €180 million at December 31, 2017;
- securities and currency to be received amounted to €244.1 million versus €199.5 million at December 31, 2017.

3.10.2 Financial assets pledged and received as collateral

Financial assets pledged as collateral

(in €m)	31/12/2018	31/12/2017
Carrying amount of assets pledged as collateral for liabilities* (1)	16,106.4	11,949.3
Carrying amount of assets pledged as collateral for securities transactions (2)	6.3	1.7
Carrying amount of assets pledged as collateral for off-balance sheet commitments	43.9	79.8
TOTAL	**16,156.6**	**12,030.8**

(1) Assets pledged as collateral for liabilities mainly consist of receivables pledged as collateral for liabilities (notably with central banks).

(2) Assets pledged as collateral for securities transactions mainly consist of security deposits.

Financial assets received as collateral and available to the entity

(in €m)	31/12/2018	31/12/2017
FAIR VALUE OF SECURITIES PURCHASED UNDER RESALE AGREEMENTS	**0.6**	**0.2**

The Group generally purchases securities under resale agreements in accordance with standard market terms and conditions. The Group may reuse securities purchased under resale agreements by selling them, selling them under repurchase agreements or pledging them as collateral, provided that it returns the securities or their equivalents to the counterparty to the repo agreement at the term of said agreement. These securities are not recognised on the balance sheet. The fair value of these securities presented above includes securities sold or pledged as collateral.

3.11 Transferred financial assets

Accounting principles

Financial assets which have been transferred but remain fully recognised on the balance sheet include temporary sales of securities (securities lending and securities with repurchase or resale options) and certain debt waivers to consolidated securitisation vehicles.

The temporary sale transactions (securities lending and securities sold under repurchase agreements) shown in the tables below relate only to securities recognised under assets on the balance sheet.

Securities that are borrowed or lent under a repurchase agreement remain booked under their original heading under assets in the Group's balance sheet. For borrowed securities, the obligation to recover disbursed amounts is recorded under "Debt" on the balance sheet, with the exception of transactions conducted as part of trading activities which are recorded under "Financial liabilities at fair value through profit and loss".

Securities that have been purchased as part of a resale agreement are not recorded in the Group's balance sheet. Nevertheless, in the event that borrowed securities are subsequently sold, an obligation to return these securities to their lender is recorded under "Financial liabilities at fair value through profit and loss" in the Group's balance sheet. For securities purchased under resale agreements, the amounts delivered by the Group are recorded under "Loans and receivables" on the assets side of the balance sheet, with the exception of transactions conducted as part of trading activities which are recorded under "Financial assets at fair value through profit and loss".

Securities borrowing and lending transactions backed by cash are considered equivalent to repurchase agreements and are recorded and recognised as such on the balance sheet.

In the case of temporary security sales, the Group is exposed to the risk of default by the issuer of the security (credit risk) and to increases or decreased in the value of the securities (market risk). Securities purchased or sold under resale/repurchase agreements cannot simultaneously be used as collateral for another transaction.

3.11.1. Financial assets transferred but not derecognised

Repurchase agreements

	31/12/2018		31/12/2017	
(in €m)	Carrying amount of assets	Carrying amount of related debt	Carrying amount of assets	Carrying amount of related debt
Available-for-sale securities			531.2	998.1
Securities at fair value through profit or loss	-	-	-	-
Securities at fair value through other comprehensive income	1,203.4	1,203.4	-	-
Securities at amortised cost	-	-		
TOTAL	**1,203.4**	**1,203.4**	**531.2**	**998.1**

Securities lending

	31/12/2018		31/12/2017	
(in €m)	Carrying amount of assets	Carrying amount of related debt	Carrying amount of assets	Carrying amount of related debt
Securities at fair value through profit or loss	-	-	-	-
Securities at fair value through other comprehensive income	-	-	-	-
Securities at amortised cost	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**

3.11.2. Partially transferred or fully derecognised financial assets

The Group has no significant amount of transferred financial assets that are partly or fully derecognised.

3.12 Contractual maturities of financial liabilities

(in €m)	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	31/12/2018
Due to central banks	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss excluding derivatives	474.5	80.3	128.7	11.7	695.1
Due to banks	1,640.3	609.8	6,518.2	5,795.6	14,564.0
Customer deposits	12,085.1	3,442.7	12,794.6	15,187.1	43,509.5
Debt securities	1,191.2	2,078.6	1,992.5	-	5,262.3
Subordinated debt	0.3	-	88.4	361.6	450.2
TOTAL LIABILITIES	**15,391.3**	**6,211.4**	**21,522.3**	**21,356.0**	**64,481.1**
Loan commitments given	305.9	854.2	2,044.5	1,420.4	4,625.0
Guarantee commitments given	114.6	327.7	771.8	1,150.0	2,364.1
TOTAL COMMITMENTS GIVEN	**420.5**	**1,181.9**	**2,816.3**	**2,570.5**	**6,989.1**

The run-offs presented in this note are based on contractual maturities. Conventions may be applied for certain balance sheet items, however.

In the absence of contractual items, or for financial instruments related to the trading book (e.g. derivatives), the maturities are recorded in the first tranche (less than 3 months).

The maturities of guarantee commitments given are based on the best possible run-off estimate (by default in the first tranche - less than 3 months).

NOTE 4 Other activities

4.1 Fee income and expenses

Accounting principles

"Fee income and expenses" comprises fees on services and commitments that cannot be assimilated to interest. Fees assimilated to interest are an integral part of the effective interest rate of the associated financial instrument and are booked to "Interest and similar income" and "Interest and similar expenses" (see Note 3.7).

Transactions with customers consist of fees received from customers in the course of the Group's retail banking activities (including in particular debit card fees, account administration fees and administrative fees not assimilated to interest).

Other services include fees received from customers in the course of the Group's other banking activities (including in particular interchange fees, fund management fees and fees on insurance products sold in the network).

The Group books fee income and expenses to profit or loss for an amount representing the consideration for the service provided and based on the rate at which control of the service is transferred:

- fees for ongoing services, such as payment services, custody fees, or subscriptions for digital services, are spread out over the duration of the service;
- fees for one-off services, such as fund transfer fees, fees on contributions received, arbitrage fees and penalties for payment incidents are fully booked to income when the service is provided.

The amount representing the consideration for the service provided comprises fixed and variable remuneration provided for in the associated contracts, less any payments owed to customers (e.g. for promotional offers). Variable remuneration (e.g. discounts based on volumes of services provided over a given period or fees receivable subject to meeting a performance target) are included in the amount representing the consideration for the service provided if and only if it is highly probable that this remuneration will not be subsequently subject to a significant adjustment resulting in decreased revenues.

Any differences between the date of payment for the service and the service provision date generates assets or liabilities, depending on the type of contract and whether the difference is positive or negative, which are recorded under "Other assets" and "Other liabilities" (see Note 4.3):

- contracts with customer generate trade receivables., income receivable or deferred income;
- contracts with providers generate trade payables, expenses payable or prepaid expenses.

(in €m)	2018 Income	2018 Expense	2018 Net	2017 Income	2017 Expense	2017 Net
Transactions with banks	**12.3**	**-0.2**	**12.1**	**12.0**	**-0.2**	**11.8**
Transactions with customers*	**305.3**	**-**	**305.3**	**302.3**	**-**	**302.3**
Transactions in financial instruments	**27.9**	**-4.2**	**23.7**	**23.7**	**-2.8**	**20.9**
Securities transactions	3.8	-4.1	-0.3	21.9	-2.6	19.3
Primary market transactions	22.5	-	22.5	-	-	-
Foreign exchange and financial derivatives transactions	1.6	-0.1	1.5	1.8	-0.2	1.6
Loan and guarantee commitments	**26.5**	**-0.5**	**26.0**	**26.5**	**-0.6**	**25.9**
Services	**547.4**	**-**	**547.4**	**589.6**	**-**	**589.6**
Asset management fees	94.9	-	94.9	99.1	-	99.1
Fees on payment instruments	253.9	-	253.9	250.5	-	250.5
Fees on insurance products	173.7	-	173.7	174.6	-	174.6
Investment fees - UCITS and similar vehicles	6.1	-	6.1	8.1	-	8.1
Other services	60.0	-96.6	-36.6	57.3	-97.4	-40.1
TOTAL*	**960.4**	**-101.5**	**858.9**	**954.1**	**-101.0**	**862.5**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

4.2 Income and expenses from other activities

Accounting principles

Leasing activities

Leases granted by the Group that do not transfer virtually all the risks and rewards associated with ownership of the leased asset to the lessees are designated as operating leases.

The assets held under operating leases, including investment property, are presented on the balance sheet under “Tangible and intangible fixed assets” at their acquisition cost less depreciation and impairment (see Note 7.1).

Leased assets are depreciated excluding any residual value over the term of the lease. Income from rent is recognised on the income statement on a straight-line basis over the life of the lease. The purpose of the accounting treatment of income invoiced on maintenance services related to operating lease activities is to reflect a constant margin over the life of the lease between this income and the expenses incurred to provide the service.

Investment property is depreciated using the component method. Each component is depreciated over its useful life, ranging from 10 to 50 years.

Income and expenses, and capital gains or losses on disposals of investment property and assets under operating leases, as well as income and expenses associated with maintenance services related to operating lease activities, are booked to “Income and expenses from other activities” under the headings “Real estate leasing” and “Equipment leasing” in the table below.

These same headings also include losses incurred in the event of a decline in the non-guaranteed residual values of finance leases, in addition to impairment income and expenses and capital gains or losses related to non-leased assets after the termination of finance leases.

	2018			2017		
(in €m)	Income	Expense	Net	Income	Expense	Net
Real estate development	-	-	-	-	-	-
Real estate leasing [1]	2.9	-2.5	0.4	2.3	-1.1	1.2
Equipment leasing	0.7	-	0.7	1.4	-0.1	1.3
Other activities	22.6	-30.3	-7.7	15.2	-20.9	-5.7
TOTAL	**26.2**	**-32.8**	**-6.6**	**18.9**	**-22.1**	**-3.2**

(1) o/w rent on investment property: €0.6 million at December 31, 2018 versus €0.7 million at December 31, 2017.

4.3 Other assets and liabilities

4.3.1 Other assets

Other assets were impacted by the transition to IFRS 9 due to the implementation of the simplified impairment model on operating lease receivables (see Note 3.8).

(in €m)	31/12/2018	01/01/2018
Security deposits paid [1]	43.9	79.8
Settlement accounts on securities transactions	1.4	1.2
Prepaid expenses [3]	33.6	18.3
Other sundry debtors [2] [3]	178.1	144.5
TOTAL GROSS	**257.0**	**243.8**
Impairment	-0.2	-0.2
TOTAL NET	**256.8**	**243.7**

(1) This line predominantly consists of security deposits paid on financial instruments; their fair value is presumed to be their net carrying amount, impaired for credit risk where applicable.
(2) Other sundry debtors primary include trade receivables and income receivable from fees and other activities.
(3) Surplus plan assets, classified in "Other sundry debtors" at December 31, 2017, were reclassified to "Prepaid expenses" at January 1, 2018. The impact of this reclassification was €12.7 million.

4.3.2 Other liabilities

The balance sheet value of other liabilities was not impacted by the first-time application of IFRS 9.

(in €m)	31/12/2018	01/01/2018
Security deposits received [1]	99.9	113.7
Settlement accounts on securities transactions	12.4	16.9
Expenses payable on employee benefits	119.1	136.9
Deferred income	69.0	72.8
Other sundry creditors [2]	545.8	524.9
TOTAL	**846.3**	**865.3**

(1) This line predominantly consists of security deposits received on financial instruments; their fair value is presumed to be their net carrying amount.
(2) Other sundry creditors primary include trade payables and expenses payable in fees and other activities.

NOTE 5 Personnel expenses and employee benefits

Accounting principles

Employee benefits are broken down into four categories:

- short-term benefits expected to be paid out within 12 months of the end of the fiscal year during which the staff members rendered the corresponding services, such as wages, bonuses, paid annual leave, social security charges and payroll taxes, and employee profit-sharing;
- defined benefit or defined contribution post-employment benefits, such as pension plans and end-of-career benefits;
- long-term benefits not expected to be paid out within the twelve months of the end of the period, such as non-indexed cash-settled deferred variable compensation, long-service awards or flexible working provisions;
- employment termination benefits.

5.1 Personnel expenses and related-party transactions

Accounting principles

"Personal expenses" cover all expenses related to employees and accordingly includes expenses associated with employee benefits and Societe Generale share-based payments.

The expense representing the short-term benefits vested by staff members is recorded under "Personnel expenses" where said staff members have rendered the services rewarded by said benefits.

The accounting principles applied to post-employment benefits and long-term benefits are presented in Note 5.2, and those applicable to Societe Generale share-based payments are presented in Note 5.3.

Crédit du Nord Group does not issue listed equity instruments. Consequently, the equity instruments granted to Group employees are shares issued by its shareholder, Societe Generale.

5.1.1 Personnel expenses

(in €m)	2018	2017
Employee compensation	-422.1	-403.1
Social security charges and payroll taxes	-166.9	-157.4
Net retirement expenses - defined contribution plans	-65.1	-65.9
Net retirement expenses - defined benefit plans	15.1	-3.5
Profit-sharing, incentives, contributions and discounting	-63.5	-60.0
Reinvoiced personnel expenses [1]	10.5	
TOTAL	**-692.0**	**-689.9**
o/w net expenses in respect of share-based payment plans	*-3.4*	*-3.4*

(1) Reinvoiced expenses related to seconded Societe Generale personnel, previously classified in "Other administrative costs", are now recorded under "Personnel expenses".

5.2.2 Transactions with related parties

Accounting principles

Personnel expenses include transactions with related parties, within the meaning of IAS 24.

The Group recognises the following parties as related parties: i) directors, corporate officers (the Chairman, Chief Executive Officer and Deputy Chief Executive Officer) and their spouses and children living in their family home, and ii) the following subsidiaries: subsidiaries under its exclusive or joint control, and companies over which Crédit du Nord exercises significant influence.

Remuneration of senior managers

This includes amounts effectively paid by Crédit du Nord Group to its directors and corporate officers as remuneration (including employer charges), and other benefits under IAS 24, paragraph 17, as indicated below.

(in €m)	2018	2017
Short-term benefits	1.5	1.9
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
TOTAL	**1.5**	**1.9**

Transactions with individual related parties

Transactions with members of the Board of Directors, corporate officers and members of their families discussed in this note consist solely of loans and guarantees outstanding at December 31, 2018 and securities transactions. These transactions are not material.

5.2 Breakdown of provisions for employee benefits

Group entities can grant their employees:

- post-employment benefits, such as pension plans and end-of-career benefits;
- long-term benefits, such as deferred variable remunerations, long-service awards or flexible working provisions;
- employment termination benefits.

Breakdown of provisions for employee benefits

(in €m)	Provisions at 01/01/2018	Allocations	Reversals available	**Net allocations**	Reversals used	Actuarial gains/losses	Other [1]	Provisions at 31/12/2018
Provisions for employee benefits	69.1	11.5	-26.6	**-15.1**	-3.8	0.4	16.0	66.6

(1) Other changes refer to €16 million reclassified as a plan surplus, due to overfunding of the IFC plan.

5.2.1 Post-employment benefits

Accounting principles

Post-employment benefits are broken down into two categories: defined contribution plans and defined benefit plans.

Post-employment defined contribution plans

Defined benefit pension plans commit the Group, on a formal or implied basis, to pay a certain amount or level of future benefits and the Group therefore bears the medium-and long-term risk. Said plans cover several types of benefits, notably any residual complementary benefits afforded by specialist pension funds.

Post-employment defined benefit plans

Defined benefit pension plans commit the Group, on a formal or implied basis, to pay a certain amount or level of future benefits and the Group therefore bears the medium-and long-term risk.

A provision is recorded on the liabilities side of the balance sheet under “Provisions” to cover all of the above pension commitments. It is valued on a regular basis by independent actuaries using the projected credit unit method. This valuation method takes account of assumptions on demographics, early retirement, wage increases, discount rates and inflation.

Where these plans are financed using external funds meeting the definition of plan assets, the fair value of these funds is deducted from the amount of the provision recorded to cover the related commitments.

Differences arising from changes in calculation assumptions (early retirement, discount rate, etc.) as well as differences observed between actuarial assumptions and actual actuarial differences (gains or losses). These actuarial gains or losses, as well as the return on plan assets, from which the amount already expensed for net interest on net liabilities (or assets) is deducted, and the change in the asset ceiling are items used to re-estimate (or re-measure) net liabilities (or net assets). They are immediately booked in full to “Gains and losses booked directly to other comprehensive income”. These items cannot be subsequently reclassified to profit or loss.

In the Group's consolidated financial statements, these items which cannot be subsequently reclassified to profit or loss, are shown on a separate line of the "Statement of net income and gains and losses booked directly to other comprehensive income", but are transferred to reserves in the statement of "Change in shareholders' equity" so that they are recorded directly under "Consolidated reserves" on the liabilities side of the balance sheet.

Where a new plan (or amendment) is being established, the past service cost is spread out over the residual vesting period.

The annual expense recognised as personnel expenses for defined benefit plans includes:

- additional benefits vested by each employee (current service cost);
- a change in obligation arising from a plan modification or curtailment (past service cost);
- the financial cost corresponding to the impact of reverse discounting and the interest income generated on plan assets (net interest on net plan assets or liabilities);
- the effect of any plan settlements.

Post-employment defined contribution plans

The main defined contribution plans provided to employees of the Group are based in France. They include State pension plans and national retirement plans such as ARRCO and AGIRC, as well as pension schemes set up by certain Group entities for which the only commitment is to pay contributions (PERCO contribution).

Post-employment defined benefit plans

Since January 1, 1994, pursuant to an agreement signed by all French banks on September 13, 1993, all banking institutions in France are affiliated with the private-sector employee pension funds. This agreement gave rise to residual commitments with respect to retirees and all employees of French banks for periods of employment in the banking sector until December 31, 1993 for which the banks are liable.

This residual commitment is still borne by Crédit du Nord and SMC. The other entities of the Group were affiliated with CRPB and as such, the corresponding commitment is borne by CRPB.

For Crédit du Nord, following the Branche agreement of February 25, 2005, which provided for the amendment of the provisions relating to complementary benefits, an internal agreement was signed in 2006 setting out the following provisions:

- for beneficiaries of complementary benefits still employed with Crédit du Nord, the value of the complementary benefits was transferred to a supplementary savings plan outsourced to an insurer;
- retirees and beneficiaries of a survivor's pension were given a choice of opting for a single lump-sum payment of their complementary benefits.

The Group's residual pension commitments are thus attributable to i) retirees and beneficiaries of a survivor's pension currently receiving benefits and ii) active staff that are no longer employees of Crédit du Nord and SMC and employees struck off from Crédit du Nord and SMC before December 31, 1993.

1. Reconciliation of assets and liabilities recorded on the balance sheet

(in €m)	31/12/2018	31/12/2017
A- Present value of defined benefit obligations	111.2	133.0
B- Fair value of plan assets	-133.7	-138.8
C = A + B Actuarial deficit (net balance)	**-22.5**	**-5.8**
D - Present value of unfunded obligations	10.2	11.2
E - Effect of asset ceiling	0.5	0.2
C + D + E = NET BALANCE RECORDED ON THE BALANCE SHEET	**-11.8**	**5.6**

2. Components of the cost of defined benefits

(in €m)	2018	2017
Current service cost for the year, including social security contributions	6.7	6.8
Employee contributions	-	-
Past service cost/curtailments (2)	-19.8	-
Impact of settlements	-	-
Net interest	-	-
Transfers of unrecognised assets	-	-
Changes in consolidation scope and other adjustments for the period	-	-
A- Components recognised on the income statement	**-13.1**	**6.8**
Actuarial gains and losses related to assets (1)	2.8	-4.6
Actuarial gains and losses due to changes in demographic assumptions	-	-0.4
Actuarial gains and losses due to changes in economic and financial assumptions	-3.0	-12.1
Experience gains and losses	-	3.0
Impact of asset ceiling	0.3	-1.5
B- Components recognised in gains and losses booked directly to other comprehensive income	**0.1**	**-15.6**
C= A + B TOTAL COMPONENTS OF COST OF DEFINED BENEFITS	**-13.0**	**-8.8**

(1) Return on plan assets, from which the amount of interest already expensed is deducted.

(2) A defined-benefit pension plan was subject to a scale revision in 2018, resulting in a €19.8 million in provisions.

3. Changes in net liabilities of post-employment plans booked to the balance sheet

3.1 Changes in the present value of defined benefit obligations

(in €m)	2018	2017
VALUE AT JANUARY 1	**144.2**	**157.0**
Current service cost for the year, including social security contributions	6.7	6.8
Employee contributions	-	-
Past service cost/curtailments [(1)]	-19.8	-
Impact of settlements	-	-
Net interest	1.9	1.8
Actuarial gains and losses due to changes in demographic assumptions	-	-0.4
Actuarial gains and losses due to changes in economic and financial assumptions	-2.2	-12.1
Experience gains and losses	-0.8	3.0
Foreign currency exchange adjustment	-	-
Benefit payments	-8.6	-11.8
Acquisition of subsidiaries	-	-
Transfers and others	-	-
BALANCE AT DECEMBER 31	**121.4**	**144.3**

(1) A defined-benefit pension plan was subject to a scale revision in 2018, resulting in a €19.8 million decrease in provisions.

3.2 Changes in fair value of funding assets (plan assets and separate assets)

(in €m)	2018	2017
VALUE AT JANUARY 1	**138.8**	**140.2**
Interest expenses related to plan assets	1.9	1.8
Interest expenses related to separate assets	-	-
Actuarial gains and losses related to assets	-2.8	4.5
Foreign currency exchange adjustment	-	-
Employee contributions	-	-
Employer contributions	4.0	3.6
Benefit payments	-8.2	-11.3
Acquisition of subsidiaries	-	-
Transfers and others	-	-
BALANCE AT DECEMBER 31	**133.7**	**138.8**

4. Information on funding of pension plans and plan funding conditions

4.1 General information on funding assets (all plans combined and future contributions)

The fair value of plan assets, excluding assets linked to Crédit du Nord complementary benefits, is comprised of 66.9% bonds, 20.8% equities and 12.3% other assets.

The employer contributions for the defined benefit post-employment plans in 2018 will be determined after the year-end evaluations.

Overall, 109.8% of plans are hedged, but depending on the entity and the plan, hedging rates range from 0% to 128.0%.

4.2 Actual returns on funding assets

Actual returns on plan assets and separate assets can be broken down as follows:

(in €m)	31/12/2018	31/12/2017
Plan assets	-0.9	6.3
Separate assets	-	-

5. Main actuarial assumptions

	31/12/2018	31/12/2017
Discount rate	1.4%	1.3%
Long-term inflation rate	1.5%	1.7%
Growth rate of future salary increases, net of inflation [(1)]	2.5%	2.8%
Average remaining working life of employees (in years)	14.6	15.7
Duration (in years)	12.3	13.0

(1) The growth rate of future salary increases is determined for the entire working population, based on inflation and salary revaluations by age bracket: 2.7% for employees under 30, 1.9% for employees aged 30 to 40, 1.5% for employees aged 40 to 50 and 0.7% for employees over age 50.

The discount rate is determined using the yield curves for AA-rated corporate bonds (source Merrill Lynch). The rate used for the valuation is based on the duration of the plan in question.

The inflation rate is also based on the duration of the plan: The inflation rate for each duration is set using the European Central Bank's Euro Inflation index (HICPXT).

Average remaining working life is determined by plan and factors in turnover and survival assumptions.

6. Analysis of post-employment defined benefit plan obligation sensitivity to changes in the main actuarial assumptions

(as a% of the item measured)	31/12/2018	31/12/2017
Variation of +0.50% in discount rate		
Impact on present value of defined benefit obligations at December 31, N	-5.7%	-6.0%
Variation of +0.50% in long-term inflation rate		
Impact on present value of defined benefit obligations at December 31, N	6.3%	5.8%
Variation of +0.50% in future salary increases net of inflation		
Impact on present value of defined benefit obligations at December 31, N	5.1%	5.9%

Published sensitivities are averages of changes observed weighted by the present value of the commitment.

5.2.2 Long-term benefits

Accounting principles

Long-term benefits are benefits, other than post-employment benefits and employee termination benefits, that are not paid to employees within 12 months of the end of the fiscal year during which the corresponding services were rendered.

Long-term benefits are measured and recognised in the same way as post-employment benefits, with the exception of actuarial gains or losses which are immediately taken to income.

Other long-term benefits granted to Group employees include deferred bonuses, such as flexible working provisions and long-service awards. Other benefits besides post-employment benefits and end-of-career benefits are not due in full in the 12 months following the end of the year in which the members of staff provided the corresponding services.

The net balance of other long-term benefits was €19.8 million.

The total amount of expenses on other long-term benefits was €1.4 million.

5.3 Detailed information on performance share grants

As Crédit du Nord Group does not issue listed shares, its employees are entitled to the equity instruments of its shareholder, Societe Generale.

Accounting principles

Societe Generale share-based payments include:

- payments in equity instruments;
- cash payments whose amount depends on changes in the value of equity instruments.

Share-based payments are systematically expensed under "Personnel expenses" for an amount equal to the fair value of the share-based payment granted to the employee and according to conditions that depend on method used to settle these payments.

For share-based payments unwound through equity instruments (free shares and options to purchase or subscribe to Societe Generale shares), the value of these instruments, as calculated at the notification date, is spread out over the vesting period as a charge to shareholders' equity, offsetting "Bonuses and associated reserves". At each period-end, the number of instruments is revised to take performance and presence conditions into account, and to adjust the overall cost of the original plan. The cost from the beginning of the plan, booked under "Personnel expenses", is adjusted accordingly.

For share-based payments unwound through cash settlement (remuneration indexed to Societe Generale's share price), the amount payable is expensed under "Personnel expenses" over the vesting period with an offsetting entry on the liabilities side of the balance sheet under "Other liabilities - Expenses payable on employee benefits." Until settlement, this date is re-assessed to factor in performance and presence conditions as well as changes in the value of the underlying shares. For hedging derivatives, the change in their value is recorded on the same line of the income statement in the amount of the effective portion.

Societe Generale Group may offer certain employees the option of purchasing or subscribing for Societe Generale shares, free shares or compensation indexed to the Societe Generale share price and settled in cash.

The options are valued at their fair value at the date on which the employee is notified of the award, without waiting for the conditions that trigger the award to be met, or for the beneficiaries to exercise their options.

If the Group has adequate statistics on the behaviour of option beneficiaries, Group stock option plans are valued by using a binomial model, failing which the Black-Scholes or Monte-Carlo model is used. This is conducted by an independent actuary.

Actual expenses recorded on the income statement

(in €m)	2018			2017		
	Portion settled in cash	Portion settled in shares	Total plan assets	Portion settled in cash	Portion settled in shares	Total plan assets
Net expenses from stock option plans, share purchase plans and free share allocation plans	-0.7	-2.7	-3.4	-1.0	-2.4	-3.4

The expense indicated above relates to equity-settled stock-option plans and to cash-settled plans.

The description of the Societe Generale stock option and free share allocation plans is presented below.

Description of Societe Generale's free share allocation programmes

Date of Shareholders' meeting	18/05/2016	18/05/2016	18/05/2016	20/05/2014	22/05/2012
Date of Board of Directors' meeting	14/03/2018	15/03/2017	18/05/2016	12/03/2015	13/03/2014
Total number of shares awarded	110,665	113,849	149,210	97,032	79,302
Vesting date	see table below	see table below	see table below	31/03/2017	31/03/2016
End date of holding period	see table below	see table below	see table below	31/03/2019	31/03/2018
Performance-based [1]	yes	yes	yes	yes	yes
Fair value (in €) [2]	see table below	see table below	see table below	36.4	37.8
Number of shares vested at 31/12/2018	0	0	10,125	95,209	77,698
Total number of cancelled or expired shares	1,034	113	3,994	1,823	1,604
Performance shares outstanding at year-end	109,631	113,736	135,091	0	0

(1) The applicable performance conditions are described in Chapter 3, Corporate Governance, in the Societe Generale Group Registration Document.

(2) Fair value is measured using the arbitrage method.

Detailed information on the 2017 performance share plan [1]

Date of Shareholders' Meeting	18/05/2016			
Date of Board Meeting	15/03/2017			
Total number of shares awarded	**113,849**			
Vesting date	29/03/2019 (First tranche) 31/03/2020 (Second tranche)	31/03/2020	31/03/2021 (First tranche) 31/03/2023 (Second tranche)	31/03/2022
End date of holding period	30/09/2019 02/10/2020	N/A	01/04/2022 01/04/2024	02/10/2022
Performance-based [2]	yes	yes	yes	yes
Fair value (in €) [3]	42.17 (First tranche) 40.33 (Second tranche)	41.05	27.22 (First tranche) 26.34 (Second tranche)	43.75

(1) Under the annual long-term employee incentive and performance share plan, in accordance with the retention and compensation policy for regulated categories of employees within the meaning of banking regulations (including corporate officers and members of the Executive Committee).
(2) The applicable performance conditions are described in the chapter on Corporate Governance in Societe Generale Group's registration document.
(3) Fair value is measured using the arbitrage method.

Detailed information on the 2018 performance share plan [1]

Date of Shareholders' Meeting	18/05/2016			
Date of Board Meeting	14/03/2018			
Total number of shares awarded	**110,665**			
Vesting date	31/03/2020 (First tranche) 31/03/2021 (Second tranche)	31/03/2021	31/03/2022 (First tranche) 29/03/2024 (Second tranche)	31/03/2023
End date of holding period	01/10/2020 01/10/2021	N/A	01/04/2023 31/03/2025	01/10/2023
Performance-based [2]	yes	yes	yes	yes
Fair value (in €) [3]	40.39 (First tranche) 38.59 (Second tranche)	39.18	26.40 (First tranche) 24.43 (Second tranche)	39.17

(1) Under the annual long-term employee incentive and performance share plan, in accordance with the retention and compensation policy for regulated categories of employees within the meaning of banking regulations (including corporate officers and members of the Executive Committee).
(2) The applicable performance conditions are described in Chapter 3, Corporate Governance, in the Societe Generale Group Registration Document.
(3) Fair value is measured using the arbitrage method.

NOTE 6 TAXES

Accounting principles

Current taxes

The current tax expense is based on the taxable profits of each consolidated tax entity according to the tax rates in force in the entity's country of operation. It also includes net provisions for income-tax related risks.

Tax credits arising in respect of revenues from receivables and security portfolios, where they are used for the settlement of corporate tax due for the fiscal year, are booked under the same line item as the related revenues. The corresponding income tax expense is recognised under "Income Tax" on the income statement.

Deferred taxes

Deferred taxes are recognised whenever there is a temporary difference between the book values of assets and liabilities on the balance sheet and their respective tax base, where said differences will have an impact on future tax payments.

Deferred taxes are calculated for each tax entity by applying the tax rules in force in the country of operation and using the enacted (or nearly enacted) tax rate, which must be in force at the time the temporary difference reverses. These deferred taxes are adjusted in the event of a change in the tax rate. Their calculation is not subject to discounting.

Deferred tax assets may result from temporary deductible differences or tax loss carry-forwards. Deferred tax assets are only recognised if it is likely that the tax entity in question is likely to recover them over a given time period, particularly by deducting these differences and tax loss carry-forwards from future taxable profits.

Tax loss carry-forwards are subject to an annual review, taking into account the tax scheme applicable to each relevant tax entity and a realistic projection of its taxable income: deferred tax assets which had previously not been recognised are then recognised on the balance sheet if it becomes probable that the entity's future taxable profit makes recovery of said assets possible. However, the carrying amount of deferred tax assets already appearing on the balance sheet is reduced where there is a risk of partial or total non-recovery.

Current and deferred tax is recognised as income or an expense and included in consolidated profit or loss for the period under "Income Tax." However, deferred tax related to income or expenses recorded under "Gains and losses booked directly to other comprehensive income" are recorded under the same OCI heading.

Since January 1, 2010, Crédit du Nord has been included in Societe Generale's tax consolidation scope. A tax consolidation sub-group was set up between Crédit du Nord and some of the subsidiaries in which it holds a direct or indirect ownership interest of at least 95%. The convention adopted is that of neutrality.

6.1 Breakdown of the tax expense

(in €m)	2018	2017
Current tax expense	-165.1	-145.4
Deferred tax expense*	-7.8	-13.8
TOTAL TAX EXPENSE*	**-172.9**	**-159.2**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

Reconciliation of the Group's normative tax rate and the effective tax rate:

(in €m)	2018	2017
Earnings before tax and excluding net income from companies accounted for by the equity method*	**551.3**	**492.9**
Standard tax rate applicable to French companies (including the 3.3% contribution)	**34.43%**	**34.43%**
Permanent differences	0.16%	0.99%
Differential on exempt items or items taxed at a reduced rate	-2.98%	-3.07%
Tax differential on profits taxed outside France	-0.25%	-0.06%
Effect of non-deductible losses for the period and of the use of tax loss carry-forwards	-	-
GROUP EFFECTIVE TAX RATE*	**31.36%**	**32.30%**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

In France, the standard corporate tax rate is 33.33%. In addition, companies pay a 3.3% social security contribution (after a deduction of €0.76 million), introduced in 2000.

Long-term capital gains on equity investments are tax-exempt, subject to taxation of a share of fees and expenses equivalent to 12% of the gross capital gain only if the company generates a net capital gain over the long term.

In addition, under the parent companies/subsidiaries scheme, dividends received from companies in which the equity investment is at least 5% are tax-exempt, subject to taxation on a share representing fees and expenses.

The 2018 Finance Act, adopted on December 20, 2017, calls for a gradual reduction in the tax rate in France. The standard corporate tax rate of 33.33% will be reduced to 25% by 2022. In addition, companies will still be required to pay the 3.3% social security contribution on profits.

The deferred taxes for which French companies are liable are calculated by applying the tax rate that will be in force until the temporary difference is reversed. Given the gradual reduction in interest rates from now through 2022, deferred taxes (including the social security contribution on profits) will be:

- for taxable income taxed at the standard rate: from 34.43% in 2018 to 25.83% in 2022 and beyond;
- for taxable income taxed at the reduced rate: from 4.13% in 2018 to 3.10% in 2022 and beyond.

6.2 Tax provisions

Accounting principles

Tax provisions represent liabilities with no precisely defined amount or due date. They are only booked where:

- the Group has an income tax obligation to a tax authority third party that makes it probable or certain that it will incur a cash outflow to that authority, without expecting to receive at least an equivalent consideration from that authority;
- and a reliable estimate of the probable cash outflow is available.

The amount of the expected outflow is then discounted to present value to determine the size of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax risks are booked to "Current tax expense" under "Income tax" on the income statement.

Information pertaining to the category and amount of risks involved is not provided if the Group deems that it could result in substantial prejudice in a legal dispute against third parties concerning the object of the provision.

Crédit du Nord Group had not recorded any tax provisions at December 31, 2018.

6.3 Breakdown of tax assets and liabilities

Tax assets

(in €m)	31/12/2018	01/01/2018	31/12/2017
Current tax assets	42.3	59.9	59.9
Deferred tax assets	1.4	9.8	0.7
o/w deferred tax on tax loss carry-forwards	-	-	-
o/w deferred tax on temporary differences	1.4	9.8	0.7
TOTAL	**43.7**	**69.7**	**60.6**

Tax liabilities

(in €m)	31/12/2018	01/01/2018	31/12/2017
Current tax liabilities	165.4	149.2	149.2
Deferred tax liabilities*	113.8	117.9	140.0
TOTAL	**279.2**	**267.1**	**289.2**

* *Amounts adjusted to correct an error in the treatment of fees and commissions on renegotiated loans (see Note 1).*

NOTE 7 Other disclosures

7.1 Other operating expenses

Accounting principles

The Group books administrative costs to expenses according to the type of related service and their rate of use.

"Rent" includes real estate and equipment lease expenses, which are recorded on a straight-line basis over the lease period.

"Taxes and other contributions" are only booked when the triggering event provided for by law takes place. If the obligation to pay the tax arises from the gradual completion of the activity, the expense must be recorded gradually over the same period. Finally, if the obligation to pay is triggered by reaching a given threshold, the expense is only recorded once the threshold is reached.

"Taxes" include all contributions levied by a government authority, including contributions paid to the Single Resolution Fund and the Deposit Guarantee and Resolution Fund (FGDR), the systemic risk tax and contributions for ACPR audit expenses, which are booked to the income statement at January 1. The Social Security Solidarity Contribution (C3S), based on revenues for the previous fiscal year, is taken to income in its entirety at January 1 of the fiscal year in progress;

"Others" primarily include maintenance costs and other expenses on buildings, travel and other business expenses, and advertising expenses.

(in €m)	2018	2017
Rent	-40.3	-40.1
Taxes and other contributions	-38.3	-48.4
IT and telecom (excl. rent)	31.1	19.2
Fees and external providers (excl. IT and telecom)	-126.7	-119.0
Others	-346.5	-334.9
TOTAL	**-520.7**	**-523.2**

Breakdown of minimum amounts payable for operating leases

The following table presents the schedule of minimum amounts payable for operating leases covering the tangible assets used by the Group. The amounts are shown without the discounting effect.

(in €m)	31/12/2018
Breakdown of total minimum amounts payable on operating leases	
Less than 1 year	31.3
From 1 to 5 years	69.0
More than 5 years	20.5
TOTAL MINIMUM FUTURE AMOUNTS PAYABLE ON OPERATING LEASES	**120.8**

Contribution to bank resolution mechanisms

The European regulatory framework aimed at preserving financial stability was supplemented by Directive 2014/49/EU of April 16, 2014 on deposit guarantee schemes and Directive 2014/59/EU of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive). European Regulation No. 806/2014 of July 15, 2014 established a resolution financing mechanism in the European Banking Union in the form of a Single Resolution Fund (SRF). The SRF, set up in January 2016, is comprised of annual contributions made by credit institutions in participating Member States within the Banking Union. The fund is expected to total at least 1% of the amount of covered deposits of all member institutions by the end of 2023.

A fraction of the annual contributions may be made in irrevocable payment commitments.

At December 31, 2018, the Group's contribution to the Single Resolution Fund (SRF) can be broken down as follows:

- 85% as a cash contribution of €11.7 million (€9.4 million in 2017), non-tax-deductible in France and recognised on the income statement under "Other administrative costs" on the "Taxes and other contributions" line;
- 15% as an irrevocable payment commitment secured by the payment of a cash guarantee deposit in the amount of €2.1 million (€1.7 million in 2017), recognised on the balance sheet under "Other assets."

7.2 Foreign exchange transactions

Accounting principles

At the year-end date, monetary assets and liabilities denominated in foreign currencies are converted into the entity's operating currency at the prevailing spot rate. Realised or unrealised foreign exchange differences are recorded on the income statement under "Net gains or losses on financial instruments at fair value through profit or loss" (see Note 3.1).

Forward contracts are valued at fair value using the forward exchange rate for the remaining maturity. Spot contracts are valued at the official spot rate of the balance sheet date. The resulting revaluation differences are booked to the income statement under "Net gains or losses on financial instruments at fair value through profit or loss" (see Note 3.1), except in cases where hedge accounting is applied in respect of a hedge of a net investment in a foreign operation denominated in a foreign currency or a cash flow hedge (see Note 3.2).

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies and measured at fair value (e.g. shares and other equity instruments) are translated into the entity's functional currency at the prevailing spot rate. Foreign exchange gains and losses on these assets are either taken to profit or loss ("Net gains or losses on financial instruments at fair value through profit or loss") or to other comprehensive income ("Gains and losses booked directly to other comprehensive income") with a corresponding entry to relative gains and losses on said assets.

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated into the entity's functional currency at the historical rate prevailing at the initial recognition date.

	31/12/2018				31/12/2017			
(in €m)	Assets	Liabilities	Currencies to be received	Currencies to be delivered	Assets	Liabilities	Currencies to be received	Currencies to be delivered
EUR	69,258.3	69,259.2	135.8	42.8	69,226.4	69,303.4	2.8	-
CHF	1,131.9	703.5	1.2	2.2	959.8	656.2	319.0	1.8
GBP	23.3	61.0	0.3	1.2	1.6	1.7	-	-
USD	205.5	595.4	41.9	131.3	81.5	490.9	0.1	427.0
JPY	0.9	2.5	1.3	0.3	0.4	-	-	-
Other currencies	31.9	30.2	4.8	7.4	223.9	41.4	424.1	-
TOTAL	**70,651.8**	**70,651.8**	**185.3**	**185.2**	**70,493.6**	**70,493.6**	**746.0**	**428.8**

7.3 Tangible and intangible fixed assets

Accounting principles

Tangible and intangible fixed assets comprise operating and investment fixed assets. Fixed assets held in relation to operating lease transactions are shown with operating tangible assets under "Tangible and intangible assets," while buildings held for leasing purposes are presented with investment property.

Tangible and intangible fixed assets are recorded on the balance sheet at their acquisition cost less depreciation, amortisation and impairment.

The acquisition cost of fixed assets includes borrowing expenses incurred to fund a lengthy construction period for fixed assets, along with other directly attributable expenses. Investment subsidies received are deducted from the cost of the relevant assets. Software developed in-house is recorded on the asset side of the balance sheet at its direct development cost.

As soon as they are fit for use, fixed assets are depreciated over their useful life using the component method. Each component is depreciated over its own useful life. For operating property, the depreciation periods used by the Group range from 10 to 50 years. Depreciation periods for other categories of operating fixed assets depend on their useful life, usually estimated between 3 and 20 years.

Where applicable, the residual value of each asset or component is reduced by its depreciable value. In the event of a subsequent reduction or increase in the initially recorded residual value, adjustments are made to the depreciable amount with a view to making prospective changes to the asset's depreciation schedule.

Depreciation is recorded on the income statement under "Depreciation, amortisation and impairment on intangible and tangible fixed assets."

Fixed assets, which are grouped by Cash-Generating Unit (CGU), are subject to impairment tests whenever there is an indication that their value may have diminished. Impairment allowances and reversals are recorded on the income statement under "Depreciation, amortisation and impairment on intangible and tangible fixed assets."

Capital gains or losses on disposals of operating tangible assets is booked to "Net gains or losses on other assets."

Investment property is depreciated using the component method. Each component is depreciated over its useful life, ranging from 10 to 50 years.

Earnings from assets under operating leases and investment property is recorded under "Income from other activities" and "Expenses from other activities" (see Note 4.2).

(in €m)	Gross value at 31/12/2017	Acquisitions	Disposals	Change in scope and reclas-sifications	Gross value at 31/12/2018	Depreciation, amortisation and impairment of asset items at 31/12/2017	Allocations to depreciation and amortisa-tion recorded in 2018	Impairment recorded in 2018	Reversals in 2018	Change in exchange rates, scope and reclassifications	Net value at 31/12/2018	Net value at 31/12/2017
Intangible assets	539.1	54.1	-0.5	-0.5	592.2	-340.1	-31.7	-0.6	0.2	0.5	220.5	198.9
Tangible operating fixed assets (excluding operating lease assets)	931.7	51.3	-5.8	-9.3	967.9	-581.1	-43.7	-2.5	4.7	9.5	354.8	350.6
Operating lease assets of specialized financing companies	-	-	-	-	-	-	-	-	-	-	-	-
Investment property	6.1	-	-0.1	-0.2	5.8	-3.3	-0.1	-	0.1	-	2.5	2.8
TOTAL TANGIBLE AND INTANGIBLE FIXED ASSETS	**1,476.9**	**105.3**	**-6.4**	**-10.0**	**1,565.9**	**-924.5**	**-75.5**	**-3.1**	**5.0**	**10.0**	**577.8**	**552.4**

7.4 Breakdown of provisions

Accounting principles

Provisions are recognised as liabilities on the income statement and include provisions for financial instruments, provisions for disputes, provisions for employee benefits and tax provisions in respect of income tax.

At January 1, 2018, only provisions for credit risk on off-balance sheet commitments were impacted by the first-time application of IFRS 9. This impact is presented in Note 1.

Breakdown of provisions

(in €m)	Provisions at 01/01/2018	Allocations	Reversals available	**Net allocations**	Reversals used	Other changes[1]	Provisions at 31/12/2018
Provisions for credit risk on off-balance sheet commitments (see Note 3.8)	41.9	21.6	-22.7	**-1.1**	-	5.1	45.9
Provisions for employee benefits (see Note 5.2)	69.1	11.5	-26.6	**-15.1**	-3.8	16.4	66.6
Tax provisions	-	-	-	**-**	-	-	-
Provisions for disputes	3.8	3.6	-2.8	**0.8**	-0.4	1.1	5.2
Provisions for commitments linked to home savings accounts and plans (see Note 3.8)	22.5	-	-	**-**	-	-2.2	20.3
Other provisions	29.5	9.0	-7.6	**1.4**	-1.8	0.0	29.2
TOTAL	**166.8**	**45.7**	**-59.7**	**-14.0**	**-6.0**	**20.4**	**167.2**

(1) Other changes comprise:
- A reclassification between lease impairments and provisions for credit risk on off-balance sheet commitments for €5.1 million;
- Actuarial gains/losses on employee benefits for €0.4 million and the reclassification of over-funded pension plans to surplus assets for €16.0 million;
- The net change in provisions for commitments linked to home savings accounts and plans for -€2.2 million.

7.5 Detailed consolidation scope

7.5.1 Entities included in the consolidation scope

The consolidation scope includes subsidiaries and structured entities controlled by the Group, joint arrangements (joint activities or joint ventures) and associates whose financial statements are material relative to the Group's consolidated financial statements, particularly with respect to total balance sheet assets and gross operating income.

	31/12/2018			31/12/2017		
	Consolidation method	Interest rate	Controlling interest	Consolidation method	Interest rate	Controlling interest
Crédit du Nord 28, place Rihour 59800 Lille	Full	Consolidating company	Consolidating company	Full	Consolidating company	Consolidating company
Banque Rhône-Alpes 20-22, boulevard Edouard Rey 38000 Grenoble	Full	99.99	99.99	Full	99.99	99.99
Banque Tarneaud 2-6, rue Turgot 87000 Limoges	Full	100.00	100.00	Full	100.00	100.00
Banque Courtois 33, rue de Rémusat 31000 Toulouse	Full	100.00	100.00	Full	100.00	100.00
Banque Kolb 1-3, place du Général-de-Gaulle 88500 Mirecourt	Full	99.97	99.97	Full	99.97	99.97
Banque Laydernier 10, avenue du Rhône 74000 Annecy	Full	100.00	100.00	Full	100.00	100.00
Banque Nuger 5, place Michel-de-L'Hospital 63000 Clermont-Ferrand	Full	100.00	100.00	Full	100.00	100.00
Société Marseillaise de Crédit 75, rue Paradis 13006 Marseille	Full	100.00	100.00	Full	100.00	100.00
Norbail Immobilier 50, rue d'Anjou 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Star Lease 59, boulevard Haussmann 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Etoile ID 59, boulevard Haussmann 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Gilbert Dupont (brokerage firm) 50, rue d'Anjou 75008 Paris	Full	100.00	100.00	Full	100.00	100.00

	31/12/2018			31/12/2017		
	Consolidation method	Interest rate	Controlling interest	Consolidation method	Interest rate	Controlling interest
Kolb Investissement 59, boulevard Haussmann 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Norbail Sofergie 59, boulevard Haussmann 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Sfag 59, boulevard Haussmann 75008 Paris	Full	100.00	100.00	Full	100.00	100.00
Crédinord Cidize (1) 59, boulevard Haussmann 75008 Paris	-	-	-	Full	100.00	100.00
Banque Pouyanne 12, place d'armes 64300 Orthez	Equity	35.00	35.00	Equity	35.00	35.00
Antarius (2) 59, boulevard Haussmann 75008 Paris	Equity	50.00	50.00	Equity	50.00	50.00

(1) All assets belonging to Crédinord Cidize were transferred to Crédit du Nord in 2018.

(2) Including sub-consolidated insurance mutual funds.

The following companies, wholly-owned by the Group, were not included in the consolidation scope: Snc Starvingt, Snc Starvingt trois, Snc Starvingt six, Sas Starvingt huit, Snc Obbola, Snc Wav II.

7.5.2 Entities not included in the consolidation scope

Subsidiaries, partnerships and associates whose financial statements are not material relative to the consolidated financial statements of the Group, particularly in terms of balance sheet total and gross operating income, are not included in the consolidation scope.

The list of entities not included in the consolidation scope is presented below, except for the small number of entities that might be adversely affected by the disclosure of this information.

Name of entity held	Controlling interest	City
SCI du 4 allée REBSOMEN	20.00%	Paris
HLM du Foyer du Toit Familial	20.00%	Sotteville les Rouen
SCI Aigue Marine	20.00%	Dijon
Domo7Enr	20.70%	La Valette du Var
Provençale de Participations	100.00%	Marseille
Massilia Participations Immobilières	100.00%	Marseille
Manufacture Alsacienne de Denrées Alimentaires	24.21%	Cernay
Capital Provence Business Angles	39,60%	Marseille

7.5.3 Material non-consolidated equity investments

Equity investments representing a material carrying amount and not included in the consolidation scope are listed below.

Company name	City	Controlling interest	Shareholders' equity	Net income
Crédit Logement	Paris	3.00%	1,751	102
Sicovam Holding	Paris	8.14%	537	19

7.6 Statutory Auditors' fees

The consolidated financial statements of Crédit du Nord Group are jointly certified by audit firms Deloitte et Associés, represented by Jean-March Mickeler, and Ernst & Young et Autres, represented by Vincent Roty.

Subsequent to the publication of European texts on the audit reform, a new policy was established in 2016 governing the approval of non-audit-related services performed by Statutory Auditors and their networks (Services Other than Financial Statement Certification) to ensure that these services comply with the new regulation before validated by the Audit Committee.

For Crédit du Nord Group, the fees paid to Statutory Auditors are presented to Societe Generale's Audit and Internal Control Committee by type of service provided by the networks to which the Statutory Auditors belong.

Finally, the Finance Divisions of the Societe Generale Group entities or activities issue an annual opinion on the quality of audits performed by Deloitte and Ernst & Young. Their conclusions are presented to Societe Generale's Audit and Internal Control Committee.

Amount of Statutory Auditors' fees recorded on the income statement

(in €k) 2018		DELOITTE & ASSOCIÉS		ERNST & YOUNG ET AUTRES		OTHER AUDITORS		TOTAL	
		2017	2018	2017	2018	2017	2018	2017	
Statutory Auditors, certification, audit of the annual and consolidated financial statements	Issuer	261.0	399.0	261.0	351.0	-	9.0	522.0	759.0
	Fully consolidated subsidiaries	360.0	477.0	202.0	179.0	41.0	89.0	603.0	745.0
SUB-TOTAL - AUDIT		**621.0**	**876.0**	**463.0**	**530.0**	**41.0**	**98.0**	**1,125.0**	**1,504.0**
Services other than the certification of the financial statements	Issuer	25.0	50.0	38.0	41.0	-	-	63.0	91.0
	Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
TOTAL		**646.0**	**926.0**	**501.0**	**571.0**	**41.0**	**98.0**	**1,188.0**	**1,595.0**

Services other than the certification of financial statements provided by the Statutory Auditors primarily consisted of a certification of the credit data reported in respect of the TLTRO II and procedures for purposes of issuing the independent third-party report on social, environmental and governance information.

7.7 Gains and losses booked directly to other comprehensive income

(in €m)	31/12/2018 Gross	Tax	Net of tax	Net, Group share	Change Gross	Tax	Net of tax	Net, Group share	01/01/2018 Gross	Tax	Net of tax	Net, Group share
Translation gain (loss)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt instruments at fair value through other comprehensive income	13.8	-3.6	10.2	10.2	-33.9	8.9	-25.0	-25.0	47.7	-12.5	35.2	35.2
Revaluation of hedging derivatives	-0.3	0.1	-0.2	-0.2	-0.3	0.1	-0.2	-0.2	-	-	-	-
Share of gains and losses booked directly to other comprehensive income of companies accounted for by the equity method	13.8	-2.5	11.3	11.3	-6.3	2.7	-3.6	-3.6	20.1	-5.2	14.9	14.9
Gains and losses booked directly to other comprehensive income that will be subsequently reclassified to profit or loss	**27.2**	**-5.9**	**21.3**	**21.3**	**-40.6**	**11.8**	**-28.8**	**-28.8**	**67.8**	**-17.7**	**50.1**	**50.1**
Actuarial gains/losses in respect of defined-benefit plans	-0.1	-	-0.1	-0.1	-0.1	-	-0.1	-0.1	-	-	-	-
Revaluation of own credit risk of financial liabilities measured at fair value through profit or loss	-1.4	0.4	-1.0	-1.0	8.3	-2.1	6.2	6.2	-9.7	2.5	-7.2	-7.2
Revaluation of equity instruments at fair value through other comprehensive income	13.9	-3.6	10.3	10.3	0.1	-3.2	-3.1	-3.1	13.8	-0.4	13.4	13.4
Share of gains and losses booked directly to other comprehensive income of companies accounted for by the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Gains and losses booked directly to other comprehensive income that will not be subsequently reclassified to profit or loss	**12.4**	**-3.2**	**9.2**	**9.2**	**8.4**	**-5.3**	**3.1**	**3.1**	**4.0**	**2.1**	**6.1**	**6.1**
TOTAL GAINS AND LOSSES BOOKED DIRECTLY TO OTHER COMPREHENSIVE INCOME	**39.5**	**-9.1**	**30.4**	**30.4**	**-32.4**	**6.5**	**-25.9**	**-25.9**	**71.9**	**-15.6**	**56.3**	**56.3**

NOTE 8 Accounting principles applicable to financial instruments at December 31, 2017

Accounting principles

Classification of financial instruments

On their initial recognition, financial instruments are classified on the Group balance sheet in categories that determine their accounting treatment and subsequent measurement method. This classification is based on the type of instrument and the reason it is held.

Financial assets are classified in one of the following four categories:

- Financial assets at fair value through profit or loss: financial instruments held for trading, including by default derivative assets that are not considered to be hedging instruments, as well as non-derivative financial assets initially designated by the Group to be measured at fair value through profit or loss (fair value option);
- Loans and receivables: loans and receivables include non-derivative fixed- or determinable-income financial assets which are not listed on an active market and which are not held for trading purposes or held for sale from the time of their acquisition or issuance, nor initially designated to be measured at fair value through profit or loss (fair value option). They are measured at amortised cost and may be subject to impairment for credit risk on an individual or collective basis;
- Held-to-maturity financial assets: this category includes non-derivative fixed- or determinable-income assets with a fixed maturity, which are listed on an active market and which the Group has the intention and ability to hold to maturity. They are measured at amortised cost and may be subject to impairment if appropriate. Amortised cost includes account premiums, discounts and transaction costs;
- Available-for-sale financial assets are non-derivative financial assets held for an indefinite period and which the Group may sell at any time. By default, these are financial assets which are not classified in one of the three above categories. These instruments are measured at fair value against "Gains and losses booked directly to other comprehensive income." Accrued or earned income on fixed-income securities is recorded in profit or loss based on the effective interest rate, while income from equity securities is recorded under dividend income.

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

- Financial liabilities at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that are not considered to be hedging instruments, as well as non-derivative financial liabilities initially designated by the Group to be measured at fair value through profit or loss (fair value option);
- Debts: this category comprises other non-derivative financial liabilities, which are measured at amortised cost.

Derivative assets and liabilities considered to be hedging instruments for accounting purposes are presented on separate lines of the balance sheet (see Note 3.2).

Reclassification of financial assets

After initial recognition on the Group's balance sheet, financial assets may not be reclassified as "Financial assets at fair value through profit or loss".

A non-derivative financial asset initially reported on the balance sheet under "Financial assets at fair value through profit or loss" among financial assets held for trading purposes may be reclassified to a different category under the following circumstances:

- if a fixed- or determinable-income financial asset held for trading purposes can no longer be traded on an active market following its acquisition, and

the Group has the intention and the ability to hold the asset for the foreseeable future or to maturity, then this financial asset may be reclassified in "Loans and receivables", subject to meeting the applicable eligibility criteria;

- if rare circumstances lead to a change in holding strategy for non-derivative financial assets initially held for trading, these assets may be reclassified either as "Available-for-sale financial assets" or as "Held-to-maturity financial assets", subject to meeting the applicable eligibility criteria.

Under no circumstances may derivative financial instruments or financial assets using the fair value option be reclassified in a category other than "Financial assets and liabilities at fair value through profit or loss". Financial assets initially recorded as "Available-for- sale financial assets" may be transferred to "Held- to-maturity financial assets", subject to meeting the appropriate eligibility criteria for this category at the transfer date. Furthermore, if a fixed- or determinable-income financial asset initially recorded under "Available-for-sale financial assets" is no longer available for sale following its acquisition, and the Group has the intention and the ability to hold the asset for the foreseeable future or to maturity, then this financial asset may be reclassified in "Loans and receivables", subject to meeting the applicable eligibility criteria at the transfer date.

Reclassified financial assets are transferred to their new category at their fair value at the date of reclassification, after which they are valued in accordance with the provisions applicable to the new category. The amortised cost of financial assets reclassified from "Financial assets at fair value through profit or loss" or "Available-for-sale financial assets" to "Loans and receivables", as well as the amortised cost of financial assets reclassified from "Financial assets at fair value through profit or loss" to "Available-for-sale financial asset", are determined on the basis of estimated future cash flows made on the date of reclassification. The estimate of expected future cash flows must be revised at each balance sheet date. In the event of an increase in estimated future inflows following a rise in their recoverability, the effective interest rate is adjusted on a forward-looking basis. However, where there is objective evidence of impairment resulting from an event which took place after the reclassification of the financial assets in question, and this event has a negative impact on initially expected future cash flows, a write-down on the asset in question is booked to "Cost of risk" on the income statement.

Fair value

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an arm's length transaction between market intermediaries at the valuation date. The valuation methods used by the Group to determine the fair value of financial instruments are presented in Note 3.4.

Initial recognition

Purchases and sales of financial assets classified as "Financial assets at fair value through profit or loss", "Held-to-maturity financial assets" and "Available-for-sale financial assets" are recognised on the balance sheet at the settlement-delivery date. Fair value variations between the trading date and the settlement-delivery date are recorded under profit or loss or under shareholders' equity depending on the accounting category of the financial assets in question. Loans and receivables are recorded on the balance sheet at the date of disbursement or the date on which the services billed expire.

On initial recognition, financial assets and liabilities are measured at fair value including costs directly attributable to their acquisition or issuance (with the exception of financial instruments recognised at fair value through profit or loss, whose costs are taken directly to the income statement).

If the fair value is primarily based on observable market data, the difference between this fair value and the transaction price, representative of the

sales margin, is directly recognised in profit or loss. However, where the valuation criteria used are not observable or the pricing models are not recognised by the market, the financial instrument's initial fair value is deemed to be the transaction price and the sales margin is generally recognised on the income statement over the expected life of the instrument. Given the complexity of some instruments, this margin is only recognised at maturity or when the instruments are sold prior to maturity. Where an instrument's valuation criteria become observable, the part of the sales margin not yet booked is recognised on the income statement.

Derecognition of financial assets and liabilities

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

The Group also derecognises financial assets over which it has maintained the contractual rights to receive the associated cash flows, but has the contractual obligation to pass these same cash flows on to a third party (known as a "pass-through agreement), and for which it has transferred substantially all associated risks and rewards.

Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has not retained control of the financial asset in practice, the Group derecognises it and recognises separately an asset or liability representing any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it on the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded on the income statement for the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value or any management asset or liability. Prepayment penalty fees charged to borrowers are recorded on the income statement at the repayment date under "Interest and similar income."

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

A financial liability may also be derecognised in the event of a substantial modification in its contractual terms and conditions or an exchange with the lender against an instrument having substantially different contractual terms and conditions.

Derivative financial instruments

The accounting principles applicable to derivative financial instruments were not impacted by the implementation of IFRS 9. These principles are presented in Note 3.2.

Financial assets and liabilities at fair value through profit or loss

This line contains financial instruments held for trading, including by default derivative assets that are not qualified as hedging instruments, as well as non-derivative financial assets initially designated to be measured at fair value through profit or loss (fair value option);

The trading book combines financial assets and liabilities which, on initial recognition:

- are acquired or held with the intention of selling or repurchasing them in the short term;
- or held for market making purposes;

- or acquired or held for a specialised trading book management purpose, including derivative instruments, securities or other financial instruments managed together, and showing indications of a recent short-term profit-taking profile.

This portfolio also includes, among other trading assets, physical inventories of commodities that the Group may hold for the purposes of its market making activities in commodity derivatives.

Trading book assets and liabilities are measured at fair value at the balance sheet date and recorded on the balance sheet under "Financial assets and liabilities at fair value through profit or loss". Changes in fair value are booked on the income statement under the heading "Net gains or losses on financial instruments at fair value through profit or loss."

In addition to financial assets and liabilities held for trading, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in fair value are booked on the income statement under the heading "Net gains or losses on financial instruments at fair value through profit or loss."

This option is only applied in the following cases:

- to eliminate or significantly reduce discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should alternatively be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

Furthermore, to simplify their accounting treatment by avoiding the separate recognition of embedded derivatives, the Group applies the fair value option to convertible bonds that are not held for trading purposes.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets held for an indefinite period and which the Group may sell at any time. By default, these are financial assets classified neither as "Loans and receivables", "Financial assets at fair value through profit or loss" nor "Held-to-maturity financial assets."

Accrued or earned income on fixed-income securities is recorded in profit or loss based on the effective interest rate under "Interest and similar income - Trading in fixed-income financial instruments." Income from equity securities is recorded under "Net gains or losses on available-for-sale assets" on the income statement.

At the balance sheet date, available-for-sale financial assets are measured at their fair value, and changes in fair value (excluding income) are recorded under "Gains and losses booked directly to other comprehensive income", except for foreign exchange differences on money market assets denominated in local currencies, which are recorded on the income statement.

If these financial assets are sold, the unrealised gains and losses booked to other comprehensive income are reclassified to profit or loss under "Net gains or losses on available-for-sale financial assets."

Furthermore, if at the balance sheet date there is objective evidence of impairment on an available-for-sale financial asset arising from one or more events subsequent to its initial recognition, the unrealised loss previously accumulated in equity is reclassified to profit or loss under "Cost of risk" for debt instruments and under "Net gains or losses on available-for-sale financial assets" for equity instruments. The impairment rules applied by the Group are described below.

Loans and receivables

Loans and receivables include non-derivative fixed- or determinable-income financial assets which are not listed on an active market and which are not held for trading purposes or held for sale from the time of their acquisition or issuance, nor initially designated to be measured at fair value through profit or loss (fair value option).

Loans and receivables are presented on the balance sheet under the line item "Due from banks" or "Customer loans", depending on the counterparty. After their initial recognition, they are measured at amortised cost, based on the effective interest rate, and may be subject to impairment if appropriate on an individual or collective basis (see description of impairment rules applied by the Group below).

Loans and receivables may be subject to commercial renegotiations where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which the Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans and receivables are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans and receivables on the balance sheet at this same date. These new loans are subsequently measured at amortised cost, based on the effective interest rate resulting from the new contractual terms and conditions, including renegotiation fees charged to the customer.

"Customer loans" include lease receivables where they are considered to be finance lease receivables. Leases granted by the Group are considered to be finance leases if their impact is to transfer to the lessees virtually all the risks and rewards associated with ownership of the leased asset. Otherwise, they are classified as operating leases (see Notes 4.2 and 7.1).

Finance lease receivables represent the Group's net investment as a fund provider in the lease, calculated as the present value of the minimum lease payments to be received from the lessee, plus any unguaranteed residual value, discounted at the interest rate implicit in the lease. In the event of a subsequent decline in unguaranteed residual value, used in calculating the lessor's investment in the lease financing contract, the discounted value of this decline is booked to "Expenses from other activities" on the income statement, offset by a reduction in the lease receivable on the asset side of the balance sheet.

Debt

The accounting principles applicable to financial liabilities measured at amortised cost were not impacted by the implementation of IFRS 9. These principles are presented in Note 3.6.

Recognition of Interest income and expenses

Interest income and expenses are recognised on the income statement under "Interest and similar income" and "Interest and similar expenses" for all financial instruments measured at amortised cost using the effective interest rate method (loans and receivables, debt, held-to-maturity financial assets) and for debt securities classified as "Available-for-sale financial assets."

The effective interest rate is taken to be the rate that discounts the future cash inflows and outflows over the expected life of the instrument to the book value of the financial asset or liability. The rate is calculated using the estimated cash flows based on the contractual provisions of the financial instrument without taking account of possible future loan losses. The calculation includes commissions paid or received between the parties where these can be assimilated to interest, transaction costs and all types of premiums and discounts.

When a financial asset or a group of similar financial assets has been impaired following a loss of value, subsequent interest income is booked using the same interest rate that was used to discount the future cash flows when measuring the loss of value.

In addition, provisions that are booked as balance sheet liabilities, except for those related to employee benefits, generate interest expenses for accounting purposes. This expense is calculated using the same interest rate used to discount to present value the expected outflow of resources that gave rise to the provision.

Impairment of financial assets measured at amortised cost

At each balance-sheet date, the Group determines whether there is objective evidence that any asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised ("a loss generating event" or "default event") that has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets which can be reliably estimated.

The Group determines if there is any objective evidence of impairment for individually material financial assets. For individually non-material financial assets, evidence of impairment is assessed individually or collectively. Notwithstanding the existence of a guarantee, the criteria used to determine probable credit risk on individual outstanding loans include the following conditions:

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

The Group applies the impairment contagion principle to all of the defaulting counterparty's outstanding loans. For groups that are customers of the Bank, the contagion principle generally applies to all exposures to that group. Where there is objective evidence of a loss of value on loans and receivables or financial assets classified as "Held-to-maturity financial assets", an impairment is recognised for the difference between the carrying amount and the present value of estimated future recoverable cash flows, taking into account the effect of guarantees that have either been or are liable to be called up. Cash flows are discounted using the initial effective interest rate of the financial asset. The impairment is deducted from the net carrying value of the impaired financial asset. Impairment allowances and reversals are recorded on the income statement under "Cost of risk". The reversal over time of discounting impacts constitutes the accounting return on impaired receivables and is booked to "Interest and similar income" on the income statement.

Where there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, be it significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment In a portfolio of homogeneous assets, as soon as a credit risk is incurred on a group of financial instruments, impairment is recognised without waiting for the risk to individually affect one or more receivables.

Impaired portfolios of homogeneous assets may notably comprise :

- outstandings on counterparties that have encountered financial difficulties since these receivables were initially recognised, without any objective evidence of impairment having yet been identified at the individual level (at-risk outstandings); or

- outstandings on counterparties operating in economic sectors deemed to be in crisis due to the advent of loss-generating events; or
- outstandings in geographic sectors or countries in which a significant increase in credit risk has been observed.

The amount of impairment on a group of homogeneous assets is determined using assumptions on default and loss given default, or where applicable based on special-purpose studies. The assumptions used are calibrated for each group of homogeneous assets according to their specific characteristics, sensitivity to the economic environment and historic data. These items are regularly reviewed by the Risk Division and adjusted to account for changes in the economic situation that affected the portfolios in question. Changes in impairment as calculated by the Group are recorded under "Cost of risk."

Restructured loans and receivables

The restructuring, due to financial difficulties, of a financial asset classified in the "Loans and receivables category" is a contractual amendment to the amount, term or financial conditions of the transaction initially approved by the Group. This is done in consideration of the borrower's financial difficulties or insolvency (whether said insolvency has occurred or is very likely to occur should no restructuring take place), and would not have been considered in other circumstances.

The restructured financial assets are then classified as impaired outstandings and the borrowers are considered to be in default. These classifications are maintained for at least one year, or longer if the Group is uncertain as to the borrowers' ability to meet their commitments.

At the restructuring date, the carrying amount of the restructured financial asset is reduced to the present amount at the initial effective interest rate of the new estimated future recoverable cash flows. This loss is booked to "Cost of risk" on the income statement.

These restructured assets exclude loans and receivables that have already undergone commercial renegotiations and that concern customers whose debt the Group has agreed to renegotiate in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

Impairment of available-for-sale financial assets

An available-for-sale financial asset is impaired if there is objective evidence of impairment arising from one or more events subsequent to the asset's initial recognition.

For listed equity instruments, a significant or prolonged decline in share price to a value below the acquisition cost constitutes objective evidence of impairment. The Group believes this is particularly the case for listed equities which present, at the balance sheet date, unrealised losses exceeding 50% of their acquisition cost, as well as for listed equities posting unrealised losses for a continuous period of 24 months or more prior to the balance sheet date. Other factors, such as the issuer's financial position or its development prospects, may lead the Group to conclude that it may not recover its investment even if the above-mentioned criteria were not met. In such cases, an impairment loss is recorded on the income statement for the difference between the share's listed price at the balance sheet date and its acquisition cost.

The impairment criteria for unlisted equity instruments are the same as those referred to above, with the value of the instruments at the reporting date determined using the valuation methods described in Note 3.4.

The impairment criteria for debt instruments are similar to those applied for the impairment of financial assets measured at amortised cost.

Where a decrease in the fair value of an available-for-sale financial instrument was directly recorded under the specific heading "Gains and losses booked directly to other comprehensive income" and there is subsequent objective evidence of the asset's impairment, the Group recognises, on the income statement, the cumulative unrealised loss previously booked to other comprehensive income under "Cost of risk" for debt instruments and under "Net gains or losses on available-for-sale financial assets" for equity instruments.

The sum of the cumulative loss is the difference between the acquisition cost (net of any repayments of principal and depreciation) and the present fair value, minus if necessary any loss of value on the financial asset previously booked through profit or loss.

Impairment losses recognised through profit or loss on equity instruments deemed available for sale are not reversed until the financial instrument is sold. Once an equity instrument has been impaired, any further loss of value is booked as an additional impairment loss. However, losses of value on debt instruments are reversed through profit or loss if the instruments subsequently appreciate in value, in relation with an improvement in the issuer's credit risk.

Provisions for loan and guarantee commitments

These provisions comprise provisions for credit risk on off-balance sheet loan and guarantee commitments granted by the Group to third parties, provisions related to commitments on home savings agreements, and those representing other liabilities whose maturity or amount are not precisely established and predominantly concern legal disputes and restructuring operations.

Provisions for credit risk on loan and guarantee commitments granted by the Group to third parties are subject to the following conditions:

- the Group has a commitment to a third party that makes it probable or certain that it will incur a cash outflow to that third party, without expecting to receive at least an equivalent consideration from said party;
- and a reliable estimate of the probable cash outflow is available.

The amount of the expected outflow is discounted to present value to determine the size of the provision, where this discounting has a significant impact. The probable losses incurred by the Group after identifying an incurred credit risk on loan and guarantee commitments are recorded under "Cost of risk" in the income statement against a corresponding provision on the liabilities side of the balance sheet.

Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2018

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This statutory auditors' report includes information required by European regulations and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Crédit du Nord,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Crédit du Nord for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Emphasis of Matter

We draw attention to the matter described in Note 1 "Main rules relating to the assessment and presentation of the consolidated financial statements" to the consolidated financial statements which sets out the impacts of the first-time adoption of IFRS 9 "Financial Instruments". Our opinion is not modified in respect of this matter.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Assessment of impairment losses on loans and customer commitments in the context of the first-time adoption of IFRS 9 "Financial Instruments"

Risk identified	Our response
Loans and receivables to customers carry a credit risk that exposes the Crédit du Nord Group to a potential loss if its client or counterparty proves unable to meet its financial commitments. Crédit du Nord constitutes depreciations intended to cover this risk. As of January 1, 2018, the Group applied IFRS 9 "Financial Instruments" to financial assets and liabilities. This standard introduces new rules for the classification and valuation of such assets and liabilities, as well as significant changes in those relating to impairment of financial assets. The first application of IFRS 9 led the Crédit du Nord Group to recognize an impact of M€ 53.5, net of tax, in equity (mainly on impairment of loans and receivables classified in stages 1 and 2), to publish an opening balance sheet as at January 1, 2018 and to provide detailed information on the transition from the balance sheet at December 31, 2017 in accordance with IAS 39 to the opening balance sheet under IFRS 9 as of January 1, 2018. The qualitative and quantitative information is mainly detailed in Notes 1.4 "First-time adoption of IFRS 9 "Financial instruments" and 3 "Financial instruments" to the consolidated financial statements. The determination of this impact, including the nature of the information in the notes, necessitated the implementation of numerous assumptions and judgments, in particular on the credit risk degradation criteria, the methods for taking into account macroeconomic projections, and expected loss measures. In addition, the Crédit du Nord Group also uses its judgment and makes accounting estimates to assess the level of impairments on doubtful loans to corporate clients.	We have familiarizing ourselves with the deployed measures and analyses conducted by the Crédit du Nord Group to implement IFRS 9, including in our audit team experts in credit risk modelling. Regarding the classification and evaluation of the financial instruments, our work consisted mainly in examining the analyses carried out at Group level and testing, on the basis of sample contracts, the conformity of the asset classification determined in Crédit du Nord's analyses with the accounting principles presented in the Notes to the consolidated financial statements. Regarding depreciation relating to outstanding amounts classified as steps 1 and 2, our work included: • assessing the compliance with IFRS 9 of the principles implemented by the Group; • familiarizing ourselves with the governance measures and testing the key controls put in place at Group level; • conducting tests on a selection of models implemented in the information systems that contribute to the development of financial information; • performing a counter-calculation of expected losses on a selection of credits at January 1, 2018; • examining (i) the main parameters used by the Crédit du Nord Group to classify outstanding loans and evaluating the impairments within steps 1 and 2 at January 1, 2018, and (ii) the permanence of the methods applied as at December 31, 2018; • reviewing qualitative and quantitative information published in the Notes to the consolidated financial statements under the first-time adoption of this standard. For doubtful outstandings (classified as step 3) of the business market, our work consisted in testing at December 31, 2018, on a selection of the most significant loans, the main assumptions used to estimate depreciations.

In the retail and professional markets, impairments on doubtful loans (classified in step 3) are determined according to the principles described in Note 3.8 "Depreciations and provisions" of the notes to the consolidated financial statements: • according to a statistical method, for outstandings below certain operational thresholds. For outstanding amounts impaired, certain parameters used are based on management estimates; • according to expert analysis, for outstandings exceeding these operational thresholds. For these outstandings, management uses judgment to determine these impairments. We considered that the valuation of impairment losses on loans and customer commitments in the context of the first-time adoption of IFRS 9 "Financial Instruments" is a key audit matter due to the complexity of implementation of this standard and the importance of the information provided in this respect by the Crédit du Nord Group in the notes to the consolidated financial statements.	For the doubtful outstandings of individual and professional markets whose depreciation is determined according to a statistical method, our work consisted in: • understanding the principles and operation of this method; • familiarizing ourselves with the parameters used by Management, which feed into the statistical model and assessing whether their choice is part of an established governance that is documented; • Analysing the sensitivity of the depreciation amounts calculated using this method to certain parameters deemed important. For the doubtful outstandings of the individual and professional markets, the depreciations of which are determined according to expert analysis, we have: • acknowledged the documentation provided by the Company to justify the amount of impairments and the procedures used to determine these impairments; • assessed the data and assumptions used by Management to determine the amount of write-downs on a sample of credit files.

Specific verifications

As required by law we have also performed in accordance with professional standards applicable in France the specific verifications required by laws and regulations of the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement provided for by Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the information pertaining to the Group presented in the management report, it being specified that, in accordance with the provisions of Article L. 823-10 of said Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained in this statement which has to be subject to a report by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Crédit du Nord by your Annual General Meeting held in 1982 for DELOITTE & ASSOCIES and on May 4, 2000 for ERNST & YOUNG et Autres.

As at December 31, 2018, DELOITTE & ASSOCIES was in the thirty-seventh year of total uninterrupted engagement and ERNST & YOUNG et Autres in the nineteenth year.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, April 15, 2019

The Statutory Auditors,
French original signed by

DELOITTE & ASSOCIES
Jean-Marc MICKELER

ERNST & YOUNG et Autres
Vincent ROTY

4.2 Annual financial statements

2018 Management Report

In the wake of the relatively supportive economic conditions of 2017, the impact of various factors in fiscal year 2018 (weak exports, decreased investments, social movements weighing on consumption) triggered a slowdown in growth in the second half. As a result, GDP grew +1.5% in 2018 versus +2.3% in 2017. On the financial front, the low interest rate environment did not change, and uncertainties surrounding the economic outlook took their toll on market momentum.

Even in this less supportive environment, Crédit du Nord posted resilient financial results. As in previous years, the search for new growth drivers, development of the different customer bases and ramping-up of digital transformation plans paved the way for solid financial and commercial performances.

Fiscal year activity

All outstanding customer loans rose by +3.6%. New loans were driven, despite the drop in interbank home loan repurchasing activity and the impact of the TLTRO II programme that significantly boosted corporate lending momentum in 2017.

On-balance sheet savings picked up +0.7%, reflecting the sharp uptrend initiated in 2014, with deposit outstandings tending to stabilise in the second half of 2018. The robust growth in demand deposits (+1.8%) once again testified to the large cash surpluses of corporate customers turning to low-rate loans to fund their investments. Meanwhile, regulated savings account deposits posted a gain of +7.5%.

2018 net income

Crédit du Nord generated net banking income of €1,098.7 million in 2016, up +17.3%. Restated for dividends paid by subsidiaries (€266.9 million in 2018 vs. €50.6 million in 2017) and provisions for future commitments related to home savings products (+€0.7 million in 2018 vs. +€2.1 million in 2017), net banking income was down -6.0%. This decline can be attributed to the negative effects of the low interest rate environment and the decrease in the sales margin on home loans subsequent to substantial home loan renegotiations in recent years. Net fee income dipped -2.4% despite strong momentum in service fees, partially offsetting the steep drop in home loan renegotiation fees.

Operating expenses amounted to -€586.4 million, an increase of +1.6%, largely attributable as in previous years to investment expenses and IT costs related to the transformation of the sales offer and to tighter regulatory requirements. Furthermore, taxes were impacted by the contribution to the European Single Resolution Fund, which amounted to -€9.0 million in 2018 versus -€6.8 million in 2017. Finally, it should be noted that the amount of the CICE (employment competitiveness contribution tax), which reduces personnel expenses, came to +€4.9 million in 2018 (versus +€5.9 million in 2017) and was used in accordance with regulations.

In light of all these items, gross operating income totalled €512.3 million (+42.5%). Restated for dividends received from subsidiaries and provisions for future commitments related to home savings products, gross operating income was down -20.2%.

As in previous years, cost of risk fell in 2018 (-88.6%) to -€4.9 million versus -€42.9 million at December 31, 2017. On the corporate customers market, the

Group kept cost of risk on defaulted exposures under control. On the individual and professional customers markets, cost of risk was on the decline thanks to the positive impact of the recalibration of the inputs used in the statistical provision model. Lastly, as a result of the change in methods used to calculate collective provisions, the Group recorded a reversal in 2018 (see Note 1.3: "Change in collective provision calculation methods").

A correction relating to the accounting treatment of commercial renegotiations was recorded under "Non-recurring income (expense)" for -€9.7 million (see Note 1: "Accounting principles – Comparability of financial statements – Point 1.4: error correction").

As a result, operating income before tax came out at €507.8 million. After non-recurring income (expense) and income tax, net income for the period stood at €430.2 million, up +96.3% compared to 2017. Restated for dividends received from subsidiaries, provisions for future commitments related to home savings products and non-recurring income (expense), net income rose +3.4%.

Outlook

Crédit du Nord's 2018 earnings underscored the quality of its business model, founded on close customer relations and the balanced breakdown of its business portfolio between the individual, professional and business customer markets.

As the banking landscape continues to change in 2019, Crédit du Nord will continue adapting and transforming in a bid to further improve its relationship banking and operational models, and thus secure its unique positioning and commitment to aid in the economic development of all enterprising customers across the regions.

Related-party agreements

In accordance with the provisions of Article L.225-102-1 of the French Commercial Code, we are listing the agreements entered into directly or via an intermediary between the Chief Executive Officer or one of the Directors or Shareholders owning more than 10% of a company, and another company in which the latter company directly or indirectly owns more than half the share capital:

- Agreement with Societe Generale (GTS) on pooling IT infrastructure, the signing of which was authorised at the Board of Directors meeting of July 23, 2009 (approved by the Shareholders' Meeting of May 12, 2010);
- Agreement with Societe Generale (ITIM) on the establishment of a common information system, the signing of which was authorised at the Board of Directors meeting of May 6, 2011 (approved by the Shareholders' Meeting of May 11, 2012);
- Agreement with Societe Generale (GTPS) on pooling Back Office payment operations, the signing of which was authorised at the Board of Directors meeting of May 28, 2014 (approved by the Shareholders' Meeting of May 28, 2015).

Schedule of trade payables

	Payables not yet due					
(in €m)	1-30 days	31-60 days	> 60 days	Payables due	Other scheduled payments	Total
Amount at 31/12/2018	-	0.6	-	-	0.2	0.8
Amount at 31/12/2017	-	0.8	-	-	0.1	0.9

The maturity dates correspond to the payment dates listed on the invoices or to supplier terms and conditions, independently of their date of receipt.

Since 2016, the vast majority of Crédit du Nord's invoices in France have been processed centrally by Societe Generale Business Services (SG EBS), which records accounting entries and settles supplier invoices for services ordered by all Crédit du Nord functional and business divisions.

In accordance with Crédit du Nord's internal control procedures, invoices are only paid after they are approved by the departments which ordered the services. Once approval is obtained, they are entered into a joint application, with payments made according to the terms set by the suppliers.

The "Other scheduled payments" column refers to retention payments for work which will be paid approximately 6 months after the work is received.

Pursuant to Article D. 441-4 of the French Commercial Code as transcribed in Decree No. 2017-350 of March 20, 2017, implemented by the Decree of March 20, 2017, the following disclosures pertain to the schedule of trade payables: banking activities, insurance activities and financial services (loans, financing and fees) are excluded from the reporting scope.

Payment deadlines - receivables

The payment schedules for loans granted or services invoiced to customers are contractually determined. The terms of payment of loan instalments may be subject to contractual options modifying the initial payment schedules (such as prepayment options or payment deferrals). Compliance with contractual payment provisions is monitored for risk management purposes (see Chapter 5 of this registration document "Risks and capital adequacy"), particularly regarding credit risk, structural interest rate risk and liquidity risk. The remaining maturities of customer loans are reported in Note 7.4 to the annual financial statements.

All invoices issued for operating expenses have been settled by the counterparties. Consequently, there were no unpaid receivables due at December 31, 2018.

Disclosures on dormant bank accounts

Articles L.312-19 and L.312-20 of the French Monetary and Financial Code, derived from Act No. 2014-617 of June 13, 2014 on dormant bank accounts and unclaimed life insurance accounts (the "Eckert Act"), which entered into force on January 1, 2016, requires all credit institutions to annually disclose information on dormant bank accounts.

In respect of 2018, 342 dormant bank accounts were closed and a total of €2,166,388.99 in related deposits were made to Caisse des Dépôts et Consignations.

Note: total deposits transferred in respect of fiscal year 2017 amounted to €2,530,276.47 for 276 dormant bank accounts.

At end-December 2018, 44,173 bank accounts were identified as dormant, for a total of €10,838,541.17.

Five-year financial summary

	2018	2017	2016	2015	2014
FINANCIAL POSITION AT YEAR-END					
Capital stock *(in €)*	890,263,248	890,263,248	890,263,248	890,263,248	890,263,248
Shares outstanding	111,282,906	111,282,906	111,282,906	111,282,906	111,282,906
RESULTS OF OPERATIONS FOR THE YEAR *(in EUR thousands)*					
Revenue without tax (1)	1,321,809	1,111,310	1,453,228	1,531,546	1,548,370
Net banking income	1,098,724	936,675	1,246,059	1,123,844	1,117,108
Income before tax, depreciation, amortisation, provisions and profit-sharing	549,727	389,302	813,591	632,534	596,092
Income tax	-67,865	-97,298	-101,512	-122,788	-112,796
Income after tax, depreciation, amortisation and provisions	430,160	219,083	619,793	362,623	361,508
Total dividends paid (2)	340,526	228,130	170,263	278,207	244,822
EARNINGS PER SHARE *(in euros)*					
Income after tax, but before depreciation, amortisation and provisions (3)	4.32	2.62	6.34	4.51	4.27
Income after tax, depreciation, amortisation and provisions	3.87	1.97	5.57	3.26	3.25
Dividend per share (2)	3.06	2.05	1.53	2.50	2.20
EMPLOYEE DATA					
Average headcount	4,258	4,331	4,388	4,408	4,494
Total payroll *(in EUR thousands)*	238,561	236,227	234,173	230,790	234,630
Total benefits (Social Security, corporate benefits, etc.) *(in EUR thousands)*	78,253	83,782	95,248	97,991	101,177

(1) Defined as the sum of bank operating income and other income deducted for interest paid on financial instruments.

(2) In respect of the fiscal year.

(3) Based on the number of outstanding shares at year-end.

Main changes in the securities portfolio in 2018

Crédit du Nord carried out the following transactions on its securities portfolio during fiscal year 2018:

Creation:

None.

Acquisition :

None.

Increased equity investment:

Sicovam Holding.

Participation in capital increases:

FRG Hauts de France.

Complete disposal:

Grand Hainaut Expansion - IAD (Institut d'Assistance à la création et au Développement des entreprises régionales).

Reduced equity investment (o/w transfer of all assets):

CRH - SWIFT - Crédinord Cidize (TUP).

In accordance with the provisions of Article L.233.6 of the French Commercial Code, the table below summarises the significant changes in Crédit du Nord's investment portfolio recorded in 2018 (note that legal thresholds exist at 5%, 10%, 20%, 33% and 50%).

Upward threshold-crossings:

		Percent of capital	
Threshold	Company	31/12/2018	previous
-	-	-	-

Downward threshold-crossings:

		Percent of capital	
Threshold	Company	31/12/2018	previous
50%	Crédinord Cidize	0.00%	99.96%
10%	FRG Hauts de France	8.58%	10.01%

Parent Company Balance Sheet

Assets

(in €m)	Note	31/12/2018	31/12/2017
Cash, due from central banks and postal accounts		9,395.5	8,198.3
Treasury notes and similar securities	2.1	2,003.2	3,484.0
Due from banks	2.3	20,019.2	20,032.5
Transactions with customers	2.3	19,002.9	18,340.8
Bonds and other fixed-income securities	2.1	2,307.4	2,170.2
Shares and other equity securities	2.1	0.3	0.3
Equity investments and other long-term investment securities	2.1	119.0	101.8
Investments in subsidiaries and affiliates	2.1	1,764.8	1,764.9
Tangible and intangible fixed assets	7.1	340.3	308.8
Other assets and accruals	3.2	428.6	429.3
TOTAL		**55,381.2**	**54,830.9**

Off-balance sheet items

(in €m)	Note	31/12/2018	31/12/2017
Loan commitments given	2.3	8,289.7	5,000.0
Guarantee commitments given	2.3	2,400.1	2,415.6
Security commitments given		287.5	287.5

Liabilities

(in €m)	Note	31/12/2018	31/12/2017
Due to central banks, postal accounts		-	-
Due to banks	2.4	21,816.2	18,699.8
Transactions with customers	2.4	23,043.0	22,890.5
Debt securities	2.4	5,700.9	8,481.8
Other liabilities and accruals	3.2	934.3	986.1
Provisions	7.3	136.6	158.1
Subordinated debt	6.2	560.3	626.8
Shareholders' equity			
Capital	6.1	890.3	890.3
Additional paid-in capital	6.1	11.1	11.1
Reserves and retained earnings	6.1	1,858.3	1,867.3
Net income	6.1	430.2	219.1
Sub-total		**3,189.9**	**2,987.8**
TOTAL		**55,381.2**	**54,830.9**

Off-balance sheet items

(in €m)	Note	31/12/2018	31/12/2017
Loan commitments received from banks	2.4	2,104.0	649.5
Guarantee commitments received from banks	2.4	8,601.1	8,711.1
Security commitments received		0.1	0.1

Parent Company Income Statement

(in €m)	Note	2018	2017
Interest and similar income	2.5	436.4	523.1
Interest and similar expenses	2.5	-138.2	-188.7
Income from equity securities	2.1	276.3	54.9
Fee income	3.1	489.6	498.8
Fee expenses	3.1	-73.9	-73.0
Net gains or losses on trading book transactions	2.1	88.6	92.2
Net gains or losses on investment portfolio and similar transactions	2.1	22.7	29.8
Other banking income		13.4	10.6
Other banking expenses		-16.2	-11.0
NET BANKING INCOME		1,098.7	936.7
Personnel expenses	4.1	-352.1	-335.2
Other administrative costs	4.3	-185.6	-196.8
Depreciation and amortisation		-48.7	-45.3
GROSS OPERATING INCOME		512.3	359.4
Cost of risk	2.6	-4.9	-42.9
OPERATING INCOME		507.4	316.5
Gains or loss on fixed assets 2.1/7.1		0.4	-0.1
PRE-TAX PROFIT		507.8	316.4
Non-recurring income (expense)	7.2	-9.7	-
Income tax	5	-67.9	-97.3
Net allocation to regulated provisions		-	-
NET INCOME		**430.2**	**219.1**

Notes to the annual financial statements

The financial statements were approved by the Board of Directors on February 20, 2019.

NOTE 1 Main valuation and presentation rules for the annual financial statements

Crédit du Nord's annual financial statements were drawn up and are presented in accordance with the provisions of ANC (French Accounting Standards Authority) Regulation No. 2014-07 on the financial statements of banking sector companies.

Comparability of financial statements

No change in accounting method was observed in 2018.

Presentation

The amounts presented in the financial statements and in the notes are expressed in millions of euros, unless otherwise indicated.

Rounding effects may generate gaps between the amounts presented in the financial statements and those presented in the notes.

1.1. Accounting principles and valuation methods

In accordance with the accounting principles applicable to French credit institutions, for most transactions the valuation methods take into account the original intention of such transactions.

Transactions carried out for banking intermediation purposes are held at their historic cost and impaired in the event of counterparty risk. The results of such transactions are recorded on a pro rata basis, in accordance with the principle of separate accounting years. This category includes transactions in forward financial instruments aimed at hedging and managing the overall interest rate risk of banking intermediation activities.

Trading transactions are usually marked to market, with the exception of loans, borrowings and short-term investment securities, which are recorded at nominal value. Where these instruments are not quoted on active markets, the mark-to-market valuation is corrected to include a prudential discount. Moreover, a reserve is booked to cover valuations established on the basis of in-house models (Reserve Policy), which is determined according to the complexity of the model used and the life of the financial instrument.

1.2 Use of estimates and judgement

In drawing up Crédit du Nord's annual financial statements, the application of the accounting principles and methods described in the notes led Management to develop assumptions and make estimates which may have an impact on the amounts booked to the income statement, on the valuation of balance sheet assets and liabilities, and on the disclosures presented in the notes to the consolidated financial statements.

In order to make these estimates and develop these assumptions, Management uses data available at the date on which the annual accounts are prepared and may be called upon to use its own judgement. By nature, the valuations based on these estimates contain risks and uncertainties as to whether they will materialise in the future. Consequently, the final future results of the transactions in question may differ from these estimates and therefore have a significant impact on the financial statements.

The use of estimates primarily concerns the following valuations:

- the fair value, as reported on the balance sheet, of financial instruments (securities and derivative instruments) that are not listed on an active market and held for market activities (see Notes 2.1, 2.2 and 3.2);
- amounts recognised as impairments of financial assets (see Note 2.6), , tangible and intangible assets (see Note 7.1);
- provisions booked to liabilities on the balance sheet, including provisions for employee benefits (see Notes 2.6, 4.2 and 7.3);
- the amount of deferred tax assets recognised on the balance sheet (see Notes 5, 3.2).

1.3 Change in collective provision calculation methods

In 2018, Crédit du Nord changed the method to estimate the recognition of collective provisions for credit risk.

In accordance with the methods for estimating expected credit losses, used for the consolidated financial statements of Crédit du Nord Group since the application of IFRS 9 as of January 1, 2018, Crédit du Nord reviewed the methods for estimating collective provisions for credit risks in its annual financial statements.

Until December 31, 2017, the amount of collective provisions was determined mainly according to historical data on default rates and observed losses by portfolio of homogeneous assets, adjusted for changes in economic conditions affecting the portfolio and, where applicable, expert judgement.

As of fiscal year 2018, the amount of collective provisions for credit risk is measured in respect of lifetime expected credit losses, calculated on the basis of credit-impaired performing exposures (portfolios of similar loans and commitments subject to a significant increase in credit risk since initial recognition) (see Note 2.6).

1.4 Error correction

Loans subject to commercial renegotiations, where the customer is not experiencing financial hardship or insolvency, are derecognised at the renegotiation date and the new loans contractualised under the renegotiated terms and conditions replace the previous loans on the balance sheet at this same date. The residual portion of fees assimilated to interest initially received, and of transactions costs directly associated with the initial loan, are immediately taken to profit or loss at the renegotiation date. The renegotiation fees received are included in the effective interest rate of the new loan.

Until December 31, 2017, the Group immediately booked renegotiation fees to profit or loss and continued spreading out fees assimilated to interest and initial transaction costs over the actual life of the renegotiated loans.

This correction was recorded in the parent company financial statements at December 31, 2018 under non-recurring income (expense) for -€9.7 million (see Note 7.2).

In 2018, the accounting treatment of commercial renegotiations was automatically implemented in the loan management software tools. As a result, all outstanding loans in 2018 were adjusted and appropriate accounting entries were automatically generated.

NOTE 2 Financial instruments

2.1 Securities portfolio

Accounting principles

Securities are classified according to:

- their type: public notes (Treasury notes and similar securities), bonds and other fixed-income securities (negotiable debt instruments, interbank securities), shares and other equity securities;
- and the purpose for which they were required: trading, short-term and long-term investment, portfolio activities, equity investments, investments in subsidiaries and affiliates, and other long-term equity investments.

Sales and purchases of securities are recognised on the balance sheet at the settlement-delivery date.

The following classification and valuation rules are applied to each portfolio. The related impairment rules are described in Note 2.6.

Trading securities

Trading securities are securities initially bought or sold principally for the purpose of reselling or repurchasing them in the near term, or held for the purpose of market-making activities. These securities are traded in active markets, and the available market price reflects frequent buying and selling in normal competitive conditions. Short-term investment securities also include securities subject to a promise of sale as part of an arbitrage transaction carried out on an organised or similar market in financial instruments, and securities bought or sold for specialised trading book strategy including forward financial instruments, securities or other financial instruments managed together and showing indications of a recent short-term profit-taking profile.

Trading securities are recorded on the balance sheet at cost, net of expenses.

They are marked to market at the end of the financial period.

Net unrealised gains or losses, together with net gains or losses on disposals, are recognised on the income statement under “Net gains or losses on trading books, investment portfolios and similar investments.” Coupon payments received on fixed-income securities in the trading portfolio are recorded on the income statement under “Net interest income from bonds and other fixed-income securities”.

Trading securities no longer held for sale in the short term, no longer held for market-making purposes, or for which the specialised portfolio management strategy for which they are held no longer offers a recent profit-taking profile in the short term, may be transferred to the “Short-term investment securities” or “Long-term investment securities” category if:

- an exceptional market situation requires a change in holding strategy;
- or if the fixed-income securities can no longer be traded on an active market following their acquisition, and if Crédit du Nord intends and is able to hold them for the foreseeable future or until their maturity.

Transferred securities are recorded in their new category at their market value at the date of transfer.

Short-term investment securities

This category includes securities which are not included with short-term investment securities, investment securities, other long-term investment securities, equity investments and subsidiaries, other long-term investment securities or investments in subsidiaries and affiliates.

Equities and variable-income securities

Equity securities are carried on the balance sheet at cost excluding acquisition expenses, or at contribution value. At the end of the fiscal year, they are measured at their probable trading value, and only unrealised capital losses are recognised by recording an impairment on the securities portfolio. Income from these securities is recorded in "Income from equity securities".

Bonds and other fixed-income securities

These securities are carried at cost excluding acquisition expenses and, in the case of bonds, excluding interest accrued and not yet due at the date of purchase. The positive or negative difference between cost and redemption value is amortised to income over the life of the relevant securities using the actuarial method. Accrued interest on bonds and other short-term investment securities is recorded as "Related receivables" and under "Net interest income from bonds and other fixed-income securities" on the income statement.

Short-term investment securities can be reclassified as "Long-term investment securities" if :

- an exceptional market situation requires a change in holding strategy;
- or if the fixed-income securities can no longer be traded on an active market following their acquisition, and if Crédit du Nord intends and is able to hold them for the foreseeable future or until their maturity.

Long-term investment securities

Long-term investment securities are acquired debt securities or reclassified short-term investment securities which Crédit du Nord intends to hold until maturity, where it has the financial capacity to do so and is not subject to any legal or other form of constraint that might undermine its ability to do so.

Long-term investments are booked according to the same principles as short-term investment securities,

Equity investments, investments in affiliates, and other long-term investment securities

This category of securities covers "Equity investments and investments in subsidiaries and affiliates", where it is deemed useful to Crédit du Nord's business to hold the shares over the long term. This notably covers investments that meet the following criteria:

- shares in companies that share directors or senior managers with Crédit du Nord and where influence can be exercised over the company in which the shares are held;
- shares in companies that belong to the same group controlled by individuals or legal entities, where the said persons or entities exercise control over the group and ensure that decisions are taken in unison;
- shares representing more than 10% of the voting rights in the capital issued by a bank or a company whose business is directly linked to that of Crédit du Nord.

This category also includes "Other long-term investment securities". These are equity investments made by Crédit du Nord with the aim of developing special professional relations with a company over the long term but without exercising any influence on its management due to the small percentage of attached voting rights.

Equity investments, investments in consolidated subsidiaries and affiliates, and other long-term investment securities are recorded at their purchase price net of acquisition costs. Dividend income earned on these securities is booked on the income statement under "Income from equity securities."

2.1.1 Treasury notes, bonds and other fixed-income securities, shares and other equity securities

(in €m)	31/12/2018 Treasury notes and similar securities	Equities and variable-income securities	Bonds and other fixed-income securities	Total	31/12/2017 Treasury notes and similar securities	Equities and variable-income securities	Bonds and other fixed-income securities	Total
Trading book	-	-	-	-	-	-	-	-
Short-term investment portfolio [1]								
Gross amount	1,990.6	0.3	2,304.1	4,295.0	3,467.1	0.3	2,164.0	5,631.4
Impairments	-0.1	-	-3.5	-3.6	-	-	-3.9	-3.9
Net amount	**1,990.5**	**0.3**	**2,300.6**	**4,291.4**	**3,467.1**	**0.3**	**2,160.1**	**5,627.5**
Investment portfolio								
Gross amount	-	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-	-
Net amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Related receivables	12.7	-	6.8	19.5	16.9	-	10.1	27.0
TOTAL [2]	**2,003.2**	**0.3**	**2,307.4**	**4,310.9**	**3,484.0**	**0.3**	**2,170.2**	**5,654.5**
(1) O/w securities eligible as collateral for Banque de France refinancing operations				*4,266.2*				*5,551.2*
(2) O/w bonds and other fixed-income securities issued by public organisations (net of provisions and excluding related receivables)				*43.9*				*144.8*

Additional information on securities

Short-term investment portfolio

(in €m)	31/12/2018	31/12/2017
Estimated value of short-term investment securities		
Unrealised capital gains [1]	66.3	110.0
Unrealised capital gains on shares and other equity securities	0.7	0.6
Unrealised capital gains on bonds and other fixed-income securities	65.6	109.4
Premiums and discounts related to short-term fixed-income investment securities (excluding doubtful securities)	-64.6	-90.1
Units of UCITS held	-	-
Listed securities in treasury notes and similar securities (net of provisions and excluding related receivables)	1,990.6	3,467.1
Listed securities in shares and other equity securities (net of provisions and excluding related receivables)	-	-
Listed securities in bonds and other fixed-income securities (net of provisions and excluding related receivables)	1,118.5	931.9
Subordinated securities (net of provisions and excluding related receivables)	-	-

(1) These amounts do not include unrealised gains on financial instruments used to hedge short-term investment securities.

Securities transferred

No securities were transferred from one portfolio to another in 2017 or 2018.

2.1.2 Equity investments, investments in subsidiaries and affiliates and other long-term investments

Equity investments and other long-term investment securities

(in €m)	31/12/2018	31/12/2017
Banks	**90.4**	**75.0**
Listed	-	-
Unlisted [1]	90.4	74.9
Others	**29.3**	**27.2**
Listed	-	-
Unlisted	29.3	27.2
TOTAL GROSS	**119.7**	**102.2**
Impairments	-0.7	-0.4
TOTAL NET	**119.0**	**101.8**

(1) The main change in 2018 concerned the acquisition of SICOVAM HOLDING shares for €19.6 million and the disposal of CRH shares for €4.4 million.

Investments in subsidiaries and affiliates

(in €m)	31/12/2018	31/12/2017
Banks	**1,517.2**	**1,517.2**
Listed	-	-
Unlisted	1,517.2	1,517.2
Others	**247.6**	**247.7**
Listed	-	-
Unlisted	247.6	247.7
TOTAL GROSS	**1,764.8**	**1,764.9**
Impairments	-	-
TOTAL NET	**1,764.8**	**1,764.9**

2.1.3 Income from equity securities

(in €m)	2018	2017
Dividends from shares and other equity securities	-	-
Dividend from equity investments and other long-term securities [1]	276.3	54.9
TOTAL	**276.3**	**54.9**
(1) O/w income from shares in subsidiaries and affiliates	*266.9*	*50.6*

2.1.4 Net gains or losses on trading books, investment portfolios and similar investments

(in €m)	2018	2017
Net income from trading book		
Net income from transactions in short-term investment securities	-	-
Net income from forward financial instruments	59.4	65.1
Net income from foreign exchange transactions	29.2	27.1
SUB-TOTAL	**88.6**	**92.2**
Net income from short-term investment securities		
Capital gains on disposal	24.4	25.2
Capital losses on disposal	-2.0	-
Allocations to impairment	-3.6	-
Impairment reversals	3.9	4.6
SUB-TOTAL	**22.7**	**29.8**
TOTAL NET	**111.3**	**122.0**

2.1.5 Gains and losses on fixed assets

Accounting principles

"Gains and losses on fixed assets" covers capital gains or losses on disposals, and net allocations to impairment of equity investments and investments in affiliates, other long-term securities, and investment securities.

(in €m)	2018	2017
Long-term investment securities	**-**	**-**
Equity investments, investments in affiliates, and other long-term investment securities		
Capital gains on disposal	0.1	-
Capital losses on disposal	-	-
Allocations to impairment	-0.4	-0.1
Impairment reversals	-	-
TOTAL	**-0.3**	**-0.1**

2.2 Transactions in forward financial instruments

Accounting principles

Transactions in interest rate, foreign exchange or equity futures are carried out for hedging or market-making purposes.

Nominal commitments on forward financial instruments are recorded as a separate off-balance sheet item. This amount represents the volume of outstanding transactions and does not represent the potential gain or loss associated with the market or counterparty risk on these transactions. Written credit derivatives used to hedge against credit risk on financial assets that are not marked to market are classified and treated as guarantee commitments received.

The accounting treatment of income or expenses on these forward financial instruments depends on the purpose for which the transaction was concluded, as follows:

Hedging transactions

Income and expenses on forward financial instruments used as a hedge and assigned from the beginning to an identifiable item or group of similar items, are offset on the income statement against the income and expenses on the hedged item. Income and expenses on interest rate instruments are booked as net interest income in the same interest income or expense account as the items hedged. Income and expenses on other instruments are booked as "Net gains or losses on trading books, investment portfolios and similar investments" under "Income from forward financial instruments."

Income and expenses on forward financial instruments used for hedging and management of overall interest rate risk are recorded on the income statement on a pro rata basis. They are recognised as "Net gains or losses on trading books, investment portfolios and similar investments", "Income from forward financial instruments."

Transactions in open positions

All relative income and expenses are booked to the income statement on a prorata basis. They are recognised as "Net gains or losses on trading books, investment portfolios and similar investments" under "Income from forward financial instruments." A provision is set aside for unrealised losses, determined by a book-to-market value comparison. Unrealised gains are not recorded.

2.2.1 Financial instrument commitments

(in €m)	Trading	Speculation	Macro-hedging	Micro-hedging	Over-hedging	Total 31/12/2018	Total 31/12/2017
Contract category under CRB Regulation 90/15	D	A	C	B			
Firm transactions							
Transactions on organised markets							
Interest rate futures	-	-	-	-	-	-	-
Foreign exchange futures	-	-	-	-	-	-	-
Other forward instruments	-	-	-	-	-	-	-
OTC agreements							
Interest rate swaps	-	2,468.8	39,628.0	2,918.0	4,330.0	49,344.8	57,115.0
Currency swaps	-	171.1	-	-	-	171.1	181.1
Others	-	-	-	-	-	-	-
Options							
Interest rate options	-	813.4	1,638.7	-	-	2,452.1	2,683.9
Foreign exchange options	-	-	-	402.9	-	402.9	255.2
Other options	-	-	-	1,797.9	-	1,797.9	2,541.2
TOTAL	**-**	**3,453.3**	**41,266.7**	**5,118.8**	**4,330.0**	**54,168.8**	**62,776.4**

2.2.2 Fair-value of hedging transactions

(in €m)	31/12/2018
Firm transactions	
Transactions on organised markets	
Interest rate futures	-
Foreign exchange futures	-
Other forward instruments	-
OTC agreements	
Interest rate swaps	451.7
Currency swaps	-
Others	-
Options	
Interest rate options	2.4
Foreign exchange options	-
Other options	-0.7
TOTAL	**453.4**

2.2.3 Maturities of derivative commitments (notional amounts)

	Residual maturity at December 31, 2018				
(in €m)	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	Total
FORWARD FINANCIAL INSTRUMENTS					
Micro-hedging transactions	186.3	1,330.3	2,462.0	1,140.2	5,118.8
Macro-hedging transactions	627.0	5,406.0	19,542.2	15,691.5	41,266.7
Over-hedging transactions	380.0	175.0	1,975.0	1,800.0	4,330.0
Position management transactions	1,128.1	283.6	1,473.4	568.2	3,453.3
TOTAL	**2,321.4**	**7,194.9**	**25,452.6**	**19,199.9**	**54,168.8**

2.3 Loans and receivables

Accounting principles

Amounts due from banks and customers are classified according to their initial duration or type into: demand (current accounts and overnight transactions) and term accounts in the case of banks; customer receivables, current accounts and other loans in the case of customers. Amounts due from banks and customers include outstanding loans and repurchase agreements, secured by notes and securities, entered into with these counterparties.

Interest accrued on these receivables is recorded as Related receivables and booked to the income statement under “Interest and similar income” or “Interest and similar expenses.”

Interest on doubtful loans is calculated using the discounted net book value of the loan.

Fees received and incremental transaction costs related to the granting of a loan are comparable to interest and spread over the effective life of the loan.

Guarantees given at the request of customers or banks are recorded as off-balance sheet items in the amount of the commitment.

Off-balance sheet guarantees and endorsements correspond to irrevocable cash loan commitments and guarantee commitments which did not give rise to any fund movements.

Where necessary, provisions are set aside for these financing guarantees and commitments.

If a loan is considered to bear a probable risk that all or part of the sums owed by the counterparty under the initial terms and conditions of the loan agreement will not be recovered, and notwithstanding the existence of loan guarantees, the loan in question is classified as doubtful. In any event, outstanding loans are reclassified as doubtful where one or more payments is at least three months overdue (six months for real estate and property loans, nine months for municipal loans), or where, any missed payments notwithstanding, there is a probable risk of loss or where a loan is disputed.

Unauthorised overdrafts are classified as doubtful loans after a period of no more than three consecutive months during which the account limits are exceeded (limits of which individual customers have been notified and limits resulting from legal or de facto agreements with other categories of customers).

Where a given borrower’s loan is classified as a “doubtful loan”, any other loans and commitments made to the same borrower are also automatically classed as doubtful, regardless of any guarantees.

Provisions for unrealised losses and for doubtful loans are booked in the amount of the probable loss (see Note 2.6).

Restructured loans and receivables

The restructuring, due to financial difficulties, of a financial asset classified in the "Customer loans", and "Due from banks" categories is a contractual amendment to the amount, term or financial conditions of the transaction initially approved by Crédit du Nord Group. This is done in consideration of the borrower's financial difficulties or insolvency (whether said insolvency has occurred or is very likely to occur should no restructuring take place), and would not have been considered in other circumstances. The restructured financial assets are then classified as impaired outstandings and the borrowers are considered to be in default.

These classifications are maintained for at least one year, or longer if Crédit du Nord Group is uncertain as to the borrowers' ability to meet their commitments.

Loans and receivables may be subject to commercial renegotiations where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which Crédit du Nord Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans and receivables are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans and receivables on the balance sheet at this same date. These new loans are subsequently measured at amortised cost, based on the effective interest rate resulting from the new contractual terms and conditions, including renegotiation fees charged to the customer.

2.3.1 Due from banks

(in €m)	31/12/2018	31/12/2017
Demand deposits and loans		
Current accounts	379.6	361.2
Overnight deposits and loans	43.7	75.0
Term deposits and loans		
Term deposits and loans	19,524.4	18,372.5
Subordinated and participating loans	51.3	90.5
Loans secured by notes and securities	-	1,113.6
Related receivables	20.2	19.7
TOTAL GROSS (1) (2) (3)	**20,019.2**	**20,032.5**
Impairments	-	-
TOTAL NET	**20,019.2**	**20,032.5**
(1) O/w doubtful loans	-	-
(2) O/w irrecoverable non-performing loans	-	-
(3) O/w transactions with subsidiaries and affiliates	*17,637.7*	*17,536.3*

2.3.2 Transactions with customers

(in €m)	31/12/2018	31/12/2017
Trade notes	141.0	205.7
Other customer loans	18,397.3	17,740.6
Short-term loans	2,686.3	2,413.2
Export loans	23.8	22.3
Equipment loans	3,738.1	3,463.2
Housing loans	11,151.5	10,932.6
Other loans	797.6	909.3
Overdrafts	929.5	903.0
Related receivables	21.7	30.4
TOTAL GROSS (1) (2) (3) (4) (5) (6)	**19,489.5**	**18,879.7**
Impairments	-486.6	-538.9
TOTAL NET	**19,002.9**	**18,340.8**
(1) O/w performing loans (excluding related receivables)	*18,536.7*	*17,788.5*
- Companies and individual entrepreneurs	*7,910.0*	*7,422.7*
- Individual customers	*10,423.5*	*10,174.6*
- Financial customers	*7.2*	*6.9*
- Others	*196.0*	*184.3*
(2) O/w doubtful loans (excluding related receivables)	*289.7*	*371.5*
- Companies and individual entrepreneurs	*160.3*	*206.7*
- Individual customers	*128.8*	*164.7*
- Financial customers	-	-
- Others	*0.6*	*0.1*
(3) O/w irrecoverable non-performing loans	*641.4*	*689.3*
- Companies and individual entrepreneurs	*474.5*	*478.7*
- Individual customers	*162.4*	*206.0*
- Financial customers	-	-
- Others	*4.5*	*4.6*
(4) O/w receivables pledged as collateral for liabilities	*7,435.8*	*4,833.3*
(5) O/w receivables eligible as collateral for Banque de France refinancing operations	*3,145.0*	*924.5*
(6) O/w transactions with subsidiaries and affiliates	*0.5*	*1.5*

Gross outstanding restructured loans totalled €71.7 million at December 31, 2018 versus €73.6 million at December 31, 2017.

Concentration risk is analysed on a half-yearly basis at the consolidated level. The guiding principle and major trends are presented in Section 4 “Risks and capital adequacy.”

2.3.3 Signed commitments given

(in €m)	31/12/2018	31/12/2017
Commitments given		
Loan commitments		
To banks	5,860.9	2,639.7
To customers	2,428.8	2,360.3
SUB-TOTAL [1]	**8,289.7**	**5,000.0**
Guarantee commitments		
To banks	178.5	175.4
To customers	2,221.6	2,240.2
SUB-TOTAL [2]	**2,400.1**	**2,415.6**
TOTAL	**10,689.8**	**7,415.6**
(1) O/w transactions with subsidiaries and affiliates	*5,779.4*	*2,562.7*
(2) O/w transactions with subsidiaries and affiliates	*819.0*	*822.0*

At December 31, 2018, assets pledged as collateral for own commitments (3G pool, CRH, EIB, Crédit Logement, SFH) amounted to €12,305.0 million and can be broken down as follows: €7,805.8 million in Crédit du Nord assets and €4,499.2 million in assets pledged as collateral from its subsidiaries.

On the liabilities side, related cash borrowings came to €5,775.1 million and, on the off-balance sheet, the undrawn portion totalled €2,104.0 million. (see Note 2.4.4)

2.4 Debt

Accounting principles

Amounts due to banks and customer deposits are classified according to their initial duration and type into: demand (deposits, current accounts) and term accounts in the case of banks; and regulated savings accounts and other deposits in the case of customers.

This debt includes repurchase agreements, in the form of securitised debt payables, carried out with these economic operators.

Accrued interest on these amounts is recorded as related payables through profit or loss.

2.4.1 Due to banks

(in €m)	31/12/2018	31/12/2017
Demand accounts		
Demand deposits and current accounts	2,343.3	1,395.0
Related payables	-	0.5
SUB-TOTAL	**2,343.3**	**1,395.5**
Term accounts		
Term deposits and borrowings	18,660.7	16,833.2
Related payables	10.8	7.8
SUB-TOTAL	**18,671.5**	**16,841.0**
Securities sold under repurchase agreements	801.4	463.3
TOTAL (1)	**21,816.2**	**18,699.8**
(1) O/w transactions with subsidiaries and affiliates	*19,245.1*	*16,154.2*

2.4.2 Transactions with customers

(in €m)	31/12/2018	31/12/2017
Regulated savings accounts		
Demand	5,880.7	5,432.6
Term	1,361.2	1,302.7
SUB-TOTAL	**7,241.9**	**6,735.3**
Other demand deposits		
Companies and individual entrepreneurs	8,155.8	8,033.4
Individual customers	4,433.2	4,171.7
Financial customers	45.0	44.5
Others	930.1	1,081.7
SUB-TOTAL	**13,564.1**	**13,331.3**
Other term deposits		
Companies and individual entrepreneurs	1,644.2	2,058.5
Individual customers (1)	20.5	17.5
Financial customers	6.0	6.4
Others	146.1	190.4
SUB-TOTAL	**1,816.8**	**2,272.8**
Related payables	18.2	18.4
TOTAL	22,641.0	22,357.8
Securities sold to customers under repurchase agreements	402.0	532.7
TOTAL (2)	**23,043.0**	**22,890.5**
(1) O/w security deposits	*1.0*	*0.9*
(2) O/w transactions with subsidiaries and affiliates	*102.8*	*127.7*

2.4.3 Debt securities

Accounting principles

These liabilities are broken down into medium-term notes, interbank securities and negotiable debt instruments, bonds and other fixed-income securities (with the exception of subordinated notes, which are classified under subordinated debt).

Interest accrued and payable in respect of these securities is booked as related payables through profit or loss. Bond issuance and redemption premiums are amortised using the straight-line or actuarial method over the life of the related borrowings. The resulting expense is recorded on the income statement under "Interest and similar expenses."

Bond issuance costs accrued over the period are expensed under "Interest and similar expenses" on the income statement.

(in €m)	31/12/2018	31/12/2017
Short-term notes	0.5	0.7
Bonds	-	335.2
Related payables	-	0.2
SUB-TOTAL	**0.5**	**336.1**
Money market and negotiable debt securities	5,699.0	8,140.8
Related payables	1.4	4.9
SUB-TOTAL	**5,700.4**	**8,145.7**
TOTAL	**5,700.9**	**8,481.8**
Unamortised debt balance of issue premiums on these debt securities	*1.9*	*3.4*

2.4.4 Signed commitments received

(in €m)	31/12/2018	31/12/2017
Commitments received		
Loan commitments from banks [1]	2,104.0	649.5
Guarantee commitments from banks [2]	8,601.1	8,711.1
TOTAL	**10,705.1**	**9,360.6**
(1) O/w transactions with subsidiaries and affiliates	*180.0*	*-*
(2) O/w transactions with subsidiaries and affiliates	*80.2*	*180.1*

2.5 Interest income and expenses

Accounting principles

Interest income and expenses are booked to the income statement under "Interest and similar income" and "Interest and similar expenses" for all financial instruments measured at amortised cost using the effective interest rate method.

The effective interest rate is taken to be the rate that discounts the future cash inflows and outflows over the expected life of the instrument to the book value of the financial asset or liability. The rate is calculated using the estimated cash flows based on the contractual provisions of the financial instrument without taking account of possible future loan losses. The calculation includes commissions paid or received between the parties where these can be assimilated to interest, transaction costs and all types of premiums and discounts.

When a financial asset or a group of similar financial assets has been impaired following a loss of value, subsequent interest income is booked using the same interest rate that was used to discount the future cash flows when measuring the loss of value.

In addition, provisions that are booked as balance sheet liabilities, except for those related to employee benefits, generate interest expenses for accounting purposes. This expense is calculated using the same interest rate used to discount to present value the expected outflow of resources that gave rise to the provision.

	2018			2017		
(in €m)	Income	Expense	Net	Income	Expense	Net
Transactions with banks	-8.7	-13.6	-22.3	27.9	-28.5	-0.6
Transactions with central banks, post office accounts and banks	-7.1	-17.6	-24.7	29.8	-32.3	-2.5
Securities purchased under resale agreements	-1.6	4.0	2.4	-1.9	3.8	1.9
Transactions with customers	405.9	-60.7	345.2	436.9	-57.4	379.5
Trade notes	2.2	-	2.2	2.5	-	2.5
Other customer loans [1]	373.4	-	373.4	403.3	-	403.3
Overdrafts	30.3	-	30.3	31.1	-	31.1
Regulated savings accounts	-	-41.7	-41.7	-	-40.6	-40.6
Other amounts due to customers	-	-20.5	-20.5	-	-21.1	-21.1
Securities purchased/sold under resale/repurchase agreements	-	1.5	1.5	-	4.3	4.3
Bonds and other fixed-income securities	34.3	-63.9	-29.6	47.7	-102.8	-55.1
Other interest income and similar expenses	4.9	-0.1	4.9	10.6	-	10.6
TOTAL INTEREST INCOME/EXPENSES	**436.4**	**-138.2**	**298.2**	**523.1**	**-188.7**	**334.4**

(1) Breakdown of other customer loans:

(in €m)	2018	2017
Short-term loans	67.9	74.8
Export loans	0.2	0.3
Equipment loans	72.2	77.1
Home loans [2]	220.6	236.5
Other loans	12.5	14.6
TOTAL	**373.4**	**403.3**

(2) In 2017, "Home loans" should have amounted to €235.4 million with the error correction of -€1.1 million in respect of fiscal year 2017 (see Note 1).

2.6 Provisions and impairments

2.6.1 Impairments

Accounting principles

Impairments include write-downs of assets and securities.

Asset impairments

Doubtful loans and non-performing loans give rise to impairment for the portion of doubtful and non-performing loans that will probably not be recovered, and are recorded as an asset write-down. The amount of the impairment loss for doubtful and non-performing loans is equal to the difference between the gross book value of the asset and the present value discounted for estimated recoverable future cash flows, taking into account the value of any guarantees, discounted at the original effective interest rate of the loans. Recoverable amounts are determined on the basis of expert analysis for the non-retail portfolio (corporates) and according to a statistical method for the retail portfolio (individual and professional customers). The distribution of recoverable amounts over time follows recovery curves statistically established for each homogeneous group of receivables. Furthermore, this write-down may not be less than the full amount of the accrued interest not yet received on the doubtful loan. Impairment allocations and reversals, losses on irrecoverable loans and amounts recovered on impaired loans are booked under “Cost of risk”.

For restructured loans, any abandonment of principal or interest due or accrued is recorded as a loss when the loan is restructured.

Doubtful loans can be reclassified as performing loans once there is no longer any probable credit risk and once payments have resumed on a regular basis according to the initial contractual schedule. Moreover, doubtful loans which have been restructured may be reclassified as performing.

In the event the creditworthiness of the borrower is such that after a reasonable period of classification in doubtful loans, a reclassification to performing loan status is no longer plausible, the loan is specifically classified as a non-performing loan. This status is conferred if the loan is accelerated or the loan agreement is cancelled, or, in any case, if the loan has been classified as doubtful for one year, with the exception of doubtful loans for which the contractual clauses are respected and/or doubtful loans with valid enforceable guarantees. Restructured loans for which the borrower has not respected payment schedules are also classified as non-performing loans.

Segmentation of outstanding loans

For the purpose of segmenting outstanding loans (performing, credit-impaired performing, doubtful, non-performing, irrecoverable), the following system of external and/or internal ratings is used:

- external ratings: for a given counterparty, a Banque de France (BDF) rating of 8 or 9 automatically calls for declassification to doubtful loans, and a P rating calls for declassification to non-performing loans;
- internal ratings: for the retail portfolio (individual and professional customers), there is a specific rating for default. For the corporate portfolio, each category of loans in default has a specific rating (8 for doubtful, 9 for undisputed non-performing and 10 for disputed non-performing). Performing loans to corporates with a rating of 7 are reclassified as credit-impaired performing exposures.

BDF ratings are also used in risk monitoring procedures to select performing loans that need to be subject to a risk review as a top priority.

Credit-impaired performing exposures

Within the “Performing exposures” risk category, Crédit du Nord has created a subcategory called “Credit-impaired performing exposures” to cover loans/receivables requiring closer supervision. This category includes loans/receivables where certain evidence of deterioration has appeared since they were granted.

Presentation of the statistical provisioning model

Crédit du Nord uses a statistical method to determine provisions for loans in default (Stage 3) in its retail banking book (individual and professional customer markets). Use of a statistical model to determine provisions for these loans in these particular markets is justified by the high volume of loans issued for relatively low individual amounts.

The loans are divided up into six classes of homogeneous assets in terms of risk, defined in accordance with Basel asset classes:

- home loans to individuals and "SCI Patrimoniales" (family-owned non-trading real estate company);
- revolving loans to individuals;
- consumer loans to individuals;
- current accounts and overdrafts extended to individuals and "SCI Patrimoniales";
- MLT loans to professional customers and "SCI" (non-trading real estate company);
- ST loans to professional customers and "SCI Commerciales" (commercial non-trading real estate company).

Upon defaulting, the most substantial loans are excluded from this statistical provisioning approach, in favour of impairment determined on the basis of an expert opinion. These loans are identified by applying operational thresholds defined for each asset class. They account for approximately 1% of all retail loans in default.

Home loans guaranteed by Crédit Logement and signed commitments are excluded from the statistical provisioning approach and are thus not subject to a provision. For home loans guaranteed by Crédit Logement, the lack of provision is justified because Crédit Logement covers all losses in the event of default, and for signed commitments by the exceptional nature of the losses recognised for this type of off-balance sheet commitment.

Provisioning inputs

The statistical provisioning model is applied to the entire portfolio in default (doubtful and disputed loans).

Provisioning inputs are determined by observing past data and are:

- the probability of being transferred from doubtful to disputed (LGD1);
- the loss given default (LGD) rate, where the loan is disputed (LGD2).

These rates are determined for classes of homogeneous assets and reflect how long the loans have been classified as doubtful or disputed.

Calculation of impairments on doubtful loans

The impairment rate on doubtful loans is calculated for classes of homogeneous assets by multiplying the LGD1 and LGD2 rates.

Calculation of impairments on disputed loans

The impairment rate on disputed loans is the LGD rate, which is separate, based on the class of homogeneous assets to which the loan belongs.

Classes of homogeneous disputed loans are divided up into quarterly generations (according to their date of transfer to the disputed loans category), each of which is subject to a different LGD rate. For each generation, the LGD2 rate is calculated on the basis of collections and losses observed in past quarters. Collections may be observed in as many as 50 quarters.

Updating of inputs used in the statistical model

Collections actually observed over the fiscal year are compared with collections predicted in the model in order to assess the model's predictive capacity.

Impairment of securities

Short-term investment securities

Equities and variable-income securities

At year-end, equities are measured on the basis of their probable trading value. For listed securities, probable trading value is determined according to the most recent market price. Unrealised capital gains are not recognised in the financial statements but an impairment of the securities portfolio is booked to cover unrealised capital losses, without said impairment being offset against any unrealised capital gains.

Bonds and other fixed-income securities

At year-end, cost is compared to probable trading value or, in the case of listed securities, to their most recent market price. Unrealised capital gains are not recognised in the financial statements but an impairment of the securities portfolio is booked to cover unrealised capital losses, after consideration of any gains made on any related hedging transactions.

Allocations to and reversals of impairment losses, together with capital gains and losses on disposals of short-term investment securities, are recorded under "Net gains or losses on trading books, investment portfolios and similar investments" on the income statement.

Long-term investment securities

At the balance sheet date, no impairment is recorded for unrealised capital losses on the securities portfolio, unless there is a strong probability that the securities will be sold in the short term, or unless there is a risk that the issuer will be unable to redeem them.

Allocations to and reversals of impairment losses on long-term investment securities, together with gains and losses on sales of these securities, are recorded in the income statement under "Net income from long-term investments".

Equity investments and investments in affiliates

At year-end, equity investments and investments in consolidated subsidiaries and affiliates are valued at their value in use, namely the price the company would accept to pay to obtain such securities if it had to acquire them in view of its investment objective. This value is estimated on the basis of various criteria, such as shareholders' equity, profitability, and the average share price over the last three months. Unrealised capital gains are not recognized in the accounts but a provision for depreciation on portfolio securities is booked to cover unrealized capital losses. Allocations to and reversals of impairment as well as any capital gains or losses realised on the disposal of these securities, including any profit or loss generated when tendering these securities to public share exchange offers, are booked under "Net income from long-term investments".

(in €m)	31/12/2018	31/12/2017
Asset impairments		
Banks	-	-
Loans to customers	486.6	538.9
SUB-TOTAL [1]	**486.6**	**538.9**
Impairment of securities	4.2	4.3
TOTAL IMPAIRMENTS	**490.8**	**543.2**

(1) The change in total impairments (excluding securities) can be broken down as follows:

(in €m)	Impairments at 31/12/2017	Allocations		Reversals/Uses		Other changes		Impairments at 31/12/2018
		by cost of risk	by other income statement balance	by cost of risk	by other income statement balance	changes in scope	changes in exchange rate	
Impairments of doubtful loans								
Banks	-	-	-	-	-	-	-	-
Loans to customers	58.0	26.9	-	-44.3	-	-	-	40.6
Impairments of irrecoverable non-performing loans								
Banks	-	-	-	-	-	-	-	-
Loans to customers	480.9	76.2	-	-111.1	-	-	-	446.0
TOTAL	**538.9**	**103.1**	**-**	**-155.4**	**-**	**-**	**-**	**486.6**

2.6.2 Provisions

Accounting principles

Provisions include:

- provisions for commitments;

Provisions for commitments are determined on the basis of expert analysis.

- collective provisions for credit risk.

In a portfolio of homogeneous assets, when a significant increase in credit risk is identified on a group of financial instruments, an impairment is recognised without waiting for the risk to individually affect one or more receivables.

The provision is calculated for the amount of credit losses that Crédit du Nord expects to incur at maturity for the portfolios of financial instruments in question, taking into consideration historical data and current conditions, as well as reasonable economic forecasts and relevant macroeconomic factors through to maturity. The amount of the provision is thus the present value of expected credit losses, based on the probability of a default event occurring over the life of the financial instruments in question and, where applicable, the effect of collateral called up or liable to be called up. Changes in provisions as calculated by the Group are recorded under "Cost of risk."

Comments on the identification of an increase in credit risk

To identify exposures subject to a collective provision, a significant increase in credit risk is identified by examining all available historical and forward-looking information (behavioural scores, Loan-to-Value indicators, macroeconomic forecasts, etc.).

The assessment of the increase in credit risk takes the following items into account:

- Criterion 1: change in the counterparty's rating and changes in the business sector, macroeconomic conditions and the counterparty's behaviour which may, in addition to the rating review, reflect an increase in credit risk.
- Criterion 2: change in the counterparty's rating on a contract-by-contract basis between the origination date and the balance sheet date;
- Criterion 3: any payment more than 30 days past due.

A collective provision is recorded for a contract if it meets just one of these criteria.

- provisions for contingencies and disputes.

Provisions for contingencies and disputes are defined as liabilities with no precisely defined amount or due date. Provisions are booked where the Group has a commitment to a third party for which the Group will probably or certainly never incur an outflow of resources to this third party without expecting to receive at least an equivalent value in exchange from said third party.

Information pertaining to the category and amount of risks involved is not provided if Crédit du Nord is of the opinion that it could result in substantial prejudice in a legal dispute against third parties concerning the object of the provision.

Net allocations to provisions are recorded by type under the corresponding headings of the income statement.

(in €m)	31/12/2018	31/12/2017
Provisions		
Provisions for off-balance sheet commitments	35.7	30.7
Collective provisions for credit risk*	31.6	53.0
Provisions for general risks and expenses	38.3	41.1
TOTAL PROVISIONS (1)	**105.6**	**124.8**

* *A provision reversal of €19.0 million was recorded subsequent to the change in method used to estimate collective provisions (see Note 1.3).*

(1) The change in total provisions can be broken down as follows:

		Allocations		Reversals/Uses		Other changes		
(in €m)	Provisions at 31/12/2017	by cost of risk	by other income statement balance	by cost of risk	by other income statement balance	changes in scope	changes in exchange rate	Provisions at 31/12/2018
Provisions for off-balance sheet commitments	30.7	14.2	-	-9.2	-	-	-	35.7
Collective provisions for credit risk	53.0	-	-	-21.4	-	-	-	31.6
Provisions for disputes with customers	19.1	-	5.3	-	-4.6	-	-	19.8
Provisions for forward financial instruments	6.3	-	-	-	-2.2	-	-	4.1
Other provisions for general risks and commitments (*)	15.7	-	0.2	-0.4	-1.1	-	-	14.4
TOTAL	**124.8**	**14.2**	**5.5**	**-31.0**	**-7.9**	**-**	**-**	**105.6**

(*) *This item mainly comprises PEL/CEL provisions, including net reversals amounting to €0.7 million in 2018 (see Note 2.6.3).*

2.6.3 Home savings agreement commitments

Accounting principles

Home savings accounts and plans are savings schemes for individual customers (in accordance with Law No. 65-554 of July 10, 1965), which combine an initial deposit phase in the form of an interest-earning savings account with a lending phase where the deposits are used to provide property loans. The latter phase is subject to the prior existence of the savings phase and is therefore inseparable from it. The deposits collected and loans granted are booked at amortised cost.

These instruments generate two types of commitments for Crédit du Nord: the obligation to subsequently lend to the customer at an interest rate established upon the signing of the agreement, and the obligation to pay interest on the customer's savings in the future at an interest rate set upon the signing of the agreement, for an indefinite period.

Commitments with future adverse effects for Crédit du Nord are subject to provisions booked as balance-sheet liabilities, any changes in which are recorded on the interest margin line under "Net banking income". These provisions relate exclusively to commitments under home savings accounts and schemes existing at the date of the provision's calculation.

Provisions are calculated for each generation of home savings schemes with no netting between the different generations of schemes, and for all home savings accounts taken together, which constitutes a single all-encompassing generation.

During the savings phase, provisions are calculated according to the difference between average expected outstanding savings and minimum expected outstanding savings, both of which are determined statistically based on historic observations of actual customer behaviour.

During the lending phase, provisions are calculated according to loans already issued but not yet due at the balance sheet date, as well as future loans considered as statistically probable on the basis of customer savings deposits on the balance sheet at the date of calculation and on historic observations of actual customer behaviour.

A provision is booked if the discounted value of expected future earnings for a given generation of home savings products is negative. These results are measured on the basis of interest rates available to individual customers for equivalent savings and loan instruments, with similar estimated life and date of inception.

A. Outstanding deposits in PEL/CEL accounts

(in €m)	31/12/2018	31/12/2017
PEL home savings plans		
Less than 4 years old	219.1	362.5
Between 4 and 10 years old	605.4	453.2
More than 10 years old	290.8	293.3
SUB-TOTAL	**1,115.3**	**1,109.0**
CEL home savings accounts	**103.5**	**106.2**
TOTAL	**1,218.8**	**1,215.2**

B. Outstanding housing loans granted with respect to PEL/CEL accounts

(in €m)	31/12/2018	31/12/2017
Less than 4 years old	0.1	0.3
Between 4 and 10 years old	1.7	2.9
More than 10 years old	0.6	0.2
TOTAL	**2.4**	**3.4**

C. Provisions for commitments linked to PEL/CEL accounts [1]

(in €m)	31/12/2018	31/12/2017
PEL home savings plans		
Less than 4 years old	-	1.1
Between 4 and 10 years old	-	1.5
More than 10 years old	10.0	9.5
SUB-TOTAL	**10.0**	**12.1**
CEL home savings accounts	**1.6**	**0.2**
Drawn down loans	**0.1**	**0.1**
TOTAL	**11.7**	**12.4**

(1) These provisions are booked as "Provisions for general risk and expenses" (see Note 2.6.2).

D. Methods used to establish inputs for measuring provisions

The inputs used to estimate future customer behaviour are derived from historical observations of customer behaviour patterns over long periods (more than ten years). The value of these inputs can be adjusted if any changes are subsequently made to regulations with the potential to undermine the reliability of past data as an indicator of future customer behaviour.

The values of the different market parameters used, notably interest rates and margins, are calculated on the basis of observable data and constitute a best estimate, at the valuation date, of the future value of these items for the relevant period, in line with the retail banking division's policy of interest rate risk management.

The discount rates used are determined from zero coupon swaps vs. the Euribor yield curve at the valuation date, averaged over a 12-month period

2.6.4 Cost of risk

Accounting principles

"Cost of risk" comprises net reversals of impairment losses and provisions for credit risk, losses on bad debts and amounts recovered on amortised loans.

(in €m)	2018	2017
Counterparty risk		
Net allocation to provisions and impairment	-117.3	-139.0
Losses not covered	-13.1	-15.8
Losses covered	-62.7	-84.6
Reversals of impairments and provisions (including uses)	186.4	195.5
Amounts recovered on amortised receivables	1.8	3.9
SUB-TOTAL	**-4.9**	**-40.0**
Other risks		
Net allocation to provisions for disputes	-	-3.3
Losses not covered by provisions for disputes	-	-0.8
Losses covered by provisions for disputes	-	-0.1
Reversals of provisions for disputes (including uses of provisions)	-	1.3
Amounts recovered on amortised receivables	-	-
SUB-TOTAL [1]	**-**	**-2.9**
TOTAL	**-4.9**	**-42.9**

(1) In 2018, changes in provisions for disputes were recorded in the different operating margins, according to the classification of estimated risk.

NOTE 3 Other activities

3.1 Net service fee income

Accounting principles

Crédit du Nord recognises service fee income and expenses in different ways depending on the type of service.

Fees for continuous services, such as certain fees on payment instruments, custody fees or web-service subscriptions are booked as income over the life of the service provided.

Fees for one-off services, such as fund transfer fees, fees on contributions received, and penalties for payment incidents are fully booked to income when the service is provided.

	2018			2017		
(in €m)	Income	Expense	Net	Income	Expense	Net
Transactions with banks	6.1	-0.2	5.9	6.5	-0.2	6.3
Transactions with customers [1]	136.0	-	136.0	142.0	-	142.0
Securities transactions	11.1	-2.3	8.8	8.0	-1.0	7.0
Foreign exchange transactions	0.8	-0.1	0.7	0.9	-0.1	0.8
Loan and guarantee commitments	37.8	-0.2	37.6	37.8	-0.4	37.4
Services and other	297.8	-71.1	226.7	303.6	-71.3	232.3
TOTAL NET	**489.6**	**-73.9**	**415.7**	**498.8**	**-73.0**	**425.8**

(1) In 2017, "Transactions with customers" should have amounted to €137.4 million with the error correction of -€4.6 million in respect of fiscal year 2017 (see Note 1).

3.2 Other assets, other liabilities and accruals

3.2.1 Other assets and accruals

(in €m)	31/12/2018	31/12/2017
Other assets		
Sundry debtors	157.0	160.3
Premiums on options purchased	17.4	18.2
Settlement accounts on securities transactions	-	-
Others	0.6	0.6
SUB-TOTAL	**175.1**	**179.1**
Accruals		
Prepaid expenses	29.2	12.8
Accrued income	167.4	177.2
Others	56.9	60.2
SUB-TOTAL	**253.5**	**250.2**
TOTAL [1]	**428.6**	**429.3**

(1) At December 31, 2018, none of the components of these items had been pledged.

3.2.2 Other liabilities and accruals

(in €m)	31/12/2018	31/12/2017
Other liabilities		
Sundry creditors	260.8	282.5
Premiums on derivatives sold	10.5	8.1
Settlement accounts on securities transactions	0.8	0.4
Other securities transactions	-	-
SUB-TOTAL	**272.1**	**291.0**
Accruals		
Expenses payable	406.6	400.9
Deferred taxes	52.7	64.2
Deferred income	36.7	38.5
Others	166.2	191.5
SUB-TOTAL	**662.2**	**695.1**
TOTAL [1]	**934.3**	**986.1**

(1) None of these amounts relates to items received as pledges or to debts representing borrowed securities.

NOTE 4 Personnel expenses and employee benefits

4.1 Employee expenses and compensation of senior management

Accounting principles

The "Personnel expenses" account includes all expenses related to personnel, notably the cost of the legal employee profit-sharing and incentive plans for the year, and income related to the CICE (Employment Competitiveness Contribution Tax) and restructuring costs.

Employee benefits are broken down into four categories:

- short-term benefits expected to be paid out within 12 months of the end of the fiscal year during which the staff members rendered the corresponding services, such as wages, bonuses, paid annual leave, social security charges and payroll taxes, and employee profit-sharing;
- defined benefit or defined contribution post-employment benefits, such as pension plans and end-of-career benefits;
- long-term benefits not expected to be paid out within the twelve months of the end of the period, such as non-indexed cash-settled deferred variable compensation, long-service awards or flexible working provisions;
- employment termination benefits.

The expense representing the short-term benefits vested by staff members is recorded under "Personnel expenses" where said staff members have rendered the services rewarded by said benefits.

The accounting principles applied to post-employment benefits and long-term benefits are presented in Note 4.2.

(in €m)	2018	2017
Employee compensation	-217.4	-199.7
Social security charges and payroll taxes	-47.8	-43.7
Net retirement expenses - defined contribution plans	-35.8	-35.5
Net retirement expenses - defined benefit plans	14.3	4.7
Other social security charges and taxes	-34.7	-32.3
Employee profit-sharing and incentives	-32.1	-30.0
o/w incentives	*-23.3*	*-24.1*
o/w profit-sharing	*-0.8*	*-0.1*
Transfer of charges	1.4	1.3
TOTAL	**-352.1**	**-335.2**

Compensation of the administrative and decision-making bodies totalled €9.3 million in 2018.

	2018	2017
Staff count recorded at December 31	4,498	4,586
Average staff count in activity	4,258	4,331
Executives	2,768	2,709
Non-executives	1,490	1,622

4.2 Employee benefits

Crédit du Nord grants the following benefits to its employees:

- post-employment benefits, such as pension plans and end-of-career benefits;
- long-term benefits, such as deferred variable remunerations, long-service awards or flexible working provisions;
- employment termination benefits.

Breakdown of provisions for employee benefits

		Allocations		Reversals/Uses		Other changes		
(in €m)	Provisions at 31/12/2017	by cost of risk	by other income statement balance	by cost of risk	by other income statement balance	changes in scope	changes in exchange rates	Provisions at 31/12/2018
Provisions for employee benefits	33.3	-	5.0	-	-7.3	-	-	**31.0**

4.2.1 Post-employment benefits

Accounting principles

Pension plans can be defined contribution or defined benefit plans.

Post-employment defined contribution plans

Defined contribution plans limit Crédit du Nord's liability to the contributions paid to the plan but do not commit Crédit du Nord to a specific level of future benefits. Contributions paid are booked as an expense for the year in question.

Post-employment defined benefit plans

Defined benefit plans commit Crédit du Nord, either formally or implicitly, to pay a certain amount or level of future benefits and therefore bear the associated medium or long-term risk. The present value of defined benefit obligations are measured by independent qualified actuaries.

A provision is recorded on the liabilities side of the balance sheet under "Provisions" to cover all of the above pension commitments. It is valued on a regular basis by independent actuaries using the projected credit unit method. This valuation method takes account of assumptions on demographics, early retirement, wage increases, discount rates and inflation.

Where these plans are financed using external funds meeting the definition of plan assets, the fair value of these funds is deducted from the amount of the provision recorded to cover the related commitments.

Differences arising from changes in the calculation method (early retirement, discount rate, etc.) or between actuarial assumptions and actual figures (return on hedging assets, etc.) constitute actuarial differences (gains or losses). They are immediately and fully booked to profit or loss.

Where a new plan (or amendment) is being established, the past service cost is immediately and fully booked to profit or loss.

The annual expense recognised as personnel expenses for defined benefit plans includes:

- additional benefits vested by each employee (current service cost);
- the interest expense associated with the increase in the present value of a defined benefit obligation;
- the expected return on any plan assets (gross yield);
- actuarial gains and losses and past service cost;
- the effect of any plan curtailments or settlements.

Post-employment defined contribution plans

Defined contribution plans limit Crédit du Nord's liability to the contributions paid to the plan but do not commit it to a specific level of future benefits.

The main defined contribution plans provided to Crédit du Nord employees notably include State pension plans and other national retirement plans such as ARRCO and AGIRC, pension schemes for which the only commitment is to pay annual contributions (PERCO) and multi-employer plans.

Post-employment defined benefit plans

Post-employment pension plans include pension benefits as annuities and end of career payments. Pension benefit annuities are paid in addition to State pension plans.

4.2.1.1 Reconciliation of assets and liabilities recorded on the balance sheet

(in €m)	31/12/2018	31/12/2017
Breakdown of provisions recorded on the balance sheet	-17.8	1.3
Assets recorded on the balance sheet	-	-
Net balance on the balance sheet	**-17.8**	**1.3**
BREAKDOWN OF SURPLUS/DEFICIT		
Present value of defined benefit obligations	58.2	78.3
Fair value of plan assets	-83.7	-85.2
A - Net balance of funded plans	**-25.5**	**-6.9**
B - Present value of unfunded obligations	**7.2**	**8.0**
Unrecognised past service cost	-	-
Unrecognised net actuarial gain/loss	-	-
Separate assets	-	-
Plan assets impacted by change in asset ceiling	-0.5	-0.2
C - Total unrecognised items	**-0.5**	**-0.2**
A + B - C = NET BALANCE	**-17.8**	**1.3**

A defined-benefit pension plan was subject to a scale revision in 2018, resulting in a €19.8 million decrease in provisions.

4.2.1.2 Information on funding of pension plans and plan funding conditions

General information on funding assets

(composition, all plans combined and future contributions)

The plan coverage rate was 128%.

Surplus plan assets totalled €25.8 million.

The employer contributions for the defined benefit post-employment plans in 2019 will be determined after the year-end evaluations.

4.2.1.3 Main actuarial assumptions

(in €m)	31/12/2018	31/12/2017
Discount rate	1.4%	1.4%
Long-term inflation rate	1.4%	1.7%
Growth rate of future salary increases, net of inflation		
- employees less than 30 years old	2.7%	2.7%
- employees 30 to 50 years old	1.9% - 1.5%	1.9% - 1.5%
- employees more than 50 years old	0.7%	0.7%
Average remaining working life of employees *(in years)*	12.9	15.1
Duration *(in years)*	12.2	13.4

Note: The discount rate is determined using the yield curves for AA-rated corporate bonds (source Merrill Lynch): The rate used for the valuation is based on the duration of the plan in question. The inflation rate is based on the duration of the plan. Average remaining working life is determined by plan and factors in turnover assumptions.

4.2.2 Other long-term benefits

Accounting principles

Long-term benefits are employee benefits that do not fall due wholly within the twelve months after the end of the period in which the employees render the related services. The valuation method is identical to the one used for post-employment benefits.

Other long-term benefits granted to Crédit du Nord Group employees include deferred bonuses, such as flexible working provisions and long-service awards. Other benefits besides post-employment benefits and end-of-career benefits are not due in full in the 12 months following the end of the year in which the members of staff provided the corresponding services.

The net balance of other long-term benefits came to €22.0 million in 2018 (o/w €11.1 million related to flexible working provisions).

The net balance of other long-term benefits was -€1.0 million at December 31, 2018.

4.3 Other administrative expenses

(in €m)	2018	2017
Taxes	**-22.9**	**-29.0**
Other expenses		
Rent, rental charges and other charges on buildings	-40.6	-38.1
Sub-contracting expenses	-328.1	-321.2
Charges reinvoiced to third parties	155.3	151.8
Transfer of charges	50.7	39.7
SUB-TOTAL	**-162.7**	**-167.8**
TOTAL	**-185.6**	**-196.8**

Statutory Auditors' fees

Information on Statutory Auditors' fees is provided in the notes to the consolidated financial statements; consequently, this information is not included in the notes to the annual financial statements.

NOTE 5 Income tax

Accounting principles

Current taxes

Since January 1, 2010, Crédit du Nord has been included in Societe Generale's tax consolidation scope. A tax consolidation sub-group was set up between Crédit du Nord and some of the subsidiaries in which it holds a direct or indirect ownership interest of at least 95%. The convention adopted is that of neutrality.

In France, standard corporate income tax is 33.33%. In addition, companies pay a Social Security Contribution of 3.3% (after deduction from taxable income of €0.76 million), introduced in 2000.

For disposals of equity investments subject to the 0% long-term scheme, a 12% of fees and expenses is now only reincorporated in the event of a net capital gain. In addition, under the parent companies/subsidiaries scheme, dividends received from companies in which the equity investment is at least 5% are tax-exempt, subject to taxation on a share representing fees and expenses.

Deferred taxes

Crédit du Nord records deferred taxes in its parent company financial statements.

Deferred taxes are recognised in the event a temporary difference is detected between the restated book values and the tax values of balance sheet items. Deferred taxes are calculated using the liability method. Accordingly, they are adjusted whenever there is a change in the tax rate. The corresponding impact is added to/subtracted from the deferred tax expense. Net deferred tax assets are recognised where there is a possibility of recovery over a given time period.

The 2018 Finance Act, adopted at end-December 2017, calls for a gradual reduction in the tax rate in France. The standard corporate tax rate of 33.33% will be gradually reduced to 25% by 2022. In addition, companies will still be required to pay the 3.3% social security contribution.

The deferred taxes for which French companies are liable are calculated by applying the tax rate that will be in force until the temporary difference is reversed, i.e.:

- for earnings taxed at the standard rate, at a rate of 34.43% or 25.83%;
- for earnings taxed at the reduced rate, at a rate of 4.13% or 3.10%.

(in €m)	2018	2017
Current taxes [(1)]	-79.4	-81.3
Deferred taxes	11.5	-16.0
TOTAL	**-67.9**	**-97.3**

(1) The 2018 tax expense includes tax consolidation income of €0.1 million versus an expense of -€8.5 million in respect of fiscal year 2017.

Reconciliation of the normative tax rate and the effective tax rate:

	2018	2017
Net income before tax *(in EUR millions)*	**498.1**	**316.4**
Normal tax rate applicable to French companies (including the 3.3% social security contribution)	**34.43%**	**34.43%**
Permanent differences	-17.84%	0.21%
Differential on items taxed at reduced rate	-0.03%	-4.66%
Tax differential on profits taxed outside France	-0.27%	-0.06%
Gain due to tax consolidation	-0.02%	5.74%
Tax adjustment	0.00%	0.00%
Sundry items	-2.65%	-4.92%
Effective tax rate	**13.63%**	**30.75%**

NOTE 6 Shareholders' equity

6.1 Change in shareholders' equity

(in €m)	Capital [1]	Additional paid-in capital and merger premiums	Reserves			Retained earnings	Net income	Regulated provisions	Shareholders' equity
			legal	statutory	others				
Amount at December 31, 2016	890.3	11.1	89.0	1,326.7	0.2	0.9	619.8	0.9	2,938.9
Capital increase	-	-	-	-	-	-	-	-	-
3rd Resolution of the Ordinary Shareholders' Meeting of May 19, 2017	-	-	-	-	-	449.6	-619.8	-	-170.2
2017 net income	-	-	-	-	-	-	219.1	-	219.1
Other changes	-	-	-	-	-	-	-	-	-
Amount at December 31, 2017	890.3	11.1	89.0	1,326.7	0.2	450.5	219.1	0.9	2,987.8
Capital increase	-	-	-	-	-	-	-	-	-
3rd Resolution of the Combined Shareholders' Meeting of May 18, 2018 [2]	-	-	-	-	-	-9.0	-219.1	-	-228.1
2018 net income	-	-	-	-	-	-	430.2	-	430.2
Other changes	-	-	-	-	-0.1	-	-	0.1	-
AMOUNT AT DECEMBER 31, 2018	**890.3**	**11.1**	**89.0**	**1,326.7**	**0.1**	**441.5**	**430.2**	**1.0**	**3,189.9**

(1) At December 31, 2018, Crédit du Nord SA's fully paid-up share capital amounted to €890,263,248 and consisted of 111,282,906 shares each with a par value of €8.

(2) Distribution of a dividend of €228.1 million to shareholders.

Societe Generale owned 100% of Crédit du Nord's capital at December 31, 2018. As a result, Crédit du Nord's accounts are fully consolidated in Crédit du Nord's consolidated financial statements.

Proposed distribution of earnings

The General Meeting of Shareholders, under the conditions required by Ordinary General Meetings as to quorum and majority, resolves to allocate net income for the period amounting to €430,159,743.85.

Profits plus earnings carried forward from the previous period, i.e. €441,444,510.61, resulted in total income available for distribution of €871,604,254.46, which the General Meeting resolves to allocate as follows:

- allocation of a dividend of €340,525,692.36 to shareholders, i.e. a dividend per share of €3.06;
- allocation of €531,078,562.10 to retained earnings.

6.2 Subordinated debt

Accounting principles

This item includes all dated or undated subordinated borrowings which, in the event of the liquidation of the borrower, may only be redeemed after all other creditors have been paid.

Interest accrued and payable in respect of subordinated debt, if any, is shown with the underlying liabilities as related payables through profit or loss.

(in €m)	31/12/2018	31/12/2017
Redeemable subordinated notes	-	66.0
Undated subordinated notes	110.0	110.0
Subordinated borrowings	450.0	450.0
Interest payable	0.3	0.8
TOTAL	**560.3**	**626.8**

6.2.1 Breakdown of perpetual subordinated notes

December 2017 issue for a total of €110 million with the following characteristics:

Size:	€110 million
Principal:	€110 million
Number of notes:	1
Issue price:	100.00% of principal
Maturity:	Perpetual
Interest:	3M Euribor + 3.83%

6.2.2 Detailed information on subordinated borrowings

Subordinated loan totalling €450 million, taken out on September 15, 2017, with the following characteristics:

Loan amount:	€450 million
Maturity:	12 years
Interest:	3M Euribor + 1.41%
Due date:	September 15, 2029

With the approval of the European Central Bank, the subordinated loan of €350 million taken out on March 22, 2011 was prepaid on December 27, 2017. This loan was replaced with a new subordinated loan of €450 million taken out on September 15, 2017.

There is no clause for the conversion of subordinated debt into capital or any other form of liability.

Interest paid on all the above subordinated debts amounted to €11.2 million at December 31, 2018 versus €15.8 million at December 31, 2017.

NOTE 7 Other disclosures

7.1 Tangible and intangible fixed assets

Accounting principles

Operating and investment fixed assets are booked on the balance sheet at cost. Borrowing expenses incurred to fund a lengthy construction period for fixed assets are included in the acquisition cost, along with other directly attributable expenses. Investment subsidies received are deducted from the cost of the relevant assets.

Software developed in-house is capitalised at the direct development cost, which includes external hardware and service costs and personnel expenses directly attributable to the production and preparation of the software application in order to use it.

As soon as they are fit for use, fixed assets are depreciated over their useful life. Any residual value of the asset is deducted from its depreciable amount.

Depreciation is calculated mainly using the straight-line method over the specified useful life of the asset.

Where one or more components of a fixed asset are used for different purposes or to generate economic benefits over a different time period from the asset considered as a whole, these components are depreciated over their own useful life. Allocations to depreciation and amortisation are recorded on the income statement under "Depreciation and amortisation".

Crédit du Nord has applied this approach to its operating property, breaking down its assets into at least the following components with their corresponding depreciation periods:

Infrastructures	Major structures	50 years
	Doors and windows, roofing	20 years
	Frontages	30 years
Technical installations	Elevators	10-30 years
	Electrical installations	
	Electricity generators	
	Air conditioning, smoke extraction	
	Heating	
	Security and surveillance installations	
	Plumbing	
	Fire safety equipment	
Fixtures & fittings	Finishings, surroundings	10 years

Depreciation periods for other categories of fixed assets depend on their useful life, usually estimated in the following ranges:

Plant and equipment	5 years
Transport equipment	4 years
Furniture	10 years
IT and office equipment	3-5 years
Software, developed or acquired	3-5 years
Franchises, patents and licenses	5-20 years

7.1.1 Detailed information on fixed assets

(in €m)	Gross value at 31/12/2017	Acquisitions	Disposals	Other changes	Gross value at 31/12/2018	Accumulated depreciation and amortisation at 31/12/2018 (1)	Net value at 31/12/2018
Operating fixed assets							
Intangible assets							
Start-up costs	-	-	-	-	-	-	-
Software created	354.5	52.1	-	-	406.6	-272.8	133.8
Software purchased	55.5	1.8	-	-	57.3	-55.2	2.1
Others	20.5	0.1	-0.5	-	20.1	-0.1	20.0
SUB-TOTAL	**430.5**	**54.0**	**-0.5**	**-**	**484.0**	**-328.1**	**155.9**
Tangible assets							
Land and buildings	221.4	11.2	-0.4	0.8	233.0	-103.7	129.3
Others	281.9	15.6	-2.0	-0.8	294.7	-239.8	54.9
SUB-TOTAL	**503.3**	**26.8**	**-2.4**	**-**	**527.7**	**-343.5**	**184.2**
Fixed assets (excluding operating fixed assets)							
Tangible assets							
Land and buildings	1.2	-	-	-	1.2	-1.0	0.2
Others	1.0	-	-	-	1.0	-1.0	-
SUB-TOTAL	**2.2**	**-**	**-**	**-**	**2.2**	**-2.0**	**0.2**
TOTAL	**936.0**	**80.8**	**-2.9**	**-**	**1,013.9**	**-673.6**	**340.3**

(1) Breakdown of depreciation, amortisation and impairment:

	Intangible assets			Operating tangible assets		Fixed assets excluding operating fixed assets (*)	
(in €m)	Software created	Software purchased	Others	Land & Buildings	Others		Total
Amount at December 31, 2017	**246.8**	**54.4**	**0.1**	**93.0**	**230.9**	**2.0**	**627.2**
Depreciation and amortisation	26.0	0.8	-	10.8	10.9	-	48.5
Depreciation and amortisation relating to asset disposals	-	-	-	-0.3	-2.0	-	-2.3
Impairment of fixed assets	-	-	-	1.3	-	-	1.3
Impairment reversals	-	-	-	-1.1	-	-	-1.1
Other changes	-	-	-	-	-	-	-
AMOUNT AT DECEMBER 31, 2018	**272.8**	**55.2**	**0.1**	**103.7**	**239.8**	**2.0**	**673.6**

(*) Allocations to depreciation and amortisation of fixed assets (excluding operating fixed assets) are included in "Net banking income".

7.1.2 Gains or losses on fixed assets

Accounting principles

"Gains or losses on fixed assets" includes capital gains or losses on disposal and net allocations to impairment for operating fixed assets. Income from real-estate holdings excluding offices is booked under "Net banking income".

(in €m)	2018	2017
Tangible operating fixed assets		
Capital gains on disposal	0.7	-
Capital losses on disposal	-	-
SUB-TOTAL	**0.7**	**-**
Operating intangible fixed assets		
Capital gains on disposal	-	-
Capital losses on disposal	-	-
SUB-TOTAL	**-**	**-**
TOTAL	**0.7**	**-**

7.2 Non-recurring income (expense)

(in €m)	2018	2017
Non-recurring income	-	-
Non-recurring expense [(1)]	-9.7	-
TOTAL	**-9.7**	**-**

(1) Pursuant to ANC Regulation 2018-01, Crédit du Nord recognised a non-recurring expense of -€9.7 million on renegotiated loans between 2015 and 2017 (see Note 1).

7.3 Provisions

Accounting principles

Provisions are recognised as liabilities on the income statement and include provisions for financial instruments, provisions for home savings accounts and plans, provisions for disputes and provisions for employee benefits.

(in €m)	31/12/2018	31/12/2017
Provisions for employee benefits	31.0	33.3
Other provisions [(1)]	105.6	124.8
TOTAL	**136.6**	**158.1**

(1) see detailed information in Note 2.6.2.

7.4 Assets and liabilities - Breakdown by residual maturity

	Residual maturity at December 31, 2018				
(in €m)	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	Total
ASSET (USES OF FUNDS)					
Due from banks	2,700.4	3,416.3	4,680.9	9,221.6	20,019.2
Transactions with customers	2,102.4	1,838.4	7,333.9	7,728.2	19,002.9
Bonds and other fixed-income securities					
Trading securities	-	-	-	-	-
Short-term investment securities	86.7	102.1	1,852.7	265.9	2,307.4
Long-term investment securities	-	-	-	-	-
TOTAL	**4,889.5**	**5,356.8**	**13,867.5**	**17,215.7**	**41,329.5**
LIABILITIES (RESOURCES)					
Due to banks	3,361.6	597.1	8,153.1	9,704.4	21,816.2
Transactions with customers	22,115.2	108.7	818.6	0.5	23,043.0
Debt securities	1,416.2	2,154.7	2,118.3	11.7	5,700.9
TOTAL	**26,893.0**	**2,860.5**	**11,090.0**	**9,716.6**	**50,560.1**

7.5 Table of subsidiaries and equity investments

At December 31, 2018 *(in €k)*	Legal form	Capital	Shareholders' equity other than capital	Share of capital owned (as a%)	Net asset value of shares owned		Unpaid loans and advances	Guarantees and commitments given	Net Banking Income	2018 net income	Dividends received in 2018	Observations
					Gross	Net						
A. Information on subsidiaries and equity investments owned by Crédit du Nord, whose net asset value exceeds 1% of the bank's capital												
Subsidiaries (at least 50% of capital owned)												
Banque Courtois 33, rue Rémusat 31000 Toulouse	SA (limited company)	18,400	98,684	100.00	68,502	68,502	1,531,642	963,160	142,476	22,500	26,817	
Banque Tarneaud 2-6, rue Turgot 87000 Limoges	SA (limited company)	26,703	102,824	100.00	122,833	122,833	1,294,124	841,377	124,243	24,047	7,894	
Banque Rhône-Alpes 20-22, boulevard Edouard Rey 38000 Grenoble	SA (limited company)	12,563	134,043	99.99	111,622	111,622	1,741,901	910,909	135,275	23,216	10,772	
Banque Nuger 5, place Michel-de-l'Hospital 63000 Clermont-Ferrand	SA (limited company)	11,445	22,768	100.00	43,373	43,373	260,545	194,800	36,413	4,896	3,913	
Banque Laydernier 10, avenue du Rhône 74000 Annecy	SA (limited company)	24,789	48,138	100.00	48,403	48,403	1,299,277	401,296	77,821	12,353	9,791	
Etoile ID 59, boulevard Haussmann 75008 Paris	SA (limited company)	35,400	8,732	100.00	42,977	42,977	-	-	6,044	5,684	381	
Banque Kolb 1-3, place du Général-de-Gaulle 88500 Mirecourt	SA (limited company)	14,099	66,182	78.54	46,738	46,738	857,201	501,659	68,919	10,066	4,699	
Kolb Investissement 59, boulevard Haussmann 75008 Paris	Simplified joint stock company	77	25,808	100.00	38,964	38,964	-	-	1,282	1,262	-	
Star Lease 59, boulevard Haussmann 75008 Paris	SA (limited company)	55,000	103,800	100.00	55,000	55,000	1,736,687	746,153	20,594	-6,266	-	
Société Marseillaise de Crédit 75, rue Paradis 13006 Marseille	SA (limited company)	24,472	275,029	100.00	1,006,353	1,006,353	2,583,533	1,621,294	366,602	57,457	35,622	
Equity investments (less than 50% of capital owned)												
Crédit Logement 50, boulevard Sébastopol 75003 Paris	*SA (limited company)*	*1,259,850*	*490,799*	3.00	38,852	38,852	51,248	96,717	*238,598*	*120,607*	7,934	(1)
Sicovam Holding 18, rue La Fayette 75009 Paris	*SA (limited company)*	*10,265*	*526,814*	8.15	34,454	34,454	-	-	*19,833*	*18,511*	1,046	(2) (3)
Antarius 59, boulevard Haussmann 75008 Paris	SA (limited company)	314,060	299,615	50.00	157,407	157,407	-	-	1,704,893	75,019	162,624	(1) (3)

At December 31, 2018 *(in €k)*	Legal form	Capital	Shareholders' equity other than capital	Share of capital owned (as a%)	Net asset value of shares owned		Unpaid loans and advances	Guarantees and commitments given	Net Banking Income	2018 net income	Dividends received in 2018	Observations
					Gross	Net						
B. General information concerning other subsidiaries and equity investments												
Subsidiaries not covered in section A												
a) French subsidiaries (combined)		-	-	-	22,672	22,672	642,659	236,029	-	-	50	
b) Foreign subsidiaries (combined)		-	-	-	-	-	-	-	-	-	-	
Equity investments [4] not covered in Section A												
a) French equity investments (combined, including property development companies)		-	-	-	27,643	26,980	182	3,134	-	-	243	
b) Foreign equity investments (combined)		-	-	-	21,380	21,380	-	-	-	-	273	

(1) Data in italics pertain to December 31, 2017 (2018 data unavailable).

(2) Data in italics taken at July 31, 2018 (subject to approval)

(3) For non-banking companies, revenue is indicated rather than "Net banking income."

(4) Including equity investments of less than 10% recorded in equity investment accounts, in accordance with the provisions of the internal chart of accounts.

Note: Net income and "Net banking income" for 2018 are indicated, for some companies, subject to the approval of the financial statements by the Ordinary General Shareholders' Meeting scheduled to meet in 2019.

Crédit du Nord does not hold any direct or indirect investments in non-cooperative countries or territories.

Statutory auditors' report on the financial statements

Year ended December 31, 2018

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders.This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Crédit du Nord,

Opinion

n compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Crédit du Nord for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) N° 537/2014 or in the French Code of ethics (*Code de déontologie*) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Change in accounting estimates of collective provision and measurement of impairment and provisions on loans and other commitments granted to clients

Risk identified	Our response
Loans and receivables to clients carry a credit risk that exposes Crédit du Nord to a potential loss if its clients or counterparty is unable to meet its financial commitments. Crédit du Nord recognizes individual impairment and collective provisions to cover the credit risk which accounting principles of valuation are presented in Note 2.6 "Impairment and provisions" to the financial statements. In the financial year 2018, Crédit du Nord changed its accounting estimates for the recording of collective provisions for credit risk as stated in Note 1 "Significant accounting principles" to the financial statements. The amount of collective provisions for credit risk is now measured based on lifetime expected credit losses calculated on under-performing loans. Credit du Nord's management uses its judgement to set assumptions and parameters used to calculate these collective provisions. Furthermore, Crédit du Nord uses its judgment and makes accounting estimates to measure the impairment and individual provisions on the doubtful loans to corporate clients. On individual and professional customer markets, impairments of doubtful loans are determined according the principles described in Note 2.6 "Impairment and provisions" to the financial statements: • according to a statistical method, for loans under certain operational thresholds. For loans covered by this method, certain parameters used in this model are based on management's estimates; • according to the analysis of an expert, for the loans exceeding these operational thresholds. For these loans, management uses its judgment to determine impairments.	Our audit approach consisted in obtaining an understanding of the process of measuring impairment and collective provisions in place at Crédit du Nord, with the support of our experts in Credit Risk modelling. We tested the key controls set up by Management for determining the assumptions and parameters used as a basis for this measurement. Regarding under-performing loans for which provisions are determined on a collective basis, our work consisted in: • assessing the assumptions and documentation of Crédit du Nord used to identify a significant increase in credit risk; • obtaining an understanding of the governance framework set up by Crédit du Nord; • analyzing the key parameters used by Crédit du Nord to measure collective provisions; • analyzing the disclosures on the change in accounting estimates performed in the year ended December 31, 2018. Regarding doubtful loans to corporate clients, our works consisted in testing, on a selection of the most significant loans, the key assumptions used for estimating impairment and provisions as at December 31, 2018. Regarding doubtful loans to retail customers whose impairments are calculated according to a statistical method, our work consisted in: • understanding the principles and functioning of this method; • obtaining an understanding of the parameters used by Management to input into the model, and assessing whether the choice of parameters is part of an established governance that is documented; • assessing the sensitivity of certain significant parameters relating to the impairment amounts calculated according to this method.

We consider the change in accounting estimates of collective provisions and the measurement of impairment and provisions on loans and other commitments granted to clients to be a key audit matter.	For doubtful loans to retail customers whose impairments are determined according to analysis by an expert, we: • acknowledged the documentation provided by the Company to justify the amount of impairments and with the procedures applied to determine these impairments; • examined the data and assumptions used by Management to determine the amount of the impairments for a sample of loans.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the Management Report and in the Other Documents with respect to the financial position and the financial statements provided to the Shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents with respect to the financial position and the financial statements provided to the Shareholders except for the point described below.

We have the following matter to report regarding the fair presentation and consistency with the financial statements of the information relating to payment terms referred to in article D. 441-4 of the French Commercial Code (*Code de commerce*): as stated in the management report, this information does not include bank and other related operations as your Company considers that such operations fall outside the scope of disclosable information.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on these procedures, we draw your attention to the following matter relating to the accuracy and fair presentation of this information: the information does not include all the remunerations and benefits paid by the company controlling your Company to the directors concerned in respect of the terms of office, functions or assignments other than those performed within or on behalf of Crédit du Nord Group; the information includes the remunerations and benefits paid by your Company to the directors solely in respect of their terms of office within Crédit du Nord.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Crédit du Nord by your Annual General Meeting held in 1982 for DELOITTE & ASSOCIES and on May 4, 2000 for ERNST & YOUNG et Autres.

As at December 31, 2018, DELOITTE & ASSOCIES was in the thirty-seventh year of total uninterrupted engagement and ERNST & YOUNG et Autres in the nineteenth year.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

IIOur role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set out in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de Commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, April 15, 2019

The Statutory Auditors,
French original signed by

DELOITTE & ASSOCIES
Jean-Marc MICKELER

ERNST & YOUNG et Autres
Vincent ROTY

This chapter sets out to define the key elements of the various risks to which the Group is exposed, as well as its capacity to comply with the regulatory minimum requirements.

Risk identification and mapping

Crédit du Nord Group is exposed to risks related to its banking activity and the operation of its businesses within their respective environments. The main risks identified by the Group are credit and counterparty risks, market risks, operational risks, liquidity and funding risks, structural interest rate and exchange rate risks, and non-compliance risk.

A summary of these risks, with a definition of each category, is given in the Board of Director's Report on Corporate Governance, which can be found in Chapter 2.

Risks governed and supervised by the Board of Directors

Banking risks are broken down into three main categories: credit risks, market risks and operational risks. These risks are assessed and weighted, so as to be able to gauge their value on the company's balance sheet (under Risk-Weighted Assets, or RWA).

An internal control framework applies to all commitment decisions, to manage the nature and level of the risks involved and to ensure effective assessment and control thereof. This framework is described in more detail in Chapter 2 (Board of Directors' Report on Corporate Governance).

Oversight by independent supervisory authorities and publication requirements

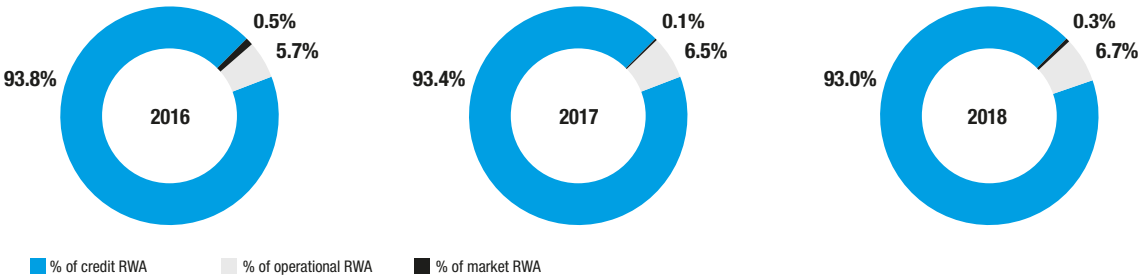
In terms of external supervision, pursuant to the applicable regulations, banks are required to lock up a certain portion of their capital in order to cover the risks to which they are exposed. This enables them to withstand the uncertainties inherent in the exercise of their businesses without endangering either their own financial balance or that of the global financial system: a capital requirement expressed as a percentage of (capital ratio calculated according to prudential capital / RWA) is thus determined based on the level of risk-weighted assets and other commitments.

The public authorities have set ratios to limit the risks taken by banks: capital requirements (in particular a total ratio and CET1 ratio), management of exposure (leverage ratio), short-term funding requirements (Liquidity Coverage Ratio, LCR) and long-term funding requirements (Net Stable Funding Ratio, NSFR).

The supervisory authorities set minimum compliance levels for each ratio, taking into account prudential deductions or add-ons. By means of regular inspections or audits, they verify the adequacy of the risk assessment and management framework and the suitability of the Group's prudential level capital in light of the risks assessed; they may also make recommendations for improvements.

Crédit du Nord Group's prudential supervisory authority is the European Central Bank, which acts on behalf of the European Banking Authority.

Credit risk represents more than 90% of the Group's risk-weighted assets.



Risks and Capital Adequacy

5

5.1 Key figures 254

5.2 Risk management 256
Role and responsibilities of Divisions in charge of risk monitoring 256
Risk categories 257

5.3 Capital management and adequacy 258
Regulatory framework 258
Scopes of application – prudential scope 259
Own funds 259
Capital requirements 262
Capital 264
Leverage ratio 264
Ratio of large exposures 265

5.4 Credit risks 266
Credit risk management: organisation and structure 266
Credit policy 266
Risk supervision and monitoring system 267
Replacement risk 269
Hedging of credit risk 270
Risk measurement and internal ratings 271
Quantitative disclosures 275

5.5 Market risks 280
Methods for measuring market risk and defining limits 280
Implementation of the Group's market risk appetite 280
99% Value-at-Risk (VaR) 281
Stress test assessment 283
Market risk capital requirements and risk-weighted assets 285

5.6 Operational risks 286
Operational risk management: organisation and governance 286
Measurement of operational risks 287
Operational risk management system 287
Operational risk modelling 289
Operational risk insurance 290
Capital requirements 290

5.7 Structural interest rate risk 291
Organisation of structural interest rate risk management 291
Structural interest rate risk - measurement and monitoring system 292
Structural foreign exchange risk 294

5.8 Liquidity risk 294
Governance and organisation 294
Liquidity risk measurement system 295
Liquidity reserve 296
Regulatory ratios 296
Disclosures on asset encumbrance 298

5.9 Non-compliance, reputational and legal risks 299
Compliance 299
Risks and disputes 300

5.10 Risk Appetite 301
Governance 301
Establishment and implementation of risk appetite 301

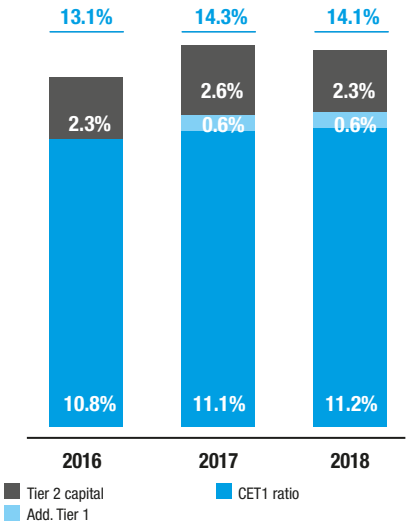
This chapter includes information on management of risks associated with financial instruments, and information on capital management and the observation of the regulatory ratios required by IFRS, as adopted in the European Union.

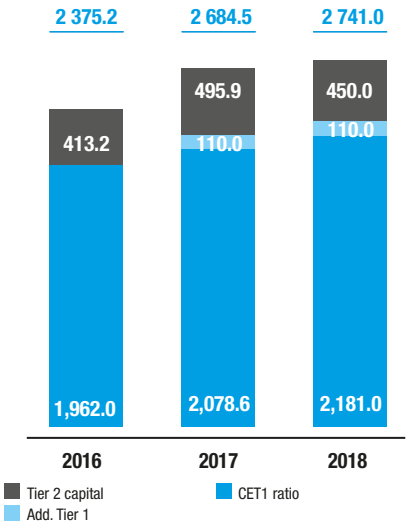
Some of this information is an integral part of the notes to the consolidated financial statements of Crédit du Nord Group and are covered by the Statutory Auditors opinion on the consolidated financial statements; it is identified as such by the term "**Audited**", and the symbol ▲ marks the end of the audited section.

5.1 Key figures

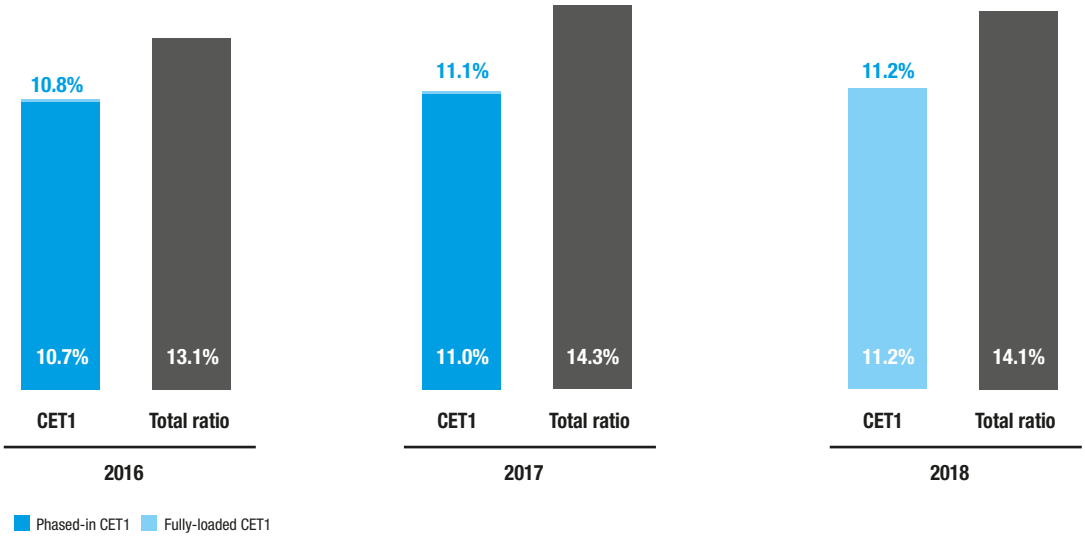
Total capital ratio

(as a%; amounts in €m)

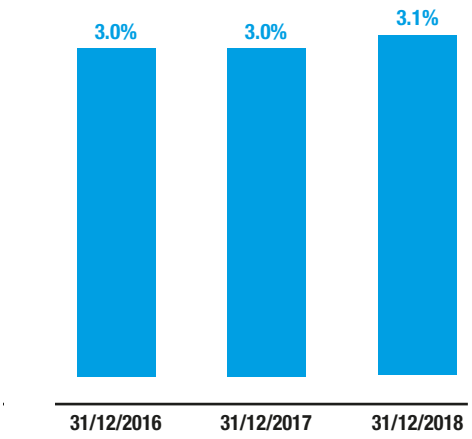




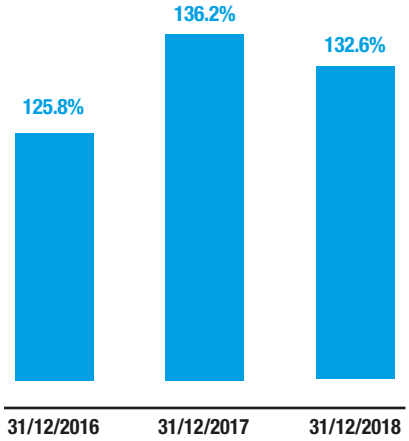
Phased-in and fully-loaded CET1 and total capital ratios



Leverage ratio [1]



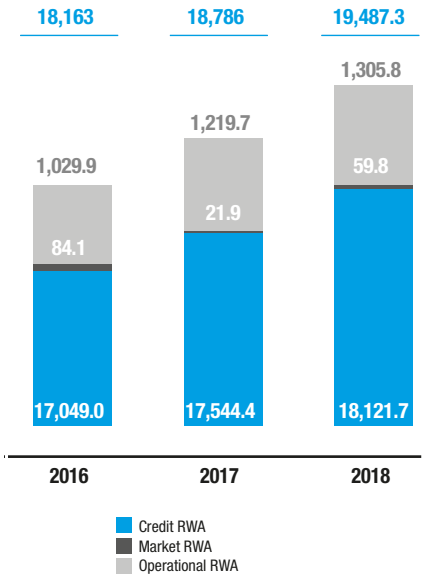
One-month liquidity coverage ratio (LCR)



(1) Fully-loaded ratio based on CRR rules adopted by the European Commission in October 2014 (Delegated Act).

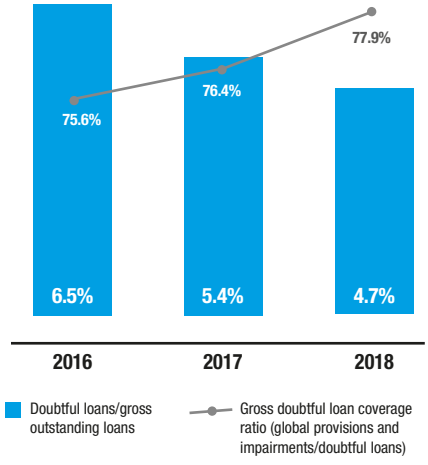
Risk-weighted assets

(RWA, period-end, in €m)



Doubtful loans

(RWA, period-end, in €m)



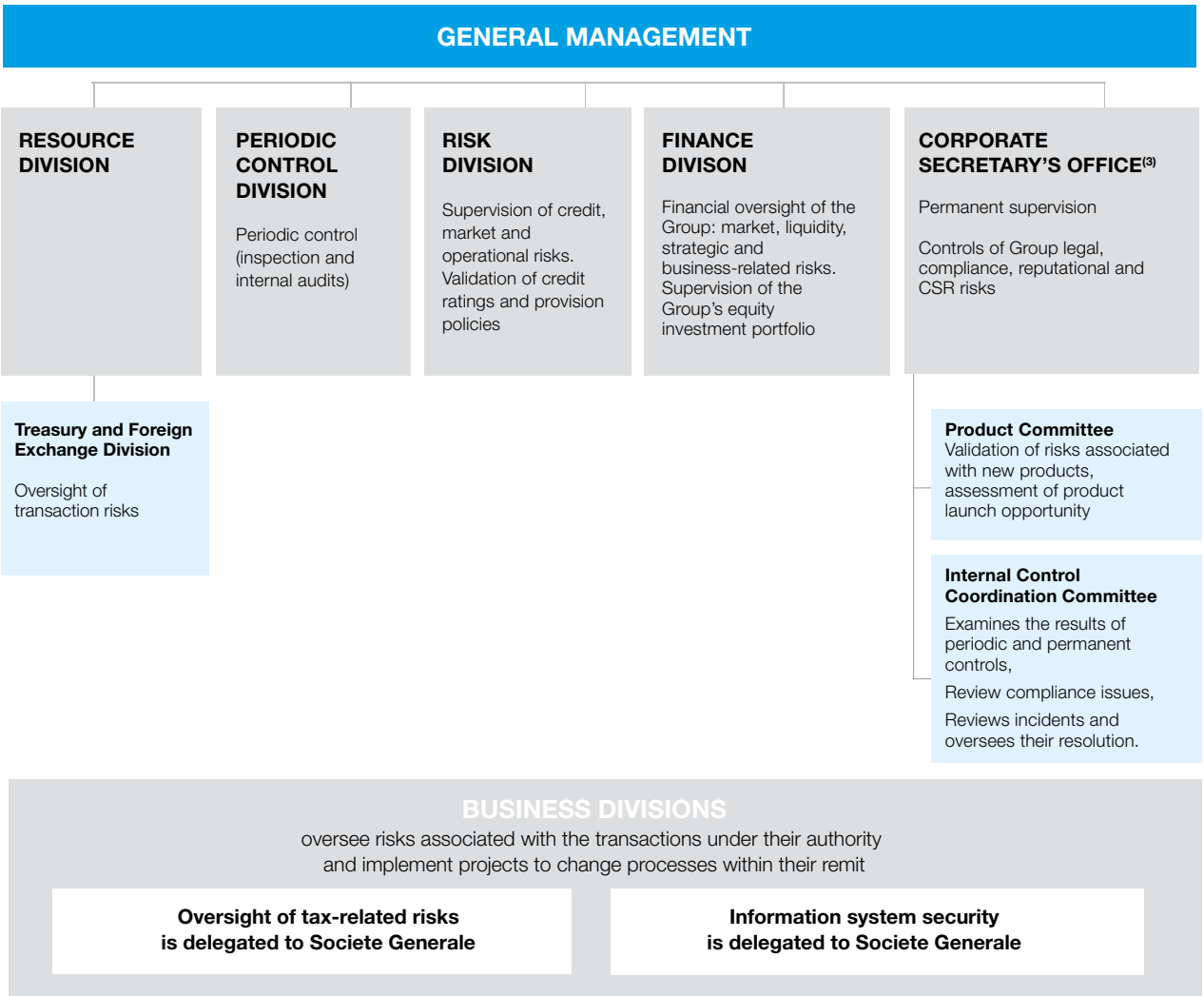
5.2 Risk management

Crédit du Nord Group is subject to oversight by supervisory authorities and to regulations on capital requirements applicable to credit institutions and investment firms (Regulation (EU) N°. 575/2013 of June 26, 2013).

The risk classification system and the core principles of risk management are detailed in this chapter of the Registration Document.

Role and responsibilities of Divisions in charge of risk monitoring

Crédit du Nord Group observes the risk management processes established by Societe Generale Group, and has set up an organisational structure in which all business lines are involved in risk management, in the interest of maintaining a healthy balance between a strong risk culture and the promotion of innovation. The Group's risk management is compliant with the regulations in force, in particular the Decree of November 3, 2014 related to internal control of companies in the banking sector, payment services and investment services subject to supervision by the French Prudential Supervisory and Resolution Authority (*Autorité de Contrôle Prudentiel et de Resolution*, ACPR) and European regulations CRR/CRD4 (see table below, which summarises the role of the main Divisions involved in managing the Group's risks).



Risk categories

Audited | The Group's risk management framework involves the following main categories:

- **credit and counterparty risk** (including concentration effects): risk of losses arising from the inability of the Group's customers, issuers or other counterparties to meet their financial commitments. Credit risk also includes the counterparty risk linked to market transactions, as well as that stemming from securitisation activities. In addition, credit risk may be further amplified by individual, country and sector concentration risk;
- **market risk:** risk of loss of value of financial instruments arising from changing market parameters, as well as their volatility and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), derivatives and other assets;
- **operational risks**: risk of losses resulting from inadequacies or failures in processes, personnel or information systems, or from external events. They include, in particular:
  - non-compliance risk (including legal and tax risks): risk of court-ordered, administrative or disciplinary sanctions, material financial loss or damage to the Group's reputation, due to failure to comply with directly applicable national or European legal or regulatory provisions governing banking and financial activities, with professional and ethical standards, or with instructions issued by senior managers, taken in particular in accordance with Supervisory Board guidelines,
  - reputational risk: risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Group's ability to maintain or engage in business relationships and to sustain access to sources of financing;
  - misconduct risk: risk resulting from actions (or inaction) taken or behaviours adopted by the Bank, or its employees, that may be incompatible with the Group Code of Conduct and liable to generate negative consequences for our stakeholders or jeopardise the continuing operation or reputation of the Bank;
- **structural risks**: risk of losses in net interest income or the value of the banking book due to changes in interest or exchange rates. This risk is related to commercial activities and proprietary transactions, and includes the risk of a distortion in the structural gap between assets and liabilities associated with the Bank's commitments and the risk associated with an extended period of future payments;
- **data security and information system security risks**: major IT risks including extreme risk scenarios (e.g. cyberattack, failure of a service provider), affecting the Bank's ability to improve knowledge of its risks, be better prepared for extreme risk scenarios and better align its investments with its IT risks;
- **model risk**: risk of losses resulting from decisions taken on the basis of internal modelling results, due to errors in the development, implementation or use of said models;
- **liquidity** and funding risk: liquidity risk is defined as the inability of the Group to meet its financial obligations at a reasonable cost. Funding risk is defined as the risk of the Group being unable to finance the development of its activities in line with its commercial objectives and at a competitive cost.

In addition, the risks associated with Corporate Social Responsibility are monitored within the framework of the Societe Generale risk management system. ▲

5.3 Capital management and adequacy

Regulatory framework

Audited | As of January 2014, Crédit du Nord Group applies the new Basel III regulatory framework implemented in the European Union via a regulation and a directive (CRR and CRD4, respectively), with certain requirements taking effect over a period running until at least 2019. The general framework defined by Basel 3 is based on three pillars:

- Pillar I sets minimum capital adequacy requirements and laid down the rules that banks have to implement to measure risks and calculate the resulting capital requirements according to standardised or more advanced methods;
- Pillar 2 relates to the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar 1, and to calibrate additional capital requirements with regard to all the risks to which these institutions are exposed;
- Pillar III encourages market discipline by defining a set of quantitative and qualitative filing obligations that help market participants better assess the capital, risk exposure, risk assessment procedures and therefore the capital adequacy of a given institution.

In terms of capital, the main new measures introduced to strengthen banks' solvency were as follows:

- the complete revision and harmonisation of the definition of capital, particularly with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 (or CET1) ratio, and new Tier 1 capital eligibility criteria for hybrid securities;
- new capital requirements for counterparty risk associated with market transactions, in order to take into account the risk of a change in CVA (Credit Valuation Adjustment) and to cover exposures to central counterparty clearing houses (CCPs);
- the establishment of capital buffers that can be mobilised to absorb losses in the event of tensions. The new rules require banks to create a conservation buffer and a countercyclical buffer to preserve their solvency in the event of adverse conditions. Requirements related to capital buffers gradually entered into force as from 1st January 2016, for full application by January 2019.
- the set-up of restrictions on distributions, relating to dividends, AT1 instruments and variable remuneration;
- in addition to these measures, there are also measures governing the size and thus the use of excessive leverage. To this end, the Basel Committee defined a leverage ratio, for which the definitive regulations were published in January 2014, and included in the Commission's Delegated Regulation (EU) 2015/62. The leverage ratio compares the bank's Tier 1 capital to the balance sheet and off-balance sheet items, with restatements for derivatives and repurchase agreements. Banks have been required to publish this ratio since 2015.

In December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed the outstanding Basel 3 regulatory reforms initiated in 2009. These new rules are set to apply as from 2022, with an aggregate output floor: the bank's RWAs will be subject to a floor calculated as a percentage under the standardised approach (credit, market and operational risks). The output floor will gradually increase from 50% in 2022 to 72.5% in 2027. Of course, the rules will have to be enacted in European law (CRR3/CRD6) before they will apply to the Group,

Furthermore, on November 23, 2016, the Commission published its draft text for CRR2/CRD5. The majority of the provisions will come into force two years after the entry into force of CRR2. Given the Trilogue deadline, it will likely not be before 2021. The final provisions will only be known at the end of the European legislative process.

The new proposals address:

- the NSFR: new Basel provisions on the Net Stable Funding Ratio;
- the leverage ratio: the 3% minimum requirement will be incorporated in CRR;
- Counterparty credit risk on derivatives (SA-CCR): the SA-CCR is the Basel standardised approach for measuring CCR, replacing the Current Exposure Method (CEM) to determine prudential exposure to derivatives under the standardised approach (SA);
- Large Exposures: the main change has to do with the calculation of the regulatory limit (25%) on Tier 1 capital (instead of total capital).

As regards the implementation of the Fundamental Review of the Trading Book (FRTB), after the publication of the first revised standard in January 2016 and a Consultation in March 2018, the BCBS published its final text in January 2019: BCBS457.

In accordance with previous publications, the BCBS confirmed its implementation timetable - which does not call into question the European Union timetable below - with an entry into force no later than January 1, 2022.

Note: in Europe the CRR 2 timetable will apply as follows:

- first, the FRTB reform will take effect as a reporting obligation (2021 for the Standardised approach and 2023 for the IMA);
- FRTB capital requirements will then become mandatory in the CRR3 package (not before 2023). ▲

Finally, the European Central Bank confirmed the level of additional capital requirements in respect of Pillar 2 (P2R or “Pillar 2 Requirement”) which will come into force as from January 1, 2018. This level was set at 1% for Crédit du Nord.

Crédit du Nord Group meets its minimum ratio requirements throughout 2018.

Scopes of application – prudential scope

At Crédit du Nord, the prudential scope is identical to the consolidation scope.

Own funds

Crédit du Nord’s own funds are calculated on the basis of carrying amounts measured in accordance with International Financial Reporting Standards (IFRS), and can be broken down as follows:

Common Equity Tier 1 (CET1) capital

According to CRR/CRD4, Common Equity Tier 1 capital is made up primarily of the following:

- ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts;
- retained earnings;
- components of other comprehensive income;
- other reserves;
- minority interest limited by CRR/CRD4.

Deductions from Common Equity Tier 1 capital essentially involve the following:

- estimated dividend payment;
- goodwill and intangible assets, net of associated deferred tax liabilities;
- unrealised capital gains and losses on cash flow hedges;
- income on own credit risk;
- deferred tax assets on tax loss carryforwards;
- deferred tax assets resulting from temporary differences beyond a threshold;
- assets from defined benefit pension funds, net of deferred taxes;
- any positive difference between expected losses on customer loans and receivables, risk-weighted using the Internal Ratings Based (IRB) approach, and the sum of related value adjustments and collective impairment losses;
- expected losses on equity portfolio exposures;
- value adjustments resulting from the requirements of prudent valuation;
- securitisation exposures weighted at 1,250%, where these positions are not included in the calculation of total risk-weighted exposures.

Additional Tier 1 (AT1) capital

In accordance with CRR/CRD4, Additional Tier 1 capital consists of deeply subordinated notes issued directly by the Bank, which predominantly have the following features:

- they constitute unsecured, deeply subordinated commitments spanning an indefinite period. These instruments rank below all other commitments undertaken by the Bank, including dated and perpetual subordinated notes, and only hold priority over ordinary shares;
- furthermore, Crédit du Nord may decide on a discretionary basis not to pay interest and coupons on these instruments. This remuneration is paid on the basis of distributable items;
- they contain no step-up features or other incentive to redeem;
- they shall have loss-absorbing capacity;
- subject to the prior approval of the European Central Bank, Crédit du Nord may redeem these instruments at certain dates, but not before five years after their date of issuance.

Tier 2 (T2) capital

Tier 2 capital includes:

- undated subordinated notes;
- redeemable subordinated notes;
- any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures, risk-weighted using the IRB approach and (ii) expected losses, up to 0.6% of the total credit risk-weighted assets using the IRB approach;
- value adjustments for general credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standard approach, up to 1.25% of the total credit risk-weighted assets.

TABLE 1: CHANGE IN DEBT INSTRUMENTS ELIGIBLE FOR SOLVENCY CAPITAL REQUIREMENTS

(in €m)	31/12/2017	Issues	Redemptions	Prudential haircut	Others	31/12/2018
Tier 1 eligible debt *instruments*	110					110
Tier 2 eligible debt *instruments*	462		-12			450
TOTAL ELIGIBLE DEBT INSTRUMENTS	**572**	**-**	**-12**	**-**	**-**	**560**

Solvency ratio

The solvency ratio is set by comparing the group's equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risks and operational risks. They are expressed as a percentage of risk-weighted assets (RWA) and in reference to the capital construction method, i.e. Core Equity Tier 1 (CET1), Tier 1 (T1) or Total Capital (TC).

Each quarter, the ratios are calculated using data at the balance sheet date, then compared to the minimum requirements set by the supervisor for each ratio.

The minimum Pillar 1 requirements is set by regulation at 4.5% for the CET1 ratio, 6% for the T1 ratio and 8% for the Total Capital ratio. This minimum requirement is constant over time.

The minimum Pillar 2 Requirement (P2R) is set by the supervisor based on the outcome of the annual Supervisory Review and Evaluation Process (SREP). The ECB notifies the institution of its P2R, which stood at 1% in 2018 and will remain at 1% for 2019.

The countercyclical buffer – just like the conservation buffers – plays a role in determining the overall buffer requirement:

- the countercyclical buffer rate is set by country. Each establishment calculates its countercyclical buffer requirement by measuring the average countercyclical buffer rate for each country, adjusted to take into account the relevant credit risk exposures in these countries. As of January 1, 2019, the countercyclical buffer requirement for Crédit du Nord Group is not material;

- the capital conservation buffer, which took effect on January 1, 2016, ranges from 0% to 2.5% during the phase-in period, set to end in 2019. It rose from 1.875% in 2018 and to 2.50% from January 1, 2019.

In 2019, taking into account the various regulatory capital buffers (excluding the countercyclical capital buffer), the fully-loaded CET1 ratio that would trigger the Maximum Distributable Amount mechanism will be 8%.

TABLE 2: BREAKDOWN OF MINIMUM PRUDENTIAL CAPITAL REQUIREMENT FOR CREDIT DU NORD AT JANUARY 1, 2019 – FULLY-LOADED RATIO

(as a%)	01/01/2019	01/01/2018
Minimum Pillar 1 requirement	4.5%	4.5%
Minimum Pillar 2 requirement (P2R)	1.0%	1.0%
Minimum conservation buffer requirement	2.5%	2.5%
Minimum systemic buffer requirement	-	-
Minimum countercyclical buffer requirement	-	-
MINIMUM CET1 RATIO REQUIREMENT	**8.0%**	**8.0%**

TABLE 3: FULLY-LOADED CRR/CRD4 PRUDENTIAL CAPITAL AND SOLVENCY RATIOS

(in €m)	31/12/2018	31/12/2017
Shareholders' equity, Group share [(1)]	**3,533.5**	**3,435.2**
Deeply subordinated notes	-	-
Undated subordinated notes	-110.0	-110.0
Consolidated shareholders' equity, Group share, net of deeply subordinated notes and undated subordinated notes	**3,423.5**	**3,325.2**
Non-controlling interests	-	-
Intangible assets	-206.3	-183.5
Goodwill	-508.0	-508.0
Dividends proposed at the AGM and coupons payable on deeply subordinated notes and undated subordinated notes	-341.0	-228.1
Deductions and regulatory adjustments	-187.2	-327.0
TOTAL COMMON EQUITY TIER 1 CAPITAL	2,181.0	2,078.6
Additional Tier 1 capital	110.0	110.0
Tier 1 deductions	-	-
TOTAL TIER 1 CAPITAL	2,291.0	2,188.6
Tier 2 instruments	450.0	462.1
Additional Tier 2 capital	-	33.8
Tier 2 deductions	-	-
TOTAL CAPITAL	2,741.0	2,684.5
TOTAL RISK-WEIGHTED ASSETS	**19,487.3**	**18,786.0**
Credit risk-weighted assets	18,121.7	17,544.4
Market risk-weighted assets	59.8	21.9
Operational risk-weighted assets	1,305.8	1,219.7
SOLVENCY RATIOS		
Common Equity Tier 1 ratio	11.2%	11.1%
Tier *1* ratio	11.8%	11.7%
Total capital ratio	14.1%	14.3%

(1) Shareholders' equity, Group share (2017) have not been restated for the error corrections presented in Note 1 of the consolidated financial statements.

The fully-loaded CRR/CRD4 ratio was 11.2% at December 31, 2018 in Common Equity Tier 1 (11.1% at December 31, 2017), 11.8% in Tier 1 (11.7% at December 31, 2017), for a total capital ratio of 14.1% (14.3% at December 31, 2017).

Shareholders' equity, Group share, amounted to €3,533.5 million at end-December 2018 (versus €3,435.2 million at December 31, 2017).

After taking regulatory restatements into account, fully-loaded CET1 capital totalled €2,181 million at December 31, 2018 versus €2,078.6 million at December 31, 2017.

The table below presents the main items contributing to this change.

TABLE 4: REGULATORY DEDUCTIONS AND RESTATEMENTS UNDER CRR/CRD4

(in €m)	31/12/2018	31/12/2017
IFRS 2 net of deferred taxes	-83.4	-80.5
AVA	-7.9	-6.9
TIFI deduction	-14.4	-138.2
Neutralisation of revaluation of debt linked to own credit risk and DVA	0.4	7.2
Others	-81.9	-108.6
TOTAL REGULATORY DEDUCTIONS AND RESTATEMENTS UNDER CRR/CRD4	**-187.2**	**-327.0**

Regulatory deductions and restatements under CRR/CRD4 included in "Others" primarily involve the following:

- any positive difference between expected losses on customer loans and receivables, risk-weighted using the Internal Ratings Based (IRB) approach, and the sum of related value adjustments and collective impairment losses;
- Single Resolution Fund and deposit-cash insurance fund,
- expected losses on equity portfolio exposures.

Capital requirements

The Basel 3 Accord established the new rules for calculating minimum capital requirements in order to more accurately assess the risks to which banks are exposed. The calculation of credit risk-weighted assets takes into account the transaction risk profile based on two approaches for determining risk-weighted assets: (i) a standard method, and (ii) advanced methods based on internal models for rating counterparties.

TABLE 5: GROUP CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	RWA		Capital requirements	
(in €m)	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Credit risk (excluding counterparty risk - CRR)	**18,062.1**	**17,450.1**	**1,445.0**	**1,396.0**
o/w standardised approach (SA)	2,227.0	2,404.2	178.2	192.3
o/w Foundation Internal Ratings-Based approach (F-IRB)	1,259.1	1,223.7	100.7	97.9
o/w Advanced Internal Ratings-Based approach (A-IRB)	14,576.0	13,822.2	1,166.1	1,105.8
Counterparty risk	**59.6**	**94.3**	**4.8**	**7.5**
Contribution to CCP guarantee funds	**-**	**-**	**-**	**-**
Settlement-delivery risk	**-**	**-**	**-**	**-**
Securitisation exposures in the banking book	**-**	**-**	**-**	**-**
o/w IRB approach	-	-	-	-
o/w IRB Supervisory *Formula Approach* (SFA)	-	-	-	-
o/w Internal *Assessment Approach* (IAA)	-	-	-	-
o/w standardised approach (SA)	-	-	-	-
Market risk	**59.8**	**21.9**	**4.8**	**1.7**
o/w standardised approach (SA)	46.2	0.3	3.7	-
o/w CVA	13.6	21.6	1.1	1.7
o/w Internal Models Approach (IMA)	-	-	-	-
Operational risk	**1,305.8**	**1,219.7**	**104.5**	**97.6**
o/w basic indicator approach	-	-	-	-
o/w standardised approach (SA)	-	-	-	-
o/w Advanced Measurement Approach (AMA)	1,305.8	1,219.7	104.5	97.6
Floor adjustment	**-**	**-**	**-**	**-**
TOTAL	**19,487.3**	**18,786.0**	**1,559.0**	**1,502.8**

Change in risk-weighted assets and capital requirements

The following table presents the breakdown of the Group's risk-weighted assets by pillar (fully loaded).

TABLE 6: BREAKDOWN OF RWA BY TYPE OF RISK

(in €m)	Credit	Market	Operational	Total at 31/12/2018	Total at 31/12/2017
French Retail Banking	**18,121.7**	**59.8**	**1,305.8**	**19,487.3**	**18,786.0**

At December 31, 2018, risk-weighted assets totalled €19,487.3 million and can be broken down as follows:

- credit risks represented 93% of risk-weighted assets at December 31, 2018;
- market risks represented 0.3% of risk-weighted assets at December 31, 2018;
- operational risks represented 6.7% of risk-weighted assets at December 31, 2018.

Capital

Audited | For capital management purposes, Crédit du Nord Group ensures that its solvency level is always compatible with the following objectives, under the authority of the Finance Division:

- maintaining its financial solidity and respecting the risk appetite targets;
- preserving its financial flexibility to finance organic growth and growth through acquisitions;
- adequate allocation of capital to the various business lines according to the Group's strategic objectives;
- maintaining the Group's resilience in the event of stress;
- meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders.

Crédit du Nord Group determines its internal solvency targets in accordance with these objectives and regulatory thresholds.

Crédit du Nord Group has an internal process for assessing the adequacy of its capital that measures the adequacy of the Group's capital ratios in light of regulatory constraints. ▲

At December 31, 2018, the Group's fully-loaded CET1 ratio was 11.2%.

At December 31, 2018, the Group's risk-weighted assets were up 3.7% to €19,487.3 million versus €18,786 million at end-December 2017.

Leverage ratio

Crédit du Nord Group calculates its leverage in accordance with the CRR leverage ratio framework, as amended by the Delegated Act of October 10, 2014.

The leverage ratio is managed with the intention of calibrating the amount of Tier 1 capital (the numerator of the leverage ratio) and controlling the Group's total leverage exposure (the ratio's denominator) to achieve the target ratio set by the Group. To this end, the leverage exposure of the different business lines is supervised by the Group Finance Division.

The Group has set a goal of keeping the consolidated leverage ratio at the minimum level of 3.0% referred to in the BCBS recommendations for non-systemic banks, currently being transposed in the second Capital Requirements Regulation (CRR2). The leverage ratio is currently being observed to determine the minimum requirements. When they are established, the Group's target will be adjusted as required.

At end-2018, Crédit du Nord Group's leverage ratio stood at 3.1%.

TABLE 7: LEVERAGE RATIO SUMMARY AND RECONCILIATION OF PRUDENTIAL BALANCE SHEET AND LEVERAGE EXPOSURE

(in €m)	31/12/2018	31/12/2017
Tier *1* capital	**2,291.0**	**2,188.6**
Total prudential balance sheet assets	69,409.2	67,876.9
Adjustments for fiduciary assets recorded on the balance sheet but excluded from leverage exposure	-	-
Adjustments for derivative exposures	1,166.4	1,221.3
Adjustments for securities financing transactions	-	-
Off-balance sheet exposures (loan and financial guarantee commitments)	5,251.2	4,632.8
Technical and regulatory adjustments (Tier 1 prudential capital *deductions)*	-788.6	-938.1
Leverage exposure	**75,038.2**	**72,792.9**
Fully loaded CRR leverage ratio	**3.1%**	**3.0%**

Ratio of large exposures

The CRR (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such, Crédit du Nord Group may not have any exposure where the total amount of net risks incurred on a single beneficiary exceeds 25% of Crédit du Nord Group's capital.

The eligible capital used to calculate the large exposure ratio is total regulatory capital, with a limit on the amount of Tier 2 capital. Tier 2 capital cannot exceed one-third of Tier 1 capital.

The final rules of the Basel Committee on large exposures will be transposed in Europe via CRR2. The main change compared with the current CRR is the calculation of the regulatory limit (25%), henceforth expressed as a proportion of Tier 1 (instead of total capital), as well as the introduction of a cross-specific limit on systemic institutions (15%).

5.4 Credit risks

Credit risk management: organisation and structure

Audited | The Risk division has defined a control and monitoring system based on the credit risk policy, to provide a framework for Crédit du Nord Group's credit risk management. This framework is periodically reviewed and approved by the Risk Committee.

The Risk Division is notably responsible for:

- setting global and individual credit limits by customer, customer group or transaction type;
- authorising transaction files submitted by the sales departments;
- validating credit score or internal customer rating criteria;
- monitoring and surveillance of large exposures and various credit portfolios;
- reviewing specific and general provisioning policies.

A monthly report on the main increased risks is presented to the Crédit du Nord Group Risk Committee and specific analyses may also be submitted. ▲

Credit policy

Audited | Crédit du Nord Group's credit policy is based on the principle that approval of any credit risk undertaking must be based on sound knowledge of the client and the client's business, an understanding of the purpose and structure of the transaction, and of the sources of repayment of the debt. Credit decisions must also ensure that the structure of the transaction will minimise the risk of loss in the event that the counterparty defaults. Furthermore, the credit approval process takes into consideration the overall commitment of the group to which the client belongs. Risk approval forms part of Crédit du Nord Group's risk management strategy in line with its risk appetite.

The risk approval process is based on four core principles:

- all transactions involving credit risk (debtor risk, settlement/delivery risk, issuer risk and replacement risk) must be pre-authorised;
- responsibility for analysing and approving transactions lies respectively with the sales function and the risk function, which examine all authorisation requests relating to a specific customer or customer group, to ensure a consistent approach to risk management;
- the sales function and the risk function work independently of one another;
- credit decisions must be systematically based on internal risk ratings (obligor rating), as provided by the primary customer relation unit and approved by the Risk Division.

The Risk Division submits recommendations to the Crédit du Nord Group Risk Committee on the limits which it deems appropriate for sectors, products or customer types, in order to reduce risks with strong correlations. These limits are validated by the Crédit du Nord Group Board of Directors. The allocation of limits is subject to final approval by Crédit du Nord Group's General Management and is based on a process that involves the operating divisions exposed to risk and the Crédit du Nord Group Risk Division. ▲

Risk supervision and monitoring system

Portfolio review and sector risk monitoring

Authorisation limits are set by counterparty and the credit approval process must comply with the overall authorisation limit for the group to which the counterparty belongs.

Individual large exposures are reviewed by the Regional Risk Committee chaired by the General Management.

The Crédit du Nord Group Risk Committee analyses the main loans granted and the main increased credit risks.

Concentrations are measured using an internal model and individual concentration limits are defined for larger exposures. Limit breaches are managed over time by establishing exposure reductions.

In addition, Crédit du Nord Group regularly reviews its entire credit portfolio through analysis by type of counterparty or business sector. In addition to industry research and regular sector concentration analyses, sector research and more specific business portfolio analyses are carried out at the request of the General Management.

Monitoring of country risk

Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing regulatory, political, economic, social and financial conditions in the country of exposure.

It includes exposure to any kind of counterparty, including a sovereign state (sovereign risk is also controlled by the system of counterparty risk limits).

Country risk breaks down into two major categories:

- political and non-transfer risk covers the risk of non-payment resulting from either actions or measures taken by local government authorities (decision to prohibit the debtor from meeting its commitments, nationalisation, expropriation, non-convertibility, etc.), domestic events (riots, civil war, etc.) or external events (war, terrorism, etc.);
- commercial risk occurs when the credit quality of all counterparties in a given country deteriorates due to a national economic or financial crisis, independently of each counterparty's individual financial situation. This could be a macroeconomic shock (sharp slowdown in activity, systemic banking crisis, etc.), currency depreciation, or sovereign default on external debt possibly entailing other defaults.

Overall limits and strengthened monitoring of exposures have been established for countries based on their internal ratings and governance indicators. Supervision is not limited to emerging markets.

Country limits are approved annually by Societe Generale Group. They may be lowered at any time if the country's situation deteriorates or is expected to deteriorate.

All Crédit du Nord Group exposures (securities, derivatives, loans and guarantees) are included in this oversight. The country risk methodology determines a country of initial risk and a country of final risk (after any guarantee effects). The country of final risk is subject to country limits.

Credit stress tests

With the aim of identifying, monitoring and managing credit risk, Credit du Nord Group works with the business divisions to conduct a set of specific stress tests relating to a given activity. These specific stress tests combine both recurring stress tests, conducted on those portfolios identified as structurally carrying risk, and occasional stress tests, designed to recognise emerging risks.

Structured around the portfolio analysis function, the Risk Division teams translate these economic scenarios into impacts on risk parameters (default exposure, default rate, provisioning rate at entry into default, etc.).

Impairments

Impairments can be broken down into impairments of performing exposures (Stages 1 and 2) and impairments of defaulted exposures (Stage 3).

Impairments of performing exposures (Stages 1 and 2)

Impairments of performing exposures are determined using an estimate of 12-month expected credit losses (general case) or lifetime expected credit losses (case for contracts subject to a significant increase in credit risk since the loan was issued).

These assumptions are calibrated by homogeneous group based on their specific characteristics, sensitivity to the economic environment and historical data.

These impairments are calculated on the basis of assumptions on default rates and loss given default, in addition to macroeconomic or sector-specific forecasts.

They are reviewed periodically by the Risk Division.

Impairments of defaulted exposures (Stage 3)

Decisions to book specific impairments on certain counterparties are taken where there is objective evidence of default. The amount of impairment depends on the probability of recovering the amounts due. The expected cash flows are based on the financial position of the counterparty, its economic prospects and the guarantees called up or that may be called up.

A counterparty is deemed to be in default when at least one of the following conditions is verified:

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

Crédit du Nord Group applies the default contagion principle to all of a counterparty's outstandings. When a debtor belongs to a group, all of the group's outstandings are generally defaulted as well.

Replacement risk

Counterparty risk associated with derivative transactions is a type of credit risk (potential loss in the event that the counterparty defaults). It represents the current cost to Crédit du Nord Group of replacing transactions with a positive market value should the counterparty default. Transactions giving rise to replacement risk are, inter alia, repurchase agreements, securities borrowing and lending transactions, and derivative contracts such as swaps, options and futures traded over the counter or with central counterparty clearing houses (CCP).

Management of counterparty risks linked to market transactions

Audited | Crédit du Nord Group monitors its counterparty risk exposure in order to minimise loss given default, and counterparty limits are assigned to all counterparties (banks, other financial institutions, corporates, public institutions and CCP). ▲

In order to quantify the potential replacement risk, Crédit du Nord Group uses a model developed by Societe Generale Group: the future fair value of market transactions with counterparties is modelled taking into account any netting and correlation effects.

The forecasts are derived from Monte-Carlo models developed by the Risk Division, based on a historical analysis of market risk factors, and take into account guarantees and collateral.

Societe Generale Group uses two indicators to characterise the distribution resulting from the Monte-Carlo simulations:

- current average risk, particularly suitable for analysing the risk exposure for a portfolio of customers;
- credit VaR (or CVaR): the largest loss that would be incurred after eliminating the top 1% of the most adverse occurrences, used to set the risk limits for individual counterparties.

Setting individual counterparty limits

The credit profile of counterparties is reviewed on a regular basis and limits are set both according to the type and maturity of the instruments concerned. The intrinsic creditworthiness of counterparties and the reliability of the associated legal documentation are two factors considered when setting these limits. Fundamental credit analysis is also supplemented by relevant peer comparisons and a market watch.

Information technology systems allow both traders and the Risk Division to ensure that counterparty limits are not exceeded and that additional limits are requested as necessary.

Audited | Any significant weakening in the bank's counterparties also prompts urgent internal rating reviews. A specific supervision and approval process is put in place for more sensitive counterparties or more complex financial instruments. ▲

Crédit du Nord Group is now included in the scope of Societe Generale Group entities that send, centralise and store their market transactions daily in the machine risk oversight calculator (MRP).

The data collected in MRP is used in new centralised SG tools in order to recover, analyse and monitor counterparty risks linked to market transactions: iPilotage, iForce and iFlow.

The Risk Division performs daily supervision of CVaR limit breaches for customers without direct access to the trading floor. It also conducts a monthly ex-post control of the handling of CVaR limit breaches for customer with direct access to the trading floor by the Treasury and Foreign Exchange Department (DOTC). The DOTC also performs a daily check of market transaction breaches for bank counterparties.

Hedging of credit risk

Audited | Guarantees and collateral

Crédit du Nord Group uses credit risk mitigation techniques both for market and commercial banking activities. These techniques provide partial or full protection against the risk of debtor insolvency.

There are two main categories:

- personal guarantees are commitments made by a third party to replace the primary debtor in the event of the latter's default. These guarantees encompass the protection commitments and mechanisms provided by banks and similar credit institutions, specialised institutions such as mortgage guarantors (e.g. Crédit Logement in France), monoline or multiline insurers, export credit agencies, etc;
- collateral can consist of physical assets in the form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments and securities, and also insurance policies.

Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity.

Crédit du Nord Group proactively manages its risks by diversifying guarantees: physical collateral, personal guarantees and others (including CDS).

During the credit approval process, an assessment is performed on the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations. This process also ensures that the collateral or guarantee successfully meets the criteria set forth in the Capital Requirements Directive (CRD).

Guarantor ratings are reviewed internally at least once a year and collateral is subject to revaluation at least once every twelve months.

The Risk function is responsible for approving the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, whether during the approval phase for a new loan or upon the annual renewal of the credit application. ▲

Risk measurement and internal ratings

Crédit du Nord Group obtained authorisation from its supervisory authorities to apply the Internal Ratings-Based (IRB) approach to most of its exposures in order to calculate the capital requirements in respect of credit risks.

TABLE 8: BREAKDOWN OF EAD[1] BU BASEL METHOD

	31/12/2018	31/12/2017
IRB	97%	97%
Standardised	3%	3%
TOTAL	**100%**	**100%**

(1) Excluding equity investments, fixed assets and accruals.

General framework of the internal approach

Audited | To calculate its capital requirements under the IRB method, Crédit du Nord estimates the Risk-Weighted Assets (RWA) and the Expected Loss (EL), a loss that may be incurred due to the nature of the transaction, the quality of the counterparty and all measures taken to mitigate risk.

To calculate its RWA, Crédit du Nord Group uses its own Basel parameters, which are estimated using its internal risk measurement system for retail customers, and uses the Basel parameters developed by Societe Generale Group for measuring risks associated with other customers:

- the Exposure at Default (EAD) value is defined as Crédit du Nord Group's exposure in the event the counterparty defaults. The EAD includes exposures recorded on the balance sheet (loans, receivables, income receivable, market transactions, etc.), and a proportion of off-balance sheet exposures calculated using internal or regulatory Credit Conversion Factors (CCF);
- the Probability of Default (PD): the probability that a counterparty of the bank will default within one year;
- the Loss Given Default (LGD): the ratio between the loss incurred on an exposure in the event a counterparty defaults and the amount of the exposure at the time of the default.

Crédit du Nord Group also takes into account:

- the impact of guarantees and credit derivatives with the substitution of the PD, the LGD and the risk-weighting calculation of the guarantor with that of the obligor (the exposure is considered to be a direct exposure to the guarantor) in the event that the guarantor's risk weighting is more favourable than that of the obligor
- collateral used as guarantees (physical or financial). This impact is factored either at the level of the LGD models in the pools concerned or on a line-by-line basis. ▲

Besides the capital requirement calculation objectives under the A-IRB method, Crédit du Nord Group's credit risk measurement models contribute to the management of Crédit du Nord Group's operational activities. They also constitute tools to structure, price and approve transactions and participate in the setting of approval limits granted to business lines and the Risk function.

Credit risk measurement for retail customers

Crédit du Nord Group's credit risk measurement system, which estimates internal Basel parameters, uses a quantitative assessment mechanism coupled with an expert judgement.

For corporate, banking and sovereign portfolios, the measurement system is based on three key pillars:

- a counterparty rating system;
- a system that automatically assigns Loss Given Default (LGD) and Credit Conversion Factor (CCF) parameters according to the characteristics of each transaction;

- a collection of procedures also sets out the rules relating to ratings (scope, revision frequency, rating approval procedure, etc.), as well as for the supervision, backtesting and validation of models. Among other things, these procedures help to support the human judgement that brings critical scrutiny to the models for these portfolios.

Rating system

The rating system consists in assigning a rating to each counterparty according to an internal scale, for which each grade corresponds to a probability of default determined using historical series observed by Standard & Poor's over more than 20 years.

The following table presents Societe Generale Group's internal rating scale, applied to Crédit du Nord Group, and the corresponding scales of the main external credit assessment institutions, as well as the corresponding mean estimated probability of default.

The rating assigned to a counterparty is generally proposed by a model and then adjusted and approved by experts in the Risk Department following the individual analysis of each counterparty.

The counterparty rating models are structured in particular according to the type of counterparty (companies, financial institutions, public entities, etc.), the country, geographical region and size of the company (usually assessed through its annual revenue).

The company rating models are underpinned by statistical models (regression methods) of customer default. They combine quantitative parameters derived from financial data that evaluate the sustainability and solvency of counterparties and qualitative parameters that evaluate economic and strategic dimensions.

TABLE 9: INTERNAL RATING SCALE APPLIED TO CRÉDIT DU NORD AND CORRESPONDING SCALES OF RATING AGENCIES

Internal counterparty rating	DBRS	FitchRatings	Moody's	S&P	1-year probability of default
1	AAA	AAA	Aaa	AAA	0.01%
2	AA high to AA low	AA+ to AA-	Aa1 to Aa3	AA+ to AA-	0.02%
3	A high to A low	A+ to A-	A1 to A3	A+ to A-	0.04%
4	BBB high to BBB low	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	0.30%
5	BB high to BB low	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	2.16%
6	B high to B low	B+ to B-	B1 to B3	B+ to B-	7.93%
7	CCC high to CCC low	CCC+ to CCC-	Caa1 to Caa3	CCC+ to CCC-	20.67%
8.9 and 10	CC and below	CC and below	Ca and below	CC and below	100.00%

LGD models

Loss given default (LGD) is an economic loss that is measured by taking into account all parameters pertaining to the transaction, as well as the fees incurred for recovering the receivable in the event of a counterparty default.

The models used to estimate the loss given default (LGD) excluding retail clients are applied by regulatory sub-portfolios, type of asset, size and geographical location of the transaction or of the counterparty, depending on the existence or not of collateral and its nature. This makes it possible to define homogeneous risk pools, notably in terms of recovery, procedures and the legal environment.

These estimates are built on a statistical basis when the number of loans in default is sufficient. They are based in this case on the observation of recovery data over a long period.

When the number of defaults is insufficient, the estimate is revised or determined by an expert.

CCF (Credit Conversion Factor) models

For its off-balance sheet exposures, Crédit du Nord Group is authorised to use the internal approach for "term loan with drawing period" products and revolving credit lines.

Backtests

The performance level of the entire retail customer credit system is measured by regular backtests that compare estimates with actual results by PD, LGD, CCF and portfolios.

The compliance of this system is based on the consistency between the parameters used and the long-term trends analysed, with safety margins that take into account areas of uncertainty (cyclicality, volatility, quality of data, etc.).

The safety margins applied are regularly estimated, checked and revised if necessary.

The results of backtests can justify the implementation of remedial plans or the application of add-ons if the system is deemed to be insufficiently prudent. The results of backtests, remedial plans and add-ons are presented to the Committee of Experts for discussion and approval (see "Governance of the rating system").

Credit risk measurement for retail customers

Probability of default models

The modelling of the probability of default for retail customer counterparties is carried out by Crédit du Nord Group. The models incorporate data on the payment behaviour of counterparties. They are segmented by type of customer and distinguish between retail customers, professional customers, very small businesses and real estate investment companies (SCI, Sociétés Civiles Immobilières).

The counterparties in each segment are classified automatically using statistical models in homogeneous risk pools, each of which is assigned probabilities of default.

Once the counterparties are classified in statistically distinct homogeneous risk pools, the probability of default parameters are estimated by observing the average long-term default rates for each product. These estimates are adjusted by a safety margin to estimate as best as possible a complete default cycle using a Through the Cycle (TTC) approach.

LGD models

LGD for retail customers is calculated by Crédit du Nord Group. LGD values are estimated by product, according to the existence or not of collateral.

Consistent with operational recovery processes, estimate methods are generally based on a two-step modelling process that initially estimates the proportion of defaulted loans in loan termination, followed by the loss incurred in case of loan termination.

The expected losses are estimated with internal long-term historical recovery data for exposures that have defaulted. These estimates are adjusted with safety margins in order to reflect the possible impact of a downturn.

CCF (Credit Conversion Factor) models

For its off-balance sheet exposures, Crédit du Nord Group applies its estimates for revolving loans and overdrafts on current account held by retail and professional customers.

Backtests

The performance level of the whole retail customer credit system is measured by regular backtests, which check the performance of PD, LGD and CCF models and compare estimated figures with actual figures.

Each year, the average long-term default rates observed by homogeneous risk pools are compared with the probabilities of default. If necessary, the calibrations of probabilities of default are adjusted to preserve a satisfactory safety margin. The discrimination level of the models and changes in the portfolio's composition are also measured.

Regarding the LGD, the backtest consists in comparing the last estimate of the LGD obtained by computing the average level of payments observed and the value used to calculate regulatory capital.

The difference should in this case reflect a sufficient safety margin to take into account a potential economic slowdown, uncertainties about estimation, and changes in the performance of collection processes. The appropriateness of this safety margin is assessed by a Committee of Experts.

Likewise for the CCF, the level of conservatism of estimates is assessed annually by comparing estimated drawdowns and observed drawdowns on the undrawn portion.

Real estate exposures backed by Crédit Logement are subject to a special procedure for the calculation of capital requirements. Estimated risk parameters do not reflect the actual level of risk, given the option of calling up the guarantee. Accordingly, only the average observed default rate is provided for information purposes.

For all Basel retail customer portfolios, the default rate observed over the long term is lower than the estimated probability of default, which confirms the overall conservatism of the rating system.

Governing of the rating system

The unit responsible for the governance of Crédit du Nord Group's credit risk rating system, which reports to the Risk Division, oversees compliance with requirements related to the internal control of the rating system, in conjunction with the independent validation team of Societe Generale Group's Risk Division.

The governance of risk modelling at Societe Generale Group covers the development, validation and oversight of decisions on changes to internal credit risk measurement models.

Societe Generale Group's internal validation protocol for new models and annual backtesting is broken down into three stages:

- a preparation stage during which the validation team takes control of the model and the environment in which it is built and/or backtested, ensures that the expected deliverables are complete, and draws up a working plan;
- an investigation stage intended to collect all statistical and banking data required to assess the quality of the models. For subjects with statistical components, a review is performed by the independent model control entity, whose conclusions are formally presented to the modelling entities within the framework of a committee (Models Committee);
- a validation stage that is structured around a Committee of Experts whose purpose is to validate the consistency of the Basel parameters of an internal model from a banking perspective. The Committee of Experts is a body reporting to Societe Generale Group's Chief Risk Officer and to the Heads of the relevant business lines.

The Committee of Experts is also responsible for defining the review guidelines and for revising models at the proposal of the Models Committee. These guidelines take into account the regulatory requirements and economic and financial issues of the business lines.

The models used by Crédit du Nord Group are approved by the Models Committee and the Committee of Experts, in which the Bank's experts participates.

In accordance with the Delegated Regulation (EU) No. 529/2014 of May 20, 2014 regarding the monitoring of internal models used to calculate capital requirements, changes to Crédit du Nord Group's credit risk measurement system are subject to three types of notification to the competent supervisor according to the significant nature of the change, evaluated according to this rule:

- significant changes are subject to a request for authorisation prior to their implementation;
- the supervisor is notified of changes which are not significant according to the criteria defined by the regulation. Barring a negative response within a two-month period, such changes may be implemented;
- the competent authorities are notified of other changes after their implementation at least once annually in a specific report.

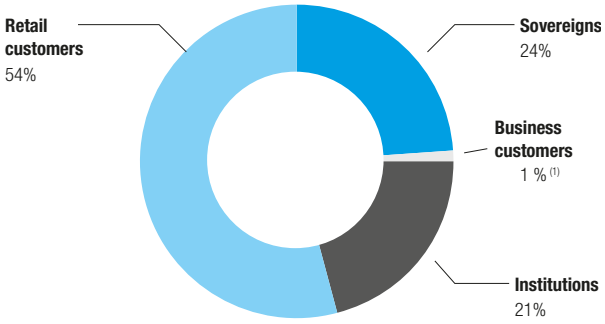
Quantitative disclosures

Audited | The measurement used for credit exposures in this section is EAD – Exposure At Default (on- and off-balance sheet), excluding equity investments, fixed assets and all accruals.

Exposures are broken down by portfolio, sector and borrower rating, i.e. before factoring in the substitution effect. ▲

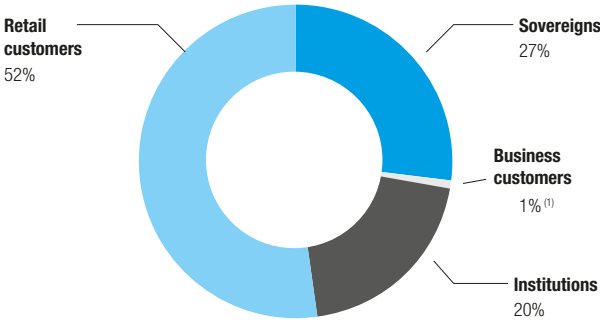
Audited | Credit risk exposure

CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT DECEMBER 31, 2018 (EAD)



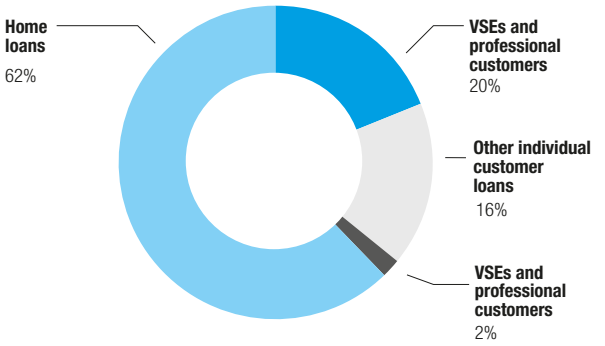
(1) Institutions: Basel portfolios (banks and local authorities)

CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT DECEMBER 31, 2017 (EAD)

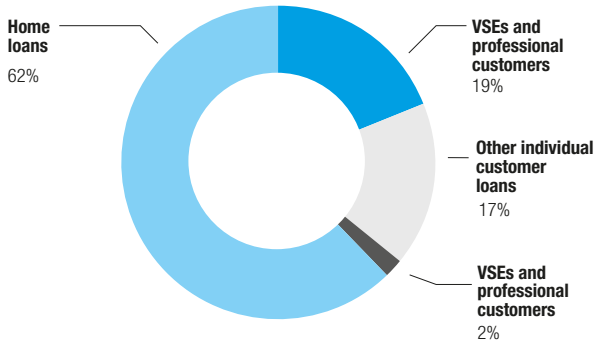


(1) Institutions: Basel portfolios (banks and local authorities)

RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT DECEMBER 31, 2018



RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT DECEMBER 31, 2017

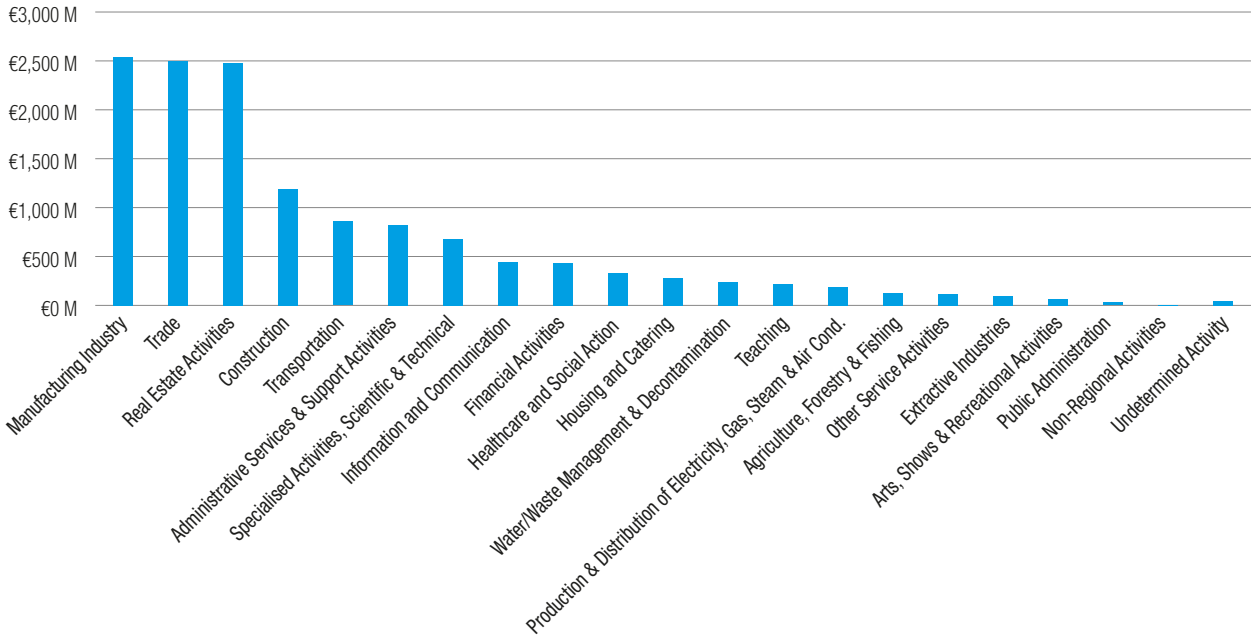


The EAD of the Corporate portfolio is presented in accordance with the Basel definition (large corporates, SMEs, specialised financing).

At December 31, 2018, the Corporate portfolio amounted to €13,950 million (on- and off-balance sheet exposures measured in EAD).

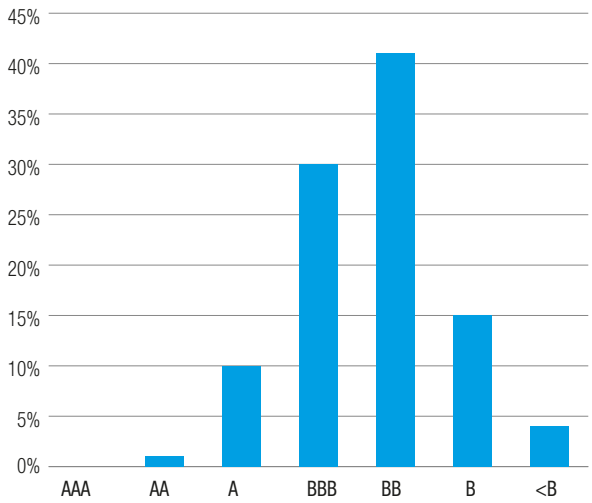
SECTOR BREAKDOWN OF GROUP CORPORATE EXPOSURES (BASEL PORTFOLIO) AT DECEMBER 31, 2018

EAD breakdown - Corporates (Large Corporates, SMEs, Specialised financing) by business sector

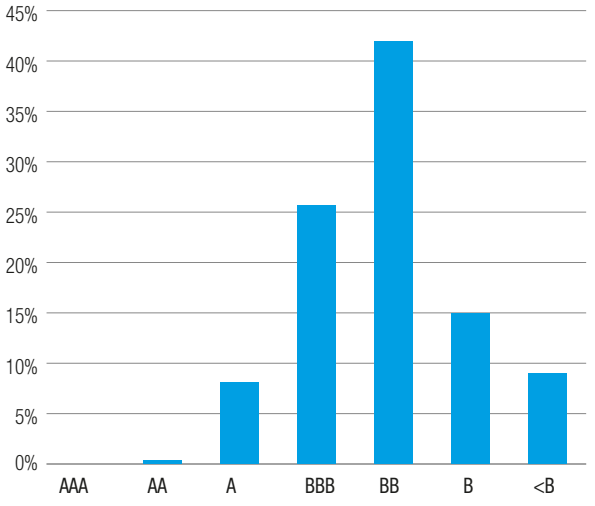


Corporate exposures

Audited I BREAKDOWN OF RISK BY INTERNAL RATING FOR CORPORATE CUSTOMERS AT DECEMBER 31, 2018 (AS A% OF EAD)



BREAKDOWN OF RISK BY INTERNAL RATING FOR CORPORATE CUSTOMERS AT DECEMBER 31, 2018 (AS A% OF EAD)



The scope includes performing loans recorded under the IRB method for the Large Corporates and SME portfolios and represents EAD of €11.9 billion (out of total EAD for the Basel Corporate customer portfolio of €13.9 billion, all methods combined).

The breakdown by rating of the Group's Corporate exposure demonstrates the sound quality of the portfolio. It is based on an internal counterparty rating system, presented above as its Standard & Poor's equivalent. ▲

Net cost of risk

Crédit du Nord Group's consolidated cost of risk for 2018 amounted to €70.0 million versus €109.7 million (€113.5 million, restated for €3.8 million in disputes for pro forma) in 2017. Divided by total loans issued by the Group, cost of risk came out at 0.15%, i.e. a surface decline of 8 basis points compared to 2017, reflecting a combination of decreased cost of risk and increased performing exposures.

This record-low cost of risk can be attributed to one-off items and the recalibration of provision model inputs. Restated for these items, cost of risk amounted to €122 million in 2018 versus €102 million in 2017 (based on identical restatements).

On the corporate customers market, 2018 cost of risk on defaulted exposures (Stage 3) remained under control despite the impact of one major loan that single-handedly made up half of cost of risk for the year.

On the individual and professional customers markets, cost of risk on defaulted exposures (Stage 3) was down significantly by 47% compared to 2017, thanks in large part to a substantial gain recorded from the recalibration of statistical provision model inputs. Restated for the recalibration of statistical provision model inputs, cost of risk was down 21%, reflecting a lower base of defaulted exposures and more effective collections. In fact, collections positively impacted the recalibration of provision model inputs for the year, without materially affecting the overall level of provisions.

It should be noted that S1 and S2 provisions under IFRS 9 replaced collective provisions as of January 1, 2018. A significant gain was observed in 2018 in terms of impairments of performing exposures, mainly attributable to the updated inputs used in the IFRS 9 provision models.

The provision ratio for doubtful and disputed exposures (S3), net of collateral, improved slightly to 77.9%, with an overall decline in the level of defaulted exposures (-12% year-on-year).

The provision ratio for S1+S2 performing exposures came out at 0.35%.

Audited | Analysis of gross exposures and impairments/provisions for credit risk

The following tables detail exposures subject to provisionable exposures (on- and off-balance sheet) subject to impairments and provisions under the new ECL model introduced by IFRS 9, as well as impairments and provisions by stage.

The scope covered in the tables includes:

- securities and loans & receivables to customers and banks & similar institutions measured at amortised cost or at fair value through other comprehensive income;
- operating lease and lease finance receivables;
- loan and guarantee commitments.

TABLE 10: PROVISIONABLE EXPOSURE BY BASEL PORTFOLIO

	31/12/2018				01/01/2018			
(in €m)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereigns	6,390.9	-	-	6,390.9	8,657.5	-	-	8,657.5
Institutions	3,005.2	1.1	-	3,006.3	9,126.1	-	-	9,126.1
Corporates	15,216.4	1,097.8	888.4	17,202.6	12,796.3	1,060.7	487.9	14,344.9
Retail	35,274.3	2,500.5	1,520.0	39,294.8	29,339.2	2,362.6	2,489.2	34,191.0
Others	-	-	-	-	-	-	-	-
TOTAL	**59,886.8**	**3,599.4**	**2,408.4**	**65,894.6**	**59,919.1**	**3,423.3**	**2,977.1**	**66,319.6**

TABLE 11: PROVISIONABLE EXPOSURES BY COUNTERPARTY RATING

	31/12/2018				01/01/2018
(in €m)	Stage 1	Stage 2	Stage 3	Total	Total
1	8,356.0	7.0	-	8,363.0	8,458.1
2	19,738.6	12.8	-	19,751.4	20,472.6
3	13,498.9	223.9	-	13,722.8	12,583.8
4	7,477.2	543.0	-	8,020.2	8,434.8
5	5,833.1	632.4	-	6,465.5	6,434.2
6	1,315.0	1,256.7	-	2,571.7	2,450.3
7	131.2	590.6	-	721.8	664.5
Default (8, 9, 10)	-	-	2,398.8	2,398.8	2,572.9
Other method	3,536.8	333.0	9.6	3,879.4	4,248.4
TOTAL	**59,886.8**	**3,599.4**	**2,408.4**	**65,894.6**	**66,319.6**

TABLE 12: IMPAIRMENTS AND PROVISIONS FOR CREDIT RISK BY BASEL PORTFOLIO

	31/12/2018				01/01/2018			
(in €m)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereigns	0.0	-	-	0.0	0.2	0.0	-	0.2
Institutions	0.2	0.0	-	0.2	0.2	0.0	-	0.2
Corporates	64.0	35.1	518.0	617.1	55.9	39.7	536.0	631.7
Retail	35.1	40.8	750.2	826.1	36.2	47.9	841.9	926.0
Others	-	-	-	-	-	-	-	-
TOTAL	**99.2**	**75.9**	**1,268.3**	**1,443.4**	**92.6**	**87.6**	**1,377.9**	**1,558.1**

▲

Coverage of doubtful exposures

TABLE 13: PROVISIONS FOR DOUBTFUL EXPOSURES

(in €m)	31/12/2018	01/01/2018	31/12/2017
Gross exposures	48,272.2	47,146.2	47,146.2
Doubtful exposures	2,273.6	2,563.3	2,563.3
DOUBTFUL EXPOSURES COVERAGE RATIO	**4.7%**	**5.4%**	**5.4%**
Collective provisions (1)			108.5
S1 provisions	86.2	87.5	
S2 provisions	72.9	83.4	
Specific provisions (2)			1,345.0
S3 provisions	1,238.0	1,345.0	
GROSS DOUBTFUL EXPOSURES COVERAGE RATIO (OVERALL PROVISIONS/DOUBTFUL EXPOSURES)	**77.9%**	**76.4%**	**76.4%**

(1) At December 31, 2018, collective provisions comprised the sum of S1 and S2 provisions.

(2) At December 31, 2018, specific provisions comprised S3 provisions.

Restructured debt

Audited | For Crédit du Nord Group, "restructured" debt refers to loans whose amount, term or financial conditions have been contractually modified due to the borrower's insolvency (whether insolvency has already occurred or will definitely occur unless the debt is restructured).

Restructured debt does not include commercial renegotiations involving customers for which the bank has agreed to renegotiate the debt in order to retain or develop a business relationship, in accordance with credit approval rules in force and without giving up any of the principal or accrued interest.

Any situation leading to debt restructuring entails placing the customers in question in the Basel default category and classifying the loans themselves as impaired.

The customers whose loans have been restructured are kept in the default category for as long as the bank remains uncertain of their ability to meet their future commitments and for a minimum of one year.

Restructured debt amounted to €191.2 million at December 31, 2018. ▲

TABLE 14: RESTRUCTURED DEBT

(in €m)	31/12/2018	31/12/2017
Non-performing restructured debt	179.5	150.6
Performing restructured debt	11.7	7.8
TOTAL RESTRUCTURED DEBT	**191.2**	**158.4**

5.5 Market risks

Audited | Market risks are the risks of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters, and the correlations between them. These parameters include, but are not limited to, exchange rates, interest rates, prices of securities (equities or bonds), commodities, derivatives and other assets. They concern all trading book transactions and some banking book portfolios. ▲

Methods for measuring market risk and defining limits

The Group's market risk assessment is based on three main indicators, which are monitored through limits:

- the 99% Value-at-Risk (VaR) method: in accordance with the regulatory internal model, this global indicator is used for the day-to-day monitoring of the market risks incurred by the Group within the scope of its trading activities;
- a stress test measurement, based on a decennial shock-type indicator. Stress test measurements make it possible to restrict and monitor the Group's exposure to systemic risk and exceptional market shocks;
- complementary metrics such as sensitivity (showing local risks taken on trading activities), nominal (giving a more readily understandable order of magnitude on the exposures without netting effects), concentration or holding period, etc.

Stressed VaR is also calculated on a daily basis.

Implementation of the Group's market risk appetite

Risk appetite is defined as the level of risk Crédit du Nord Group is willing to assume in its efforts to achieve its strategic goals.

Crédit du Nord Group's market activities are focused on a development strategy centred primarily on meeting its customers" needs by providing a comprehensive range of solutions. These activities are strictly supervised through the establishment of limits based on several types of indicators (stress tests, VaR, sensitivities, nominal values, etc.).

The Market Transaction Risk Management Department (RISQ/RMA/MRF) is responsible for examining limit requests submitted by the business lines: at Crédit du Nord, such requests are submitted by the Front Office of the Treasury and Foreign Exchange Department (DTC) in conjunction with the Risk Department of the Treasury and Foreign Exchange Transactions Department (DOTC). These limits are set to ensure that Crédit du Nord Group observes the market risk appetite level validated by the Board of Directors, based on the recommendation of General Management.

The choice and calibration of these limits reflect the establishment of the Group's market risk appetite:

- they are adapted to various levels of the Group's structure and/or by risk factor, thus ensuring that the Group's market risk appetite is enacted throughout its entire organisation from an operational standpoint;
- their calibration is determined on the basis of a detailed analysis of the risks associated with the portfolio under consideration. This analysis may examine a variety of elements such as market conditions (particularly liquidity), flexibility of positions, revenues generated relative to risks taken, etc.;
- they are regularly reviewed with the aim of taking on-board any changes in prevailing market conditions;
- specific limits, and even bans, may be implemented in order to supervise risks for which the Group has little to no risk appetite.

Compliance with the limits set for each activity is monitored daily by the department in charge of monitoring market metrics (RISQ/RMA/MMG), in conjunction with the Market Transaction Risk Management Department, and locally by DOTC's Risk Department.

Effective management and understanding of the Group's market risk exposure are ensured through i) the governance in place between the various departments of the Risk function, the Finance Division and the Business Lines, and ii) compliance with the limits in place, aided by the products and solutions distributed to customers. This continuous oversight of the market risk exposure profile is frequently discussed by the risk and business teams, resulting in a variety of risk hedging or mitigation initiatives taken by the Front Office for the purpose of observing the established framework.

99% Value-at-Risk (VaR)

Crédit du Nord uses a Societe Generale calculator to assess its market risks and accordingly applies the same methodology as Societe Generale Group, which is described below.

The Internal VaR Model was approved by the French regulator in late 1996 for the purpose of calculating regulatory capital requirements.

Value-at-Risk assesses the potential losses on positions over a defined time horizon and for a given confidence interval (99% for Societe Generale).

The method used is the "historical simulation" method, which implicitly takes into account the correlation between the various markets and is based on the following principles:

- storage in a database of the risk factors that are representative of Societe Generale's positions (i.e. interest rates, share prices, exchange rates, commodity prices, volatility, credit spreads, etc.);
- the definition of 260 scenarios, corresponding to one-day variations in these market parameters over a sliding one-year period;
- the application of these 260 scenarios to the daily market parameters;
- revaluation of daily positions, on the basis of the 260 sets of adjusted market parameters.

Within the framework described above, the one-day 99% Value-at-Risk corresponds to the average of the second and third largest losses computed.

The VaR assessment is based on a model and a certain number of conventional assumptions, the main limitations of which are as follows:

- by definition, the use of a 99% confidence interval does not take into account losses arising beyond this point; VaR is therefore an indicator of losses under normal market conditions and does not take into account exceptionally significant fluctuations;
- VaR is computed using closing prices, meaning that intra-day fluctuations are not taken into account.

Societe Generale's Market Risk Department mitigates the limitations of the VaR model by performing stress tests and other additional measurements for Societe Generale Group, including Crédit du Nord.

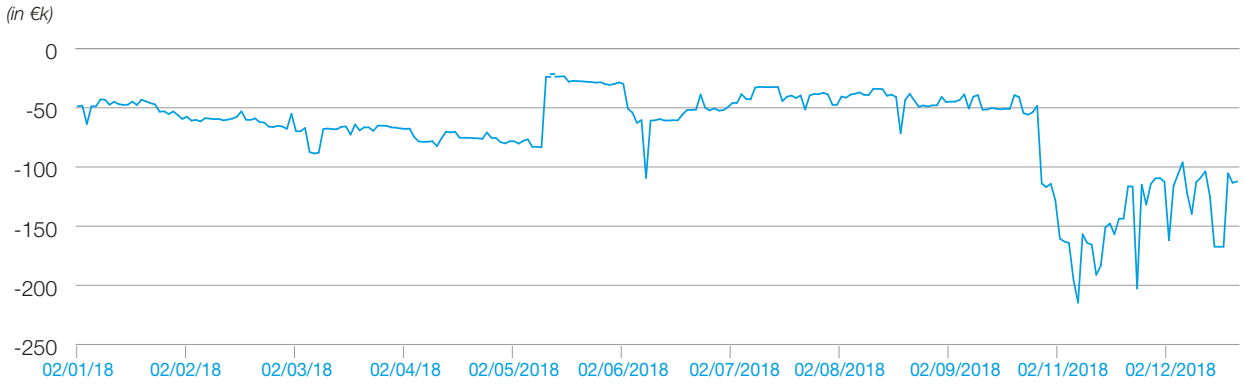
All Crédit du Nord market activities are now covered by a VaR calculation, excluding foreign exchange options. Positions in foreign exchange options tend to generate residual market risk which, though perfectly hedged back-to-back on the market, are not covered by the SG calculator. The SG calculator will be adjusted in 2019/2020 to incorporate these positions.

Capital charges for market risks are not based on a regulatory 10-day VaR, but are calculated using the standardised method, as Crédit du Nord is not authorised to use an internal model.

TABLE 15: TRADING VALUE-AT-RISK (VAR): BREAKDOWN BY RISK FACTOR

	31/12/2018	31/12/2017
(in €k)	99% 1-day VaR	99% 1-day VaR
Start of period	-48.6	-56.8
Maximum	-214.6	-113.4
Average	-68.6	-67.8
Minimum	-23.4	-44
End of period	-112.3	-48.7

CHANGE IN 99% 1-DAY VAR OVER 2018



Crédit du Nord's Trading VaR was low over the period, as the Bank regularly secures its customer orders, thus significantly reducing its exposure to market risks. In 2018, VaR levels rose on average from €54,000 to €139,000 with the transition from SG Group's KARE calculator to SG Group's ONEWAY/RISK-ONE calculator in mid-October 2018 for CDN. The new software tools (ONEWAY/RISK-ONE) now calculate VaR over a comprehensive scope, which explains the disruption observed in Q4 2018.

Stressed VaR (SVaR)

The calculation method used for the 99% one-day SVaR is the same as under the VaR approach. It consists in carrying out a historical simulation with one-day shocks and a 99% confidence interval. Contrary to VaR, which uses 260 scenarios for one-day fluctuations over a rolling one-year period, SVaR uses a fixed one-year historical window corresponding to a period of significant financial tension.

The historical stress window, which is determined using a method approved by the regulator, captures significant shocks on all risk factors (risks related to equity, fixed income, foreign exchange and credit). It is subject to an annual review. In 2016, this window covered the period from September 2008 to September 2009.

Stress test assessment

Methodology

Alongside the internal VaR model, Crédit du Nord Group monitors its exposure using stress test simulations to take into account exceptional market occurrences, based on the methodologies and scenarios provided by Societe Generale Group.

A stress test estimates the loss resulting from an extreme change in market parameters over a period corresponding to the time required to unwind or hedge the positions affected.

This stress test risk assessment is applied throughout all the Bank's market activities. It is based on a set of 18 scenarios (3 historical and 15 hypothetical), which include the "Hypothetical Financial Crisis Scenario" (or "Generalised" scenario) based on the events observed in 2008. These scenarios apply shocks to all substantial risk factors, including exotic parameters.

Together with the VaR model, this stress test risk assessment methodology is one of the main pillars of the risk management framework. The underlying principles are as follows:

- the stress test corresponds to the worst result arising from the set of historical and hypothetical scenarios;
- the shocks applied are calibrated on time horizons specific to each risk factor (the time horizon can range from 5 days for the most liquid risk factors, to more than 20 days for the least liquid);
- risks are calculated every day for each of the Bank's market activities (all products together), using the historical and hypothetical scenarios;
- stress test limits are established for Societe Generale's activity as a whole, and then for the Group's various business lines, including Crédit du Nord.

The various stress test scenarios are reviewed by the Risk Division on a regular basis, in conjunction with the Group's teams of economists and specialists. These reviews are presented during dedicated committee meetings hold every six months, attended by the Head of the Market Risk Department, Societe Generale economists and representatives of the Trading activities of the Group. These committee meetings cover the following topics: changes in scenarios (creation, removal, shock review), appropriate coverage of the risk factors by the scenarios, review of the approximations made in terms of calculation, correct documentation of the whole process. The authorisation level needed to validate the changes in stress test scenarios depends on the impact of changes considered. At the end of 2016, the time horizons used for shock calibration were reviewed: for some parameters (equity dividends, equity repos, implicit correlations on equity markets), the time horizons used previously were deemed inadequate in view of changes in market conditions, leading to an adjustment of the shocks used in the scenarios at the beginning of 2017.

Historical stress tests

This method consists of an analysis of the major economic crises that have affected the financial markets since 1995 (date from which the financial markets have become global and subject to increased regulatory requirements): the changes in the prices of financial assets (equities, interest rates, exchange rates, credit spreads, etc.) during each of these crises have been analysed in order to define scenarios for potential variations in these risk factors which, when applied to the bank's trading positions, could generate significant losses. Accordingly, Societe Generale uses three significant historical scenarios related to the period from October to December 2008.

Hypothetical stress tests

The hypothetical scenarios are defined with the Group's economists and are designed to identify possible sequences of events that could lead to a major crisis in the financial markets (e.g. a major terrorist attack, political instability in the main oil-producing countries, etc.). The Group's aim is to select extreme but plausible events which would have major repercussions on all international markets.

Accordingly, Societe Generale has adopted the 15 hypothetical scenarios described below:

- **generalised scenario (Societe Generale's hypothetical financial crisis scenario):** considerable mistrust of financial institutions after the Lehman Brothers' bankruptcy; collapse of equity markets, sharp decline in implied dividends, significant widening of credit spreads, pivoting of yield curves (rise in short-term interest rates and decline in long-term interest rates), substantial flight to quality;
- **GIIPS crisis:** mistrust in risky sovereign issuers and increased interest in higher-rated sovereign issuers such as Germany, followed by the spreading of fears to other markets (equities, etc.);
- **Middle East crisis:** instability in the Middle East leading to a significant shock in oil prices and other energy sources, a stock market crash, and a steepening of the yield curve;
- **terrorist attack:** major terrorist attack on the United States leading to a stock market crash, strong decline in interest rates, widening of credit spreads and sharp decline of the US dollar;
- **bond crisis:** crisis in the global bond markets inducing the decoupling of bond and equity yields, strong rise in US interest rates (and a more modest rise for other international rates), moderate decline on the equity markets, flight to quality with strong widening of credit spreads, rise in the US dollar;
- **US dollar crisis:** collapse of the US dollar against major international currencies due to the deterioration of the US trade balance and budget deficit, rise in interest rates and narrowing of US credit spreads;
- **euro zone crisis**: decline in euro exchange rates, sharp rise in Eurozone interest rates, sharp fall in euro equities and rise in US equities, significant widening of euro credit spreads;
- **Yen carry trade unwinding**: change in monetary policy in Japan leading to yen carry trade strategies being abandoned: significant widening of credit spreads, decline in yen interest rates, rise in US and Eurozone long-term interest rates and flight to quality;
- **general decline in risk assets**: unexpected halt in Central Bank quantitative easing policies leading to a widespread drop in risky assets (equity, credit, emerging) combined with a significant increase in worldwide interest rates;
- **two other euro zone crisis scenarios**: exit of Greece from the Eurozone, triggering a widespread drop in risky assets (equity, credit, emerging), more particularly in Europe, and a tightening of the US and Japanese sovereign spreads, mitigated with ECB support (activation of the OMT programme resulting in a decrease of interest rates in the Eurozone) or without ECB support (dislocation of the basis rates reflecting the freeze of the interbank market);
- **Russian crisis**: significant depreciation of the Russian currency, default of the Russian government, crisis in the bond markets and drop in equities, more particularly in emerging markets (see Russian crisis in September 1998);
- **major hedge fund crisis**: risk of dislocation of the international financial system stemming from the near-bankruptcy of a major hedge fund, triggered by a crisis in the bond markets (as seen with the near-bankruptcy of Long-Term Capital Management in October 1998);
- **sudden economic rebound**: sharp rise in equity markets and in US and Eurozone interest rates (as seen with the anticipation of the beginning of the Iraq war in March 2003);
- **bursting of an equity bubble**: significant drop in the equity markets following the bursting of an equity bubble in a specific business sector (as seen with the WorldCom bankruptcy in July 2002).

Market risk capital requirements and risk-weighted assets

TABLE 16: CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS BY TYPE OF MARKET RISK

	31/12/2018		31/12/2017	
(in €m)	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Foreign exchange risk	-	-	-	-
Credit risk	13.6	1.1	21.6	1.7
Interest rate risk	46.2	3.7	0.3	-
TOTAL	**59.8**	**4.8**	**21.9**	**1.7**

5.6 Operational risks

Operational risk management: organisation and governance

Operational Risk Function

The Operational Risk Function, made up of 5 internal employees, is in charge of overseeing and coordinating the systems in place at Crédit du Nord Group in terms of Operational Risks, the Business Continuity Plan and management of banking authorisations.

The function relies on a **network of Operational Risk Officers** designated at the various entities of the registered office, subsidiaries and operating network (for the network, the Operational Risk Officer is the entity's Head of Organisation and Logistics), i.e. a total of 25 Operational Risk Officers for Crédit du Nord Group.

The network of Operational Risk Officers is coordinated by:

- Raising awareness/offering training in operational risks and providing information on changes in risks (overviews, presentations, incidents in the financial sector drawn from Societe Generale Group's press review, which is made available to all officers);
- Coordinating and monitoring Operational Risk Officers through:
  - Operational Risk meetings with the main Operational Risk Officers of the functional divisions,
  - occasional presentations at the annual meetings of Heads of Organisation and Logistics for the operating network.

The following employee awareness-raising initiatives were continued in 2018:

- mandatory e-learning modules for all employees on combating corruption, KYC, GDPR, MiFID II, etc.;
- four awareness-raising campaigns on phishing for all employees in 2018.

Monitoring and oversight of Operational Risks at Crédit du Nord Group

At Crédit du Nord Group, operational risks are monitored and overseen by the Internal Control Coordination Committee, which meets under the authority of the Chief Executive Officer: the members of the Executive Committee of Crédit du Nord Group, the Heads of Periodic Control, Permanent Control, Compliance, Operational Risks, Information System Security (RSSI ITIM), the Investment Services Compliance Officer and the Head of Financial Security. This Committee meets five times a year.

The Head of Internal Control Coordination of Societe Generale Group is a permanent guest of the Committee and a member of the Group's Operational Risk Division. The following items are reviewed at committee meetings:

- operating losses, Key Risk Indicators (KRIs), defined at Societe Generale Group level (DGLE Dashboard);
- failures;
- Operational Risk Maps;
- Business Continuity Plans and the Crisis Management System.

An operational risk committee also meets periodically at the various Regional Divisions and Banking Subsidiaries in the operating network.

Scope

This system covers all Crédit du Nord Group entities whose activities are focused predominantly on domestic retain banking businesses. The scope was stable in 2016 compared to 2015.

Measurement of operational risks

As a Societe Generale Group entity, Crédit du Nord Group has opted for the Advanced Measurement Approach (AMA) to measuring operational risks.

Operational risks to which Crédit du Nord Group is exposed

The businesses of the various Crédit du Nord Group entities are exposed to a series of risks (administrative, accounting, legal, IT, etc.) combined under the heading "Operational risks" for the purposes of the Basel II reform.

Operational risks are broken down into 8 event categories (further divided into 49 event sub-categories):

- commercial disputes;
- disputes with the authorities;
- pricing or risk measurement errors;
- execution errors;
- fraud and other criminal activities;
- rogue trading;
- loss of operating resources;
- IT system interruption.

Operational risk management system

Internal loss data collection

Crédit du Nord is included in the internal loss data collection system implemented by Societe Generale Group since 2001. Data on internal losses exceeding €10,000 (Groupwide reporting threshold) were collected by the Group's various Operational Risk Officers. In addition to data collection, fraud-related losses are monitored by Crédit du Nord Group from the first euro, providing a better picture of the overall associated risk (attempted fraud/actual losses):

- the results are periodically reported to the Operational Risk Division, which supervises data collection on operating losses at Group level;
- in conducting its accounting reviews, Crédit du Nord's Permanent Control Division ensures that all losses are reported to the Group's Operational Risk Division;
- changes and the breakdown of losses are reported to the Internal Control Coordination Committee and the Board of Directors.

Operational risk identification system and Risk and Control Self-Assessment (RCSA)

The RCSA serves to identify operational risk factors at each Group entity at the registered office, subsidiary and operating network levels, and to ensure the efficiency or expand on the prevention and reduction of risk factors uncovered. In addition, Crédit du Nord is part of the RCSA by process (Societe Generale Group's "Best" project): 44 processes or sub-processes have been reviewed and subject to oversight since 2016 (individual customer onboarding, home loan approval, preparation of the consolidated and individual financial statements, liquid and illiquid savings, advising/selling financial investments, processing outgoing credit transfers, etc.).

Finally, the RCSA focuses specifically on the results of the risk profiles of certain entities at meetings of the Group Internal Control and Coordination Committee; in 2018, DITC-DTC-DOTC and DIDRH presented these components of their risk profiles.

Key Risk Indicators (KRIs)

The Operational Risk oversight system is rounded out by monitoring KRIs, used to generate upstream alerts on future operational risks, while regularly reporting on trends and changes in KRIs. Key Risk Indicators are monitored and presented to the Group oversight body at meetings of the Internal Control and Coordination Committee.

Scenario Analyses (SAs)

SAs are conducted to keep the Group informed of potentially high-risk factors, where it is exposed to rare but high-severity events.

The SAs performed by Crédit du Nord are part of the scenario analyses of the French Retail Banking Network and mainly address risk factors related to:

- disputes with the authorities: tax adjustments/ regulated savings;
- fraud and other criminal activities: raid on a vault;
- commercial disputes: poor advice;
- IT system interruption: unavailability of French Retail Banking workstations (any network brand).

Crédit du Nord is also part of the cross-business SAs conducted by Societe General Group (information system security with "widespread viral attack", loss of operating resources with "100-year flood", "Destruction of an IT operating centre" and "Failure of a Major service provider").

Permanent control

In conducting its accounting reviews, Crédit du Nord's Permanent Control Division ensures that all losses are reported to the Group's Operational Risk Division.

Permanent Control uses a software application (GPS) to store quantitative and qualitative data on its work, reported quarterly at meetings of the ICCC to review the progress achieved on its control plans and its overall assessment of risk factors in the operating network.

Permanent Control receives the results of the RCSA and, in conjunction with the Operational Risk Division and General Management, recommends changes to the control process covering high-risk areas if necessary. Furthermore, for the purpose of monitoring incidents, Permanent Control is responsible for centralising information on areas of vulnerability (any event, excluding counterparty risk, liable to generate a loss of more than €10,000).

It keeps the Operational Risk Division informed on these matters. Significant areas of vulnerability are monitored by the Operational Risk Division, which keeps track of action plans implemented to prevent failures from recurring. Permanent Control and the Operational Risk Division regularly exchange information to make sure the system provides comprehensive coverage.

Combating fraud

The Group Head of Permanent Control is kept informed of internal and external fraud (attempted or proven) by the regional and subsidiary control managers.

He reports to the General Management at meetings of the ICCC:

- For external fraud: on developments in terms of attempted fraud and losses.

For specific events (e.g. new types of fraud or high concentration of fraud), he recommends procedural changes based on areas of vulnerability detected and ensures that these procedures are observed by conducting on-site controls and through frequent communication with the operating network on best practices.

- for internal fraud: on major cases highlighting criminal conduct on the part of employees, and an analysis of changes in affected procedures.

Permanent Control has established various supervision reports, informants and control procedures aimed at detecting unusual transactions or behaviours calling for more extensive analysis. It is kept informed of customer complaints liable to involve one of the Group's employees, and is in charge of investigating special cases involving an employee.

Permanent Control also works with the ITIM (Innovation, Technologies, IT for the business lines) e-fraud unit, which uses Big Data security (SPLUNK) to guard against cybercrime (e.g. detection of Phishing).

Crisis management and business continuity

Crédit du Nord Group's Business Continuity Plans and Crisis Management System are overseen and monitored by Crédit du Nord's Operational Risk Division. The Operational Risk Division in turn relies on Operational Risk Officers designated by each entity at the registered office, network and subsidiary levels, responsible for the operational implementation of their entity's Business Continuity Plan and Crisis Management System, i.e. 25 OR Officers Groupwide.

ITIM has established special teams to monitor the various exercises conducted in relation to Crédit du Nord's IT Back-Up Plan (PSI) by the CDN IS Resilience Oversight Committee (PSI Committee). The exercises/tests performed by GTPS (Global Transaction & Payment Services) on Payment Instruments platforms and tools shared with Crédit du Nord are also presented at PSI Committee meetings.

Furthermore, the Operational Risk Division in charge of Crédit du Nord's Business Continuity Plans/Crisis Management System is a member of the committees associated with Societe Generale Group's Business Continuity Plan & Crisis Management for the French Retail Banking Network (RBDF).

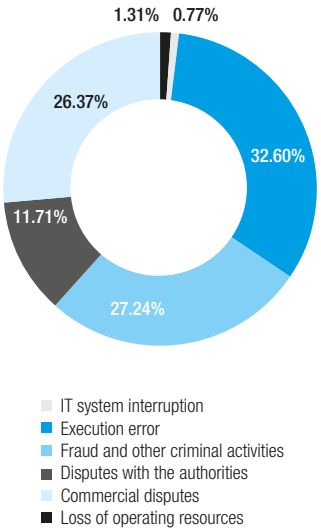
Operational risk modelling

The methodologies used to model and calculate capital requirements for operational risks are defined by Societe Generale.

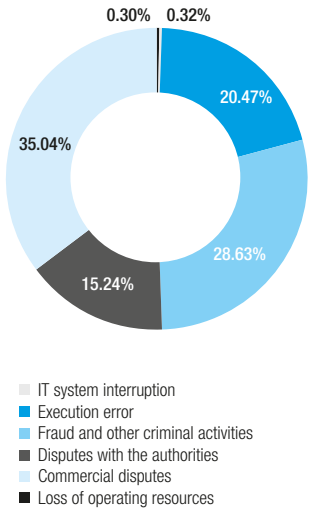
Quantitative data

The charts shown present a breakdown of operating losses by risk category for the period 2014 to 2018 (loss events > €10,000 reported in Group software tool "Caroline").

OPERATIONAL RISK LOSSES: BREAKDOWN BY RISK CATEGORY (NUMBER OF EVENTS)



OPERATIONAL RISK LOSSES: BREAKDOWN BY RISK CATEGORY (VALUE)



Over the past five years, Crédit du Nord Group's operational risks were predominantly linked to four risk categories on average, representing over 99% of the Group's operational risks in value terms:

- **commercial disputes** accounted for 35% in value terms and 26% in terms of number of operating loss events over the period. Note: this category was overweighted due to one incident involving an exceptional amount;
- **fraud and other criminal activities** accounted for 29% in value terms and 27% in terms of number of operating loss events over the period;
- **execution errors** accounted for 20% in value terms and 33% in terms of number of operating loss events over the period.
- **disputes with the authorities** accounted for 15% in value terms and 12% in terms of number of operating loss events over the period, making it the No. 4 category of operating losses.

Two other risk categories, i.e. IT system interruptions and loss of operating resources, etc.) were still fairly insignificant, totalling less than 0.5% in value terms and less than 2% in terms of number of operating loss events for Crédit du Nord Group over the period "Pricing or risk measurement errors" and "Rogue trading" did not generate any losses over the period.

Operational risk insurance

Crédit du Nord Group is covered by the insurance policies taken out by Societe Generale, within the framework of its global operational risk insurance coverage policy.

Capital requirements

Crédit du Nord's capital requirements for operational risk are determined using the advanced measurement approach. The table below presents the Group's operational risk-weighted assets and corresponding capital requirements at December 31, 2018.

TABLE 17: OPERATIONAL RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENTS

	31/12/2018		31/12/2017	
(in €m)	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
French Retail Banking	1,305.8	104.5	1,219.7	97.6
TOTAL	**1,305.8**	**104.5**	**1,219.7**	**97.6**

5.7 Structural interest rate risk

Audited | Structural interest rate risk is defined as the risk of losses on balance sheet items arising from interest rate movements.

Structural exposure to interest rate risk results from commercial transactions and their associated hedging transactions, as well as from corporate centre transactions (primarily capital transactions and investments).

Interest rate risk linked to trading activities is excluded from the structural interest rate risk measurement scope, as it belongs to the category of market risks. Structural and market exposures make up Crédit du Nord Group's total interest rate risk exposure.

The general principle is to reduce positions exposed to structural interest rate risks to the greatest extent possible. Wherever possible, commercial transactions and corporate centre transactions are hedged against interest rate risks, in accordance with management principles and standards, either through macro-hedging under IAS 39 carve-out (hedging of portfolios of similar commercial transactions) or micro-hedging techniques (individual hedging of each commercial transaction). The regular arrangement of adequate hedges helps reduce positions exposed to interest rate risk. Consequently, structural interest rate risks are only incurred on residual positions.

Management of interest rate risk associated with market activities is addressed in the section entitled "Market risks."

Organisation of structural interest rate risk management

Crédit du Nord Group applies the interest rate risk principles and standards defined by Societe Generale Group. As Crédit du Nord Group is responsible for managing its own interest rate risk, it develops models, measures interest rate positions and sets up special-purpose hedges in accordance with the management standards defined by the key shareholder.

The interest rate risk exposure of each legal entity comprising Crédit du Nord Group is monitored centrally by Crédit du Nord parent company.

This centralised management system relies on:

- an **ALM Department**, which measures and oversees interest rate positions for each Group entity. The ALM Department is part of the Finance Management Division and is placed under the authority Crédit du Nord's Chief Financial Officer, who is a member of the Executive Committee;
- **a Treasury Department**, which validates all Group hedging transactions. and is also placed under the authority of Crédit du Nord Group's Chief Financial Officer.

This oversight system is governed by **the following decision-making and supervisory bodies, specific to Crédit du Nord Group**: **the ALM Committee**, chaired by the Chief Executive Officer of Crédit du Nord Group. This committee meets once a month and takes all decisions related to interest rate risk management, based on the associated metrics produced. Crédit du Nord Group's Risk Division is represented on the committee. Representatives of Societe Generale Group's Finance Division and Risk Division also sit on the committee.

This oversight system is also governed by the **key shareholder's oversight and decision-making bodies**:

- the **Structural Risk Oversight Committee**, which monitors production and analysis of interest rate indicators (as well as changes in these indicators between two balance sheet dates) and compliance with established limits. This committee meets quarterly and is chaired by Societe Generale Group's Chief Financial Officer.

- the ALM Department attends meetings of the **Models Committee**, chaired by Societe Generale Group's Finance Division and Risk Division. This committee takes decisions related to ALM modelling. The ALM Department also attends meetings of the **Bank Validation Committee**, chaired by Societe Generale Group's Finance Division. This committee takes decisions on the normative implementation of regulatory texts, in conjunction with representatives of the Societe Generale Group business lines.

From an operational standpoint, this system works as follows:

- oversight targets are defined by Societe Generale Group and adapted to Crédit du Nord Group with the approval of the Group's General Management;
- interest rate indicators are produced and analysed by the ALM Department, then validated by the key shareholder's various decision-making bodies;
- the ALM Department also makes hedging proposals;
- these hedges are approved by the ALM Committee on the basis of the levels of interest rate indicators monitored by the committee;
- the hedges are set up by the Treasury Department.

Structural interest rate risk - measurement and monitoring system

Group objective

The aim of structural interest rate risk oversight is to make sure this risk is managed by reducing the level of the Group's exposure and that of each subsidiary as much as possible through appropriate hedges.

Measurement and monitoring of structural interest rate risk

Crédit du Nord Group primarily measures interest rate risk using **fixed-rate gaps** and **net present value (NPV) sensitivity**.

Interest rate risk arises from mismatches between interest rates on liabilities and assets, which may occur in each period. Fixed-rate gaps reflect fixed-rate liability surpluses or deficits relative to fixed-rate assets at future maturities, which materialise on the basis of "Liabilities-Assets" positions. This indicator is calculated for all on- and off-balance sheet transactions, on which fixed rates are earned or charged by the Central Funding Department. Trading book transactions are not included in the calculation of this indicator. Fixed-rate gaps are produced monthly using an ALM tool.

Assets and liabilities are generally analysed independently, without any a priori matching. Maturities of outstandings are determined by taking into account the contractual characteristics of the transactions or using adopted models and conventions.

To build this indicator, modelling exercises must be performed to incorporate customer behaviours (deposit flights, drawdowns of credit lines, prepayments and renegotiations, etc.). These ALM models are regularly reviewed and back-tested, and are part of the annual ALM review process conducted by Societe Generale Group, which includes a validation of models by the Societe Generale Group Models Committee. New models are also presented at meetings of the ALM Committee prior to implementation, and the associated impacts are measured.

Once the Group has identified the gaps in its fixed rate positions (surplus or deficit), it calculates their sensitivity to interest rate variations. The sensitivity of the fixed-rate gap is the change in the net present value (NPV) due to a +1% shift in the yield curves. This calculation does not include new loans (static NPV). This indicator represents the sensitivity of the balance sheet's economic value to an interest rate variation. The method used to calculate this sensitivity is established by Societe Generale Group.

It is subject to thresholds and limits in EUR and local currencies, defined by the Societe Generale Group Finance Committee. NPV sensitivity is calculated monthly and presented to the ALM Committee. Corrective actions are defined for each threshold breach to avoid exceeding the limit.

Crédit du Nord Group keeps its overall sensitivity, as well as its short-, medium- and long-term sensitivity within established limits. For the purpose of observing these thresholds and limits, Crédit du Nord Group regularly hedges against structural interest rate risk by setting up appropriate hedges to reduce the exposure of the Group's entities to interest rate variations (via interest rate swaps and fixed-rate borrowings in CHF for the CHF position). These hedges cover all Crédit du Nord Group entities. Each entity is individually monitored and its transactions individually hedged.

Crédit du Nord Group's sensitivity limit for an instantaneous parallel shift in the curve of 10 bp (all currencies) is set at +/-€7.5 million and the threshold is set at +/-€6 million.

In addition to these main indicators, Crédit du Nord Group calculates the sensitivity of its net interest income quarterly. These results are given to the key shareholders, but are not subject to thresholds and limits at this point.

Crédit du Nord Group is part of the IRRBB (Interest Rate Risk in the Banking Book) project launched by Societe Generale Group, aimed at meeting regulatory and internal oversight requirements. For the purposes of the project, the methods used to calculate existing indicators are in the process of being standardised (e.g. NII sensitivity) and new interest rate risk oversight indicators are being established.

The following observations can be made with regard to Crédit du Nord's structural interest rate risk:

- all on- and off-balance sheet transactions are match-funded according to their specific characteristics (maturity, interest rate, explicit or implicit options). A model developed by the ALM Department ("notional balance sheet" model) is used to monitor interest rate risk management indicators, in particular a fixed-rate limit, as well as the risks associated with options appearing on the balance sheets of Crédit du Nord Group entities;
- options risk is also subject to regular monitoring and the implementation of appropriate hedges (purchases of caps);
- demand deposits and regulated savings products are subject to specific modelling to lock in medium- and long-term yields. The conservative nature of the models has enabled the Group's banks to maintain their interest margin.

Hedging interest rate risk

In order to manage its exposure to certain market risks, Crédit du Nord Group uses hedges designated as fair value hedges for accounting purposes.

It also manages the exposure of its fixed-rate financial assets and liabilities (mainly loans/borrowings, security issues and fixed-rate securities) to risks of fluctuations in long-term interest rates, by setting up hedges qualified as fair value hedges for accounting purposes, principally using interest rate swaps and caps.

In order for these transactions to qualify as hedges, the Group documents the hedging relationship in detail from inception, specifying the risk hedged, the risk management strategy and the way in which the effectiveness of the relationship will be documented.

The purpose is to avoid the reclassification of hedging derivative portfolios in the accounts to cover the bank against unfavourable variations in the fair value of an item which, as long as the hedging relationship is efficient, has no impact on profit or loss, but could affect it if the item were eliminated from the balance sheet.

Tests are regularly carried out to ascertain the hedging relationship and measure its effectiveness. These tests are both forward-looking and retrospective. The future effectiveness of the hedge is calculated using a sensitivity analysis that integrates probable scenarios for changes in market parameters. Retrospective effectiveness is assessed by comparing the variations in fair value of the hedging instrument with the variations in fair value of the hedged item.

The hedge is deemed effective if changes in the fair value of the hedged item are almost fully offset by the changes in fair value of the hedging instrument, i.e. the ratio between the two changes is in the 80%-125% range (rolling quarter-on-quarter changes).

Effectiveness is measured prospectively each quarter (expected effectiveness over future periods) and retrospectively (actual effectiveness). ▲

Structural foreign exchange risk

Structural foreign exchange risk is not described in detailed, as Crédit du Nord Group's exposure to foreign exchange risk is very limited in light of its activity. Like interest rate risk foreign exchange risk associated with the trading book is not included in the measurement of structural foreign exchange risks, as it belongs to the category of market risks.

Management of foreign exchange risk associated with market activities is addressed in the section entitled "Market risks."

5.8 Liquidity risk

Audited | Liquidity risk is defined as the risk of not being able to meet cash flow or collateral requirements when they fall due and at a reasonable price.

Governance and organisation

Crédit du Nord Group applies the liquidity risk principles and standards defined by Societe Generale Group. As Crédit du Nord Group is responsible for managing its liquidity and complying with regulatory restrictions, it develops its own models, measures its liquidity positions and finances its activities or reinvests surplus cash in accordance with the standards by the key shareholder.

The liquidity risk exposure and funding requirements of each legal Group entity are monitored centrally by Crédit du Nord parent company, which serves as the central funding division for all Group entities.

This centralised management system relies on:

- an **ALM Department**, which measures and oversees interest rate positions for each Group entity. The ALM Department is part of the Finance Management Division and is placed under the authority Crédit du Nord's Chief Financial Officer, who is a member of the Executive Committee;
- **a Treasury Department**, which validates all Group hedging transactions. This department is able to raise cash on the market with a maturity of over one month (Crédit du Nord is also able to draw on Eurosystem refinancing operations). The Treasury Department is also placed under the authority of Crédit du Nord Group's Chief Financial Officer.

This oversight system is governed by **the decision-making and supervisory bodies specific to Crédit du Nord Group**: **the ALM Committee**, chaired by the Chief Executive Officer of Crédit du Nord Group. This committee meets once a month and takes all decisions related to liquidity risk management, based on the associated metrics produced. Crédit du Nord Group's Risk Division is represented on the committee. Representatives of Societe Generale Group's Finance Division and Risk Division also sit on the committee.

This oversight system is also governed by the **key shareholder's oversight and decision-making bodies**:

- the ALM Department monitors the production and analysis of liquidity indicators through various committees (Monthly LCR Validation Committee, Quarterly NSFR Validation Committee, Monthly Overview Committee), and presents this work to Societe Generale Group's Finance Division and Risk Division

- Crédit du Nord Group's ALM Department and Treasury Departments and Societe Generale Group's Finance Division perform monthly progress reviews;
- the ALM Department attends meetings of the **Models Committee**, chaired by Societe Generale's Finance Division and risk Division. This committee takes decisions related to ALM modelling. The ALM Department also attends meetings of the **Bank Validation Committee**, under the responsibility of Societe Generale Group's Finance Division. This committee takes decisions on the normative implementation of regulatory texts, in conjunction with representatives of the Societe Generale Group business lines.

From an operational standpoint, this system works as follows:

- oversight targets are defined by Societe Generale Group and adapted to Crédit du Nord Group with the approval of the Group's General Management;
- interest rate indicators are produced and analysed by the ALM Department, then validated by the key shareholder's various decision-making bodies;
- the ALM Department also makes refinancing operation proposals;
- these operations are approved by the ALM Committee on the basis of the levels of liquidity indicators monitored by the committee;
- the hedges are set up by the Treasury Department.

Liquidity risk measurement system

Crédit du Nord Group measures and oversees liquidity risk and funding requirements using **liquidity gaps** (static and stressed) and **regulatory liquidity ratios** (LCR/NSFR).

Liquidity risk arises from mismatches between liabilities and assets, which may occur in each period. Liquidity gaps reflect inadequate liabilities relative to assets, which materialise on the basis of "Liabilities-Assets" positions, at various maturities. Mismatched maturities between cash outflows and inflows are calculated monthly for all on- and off-balance sheet items, using an ALM tool.

To build liquidity gaps, modelling exercises must be performed to incorporate customer behaviours (deposit flights, drawdowns of credit lines, prepayments and renegotiations, etc.). These ALM models are regularly reviewed and back-tested, and are part of the annual ALM review process conducted by Societe Generale Group, which includes a validation of models by the Societe Generale Group Models Committee. New models are also presented at meetings of the ALM Committee prior to implementation, and the associated impacts are measured.

Funding requirements or surpluses measured by static liquidity gaps (not including new loans) have been subject to limits and thresholds defined by the Societe Generale Finance Committee since 2013. Any limit breaches are subject to corrective actions. Crédit du Nord Group observes established limits and thresholds.

In addition, Crédit du Nord Group has been required to disclose the liquidity ratios defined by Basel 3/CRD4 since mid-2014. The ALM Department is currently responsible for producing and analysing the CRD4 liquidity ratios (LCR and NSFR) of Crédit du Nord Group and the liquidity sub-group(1). The LCR is submitted monthly and the NSFR quarterly to the ACPR, in accordance with regulatory requirements.

(1) In accordance with regulatory provisions, regulatory liquidity ratios are not determined for each legal entity, but rather for a broader scope including Crédit du Nord parent company, seven banking subsidiaries and brokerage firm Gilbert Dupont, which are referred to as the "liquidity sub-group."

Since October 1, 2015, after the liquidity sub-group was established, Crédit du Nord Group has been required to disclose the LCR for two scopes of consolidation (the Crédit du Nord sub-group and the Crédit du Nord Group [regulatory scope]). The liquidity sub-group exempts the individually subject solo entities of the sub-group from the ratio requirement (monthly reporting and establishment of a liquid asset buffer in respect of the minimum ratio).

The ALM unit is also in charge of oversight and projections of the LCR. Responsibility for overseeing Crédit du Nord Group's LCR is shared with the Treasury Department for the purpose of implementing the necessary actions. These items are discussed by the ALM Committee.

Crédit du Nord Group has no problem meeting its funding needs. It holds diversified customer deposits (on-balance sheet deposits), which make up a significant share of its short-, medium- and long-term resources. It is also able to raise funds on the market. Funding requirements are also incorporated in Crédit du Nord Group's collateral management strategy in the interest of optimising the bank's refinancing costs. ▲

Liquidity reserve

Crédit du Nord Group's liquidity reserve encompasses cash at central banks and assets that can be used to cover liquidity outflows under a stress scenario. The reserve assets are available, i.e. not used in guarantee or as collateral on any transaction.

The liquidity reserve includes:

- cash in banks;
- central bank deposits, less mandatory reserves;
- High-Quality Liquid Assets (HQLAs), which are securities that are quickly transferable on the market via sale or repurchase transactions. These mainly include government bonds and units of funds issued by Lyxor, a subsidiary of Societe Generale Group. These HQLA securities meet the eligibility criteria for the LCR as defined by regulations.

Crédit du Nord Group can also make an additional drawdown on Eurosystem refinancing operations in respect of the 3G Pool (mainly by mobilising private debt or non-HQLA securities).

The HQLA portfolio is structured in accordance with Societe Generale Group directives and consists predominantly of very highly rated sovereign bonds. Crédit du Nord Group's exposures to different counterparties fall within the limits set by Societe Generale Group.

Regulatory ratios

The Basel Committee recommends the international implementation of two standard ratios with harmonised parameters, to regulate bank liquidity risk profiles:

- the Liquidity Coverage Ratio (LCR) aims to ensure that banks hold sufficient liquid assets or cash to survive a significant stress scenario combining a market crisis and a specific crisis and lasting for one month. At the request of the Basel Committee, this ratio entered into force on January 1, 2015. The minimum LCR requirement at October 1, 2015 was 60% and will gradually be increased to 100% by January 1, 2018.
- the Net Stable Funding Ratio (NSFR) is a transformation ratio and compares funding needs with stable resources over a one-year period. The implementation date for this ratio is not known at this time; according to market estimates, it should fully enter into force in 2021.

Crédit du Nord Group draws on the work conducted by Societe Generale Group with the aim of transposing Basel, then European, regulations and implementing them through oversight standards applied throughout Societe Generale Group.

Crédit du Nord Group's LCR is over 100%, with a comfortable safety margin above the regulatory minimum, underscoring the Group's sound management, and particularly its ability to withstand a one-month liquidity crisis.

Crédit du Nord Group's NSFR is also above 100%. This indicator limits the bank's transformation capacity by encouraging it to fund its operations with structurally stable resources.

Disclosures on asset encumbrance

Template A - Assets

		31/12/2018			
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090	
010	**Assets of the reporting institution**	**13,502.9**		**57,188.1**	
030	Equity instruments	-	-	255.5	255.5
040	Debt securities	1,208.0	1,208.0	3,183.6	3,183.6
120	Other assets	-		3,420.5	

Template B - Collateral

		31/12/2018	
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**-**	**-**
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	**Own debt securities issued, other than own covered bonds or ABS**	**-**	**-**

Template C - Sources of encumbrance

		31/12/2018	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**10,891.4**	**13,502.9**

Template D - Information on importance of encumbrance

Encumbered assets are primarily receivables. Use of receivables (loans to business and individual customers) and also securities used as collateral in refinancing operations are an additional source of liquidity contributions for the Group, in addition to deposits and market resources predominantly obtained through the issuance of non-collateralised debt. They are used in secured financing operations on local or international markets, within the framework of the ECB monetary policy (TLTRO) or via covered bonds (SG SFH).

5.9 Non-compliance, reputational and legal risks

Compliance

Compliance means to act in accordance with the applicable banking and financial rules, ranging from laws and regulations to professional and ethical principles or standards, to internal standards.

Fairness to clients and, in more general terms, integrity in banking and financial practices contribute decisively to the reputation of our organisation.

By ensuring that these rules are observed, Crédit du Nord Group works to protect its customers and, in general, all of its counterparties and employees, as well as the regulatory authorities.

Compliance system

Independent compliance structures have been set up within Crédit du Nord Group's different businesses in order to identify and prevent any risks of non-compliance.

The Corporate Secretary is responsible for Crédit du Nord Group's compliance and reports functionally to the Societe General Group Compliance Division. He is assisted in his duties by the Deputy Chief Compliance Officer, who holds authority over Crédit du Nord Group's Compliance Division.

At Crédit du Nord and in each corporate entity of the Group governed by banking and financial regulations, there is a Chief Compliance Officer whose name is transmitted to the French Prudential Supervisory and Resolution Authority. An Investment Services Compliance Officer (RCSI), who holds the professional card issued by the AMF, is responsible for compliance with regulations pertaining to investment services at Crédit du Nord and at each of its banking subsidiaries.

Crédit du Nord's Chief Compliance Officer reports to the executive body, and particularly to the Internal Control Coordination Committee, whenever necessary. He also serves as liaison to the Compliance Committee of Societe Generale Group, and particularly the Head of Compliance for French Retail Banking.

He is responsible for:

- ensuring the effectiveness and consistency of the organisation and procedures relating to compliance;
- identifying new risks related to non-compliance and ensuring that the necessary measures are taken to control them;
- monitoring the deficiencies identified via the Group's incident reporting system and assessing the effectiveness of corrective measures.

Crédit du Nord Group's Management Committee, on which the heads of the main subsidiaries sit, periodically reviews compliance issues.

Before being launched, all new products and key product transformations are subject to an examination by the Products Committee, in which the Head of Compliance, the RCSI, the Head of Marketing, the Corporate Secretary and the Head of the Central Risk Division participate. The Committee's validation is reviewed beforehand by the Head of Compliance, who also examines and validates internal instructions and sales documents related to new products.

Management and the internal control teams are responsible for controlling compliance.

Compliance Officers ensure that all employees receive the necessary directives on complying with regulations. They also see to it that appropriate compliance training programmes are in place.

As of 2017, Regional Compliance Officers are appointed to support them, reporting directly to the Compliance Division and primarily responsible for helping roll out Crédit du Nord Group's compliance systems by coordinating and overseeing these systems at each of the entities under their supervision, and helping to strengthen employee compliance culture.

Finally, internal guidelines set forth the rules applicable to outsourced banking and financial services. Qualified essential services are subject to special monitoring, under the joint supervision of the Compliance and Operational Risk departments.

Compliance Division

The Compliance Division verifies that all compliance rules and principles applicable to the banking and investment services activities of the Group and its subsidiaries are observed, and that all staff respect codes of good conduct and individual compliance. It also monitors the prevention of reputational risk. It also provides expertise for the Group and conducts controls at the highest level.

As an integral part of Societe Generale Group's compliance function, it oversees the application of principles set forth in Societe Generale Group's normative documentation. Some of the tools it uses are Societe Generale Group pooled solutions (sanction filters, etc.). A number of projects are currently under way in various fields, with the aim of converging tools and processes (financial investment advisory services, prevention of money laundering, etc.).

The Compliance Division is made up of three departments:

- the **Financial Security Department**: prevention of money laundering and terrorist financing; embargoes and sanctions. The Financial Security Department submits suspicious activity reports to TRACFIN for all of Crédit du Nord Group (a directly reporting entity);
- the **Banking Compliance Department**: customer protection, ethics, regulatory watch, support and validation of functional divisions (products, agreements/partnerships, processes), relations with the ACPR and ECB, regulatory reports, oversight of customer complaints and banking compliance incidents;
- the **Investment Services Compliance Department:** regulatory watch, validation of the compliance of investment products and services, coordination of subsidiary RCSI activity, supervision of the market abuse alert system, AMF relations and regulatory reports, ethics and conflicts of interest related to investment services, Level 2 controls of market activities and investment services (the other two departments having delegated Level 2 controls within their remit to the Permanent Control unit that performs controls of the central divisions and in the Crédit du Nord network.

With the entry into force of the European General Data Protection Regulation (GDPR) on May 25, 2018, a Data Protection Officer was appointed for Crédit du Nord Group as required by the regulation. The DPO reports directly to the Deputy Head of Compliance and is in charge of compliance in terms of personal data protection.

The Chief Compliance Officer and Deputy Chief Compliance Officer participate in the Management Committee as well as the Incident Oversight Committee organised by the Head of Compliance for French Retail Banking, which reviews the most significant incidents observed over the period, the highlights and main corrective actions undertaken on compliance issues, and current topics. The Crédit du Nord Group Compliance Committee (COMCO) meets on a quarterly basis.

Finally, Crédit du Nord Group's Compliance Division is helping to roll out the compliance function's transformation programme launched by Societe Generale Group over the 2015-2018 period and is monitoring its implementation within its scope (strengthening of governance and resources, implementation of various projects, changes in tools, processes, training and awareness-raising, etc.).

Risks and disputes

Crédit du Nord Group is not currently involved in any material litigation.

5.10 Risk Appetite

Risk appetite is defined as the level of risk Crédit du Nord Group is willing to assume in its efforts to achieve its strategic goals. Risk appetite is subject to objectives defined by Societe Generale Group and is operationally implemented across Crédit du Nord Group. Risk appetite principles are described in the Risk Appetite Framework.

Governance

The Board of Directors approves risk appetite for Crédit du Nord Group, as proposed by the General Management. The Risk Division and Finance Division prepare the definition of risk appetite, while also monitoring and verifying its implementation Groupwide. The Inspector General periodically assesses the effectiveness of the risk appetite implementation system.

Establishment and implementation of risk appetite

Risk appetite is established and implemented as follows:

- all material risks incurred by Crédit du Nord Group are mapped out once a year;
- a forward-looking assessment is conducted on the Group's profitability and solvency under a central scenario and a stressed scenario covering a four-year period.
- proposals are made for Crédit du Nord Group risk appetite limits and targets, in line with the budget processes.

Crédit du Nord Group's risk appetite is formalised in a document that sets out the major balances, policies, targets, limits and thresholds governing the institution's risk profile.

These metrics are used to:

- comply, with a sufficient safety buffer, with the regulatory obligations applicable to Crédit du Nord Group, including in particular regulatory solvency, leverage and liquidity ratios, while reasonably anticipating the implementation of new regulations.
- ensure, via a safety buffer, that the Group is sufficiently resilient in stress scenarios (stresses standardised by regulators or stresses defined under an internal Crédit du Nord Group processes).

Corporate Social Responsibility (CSR)

6

A new regulation offering Crédit du Nord the opportunity to develop its CSR ambition ____ 304

6.1 A business model that sets CSR as the foundation of the company's transformation programme ____ 305

6.1.1 Activity 305
6.1.1.1 Generation of the profit margin 305
6.1.1.2. Customer bases by market 306
6.1.1.3. Competitive positioning 307

6.1.2 Internal structure and resources 308
6.1.2.1 Branch locations 308
6.1.2.2 Internal resources 309

6.1.3 Corporate culture 310
6.1.3.1 Business model: close relations, transparency, responsiveness, mobility, simplicity 310
6.1.3.2 Values: Responsibility, engagement, team spirit, innovation 310

6.1.4 Transformation strategy centred on CSR 311
6.1.4.1 Key trends and factors likely to have an influence on the future 311
6.1.4.2 Corporate aim 311
6.1.4.3 New CSR strategy 314

6.2 Non-financial risk policy for sustainable management of the business ____ 317

6.2.1 Main non-financial risks and opportunities associated with the business 317
6.2.1.1 Methodology and governance 317
6.2.1.2 Main risks and opportunities identified 319

6.2.2 Conducting its business ethically and responsibly 321
6.2.2.1 A cornerstone of compliance (culture, conduct and governance) 321
6.2.2.2 Being a responsible and innovative employer for current employees and future talent 326
6.2.2.3 Customer satisfaction 336

6.2.3 Showing solidarity with the regions 338
6.2.3.1 Responsible sourcing policy 338
6.2.3.2 Support for regional economic development 340
6.2.3.3 Societal engagement 344

6.2.4 Supporting the energy transition 345
6.2.4.1 Development of sustainable, positive-impact finance 345
6.3.4.2 Internal environmental policy 347

6.3 Independent auditor's report on the consolidated non-financial information disclosed in the Management Report ____ 354

A new regulation offering Crédit du Nord the opportunity to develop its CSR ambition

Article 225 of French Act 2010-788 of July 12, 2010 setting out a national commitment for the environment ("Grenelle II Act") and Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 require the disclosure of non-financial, social and environmental information in the Management Report.

In accordance with the provisions of Article L. 225-102-1 of the French Commercial Code, Order No. 2017-1180 of 19/07/2017 and Decree No. 2017-1265 of 9/8/2017, which transposed the European Directive of 22/10/2014 into French law, only Societe Generale Group (which establishes the consolidated financial statements) is required to consolidate and publish non-financial information.

However, in addition to its regulatory obligations, Crédit du Nord Group made the voluntary decision to disclose non-financial information in its own report in light of the structure, governance and degree of maturity of CSR throughout the Group, and in accordance with the Agir 3.0 transformation programme.

Crédit du Nord Group accounts for approximately 8% of Societe Generale's NBI and 5% of its headcount.

The information presented in this report is based on the contributions of an internal network of CSR officers, in accordance with Societe Generale's CSR reporting protocol, using the "Planethic Reporting" tool for the standardised collection of indicators. Environmental data are reported over a rolling 12-month period (October 2017 - September 2018) and social, sponsorship and business line data cover the calendar year.

The CSR data and indicator collection process is coordinated by the Corporate Secretary's Office of Crédit du Nord. It is reviewed and optimised each year with all of Societe Generale Group's CSR entities.

The entities (Crédit du Nord with its central office buildings, its regions and its 7 banking subsidiaries) that report in "Planethic Reporting" represent virtually all of Crédit du Nord Group's consolidated NBI. Only the non-banking subsidiaries are excluded from this report (2.4% of Group NBI in 2018).

6.1 A business model that sets CSR as the foundation of the company's transformation programme

Crédit du Nord Group works towards sustainable development by exercising its Corporate Social Responsibility (CSR), which is generally implemented by incorporating the following in the conduct of its activities:

- the economic, social and environmental stakes and impacts of its activities;
- the expectations and needs of its various stakeholders.

6.1.1 Activity

Crédit du Nord Group targets sustainable development in a diversified and balanced retail banking model aimed at maintaining long-term relations built on mutual trust with its customers. The Group centres its strategy on Corporate Social Responsibility and places great importance on its reputation.

6.1.1.1 Generation of the profit margin

Crédit du Nord Group targets sustainable, consistent profitability based on a robust financial profile, while seeking in particular to maintain sufficient safety buffers in terms of liquidity risk and strictly managing its structural risks (interest rate, foreign exchange, etc.).

Its banking activity is measured by **Net Banking Income (NBI)**, which represents the difference between operating income and expenses arising from all financing activities.

Net interest income is calculated as the difference between deposit costs and the margin on loans. **Net interest income**, resulting from the Bank's lending activity plus banking and financial product fees (representing revenues from advisory services and various transactions with customers), are the two main components of its proceeds.

Net interest income depends directly on outstanding loans, which are correlated with economic conditions (rise in volumes stemming from increased activity, housing, corporate cash holdings, etc.). Accordingly, it is critical for our credit institution to determine its vulnerability to economic conditions and interest rate movements.

In volume terms, earnings from its lending activity currently make up 53% of the Group's **proceeds** (NBI), with the rest generated by fees.

The Group focuses on creating lasting, long-term value for all stakeholders (suitable products and services). To that end, it assists its customers by:

- offering to finance their projects (consumer loans, home loans). Financial earnings are detailed in Chapter 3 "Management Report" of the Registration Document, which notably addresses consumer and home loans;
- helping them build up savings and wealth (management of their cash holdings and payment instruments);
- advising them and protecting them in their activities (insurance, data protection, etc.).

The Group is developing its expertise with **professional and corporate customers**, which currently make up nearly two-thirds of its revenues, and with affluent customers.

In terms of segregation of banking activities, the Group does not conduct any proprietary trading transactions; the market activities conducted at Crédit du Nord by the Treasury and Foreign Exchange Division are exercised exclusively in the interests of the Group's customers.

Insurance activity accounts for 2% of total Group NBI.

In general, Crédit du Nord and its **specialist advisors** support local communities in their day-to-day needs and their plans for the future with products and services tailored to their individual needs. Crédit du Nord Group works to finance the local economy, as evidenced by the substantial increase in its outstanding loans (outstandings at end-2018: €39.1 billion, up +4.3% vs. end-2017): a solid performance in **credit facilities** granted to Professional and Corporate Customers, with nearly €4.4 billion disbursed as equipment loans or finance leases in 2018, up +4.9% compared to 2017.

This momentum drove outstanding loans to Corporate Customers up sharply, totalling €14.4 billion. Year-on-year **outstandings** were up +8.6% (including +9.3% in MLT loans).

6.1.1.2. Customer bases by market

Data on customer bases by market are developed in Chapter 3 “Management Report” of this Registration Document.

Crédit du Nord Group’s employees and network of branches serve over 2 million customers throughout France.

Customer Base		Individual customers [2]	Professional customers [3]	Corporate customers [4]	Institutional customers [5]	Associations [5]
2018 Total - Crédit du Nord Group [1]		**1,965,772**	**159,321**	**42,908**	**4,250**	**19,093**
Crédit du Nord	Nord-Ouest (Northwestern France)	249,681	15,767	4,562	451	2,400
	Nord de France (Northern France)	478,211	22,074	4,611	628	3,915
	Ile-de-France and Loiret + DRE	261,085	25,976	7,610	1,088	2,054
	Monaco	3,404	484	277	12	27
Banque Courtois		157,071	15,061	3,362	367	1,621
Banque Kolb		65,330	6,031	3,325	126	547
Banque Laydernier		90,491	8,069	1,512	239	1,088
Banque Nuger		31,574	4,135	963	60	480
Banque Rhône-Alpes		143,527	13,643	4,438	273	1,445
Banque Tarneaud		129,924	11,613	4,067	302	1,555
Société Marseillaise de Crédit		355,474	36,468	7,987	704	3,960

(1) New database.
(2) Active customers by propagation and inactive customers owning banking products and services.
(3) Active customers, excluding customers also using the Group for personal banking needs, professional customers only.
(4) Active customers excluding the “bank” business category.
(5) Active customers, not including property owners’ associations.

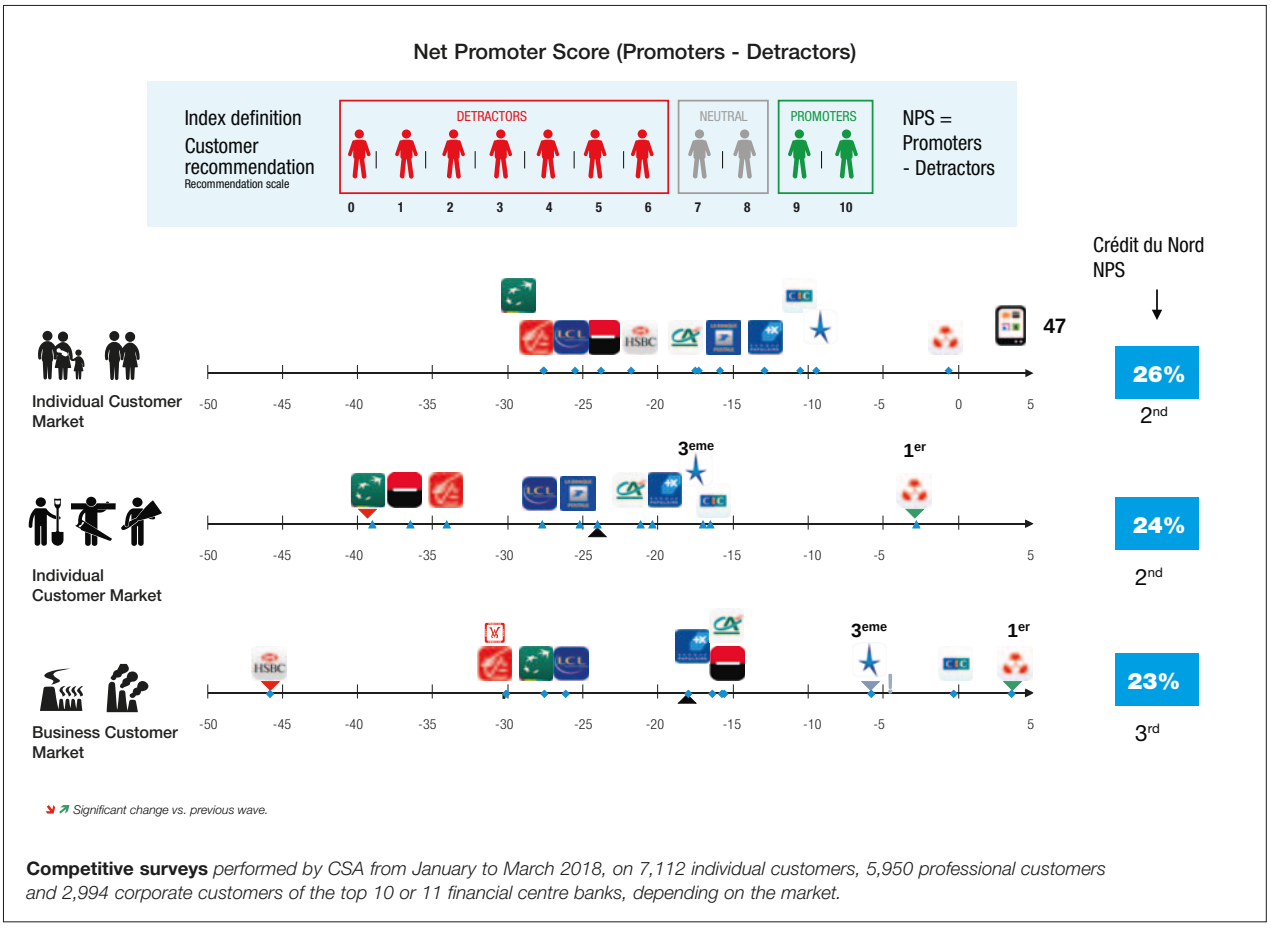
The core target is the “Premium” customer segment, which includes intermediate-sized enterprises, SMEs, professional customers, individual Private Banking customers, Wealthy Customers and High-End Customers.

Totalling more than 1,800,000, **Individual Customers** represent the majority of the Group’s customers by number. The **Professional Customers** market comprises 238,000 customers enjoying close relations with the Group. Crédit du Nord Group does business with around 59,000 associations (including property owners’ associations. It boasts 43,000 active corporate customers and nearly 4,300 institutional organisations and major associations.

6.1.1.3. Competitive positioning

Each year, Crédit du Nord Group calls on independent firm CSA to conduct a competitive customer satisfaction survey including a Net Promoter Score. The surveys are performed on the Individual, Professional and Corporate Customers of the top 10 or 11 financial centre banks, depending on the market.

Crédit du Nord Group systematically ranks in the Top 3 banks in terms of customer recommendations.



Competitive surveys *performed by CSA from January to March 2018, on 7,112 individual customers, 5,950 professional customers and 2,994 corporate customers of the top 10 or 11 financial centre banks, depending on the market.*

6.1.2 Internal structure and resources

6.1.2.1 Branch locations

Crédit du Nord is both a network of branches and a holding company consisting of 8 subsidiaries with extensive roots in their regions: Courtois, Kolb, Laydernier, Nuger, Rhône-Alpes, Tarneaud, Société Marseillaise de Crédit and Crédit du Nord.

Crédit du Nord Group

Breakdown of branches by region and regional banks at December 31, 2018

Geographic region	Crédit du Nord					Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	Total Crédit du Nord Group
Region/ Subsidiary	Ile de France	Nord de France	Nord Ouest	D.R.E	Monaco	Toulouse	Nancy	Annecy	Clermont-Ferrand	Lyon	Limoges	Marseille	
Branch	117	128	101	13	1	6	41	45	21	77	67	149	**836**

Local populations and communities

Crédit du Nord and its regional banks have developed a relationship-focused banking strategy rooted in close relations, professionalism and innovation across all retail banking markets in France.

Jobs and regional development

Crédit du Nord Group was established through the combination of nearly 80 regional banks that have been pooling their respective strengths and talents for more than 160 years.

Crédit du Nord Group customers enjoy the benefits of a regional bank on a human scale as well as those of a nationwide group.

The eight Crédit du Nord Group banks are independent in the management of their activities, ensuring rapid decision-making and the capability to quickly meet their customers' needs. Their strategy is centred on three core aims:

- to be a leading example in terms of the quality of its customer relationships;
- to develop a high degree of individual and collective professionalism;
- to offer their customers state-of-the-art services and technologies.

The quality and strength of Crédit du Nord Group's regional bank earnings is recognised by the market and underscored by the long-term rating of "A" awarded by Standard & Poor's and Fitch.

Customer satisfaction and financing the economy are the core objectives of the banking model adopted by the eight Crédit du Nord Group banks, which draw strength from their **regional roots** to play a leading role in the **development of the regions**. The Group provides jobs to **local economies**, supports the creation and development of businesses and supplies backing for their projects. Independent directors on the Boards of the eight regional banks are naturally local pillars of the community: presidents of the Chamber of Commerce and Industry, athletics clubs, and heads of well-known companies.

6.1.2.2 Internal resources

At December 31, 2018, Crédit du Nord Group posted a headcount of 8,459 employees (vs. 8,585 in 2017) (permanent contracts, fixed-term contracts, active or on limited term contracts).

Headcount by Bank/job and advisors by market

Job	Market	Number of employees
Customer Relationship Manager (CRM)	Individual Customers	661
Private Banking CRM	Individual Customers	1,108
Private Banking/Professional CRM	Individual Customers	188
Sub-Total Individual Customers market		**1,957**
Professional CRM	Professional Customers	775
Professional/Independent CRM	Professional Customers	93
VSE Account Manager	Professional Customers	60
Wealth Management CRM	Professional Customers	212
Sub-Total Professional Customers market		**1,140**
Corporate CRM	Corporate Customers	294
Institutional CRM	Corporate Customers	31
Corporate Account Manager	Corporate Customers	320
Sub-Total Corporate Customers market		**645**
Market total		**3742**

6.1.3 Corporate culture

Crédit du Nord continues to develop its original model of local and digital banking, with a special focus on professional and corporate customers, consistently targeting customer satisfaction.

By acting locally, the Group is able to build relationships founded on trust over the long term and contribute to the economic development of all enterprising customers in the regions.

This unique stance is what drives the strength of Crédit du Nord Group, which is determined to make that strength the foundation of its future development.

In an effort to simultaneously maximise customer satisfaction and economic performance, Crédit du Nord has set a goal of prioritising the needs of the most complex customers that require all of its financial and relationship banking expertise.

6.1.3.1 Business model: close relations, transparency, responsiveness, mobility, simplicity

The characteristics that best represent Crédit du Nord and inform its business model are:

- **close relations:**
  - each customer is first and foremost the customer of one of the Group's regional banks,
  - all customers managed at our branches are served by a dedicated and available advisor,
  - customers are never automatically redirected to a switchboard;
- **transparency:** each decision taken is clearly explained to the customer;
- **responsiveness:** the close relationship established with each customer makes the decision-making process expedient, and the Group guarantees that customers will receive an answer to their request within the day;
- **mobility:** the Group is constantly investing in digital solutions (staff equipped with tablets and wifi, etc.);
- **simplicity:** products that are easy to understand and use, and the option for customers to choose their own pin code.

6.1.3.2 Values: Responsibility, engagement, team spirit, innovation

In order to set the example in relationship banking, all Crédit du Nord Group employees uphold the same four major values on a daily basis:

Team spirit

Team spirit to focus their energy and talent on serving the needs of the community.

Engagement

Engagement to fuel the Group's vision and strategy and to serve as an example for others by embodying the Group's core values.

Innovation

Innovation to propose new ideas and contribute to the process of change.

Responsibility

Responsibility to act in a courageous and ethical manner.

6.1.4 Transformation strategy centred on CSR

6.1.4.1 Key trends and factors likely to have an influence on the future

The banking industry in France is in the midst of a profound change on the technological, regulatory and socioeconomic fronts. Customer expectations and preferences are changing, competition is growing stronger with emerging online banks, fintechs and neobanks, products are increasingly similar, and balancing the economic equation in a **persistently low interest rate environment** is becoming more difficult.

With the rise of **self-care** and automation as artificial intelligence moves rapidly forward, the relationship between banks and their customers undergoing a radical change. The perception of added value is gradually shifting from fast and efficient processing of everyday transactions to advice and expertise sought at key milestones in the customer's professional and personal life. Meanwhile, the development of crowdfunding is raising the public's expectations in terms of the transparency and social utility of our financing solutions (see the media campaign on how Sustainable Development and Solidarity passbook account deposits are invested).

The e-commerce market is expanding rapidly, with France ranking No. 5 worldwide: Crédit du Nord fully intends to contribute to this momentum.

Unlike neobanks, the customers of our Group want Crédit du Nord to maintain a physical presence on the ground in addition to providing digital tools via an **omnichannel** approach. Now more than ever, Crédit du Nord is taking pains to continuously anticipate and adapt to the multiple uncertainties appearing on the horizon in the midst of today's sociopolitical risks (Brexit, European elections, Yellow Vest movement, etc.), social and economic risks (slowdown in growth, timetable and conditions of interest rate hikes, energy prices, etc.) and environmental risks (climate change, pollution, etc.).

In this ever-changing and unstable environment, generating sustainable and profitable growth by drawing on the strengths of our balanced business model is and will remain our main strategic focus, while never losing sight of what makes our Group different but while also reaffirming our mission of serving society as a whole.

6.1.4.2 Corporate aim

The Agir 3.0 transformation programme is a new extension of the Agir 20.20 plan, which laid the foundation of a new relationship banking model.

The objectives of Agir 3.0 are extensively and ambitiously rethinking the means and methods of the Group's operation in three key areas:

- **relationship banking model: being the bank for enterprising customers**

  The Group's ultimate aim is to encourage, support and drive the spirit of entrepreneurship wherever it is found, giving life to the plans and aspirations of its Corporate, Professional and Individual customers.

- **operating model: being the bank that is there for customers when and where it is needed, in person and through digital channels**

  Crédit du Nord is committed to being on the ground, close to its customers, through agile and digitised ecosystems adaptable to the times, combining reinvented branches, more mobile bankers and experts available at the push of a button, all key contributors to Crédit du Nord's organisation.

- **governance model: being a bank that makes quick decisions**

  Thanks to its regional structure, Crédit du Nord is able to **take quick decisions and action**, with the agility to experiment and adapt. The Group's brands are the hallmark of satisfaction for its customers and a sense of purpose for its employees.

The Group's mission is truly to "**focus all our energy on serving enterprising customers in the regions**" through:

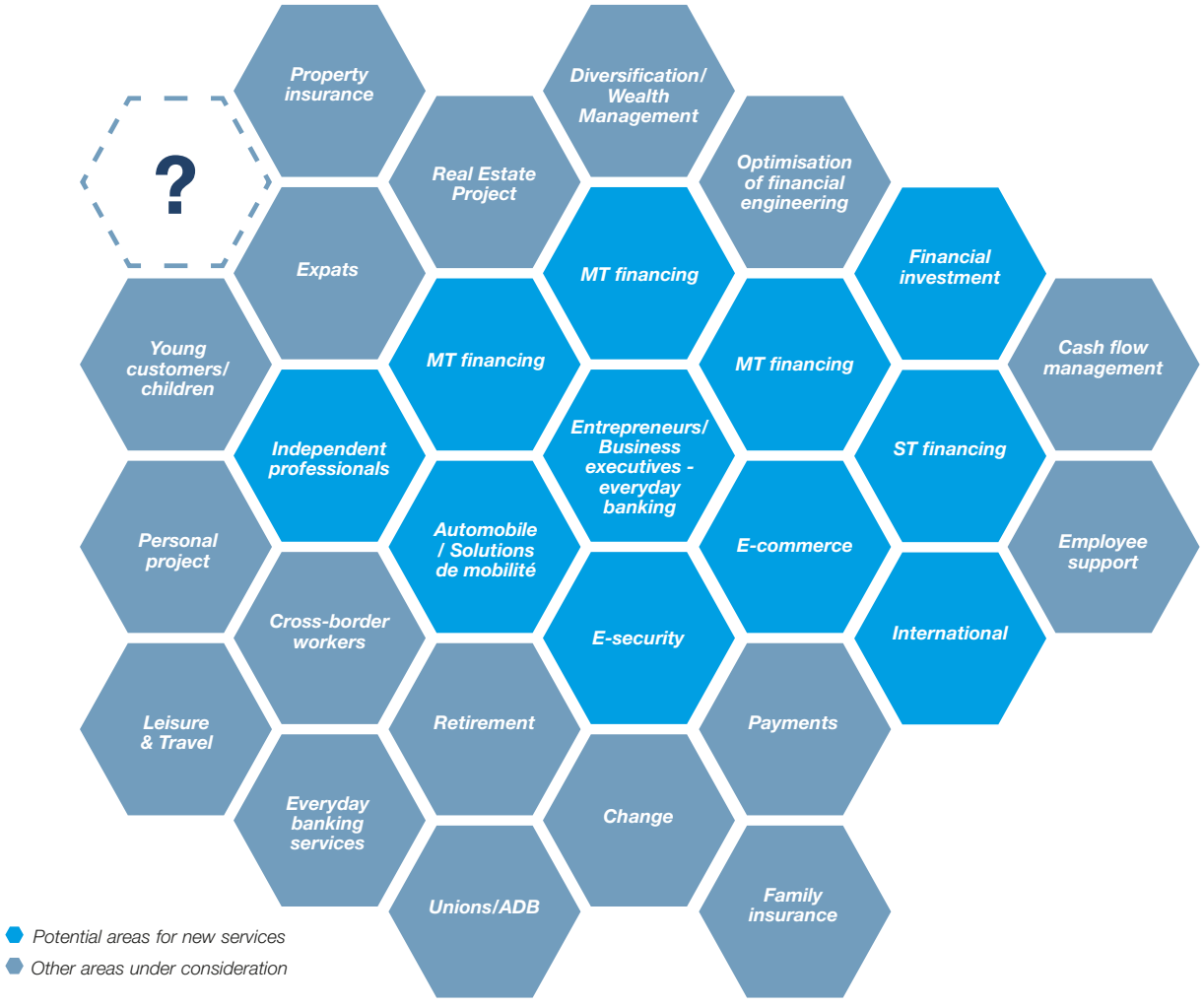
- support for start-ups;
- innovation for local development;
- contribution to new vehicles of mobility.

The transformation programme is guided by five key objectives, which together are divided into more than 20 different projects:

"Banking as a platform"

The bank will expand its offer and sales channels into broad service groups (meeting the entire range of customer needs) and in the future, with selected partners, will be able to sell banking and non-banking services not directly manufactured by the bank itself.

Presentation of 11 selected service groups from the various thematic and "friends and family" oriented service groups



"Banking when and where you need it"

This service group is based on new branch models with already established guidelines:

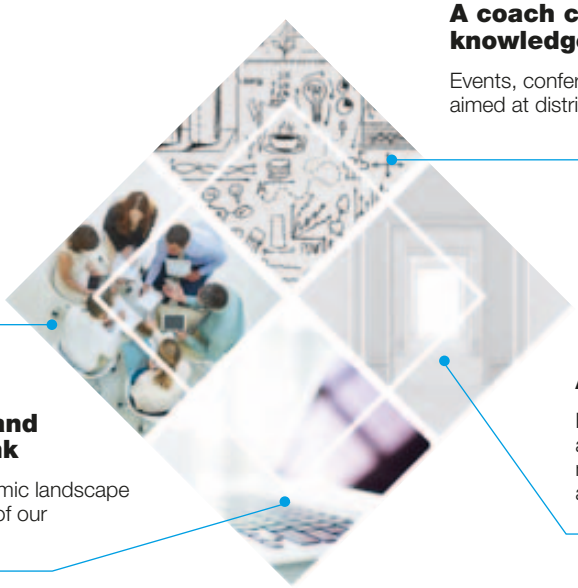
Our guidelines

A coach committed to sharing knowledge:

Events, conferences and services aimed at distributing knowledge.

A Club bank, centred on a core network

serving investing and enterprising customers.



An open bank

Full of life and ready to accommodate the rising mobility of our customers and employees.

A responsible, socially and economically active bank

Integrated in the social and economic landscape to promote the regional expertise of our customers.

In preparing to launch this approach, nearly fifty customers in all three markets were surveyed about their current and future banking practices, while workshops and working groups got employees of the networks and corporate functions involved in designing a catalogue of adaptation modules. This catalogue, currently in progress, will allow local teams to choose from among a variety of options depending on the practices and size of the branch in question. Flagship branches were asked to test the different concepts and adaptation modules.

In addition to physical adjustments, a new organisational model is being implemented in order to free employees from mundane repetitive tasks and to better integrate remote banking solutions and ATMs, giving customers more independence in managing everyday transactions. Advisors will thus be able to focus on tasks that create greater added value for the customer.

This new model is being implemented by simplifying and digitising the entire customer experience, with the threefold objective of customer satisfaction, operational efficiency and risk management. At the same time the Group is investing in big data and artificial intelligence to assist the teams and offer more personalised service to the customer.

Agile and responsible organisation

The bank's strategy is to operate efficiently as a network by maintaining **agile divisions** serving the needs of the Group's regional banks.

The Group also aims to promote a managerial culture encouraging individual responsibility, independence and creativity to ensure collective success. **Appreciative management** as developed among our teams now needs to evolve towards a truly participative management that values each person's contribution.

6.1.4.3 New CSR strategy

Under the Group transformation plan, Agir 3.0, the new CSR strategy is centred on the Group's fundamental purpose: "**Focusing all our energy on serving enterprising customers in the regions**" by making three commitments:

- conducting our business ethically and responsibly with respect for all stakeholders;
- accommodating the energy transition of customers, employees and the company itself;
- showing solidarity with the regions.

Crédit du Nord Group's societal responsibility

1- Conducting our business ethically and responsibly, with respect to all our stakeholders (shareholders, authorities, customers, employees, suppliers, partners, regions).

2- Supporting the energy transition of our customers, employees and Crédit du Nord Group alike.

3- Showing solidarity with the regions:
- by financing local economies;
- through an active sponsorship policy.

Crédit du Nord is dedicated to making the various components of regional development a reality through:

- **economic initiatives**, by providing customers with value-creating financing solutions, advice, products and services tailored to their needs;
- **humanitarian and social initiatives**, by being a responsible and innovative employer that values diversity, and a partner to local institutions and initiatives promoting children's healthcare, integration of our youth and independence of senior citizens;
- **cultural and athletic initiatives**, by implementing an active cultural sponsorship and athletic patronage program at the local level;
- **environmental initiatives**, by reducing the Group's carbon footprint and aiding customers and employees alike in making the energy transition in order to create the conditions for sustainable growth.

This commitment is rooted in governance, ethics and a culture of regulatory compliance and risk management, which are shared by all eight banks of Crédit du Nord Group. Many subsidiaries, as well as the head office, have for years conducted initiatives steeped in this responsible and community-driven awareness (environmental efficiency, local sponsorship, HR policy, etc.). Above and beyond ethics and responsibility, CSR contains an economic pillar whose strategy is devoid of meaning unless it is enacted locally by the Group's different subsidiaries and relayed by the managers. The CSR team is responsible for ensuring that every project undertaken is consistent with its intended purposes.

The Group's goal is therefore to enhance the CSR culture and stance of Crédit du Nord Group in a bid to further improve its social, societal and environmental footprint in the regions.

Each bank adapts its own societal responsibility to its regional environment by setting targets that call on the contribution of employees, customers, partners and providers alike.

The Group's ambition is to support regional entrepreneurship in all its forms, not only through financing (focused in particular on the energy and digital transition) but also through **sponsorship initiatives (cultural, athletic, children's healthcare)** and partnerships with innovative SMEs.

For the CSR strategy to truly succeed, all stakeholders must be satisfied:

- starting with the customers. Next in line, the goal is to conduct banking activities ethically and responsibly. Support for enterprising customers is also based on the funding of initiatives that help combat global warming. €62 million were dedicated to this cause in 2018;
- the **regions** also benefit from the initiatives taken up by the Group. Local communities are enriched by the actions of a responsible bank deeply committed to CSR initiatives, whether they are supporting business creation or sponsoring cultural, social or athletic events. In 2018, the Group paid €1.5 million to associations.

This CSR programme was presented for the first time at **the plenary meeting of the Board of Directors** on October 25, 2018.

CSR roadmap

This new CSR strategy is being implemented in accordance with a four-pronged roadmap:

- incorporating CSR in **the commercial offer**, most notably by developing a range for the entrepreneurs of the third industrial revolution (energy and digital transition);
- pursuing initiatives aimed at **improving the non-banking performance** of the operating model: HR policy, sourcing, energy efficiency, carbon footprint, waste management, etc.;
- establishing **CSR oversight and governance**;
- developing internal and external **communication** on the CSR policy.

The Group is working to define a national framework and ambitions, but each bank is free to develop its own initiatives to help the Group achieve its objectives.

"CSR Development" roadmap for the Agir 3.0 programme

Resources, tools and means to succeed

To bring this new CSR policy to life, the CSR team relies on:

- a national sponsor, who is a member of the Group Management Committee and is responsible for advancing CSR, with accountability to the Group's General Management.
- in each Region, Subsidiary and Division of Crédit du Nord Group, the CSR sponsor is a member of the Management Committee tasked with approving action plans, allocating the necessary budgets and reporting to the Management Committee on progress in CSR initiatives;
- a new network of regional/subsidiary CSR officers. Within their remit, CSR officers are in charge of:
  - defining and implementing a local action plan consistent with the Group's CSR objectives, and reporting on the plan to the sponsor,
  - providing the central CSR team with qualitative and quantitative data needed for the Group's non-financial reporting and oversight,
  - steering internal CSR communication and participating in the CSR digital community in order to propose and share ideas, initiatives and best practices,
  - helping to develop expertise and local culture in CSR,
  - ensuring compliance at the local level with CSR regulatory obligations, in conjunction with the Compliance Division;

A central team working under the Corporate Secretary's Office is in charge of coordinating the network of CSR officers, measuring and steering the Group's non-financial performance, and reporting to Crédit du Nord Group's CSR sponsor, Management Committee and Board of Directors, to Societe Generale Group's CSR Division and to external auditors. The team has an annual budget of €90,000.

In addition, the CSR team uses:

- the Planethic Reporting tool to report CSR indicators;
- a strategic dashboard (in progress) and Key Performance Indicators.

In 2018, Crédit du Nord Group defined a set of non-financial KPIs, presented to the Management Committee in March 2018 and to the Board of Directors on October 25, 2018. They will be implemented in 2019 (for 2018) and monitored by the General Management. The KPIs include the level of CO_2 emissions per employee and the amount of the internal carbon tax.

Key indicators

Commitment	Indicator	2017	2018	Change
Funding the energy transition	Amount of green loans	€52,751,790	**€61,833,000**	17.21%
Solidarity	Amount of sponsorship activity	€2,807,922	**€2,302,098**	-18.01%
	Employment ratio - disabled workers	5.67%	**5.91%**	-0.24%
Energy transition	Average emissions of car fleet	2,698 metric tons of CO_2	**2,684 metric tons of CO_2**	-0.52%
	Carbon footprint	10,997 metric tons of CO_2	**9,907 metric tons of CO_2**	-9.91%
	Paper consumption	1,813.07 metric tons	**1,625.42 metric tons**	-10.35%
	Energy consumption	47,372,358 kWh	**45,275,854 kWh**	-4.43%

Communication

The CSR strategy and new governance have been presented to the various management bodies and introduced through communication events at the head office (Regional Subsidiary Management Committees, head office divisions, HR division, Haussmann Large Institutionals Centre, Legal Division, Corporate Secretary's Office, etc.).

In the interest of disseminating this "CSR culture", the team has created a number of communication tools since early 2018:

- a collaborative internal "CSR community" platform with nearly 480 members;
- an internal CSR logo, for easy visualisation and identification of CSR initiatives;
- a new "CSR" tab on the Group's intranet site that presents the CSR strategy, highlights of the year, commitments, results and best practices;
- an annual calendar of CSR events;
- a CSR e-mail address: rse.cdn@cdn.fr;
- a training kit for CSR officers;
- and, last but not least, a new digital showcase is currently being developed.

6.2 Non-financial risk policy for sustainable management of the business

In the course of conducting its internal activities (proprietary activities), Crédit du Nord strives to responsibly manage its environmental footprint, smaller as it is than that of many industrial corporations.

The Group is dedicated to making its own contribution to the social, environmental and economic advancement of the departments and regions where it operates while meeting the needs of its customers.

6.2.1 Main non-financial risks and opportunities associated with the business

In conducting its business, Crédit du Nord is subject to a series of regulations that lay the foundation for risk management across the Group. In addition to its regulatory obligations, the Group applies processes defined by its parent company, aimed at managing the E&S risks associated with its activities.

6.2.1.1 Methodology and governance

Chapter 5 of the Registration Document details "Risk Factors" by category of risk:

- credit and counterparty risk*;
- market risk;
- operational risks;
- structural interest rate and foreign exchange risks;
- liquidity and funding risk.

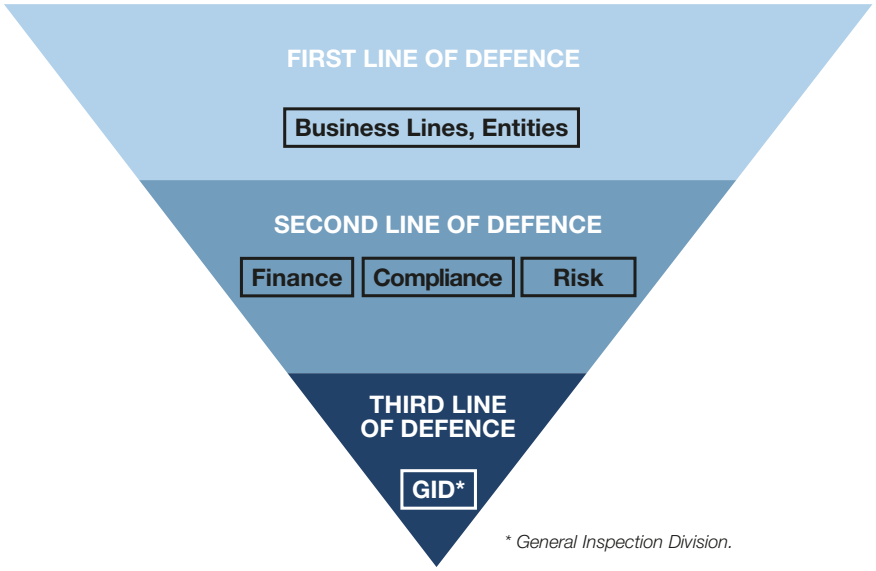
The structure of the main **non-financial risks and opportunities**, in compliance with the new Non-Financial Performance Reporting requirements, was built by identifying the expectations of all **stakeholders** and determining the order of priorities in terms of the Group's sustainable development goals:

* *See the "2018 Risk Management Report – Pillar 3 – 2017" and the Registration Document. Refer to Chapter 4 of the Registration Document for an overview of the various bodies involved in risk management.*

The ultimate aim of this methodology is to create value for stakeholders and support positive transformation in society.

Non-financial risks were mapped out in line with the Group's risk classification system (see Chapter 5 " Risk factors and capital adequacy", directly related to the bank's ordinary activities), **which includes operational risks**; given that the Group's primary vocation is to generate profitable business and offer its stakeholders a profit-making model capable of ensuring its continuous operation, each year Crédit du Nord Group defines its **Risk Appetite**, which then serves as a reference for all Group entities for the purpose of ensuring the Group's sustainable performance. Any failure to observe a given Risk Appetite limit is reported to the **Risk Division**, General Management and the Board of Directors.

Three lines of defence have been created to ensure that Risk Appetite is supervised and observed at all times:



** General Inspection Division.*

Furthermore, with respect to identified risks, Crédit du Nord Group complies with the strictest legal and regulatory provisions governing the banking industry and has no tolerance for misconduct risk.

Non-financial risks are rated low, average, high or very high, based on two criteria - 1) probability of occurrence and 2) the severity and extent of impacts - and using existing tools:

- the Compliance Risk Assessment tool (COMPASS), in accordance with the Societe Generale Group due diligence approach, resting on four pillars (Human Resources and security, sourcing, activities, data protection). CSR risk was included in this assessment for the first time in 2018;
- the advanced measurement approach applied to **operational risks** (mapping out the levels of Inherent Risk and Residual Risk).

The non-financial risks assessment was presented to the Crédit du Nord Corporate Secretary's Office, then to an Independent Third Party.

6.2.1.2 Main risks and opportunities identified

Based on a risk pool of **25 main non-financial risks, three were identified as particularly high-risk**:

- ensuring the **Compliance** (culture, conduct and governance) of Group activities and data protection (customers, providers, etc.);
- being a responsible and innovative **employer**: diversity, gender equality, employability, career/skills management;
- satisfying and protecting **customers**: quality, advice, pricing.

And, to a lesser extent:

- conducting a responsible **sourcing** policy: importance and sustainability of provider relations;
- aiding and supporting **the regions**: showing solidarity with the regions (including the sponsorship policy).

Given the nature of its banking activities exclusively in the French regions, some issues were not considered to be major CSR risks for Crédit du Nord Group (respect for human rights, climate change) and are therefore not further developed in this Management Report.

In reality, **climate change risks**, whether physical (increased frequency of extreme climate-related events) or transitional (new carbon regulations), are not a new category of risk, but rather are identified as **aggravating factors of the Group's existing risks**, and particularly credit and operational risks.

Proprietary environmental policy is not identified by the non-financial risk analysis as a major risk for the Group, which operates solely in the service industry. What is more important is the impact of green financing.

As the insurance activity accounts for only 2% of total NBI, it is not subject to a risk analysis, especially as the risk is borne by the insurance company, for which Crédit du Nord acts as a business introducer.

Crédit du Nord Group built its non-financial strategy by examining the main impacts of its major intrinsic risks, which are described in more detail below, **in line with more than half of the United Nations Sustainable Development Goals** (8 out of 17 SDGs). The risk management policy for each main risk is developed below.

6.2.2 Conducting its business ethically and responsibly

Crédit du Nord Group is a sound, secure and profitable company over the long term that evokes the pride of its employees and the customers who trust it with their business. This achievement is rooted in a culture of compliance, a reputation as a responsible and innovative employer for existing employees and future talent, and a constant quest for customer satisfaction and protection.

6.2.2.1 A cornerstone of compliance (culture, conduct and governance)

Compliance means to act in accordance with applicable banking and financial rules, ranging from laws and regulations to professional and ethical principles or standards, to internal standards.

Because trust is essential in the banking industry, now more than ever it is the Group's responsibility to make integrity the driving force of its strategy.

Fairness to customers and, in more general terms, integrity in banking and financial practices contribute decisively to the Group's reputation.

By ensuring that these rules are observed, Crédit du Nord Group works to protect its customers and, in general, all of its stakeholders, counterparties and employees, as well as the regulatory authorities.

Accordingly, in the conduct of its business, the Group is committed to:

- working with customers and partners whose practices are aligned with anti-money laundering and terrorist financing rules;
- working with customers or performing transactions in accordance with the rules governing international financial embargoes and sanctions;
- observing regulations and best practices in terms of customer protection;
- preventing and managing conflicts of interest;
- protecting customer and employee data;
- developing a culture of compliance among employees and providing them with a whistleblowing system.

Normative and regulatory framework

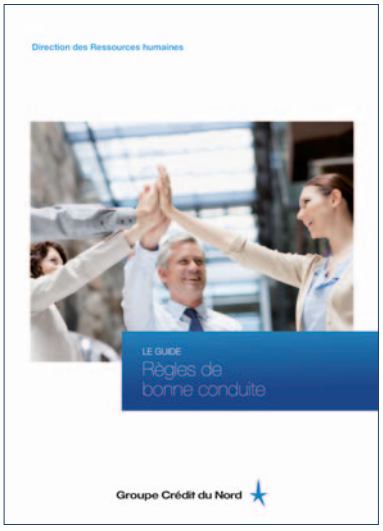
Like all Societe Generale Group entities, Crédit du Nord and its subsidiaries comply with standards and regulations in conducting their development and respecting the environment wherever they operate.

Key regulations and standards include:

- French Act No. 2016-1691 of December 9, 2016 (Sapin II Act) on transparency, **the fight against corruption** and modernisation of the economy, published in the Journal Officiel of 10/12/16 (appendix to the Internal Rules of Crédit du Nord and whistleblowing mechanism);
- French Act No. 2017-399 of March 27, 2017 on the obligation of **due diligence** of parent companies and contracting companies. As a French company with more than 5,000 employees, Societe Generale is subject to the Act of March 27, 2017, which calls for the establishment, implementation and annual publication of a **due diligence plan** starting in the fiscal year ended December 31, 2017. The regulation is global in scope, including subsidiaries within the meaning of Article L. 233-16, section II, i.e. subsidiaries over which Societe Generale holds exclusive control. Crédit du Nord and its subsidiaries are not required to define their own due diligence plan, but implement the plan defined by Societe Generale;
- the **French Labour Code**, including in particular the articles addressing gender equality in the workplace (L.1141-1 to L1143-3) and the principle of **non-discrimination** (L.1132-1 to L.1133-6). Eliminating discrimination in employment and professions, as well as forced or mandatory labour, respecting freedom of association and collective bargaining rights, and abolishing child labour are issues for which Crédit du Nord Group, operating exclusively in mainland France and Monaco, complies with the labour laws in force, which cover all these matters. Moreover, Crédit du Nord Group applies the agreement signed in June 2015 by Societe Generale and international trade union UNI Global Union on basic human rights and freedom to form unions, which strengthens the commitments undertaken in the Group Code of Conduct.

– with respect to **Human Rights**, Crédit du Nord has identified a number of areas in which risks can be addressed and opportunities embraced: access to education (e.g. “Projet Voltaire”), healthcare (e.g. Initiatives to prevent psychosocial risks, employment (e.g. skills sponsorship via the UnisCités partnership), gender equality (collective bargaining agreements on gender equality, promotion of diversity (e.g. collective bargaining agreement promoting the hiring of seniors), respect for collective bargaining rights, elimination of discrimination in employment and professions, etc.;

– **the Sustainable Sourcing Charter** adopted by Societe Generale Group: *https://www.societegenerale.com/sites/default/files/2018/sustainable_sourcing_charter_eng_0.pdf*
  – the Crédit du Nord **Code of Conduct** and **Code of Tax Conduct**,
  – the General Data Protection Regulation, replacing the current Directive 95/46/EU on personal data protection and in force since May 25, 2018,
  – the Crédit du Nord Instruction on conflicts of interest,
  – the anti-money laundering and terrorist financing system, based in particular on the fourth AML Directive (Directive No. 2015-849.),
  – the Sanctions and Embargoes system and guidelines.



Guidelines

Respect for human and socioeconomic rights, protection of the environment

Compliance with industry laws, regulations and standards

Promotion of diversity

Principles of individual and collective behaviour

Protection of data confidentiality

Market integrity

Conflicts of interest

Relations with our customers and suppliers

Use of resources

Given the late publication of the acts of October 23 and 30, 2018, these legislative provisions are currently being incorporated in the non-financial risk assessment; where these issues constitute major risks for the Group, they will be addressed in the next fiscal year:

– the Anti-Fraud Act of October 23, 2018: combating tax evasion;

– the Sustainable Food Act of October 30, 2018: combating food shortages, protecting animal welfare, and promoting a responsible, equitable and sustainable food supply.

Initiatives to prevent all forms of corruption, money laundering and terrorist financing

With respect to customers

Since 1993 (Law No. 93-122 of January 29), corruption and transparency of the economic environment and public procedures have fallen within the scope of the anti-money laundering and terrorist financing system in place at the Group’s various banking institutions. To that end, the Crédit du Nord Group **Financial Security Division** conducts enhanced supervision of certain transactions and customers (particularly politically

exposed persons, within the meaning of R 561-18 of the French Monetary and Financial Code).

Furthermore, the "Sapin II" Act of December 9, 2016 on transparency, the fight against corruption and modernisation of the economy, which entered into force on June 1, 2017, introduced preventive measures into French anti-corruption legislation aimed at reducing the risk of corporate corruption. French companies are required to establish a programme aimed at preventing and detecting corruption and influence peddling in France or abroad.

Accordingly, a corruption prevention and detection mechanism applicable to all of Societe Generale Group, and in particular to Crédit du Nord Group, is in the process of being implemented. In accordance with legal requirements, this mechanism contains the following eight measures: corruption risk mapping, an anti-corruption code appended to the internal rules generating potential disciplinary sanctions, a whistleblowing system, a third-party evaluation procedure, accounting verification procedures, and internal training/controls/evaluation of measures undertaken.

Crédit du Nord Group and its employees are strictly prohibited from committing any act that would breach applicable anti-corruption laws.

With respect to suppliers

For years, the Purchasing Division has included an anti-corruption clause in its contract negotiation and purchasing agreement procedures.

With respect to employees

Crédit du Nord has developed a strong culture that guides the behaviour of all its employees to ensure that its businesses are conducted responsibly and ethically. This culture has given rise to core values (see 1.3: team spirit, innovation, responsibility, engagement) and a model of exemplary managerial behaviour (through training in appreciative management).

A system of continuous monitoring of employee practices is in place at Crédit du Nord Group.

In the "Employee Ethics" section of their Internal Rules, the different Crédit du Nord Group banks set forth the main rules their employees must follow in exercising their professional activity. A guide entitled **"Rules of Good Conduct"**, covering these guidelines in line with the values adopted by Crédit du Nord in its customer relations, is provided to each new hire and is made available to all Crédit du Nord Group employees via the Intranet. The Group also notifies its employees whenever a new version of the guide is available. Working at Crédit du Nord Group means being part of a group of eight regional banks that all share the same values. It also means earning the trust of customers and exercising professions that call for exemplary and ethical conduct.

Some categories of employees, given the nature of their activities or duties, are more exposed to conflicts of interest and have or may have access to inside information more often. The bank determines which categories of employees are exposed and notifies them of their classification and associated obligations.

The observation of certain key sensitive points (e.g. the procedure applied to secure external e-mail exchanges) is subject to controls as well as supervision procedures using special tools and applications (Secure mail encryption certificate).

Anti-money laundering

The **Financial Security Division**, which reports directly to the Deputy Chief Compliance Officer in the Corporate Secretary's Office, oversees the prevention of money laundering and terrorist financing (AML-CFT) for Crédit du Nord Group. It also supervises compliance with embargo and economic sanction policies with the support of Societe Generale Group resources.

For the group of local banks with strong regional roots that makes up Crédit du Nord Group, the analysis of money laundering and terrorist financing risk takes their features into account, including in particular:

- in-depth knowledge of the customer base by advisors;
- a multi-service retail banking offer including transactions classified by AML regulations as subject to reduced due diligence and transactions classified as subject to standard or enhanced due diligence.

The anti-money laundering and terrorist financing system is thus predominantly based on each account advisor's responsibility in that they exercise their duty of due diligence daily upon receiving the list of accounts to be reviewed (CAE - automated ALM/TF transaction monitoring system). This list observes the risk-based approach (customer risk, transaction risk, and country risk) as defined in the fourth ALM/TF directive, i.e. Directive 2015/849/EC, transposed into French law by Decree 2018-284 of 18/04/2018.

The increase in reports filed with TRACFIN, and particularly the number of reports submitted by the network, has confirmed the growing risk awareness of AML/TF risks among employees and the involvement of their managers.

In addition, ALM training and awareness-raising initiatives continue be a priority in the "Business" and "Induction" training modules offered to Crédit du Nord Group employees. Mandatory e-learning modules were added this year to further stress the importance of Financial Security issues.

Enhanced whistleblowing mechanism (obligation of due diligence)

The whistleblowing system is anonymous and covered by a guarantee of confidentiality and protection as required by the Sapin II Act on transparency, the fight against corruption and modernisation of the economy. All members of staff are free to call attention to acts of harassment, discrimination, corruption, and abuses of human rights, basic freedoms, personal health and safety, and the environment.

A question on whistleblowing rights was included in the employer survey handed out in September 2018 to all Group employees.

Crédit du Nord Group "Culture & Conduct" programme

The provision of banking products and services is a fundamentally sensitive business, and as such calls for the principles of integrity and ethics to be upheld from the start.

With changes in our environment coming faster and in greater number, now more than ever each of us has a duty to observe these principles. Every day, and in each situation, we must work individually and collectively to be blameless in the conduct of our business. That is how we will continue to earn the trust of our customers and stakeholders, and also ensure the ongoing operation of our company.

The rules of good conduct, laid out in a guide, uphold the tradition and values of our banks; they must be understood and applied by all. They form one of the cornerstones of our corporate culture, and are based on the following principles and rules:

- banking secrecy;
- professional secrecy;
- banking ethics – Insider employees;
- internal rules ("my rights and duties" and rules of good conduct).

One of our e-learning modules asks all Group employees to evaluate their knowledge of our code of conduct, identify day-to-day situations and how to handle them appropriately.

Programme objectives

Organising participative workshops to help the teams:

- understand the goals of the Culture & Conduct programme and the Code of Conduct;
- make smart decisions in "grey areas";
- identify and get involved through the "dos and don'ts" of the Code of Conduct;

The deployment of the programme is carefully monitored and feedback is collected.

A programme in line with Group policy

Management of Environmental and Social (E&S) risks inherent in the Group's activity

While Crédit du Nord Group does not directly generate major environmental or pollution risks as a result of its business, it is nevertheless very attentive to those its customers might create. Accordingly, in addition to its regulatory obligations, the Group has established processes defined by its parent company, aimed at managing the E&S risks associated with its activities.

To implement these E&S principles in the loan approval and customer onboarding processes, Crédit du Nord Group uses Group tools subject to regular review:

- **sector policies**, defined by Societe Generale, which describe the main risks of failing to protect the environment or the rights or local populations, and set out criteria for assessing customers or transactions carried out with sector players. They cover **potentially sensitive sectors** (Nuclear, Oil and Gas, Mining, Thermal Plants, Agriculture/Fishing/Food & Beverage, Shipping Vessels, Palm Oil, Defence, etc.) and cross-sector issues (Biodiversity). Sector policies are available on the Societe Generale Group website: *https://www.societegenerale.com/en/measuring-our-performance/csr/responsible-finance*;
- a **list of prohibited activities** stated in the E&S Guidelines;
- **watchlists** covering the projects, companies or sectors/countries subject to criticism or campaigns by non-governmental organisations (NGOs) for E&S reasons, thus calling for special due diligence;
- **blacklists** covering companies that the Bank will not do business with due to their participation in the manufacture, distribution or maintenance of cluster bombs or anti-personnel mines.

Since the beginning of 2018 and the implementation of the new E&S risk governance system, Crédit du Nord Group's CSR team has conducted over 60 reviews (onboarding, transactions, etc.) at the request of the Financial Security Division and the Executive Committee due to the sensitive nature of the sectors involved. In some cases, the opinions resulting from these reviews led to the rejection of a transaction or a potential new customer.

Data protection (customers, employees, providers, etc.) and cybersecurity

Digital security and data protection

The Group has established an information system security risk management system run by an RSSI (Head of Information System Security). In an effort to combat cybercrime, Crédit du Nord Group implements solutions to protect customer assets and transactions. Given the widespread digital transformation in progress, one key objective is to offer customers user-friendly, available and highly secure digital services. To this end, Crédit du Nord Group is continuously making investments to guarantee transaction security and data protection for its customers. This is a critical goal in light of the growing number of cybercrime incidents. The Group is responsible for ensuring data security and banking secrecy.

Crédit du Nord Group is also continuing its initiatives to prevent phishing and social engineering acts targeting its customers, for example by providing its customers with free additional IT protection (firewall and anti-virus) specifically designed for the banking industry (Trusteer).

In addition to the digital security experts working daily on these types of issues, Crédit du Nord Group has organised mandatory training for all employees on risk management, including a module entitled “Information security: protecting our Group and our customers” that teaches about cybercrime and how to identify risky situations and develop best practices.

Each Crédit du Nord Group bank processing personal customer data report this processing to the CNIL (French Data Protection Agency). The reporting format depends on the sensitivity level and purpose of the processed data.

The volumes of data generated worldwide have exploded with the digital revolution. In response to the growing use of personal data in all economic sectors, and to the concerns expressed by European citizens, the European legislative authority (taking inspiration from the supervisory authorities) published the GDPR (General Data Protection Regulation). Crédit du Nord Group has put this regulation into practice, which represents an opportunity to enrich the customer relationship and experience. Either online or by contacting their advisor, customers are free to exercise their rights and give their consent from the start of their relationship with the bank.

The Data Charter is available (French version) on the Group website: *https://www.credit-du-nord.fr/instit/IPI/cms/multicanal/Contenus/PDF/conformite/charte_des_donnees//Fichier*

In accordance with Crédit du Nord Group’s societal objectives, its Head of Information System Security (RSSI) is increasingly working with start-ups, providing expertise and advice to fintechs.

To strengthen the security of online payments Crédit du Nord Group has offered dynamic-encryption cards to its customers since April 2018. Thanks to this new technology, which enhances payment security on e-commerce sites against identity theft, it is becoming impossible for criminals to reuse debit card data because the three-digit code is quickly obsolete. In this way, the Bank is expanding its range of payments solutions to accommodate the exponential growth of online purchases.

6.2.2.2 Being a responsible and innovative employer for current employees and future talent

Crédit du Nord Group places great importance on building, retaining and motivating its human resources, without whom the Group cannot create value or develop sustainably.

The objectives of the Social Compact are to strengthen employee loyalty and improve our appeal to the applicants we seek.

Attracting new talent

New hires

The banks of Crédit du Nord Group keep up a significant hiring rate to replace departing employees (727 permanent-contract recruitments in 2018), primarily in the businesses exercised in the operating network, with a focus on two main recruitment methods: recommendations and work-study programmes.

Developing diversity and preventing discrimination

Crédit du Nord Group does not practise any form of discrimination whatsoever, whether towards its staff and prospective employees or its customers, business partners or suppliers. In terms of recruitment, an objective assessment is systematically conducted. Prevention of discrimination in hiring practices is addressed in the "Conducting a hiring interview" training course, offered to anyone participating in the hiring process (HR, managers).

Breakdown of headcount by gender and age

The total headcount for Crédit du Nord Group was 8,459 in 2018. The average age of Group employees was 41 (42 for men and 40 for women), unchanged from 2017.

Headcount and average age of employees by bank:

	2017	2018								
	Total Crédit du Nord Group	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group**
Average Age - Overall	41	40	42	39	41	41	42	42	43	**41**

Average seniority for Group employees was 13 years in 2018 (14 for men and 13 for women), unchanged from 2017.

Average length of service of Crédit du Nord Group employees by bank :

	2017	2018								
	Total Crédit du Nord Group	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group**
Average Seniority - Overall	13	12	15	11	14	13	14	14	15	**13**

Mission Handicap

Organisation of Mission Handicap

Crédit du Nord's Mission Handicap association is led by a disability officer, who is the principal contact for employees and the various divisions, as well as for external stakeholders. Mission Handicap is represented in each of Crédit du Nord's regions and regional banks by an HR specialist.

The Mission Handicap disability officer and regional/regional bank representatives are responsible for:

- organising awareness-raising initiatives for employees and information campaigns for managers;
- ensuring that employees with disabilities are able to continue working;
- conducting hiring initiatives in conjunction with the appropriate HR teams.

In 2018, Mission Handicap kept up the momentum built up in previous years, with:

- a presence in forums specialising in disability;
- a Group synergy between the disability officers of all entities;
- development of dialogue with nationally renowned organisations (DIRECCTE, AGEFIPH, etc.). These efforts were highlighted in an internal communication campaign conducted at the head office and the branches (article on the Group intranet, awareness-raising initiatives at company cafeterias, letter written by Crédit du Nord Group's Head of HR and individually addressed to each employee).

Mission Handicap has been featured on the HR intranet site since 2015, with a logo making it easy to identify Mission Handicap initiatives:

mission handiCAP
Comprendre | Adapter | Pérenniser

Agreements signed

In 2017 Crédit du Nord renewed its company agreement promoting the employment and integration of persons with disabilities at Crédit du Nord. This agreement, signed unanimously by the trade unions, covers the period from 2017 to 2020.

Banque Courtois, Banque Tarneaud, Banque Rhône-Alpes and Société Marseillaise de Crédit have also entered into an agreement promoting the employment of persons with disabilities.

Below is a list of just a few initiatives undertaken:

- Support for persons with disabilities: In 2017, Crédit du Nord launched the "Accessibility" project, aimed at helping blind and vision-impaired customers (all customer bases) go online and use digital channels to perform transactions. Crédit du Nord Group has launched a new and improved, more modern and streamlined job site. The new site is illustrated with videos of employees presenting their jobs and with relevant articles on recruitment-related issues. At the end of 2018, Crédit du Nord Group began using "FACIL'iti", a solution designed to make the job site easier to browse. FACIL'iti adjusts the website for the browsing comfort of applicants, whether their needs are permanent or temporary (vision problems, difficulty of expression or comprehension problems).
- Use of the "protected sector" for procurement (companies that employ persons with disabilities);
- Employee awareness-raising: Participation in European Disability Employment Week (EDEW), **activities** organised with the support of the local Human Resources departments and Works Councils (cooperative game Hand'valid, Dark Lab sensory experience, conference on dyslexia, escape game), awareness-raising initiatives (Rihour and Anjou cafeterias, email campaign of animated posters), disability-friendly workstations (ergonomic chairs, special screens, vertical mouses, keyboards designed for persons with disabilities), financing for hearing aids, coordination of purchases with companies employing disabled workers, etc.

In the 2018 Mandatory Disability Employment Statement ("DOETH"), Crédit du Nord Group reported a disability employment ratio nearing the 6% required by regulations, with disparities depending on the subsidiary.

Employment ratio of disabled workers. Source: DOETH (Mandatory Declaration of Employment of Disabled Workers)	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	Total Crédit du Nord Group
2017	5.71%	6.16%	1.81%	6.28%	2.92%	5.23%	5.72%	6.41%	**5.67%**
2018	**6.02%**	**6.66%**	**2.02%**	**5.98%**	**3.74%**	**5.47%**	**6.43%**	**6.25%**	**6.91%**

Promotion of gender equality

A gender equality and diversity agreement has been in place at all Crédit du Nord Group banks since 2004. The agreement of 24/01/2018 for fiscal years 2018-2019-2020 focuses on four categories of initiatives: recruitment, career development, remuneration and job classification, each of which is linked to quantitative progress targets that are monitored for the duration of the agreement. The Group has set aside a budget for reducing any wage gaps every year since 2008.

The remuneration of all Crédit du Nord Group employees, regardless of position, contains both a fixed and a variable portion. Remuneration is assessed each year by the remuneration panel, which refers to the results of the annual professional performance evaluation.

Efforts to reduce wage gaps will need to focus going forward on the difference in executive pay between men and women, which stands at 15% (only 3% for non-executive staff).

Crédit du Nord Group's **"Etoile Plurielle"** association for women executives is meant to be a forum for dialogue, sharing, transmission of experience and learning with the aim of furthering their professional development. Each member, depending on her background and professional objectives, can attend workshops and conferences or receive studies and communications on the position of women executives in a professional environment, and even propose and contribute to initiatives at Etoile Plurielle.

At the end of 2018, Etoile Plurielle had 550 members (243 in Paris). 180 attended the General Meeting of October 9, 2018.

Several workshops and conferences were organised this year on self-defence, nutrition, oenology, business writing, expert-led conferences with the participation of the Risk Division, Innovation Division, Legal Affairs Division, tickets to the Mary Cassat exhibit and a showing of the film "Les femmes et l'argent" (Women and Money).

Preservation of the generation balance

Even though the "generation agreement" was eliminated by the Macron administration on September 24, 2017, this year all Crédit du Nord Group banks continued to apply the provisions that had been negotiated under contracts or action plans (over three or four-year periods), calling for commitments in three specific areas:

- employment of persons over the age of 45;
- integration of young adults under the age of 26 in the job market;
- transmission of knowledge and skills.

Each bank has notably established, over the period of the action plan or agreement, the goal of recruiting "senior" employees and young adults as well as the continued employment of persons over the age of 55.

Recruitment of work-study participants and interns is thus a key objective, as work-study programmes are one of the primary sources of permanent-contract hires with recommendations (507 recruitments: 385 work-study participants and 122 interns).

In 2018, 385 new work-study participants joined Crédit du Nord Group. The intergenerational agreement of January 18, 2017 set a goal of recruiting 5% of staff in work-study programmes by 2020.

Skills development and career management

Talent management

The Group values its employees highly, helping them to build their future and gain the necessary expertise to achieve fulfilment in their profession, while promoting career advancement.

This year, the Group's 1,500 managers were trained in appreciative management, a practical application of positive thinking to managerial activities. Appreciative management develops confidence in oneself and others in a bid to capitalise on each individual's strong points. It is an important factor in improving Quality of Life in the Workplace.

Each du Nord Group bank is committed to building strong individual ties with its employees and customers alike, making them preferred partners in a lasting relationship of trust. Now more than ever, Crédit du Nord Group is determined to support those who devote their time and energy to exciting collective projects that create wealth, bonds and vitality in their regions.

Employee engagement is essential. Guided by excellence in interpersonal relations, the Group helps them acquire the expertise customers are looking for as they pursue their career with the bank.

Employees take part in a job-specific acclimation programme when they join the group. They also receive one-on-one managerial support on a daily basis, regular training and follow-up with a Human Resources advisor. The Strategic Workforce Planning agreement signed on April 18, 2018 illustrates this commitment. Opportunities for career advancement are multiple and varied thanks to the Group's operations in the different regions and business sectors.

Crédit du Nord Group also places great importance on identifying and retaining talented individuals. To this end, for the past several years it has conducted a systematic review of employee skills and expertise during meetings of the Career Committee, which combine HR and managerial perspectives in order to define support and encouragement initiatives for this population (coaching, new positions, special training, 360° evaluation, etc.). A member of the Management Committee of Crédit du Nord Group's HR Division is specifically responsible for detecting, developing and retaining these employees in the interest of management succession.

The annual evaluation reflects Crédit du Nord Group's strong determination to support each member of staff in developing his or her career and expertise. The annual evaluation also affirms Crédit du Nord Group's determination to pursue a policy of managing skills and developing the talent of men and women in order to meet the challenges of the future.

All members of permanent staff attend an individual performance and development assessment each year.

This face-to-face interview provides an opportunity for the manager and employee to discuss the employee's achievements during the year, performance, problems encountered and potential areas for improvement. It is also a chance to regularly review the employee's training needs and internal transfer goals (geographic regions and/or positions).

In December 2015, the individual performance and development assessment was enhanced with values taken from the leadership model. As such, all Crédit du Nord Group employees have the opportunity each year to speak face-to-face with their manager about the values of responsibility, commitment, innovation and team spirit.

The HR teams meet with all employees every 18-24 months for a Professional Evaluation. During this HR interview, employees can discuss their motivations, training needs and career development outlook in detail.

Training policy

A distinctive and individually tailored training support system has been in place for many years at Crédit du Nord, in order to facilitate the employee induction process, support employees who are taking on new roles, and provide ongoing training to employees as they advance in their career through refresher courses. This system is adapted to each employee's experience and professional needs.

It is reviewed annually, particularly in light of changes in Crédit du Nord Group's strategy, tools and processes, and regulations, and adjusted in order to better meet the needs of employees and the requirements of the Group's eight banks.

The annual training plan is structured around the following key areas:

Career paths

The aim of the Career Paths is to acclimate and train new employees in a profession and/or to help employees change jobs in the Group.

In 2018, the new Wealth Management Advisor, Branch Director, Private Banking Advisor career paths were created.

Internships

Employees develop their professional skills by participating in internships, available to each employee and manager in the training catalogue, with sign-ups taking place when the annual evaluation is held. The most-requested internships in 2018 were: How to offer a home loan, rental property investment & property taxes, refresher courses on company guarantees, consolidated financial statements and IFRS (International Financial Reporting Standards), and the legal environment in the Individual and Professional Customers markets.

Major training courses

In order to further Crédit du Nord Group's strategy, and in the interest of building employee skills and expertise, 2018 was the year of major training courses (mandatory for all employees in a given business line):

- **Individual Customers market**: "Optimising remote commercial relations with our premium customers", "distance selling of Etoile Express and Etoile Avance", "How to take care of our customers" (Network Sales Assistants);
- **Professional Customers market**: "Managing support of regulated professions" (e-learning modules);
- **Corporate and Institutional Customers market**: "Modernised and premium approach to prospective customers", "Asset management", "Approach to the medical and social sector";
- **Management**: "Appreciative management": all Crédit du Nord Group managers took a one-day training course focused on developing confidence, recognition and positive thinking. In the interest of achieving the ongoing transformation, managers are encouraged to inspire and teach accountability to their teams, and to accept the right to make mistakes.

Digitisation of training: Form@ction, the training intranet site

In 2018, Crédit du Nord Group moved forward with the digitisation of training by developing "blended" formats alternating remote and in-class sessions.

Drawing on the momentum of 2017, Form@action, the remote training intranet sight available to all Crédit du Nord Group employees, can be reached with just one click from the employee's workstation, tablet and home. Form@action records roughly 8,000 connections each month. Form@ction consists of modules in various formats (factsheets, e-learning modules, videos, tutorials, etc.) on technical/commercial topics (loans, savings, etc.), regulatory matters (MiFID II, AML, etc.) and behavioural issues (time management, negotiation, etc.).

New teaching formats

In 2018, for the first time Crédit du Nord Group employees were offered a remote "Adaptive Learning" training course. The course is personalised, adapting to the learner's answers and level of knowledge: "Projet Voltaire", the No. 1 spelling refresher course. Launched in July 2018, "Projet Voltaire" proved highly successful with employees (2,000 connections in the first two weeks after launch).

Furthermore, to help employees make the transition from the Workstation to Office 2016, and more generally develop their office suite and digital skills (LinkedIn, Windows, etc.), the Group added more than 2,500 tutorials to Form@ction.

In 2018, the Group also continued to promote memory aids via the "La minute Form@action" programme. This innovative format was offered to all employees: each participant was asked to answer two questions per day in his or her professional areas of expertise or on general banking culture (digital).

Remote training on Career Paths

The Career Paths include preparatory courses in the form of e-learning modules and webex sessions (online). Some training is provided entirely in digital format, such as regulatory training (e.g. duties and responsibilities as a Banker), also through models addressing a specific topic (e.g. payment protection insurance, 2018 Finance Act, etc.).

Regulatory training (Risk Culture)

The implementation of new regulations calls for training to help employees learn and understand the new regulatory obligations and the associated tools.

Throughout the year, regulatory training was provided via e-learning modules and in-class courses on topics such as:

- **MiFID II**: Presentations were put together on MiFID II (advisory appointments for individual customers, legal entities, AMF approval based on the revised regulation) alongside remote training courses (MiFID II fundamentals, PRIIPS, customer protection, conflicts of interest, etc.);
- **remote training**: mandatory e-learning modules for all employees or certain business lines: GDPR, FATCA, minors and protected persons, corruption, culture & conduct, Mortgage Credit Directive.

The percentage of employees taking at least one training course during the year rose from 83.8% in 2017 to 88.2% in 2018.

Training hours

	2017	2018								
Training (calculation base 1 day = 8 hours)	Total Crédit du Nord Group	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group**
Percentage of employees who took at least one course during the year*	83.8%	86.9%	91.5%	92.0%	89.5%	94.6%	90.7%	91.2%	87.1%	**88.2%**

(*) The percentage is calculated based on the headcount for the year, not the headcount at end-December, training hours are counted by the company where the employees work and not by the entity that hired them. Training hours also include courses taken by work-study participants.

Providing satisfactory working conditions

Social Compact

It is critical to improve the recognition and visibility of employee benefits in order to adapt them to the largest possible number of employees, changing needs and the challenging economic environment. This global approach forms the **Social Compact**, based on balanced employer-employee dialogue over the long term.

The Social Compact rests on 3 pillars, in line with our family protection banking model:

- Work (quality of life in the workplace, strategic workforce planning, separation of private/professional life, new work cycles, telecommuting, mobility assistance, etc.);
- Health (mutual health insurance/personal protection insurance, prevention of psychosocial risks, health and well-being in the workplace, etc.);
- aid in building up Employer Value (improvement in employee home loan conditions, top-ups on employee savings plans, pension funding aid, etc.). In

2018, employees received an exceptional payment to their PERCO (company pension plan) and the option of monetising the days accumulated in their time savings account.

Quality of Life in the Workplace (QLW) aims to promote and develop a fulfilling and engaging working environment, one that encourages hard work and thus boosts the company's collective performance. Several QLW measures have been taken or are being considered under the Social Compact, including in particular:

- establishment of **new working and organisational conditions** designed to better reconcile work and home life (Crédit du Nord's pilot programme for telecommuting and the four-day work week, the right to disconnect, new options for parents, digital portal for personal care services, etc.);
  - for Crédit du Nord, a second telecommuting agreement was signed in April 2018 (valid through December 2019), and all the regional banks signed their own telecommuting agreement. Overall, nearly 200 Crédit du Nord employees and over 20 subsidiary employees work from home. Their feedback has been very positive, demonstrating that this solution does a good job meeting employee expectations.
  - the **Work@nywhere programme** aims to gradually provide Crédit du Nord's itinerant staff (employees working outside the office with a laptop instead of their current workstation, while keeping their peripherals (screen, printer, scanner, etc.) for maximum convenience. Company laptops offer a differentiated level of service, depending on where the employees are working (in/outside the office). Outside the office, employees can access all their personal resources (email, files contained in personal and shared folders) and certain applications approved for remote work. This new workstation provides employees with greater flexibility in terms of professional organisation by optimising downtime associated with travel and promotes a better work/life balance. At the end of 2018, 300 employees had already received their company laptop, including 90 Corporate CRMs (Nord de France and Société Marseillaise de Crédit), and can already manage limit breaches and initiate loans outside the office.
- **prevention of psychosocial risks**: Crédit du Nord saw the unanimous signing of the agreement on Work-Life Balance and Prevention of Psychosocial Risks on May 17, 2017, set up a joint qualify of life in the workplace observatory, launched an experimental psychological support call centre (Crédit du Nord and Banque Tarneaud), and distributed "Manager HR guidelines";
- changes to the Bank's **training offer**: distance training, comprehensive training for existing managers and managerial training including measures to support the Bank's transformation and prevention of psychosocial risks;
- **manager awareness-raising** focused on the work-life balance improvements they can make on a daily basis (work-life balance guidelines are provided to all managers at Rh.net and Form@ction).

Additional work-life balance initiatives included:

- delivery of organic fruit and veggie baskets to the Multimedia Expertise Centre;
- a pilot "**Corporate Yoga**" programme for the teams of the Multimedia Expertise Centre and the Execution and Requisitions Department, then the Nord de France region for Crédit du Nord and particularly Banque COURTOIS;
- **prevention of road risk**: special training for drivers of company cars and lower rates for all employees;
- Yoopies portal containing personal care offers;
- creation of a relaxation zone and showers at the head office of Banque Tarneaud, and a **co-working space** at the head office of Société Marseillaise de Crédit;
- **concierge service** at the Anjou building since 2018;
- a range of organic products and vegetarian dishes offered at the Paris Works Council cafeteria;
- the "**Responsage"** platform, an orientation and advisory service for caregiving employees assisting vulnerable loved ones, which was recognised at the SG Labels Life At Work awards.

The **Quality of Life in the Workplace Observatory** has met regularly since it was established by Crédit du Nord in 2016. The QLW Observatory is a joint committee comprised of Management, the occupational health department (the occupational physician of the Paris institution) and representatives of the trade unions. It is responsible for monitoring aforementioned QLW agreement and in general, through its work, for promoting quality of life at work, preventing psychosocial risks and improving the working conditions of employees through an ongoing, balanced employer-employee dialogue. The Heads of Human Resources of the Crédit du Nord regions developed action plans based on the results of a questionnaire on quality of life at work handed out in 2017.

Furthermore, in 2014 Crédit du Nord Group's Executive Committee signed a **Work-Life Balance Charter**. With 15 commitments, Crédit du Nord Group recognises the basic importance of balance between personal and professional life, which ensures better quality of life in the workplace and better performance for the company. By signing this charter, it has undertaken to support and promote constructive behaviour (managers who set good examples, respect of the work-life balance, organisation of meetings, proper use of e-mails) in the organisation of work and relations between managers and employees.

Working hours

Since 2000, each Crédit du Nord Group bank has had its own agreement on the reduction and organisation of working hours, which provides for basic annualised working time of 39 hours per week.

Since 2015, there have been two main work cycles: a 39-hour work week and a 37.5-hour work week to meet the main organisational needs of the head offices and branches. At Crédit du Nord, there is an additional work cycle of 36 hours over four days. An agreement has also been signed with the unions on shift work. In 2016, the other Crédit du Nord Group banks also implemented this third work cycle.

In 2018, the percentage of part-time employees rose to 9.1% (versus 8.60 in 2017) with the implementation of the new 90% cycle.

Moreover, the rules of the Time Savings Account were relaxed in 2018.

	2017	2018								
	Total Crédit du Nord Group	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group**
Percentage of part-time employees (*)	8.60%	9.8%	10.3%	9.9%	13.0%	8.5%	10.4%	7.5%	5.7%	**9.1%**

(*) *Employees counted by their hiring entity - excluding work-study participants and interns.*

Absenteeism

The rate of absenteeism at Credit du Nord Group reflects the composition of the employee population: close to 1/3 of total days of absence were due to maternity leave.

At 8%, the rate was stable compared to last year.

	2017	2018								
Absenteeism (*) in number of working days)	Total Crédit du Nord Group	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group (**)**
Paid absenteeism rate	8.0%	8.2%	7.9%	7.1%	7.2%	4.1%	7.3%	6.6%	8.6%	**7.9%**

(*) *Calculation based on calendar days for fixed-term/permanent contract employees counted by their work entity at 31/12 and not by the hiring entity. Excluding work-study participants and interns.*

(**) *As of 2017, Societe Generale employees seconded to the 8 Crédit du Nord Group banks are included.*

Collective bargaining agreements

At each Crédit du Nord Group bank, social dialogue is a collaborative process between employer and employee (or their representatives) on common-interest issues relating to a company's economic and social policy. Applied at a Group-wide or individual entity level, it can take various forms, from the simple exchange of information to consultation and negotiations with a view to signing an agreement.

Of the eight banks belonging to Crédit du Nord Group, only Crédit du Nord, Société Marseillaise de Crédit, Banque Tarneaud, Banque Rhône-Alpes and Banque Laydernier have elected employee representatives that sit on their Board of Directors or Supervisory Board.

The Employee Representative Bodies include:

- the Regional Works Councils and the Central Works Council of Crédit du Nord, or the Works Council of the regional banks, which act as advisory bodies for all matters concerning the general running of establishments and the company in question. They also manage social and cultural activities for staff;
- employee delegates, whose responsibility is to represent individual or Group employee claims pertaining to regulations and collective bargaining agreements;
- each Crédit du Nord Group bank's Occupational Health and Safety Committee, whose main purpose is to protect the health and safety of employees, improve working conditions, and ensure compliance with legal and regulatory requirements.

Union representation on Works Councils or Occupational Health and Safety Committees is provided through unions, delegates and representatives. The national and central union delegates have exclusive control when it comes to collective bargaining.

Each regional bank belonging to Crédit du Nord Group has thus signed a long list of agreements resulting from continuous, constructive dialogue and successful negotiations with the union partners of the 8 Crédit du Nord Group banks.

Promoting employee engagement

Skills sponsorship

Several initiatives are in place to encourage employees to get involved in a humanitarian cause or intrapraneurship.

- the partnership with Unis Cité, a pioneering civic service association in France, gives employees an opportunity to volunteer one workday per year for the **skills sponsorship** programme. Since 2017 (the year the partnership was established), 75 Paris employees have taken part in coaching initiatives for Unis Cité youth, including 31 in 2018 alone.
- **Internal start-up call**

Crédit du Nord Group sponsors two start-ups and more broadly supports four start-ups launched by employees. Intrapreneurship is a real innovation booster.

- as a sponsor, the Group challenges decisions or operating methods, and can also help steer the project whenever sticking points or inconsistencies arise,
- as a supporter, the incubator hosts the start-up and provides it with services to help guide the project; Crédit du Nord's "innovation" unit provides assistance in communicating on the start-up's progress or finding testers, etc.

The creation of these flexible and agile internal start-ups paves the way for ecosystem-centred organisation, emergence of disruptive ideas, and the rapid development of concepts, products and services. Crédit du Nord Group tests them with one goal in mind : enriching relations with its customers. Intrapreneurship taps into the employee's entrepreneurial spirit. It complements the bank's activities, thus helping to disseminate a culture of innovation across the Group. The proof is in the enthusiasm, energy and drive generated by the Internal Startup Call.

Raising awareness of the CSR culture

As of 2018, the CSR Team offers practical workshops to train and raise awareness of Crédit du Nord employees in Paris of the Group's CSR policy:

- workshop on "eco-friendly practices", in partnership with the APC (Paris Climate Agency);
- workshops on sorting and recycling, in partnership with Pik Pik Environnement, during the European Week for Waste Reduction (EWWR).

Employer survey

Crédit du Nord Group places great importance on promoting lasting relationships with its employees as part of a commitment to mutual development in an environment favouring both individual and collective well-being. To assess the internal climate at Crédit du Nord Group over time, Management decided in 2005 to conduct an employee survey, similar to the one conducted for the last several years with its customers.

The survey is performed every 2 years and Management has undertaken to post the results for all employees. Once the results are posted at Group level, the regional Management Committees and Functional Divisions then carefully analyse their own results in order to prepare specific action plans if necessary. Each region, regional bank and functional division share its action plans with employees using different channels: agreements, articles on local intranet sites, transmission through the hierarchy, etc. The survey is conducted with the help of survey firm Ipsos Loyalty, ensuring the confidentiality of each employee's answers as in past surveys. Furthermore, the company does not know which employees participated in the survey. All employee surveys conducted by Ipsos Loyalty comply with GDPR standards in force.

Their purpose is to identify each employee's opinion on Group strategy, management, human resources policy, working conditions, quality of communication, etc., as well as issues focused on Group values: team spirit, responsibility, innovation and engagement.

A shorter survey was exceptionally performed in 2018, focused primarily on engagement and transformation. The participation rate for Crédit du Nord Group was 79%, i.e. 1 point higher compared to 2017. The large number of participants (5,681) testifies to the Group's value as an employer, and ensures that the results are statistically accurate and representative of employee opinion.

The overall take-away is positive, underscoring the exceptional loyalty and engagement of Crédit du Nord employees and the trust they place in their local managers.

6.2.2.3 Customer satisfaction

Crédit du Nord Group continuously strives to satisfy its customers by providing quality service and advice, and notably by developing a range of products and services tailored to their needs.

A **Multimedia Expertise Centre** is available to customers at extended hours.

The Multimedia Expertise Centre (with its various services: Etoile Direct, Etoile Direct Bourse, Etoile Direct Pro, available 24/7) connects customers with an advisor, from France or abroad, at extended hours (compared to a branch): Monday to Friday from 8 a.m. to 9 p.m. and Saturday from 9 a.m. to 5 p.m.

Crédit du Nord Group also offers the possibility of using a branch that operates entirely online, **Nordirect**.

Accounts can be accessed at any time via the Internet, mobile phone and tablet (account balances, internal and external credit transfers, nearest ATM location, savings and loan simulators, etc.).

Measures in favour of consumer health and safety

Crédit du Nord Group sets very high standards in the conduct of its business, particularly in terms of customer satisfaction, the pace of business, fair pricing, synergies between markets and the expansion of the range of products and services (especially multi-channel offerings).

It aims to provide a courteous and respectful service to borrowers at all stages of the credit cycle, from approval to final repayment. This applies to consumer credit and home loans for individual customers.

In the interest of consumer protection, Crédit du Nord Group's staff do not receive any fee-for-service remuneration (commission), which increases the impartiality of the advice given to customers.

Since 2005, the 8 Crédit du Nord Group banks have offered a range of alternative payment solutions to their customers without chequebooks (offer open to all customers but they have to give up their chequebooks when they sign up).

For customers with a serious health risk, Crédit du Nord Group offers products and services under the terms of the AERAS agreement (s'Assurer et Emprunter avec un Risque Aggravé de Santé).

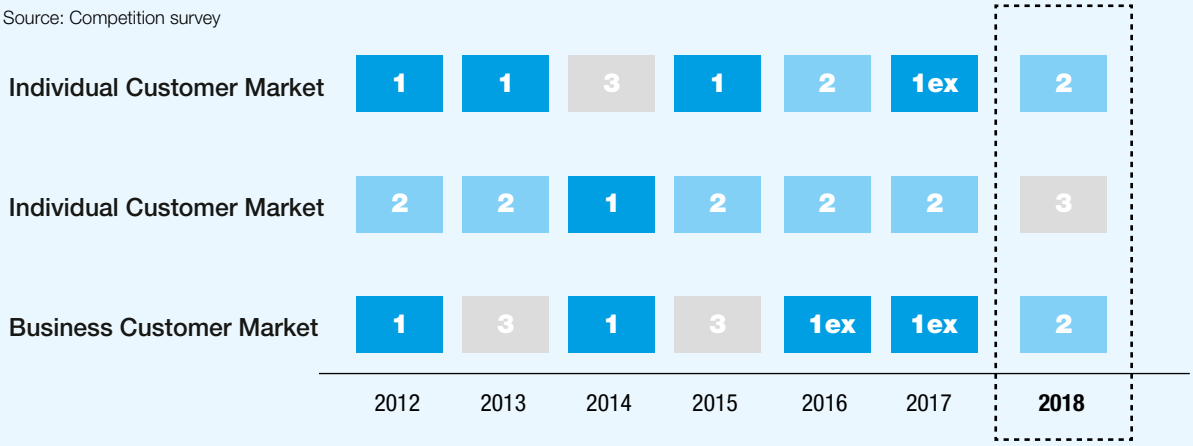
For customers interested in taking out a home loan, in accordance with the Order of March 25, 2016, the eight banks of Crédit du Nord Group prepares a personalised, standardised factsheet to help customers better compare the different loan offers. All eight banks are committed to providing appropriate explanations throughout the credit application process, and perform an extensive check of the borrower's solvency prior to lending.

Since 2016, in light of the many controversies associated with the organic compound "Bisphenol A", Crédit du Nord Group has decided to supply all of its ATMs with new Bisphenol A-free paper despite the cost increase incurred. This decision was a precautionary measure aimed at protecting the Group's customers and employees.

Customer satisfaction survey

Crédit du Nord: change in ranking

Source: Competition survey



Internal survey *conducted by independent firm CSA covering all branches and business centres: involving 55,618 customers (46,620 individual customers, 5,320 professional customers and 3,678 corporate customers) in 9 waves from March 1 to November 14.*

Complaint procedure

The number of complaints processed fell 15% year-on-year in 2018. The average processing time dropped from 17 days in 2017 to 14 days in 2018 (statistics excluding mediation).

Straightforward requests that can be handled within the day are addressed by dual-market branches. Through the "Virement satisfaction" procedure, legitimate rebates can be offered under certain authorisation conditions.

The Customer Relations Divisions of the eight regional banks and/or Crédit du Nord's Consumer Department handle more complex cases.

If customers are not satisfied with the response, they may contact the Mediator free of charge.

The free mediation services established by Crédit du Nord Group, which are intended to arrange an out-of-court solution to disputes, are widely publicised by the bank including through information provided on the back of all account statements. All 8 Crédit du Nord Group banks have undertaken to comply in full with all decisions taken by the independent mediator (Yves Gerard).

6.2.3 Showing solidarity with the regions

Crédit du Nord Group is a local regional bank and as such actively contributes to the economic momentum of the regions, focusing in particular on helping customers make the energy and digital transition as drivers of the third industrial revolution.

The Group's sourcing policy was one of the key policies highlighted by the non-financial risk assessment.

6.2.3.1 Responsible sourcing policy

Crédit du Nord Group's responsible sourcing policy is a major component of its Corporate Social Responsibility. In purchasing goods and services, Crédit du Nord Group directly or indirectly:

- supports the local regional economy, by using **local VSEs/SMEs** in a bid to maintain a tight-knit network;
- **contributes to the professional integration** of persons struggling to find work, by using professional integration companies, and particularly companies employing disabled persons;
- reduces its environmental footprint by choosing (among products/services of equal quality) **products or services that are better for the environment**;
- promotes Corporate Social Responsibility (CSR) by prioritising suppliers and providers which, like Crédit du Nord Group, are committed to making progress in this area.

The Group's responsible sourcing policy complies with the normative requirements set by Societe Generale Group, as described in the "Conduct of responsible sourcing and rules of ethics applicable to sourcing" instruction.

This policy also meets the "obligation of due diligence of parent companies and contracting companies" (French Act No. 2017-399 of February 21, 2017), which requires the Group to prevent risks to the environment, human rights and corruption in its own activities and in those of its sub-contractors and suppliers in France and abroad.

Lastly, it helps the Group guard against image and reputational risk liable to be caused by its relations with suppliers.

Supplier assessment

In accordance with its obligation of due diligence, Crédit du Nord Group requires its sourcing managers to use a supplier assessment form to evaluate (above a given revenue threshold) :

- the risks associated with starting a business relationship with a potential supplier: economic risk (related to the supplier's financial situation), financial crime risk and reputational risk;
- the supplier's level of ethical commitment, in terms of business ethics and prevention of corruption;
- compliance with the Group's environmental and social policies; and
- the supplier's level of commitment to managing and improving the social, societal and environmental impacts of its activities. This last assessment only pertains to suppliers with more than 50 employees.

CSR clause

Furthermore, as of 2018 a **CSR clause** is included in all new sourcing contracts and partnership agreements. CSR criteria will also be added to the rating system used for RFPs.

Use of companies employing disabled persons

The Group works with companies that employ disabled workers in order to promote the professional integration of persons struggling to find work due to their disability.

In doing so, it also meets a regulatory and economic imperative: all companies with at least 20 employees are required to employ disabled persons (at least 6% of their total workforce), pursuant to Articles L. 5212-1 and L. 5212-2 of the French Labour Code. Companies failing to meet this 6% quota have to pay an AGEFIPH contribution, the amount of which can be reduced by sub-contracting services to companies employing disabled persons (revenue of €18,000 with this sector reduces the AGEFIPH contribution by €5,400).

The GESAT database lists 2000 different companies that employ 135,000 disabled persons. It provides information on the products and services offered, the geographic area and client references of each company.

A list of services likely to be provided by these companies has been **published** and **is available on the intranet**.

Determined to promote the employment of persons struggling to find work and/or in precarious situations, the Group calls on companies employing disabled workers whenever possible for certain services; Banque Tarneaud, for example, uses them for laundry services and external maintenance of its branches.

Local sourcing

The Group's responsible sourcing policy places a premium on local purchases. Whenever appropriate, the policy encourages the use of local suppliers and providers (at the regional level, or focused on a specific city or smaller area) to obtain certain goods and services purchased by the regions and subsidiaries of Crédit du Nord Group.

Local sourcing aims to:

- contribute to the vitality of the local economic landscape and maintain employment;
- support local VSEs/SMEs;
- reduce the environmental impacts generated by the transportation of people and/or merchandise.

Of course, giving priority to local suppliers and provides does not absolve Group entities from observing the other principles and rules of the responsible sourcing policy. In particular, this choice cannot be made to the detriment of:

- open and fair competition among potential suppliers, and fairness and transparency of the selection process;
- a better offer from an economic, social and environmental standpoint;
- observation of due diligence in terms of the economic, social and environmental practices of suppliers;
- use of companies employing disabled persons or social and solidarity-oriented companies whenever possible.

To this end, a list of sourcing areas eligible for local sourcing has been drawn up.

Responsible Sourcing Charter

On September 6, 2018, Françoise MERCADAL DELASSALLES, Chief Executive Officer of Crédit du Nord Group, **signed the Societe Generale Group Sustainable Sourcing Charter** on behalf of the eight Crédit du Nord Group banks and for subsidiaries Gilbert Dupont, Norbail Immobilier and Starlease. Through the signing of this charter, all 11 entities are required to observe and implement this policy: https://www.societegenerale.com/sites/default/files/2018/sustainable_sourcing_charter_eng_0.pdf

Concretely, they are required to:

- include a CSR clause referring to the Charter in all new supplier contracts and in all new RFPs;
- assess the Environmental and Social (E&S) performances and risks of suppliers for all sourcing contracts of €50,000 or more.

The objective, affirmed by the **Sustainable Sourcing Charter**, is to ensure that purchases and partnerships are conducted ethically. The principles of responsible sourcing are set out in Societe Generale's instruction on the "conduct of responsible sourcing and rules of ethics applicable to sourcing."

All purchases shall be made in a climate of mutual trust in order to ensure a constructive and balanced dialogue between both parties; the winning bid is the most attractive offer from an economic, social and environmental standpoint.

6.2.3.2 Support for regional economic development

As a local regional bank, a trusted intermediary in payments, investments and financing, a contributor to job creation and preservation, and a partner of creation and innovation, Crédit du Nord Group is dedicated to supporting regional craftsmen, entrepreneurs and companies throughout their lives and business cycle.

Partnerships

In addition to its range of products and services for associations and institutional organisations, the Bank wants to help its customers make the digital transition and develop their fund-raising activities. The **iRaiser online donation platform** is specifically designed for organisations calling on the generosity of the public, such as associations, museums, hospitals, foundations, research institutes, etc.

This partnership is part of a global approach to innovation and reliance on trusted external parties to expand the bank's customer service offer.

iRaiser, a European leader in online donations in the non-retail sector, is a SaaS publisher that produces software dedicated exclusively to non-profit organisations, allowing them to solicit, mobilise and engage donors: payments, landing pages, personal donation pages, CRM, reporting, marketing automation, etc.

The **Professional Customers market** has entered into partnerships aimed at supporting the development of its customers, by gaining a better understanding of their needs, acquiring real professional expertise and putting out special, customised or innovative offers:

- partnership with FNAIM (2006);
- partnership with the Supreme Council of the National Association of Chartered Accountants (2012);
- partnership with the French Union for Oral and Dental Hygiene (2015), the official union for the dental industry for 50 years, representing 38,000 dental professionals. Its commitment in the field to the general public makes it a key player in the promotion of dental and oral health (raising children's awareness, working at centres for disabled persons and centres for socially and economically vulnerable persons, providing education at training centres for apprentices, performing dental screenings, etc.);

- partnership with the Association of Judicial Officers specialising in Building Administration (2012);
- enhanced partnership with Bpifrance (2015): an agreement on delegating authority for decisions on guarantees was signed with the goal of making it easier for professional, VSE and SME customers to obtain funding. With this agreement, the eight Crédit du Nord Group banks will benefit from the Bpifrance guarantee in the best possible conditions. This new partnership is just one of the many efforts undertaken by Crédit du Nord Group banks to finance the local economy, allowing them to be increasingly proactive in supporting their customers at each stage in the life of their business.
- partnership with SlimPay (2015): SlimPay is a fintech specialising in the management of recurring payments via SEPA direct debit. The offer available under this agreement helps streamline the management of customer deposits in a fully secure setting. Thanks to this partnership, all eight Crédit du Nord Group banks can offer their business, institutional and professional customers an integrated and secure solution for processing SEPA direct debit payments.
- new partnership in 2018 with FIZEN, a veritable tool for generating synergies between clients and their accountants, helping executive managers oversee their business online while saving time, money and aggravation;
- under the development strategy targeting Independent Medical Workers, a stand-out offer of payment protection insurance on business loans and finance leases was launched in December 2018 (AON-SWISS LIFE);
- an “Objectif Import Export” website provides a wide range of services and information on international trade free of charge to all corporate customers of Crédit du Nord Group located in France. The website offers easy and efficient solutions for customers interested in expanding their business internationally, with support during the internationalisation process, or in consolidating their foreign trade operations. Its content is precise and regularly updated with a variety of information (country factsheets, market studies, highly informative trade fairs, etc.) to help businesses penetrate new markets, while also offering the possibility of submitting questions online to foreign trade specialists and consulting international banking solutions.
- establishment of a Startup branch specialising in the creation of innovative companies.

For **corporates**: InnovFin, a European finance for innovators programme, is a joint initiative of the **EIB Group** (European Investment Bank and European Investment Fund) and the European Commission, aimed at facilitating and accelerating access to financing solutions for businesses and other innovative organisations in Europe; the EIB guarantees 50% of approved loans for innovation.

As the leading bank for **SMEs and VSEs**, in 2017 Crédit du Nord Group entered into partnership with three major ecommerce players in a bid to support their development:

- Oxatis, European leader in e-commerce websites (and launch of Oxatis webinars);
- Lyra Network, French leader in payment security with its PayZen solution (Clic&Pay);
- and HiPay, a fintech specialising in online payments.

More than 40% of Crédit du Nord Group’s customers are interested in developing an e-commerce business. The main obstacles to going forward are lack of time and internal skills, not to mention costs. In response to these limitations, Crédit du Nord started these partnerships to offer bespoke solutions to its customers, depending on their development plans:

- for future e-merchants, support services include creation of an e-commerce website and an integrated payment system.
- for e-merchants, two innovative online payment solutions are offered: a highly secure, easy-to-install “turnkey” solution and a “bespoke” solution for major e-merchants looking to expand their sales internationally and optimise their payment process via customer data analytics.

The goal is to provide value-added services to **corporate and professional customers**; their own clients are internet users that expect solutions offering an enhanced customer experience, both in terms of loyalty programmes and services.

The Wealth Management, Asset Management and Private Banking division of Crédit du Nord Group relies on experts to offer customers of its Regions and Regional Banks conferences on the various fields of wealth management and private banking, as well as round tables followed by Q&A sessions with interested customers.

Depending on current legal and tax-related events, the division works to answer questions raised by business leaders on topics such as “Current tax events”, “Preparing and optimising the transfer of a business”, “A guide to holding companies”, etc.

Drawing on its extensive regional roots, Crédit du Nord Group undertakes many initiatives aimed at strengthening ties with the local business community. For example, Asset Management participates every two months in entrepreneur briefings (“Rendez-vous de l’Entrepreneur”) organised by the Lille branch of MEDEF, where it presents an overview of macroeconomic developments and financial market trends.

Support for the development of franchise-holders

A **Franchise and Associated Trade division** supports the business development of the networks and their franchiseholders.

It holds regular meetings with franchisers and major stakeholders in organised networks so that it can better meet franchisee expectations, whether through the national structure or through a dedicated advisor who knows the local market and monitors projects at every step of the process while suggesting the most appropriate financing. This advisor is also the main contact who advises the franchisee both professionally and privately, with the help of a Wealth Management CRM. In 2018, Crédit du Nord Group took part in the “Franchise Expo” trade fair in Paris for the seventh year in a row.

This year, the Head of Franchise and Trade led two workshops: “All financing options available to launch my business” and “Financing your franchise.” For the first time, in 2018, Banque Rhône-Alpes attended the Franchise Forum in Lyon.

With its quality charter and “48h commitment”, the Group promises to meet with the applicant franchisee within 48 hours after the application has been submitted by the franchiser.

With their extensive knowledge of the local economic landscape, the eight Crédit du Nord Group banks are fully committed to franchise development. Their close relations with customers and other regional players put them in a position to make entrepreneurial plans a reality and participate in the financing of the regional economy.

Crédit du Nord Group has continued its partnership with the FFF (French Franchise Federation) via the “Toute la Franchise” directory and participation in the 13 regional conferences organised for the “Running a Franchise” programme.

Support for SME/ISE directors

Crédit du Nord Corporate Finance boasts a dedicated, specialised team that works with the regions and regional banks to meet the needs of the leaders and shareholders of small- to medium-sized family-owned businesses in terms of financing growth and structuring and transferring their capital. The transactions carried out by Crédit du Nord Corporate Finance are intended to maximise the assets of the shareholders of these companies.

Expertise in equity transactions:

- M&A Advisory;
- private equity;
- structured financing.

Measurement of BRA’s socioeconomic footprint

In October 2018, Crédit du Nord launched a study aimed at **measuring the local socioeconomic footprint of Banque Rhône-Alpes**.

The goals of the study are 1) to communicate on this footprint, based on objective and verifiable data, and 2) to identify ways to improve this footprint and enrich the regions.

Banque Rhône-Alpes was the first to test this approach with the help of the Footprint® methodology employed by Utopies. The study should be finished in the first quarter of 2019.

Depending on the results, Crédit du Nord plans to extend this measurement to the Group's other banks, and is considering including the model in the "Blue Box", a tool developed internally and designed to help region and subsidiary heads analyse and improve the Bank's commercial structure and offer.

Branch accessibility

The Group is committed to making its services available to disabled customers by adapting its facilities and providing user-friendly applications: access to ATMs, disability-friendly branches, recruitment website designed using FACIL'ITI for the browsing comfort of persons with vision, cognitive or motor impairments, virtual audible keyboards for blind or visionimpaired customers.

In 2015, all eight banks filed their Disability Access Plan (DAP):

DAP filed in 2015	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit
2016	37	13	-	5	-	5	3	11
2017	28	10	-	4	-	6	2	9
2018	21	11	-	3	-	5	2	16
2019	13		-		-			8
2020	13		-		-			9
2021	24		-		-			7

Rate of compliance reported at 31/12/2018	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit
	DRIF 66.10 % NDF 91.70% NO 97.90 %	94.90%	100%	97.60%	100%	92.80%	85.50%	98.40%

DRIF = Ile de France and Loiret, NM = Nord Métropole, NO = Nord Ouest, PDN = Provinces du Nord.

Crédit du Nord Group is working to gradually made all branches disability-friendly and comply with standards aimed at promoting access to disabled persons.

At end-2018, the compliance rate of Crédit du Nord branches stood at **89.2%**.

The goal is to reach **100% by 2021** in accordance with the Disability Access Plan. Pursuant to the Act of February 11, 2005 on equal rights and opportunities, participation and citizenship of persons with disabilities, an initiative was launched in 2010 to bring the branches into compliance.

6.2.3.3 Societal engagement

Sponsorship policy

Encouraging engagement in a bid to bring a little more soul to the business and pride to the employees: such is the goal of the sponsorship policy aimed at expanding contributions to society under the Group's CSR policy.

	2017	2018								
	Group Total Crédit du Nord	Crédit du Nord	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group**
Sponsorship Patronage	1,566,987	250,473	196,078	20,084	44,840	139,793	295,455	172,577	322,682	**1,441,983**
Donations	1,240,935	315,660	12,315	59,350	53,450	22,600	107,500	73,490	215,750	**860,115**

Sponsorship initiatives and partnerships

The main sponsorship initiatives conducted by Crédit du Nord Group in Paris and nationwide are:

- **the fight against childhood cancer** through its longstanding support of Imagine for Margo, an association that has collected funds since 2011 for European research on special treatments of paediatric cancer. Each year, employees from across the Group rally to support this cause by participating in the "Children without Cancer" race: 46 took part in the very first race in 2012 and 260 in 2018.
- **several cultural initiatives and achievements** took place out in 2018:
  - the Group became a "founding sponsor" of Atelier des Lumières, the first digital art centre in Paris opened by Culturespaces in April,
  - as a Major Sponsor of the Mission du Centenaire, celebrating the 100th anniversary of World War I, Crédit du Nord was highly present at the November 2018 commemorations,
  - Crédit du Nord is also a Major Sponsor of the Musée d'Orsay, the Musée de l'Orangerie and the Musée Jacquemart-André, and is a member of the Cercle de l'Odéon,
  - it also fully funded the restoration of the rotunda in the lobby of the Opéra Comique,
- **youth integration**, via the partnership in favour of Unis Cité, an association that pioneers civic initiatives in France. This partnership gives employees an opportunity to volunteer one workday per year for the skills sponsorship programme. Since 2017 (the year the partnership was established), 75 Paris employees have taken part in coaching initiatives for Unis Cité youth;
- **cross-sponsorship**: since 2015, Crédit du Nord has carried out an unprecedented cross-sponsorship programme with the "Imagine for Margo" association and the Musée d'Orsay (as a Major Sponsor). Each year, the museum invites four children with cancer and their families to tour the collections, and organises 20 plastic arts workshops in the Paediatric and Juvenile Cancer ward of Gustave Roussy hospital. In 2018, Crédit du Nord also set up a cultural experience for Unis Cité youth with three of its cultural partners. Ten children were able to attend a performance at the Odéon-Théâtre de l'Europe, ten more a performance at the Opéra Comique, and ten more toured the Impressionists Gallery at the Musée d'Orsay.

Subsidiary sponsorship initiatives included:

- **Banque Courtois**: financial aid to replant trees along the Canal du Midi;
- **Banque Nuger** : financial support for the nomination of the Chaîne des Puys-Faille de Limagne as a UNESCO World Heritage Site;
- **Banque Rhône-Alpes** : Principal Sponsor of the Théâtre des Célestins in Lyon;
- **Fondation Banque Rhône-Alpes** for pain relief in sick children;
- **Société Marseillaise de Crédit**: financial support for the Roque d'Anthéron piano festival (for 35 years running).
- **Banque Kolb**: a new partner of "Tous repreneurs", an association focused on detecting talented entrepreneurs/buyers, training and coaching them until they are put in touch with business owners interested in selling their company.

Charitable structured product

Loyal to its constant sponsorship policy for more than 30 years, centred on culture, sports and society, Crédit du Nord Group wanted to offer a financial product embodying this spirit - a first that may subsequently be expanded to include other products in 2019.

At end-2018, the Private Banking division launched a charitable financial product called "Onyx Pargage", in favour of beneficiary associations selected by private bankers : "**Imagine for Margo**" and "**Les Compagnons du Devoir et du Tour de France**".

The minimum was largely exceeded, with €70 million collected for this product (i.e. €35,000 per association), with the aim of contributing to the funding of the concrete charitable projects carried out daily by these associations.

6.2.4 Supporting the energy transition

Although the non-financial risk assessment did not identify **environmental risk** as a major risk for the Group, the **environmental policy** clearly illustrates Crédit du Nord's determination to participate in the energy transition while reducing its environmental footprint.

6.2.4.1 Development of sustainable, positive-impact finance

CSR criteria examined by the Product Committee

Each division submits any new product, project, business or activity to a Product Committee chaired by the Risk Division.

Before going to market, the committee makes sure that all associated risks and opportunities have been identified, using an analysis chart.

The Product Committee notably ensures that a product's social and environmental impacts have been identified, and takes them into account in approving a product launch.

In the course of 2018, in addition to reputational risk and supplier risk (reputation, governance, non-financial performance), the analysis chart was expanded to include CSR risks/opportunities, primarily based on:

- negative/positive socioeconomic impact: employment, gender equality, non-discrimination, health and safety, destruction of assets, etc.;
- positive/negative environmental impact : use of resources, non-recyclable waste, air pollution, noise or visual pollution, etc.

These CSR criteria are included in Sourcing procedure requirements.

Since the new analysis chart was implemented, a new product ("Overhaul of the home loan process") submitted to the Product Committee in December 2018 was found to have "positive environmental impacts."

Socially Responsible Investment (SRI)

Socially Responsible Investment deals with the behaviour of corporations in the Environmental, Social and Governance (ESG) fields:

- **Environmental criteria**: analysis of how well companies manage their direct and indirect impacts on the environment, such as limiting their energy consumption or reducing GHG emissions, etc.;
- **Social criteria**: measurement of the strategies undertaken by companies to develop their human capital (career management, training, equality, diversity, etc.) and respect human rights;
- **Governance criteria**: analysis of how companies incorporate all of their stakeholders (shareholders, employees, customers, suppliers, etc.) in the achievement of long-term goals.

Crédit du Nord prioritises funds that meet the specific characteristics of SRI and thus raise customer awareness of these funds.

In 2018, the Amundi Green Bonds fund was added to its range for certain customer segments, in addition to the sustainable development fund Etoile Développement Durable.

Crédit du Nord also prioritises funds that meet the specific characteristics of capital protection in order to raise customer awareness of these funds.

Promotion of **Capital Protection** on asset management sites under "Our financial management range" or "Our financial investment range" is a new phenomenon.

This information is presented in the "Our financial investment range" guide for corporate and institutional customers.

- **Capital protection**: "The capital protection rate is indicated in the Key Investor Information Document (KIID)."
- **ESG criteria**: "Thematic investment in companies meeting Environmental, Social and/or Governance criteria. For more information, see the Key Investor Information Document (KIID)."

ESR-certified employee savings

In an effort to help employees build up their savings, Crédit du Nord Group offers opportunities to invest in different FCPEs (company mutual funds) qualifying for ESR (Socially Responsible Enterprise) certification by the CIES (Interunion Committee for Employee Savings): Amundi Label Equilibre Solidaire **ESR**, Amundi Label Obligataire **ESR**, Arcancia **Actions** Ethique & Solidaire, Amundi Label Actions Solldaire ESR and Amundi Label Actions Euroland ESR.

Green finance

Crédit du Nord has a team that focuses exclusively on project finance, particularly in the fields of wind power, solar PV power and hydropower, and offers bespoke financing solutions, either via conventional loans under the Crédit du Nord brand or finance leases through its subsidiary **Norbail Sofergie**. The team is renowned for its expertise in serving the customers of the Crédit du Nord Group network and operates mainly as an arranger.

It should be noted that Crédit du Nord is a signatory of the Equator Principles, which serve as a common framework for the financial industry for the purpose of identifying, assessing and managing the E&S risks associated with funded projects.

Examples of projects funded by Crédit du Nord Group in 2018 include:

- Funding of nine PV plants for a power plant developer and operator (a client of Société Marseillaise de Crédit);
- Funding of two high-voltage stations and a combined heat and power (CHP) gas turbine plant for a Data Centre operator, totalling more than €6 million.

Green finance increased **17%** from 2017 to 2018.

(in €)	2017	2018
Funding of wind farms	8,035,000	-
Funding of solar PV power plants	34,798,022	46,544,800
Funding of other renewable energy power plants	9,918,768	4,850,000
Funding of an energy efficiency improvement plan	-	10,438,200
TOTAL	**52,751,790**	**61,833,000**
% increase	-	*+17%*

Property finance leasing

Norbail Immobilier manages over a dozen real estate financing deals (with or without site and building decontamination) in the healthcare and hospital sector totalling more than €31 million, plus waste or water treatment plants for a total of €32 million.

In 2018, 3 site and building decontamination projects were financed.

	2017	2018
Number of site and building decontamination projects *(source Norbail Immo)*	N/A	3

6.3.4.2 Internal environmental policy

In keeping with the three pillars of the Group's banking model (regional presence, relationship-building and customer satisfaction) which are now more relevant than ever and help to set us apart, Crédit du Nord aims to reduce the environmental footprint of its internal operations.

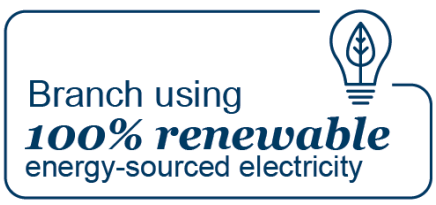
Crédit du Nord Group's environmental policy strives to meet three major objectives :

- to reduce and minimise the direct and indirect impact of its activities on the environment;
- to reduce natural resource and energy consumption through careful and efficient utilisation;
- to ensure constant attention is paid to employee comfort and customer service.

Eco-responsible branches

Virtually all Crédit du Nord branches have used renewable energy-sourced electricity since 2017. The contract guarantees that the energy provider purchases as much renewable energy-sourced electricity as it sells and distributes to clients; of course, this does not guarantee the provenance of the electrons used, since all electrons are combined in the ENEDIS network that serves all energy producers and consumers. However, as of September 1, 2019, all French Retail Banking branches (SG+CDN) under contract with EDF and ENGIE will be supplied with renewable energy-sourced electricity (European or French hydropower), i.e. 96% of network sites.

Switch to hydropower during the renegotiation of the contract with the energy provider: 727 Crédit du Nord Group branches.



Circular economy and waste treatment

For several years, paper/cardboard collection, sorting and recycling measures have been in place for the central buildings and branches of the 8 Crédit du Nord Group banks.

At the central buildings, other waste (batteries, toner, light bulbs, etc.) are also collected and recycled.

The 8 Crédit du Nord Group banks are all dues-paying members of Valdelia, an organisation that recycles office furniture.

Crédit du Nord regularly makes the effort to recycle or eliminate waste. For example:

- during its most recent poster campaign, Crédit du Nord Group contacted a recycling specialist which pioneered the transformation of advertising materials into bags and accessories in France. All preparation of the recovered materials (sorting, selection, cutting, cleaning, storage) was done at the recycling plant in the Greater Paris region by staff seconded by companies working in the social inclusion sector. 100% of production was outsourced to French companies that employee persons with disabilities and two private workshops. An insert placed in each resulting item (bags, pouches, etc.) conveyed Crédit du Nord Group's CSR policy to the employees and customers who received them.
- Crédit du Nord took advantage of the launch of the selective sorting programme at its self-run Paris company cafeteria (around 700 meals/day) to change organic waste into a substrate (through dehydration and sanitisation) subsequently used as fertilizer. This initiative cuts waste by 29 metric tons per year and reduces the number of kilometres travelled for waste collection by cutting waste pick-ups from once a day to once or twice a month.
- in 2017, Crédit du Nord Group distributed re-usable cups made of 20% seaweed to the employees of the eight regional banks during Sustainable Development Week, along with a flyer to raise environmental awareness;
- in May 2018, Crédit du Nord set up a **coffee grounds recycling programme** at its Paris offices, in exchange for mushroom deliveries, in partnership with CEP and Upcycle (formerly La Boîte à Champignons), in the Anjou cafeteria. Over 1,000 kg of coffee grounds have been recycled since the programme was launched, i.e. the equivalent of 86,000 cups of coffee, resulting in 33 hours worked under the professional integration programme and 257 m2 of restored soil. **Nespresso capsules are recycled** at several entities including Société Marseillaise de Crédit, Tarneaud, etc.;
- since launching its **dynamic-encryption cards**, Crédit du Nord has implemented a special programme for the collection and separate, secure storage of old cards whenever new cards are issued to customers. The old cards are stored by a company employing disabled persons for subsequent recycling;
- in 2018, Banque Laydernier replaced plastic cups with paper cups, and coffee grounds are stored in a bin and collected by head office employees (to grow plants, etc.);
- Banque Kolb collects plastic bottlecaps for associations, paper in wastepaper recycling bins, and has replaced all water jug dispensers with fountains connected directly to the water network.

Prevention of food waste

Only Crédit du Nord and Société Marseillaise de Crédit have company cafeterias. The cafeterias in Paris and Lille are selfrun, while those in Aubagne and Marseille are managed by an external firm. At the self-run cafeterias, the staff have been trained in waste reduction. Menus are posted or delivered by e-mail, but are no longer displayed at the restaurants.

In 2018, cafeteria-goers at the Paris offices learned about food waste thanks to the distribution of ADEME "eat better, waste less" kits.

Five of the Group's eight banks also have separate dining areas for management, managed by external companies. In these areas, food waste is managed at the source because meals are served by invitation only and the menus are pre-established based on the number of guests.

Sustainable use of resources

In light of its banking activities and geographic location (mainland France and Monaco), Crédit du Nord Group's water and energy consumption (electricity, fuel oil, etc.) are not significant, nor is consumption of resources associated with business travel.

Similarly, as a service provider, Crédit du Nord Group does not have any manufacturing activities. Consumption of raw materials, such as paper, is not significant, although paper is the No. 1 consumable resource used by service activities, making it a sensitive environmental issue.

Dematerialisation initiatives aimed at reducing the Group's paper consumption

- staff evaluations in electronic format;
- dematerialisation of transportation, childcare and nursery certificates starting in October 2018;
- dematerialisation of account statements for professional customers.

Banque Kolb reduces paper consumption by ensuring that the majority of its printers are configured to print on both sides, and mainly uses recycled paper for print-outs.

The **Multimedia Expertise Centre** has made a special effort to promote the sale of products via distance selling by e-mail or customer recording, instead of sending paper contracts returned by the customer. This initiative significantly reduces the carbon footprint generated by paper consumption, print-outs, and the delivery and subsequent return of contracts by post.

Emissions of metric tons of CO_2 per occupant, shown below, were calculated using data collected on the basis of energy consumption and estimated data for transportation.

	2017	2018								
Total CO_2 emissions (metric tons per occupant)	Total Crédit du Nord Group (*)	Crédit du Nord (*)	Banque Courtois	Banque Kolb	Banque Laydernier	Banque Nuger	Banque Rhône-Alpes	Banque Tarneaud	Société Marseillaise de Crédit	**Total Crédit du Nord Group (*)**
	1.237	1.191	0.697	1.715	1.256	1.415	1.102	1.347	0.801	**1.197**

(*) Not including the Monaco branch.

Basel portfolio of corporate exposures at default (EAD).

The P9XCA method was used. The variables were updated and adapted to Societe Generale, including in particular geographic distribution and sectors.

Preserving biodiversity

Not relevant. The nature of Crédit du Nord Group's activity and its geographic location (mainland France and Monaco) do not influence the preservation or development of biodiversity.

Nevertheless, the Group has carried out a number of local initiatives aimed at protecting biodiversity, such as:

- **Banque Courtois** supports the "Association du Club des Entreprises Mécènes du Canal du Midi", whose mission is to bring together all economic operators interested in preserving the Canal du Midi, which is an emblematic ecological and economic landmark of the region. The 42,000 plane trees bordering the canal are under threat by an incurable disease (canker stain: a microscopic fungus which settles inside the tree and kills it in just 2-5 years);
- **rooftop beehives**: in 2018, **Société Marseillaise de Crédit** doubled the number of beehives installed in 2014 on the roof of its administrative office building in Aubagne, with the help of a local beekeeper. The honey collected from the hives was distributed to the employees of the Aubagne office;

Clean company cars

The company car fleet contains 8 electric cars, five of which are used by **Société Marseillaise de Crédit**. A growing number of electric or hybrid cars are offered to employees under the Group policy aimed at reducing its carbon footprint generated by transportation and business travel. The goal is to ultimately offer only electric or hybrid vehicles.

In 2017, the Corporate Relations Division had two charging stations installed at one of its business centres (for which it received the Environmental Efficiency Award), and had a Zoé all-electric car delivered for use by its employees.

As of November 2018, four electric bicycles are available for use by employees of the **Banque Courtois** head office or by customers.

Internal carbon tax and anti-global warming initiatives

Since 2007, Crédit du Nord Group has worked to reduce the CO_2 emissions generated by Societe Generale Group, which was one of the first banks to instigate **an internal carbon tax**, a mechanism that now forms the core of its carbon footprint reduction strategy. Each year, the business lines/subsidiaries are required to pay a tax on their carbon emissions (€10 per metric ton of CO_2, i.e. **€3.1 million in 2018**). This tax raises staff awareness of carbon impacts, encourages employees to reduce carbon emissions and guides them in their decisions. Since 2013, the funds raised from the tax have been used to finance internal environmental efficiency initiatives. Carbon tax revenues are redistributed through "**Environmental Efficiency Awards**" (EEA), which recognise initiatives targeting buildings, IT systems, transport, paper consumption and waste management. The award system encourages each entity to cut its carbon emissions, while underscoring that environmental actions are also value creation and innovation opportunities for the bank.

By incorporating this carbon neutrality (then reduction) programme, Crédit du Nord Group has undertaken to foster a culture of environmental awareness.

To determine its internal carbon tax, Crédit du Nord Group reports data to Societe Generale Group's CSR reporting tool (Planethic Reporting). which improves oversight of environmental indicators and their scope of application. All Group entities (regional banks, regions, central buildings) actively collect and transmit this data, which contributes to the quality of reporting.

Implementation of a carbon neutrality-then-reduction programme with a cross-business impact:

- on **real estate**: defining principles for building refurbishments and renovations (better use of space and of new technologies with a reduced environmental impact)

– on **consumables**: stricter policy on the use of consumables, particularly paper, by being more demanding when it comes to suppliers and reducing the use of paper;

– on **transportation**: improved monitoring and control of business travel with greater use of alternative tools such as audio and videoconferencing systems.

			Annual consumption decrease				
	Number of initiatives	Award received	Metric tons of paper	Metric tons of waste	Litres of fuel	KwH of gas	Metric tons of CO_2 avoided
2017	7	€189,305	194.62	8	1125	0	403.956
2018	**9**	**€124,427**	**7.549**	**1.6**	**1,600**	**230,000**	**1,118.011**

This year, Crédit du Nord received an award for **9 initiatives for a total of nearly €125,000**. Through these initiatives, more than 1,100 metric tons of CO_2 are avoided per year:

– in the "**Paper**" category:
  – modification of Management mail routing - Branch Division,
  – online purchase of Livret A passbook accounts - Branch Division,
  – purchase of life insurance policies using tablets - Branch Division,
  – elimination of a listing - Risk Division,
  – dematerialisation of the individual customers recap - Customer Research Division;
– in the "**Transportation**" category:
  – installation of a car charging station and provision of an electric company car (Corporate Relations Division).
– in the "Waste Management" category:
  – recycling of coffee grounds (CSR). Thanks to this initiative, over 1,000 kg of coffee grounds have been collected in the Paris cafeterias since May 2018, i.e. the equivalent of nearly 86,000 cups of coffee. In addition, 33 hours were worked under the professional integration programme and 257 m2 of soil was restored.
– in the "**Real Estate**" category:
  – Improvement of energy efficiency in Group buildings (see above, page 343, "Eco-responsible branches"),
  – Improvement of insulation and air-conditioning at one of the central office buildings.

Other initiatives

In keeping with the practices already in place at several subsidiaries, and in accordance with the "office renovation charter" in place since 2012, Banque Tarneaud is replacing its LED lights.

Similarly, in the common areas of Banque Tarneaud's head office, motion-detecting lights have been installed to save electricity.

In an effort to reduce water consumption, its head office also replaced the faucets in its bathrooms with motion-detecting faucets.

Energy efficiency initiatives at the Paris office buildings

In 2018, four Crédit du Nord central office buildings received ISO 50001 certification for energy management. This certification was issued by Bureau Veritas Certification and is valid for 3 years, from December 4, 2018 to December 3, 2021.

ISO 50001 is a standard applied to energy management systems used by organisations in the public and private sector. Its goal is to help organisations efficiently manage energy and thus reduce energy costs.

GHG emissions generated by the use of goods and services produced by the company

Assessment of the carbon footprint generated by the bank's on-balance sheet commitments: under Article 173 of the Energy Transition for Green Growth Act, companies are required to report on the major GHG emissions generated by their activity, and in particular by the use of the goods and services they produce. For the purposes of its corporate financing activity (emissions generated), Societe Generale Group established a method for assessing GHG emissions generated by the Bank's on-balance sheet commitments [(1)] in order to determine the sectors responsible for the highest carbon emissions [(2)]. This method is based on a global approach using official data provided by international organisations such as the United Nations or the OECD to determine, in relation to the impact on the climate of macro-sectors (e.g. transportation, energy, industry, etc.), the percentage of emissions associated with the Bank's commitments. It does not include GHG emissions associated with loans to individual customers. It offers a snapshot of financed emissions at a given time, serving as a diagnostic analysis.

Based on this diagnostic analysis, conducted for the first time at the end of 2017, the three sectors with the biggest carbon footprint (Manufacturing Industry, Transportation, and Agriculture and Land Use) accounted for 22% of EADs in the Corporate Customers market, which made up only 25% of Crédit du Nord Group's total outstanding loans.

APPENDIX

Cross-reference table of Registration Document chapters

Business model	Items	Chapter of 2018 Registration Document/SDGs
Activity	Key Figures: NBI, results/Subsidiary Headcount, products and services, customers	Chapter 1, pg. 1
	Analysis of profit margin/NBI	
	Positioning in the industry	Chapter 6 § 6.1.1, pg. 307
Internal structure and resources	Geographic locations	Chapter 3, pg. 45
	Resources by business line, bank, etc.	Chapter 6 § 6.1.2, pg. 309
Corporate culture	Business model, values	Chapter 6 § 6.1.3, pg. 313
Transformation strategy	Outlook	Chapter 6 § 6.1.4, pg. 311
	Agir 3.0 transformation plan & new CSR strategy	Chapter 6, pg. 311-316
Non-financial risk policy	Main non-financial risks and opportunities associated with the business	Chapter 5, pg. 254; Chapter 6.2, pg. 317 Chapter 6 § 6.2.1, pg. 319-320
Conducting business ethically and responsibly	Compliance policy	Chapter 6 § 6.2.2, pg. 321-324
	Management of E&S risks	Chapter 5.9, Non-compliance risks, pg. 299; Chapter 6, pg. 325
	Sector policy, blacklists, watchlists	Chapter 3.2, Risk control and management procedure, pg. 61 and Chapter 5.2, pg. 256
	Prevention of corruption, prevention of money-laundering, whistleblowing, “culture and conduct” programme, data protection	Chapter 6, pg. 322-324
Being a responsible and innovative employer	Attracting new talent Developing diversity and skills Combating discrimination Working conditions & Quality of life at work Collective bargaining agreements Employee engagement	Chapter 6 § 6.2.2.2, pg. 326-336
Customer satisfaction and protection	Customer satisfaction survey Complaint procedure	Chapter 6 § 6.2.2.3, pg. 336-338
Showing solidarity with the regions	Responsible sourcing policy	Chapter 6 § 6.2.3.1, pg. 338-340
	Regional economic development	Chapter 6 § 6.2.3, pg. 340-343
	Societal engagement in favour of sustainable development	Chapter 6 § 6.2.3.3, pg. 344
Supporting the energy transition	Sustainable, positive-impact finance Proprietary environmental policy (circular economy, food waste)	Chapter 6 § 6.2.4.1, pg. 345-347; 6.2.4.2, pg. 347-352

6.3 Independent verifier's report on consolidated non-financial statement presented in the Management Report

Year ended on 31st December 2018

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the General Management,

In our quality as an independent verifier, accredited by the COFRAC under the number n° 3-1050 (scope of accreditation available on the website www.cofrac.fr), and as a member of the network of one of the statutory auditors of your entity (hereafter "entity"), we present our report on the consolidated non-financial statement established for the year ended on 31st December 2018 (hereafter referred to as the "Statement"), presented in the management report pursuant to the provisions of the article L. 225 102-1, R. 225-105 et R. 225-105-1 of the French Commercial code (Code de commerce).

Responsibility of the entity

As part of this voluntary approach, it is the responsibility of the entity to establish the statement in compliance with the legal and regulatory provisions including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied regarding these risks as well as the results of these policies, including key performance indicators.

The Statement has been established by applying the procedures of the entity (hereinafter referred to as the "Criteria"), the significant elements of which are presented in the Statement and available on request at the Entity's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements pursuant to the provisions of the article L. 822-11-3 of the French Commercial code (Code de commerce) and the Code of Ethics of our profession. In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work, to express a limited assurance conclusion on:

- the compliance of the Statement with the provisions of Article R. 225-105 of the French Commercial Code;
- the fairness of the information provided pursuant to paragraph 3 of I and II of Article R. 225-105 of the French Commercial Code, namely the results of the policies, including key performance indicators, and the actions related to the main risks, hereinafter the "Information".

Nonetheless, it is not our responsibility to express any form of conclusion on:

- compliance by the entity with other applicable legal and regulatory provisions, particularly regarding the vigilance plan and the fight against corruption and tax evasion;
- compliance of products and services with applicable regulations.

Nature and scope of the work

Our work described below has been carried out in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the procedures in which the independent third party conducts its mission and according to professional standards as well as to the international ISAE standard 3000 - Assurance engagements other than audits or reviews of historical financial information.

The work that we conducted enables us to assess the compliance of the Statement with the regulatory provisions and the fairness of the Information:

- we took note of the activity of all the companies included in the scope of consolidation, the statement of the main social and environmental risks related to this activity, and, if applicable, its effects regarding compliance with human rights, the fight against corruption, tax evasion as well as the resulting policies and their results;
- we assessed the suitability of the Criteria in terms of its relevance, comprehensiveness, reliability, neutrality and understandability by taking into consideration, if relevant, the best practices of the industry;
- we verified that the Statement covers each category of information provided in III of article L. 225-102-1 of the French Commercial Code regarding social and environmental matters, as well as respect of human rights and the fight against corruption and tax evasion;
- we verified that the Statement includes an explanation justifying the absence of the information required by the 2nd paragraph of III of Article L. 225-102-1 of the French Commercial Code;
- we verified that the Statement presents the business model and the main risks related to the activity of all the entities included in the scope of consolidation; including if relevant and proportionate, the risks created through its business relationships, products or services, policies, actions and results, including key performance indicators;
- we verified, when relevant to the main risks or the policies presented, that the Statement presents the information provided for II in Article R. 225-105 II of the French Commercial Code;
- we assessed the process of selecting and validating the main risks;
- we inquired about the existence of internal control and risk management procedures put in place by the entity;
- we assessed the consistency of the results and the key performance indicators selected regarding the main risks and policies presented;
- we verified that covers the consolidated scope, i.e. all the companies included in the scope of consolidation in accordance with Article L. 233-16 of the French Commercial Code, with the limits specified in the Statement;
- we assessed the collection process put in place by the entity for the completeness and fairness of the Information;
- we implemented the key performance indicators and other quantitative results that we considered the most important presented in Appendix 1:
  - analytical procedures to verify the correct consolidation of the collected data as well as the consistency of their evolutions,
  - detailed tests based on samples, consisting of checking the correct application of the definitions and procedures and reconciling the data with the supporting documents. This work was carried out with a selection of contributing entities listed below: Crédit du Nord, Banque Courtois, Banque Kolb, Banque Laydernier, Banque Nuger, Banque Rhône Alpes, Banque Tarneaud and Société Marseillaise de Crédit which cover 100% of employees;
- we consulted documentary sources and conducted interviews to corroborate the qualitative information (actions and results) that we considered the most important presented in Appendix 1;
- we assessed the overall consistency of the Statement with our knowledge of the entities included in consolidated scope.

We consider that the work we have done by exercising our professional judgment allows us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work.

Means and resources

Our verification work mobilized the skills of four people and took place between November, 2018 and March, 2019 on a total duration of intervention of about two weeks.

We conducted seven interviews with the persons responsible for the preparation of the Statement including in particular the directions in charge of policies definition, deployment, information collection and internal control.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us not to believe that the non-financial statement complies with the applicable regulatory provisions and that the Information, taken together, is fairly presented, in compliance with the Criteria.

Paris-La Défense, the 15th April 2019

Independent Verifier

ERNST & YOUNG et Associés

French original signed by:

Caroline Delérable	Hassan Baaj
Partner, Sustainable Development	Partner

Appendix 1: Information considered as the most important

Societal and business information

Qualitative Information (Actions or results)	Quantitative information (Key performance indicators and coverage)
– Compliance policy in the context of ethical business conduct – Data protection system – Client satisfaction management and complaint processing – Responsible purchasing policy – CSR rating grid for new products – Deployment of the E&S reputation risk identification and management system	– Amount of positive impact financing

Social information

Qualitative Information (Actions or results)	Quantitative information (Key performance indicators and coverage)
– Attractiveness and retention of employees (quality of work life, skills management, recruitment) – Diversity and policy against discrimination – Employees training	– Average number of hours of training per employee – Share of positions filled through internal mobility

Environmental information

Qualitative Information (Actions or results)	Quantitative information (Key performance indicators and coverage)
– General environmental policy	– Amount of green financing

Additional information

7

7.1 General description of Crédit du Nord _____ 358

7.2 Group activity _____ 361

7.1 General description of Crédit du Nord

Company name

Crédit du Nord

Address of the head office and telephone number

Address: 28, place Rihour - 59000 Lille, France

Telephone: +33 (0)1 40 22 40 22

Legal form

A limited liability company (Société Anonyme) registered in France and governed by Articles L. 210-1 et seq. of the French Commercial Code.

The company has the status of a bank governed by Articles L. 311-1 et seq. of the French Monetary and Financial Code.

Registration number

SIREN 456 504 851 RCS Lille (Lille Trade and Companies Register)

APE activity code

6419 Z

LEI (Legal Entity Identifier)

54930076YK05WVH25M52

Creation and expiration date

Crédit du Nord was founded in 1848 under the name Comptoir national d'escompte de l'arrondissement de Lille.

It adopted the status of a limited liability company (Société Anonyme) in 1870 and took the name "Crédit du Nord" in 1871.

The date of expiration of the company is set at 21 May 2068, barring dissolution before this date or an extension thereof as provided by law.

Corporate purpose (Article 3 of the bylaws)

The purpose of the company, under the conditions set forth by the laws and regulations applicable to credit institutions, is to perform with individuals or corporate entities, in France or abroad:

- any and all banking transactions;
- any and all transactions related to banking transactions, including, in particular, all investment or related services as governed by Articles L. 321-1 and 321-2 of the French Monetary and Financial Code;
- any and all acquisitions of ownership interests in other companies.

In accordance with the conditions set forth by the French Banking and Financial Regulation Committee, the company may also regularly engage in any and all transactions other than those mentioned above, including in particular insurance brokerage.

Generally, the company may, on its own behalf, on behalf of third parties or jointly, engage in any and all financial, commercial, industrial, agricultural or real estate transactions that are directly or indirectly related to the aforementioned activities or likely to facilitate the execution thereof.

Share capital

Crédit du Nord's share capital is set at EUR 890,263,248, divided into 111,282,906 fully paid-up shares with a face value of €8.

The shares comprising the company's capital are not subject to any pledge agreements.

Form of shares

All shares must be registered.

Disclosure requirements

No restrictions have been made to legal provisions concerning ownership thresholds.

Share transfer approval

The General Meeting of April 28,1997 ruled that the assignment, sale or transfer of shares to a third party who is not a shareholder, for any reason whatsoever, except in the event of the transfer of an estate, liquidation, communal property between spouses or transfer to a spouse or next-of-kin, is subject to the company's prior approval.

Parent company documents

The documents relating to Crédit du Nord, including its bylaws, financial statements, and the reports presented at its Shareholders' Meetings by the Board of Directors or Statutory Auditors, can be consulted at the Bank's Corporate Secretariat/Corporate Office at 59, boulevard Haussmann, 75008 Paris, France.

Fiscal year

From January 1 to December 31.

Allocation and distribution of earnings
(Article 22 of the bylaws)

Net income for the year is determined in accordance with all currently applicable laws and regulations. At least 5% of net income for the year, less any previous accumulated losses, must, by law, be set aside to form a legal reserve until this reserve reaches one-tenth of share capital.

Net income available after said allocation to legal reserves, as well as any retained earnings, constitutes "income available for distribution" from which dividends may be paid out and/or funds allocated to ordinary, extraordinary or special capital reserves as approved by the Shareholders' Meeting on the basis of the recommendations made by the Board of Directors.

The General Meeting called to approve the financial statements of the fiscal year may, in respect of all or part of final or interim dividends proposed for distribution offer each shareholder the choice between payment of the final or interim dividends in cash or in shares, under the conditions set forth by currently applicable legislation. Shareholders must exercise this option for the entire amount of final or interim dividends to be received for the fiscal year.

Except in the case of a reduction in share capital, no distribution to shareholders may take place where shareholders' equity is or would as a result of said distribution be lower than the sum of the company's share capital plus any legal reserves which, in accordance with the law or under the company's bylaws, are not available for distribution.

Shareholders' Meetings
(extracts from Article 19 of the bylaws)

The General Meeting, which meets on a regular basis, represents all shareholders and exercises all powers devolved to it by law.

It is convened to rule on those issues listed on the agenda in accordance with currently applicable legal and regulatory provisions.

The right to take part in the Meeting is subject to registration of shares in the name of the shareholder at least five days before the date of the meeting.

Profit-sharing

A profit-sharing system is in force at Crédit du Nord. The legal calculation is applied to determine the profit-sharing budget. Its breakdown is proportionate to wages reserved, with wages taken into consideration within the limit of 1.5x the Annual Social Security Cap (PASS).

An incentive agreement was also signed on June 14, 2016 which applies to fiscal years 2013 through 2018. All payments therein are calculated on the basis of 8.75% of Crédit du Nord's gross operating income adjusted for certain parameters. It is paid out as follows:

- 50% of the profit-sharing budget, capped at €5 million, is paid in proportion to the employee's presence during the fiscal year;
- 50% is paid in proportion to the gross taxable wages for the fiscal year, excluding performance bonuses.

For each year in which the agreement is applied, total incentive pay is capped at 8.75% of gross fiscal remuneration paid to all company employees in the year in question.

In addition, the total amount paid under profit-sharing and incentive plans is capped at 12% of gross fiscal remuneration.

If exceeded, the amount of the bonus will be decreased by the surplus, without going below 6.5% of gross taxable compensation.

Crédit du Nord makes an additional "employer's contribution" where employees pay any profit-sharing or incentives into the Company Savings Plan or into the Company Pension Savings Plan (PERCO), in accordance with pre-defined scales and limits.

Change in capital

	2018*
Shares outstanding	111,282,906
Par value per share *(in EUR)*	8
Capital stock *(in €)*	890,263,248
Maximum number of shares to be created **	-
Total number of potential shares	111,282,906
Potential share capital *(in EUR)*	890,263,248

* *No change since the last capital increase, carried out on September 15, 2010 for €150 million, mainly for the purpose of the acquisition of SMC.*

** *Created by converting bonds or exercising stock options.*

Ownership and voting rights at December 31, 2018

Societe Generale	100%
Members of Management bodies	-
Employees (via specialised fund managers)	-

Double voting rights

None.

Changes in ownership in the last three years

No change.

Dividend payments

- A dividend per share of €2.20 was paid out in respect of fiscal year 2014.
- A dividend per share of €2.50 was paid out in respect of fiscal year 2015.
- A dividend per share of €1.53 was paid out in respect of fiscal year 2016.
- A dividend per share of €2.05 was paid out in respect of fiscal year 2017.
- On May 19, 2018, a proposal will be put forward to the Shareholders' Meeting to pay a dividend of €3.06 for 2018.

Securities markets

Not applicable : Crédit du Nord shares are not listed on any markets.

7.2 Group activity

Use of patents and licences

Not applicable.

Legal risks

Crédit du Nord is a credit institution authorised to operate as a bank. As such, it may engage in any and all banking transactions.

It is also authorised to provide any and all investment or related services as referred to in articles L. 321-1 and L. 321-2 of the Monetary and Financial Code. As an investment service provider, Crédit du Nord is subject to the applicable regulatory framework, in particular the prudential rules and controls of the ECB, ACPR and AMF. All managers and employees are bound by professional secrecy, the breach of which is subject to criminal penalties.

Crédit du Nord is also an insurance broker.

Litigation and extraordinary circumstances

To date there are no extraordinary circumstances and/or ongoing litigation that may have, or may have had in the recent past, a significant effect on the business, income, financial position or assets and liabilities of Crédit du Nord or its subsidiaries.

Other special risks

To the best of Crédit du Nord's knowledge, no such risk currently applies.

Insurance

General policy

Crédit du Nord's insurance policy aims to obtain the best coverage with respect to the risks to which it is exposed.

A certain number of major risks are covered by policies taken out as part of Societe Generale's Global Insurance Policy, while others are covered by policies taken out by Crédit du Nord.

Risks covered by the Societe Generale Global Insurance Policy

1. Theft/fraud

These risks are included in a "global banking" policy that insures the banking activities of Crédit du Nord and its subsidiaries.

2. Professional liability insurance

The consequences of any lawsuits are insured under the global policy. The level of coverage is the best available on the market.

3. Operating losses

The consequences of an accidental interruption in activity are insured under the global policy. This policy complements the business continuity plans.

4. Third-party liability insurance of the corporate officers

The purpose of this policy is to cover the company's managers and directors in the event of claims filed against them and invoking their liability.

5. Liability insurance linked to operations

This insurance covers any pecuniary damages to third parties incurred by all persons or equipment deemed necessary for the company's operations.

Risks covered by Crédit du Nord policies

Buildings and their contents

- Buildings and their contents are covered by a multi-risk housing insurance policy, within the contractual compensation limit of €19,900,000 for premises covering less than 2,000 m^2;
- €80,000,000 for premises covering more than 2,000 m^2.

Other risks linked to activities

Within the framework of all Group contracts, Crédit du Nord offers customers death and invalidity insurance on their loans (property, consumer loans, etc.).

Person responsible for the Registration Document

8

8.1 Person responsible for the Registration Document ____ 364

8.2 Certification by the person responsible for the Registration Document and the Annual Financial Report ____ 364

8.3 Statutory Auditors ____ 365

8.1 Person responsible for the Registration Document

Person responsible for the Registration Document

Françoise MERCADAL DELASALLES, Chief Executive Officer of Crédit du Nord.

8.2 Certification by the person responsible for the Registration Document and the Annual Financial Report

I hereby certify, having taken all reasonable measures to this end, that to the best of my knowledge, the information contained in this Registration Document is true and that there are no omissions that could impair its meaning.

I certify that, to the best of my knowledge, the financial statements were drawn up in accordance with applicable accounting standards and present fairly, in all material respects, the financial position and results of the parent company and of the entire Group as constituted by the consolidated companies, and that the Management Report (including the cross-reference table for the annual report, in Chapter 9, which indicates the content) accurately reflects the development of business, results and the financial situation of the parent company and of the entire Group as constituted by the consolidated companies, and describes the main risks and uncertainties to which they are exposed.

I received a letter of completion from the Statutory Auditors in which they state that they verified the information in respect of the financial position and accounts presented in the Registration Document, which they have read in its entirety.

Paris, April 19, 2019

The Chief Executive Officer, Françoise MERCADAL DELASALLES

8.3 Statutory Auditors

ERNST & YOUNG et Autres

Represented by Vincent ROTY

Adress: 1/2, place des Saisons
92 400 Courbevoie - Paris-La Défense 1

Date appointed: May 4, 2000

Date of last reappointment: May 18, 2018 for six fiscal years

Current term expires: at the end of the Ordinary General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2023.

DELOITTE & ASSOCIES

Represented by Jean-Marc MICKELER

Adress: 6, place de la Pyramide
92 908 Paris-La Défense Cedex

Date appointed: 4 mai 2000

Date of last reappointment: May 18, 2018 for six fiscal years

Current term expires: at the end of the Ordinary General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2023.

Cross Reference tables

9

9.1 Cross Reference table for the Registration Document _____ 368

9.2 Cross Reference table for the Annual Financial Report _____ 371

9.1 Cross Reference table for the Registration Document

In accordance with Article 28 of EC Regulation No. 809/2004 of April 29, 2004, the following information is included for reference purposes in the Registration Document:

- individual and consolidated financial statements for the fiscal year ended December 31, 2017, the related Statutory Auditors' reports and the Group Management Report appearing on pages 70-169, pages 179-222, pages 170 and 175, pages 223 to 227, and pages 46 to 68 of the Registration Document filed with the AMF on April 16, 2018 under No. D.18-0333;
- individual and consolidated financial statements for the fiscal year ended December 31, 2016, the related Statutory Auditors' reports and the Group Management Report appearing on pages 42-133, pages 140-184, pages 134 and 135, pages 200 and 201, and pages 13-25 of the Registration Document filed with the AMF on April 19, 2017 under No. D.17-0395.

The chapters of Registration Document Nos. D.18-0333 and D.15-0395 not listed above are either not applicable for investors or are covered in another section of this Registration Document.

Both aforementioned registration documents are available on the websites of Crédit du Nord (www.credit-du-nord.fr) and the AMF (www.amf-france.org).

To assist with the reading of the Registration Document, the following cross-reference table refers to the main chapters required by Annex 1 of European Regulation No. 809/2004.

Chapter		Page number of the Registration Document
1. Responsibility for the registration document		364
2. Statutory auditors		365
3. Select financial information		
3.1.	Select historic financial information for the issuer, for each fiscal year	6-7
3.2.	Select financial information for interim periods	N/A*
4. Risk factors		61-72; 253-301; 317-320; 361-362
5. Information about the issuer		
5.1.	History and development of the company	358
5.2.	Investments	60; 180-181
6. Overview of activities		
6.1.	Main activities	305
6.2.	Main markets	141; 306
6.3.	Exceptional events	N/A*
6.4.	Degree of issuer dependence on patents, licences, industrial, commercial, and financial contracts, and on new manufacturing processes	361
6.5.	Basis of issuer statements concerning its competitive position	N/A*
7. Organisation chart		
7.1.	Overall description of the Group	4
7.2.	List of major subsidiaries	4; 105-108; 183-184; 245-246; 308

Chapter	Page number of the Registration Document
8. Property, plant and equipment	
8.1. Major existing or planned tangible fixed assets	180-181
8.2. Environmental issues with the potential to influence the use of tangible assets	347, 350, 351
9. Overview of financial position and results	
9.1. Financial position	54-58
9.2. Operating income	54-58
10. Cash flow and capital	
10.1. Information on the issuer's capital	74-79
10.2. Source and amount of the issuer's cash flow	80
10.3. Information on the issuer's borrowing conditions and financing structure	138-140; 142; 143
10.4. Information concerning any restrictions on the use of capital having influenced or capable of influencing the issuer's transactions	N/A*
10.5. Information concerning the expected sources of financing needed to honour the commitments listed in chapters 5.2 and 8.1	N/A*
11. Research and development, patents and licences	N/A*
12. Information on trends	60
13. Profit forecasts or estimates	N/A*
14. Administrative, Management and Supervisory bodies and General Management	
14.1. Board of Directors and General Management	14-15
14.2. Conflicts of interest involving the administrative, management and supervisory bodies and General Management	18-23
15. Compensation and benefits	
15.1. Amount of compensation paid and benefits in kind	24-28
15.2. Total amount provisioned or recorded by the issuer for the payment of pensions and other benefits	164-165
16. Corporate Governance	
16.1. Expiry of current terms of office	14; 18-21
16.2. Service agreements binding members of the administrative bodies	N/A*
16.3. Information on the issuer's Audit Committee and Compensation Committee	16; 18; 24-28
16.4. Statement indicating whether or not the issuer complies with corporate governance policy	16-25
17. Employees	
17.1. Number of employees	233; 327
17.2. Ownership interests and stock options of Directors	30-36
17.3. Agreement allowing for employees to invest In the issuer's capital	360

Chapter	Page number of the Registration Document
18. Key shareholders	
18.1. Shareholders owning more than 5% of the share capital or voting rights	360
18.2. Other voting rights	360
18.3. Ownership of the issuer	360
18.4. Agreement of which the issuer is aware, the implementation of which could lead to a change in ownership at a future date	N/A*
19. Transactions with affiliates	164-165; 183-184; 41-43
20. Information concerning the issuer's financial situation and results	
20.1. Historical financial information	73-194; 203-246
20.2. Pro forma financial information	N/A*
20.3. Financial statements	73-194; 203-246
20.4. Verification of annual historic financial information	195-199; 247-251
20.5. Date of latest financial information	74; 205
20.6. Interim financial information	N/A*
20.7. Dividend policy	360
20.8. Legal and arbitration proceedings	361
20.9. Significant change in the financial or commercial situation	N/A*
21. Additional disclosures	
21.1. Share capital	358; 360
21.2. Articles of incorporation and bylaws	358-359
22. Major contracts	N/A*
23. Information from third parties, expert certifications and interest declaration	N/A*
24. Documents available to the public	359
25. Information on equity investments	4; 105-108; 183-184; 245-246

* *NA : Not Applicable*

9.2 Cross Reference table for the Annual Financial Report

In accordance with Article 222-3 of the General Regulations of the Autorité des Marchés Financiers (French Securities Regulator), the annual financial report mentioned in Section I of Article L.451-1-2 of the French Monetary and Financial Code includes the items described in the following pages of the Registration Document:

Annual financial report Chapter	Page number of the Registration Document
Certification of the person responsible for the registration document	364
Management Report	
- Analysis of the results, financial situation, and risks of the parent company and the consolidated group and list of powers delegated for the purposes of capital increases (Article L.225-100 and L.225-100-2 of the French Commercial Code)	46-60
- Information required by Article L.225-100-3 of the French Commercial Code relating to items liable to have an impact on the public offer	NA*
- Information relating to share buybacks (Article L.225-211 paragraph 2 of the French Commercial Code)	NA*
- Information relating to establishments and activities (Article L.511-45 of the French Monetary and Financial Code)	NA*
Financial statements	
- Annual financial statements	200-246
- Statutory auditors' report on the financial statements	247-251
- Consolidated financial statements	73-194
- Statutory Auditors' report on the consolidated financial statements	195-199

* *NA : Not Applicable*

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AMF

The original document was filed with the AMF (French Securities Regulator) on April 17, 2019, in accordance with Article 212-13 of its General Regulations As such, it may be used to support a financial transaction if accompanied by a prospectus duly approved by the AMF.

This document was produced by the issuer and is binding upon its signatory.

This Registration Document is available online at www.groupe-credit-du-nord.com

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