2019

SOCIETE GENERALE LUXEMBOURG S.A.

CONSOLIDATED FINANCIAL STATEMENTS

SOCIETE GENERALE

Societe Generale Luxembourg S.A.
(Previously Société Générale Bank & Trust)

11 Avenue Emile Reuter
L-2420 Luxembourg

Consolidated Financial Statements, Consolidated management report and Report of the Independent auditor as at 31 December 2019

R.C.S. Luxembourg: B 006.061

TABLE OF CONTENTS

I. GENERAL INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Patrick Suet

Corporate Secretary of Societe Generale Group

MANAGING DIRECTOR

Arnaud Jacquemin

Chief Executive Officer of Societe Generale Luxembourg

DIRECTORS

David Abitbol

Director of Societe Generale Securities Services, Societe Generale Group

Cécile Bartenieff

Chief Operating Officer of the Global Banking & Investor Solutions division, Societe Generale Group

Patrick Folléa

Head of Private Banking & Asset Management, Societe Generale Group

Fabienne Gatti

Staff representative Director

Virginie Lagrange

Independent Director

Virgil Magri

Staff representative Director

Didier Mouget

Independent Director

Frédéric Ogorzaly

Staff representative Director

Bruno Prigent

External Director

Frédéric Roveda

Staff representative Director

Frédéric Surdon

Head of Asset Finance, Societe Generale Group

1. Patrick Suet. **2.** Arnaud Jacquemin. **3.** David Abitbol. **4.** Cécile Bartenieff. **5.** Patrick Folléa. **6.** Fabienne Gatti. **7.** Virginie Lagrange. **8.** Virgil Magri. **9.** Didier Mouget. **10.** Frédéric Ogorzaly. **11.** Bruno Prigent. **12.** Frédéric Roveda. **13.** Frédéric Surdon. **14.** Olivier Blanc. **15.** Hélène Crinquant.

AUTHORIZED MANAGEMENT

Arnaud Jacquemin

Chief Executive Officer

Olivier Blanc

Chief Operating Officer

Hélène Crinquant

General Secretary

REGISTERED OFFICE

Societe Generale Luxembourg S.A.

11, Avenue Emile Reuter

L-2420 Luxembourg

AUDITORS

Ernst & Young

Société Anonyme

35E, Avenue John F. Kennedy

L-1855 Luxembourg

II. CONSOLIDATED MANAGEMENT REPORT

1. CHIEF EXECUTIVE OFFICER STATEMENT

Societe Generale Luxembourg S.A. (the "Bank" or the "Group") is one of Luxembourg's largest banking groups by number of staff (1 993 average over 2019), net income (EUR 283 million in 2019) and statement of financial position (assets of EUR 117 billion at end 2019), and the oldest foreign bank in the Grand Duchy.

At the heart of Europe, Societe Generale Luxembourg is a multi-expertise banking group with operations in Luxembourg and main foreign subsidiaries in Switzerland and Monaco, capitalizing on the strengths of the Societe Generale Group.

By drawing on our Code of Conduct and Societe Generale Group's values – Team Spirit, Commitment, Innovation and Responsibility – each employee aims at excellence to offer clients security, transparency and unsurpassed expertise. Our teams partner with our clients to structure innovative solutions to help accelerate their international development and fulfill their ambitions.

We are a responsible bank, chosen for its commitment to diversity and inclusion, and for its contribution to the sustainable and profitable development of our societies through positive impact finance and socially responsible investments. We help develop tomorrow's world.

Leveraging on the dynamic Luxembourg Fin Tech ecosystem, we are pursuing our digital transformation to improve our clients' experience and anticipate their future needs, as well as optimize our operational efficiency, security and compliance with applicable regulations.

The shift to digital was key in transforming our working methods. As a responsible employer, we strive to encourage the well-being of our employees and their collective agility and innovation skills for the benefit of our clients. A few years ago, we were the first employer in the Luxembourg banking sector to deploy flex working and teleworking on a large scale; this notably proved an invaluable asset in successfully addressing the current Covid-19 confinement constraints starting March 2020, as we were able to let the vast majority of our staff work from home, therefore responsibly ensuring their maximal protection and contribute to the society's efforts in fighting the disease.

In all such respects, we contribute to the sustainability and strength of the Luxembourg's economy and society at large. Despite all macroeconomic uncertainties linked to the 2020 Covid-19 pandemic disease, thanks to the commitment and recognized expertise of our teams, and the Group's strong solvency and liquidity position, we are convinced of our ability to continue to do so.

2. CORPORATE GOVERNANCE

2.1. CORPORATE GOVERNANCE STRUCTURE AND MAIN BODIES

2.1.1. Board Committees

As of 31 December 2019, the specialized committees of the Board were:

- Audit and Accounts Committee: this committee's mission monitors and controls the preparation of accounting and financial information, the independence of the statutory auditors, and the monitoring of the effectiveness of the internal control, risk management and internal audit systems, with regard to the procedures for the preparation and processing of the accounting and financial information. It gives recommendations and advice on such matters to the Board of Directors;
- Risk and Compliance Committee: this committee advises the Board of Directors on the overall strategy of the Group and its appetite regarding all types of risks, and assists in verifying the sound implementation of this strategy, examining the quality and effectiveness of the risk monitoring framework;
- Remuneration Committee: this committee prepares the decisions of the Board of Directors concerning compensation, especially compensation related to directors, the executive officers and other having a significant impact on the Group's risk profile and risk management;
- Nomination and Internal Governance Committee: this committee identifies and recommends future company officers (directors and executive officers) to the Board of Directors. It periodically examines the policies of the Board of Directors regarding selection and appointment, and proposes a target in respect of the balanced representation of women and men at the Board. Moreover, it aims at implementing and supervising key internal governance principles within the Bank and its subsidiaries.

2.1.2. Executive Committees

The main executive committees are as follows:

- Management committees:
  - Authorized Management Committee: the mission of this committee is to oversee strategic and business development matters of the Group and make necessary related decisions;
  - Executive Committee: this committee's mission is to address matters such as strategic orientations definition and implementation, business development and other transversal topics. It is composed of the authorized management and the heads of each business line, support function and internal control function;
  - Business Committee: the mission of this committee is to elaborate the commercial strategy of Societe Generale Luxembourg and coordinate the commercial initiatives of the various businesses;
  - Responsible Commitments Committee: this committee deals with topics related to the Group's commitments and normative framework in CSR (including CSR sectoral policies), culture and conduct, or other topics that have an impact on the Group's liability or reputation and not already covered by an existing Committee;
  - Senior Management Team Committee (SMT): this committee is a privileged forum of exchanges, reflections and works on general interest questions related to the Group taking advantages on the professional experience of its members.
- Steering committees:
  - Finance Committee (COFI): this committee is is responsible for setting out the Group's financial strategy and for managing scarce resources (capital, liquidity, statement of financial position) in the context of the allocation and the management of structural risks ; it also addresses tax-related matters. The ALM Committee, a sub-committee of the COFI, validates the structural risk upon proposal from DFIN and RISQ;
  - Human Resources Committee (HR Committee): this committee elaborates the human resources policy, addressing in particular attractiveness, compensation, retention and HR regulatory-related subjects.
- Enterprise Risk Management Committees:
  - Risk Committee (CORISQ): the mission of this committee is to define the Group's key priorities in terms of risk (credit, country, market, structural and operational risks), within the framework of the risk appetite and the financial targets set by the Board of Directors of the Group, and to monitor compliance in such respect; and to maintain a sound, effective and sustainable risk management framework, taking appropriate measures in case of gaps ;Compliance Committee (COMCO): the mission of this committee is to define the Group's main guidelines and principles in terms of compliance, to ensure a sound, effective and sustainable adherence to all regulations to be applied by the Group based on an appropriate framework, and to take appropriate measures in case of gaps;
  - Internal Control Coordination Committee (ICCC): this committee is responsible for the overall architecture of the Group's internal control system, for evaluating its efficiency, consistency and comprehensiveness, for taking corrective actions and for monitoring their implementation;
  - IS Security Committee: this committee is responsible for the Group's IS security policy and governance, compliance with IT regulations as well as IT risk assessments.

2.2. CORPORATE GOVERNANCE

The Board of Directors of the Company is committed to maintaining the standards of corporate governance enforced at the level of the European Union and at level of the Societe Generale Group. This statement describes the Company's governance principles and practices.

2.3. REMUNERATION POLICY

The Group strictly applies the remuneration policy of the Societe Generale Group, which aims at guaranteeing the sustainable engagement and loyalty of its employees, while ensuring an effective and sustainable risk management, including from a compliance perspective.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. GROUP MAIN ACTIVITIES

The Group has built over time a solid diversified banking model to serve its corporate, institutional and individual customers. Such model is structured around several complementary pillars enabling the Group to benefit from strong market positions and a diversified risk profile.

3.1.1. Private Banking

The Societe Generale International Private Banking activity (BPI) is primarily present in Luxembourg, Switzerland and Monaco, with representative offices in Italy and Germany. It offers global financial engineering and wealth management solutions, in addition to global expertise in structured products, hedge funds, mutual funds, private equity funds, life insurance and real estate investment solutions. It also offers customer broad access to capital markets.

The expertise of Societe Generale International Private Banking's teams contributes to the strong recognition of Societe Generale Group in the private banking industry: in 2019, Societe Generale Private Banking was elected «Best Private Bank» for its digital advisory service proposal in Europe at the PWM Wealth Tech Awards, «Best Wealth Engineering Team and Best Credit Provider» by Wealth Briefing, «Best Private Bank» for its «Next Generations» offer by Private Banker International, and «Best Private Bank for Entrepreneurs in Western Europe» by Global Finance.

3.1.2. Securities Services

The Securities Services business (SGSS) in Luxembourg offers a comprehensive and complete range of Assets and Securities services to Corporate and Financial Institutions as well as Institutional Investors, including:

- custody and depository bank activities, covering all asset classes;
- fund administration services for investment managers on all asset classes including complex financial products;
- private asset services for alternative investment managers covering real estate, private equity and infrastructure funds;
- issuer services, including issuing and paying agency services to large international corporate bond programs;
- transfer agent activities, providing a comprehensive array of services to support fund distribution;
- middle office and trade execution services.

SGSS in Luxembourg is one of the largest Securities Services provider given the size of its global activity and contributes to the development of SGSS as a leader in the industry and the second largest European provider.

3.1.3. Corporate Banking and Cash Management

The Corporate Banking and Cash Management team in Luxembourg is servicing domestic and international clients, and particularly financial institutions, medium and large corporates with international and multinational activities that require flow management assistance for their banking, commercial, corporate flows and/or payment flow assistance. The business line offers a full and integrated range of solutions and services, leveraging the expertise of the Societe Generale Group's global Transaction Banking business lines ; specifically, it covers five activities:

- cash management;
- short & medium term financing;
- financial & commercial guarantees issuance;
- foreign exchange services and interest rate hedging;
- financial assets custody.

Expertise and performances of the Corporate Banking and Cash Management in Luxembourg contributes to Societe Generale Group's industry recognition: in 2019, Societe Generale Group was named "Distinguished Provider of Transaction Banking Services" for its correspondent banking services by FImetrix, and "Best Factoring Services in EMEA, Europe and Africa", as well as "Best Transactional Bank for Financial Institutions in Europe, Central and Eastern Europe and Africa" by EMEA Finance.

3.1.4. Global Banking & Advisory

The Global Banking & Advisory (GLBA) platform in Luxembourg is fully integrated in Societe Generale Group's worldwide platform composed of expert teams located in Europe, the CEEMEA region, the Americas and in Asia region, whose knowledge of customers and expertise on industries and local regulations are key to conducting domestic, international and cross-border activities. Leveraging this global expertise and sectoral knowledge, the Financing Banking teams provide clients with a full range of solutions, via three divisions:

- The Asset Finance division, which covers five businesses: export finance, aircraft finance, shipping finance, real estate finance, and structured solutions and leasing ;
- The Natural Resources and Infrastructures division ;
- The Asset Backed Product division.

Societe Generale Group was named «Most Innovative Bank in Infrastructure and Project Finance» by the The Banker 2019, "Europe Bank of the Year" at the PFI Awards 2019 and "TMT Financing Bank of the Year" at the TMT M&A Awards 2019.

3.1.5. Global Markets

Within the Global Markets Business Unit, the Issuing activity in Luxembourg is performed by SG Issuer (SGIS) as well as through the "SOGEIS" framework based on Luxembourg's fiduciary legal framework and provides international investors with access to the entire range of financial engineering services (Asset and Liability Management – portfolio management, securitisation, risk policy management and Capital Management – strategic management of shareholdings, equity-linked products, and employee savings plans). SGIS issues both secured and unsecured notes through private placements or public offerings. SOGEIS only issues secured notes. The securities issued by SG Issuer or by SG Luxembourg via SOGEIS are fully backed by a guarantee from the Societe Generale Group.

3.1.6. Corporate Center

It comprises Treasury and Asset / Liability Management (ALM) functions which are responsible for monitoring, managing and hedging structural risks (liquidity, interest rate and forex) arising from all business units within the Group, including from the Bank's international affiliates in Monaco and Switzerland.

The Profit & Loss account of the Corporate Center covers the carrying cost of equity shareholdings in subsidiaries and related dividend payments, as well as income and expenses stemming from the Group's Treasury center, Asset and Liability Management (ALM) function and income from the management of the Group's assets (industrial and bank non-consolidated equity portfolio and real estate assets). Income or expenses that do not relate directly to the activity of the core businesses are also allocated to the Corporate Center.

3.2. GROUP RESULTS

3.2.1. Group results – Consolidated income statement

ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

(in EUR thousand)	31 December 2019	31 December 2018	Change in %	Change in value
Net interest margin	297 016	343 666	(14)%	(46 650)
Net fee margin	268 208	292 534	(8)%	(24 326)
Net gains and losses on financial transactions	127 729	65 646	95%	62 083
Net income from other activities	52 039	65 813	(21)%	(13 774)
Net banking income	**744 992**	**767 659**	**(3)%**	**(22 667)**
Operating expenses	(439 187)	(420 780)	4%	(18 407)
Gross operating income	**305 805**	**346 879**	**(12)%**	**(41 074)**
Cost of risk	7 497	(7 506)	(200)%	15 003
Operating income	**313 302**	**339 373**	**(8)%**	**(26 071)**
Net income from investments accounted for using the equity method	10 564	10 303	3%	261
Net income/expense from other assets	5 110	(638)	(901)%	5 748
Earnings before tax	**328 976**	**349 038**	**(6)%**	**(20 062)**
Income tax	(45 509)	(52 481)	(13)%	6 972
Consolidated Net Income	**283 467**	**296 557**	**(4)%**	**(13 090)**
Non-controlling interests	22	12	83%	10
Net income Group share	283 445	296 545	(4)%	(13 100)

In an environment marked by political uncertainty and very low interest rates, the Group continued in 2019 to capitalize on the strength of its diversified business model and core franchises.

The 3% decrease in **revenues** from 2018 to 2019 results from a contrasted evolution of the various Group's businesses.

Despite the highly unfavorable interest rate environment, the financial performance of **Private Banking** activities in Luxembourg, Switzerland and Monaco (BPI) was resilient in 2019 thanks to a dynamic commercial performance: net new money inflows reached EUR 453 million in 2019, and the BPI continued to strengthen its client base by increasing asset under management (AuMs) which increased by 18% in 2019 to reach EUR 17,3 billion at end 2019.

In 2019, the **Securities Services** (SGSS) business performance was marked by the planned reduction of activity with a key client following its own internal reorganization and by the interest rate environment; on the contrary, the commercial activity was buoyant, with multiple new mandates won with asset managers, including in the dynamic private equity and real estate segment. All-in-all, Assets under Custody (AuC) amounted to EUR 338 billion at end 2019.

The **Corporate Banking and Cash Management** activity confirmed again the strong commercial momentum consistently recorded over the past years, confirming the quality of the platform in transaction and payment services: client accounts increased by +7% compared to 2018.

Global banking & Advisory (GLBA) also recorded a strong commercial momentum mainly in financing activities, fully benefiting from the past strategic repositioning. All activities contributed to such dynamism.

Global Markets (MARK) financial performance was down compared to 2018, which was a record year in terms of issuances of structured investment products, especially regarding fiduciary notes (SOGEIS).

Finally, the Corporate Center 2019 financial performance was affected by the unfavourable interest rate environment.

In terms of costs, Societe Generale Luxembourg continued to implement in 2019 the transformation of its operating model, preparing for the future with several significant business and IT investments. Overall, costs increased by +4%, among which staff expenses increased by +5%.

Note: In accordance with IAS 8, a change in the detailed presentation of the NBI was performed in the 2018 consolidated financial statements of Societe Generale Luxembourg following the identification in Q4 2019 of excess remuneration payments made by Societe Generale S.A. to SGIS due to an operational incident and the formal confirmation subsequently made by Societe Generale S.A. to SGIS that it was abandoning any reimbursement claim related to such undue remuneration. Such change only affects the detailed presentation of the NBI by subcategories, as detailed in note 1.7 to the consolidated financial statements, not the above aggregated view.

3.2.2. Group results – Statement of financial position

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in EUR thousand)	31 December 2019	31 December 2018	Change in %	Change in value
Cash, due from central banks	9 262 134	5 173 455	79%	4 088 679
Financial assets at fair value through profit or loss	59 558 317	49 809 890	20%	9 748 427
Hedging derivatives	447	4 161	(89)%	(3 714)
Financial assets at fair value through other comprehensive income	3 263 281	3 338 542	(2)%	(75 261)
Securities at amortised cost	5 412 725	5 642 478	(4)%	(229 753)
Due from banks at amortised cost	9 495 045	10 018 941	(5)%	(523 896)
Customer loans at amortised cost	28 357 556	25 802 754	10%	2 554 802
Investments of insurance activities	527 812	479 659	10%	48 153
Tax assets	11 719	19 338	(39)%	(7 619)
Other assets	901 776	847 236	6%	54 540
Investments accounted for using the equity method	73 531	71 486	3%	2 045
Tangible and intangible fixed assets and right-of-use assets	176 257	69 269	154%	106 988
Total Assets	**117 040 600**	**101 277 209**	**16%**	**15 763 391**

As of December 31, 2019, the Group's statement of financial position totalled EUR 117 041 million, an increase of EUR 15 763 million (+16%) compared to December 31, 2018.

This increase mainly came from **Cash, due from central banks** increasing by EUR 4 089 million (+79%) compared to December 31, 2018, and **Financial assets at fair value through profit or loss** increasing by EUR 9 748 million (+20%) over the period.

Due from banks at amortized cost decreased of EUR 524 million (-5%) compared to December 31, 2018.

Customers loans at amortized cost increased by EUR 2 555 million (+10%) compared to December 31, 2018.

Other assets increased by EUR 55 million (+6%) compared to December, 31 2018.

Tangible and intangible fixed assets increase by EUR 107 million (+154%) compared to December 31, 2018, mainly driven by the implementation of IFRS 16.

LIABILITIES

(in EUR thousand)	31 December 2019	31 December 2018	Change in %	Change in value
Financial liabilities at fair value through profit or loss	59 071 898	49 661 210	19%	9 410 688
Hedging derivatives	218 245	225 004	(3)%	(6 759)
Debt securities issued	224 141	460 305	(51)%	(236 164)
Due to banks	24 837 739	19 726 269	26%	5 111 470
Customer deposits	27 852 704	25 868 265	8%	1 984 439
Tax liabilities	174 747	156 606	12%	18 141
Other liabilities	1 296 919	1 283 698	1%	13 221
Insurance contracts related liabilities	207 893	246 124	(16)%	(38 231)
Provisions	77 532	87 158	(11)%	(9 626)
Subordinated debt	–	400 249	(100%)	(400 249)
Total liabilities	**113 961 818**	**98 114 888**	**16%**	**15 846 930**
Shareholders' equity				
Shareholders' equity, Group share				
Issued capital	1 389 043	1 389 043	–	–
Reserves and retained earnings	1 381 520	1 439 410	(4)%	(57 890)
Net income	283 445	296 545	(4)%	(13 100)
Sub-total	**3 054 008**	**3 124 998**	**(2)%**	**(70 990)**
Unrealised or deferred gains and losses	24 672	37 182	(34)%	(12 510)
Sub-total equity, Group share	**3 078 680**	**3 162 180**	**(3)%**	**(83 500)**
Non-controlling interests	102	141	(28)%	(39)
Total equity	**3 078 782**	**3 162 321**	**(3)%**	**(83 539)**
TOTAL LIABILITIES AND EQUITY	**117 040 600**	**101 277 209**	**16%**	**15 763 391**

Financial liabilities at fair value through profit and loss increased by EUR 9 411 million (+19%) compared to December 31, 2018.

Due to banks increased by EUR 5 111 million (+26%) compared to December 31, 2018.

Customer deposits increased by EUR 1 984 million (+8%) compared to December 31, 2018.

Debt securities issued decreased by EUR 236 million (-51%) compared to December 31, 2018.

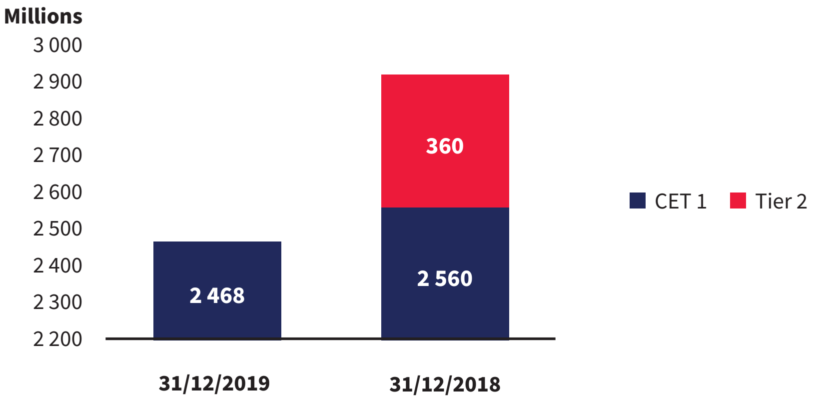
Other Liabilities increased by EUR 13 million (+1%).

Provisions decreased by EUR 9.6 million (-11%) compared to December 31, 2018.

On December 24, 2019, the **Subordinated debt** owned by Societe Generale was fully redeemed following ECB approval.

Group shareholders' equity amounted to EUR 3 079 million as of December 31, 2019, slight decrease of -3% compared to December 31, 2018. Details related to shareholders' equity are disclosed in Note 7 of the Consolidated Financial Statements.

3.3. OWN FUNDS



The Group's sole shareholder is Sogeparticipations S.A., a French Company fully owned by the Societe Generale Group.

In 2019, the Group did not proceed with the buyback of its own shares. As of December, 31 2019, the Group's sole shareholder holds 11 024 148 shares representing 100% of the share capital of the Societe Generale Luxembourg S.A.

The Group's capital, on a consolidated basis, is made of:

- Core Tier I capital: EUR 2 468 million (2018: EUR 2 560 million)
- No additional eligible capital in 2019 (2018: EUR 360 million)

3.4. POST CLOSING EVENTS

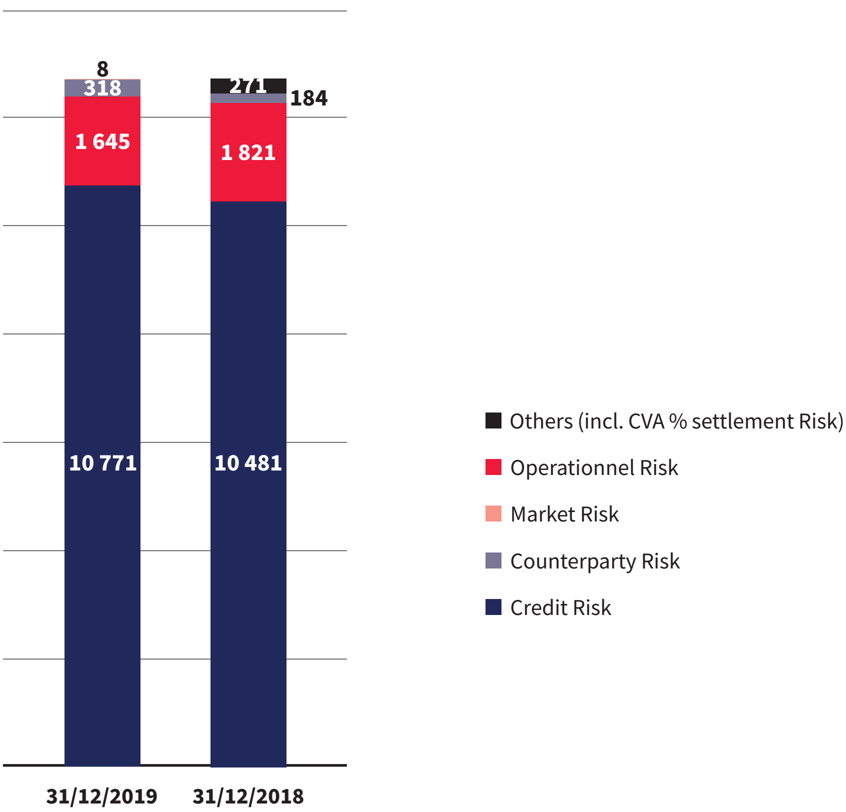
After operating in 2019 under the commercial trademark "Societe Generale Luxembourg", Societe Generale Bank & Trust S.A. was legally renamed Societe Generale Luxembourg S.A. on 20 January 2020.

Since early 2020, the Covid-19 disease is progressively impacting the economies in which the Group operates, leading to a likely negative impact on the 2020 Group's financial performance that cannot be accurately and reliably estimated at this stage however.

4. RISKS AND CAPITAL ADEQUACY

4.1. KEY FIGURES

4.1.1. Risk-Weighted Assets

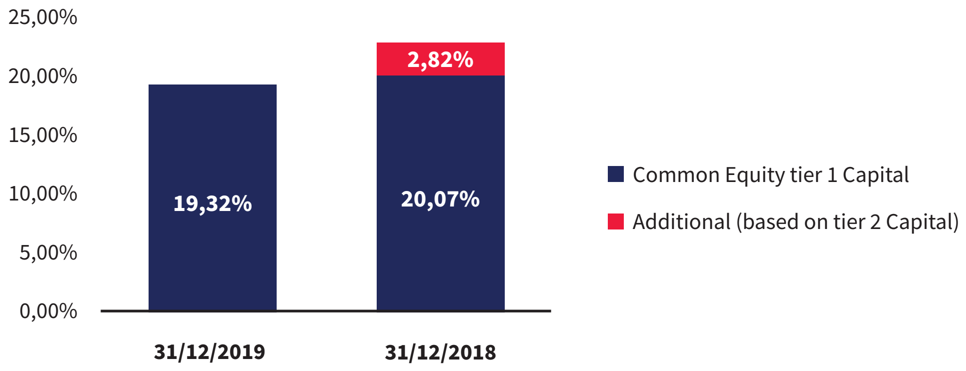


As at December, 31 2019, the total Risk-Weighted Assets of the Group amounted to EUR 12 776 million (2018: EUR 12 758 million). It was composed of:

It was composed by:

- EUR 10 771 million related to credit risk (2018: EUR 10 481 million);
- EUR 1 645 million related to operational risk (2018: EUR 1 821 million);
- EUR 34 million related to market risk (2018: EUR 0.6 million);
- EUR 318 million related to counterparty credit risk (2018: EUR 184 million);
- EUR 8 million related to others, including Credit Valuation Adjustment and Settlement risk (2018: EUR 271 million).

4.1.2. Capital ratios



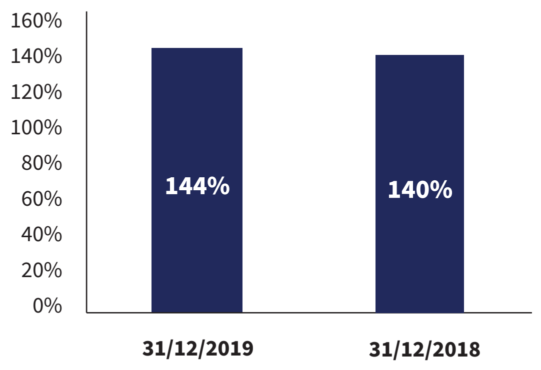
As of December 31, 2019, the Group total capital ratio stood at 19.32% (2018: 22.89%), and the Group Common Equity Tier 1 ratio stood at 19.32% (2018: 20.07%).

As of December 31, 2019, the Group capital ratios are significantly above the minimum regulatory requirement levels 9.13% for the Common Equity Tier One capital Ratio, 10.63% for the Tier One capital Ratio and 12.63% for the total capital ratio. The minimum regulatory capital requirements* are composed of:

- Minimum capital requirements: for Pillar I: 4.5% for the Common Equity Tier One capital, 6% for the Tier One capital and 8% for the total capital.
- Minimum capital requirements for Pillar II (P2R): 1%
- Minimum capital requirements for conservation buffer (CCB): 2.5%
- Minimum capital requirements for countercyclical capital buffer (CCyb): 0.13%
- Minimum capital requirements for Other Systemically Important Institution (O-SII) buffer: 1%

* The Pillar 2 Guidance (P2G) component is not disclosed according to the prescription of the ECB.

4.1.3. Liquidity Coverage Ratio



As of December 31, 2019, the Group one-month Liquidity Coverage Ratio (LCR) stood at 144% (2018: 140%), well above the regulatory requirement of 100%.

4.2. RISK MANAGEMENT

The understanding, identification, mitigation and control of risks are essential elements of the successful management of the Group. In accordance with circular CSSF 12/552 as amended, the Group's internal governance is based on a "three-lines-of-defence" model which relies on distinct internal control functions:

- a "first line of defence" function performed by business lines ans support functions;
- a "second line of defence" functions: the credit, market and operational risk management function (RISQ), and the compliance function (CPLE);
- a "third line of defence" function: the internal audit (IGAD).

The main objectives of the Group's risk management framework are:

- to accurately identify and measure all the risks the Group is subject to;
- to maintain an effective oversight framework, and implement enhancement plans when needed;
- to propose to the Board of Directors an adequate risk appetite framework for its validation;
- to ensure that Societe Generale's and the Group's risk policies are consistently and effectively applied throughout the Group.

4.3. RISKS

The Group's risk monitoring process identifies six main risk categories:

Credit Risk: the credit risk is defined as the risk of loss resulting from the inability of the Group's customers, sovereign issuers or other counterparties to honour their financial commitments. It also includes the counterparty risk related to the market activities.

Market Risk: the market risk is defined as the risk of loss due to unfavourable movements in market factors, such as interest rates, share prices or currency exchange rates, impacting the value of the Bank's market positions.

Interest Rate Risk: the structural interest rate risk is measured on structural activities (i.e. commercial transactions, associated hedging transactions and treasury transactions) for each of the Group's entities.

Exchange Rate Risk: the structural exchange rate risk is the risk that a loss occurs due to an unfavourable movement of the exchange rate affecting the Group due to existing open positions in foreign currencies.

Liquidity Risk: the liquidity risk is defined as the risk for the Group of not being able to meet at all times its current and future cash requirements, whether or not those have been anticipated, at a reasonable cost. Liquidity is a key factor in the viability of the Group.

Operational Risk: the operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures, human error or external events, including IT risk and management risk.

Particular attention is paid to **Compliance risk**, i.e. the risk of not being compliant with applicable regulations in areas, among others, of sanctions & embargoes, anti-money laundering and terrorism financing, client protection, market abuse, data protection and conduct.

Please refer to note 9 to the Consolidated Financial Statements for further details.

4.4. RISK APPETITE

Risk Appetite is defined as the level of risk that the Group is prepared to bear in the course of pursuing its strategic objectives.

The Group has defined a Risk Appetite Framework which includes:

- a governance over an identified scope;
- a mechanism composed of a set of policies, instructions, procedures, and controls;
- a risk culture favouring risk awareness.

The Risk Appetite Statement describes the principles, policies, and metrics that set the Group's risk appetite, which includes targets, thresholds and limits.

The main risk appetite principles are summarised below.

4.4.1. Structural interest rate and exchange risks

The Group assesses and strictly controls structural risks. The mechanism to control interest rate risk, foreign exchange risk and the risk on employee benefits is based on sensitivity or stress limits adapted to each of the various businesses (entities and business lines).

4.4.2. Liquidity risk

The Group assesses the solidity of its liquidity profile based on the following:

- Controlling short term liquidity risk, based on internal stress tests with adapted limits ;
- Controlling funding risk, with long term funding projections under base case and stresses scenarios ;
- Complying with regulatory obligations, in particular LCR and NSFR ratio requirements.

4.4.3. Credit and counterparty risks

When taking credit risk, the Group focuses on medium and long-term client relationships, targeting clients with which the Group has an established relationship of trust and prospects offering the potential for profitable business development over the medium-term. In a credit or market transaction, credit (or counterparty) risk acceptability is based, first and foremost, on the borrower's (or counterparty's) ability to meet its commitments.

4.4.4. Market risks

The business development strategy of the Group for market activities is focused on addressing client needs, with a full range of products and solutions. The market risk is strictly managed through various limits related to a set of appropriate market risk metrics. Overall, the Group's appetite for market risk is limited.

4.4.5. Operational risks (excluding compliance risk)

The Bank has no appetite, only a tolerance, for operational risk. Over recent years, the materialization of such risk has been very low in Private Banking and Securities Services businesses.

4.4.6. Compliance risk

The Group's policy is strictly comply with all laws and regulations governing financial and banking activities. It has no tolerance for not complying with such laws and regulations when conducting its activities. It aims at maintaining a strong culture of compliance and adequate conduct among its employees.

5. CORPORATE SOCIAL RESPONSIBILITY

Being one of the oldest banks in Luxembourg, the Group has a particular responsibility as a Corporate entity as well as a leading banking group to promote a sustainable development of the country and sustainable finance more globally.

This is why responsibility is one of the four values of our shared "leadership model", together with team spirit, innovation and commitment.

In order to achieve this goal, we acted collectively in 2019 to launch a CSR strategy focused on our engagement as a Corporate and our engagement as a Bank.

5.1. OUR ENGAGEMENT AS A CORPORATE

PROMOTING WELL-BEING AT WORK

The Group considers employees' well-being to be a long-term driver of performance and critical to its attractiveness, effectiveness and sustainability. The Group has therefore implemented over the past years several key initiatives to enhance well-being at work such as:

- Promoting efficient working methods such as a flexi-time policy;
- Homeworking: among over 1,500 employees in Luxembourg, close to 400 of them have adopted regular homeworking.

PROMOTING GENDER EQUALITY AND INTERNATIONAL DIVERSITY

Gender equality is a top objective of the Group and its management. The Group signed the Luxembourg Diversity Charter in 2013, and is a longstanding participant to the Diversity Day Lëtzebuerg.

Accelerating international diversity, an important challenge for an international bank, is our second top objective. Many initiatives are being implemented in this area.

EMPLOYEE COMMITMENT

In the continuity of its past actions, the Group renewed in 2019 its support to the associations "Special Olympic Luxembourg" and "Back to Sport". Taking the opportunity of client events such as "Golf Tournament", the Group also partnered with Foundation Croix Rouge Kannerhaus Jean.

For the fifth year, private bankers have also decided to draw on their skills and visit Luxemburgish schools during the March "Financial Education Week" in order to give school pupils a better understanding of personal finance matters and instil good habits in terms of budget management.

Since January 2018, a "Payroll giving" initiative allows staff to contribute to the association PADEM (Programme d'Aide et de Développement aux Enfants du Monde) and its project Eclaireurs et Eclaireuses du Sénégal.

In 2019, and following a presentation to our Board of our renewed CSR strategy, the Group took the initiative to launch a CSR Community open to all of our people concerns by sustainable matters. Nearly 150 employees are now members of the Community, an amazing proof of their commitment.

THE GROUP ACTS FOR THE CLIMATE AND ENVIRONMENT PRESERVATION

Like each corporate, the Group generates environmental impacts through its activity. The Group is well-aware of its responsibility and therefore was pioneer in this matter by taking the decision, 10 years ago, to reduce its CO2 emissions by:

- Continually enhancing the energy performance of its buildings: the boulevard Royal complex Carrefour is certified under BREEAM (Building Research Establishment Environmental Assessment Methods and the ambitious project “Arsenal”, our new headquarter to be finalized in 2022, will follow several principles such as well-being at work, circular economy, low energy and water consumption;
- Encouraging our people to take the city bus service or use e-bikes (in partnership with ALD Automotive);
- Saving paper: an increasing number of initiatives such as “FollowMe” printing, paperless workflows and client records as well as electronic archiving are continuously improved to rationalise paper consumption. As an example of our commitment, the Group’s paper print has again decreased by 35% in 2019;
- Producing a CSR questionnaire for suppliers to assess their social and environmental policy;
- Helping the Institut pour le Mouvement Sociétal (IMS) by participating to their initiatives as “knowledge sharing”, Diversity day (as a Gold Sponsor) or Luxembourg Sustainability Forum;
- Signing early 2019 a Zero Plastic Manifesto with the Institut pour le Mouvement Sociétal (IMS).

5.2. OUR ENGAGEMENT AS A BANK

PROMOTE SOCIALLY RESPONSIBLE INVESTMENTS

We are convinced that a strong ESG policy will be synonymous of a sustainable superior financial performance.

In Private Banking, our clients have access to bespoke SRI portfolios which combine financial performance with a positive social and environmental impact. Clients can measure the environmental, social and governance (ESG) performance of their portfolio via dedicated ESG reporting.

Furthermore, a dedicated team has developed a full range of structured positive impact finance (PIF) products with a charity dimension. Private Banking also support investors in organising their philanthropic projects and defining their philanthropic strategy and objective for each donation, set up a budget and payment plan and measure the impact.

SGSS continues to promote to their institutional clients an ESG reporting solution, a system for measuring the impact of investment strategies on the environment and society. Its objective is to help investors and asset managers to better integrate ESG criteria into their investment decisions.

DEVELOP POSITIVE IMPACT FINANCING

The Group is thriving to play a major role by promoting of Positive Impact Finance in the country together with partners like Luxembourg For Finance (LFF) or the Association des Banques et Banquiers du Luxembourg (ABBL).

COMPLETE OUR RISK FRAMEWORK WITH AN ENVIRONMENTAL AND SOCIAL DIMENSION

Accompanying the evolution of the regulation, in particular in Europe, the Group is focusing on:

- Improving existing risks mapping with environmental and social risk dimension ;
- Updating tools and risk evaluation procedures ;
- Educating our stakeholders on this dimension ;
- Updating its governance accordingly.

6. OUTLOOK

2020 will no doubt be marked by the unprecedented macro-economic consequences of the Covid-19 pandemic disease.

In such highly uncertain environment, the Group intends to continue in the coming years implementing its strategy at the service of our clients, adapting it when necessary to the evolution of the environment and of our clients’ needs.

Our first strategic priority will be to pursue the development and adaptation of our businesses to more comprehensively and adequately serve our clients in private banking, securities services, commercial banking and cash management services, but also in structured financings and capital market services. We will further work on putting our clients’ needs at the heart of our way of collectively working. 2020 will also mark the pursuit of initiatives to optimize our efficiency and security, through IT investments, review of target operating models and optimization of processes, as well as further digitalization.

Finally, we will continue to enhance our attractiveness as a responsible employer of choice, though several initiatives, internal as well as external.

With the commitment and recognized expertise of our teams, and the Group’s strong solvency and liquidity position, despite all macroeconomic uncertainties ahead, we are convinced of our ability to accompany our clients and contribute to the structural long term dynamism of the Luxembourg ecosystem.

III. INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of
Societe Generale Luxembourg S.A.
11, Avenue Emile Reuter
L-2420 Luxembourg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Societe Generale Luxembourg S.A. (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of net income and unrealised or deferred gains and losses, the consolidated statement of changes in shareholders’ equity and the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the “Law of 23 July 2016”) and with International Standards on Auditing (“ISAs”) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (“CSSF”). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the “Responsibilities of the “réviseur d’entreprises agréé” for the audit of the consolidated financial statements” section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ASSESSMENT OF IMPAIRMENTS ON CUSTOMER LOANS AND PROVISION ON FINANCING COMMITMENTS

DESCRIPTION

As at 31 December 2019, the gross amount of customer loans is EUR 28 383 million, and related impairments amount to EUR 25,4 million (see Note 3.6).

As at 31 December 2019, provisions relating to financing commitments amount to EUR 0,8 million (see Note 3.9).

Customer loans carry a credit risk which exposes the Group to a potential loss if its client or counterparty is unable to meet its financial obligations. The Group recognizes impairments to cover this risk. Such impairments are calculated according to IFRS 9 "Financial instruments" principles, based on the expected credit losses calculation.

The assessment of expected credit losses for customer loans requires the exercise of judgment notably to:

- determine the loan classification criteria under stage 1, stage 2 or stage 3;
- estimate the amount of expected credit losses depending on the different stages;
- prepare macro-economic projections which are embedded in the deterioration criteria and in the expected credit losses measurement.

The qualitative information concerning in particular the recognition and procedure used to estimate expected credit losses is mainly described in Note 3.9 "Impairment and provisions" to the consolidated financial statements.

We considered the assessment of impairments on customer loans and financing commitments to be a key audit matter for the following reasons:

- the significance of customer loans in the Group's balance sheet;
- the use of various parameters and assumptions in the models to determine the probability of default and the loss given default;
- the importance of judgment in determining the criteria of significant increase in credit risk and the way macro-economic forecasts are taken into account;
- the assessment of individual impairment on defaulted loans (stage 3).

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

We obtained an understanding of the Group's internal control and tested the manual and automated key controls relating to the assessment of the credit risk and the measurement of the expected losses.

With the support of specialists in risk management and modelling included in the audit team, we focused our work on the most significant loans and/or portfolios of loans to clients, as well as on the financing granted to companies in the most sensitive economic sectors and geographical areas.

Concerning impairment, our audit work notably consisted in:

- examining the compliance of policies and methodologies implemented by the Group with IFRS 9 "Financial instruments";
- performing tests on a selection of models implemented in the information systems which are used to prepare financial information;
- performing a counter-calculation of the expected credit losses as at 31 December 2019;
- analyzing the main parameters used by the Group to classify outstandings and assess stages 1 and 2 impairment calculation as at 31 December 2019, including the integration of macro-economic projections;
- testing a sample of customer loans consisting of key items and items selected on the basis of our professional judgement to form our own assessment as to whether they are classified in the appropriate stage;
- examining the analyses prepared by the Group regarding variations of customer loans between stages and the related impairment during the year;
- testing based on a sample of exposures selected using our professional judgement, as at 31 December 2019, the main assumptions used to classify loans in stage 3, as well as the estimation of the related individual impairment. We examined in a critical manner the conclusions of the specialized committee monitoring such exposures and the assumptions used to determine expected cash flows and estimated recovery from any underlying collateral.

HEDGING OF FINANCIAL INSTRUMENTS ISSUED

DESCRIPTION

As at 31 December 2019, financial liabilities at fair value through profit or loss amount to EUR 59 558,3 million while financial assets at fair value through profit or loss amount to EUR 59 071,9 million.

Most of these financial liabilities are related to the issuance activity of the Group consisting in issuing structured Notes and Warrants which are subscribed by investors. These financial instruments are fully hedged with mirror transactions concluded with Societe Generale S.A. replicating the financial instruments issued by the Group. These mirror transactions are recorded as financial assets at fair value through profit or loss (see Note 3.2).

We have considered the hedging of financial instruments issued to be a key audit matter considering the financial risk which would result from inadequate hedging of the financial instruments issued by the Group.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

We tested the key controls implemented by the Group in relation with the issuance of financial instruments and the conclusion of mirror transactions with Societe Generale S.A., as well as the key controls on the stock of financial instruments to ensure the effectiveness of the hedging.

We verified the intercompany reconciliation process between the Group and Societe Generale S.A., and the intercompany reconciliations performed as at 31 December 2019.

For a sample of financial instruments issued by the Group as at 31 December 2019, we ensured that the Group has contracted the mirror financial instruments with Societe Generale S.A..

We inquired about the existence of operational errors during the year and, if applicable, the related financial impact.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors 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, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

RESPONSIBILITIES OF THE *"RÉVISEUR D'ENTREPRISES AGRÉÉ"* FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF 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 part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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;
- obtain 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of Board of Directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have been appointed as "Réviseur d'Entreprises Agréé" for the audit of the consolidated financial statements by the Board of Directors on 5 April 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the consolidated management report, is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, 30 April 2020

IV. CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

ASSETS

(in EUR thousand)	*Notes*	**31.12.2019**	**31.12.2018**
Cash, due from central banks	*3.1*	9 262 134	5 173 455
Financial assets at fair value through profit or loss	*3.2, 3.3 and 3.5*	59 558 317	49 809 890
Hedging derivatives	*3.3 and 3.5*	447	4 161
Financial assets at fair value through other comprehensive income	*3.4 and 3.5*	3 263 281	3 338 542
Securities at amortised cost	*3.6 and 9.1*	5 412 725	5 642 478
Due from banks at amortised cost	*3.6 and 9.1*	9 495 045	10 018 941
Customer loans at amortised cost	*3.6 and 9.1*	28 357 556	25 802 754
Investments of insurance activities	*4.3*	527 812	479 659
Tax assets	*6*	11 719	19 338
Other assets	*4.4*	901 776	847 236
Investments accounted for using the equity method	*2.3*	73 531	71 486
Tangible and intangible fixed assets and right-of-use assets	*8.4*	176 257	69 269
Total assets		**117 040 600**	**101 277 209**

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES

(in EUR thousand)	Notes	31.12.2019	31.12.2018
Financial liabilities at fair value through profit or loss	*3.2, 3.3 and 3.5*	59 071 898	49 661 210
Hedging derivatives	*3.3 and 3.5*	218 245	225 004
Debt securities issued	*3.7 and 9.3*	224 141	460 305
Due to banks	*3.7 and 9.3*	24 837 739	19 726 269
Customer deposits	*3.7 and 9.3*	27 852 704	25 868 265
Tax liabilities	*6*	174 747	156 606
Other liabilities	*4.4*	1 296 919	1 283 698
Insurance contracts related liabilities	*4.3*	207 893	246 124
Provisions	*8.3*	77 532	87 158
Subordinated debt	*3.7 and 9.3*	–	400 249
Total liabilities		**113 961 818**	**98 114 888**
Shareholders' equity	*5.11*	1 389 043	1 389 043
Shareholders' equity, Group share			
Issued capital	*7.1*	1 389 043	1 389 043
Reserves, share premium and retained earnings	*7.1*	1 381 520	1 439 410
Net income		283 445	296 545
Sub-total		**3 054 008**	**3 124 998**
Unrealised or deferred gains and losses	*7.2*	24 672	37 182
Sub-total equity, Group share		**3 078 680**	**3 162 180**
Non-controlling interests	*2.3*	102	141
Total equity		**3 078 782**	**3 162 321**
Total liabilities and equity		**117 040 600**	**101 277 209**

The accompanying notes are an integral part of the consolidated financial statements.

2. CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

(in EUR thousand)	*Notes*	**2019**	**2018***
Interest and similar income	*3.8*	766 358	737 251
Interest and similar expense	*3.8*	(469 342)	(393 585)
Fee income	*4.1*	427 311	471 381
Fee expense	*4.1*	(159 103)	(178 847)
Net gains and losses on financial transactions		127 729	65 646
o/w net gains and losses on financial instruments at fair value through profit or loss	*3.2, 3.3 and 8.5*	*127 729*	*65 650**
o/w net gains and losses on financial instruments at fair value through other comprehensive income	*3.4*	–	*(4)*
o/w net gains and losses from the derecognition of financial assets at amortised cost		–	–
Net income of insurance activities	*4.3*	35 624	35 138
Income from other activities	*4.2*	26 936	40 572*
Expenses from other activities	*4.2*	(10 521)	(9 897)
Net banking income		**744 992**	**767 659**
Personnel expenses	*5*	(226 166)	(214 866)
Other operating expenses	*8.2*	(173 239)	(187 681)
Amortisation, depreciation and impairment of tangible and intangible fixed assets and right-of-use assets	*8.4*	(39 782)	(18 233)
Gross operating income		**305 805**	**346 879**
Cost of risk	*3.9*	7 497	(7 506)
Operating income		**313 302**	**339 373**
Net income from investments accounted for using the equity method	*2.3*	10 564	10 303
Net income/expense from other assets		5 110	(638)
Earnings before tax		**328 976**	**349 038**
Income tax	*6*	(45 509)	(52 481)
Consolidated net income		**283 467**	**296 557**
Non-controlling interests	*2.3*	22	12
Net income, Group share		**283 445**	**296 545**

** Restated figures, please refer to Note 1.7*

The accompanying notes are an integral part of the consolidated financial statements.

3. CONSOLIDATED STATEMENT OF NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2019

(in EUR thousand)	**2019**	**2018**
Consolidated net income	**283 467**	**296 557**
Unrealised or deferred gains and losses that will be reclassified subsequently into income	**(1 125)**	**(42 901)**
Translation differences	(958)	(5 883)
Revaluation of debt instruments at fair value through other comprehensive income	(16 400)	(30 189)
Revaluation of available-for-sale financial assets [1]	13 717	(14 429)
Revaluation of hedging derivatives	(147)	(3 862)
Unrealised gains and losses of entities accounted for using the equity method	1 935	(1 960)
Tax related	728	13 422
Unrealised or deferred gains and losses that will not be reclassified subsequently into income	**(6 600)**	**3 092**
Actuarial gains and losses on defined benefits plans [2]	(8 836)	6 719
Unrealised gains and losses of entities accounted for using the equity method	(105)	13
Tax related	2 341	(3 640)
Total unrealised or deferred gains and losses	**(7 725)**	**(39 809)**
Net income and unrealised or deferred gains and losses	**275 742**	**256 748**
o/w Group share	*275 720*	*256 736*
o/w non-controlling interests	*22*	*12*

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.
(2) Only actuarial gains and losses of the period and apart from reclassification towards reserves of the stock from previous period(See Note 1.6).

The accompanying notes are an integral part of the consolidated financial statements.

4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Capital and associated reserves		
(in EUR thousand)	**Issued common stocks**	**Issuing premium and capital reserves**	**Total**
Shareholders' equity at 1 January 2018	**1 389 043**	**2 817**	**1 391 860**
Appropriation of net income	–	–	–
2018 dividends paid (see Note 8.8)	–	–	–
Effect of changes of the consolidation scope	–	–	–
Sub-total of changes linked to relations with shareholders	**–**	**–**	**–**
Change in unrealised or deferred gains and losses	–	–	–
2018 Net income	–	–	–
Other changes	–	–	–
Sub-total	**–**	**–**	**–**
Shareholders' equity at 31 December 2018	**1 389 043**	**2 817**	**1 391 860**
Appropriation of net income	–	–	–
2019 dividends paid (see Note 8.8)	–	–	–
Effect of changes of the consolidation scope	–	–	–
Sub-total of changes linked to relations with shareholders	**–**	**–**	**–**
Change in unrealised or deferred gains and losses	–	–	–
2019 Net income	–	–	–
Change in accounting policy (1)	–	–	–
Other changes	–	–	–
Sub-total	**–**	**–**	**–**
Shareholders' equity at 31 December 2019	**1 389 043**	**2 817**	**1 391 860**

(1) See Note 1.6 on significant changes in accounting policies regarding asumptions used for the supplemental defined benefit retirement plan.

The accompanying notes are an integral part of the consolidated financial statements.

		Unrealised gains and losses					
Retained earnings	**Net income, Group share**	**that will be reclassified subsequently into income**	**that will not be reclassified subsequently into income**	**Total**	**Shareholders' equity, Group share**	**Non-controlling interests**	**Total consolidated shareholders equity**
1 458 929	**274 595**	**75 298**	**1 693**	**76 991**	**3 202 375**	**1 907**	**3 204 282**
274 595	(274 595)	–	–	–	(298 000)	–	**(298 000)**
(298 000)	–	–	–	–	–	–	**–**
–	–	–	–	–	(298 000)	–	**(298 000)**
(23 405)	***(274 595)***	***(42 901)***	***3 092***	***(39 809)***	***(39 809)***	**–**	***(39 809)***
–	–	–	–	–	296 545	12	**296 557**
–	296 545	–	–	–	–	–	**–**
1 069	–	–	–	–	1 069	(1 778)	**(709)**
1 069	***296 545***	***(42 901)***	***3 092***	***(39 809)***	***257 805***	***(1 766)***	***256 039***
1 436 593	**296 545**	**32 397**	**4 785**	**37 182**	**3 162 180**	**141**	**3 162 321**
296 545	(296 545)	–	–	–	–	–	**–**
(359 000)	–	–	–	–	(359 000)	(61)	**(359 061)**
–	–	–	–	–	–	–	**–**
(62 455)	***(296 545)***	**–**	**–**	**–**	***(359 000)***	***(61)***	***(359 061)***
–	–	(1 124)	(6 600)	(7 724)	(7 724)	–	**(7 724)**
–	283 445	–	–	–	283 445	22	**283 467**
4 787	–	–	(4 787)	(4 787)	–	–	**–**
(221)	–	–	–	–	(221)	–	**(221)**
4 566	***283 445***	***(1 124)***	***(11 387)***	***(12 511)***	***275 500***	***22***	***275 522***
1 378 703	**283 445**	**31 273**	**(6 602)**	**24 671**	**3 078 680**	**102**	**3 078 782**

5. CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(in EUR thousand)	*Notes*	2019	2018*
Consolidated Net income for the year (I)		**283 467**	**296 557**
Amortisation expense on tangible and intangible fixed assets (including operational leasing)	*8.4*	39 782	18 233
Depreciation and net allocation to provisions		(4 890)	(11 942)
Net income/loss from investments accounted for using the equity method		(10 564)	(10 303)
Change in deferred taxes	*6.1*	25 141	11 870
Net income from the sale of long-term assets and subsidiaries		–	(4)
Change in deferred income		6 877	920
Change in prepaid income		6 304	11 587
Change in accrued income		18 289	(14 536)
Change in accrued expense		(465 106)	859 115
Other changes		224 669	(235 241)
Income tax paid		(30 971)	(50 396)
Non-cash items included in net income and others adjustments excluding income on financial instruments at fair value through profit or loss (II)		**(190 469)**	**579 303**
Income on financial instruments at fair value through profit or loss		48 609	62 662
Interbank transactions		6 937 006	(1 710 140)
Customers transactions		(1 308 957)	1 017 309
Transactions related to other financial assets and liabilities		(55 765)	(521 770)
Transactions related to other non financial assets and liabilities		(303 230)	141 622
Net increase/decrease in cash related to operating assets and liabilities (III)		**5 317 663**	**(1 010 317)**
NET CASH INFLOW (OUTFLOW) RELATED TO OPERATING ACTIVITIES (A) = (I) + (II) + (III)		**5 410 661**	**(134 457)**
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long term investments		241 107	(118 435)
Net cash inflow (outflow) related to tangible and intangible fixed assets		(14 314)	800
NET CASH INFLOW (OUTFLOW) RELATED TO INVESTMENT ACTIVITIES (B)		**226 793**	**(117 635)**
Dividend paid to equity holders of the parent	*8.8*	(359 000)	(298 000)
Repayment of subordinated loan	*3.7.4*	(400 000)	–
Other net cash flows arising from financing activities		–	–
NET CASH INFLOW (OUTFLOW) RELATED TO FINANCING ACTIVITIES (C)		**(759 000)**	**(298 000)**
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS (A) + (B) + (C)		**4 424 868**	**(550 092)**
Cash due from central banks	*3.1*	5 173 455	5 512 824
Demand deposits and current accounts with banks	*3.6 and 3.7.1*	(101 192)	109 531
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		**5 072 263**	**5 622 355**
Cash due from central banks	*3.1*	9 262 134	5 173 455
Demand deposits and current accounts with banks	*3.6 and 3.7.1*	688 584	(101 192)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**9 950 718**	**5 072 263**
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS		**4 878 455**	**(550 092)**

** Restated figures, please refer to Note 1.7*

The accompanying notes are an integral part of the consolidated financial statements.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

1. INTRODUCTION

CORPORATE INFORMATION

Societe Generale Luxembourg S.A. (the “Group” or the “Bank”) was formed as Ingéfilux on April 11, 1956. Its name was changed to Luxbanque, Société Luxembourgeoise de Banque S.A. on May 7, 1981. In 1995, the Extraordinary Shareholders’ Meeting decided to change the Bank’s name to Societe Generale Bank & Trust S.A., with effect as of June 1, 1995. Furthermore, in 27 January 2020 the Bank changed its name to Societe Generale Luxembourg S.A. The Bank is governed by Luxembourg banking regulations and in particular the Law of April 5, 1993, as amended, on the financial sector.The Bank was incorporated under Luxembourg was a limited liability company (“Société Anonyme”) for an unlimited duration.

The Group provides asset management, investment advisory, financial engineering and depository services, in particular for collective investment undertakings. It is also active on the financial markets and with institutional clients, with a high volume of proprietary cash management transactions and financing operations carried out on behalf of large corporations. Beside, the Group has a limited insurance and reinsurance activity.

As at December 31, 2019, the Bank’s capital is wholly-owned by Sogeparticipations, a limited company (“Société Anonyme”), incorporated under French law.

The Bank and other entities of the Group are included in Societe Generale consolidated financial statements, which is the ultimate parent company of the Group. The consolidated financial statements of Societe Generale may be obtained from its registered office at Societe Generale, 29 Boulevard Haussmann, 75009 Paris, France.

Societe Generale Group is a public limited company (Société Anonyme) established under French law and headquartered in Paris, that prepares and published IFRS, as adopted by the EU, consolidated financial statements since 2005.

The Bank holds two representation offices in Italy and in Germany (launched in 2018).

These consolidated financial statements were approved by the Board of Directors of the Bank on 23 April 2020.

ACCOUNTING STANDARDS

In accordance with European Regulation 1606/2002 of 19 July 2002 on the application of International Accounting Standards, the SG Luxembourg Group prepared its consolidated financial statements for the year ended 31 December 2019 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in force at that date and with the going concern principle. These standards are available on the European Commission website at:

https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_en.

The most significant change made to the accounting principles is the application of IFRS 16 “Leases” as of 1 January 2019.

In accordance with the transitional measures provided by IFRS 9, the Group has elected to recognise hedging transactions under IAS 39 as adopted by the European Union, including measures related to macro-fair value hedge accounting (IAS39 “carve-out”).

FINANCIAL STATEMENTS PRESENTATION

The consolidated financial statements have been prepared on an historical cost basis except for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value.

The carrying values of assets and liabilities that are designated as hedged items (fair value hedges) are adjusted to record changes in the fair values attributable to risks that are being hedged in effective hedge relationships. These assets and liabilities would otherwise be carried at amortized cost.

In relation to its insurance activity, the Group has taken the exemption authorized under IFRS 4 not to discount the technical provisions.

The disclosures provided in the notes to the consolidated financial statements of the Group are based on information that is both relevant and material to the financial statements of Societe Generale Luxembourg Group, its activities and the circumstances in which it conducted its operations over the period.

PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is the euro.

Functional currency for SG Luxembourg and its subsidiairies is EUR except for SGPB Switzeland, where the functional currency is CHF.

The figures presented in the consolidated financial statements and in the notes are expressed In EUR thousand, unless otherwise specified. The effect of rounding can generate discrepancies between the consolidated figures presented in the financial statements and those presented in the notes.

The statements of financial position of consolidated companies reporting in foreign currencies are translated into Euros at the official exchange rates prevailing at the closing date. The statements of income of these companies are translated into Euros at the monthly average exchange rates.

The main spot exchange rates used as at 31 December 2019 are described in the *Note 8.5 Foreign exchange transactions*.

2. NEW ACCOUNTING STANDARDS APPLIED BY THE GROUP AS OF 1 JANUARY 2019

IFRS 16 "Leases"

Adopted by the European Union on 31 October 2017

IFRS 16 supersedes, as of 1 January 2019, the existing standard IAS 17. It modifies the accounting requirements for leases, more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

This new standard is presented in paragraph 4 *Preparation for the first application of IFRS 16 "Leases"* below.

New 2019 accounting policy is described in Note 8.4 *Tangible and intangible fixed assets*.

IFRIC 23 "Uncertainty over income tax treatments"

Adopted by the European Union on 23 October 2018

This interpretation provides clarifications about the measurement and the accounting treatment of income tax when there is uncertainty over income tax treatments. It must be determined whether the treatment is likely to be accepted by the relevant authorities, assuming that they will control the treatment in question and will have all the relevant information. If the probability of acceptance of the tax treatment is less than 50%, this uncertainty must be reflected in the amount of tax assets and liabilities, based on a method that provides the best prediction of the resolution of the uncertainty.

To comply with these new principles, the process for identifying, analysing and monitoring tax uncertainties has been reviewed. This interpretation had no impact on the amount of the Group shareholder's equity at 1 January 2019, but an amount of EUR 18 954 thousand was reclassified from *Other provisions to Deffered Tax liabilities* (Note 6).

Amendments To LAS 28 "Long-Term interests in associates and joint ventures"

Issued by IASB on 12 October 2017

The amendments clarify that IFRS 9 "Financial Instruments" shall be applied to financial instruments that form part of the net investment in an associate or a joint venture but to which the equity method is not applied.

The Group did not identify any impact from the amendments.

Annual improvements (2015-2017)

Issued by IASB on 12 December 2017

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

These improvements had no effect on the Group's consolidated financial statements.

Amendments to LAS 19 "Plan amendment, curtailment or settlement"

Issued by IASB on 7 February 2018

These amendments clarify how pension expenses are determined in the event of amendment, curtailment or settlement of defined benefit pension plans. In these cases, IAS 19R currently calls for the net cost of the defined benefit asset or liability to be remeasured.

The amendments require the entity to use the updated actuarial assumptions from this remeasurement to determine past service cost and net interest.

As the Group is already in line with this amendment, it had no impact on the consolidated financial statements.

Amendment To IFRS 9 "Prepayment features with negative compensations"

Adopted by the Europeran Union on 26 mars 2018

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

This amendment was early-applied by the Bank since 1 January 2018.

Amendments To IFRS 7, IAS 39 and IFRS 9 in the context of the interest rate benchmark reform ("IBOR reform")

Issued by IASB on 26 September 2019

In the context of the financial crisis, the inaccuracy and lack of integrity of interest rate benchmarks (EONIA, EURIBOR, LIBOR, etc.) made it necessary to reform their method of determination.

At the international level, the International Organisation of Securities Commissions (IOSCO) has set principles to make the determination of interest rate benchmark more reliable and the Financial Stability Board (FSB), mandated by the G20, has issued recommendations to enhance the transparency, the representativeness and the reliability of these rates. On the basis of these principles and recommendations, several reforms have been initiated to set up and promote the use of new Risk Free overnight Rates called "Risk Free Rate - RFR" whose determination will now be anchored on actual transactions: €STR *(Euro Short-Term Rate)* for contracts denominated in Euro, SOFR *(Secured Overnight Financing Rate)* for contracts denominated in USD, SONIA *(Sterling Overnight Index Average)* for contracts denominated in GBP, etc.

Within the European Union, regulation 2016/1011 (known as "BMR regulation") was passed to implement the principles and recommendations of IOSCO and FSB by creating, as of 1 January 2018, a uniform legal framework regarding the provision of benchmarks. As part of the implementation of this regulation, the administrators of EONIA, EURIBOR and LIBOR were required to review and, if necessary, to modify the methodologies used for these indexes in order to make them compliant to the new BMR provisions.

Since 2 October 2019, €STER has come to replace EONIA; the latter will however be published until 31 December 2021 by anchoring on €STER (EONIA = €STER +8.5 bps). The reform of the EURIBOR was started in December 2018 and this index was declared compliant with BMR regulation on 3 July 2019. The EURIBOR quotation should continue for at least 5 years. The new SOFR and SONIA benchmarks, intended to replace the LIBOR benchmarks, have been published since 2018, but the publication of the latter will continue at least until 2021.

The Bank has set up a project structure to monitor developments in the interest rate benchmarks IBOR reform and to anticipate the consequences of the transition to new interest rate benchmarks. The work undertaken aims on one hand to limit the Bank's exposure to the current interbank interest rate benchmarks which might be discontinued in the short or medium term and, on the other hand, to prepare the migration of the stock of legacy transactions identifying these current interest rates benchmarks and which will mature after 2021.

Uncertainties about the timing and the precise methods of transition between the current benchmarks and the new benchmarks, as well as the modifications which could be made to the financial instruments referencing the current benchmarks, are likely to have consequences on accounting treatment related to the hedge accounting, and to the modification applied to these instruments (following the application of replacement contractual clauses - "Fallback" clauses - or following a renegotiation of the contract).

To limit these accounting consequences, the IASB published in September 2019 amendments to IAS 39, IFRS 9 and IFRS 7 to prevent uncertainties existing before the transition from jeopardising the hedge accounting applied for hedging interest rate risk. These amendments introduce reliefs related mainly to the compliance with the highly probable nature of the cash flows covered, the compliance with the identifiable nature of the risk covered, the carrying out of prospective and retrospective effectiveness tests. These reliefs will be applicable until the uncertainties referred to are removed, that is to say until the clauses of the financial instruments concerned are effectively modified.

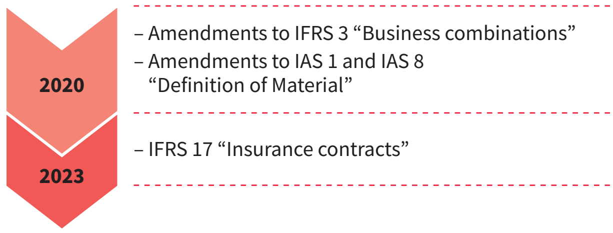
These amendments were adopted by the European Union on 15 January 2020 and can be early-applied from 2019. The Group decided to early-apply the amendments in its 31 December 2019 financial statements and to use the reliefs provided for hedging relationships affected by the uncertainties at that date, including those linked to the EONIA, EURIBOR and LIBOR (USD, GBP, CHF, JPY) benchmarks. The hedging derivatives instruments to which these amendments have been applied are disclosed in Note 3.3.

The IASB is currently studying the additional amendments that could be made to the accounting treatment of the contractual modifications that will be made to financial instruments as part of the IBOR reform (replacement of the interest rate benchmark, introduction of new fallback clauses). An exposure draft is expected to be issued at the end of the 2nd quarter 2020.

3. ACCOUNTING STANDARDS, AMENDMENTS OR INTERPRETATIONS TO BE APPLIED BY THE GROUP IN THE FUTURE

IASB published accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 31 December 2019. They are required to be applied from annual periods beginning on 1 January 2020 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Group as at 31 December 2019.

These standards are expected to be applied according to the following schedule:



Amendments to IFRS 3 “Business Combinations”

Issued by the IASB on 22 October 2018

These amendments were adopted by the European Union on 29 November 2019.

The amendments are intended to provide clearer guidance to facilitate the differentiation between the acquisition of a business and the acquisition of a group of assets, for which the accounting treatment is different.

The Group is conducting an analysis to integrate this new guidance in its accounting policy. No significant impact is expected as at 1 January 2020.

Amendments to IAS 1 and IAS 8 “Definition of Material”

Issued by the IASB on 31st October 2018 and adopted by the European Union on 29 November 2019

These amendments are intended to clarify the definition of ‘material’ in order to facilitate the judgment in the context of the preparation of financial statements and condensed interim financial information, particularly when selecting the information to be presented in the Notes.

The Group is conducting an analysis to assess the potential impact of this clarification.

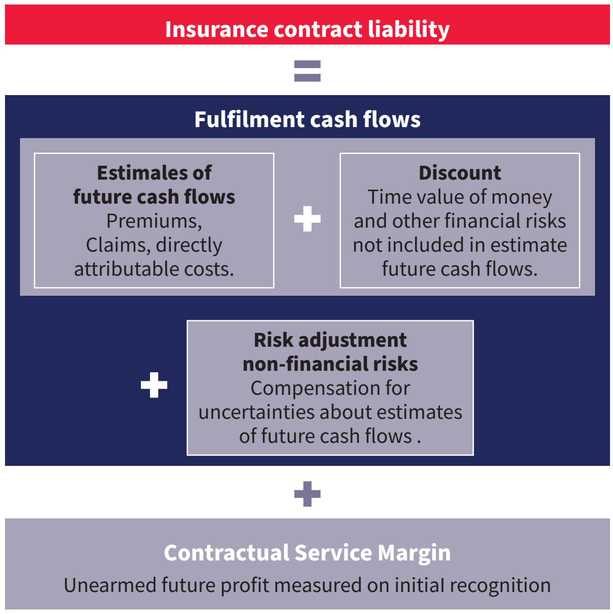
IFRS 17 “Insurance Contracts”

Issued by IASB on 18 May 2017

This new standard will replace IFRS 4 “Insurance Contracts” that was issued in 2004 and which currently allows entities to use national requirements for the accounting of insurance contracts.

IFRS 17 provides new rules for the recognition, measurement, presentation and disclosure of insurance contracts that belong to its application scope (insurance contracts issued, reinsurance contracts held and investment contracts issued with discretionary participation features). The underwriting reserves currently recognised among liabilities in the statement of financial position will be replaced by a current value measurement of insurance contracts.

The general model provided for the measurement of insurance contracts in the statement of financial position will be based on a building-blocks approach: a current estimate of future cash flows, a risk adjustment, and a contractual service margin.



Positive contractual service margins will be recognised as income over the duration of the insurance service, whereas negative margins will be immediately recognised as expense, as soon as the insurance contract is identified as onerous.

The general model will be the default measurement model for all insurance contracts.

However IFRS 17 also provides a mandatory alternative model for insurance contracts with direct participation features. Under this model, called “variable fee approach”, the measurement of the insurance contract liability shall take into account the obligation to pay to policy holders a substantial share of the fair value returns on the underlying items, less a fee for future services provided by the insurance contract (changes in the fair value of underlying items due to policy holders are then recognised as an adjustment of the contractual service margin).

A simplified measurement (premium allocation approach) is also allowed by the standard under conditions for short-term contracts (12 months or less) and contracts for which the result of premium allocation approach is closed to the general approach.

These measurement models will have to be applied to homogeneous portfolios of insurance contracts. The level of aggregation of these portfolios will be assessed considering:

- contracts that are subject to similar risks and managed together;
- the year during which contracts are issued; and
- at initial recognition, contracts that are onerous, contracts that have no significant possibility of becoming onerous subsequently, and the remaining contracts.

On 26 June 2019, the IASB issued an exposure draft including a number of amendments to IFRS 17 “Insurance contracts.” The purpose of the modifications is to facilitate the implementation of the standard. On 17 March 2020, the IASB has proposed to defer its first application date, which would be postponed to the annual periods beginning on 1 January 2023.

The Group will be working on the effect of the application of IFRS 17.

4. FIRST APPLICATION OF IFRS 16 "LEASES"

This new standard supersedes, as from 1 January 2019, the existing standard IAS 17. It modifies the accounting requirements for leases, more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

As from 1 January 2019, the Group applies for the first time IFRS 16 as adopted by the European Union on 31 October 2017.

Consequently, the accounting principles applicable to leases and the related disclosures presented in the notes to the consolidated financial statements have been amended as from 1 January 2019.

RECOGNITION OF THE LEASES IN THE STATEMENT OF FINANCIAL POSITION

For all lease contracts, with the exceptions provided by the standard, the lessee should account in its statement of financial position an asset equal to the right-of-use and a debt representing the obligation to pay the rent.

In the income statement, the lessee accounts for the amortization of the right-of-use separately from the interest expense on the lease liability.

The accounting principles are detailed in Note 8.4.

SCOPE

Given the Group's activities, these accounting treatments apply to property leases, computer equipment leases and the vehicles leased for the use of a few employees and members of the management, those vehicles representing a very small percentage of the total right-of-use of the Group. The Group uses the option offered by the standard to not apply the provisions of IFRS 16 to intangible assets leases (software for example).

The impacts of the first-time application of IFRS 16 are presented below.

TRANSITION REQUIREMENTS

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

At 1 January 2019, the amount of the lease liability on outstanding leases was calculated by discounting residual rental payments with the incremental borrowing rates of the lessee entities in effect on that date, taking into account the residual maturity of the contracts. The corresponding right-of-use assets are recorded on the statement of financial position for an amount equal to the lease liability.

In accordance with IFRS 16, using the modified retrospective approach, comparative 2018 data are not restated.

IMPACTS ON THE FIRST-TIME APPLICATION OF IFRS 16

As of 1 January 2019, the first-time application of IFRS 16 resulted in an increase in the statement of financial position by EUR 129 441 thousand, related to the recognition of a lease liability and a corresponding right-of-use asset.

The lease liability is recorded under Other liabilities and the right-of-use assets are classified among the tangible fixed assets.

At 1 January 2019, the first-time application of IFRS 16 has no impact on the Group shareholders' equity.

The net temporary differences that may result from subsequent changes in the right-of-use and lease liability should result in the recognition of deferred tax, in line with the Exposure Draft on IAS 12 issued 17 July 2019. Nonetheless, on the date of the initial recording of the right-of-use and the lease liability, no deferred tax is recorded by the Group because the asset value equals to the liability value.

EXEMPTIONS AND EXCLUSIONS

In application of the exemptions proposed by the standard, the Group does not recognize any rental debt or associated right of use for large contracts on goods having a low unit value by applying the exemption threshold of EUR 5 000 (the threshold should be measured against the replacement cost per unit of the leased asset).This simplification applies specifically to small equipment such as personal computers, tablets, telephones, and small items of office furniture.

Moreover, the Group did not perform a reassessment of leasing contracts as permitted by the norm. The Group decided to apply IFRS 16 to all contracts that were previously identified as leases under IAS 17 and IFRIC 4, and not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4.

IMPACTS ON THE STATEMENT OF FINANCIAL POSITION AT 1 JANUARY 2019

(in EUR thousand)	**1 January 2019**
ASSETS	
Tangible, intangible fixed assets and right-of-use assets [(a)]	129 441
Total assets	**129 441**
LIABILITIES	
Other liabilities [(a)]	129 441
Total liabilities	**129 441**

- EUR 123 578 thousand relative to property leases contracted for the lease of commercial office space mainly in Luxembourg, Monaco and Switzerland;
- EUR 5 394 thousand relative to computer equipment leases;
- EUR 469 thousand linked to leases for other tangible assets (of which mainly vehicles).

(a) At 1st January 2019, rights-of-use assets and a corresponding lease liability were booked for EUR 129 441 thousand by the Group. They mainly breakdown as follows:

RECONCILIATION OF THE MINIMUM OPERATING LEASE PAYMENTS AT 31 DECEMBER 2018 WITH THE LEASE LIABILITY BOOKED AT 1 JANUARY 2019

The table below aims to reconcile:

- the minimum operating lease payments related to operating lease contracts on tangible assets used by the Group at 31 December 2018 applying IAS 17; and
- the lease liability recognised in the statement of financial position at 1st January 2019 applying IFRS 16.

(in EUR thousand)

Future minimum operating lease payments related to operating lease contracts at 31 December 2018	**129 999**
Lease contracts not recorded in the statement of financial position applying IFRS 16 [1]	(3 379)
Other	4 483
Non-discounted lease liability at 1 January 2019	**131 103**
Discount rate	(1 662)
Discount rate [2]	*0.44%*
Discounted lease liability at 1 January 2019	**129 441**

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires the Board of Directors to make judgments, estimates and assumptions that affect the reported figures recorded in the consolidated income statement, on the valuation of assets and liabilities in the consolidated statement of financial position, and on information disclosed in the Notes to the consolidated financial statements.

In order to make these assumptions and estimates, the Board of Directors uses information available at the date of preparation of the consolidated financial statements and can exercise its judgment. By nature, valuations based on estimates include risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and may then have a significant impact on the financial statements.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, the Board of Directors has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgment and/or estimates are listed below with respect to judgments/estimates involved.

In the process of applying the Group's accounting policies, the Board of Directors has made the following judgments and estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Fair value of financial instruments not quoted in an active market which are classified as Financial assets and liabilities at fair value through profit or loss, Hedging derivatives or assets at fair value through other comprehensive income (see Notes 3.2,3.3, 3.4 and 3.5);
- Classification of financial instruments, in particular the analysis of the contractual cash flow characteristics of financial assets (see Notes 3.3, 3.4 and 3.6);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost, or at fair-value through other comprehensive income, loan commitments granted and guarantee commitments granted measured with models or internal assumptions based on historical, current and prospective data (see Notes 3.9 and 8.3);
- Provisions (in particular, provisions for disputes in a complex legal environment), including underwriting reserves of insurance companies (see Notes 4.3 and 8.3);
- The assessment of control of the Group over an entity when updating the consolidation scope, mainly when structured entities are concerned (see Note 2.1);
- The entities excluded from the consolidation scope (see Note 2.1);
- The amount of deferred tax assets recognized in the consolidated statement of financial position (see Note 6);
- The assumptions used for the supplemental defined benefit retirement plan (see Note 5.2).

BREXIT

The United Kingdom organised a referendum in June 2016, in which a majority of British citizens has voted for an exit of the European Union. Since then, the terms of the United Kingdom's withdrawal agreement from the European Union have been discussed and the British Parliament finally approved the exit agreement on 9 January 2020 and then by the European Parliament on 29 January 2020. The Brexit officially went into force on 31 January 2020. A transition period will last until December 2020, in which the United Kingdom will keep its status as an EU State Member. The nature of future relations between the United Kingdom and the European Union remains thus quite unclear.

The Group has taken all the necessary steps to guarantee service continuity to its customers starting 31 January 2020, and will be following the developments in the negotiations that will be held during the transition period. The Group has taken into

(1) Cumulated impact of short-term contracts or contracts on low-value assets.
(2) The discount rate in the table corresponds to the weighted average lessee's incremental borrowing rate.

account Brexit's short-, medium- and long-term consequences in the hypotheses and estimates retained in the preparation of the consolidated financial statements.

6. SIGNIFICANT CHANGES IN ACCOUNTING PRINCIPLES

CHANGE IN THE PRESENTATION OF EMPLOYEE BENEFITS ACTUARIAL GAINS AND LOSSES

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognised as actuarial gains and losses.

Actuarial gains and losses, as well as the return on plan assets excluding amounts expensed as net interest on the net defined benefit liability (or asset) and any change in the effect of the asset ceiling are components used to re-measure the net defined benefit liability (or asset).

Until 31 December 2018 (included), "Unrealized and deferred gains and losses" were presented in a separate caption of "Unrealised or deferred gains and losses". Since 1 January 2019, the Group decided to transfer annually these gains and losses from "Unrealised or deferred gains and losses" to "Retained earnings". This accounting policy was not aligned with the policy of Societe Generale Group, hence it was decided to align the policy to provide more clarity.

As at 1 January 2019, actuarial gains and losses (net from deferred taxes) were transferred to "Retained earnings" for EUR 4 785 thousand (See Note 5.2 and 7.2). Hence, as at 31 December 2019, only actuarial gains and losses of the period are presented separately in "Unrealised or deferred gains and losses".

CHANGE IN THE ACCOUNTING TREATMENT OF REVENUES UNDER IFRS 15

Income related to the issuance of notes and warrants were presented under the caption "net gains from financial instruments at fair value through profit or loss" until 31 December 2018 in accordance with IAS 39 (until 1 January 2018) and IFRS 9 (after 1 January 2018) and were fully accounted upfront as a swap premium until 31 December 2018.

In 2018, the Group has reassessed the accounting treatment of such income and concluded that despite being contractual via a swap agreement it was in the scope of IFRS 15, and should be considered as a fee income. This new accounting policy has been applied since 1 January 2019. Comparative presentation of 2018 profit and loss was restated accordingly.

Applying IFRS 15 resulted in the remuneration of notes issued by the Group's issuance vehicle SG Issuer S.A. to be split in two distinct services:

- The arrangement service for the initiation of the operation (thereafter arrangement fee income), recorded as a fee for the arrangement of the operation, at the issue date;
- The account and security servicing during the lifecycle of the security (thereafter security servicing fee), accrued on a monthly basis, as the recognition of continuous services from the security servicing services of the issuance vehicle.

Please refer to Note 4.1 for accounting policies related to fee income.

7. PRIOR YEARS CORRECTION OF ERROR

During Q4 2019, SG Issuer, a fully owned subsidiary of SG Luxembourg, identified that, in 2019 as well as in prior years, Societe Generale SA had paid to SG Issuer a remuneration in excess of the contractually agreed remuneration due to an error in using the right notes' maturities when applying the contractually agreed remuneration formula. However, such undue remuneration had no impact on any remuneration due to investors in SG Issuer's notes and warrants at any time.

Societe Generale S.A. confirmed in a letter addressed to SG Issuer on April 15,2020 and duly signed by both parties that it had decided to waive any reimbursement claim from SG Issuer related to such undue remuneration whenever paid.

Therefore, this operational incident has no impact on SG Luxembourg consolidated net result and consolidated shareholders' equity.

The economic nature of this excess remuneration being different from the contractual remuneration, the excess remuneration is recorded in "Income from other activities" for the year ended 31 December 2019. In accordance with IAS 8, SG Luxembourg has restated the comparative amount in the consolidated Income statement for the year ended 31 December 2018 as well as in the notes to the consolidated financial statements (Notes 4.2 and 8.7).

Given the absence of impact of such undue remuneration on both the consolidated net result and the consolidated shareholders' equity, SG Luxembourg has decided not to restate the consolidated opening balances of assets, liabilities and equity for the prior year presented.

This excess remuneration paid by Societe Generale SA to SG Issuer amounts to KEUR 14 384 for the year ended 31 December 2019 and KEUR 25 807 for the year ended 31 December 2018.

NOTE 2 – CONSOLIDATION

MAKING IT SIMPLE

The various activities of the Societe Generale Luxembourg Group in Luxembourg and abroad are carried out by Societe Generale Luxembourg – Parent company and by all of the entities that it controls either directly or indirectly (subsidiaries) or on which it exercises significant influence (associates). All of these entities make up the scope of the Group consolidation.

Consolidation uses a standardized accounting process to give an aggregated presentation of the accounts of Societe Generale Luxembourg – Parent company and its subsidiaries, associates, presented as if they were a single entity.

To do so, the individual accounts of the entities that make up the Group are restated so that they are in accordance with IFRS, as adopted by the European Union, in order to present consistent information in the consolidated financial statements.

In addition, the accounting balances (assets, liabilities, income and expense) generated by transactions between Group entities are eliminated through the consolidation process so that the consolidated financial statements present only the operations and results made with third parties outside of the Group.

ACCOUNTING PRINCIPLES

The consolidated financial statements of Societe Generale Luxembourg include the financial statements of the parent company and the main Luxembourg and foreign companies over which the Group exercises control or significant influence. There was no entity jointly controlled as at 31 December 2019 and 31 December 2018.

CONSOLIDATED ENTITIES

Subsidiaries

Subsidiaries are the entities over which the Group has exclusive control. The Group controls an entity if and only if the following conditions are met:

- the Group has power over the entity (ability to direct its relevant activities, i.e. the activities that significantly affect the entity's returns), through the holding of voting rights or other rights; and
- the Group has exposure or rights to variable returns from its involvement with the entity; and
- the Group has the ability to use its power over the entity to affect the amount of the Group's returns.

Power

When determining voting rights for the purpose of establishing the Group's degree of control over an entity and the appropriate consolidation methods, potential voting rights are taken into account where they can be freely exercised at the time the assessment is made or at the latest when decisions about the direction of the relevant activities need to be made. 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.

When voting rights are not relevant to determine whether or not the Group controls an entity, the assessment of this control shall consider all the facts and circumstances, including the existence of one or more contractual arrangements. Power over an investee exists only if the investor has substantive rights that give it the current ability to direct relevant activities without barriers.

Some rights are designed to protect the interests of their holder (protective rights) without giving that party power over the investee to which those rights relate.

If several investors each have substantive rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the variable returns of the investee is presumed to have power over the investee.

Exposure to variable returns

Control exists only if the Group is significantly exposed to the variability of variable returns generated by its investment or its involvement in the entity. These returns, which could be dividends, interest, fees, etc., can be only positive, only negative or both positive and negative.

Link between power and returns

Power over the relevant activities does not give control to the Group if this power does not allow it to affect its returns from its involvement with the entity. If the Group has been delegated decision-making rights that it exercises on behalf and for the benefit of third parties (the principals), it is presumed to act as an agent for these principals, and therefore it does not control the entity when it exercises its decision-making authority. In asset management activities, an analysis shall be performed in order to determine whether the asset manager is acting as agent or principal when managing the net assets of a fund; the fund is presumed to be controlled by the asset manager if the latter is considered as a principal.

Special case of structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such is the case, for example, when the relevant activities are directed by means of contractual arrangements.

A structured entity often presents certain characteristics such as a limited business activity, a specific and carefully defined purpose, or insufficient capital to fund its activities without the use of subordinated financing. Structured entities may assume different legal forms: stock companies, partnerships, securitisation vehicles, mutual funds, unincorporated entities, etc.

When assessing the existence of control over a structured entity, all facts and circumstances shall be considered among which:

- the purpose and design of the entity;
- the structuring of the entity;
- risks to which the entity is exposed by way of its design and the Group's exposure to some or all of these risks;
- potential returns and benefits for the Group.

Unconsolidated structured entities are those that are not exclusively controlled by the Group. Please refer to Note 2.5.

Joint arrangements

Through a joint arrangement (either a joint operation or a joint venture) the Group exercises joint control over an entity if decisions about the direction of its relevant activities require the unanimous consent of the parties that collectively control the entity. Assessing joint control requires an analysis of the rights and obligations of all the parties.

In the case of a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities.

In the case of a joint venture, the parties have rights to the net assets of the entity.As of 31 December 2018 and 2019, the Group holds no interest in joint arrangements.

Associates

Associates are companies over which the Group exercises significant influence and are accounted for using the equity method in the Group's consolidated financial statements. Significant influence is the power to participate in the financial and operating policies of an entity without exercising control. In particular, significant influence can result from Societe Generale being represented on the Board of Directors or Supervisory Board, from its involvement in strategic decisions, from the existence of significant intercompany transactions, from the exchange of management staff, or from the company's technical dependency on Societe Generale. The Group is assumed to exercise significant influence over the financial and operating policies of an entity when it directly or indirectly holds at least 20% of the voting rights in this entity.

CONSOLIDATION RULES AND METHODS

The consolidated financial statements are built up from the financial statements of the entities that are included in the consolidation scope.

The results of newly acquired subsidiaries are included in the consolidated financial statements from the date the acquisition became effective and results of subsidiaries disposed of during the fiscal year are included up to the date where the Group relinquished control.

Consolidation methods

The subsidiaries, which may include structured entities over which the Group has exclusive control, are fully consolidated.

In the consolidated statement of financial position, full consolidation consists in replacing the value of the subsidiary's equity securities held by the Group with each of the subsidiary's assets and liabilities, in addition to the goodwill recognised when the Group assumed control over the entity.

In the consolidated income statement and the statement of comprehensive income the subsidiary's expense and income items are aggregated with those of the Group.

The share of non-controlling interests in the subsidiary is presented separately in the *Consolidated statement of financial position*, the *Consolidated income statement* and the *Consolidated statement of net income and unrealised or deferred gains and losses*.

Associates and joint ventures are accounted for using the equity method in the consolidated financial statements of the Group. Under the equity method, on initial recognition the investment in an associate is recognised under *Investments accounted for using the equity method* at the cost of the Group's investment in the associate, including goodwill and after the date of acquisition the carrying amount is increased or decreased to recognise the changes in the investor's share in the net asset value of the investee.

These investments are tested for impairment if there is objective evidence of impairment. If the recoverable amount of the investment (value in use or market value net of selling costs, whichever is higher) is lower than its carrying amount, an impairment loss is recorded on the statement of financial position at the carrying amount of the investment. Impairment allowances and reversals are recorded under *Net income from investments accounted for using the equity method*.

The Group's share in the entity's net income and unrealised or deferred gains and losses is presented on separate lines in the consolidated income statement and the consolidated statement of net income and unrealised or deferred gains and losses. If the Group's share un the losses of an entity consolidated using the equity method becomes greater than or equal to its ownership interest in thecompany, the Group ceases to recognise its share in subsequent losses unless it is required to do so by legal or implied obligations, in which case it records a provision for said losses.

Capital gains and losses generated on disposal of subsidiaries and of companies accounted for using the equity method are recorded under *Net income/expense from other assets*.

Translation of foreign entity financial statements

The statement of financial position items of consolidated companies reporting in foreign currencies are translated into Euro at the official exchange rates prevailing at the closing date. Income statement items of these companies are translated into euros, at the average month-end exchange rates. Gains and losses arising from the translation of capital, reserves, retained earnings and income are recognised under *Unrealised or deferred gains and losses – Translation differences*.

On disposal of a foreign entity, such foreign exchange differences are recognized in the consolidated income statement as part of the gain or loss upon disposal. Initial consolidation differences and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

Note 2.1. – Consolidation scope

The consolidation scope includes subsidiaries and structured entities under the Group's exclusive control, and associates whose financial statements are significant relative to the Group's consolidated financial statements, notably regarding Group consolidated total assets and gross operating income.

1. FULLY CONSOLIDATED SUBSIDIARIES

Country	Company	Activity
Ireland	SGBT Finance Ireland Ltd.	Corporate Financing
Ireland	SG Hedging Ltd.	Corporate Financing
Luxembourg	IVEFI S.A.	Other Financing Company
Luxembourg	Generas S.A.	Other Financing Company
Luxembourg	SG Issuer S.A.	Security issuance
Luxembourg	SGBT Asset Based Funding S.A.	Investments & management
Luxembourg	SGBT CI S.A.	Corporate Financing
Luxembourg	Société Immobilière de l'Arsenal S.à r.l.	Non Financial Corporation
Luxembourg	Societe Generale Capital Market Finance S.A.	Financial services
Luxembourg	Societe Generale Financing and Distribution S.A.	Financial services
Luxembourg	Societe Generale Life Insurance Broker S.A.	Brokerage
Luxembourg	Societe Generale Private Wealth Management S.A.	Wealth Management
Luxembourg	Societe Generale Ré S.A.	Reinsurance
Monaco	Societe Generale Private Banking (Monaco) S.A.	Private Banking
Netherlands	Montalis Investment B.V.	Corporate Financing
Netherlands	Coparer Holding B.V.	Non Financial Corporation
Switzerland	Societe Generale Private Banking (Suisse) S.A.	Private Banking

2. ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Country	Company	Activity
Luxembourg	Sogelife S.A.	Insurance

Consolidation method		Group ownership interest		Group voting interest	
2019	2018	2019	2018	2019	2018
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
N/A	Full	0.00%	100.00%	0.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	95.00%	95.00%	95.00%	95.00%
Full	Full	100.00%	100.00%	100.00%	100.00%
Full	Full	100.00%	100.00%	100.00%	100.00%

Consolidation method		Group ownership interest		Group voting interest	
2019	2018	2019	2018	2019	2018
Equity	Equity	39.86%	39.86%	39.86%	39.86%

3. NON-CONSOLIDATED SUBSIDIARIES

			2019		2018	
Country	**Company**	**Activity**	**Capital held**	**Reason for exclusion**	**Capital held**	**Reason for exclusion**
Luxembourg	Alamea Investment S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Arise	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Nocaria investment S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Nethuns	Financial services	97.22%	No control(*)	97.22%	No control(*)
Luxembourg	SGBT Financial Markets S.A R.L.	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Regional Financing company.	Financial services	99.00%	No control(*)	99.00%	No control(*)
Luxembourg	Surya Investments S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	SFGD S.A.	Financial services	100.00%	Insignificant	100.00%	Insignificant
Luxembourg	Fondation Capital I S.C.A., SICAR	Investment Funds	23.21%	Insignificant	23.21%	Insignificant
Luxembourg	Sociéte de la Bourse de Luxembourg	Stock exchange	0.01%	No control(*)	0.01%	No control(*)
Luxembourg	Société Immobilière du Golf S.A	Stock exchange	0.20%	No control(*)	0.20%	No control(*)

(*) Entities which are not controlled by the Group are either held in minority of capital (Société de la Bourse de Luxembourg, Société Immoilière du Golf), either controlled by external entities through other equity instruments granting them rights over the capital held (Nethuns and SGBT Financing S.A).

Non-consolidated subsidiaries are accounted in the consolidated accounts of SG Luxembourg as financial instruments at fair value through profit or loss.

Note 2.2. – Material changes in consolidation scope

The Group amended the consolidation perimeter as follows:

- companies consolidated for the first time in 2019:
  - none;
- companies no longer consolidated in 2019 and reason for exclusion:
  - Generas S.A. was liquidated in December 2019. The acquisition value was of EUR 144 million, impaired for EUR 130.2 million and the bank recorded a non significant gain in the consolidated Profit and Loss as a result of the liquidation.

Note 2.3. – Additional disclosure for consolidated entities and investments accounted for using the equity method

This Note provides additional disclosures for entities included in the consolidation scope.

These disclosures concern entities over which SG Luxembourg exercises exclusive control, or significant influence, provided these entities have significant impact on the Group's consolidated financial statements. The significance of the impact is considered in particular regarding Group consolidated total assets and gross operating income.

1. NON-CONTROLLING INTERESTS

Non-controlling interests refer to equity holdings in one of fully consolidated subsidiary that are neither directly nor indirectly attributable to the Group. They include equity instruments issued by this subsidiary and not held by the Group, as well as the share of income and accumulated reserves, and of unrecognised or deferred gains and losses attributable to the holders of these instruments. Non-controlling interests amounted to EUR 102 thousand at 31 December 2019 and EUR 141 thousand at 31 December 2018.

31 December 2019

(in EUR thousand)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to the holders of non-controlling interest
Montalis Investment B.V.	95.00%	95.00%	22	102	61
Total			**22**	**102**	**61**

31 December 2018

(in EUR thousand)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to the holders of non-controlling interest
Montalis Investment B.V.	95.00%	95.00%	12	141	–
Total			**12**	**141**	**–**

2. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	Associates	
(in EUR thousand)	31 December 2019	31 December 2018
Group share		
Net income	10 564	10 303
Unrealized or deferred gains and losses (net of tax)	1 830	(1 947)
Net income and unrealized or deferred gains and losses	**12 394**	**8 356**

There were no guarantee, nor commitment and guarantees provided to associates as of 31 December 2019 and 2018.

Note 2.4. – Restrictions

Legal, regulatory, statutory or contractual constraints or requirements may restrict the ability of the Group to transfer assets freely to or from entities within the Group.

The ability of consolidated entities to distribute dividends or to grant or repay loans and advances to entities within the Group depends on, among other things, local regulatory requirements, statutory reserves and financial and operating performance. Local regulatory requirements may concern regulatory capital, exchange controls or non-convertibility of the local currency, liquidity ratios or large exposures ratios that aim to cap the entity's exposure in relation to the Group. The Group was not exposed to significant limitations as of 31 December 2019 and 2018.

The ability of the Group to use assets may also be restricted in the following cases:

- assets pledged as security for liabilities, or assets pledged as security for transactions on financial instruments, mainly through guarantee deposits with clearing houses (Note 3.10);
- securities that are sold under repurchase agreements or that are lent (Note 3.7);
- mandatory deposits placed with central banks (Note 3.8).

Note 2.5. – Unconsolidated Structured Entities

The information provided hereafter concerns entities structured but not controlled by the Group.

The Group's interests in unconsolidated entities that have been structured by third parties are classified among financial instruments in the consolidated statement of financial position according to their nature (financial assets at fair value through profit or loss, available-for-sale financial assets on insurance, etc.).

1. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group's interests in an unconsolidated structured entity refer to contractual and non-contractual involvements that expose the Group to the variability of returns from the performance of this structured entity.

BREAKDOWN OF INTERESTS OF THE GROUP IN UNCONSOLIDATED STRUCTURED ENTITIES

(in EUR thousand)	31 December 2019	31 December 2018
Entities consolidated statement of financial position total	1 025 652	1 447 046
Net carrying amount of Group interests in unconsolidated structured entities:	–	–
Assets:	**120 000**	**322**
Financial assets at fair value through profit or loss	–	–
Financial assets at fair value through other comprehensive income	120 000	322
Due from banks at amortised cost and customer loans at amortised cost	–	–
Liabilities:	**2 578**	**3 317**
Financial liabilities at fair value through profit or loss	–	–
Due to banks and customer deposits	2 578	3 317
Other liabilities	–	–

The variation of the consolidated statement of financial position for non-consolidated structured entities is mostly due to a decrease in fundings as at 31 December 2019.

The Group did not provide any financial support to these entities nor any binding contractual arrangement and, as of 31 December 2019, did not have any intention to provide such support.

The maximum exposure to loss related to interests in unconsolidated structured entities is measured as:

- the amortized cost or fair value for non-derivative financial assets entered into with the structured entity depending on how they are measured on the consolidated statement of financial position;
- the fair value of derivative financial assets recognized in the consolidated statement of financial position;
- the notional amount of written Credit Default Swaps (maximum amount to pay);
- the notional amount of loan commitments or guarantee commitments granted.

	Other interests	
(in EUR thousand)	31 December 2019	31 December 2018
Amortized cost or fair value[1] (according to the measurement of the financial instrument) of non-derivative financial assets entered into with the structured entity	**120 000**	**322**
Fair value of derivative financial assets recognized in the consolidated statement of financial position[1]	–	–
Notional amount of loan or guarantee commitments granted	–	–
Maximum exposure to loss	120 000	322

The amount of maximum exposure to loss can be mitigated by:

- the notional amount of guarantee commitments received;
- the fair value of collateral received;
- the carrying amount of surety deposits received.

These mitigating amounts must be capped in case of legal or contractual limitation of their realizable or recoverable amounts.

(1) Fair value at the closing date, which may fluctuate in subsequent periods.

2. SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES WHERE THE GROUP HAS NO INTEREST

The Group may have no ownership interest in a structured entity, but still be considered as a sponsor of this structured entity if it acts or has acted as:

- a structure;
- an originator for potential investors;
- an asset manager;
- an implicit or explicit guarantor of the entity's performance (in particular via capital or return guarantees granted to mutual fund unit holders).

A structured entity is also considered to be sponsored by the Group if its name includes the name of the Group or the name of one of its subsidiaries.Conversely, entities that are structured by the Group according to specific needs expressed by one or more customers or investors are considered to be sponsored by said customers or investors.

	Asset financing		Asset management		Others	
(in EUR thousand)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Entity consolidated statement of financial position total(1)	–	2 087	234 003	2 161 000	–	138
Income from those entities during the reporting period	–	–	–	–	–	–
Carrying amounts of all assets transferred to those structured entities during the reporting period	–	–	–	–	–	–

NOTE 3 – FINANCIAL INSTRUMENTS

MAKING IT SIMPLE

The financial instruments represent the contractual rights or obligations to receive or to pay cash or other financial assets. The Group's banking activities generally take the form of financial instruments covering a broad spectrum of assets and liabilities, such as loans, investment portfolios (equity, bonds, etc.), deposits, debt securities issued and derivative instruments (swaps, options, forward contracts, credit derivatives, etc.).

In the financial statements, the classification and valuation of financial assets and liabilities depend on their contractual characteristics and the way the entity manages those financial instruments.

However, this distinction is not applicable to derivative instruments, which are always measured at fair value in the statement of financial position, no matter what their purpose is (market activities or hedging transactions).

ACCOUNTING PRINCIPLES

Accounting principles presented in this Note 3 are applied as from 1 January 2018 according to the IFRS 9 provisions excluding insurance activities (see Note 4.3), and hedge accounting, which is applied according to IAS 39 (see Note 3.3.).

CASH DUE FROM CENTRAL BANKS

Cash and cash equivalents are Cash consists primarily of cash balances, debit balances outstanding from the current account and the mandatory minimum reserve with the Central Bank of Luxembourg.

The funds for the minimum reserves are not available for financing the current operations of the Bank. The reserve base, calculated monthly, is based on balance sheet items in accordance with accounting principles. The baseline calculation, which determines the reserve requirement, is performed by the central bank of Luxembourg.

(1) For Asset Management, NAV (Net Asset Value) of the fund.

CLASSIFICATION OF FINANCIAL ASSETS

At initial recognition, financial instruments are classified in the Group statement of financial position in one of 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. Classification is based on their contractual cash flow characteristics and the entity's business model for managing the assets.

Cash flow characteristics	+	Business model	=	Accounting classification
SPPI (**S**olely **P**ayments of **P**rincipal and **I**nterest) ▪ Basic debt financial assets		Collecting contractual cash flows		Amortised cost
		Collecting contractual cash flows and selling		Fair value through OCI with subsequent recycling in the icome statement
		Trading portfolio		Fair value through profit or loss
		+ Fair value option *(to eliminate or reduce an accounting mismatch)*		Fair value through profit or loss
NON-SPPI ▪ Complex debt financial assets ▪ Equity financial assets ▪ Derivatives		Regardless of the business model		Fair value through profit or loss
		+ Fair value through OCI option *without subsequent recycling in the income statement* *(non-trading equity financial assets)*		Fair value through OCI without subsequent recycling in the icome statement

The accounting principles for classifying financial assets require the entity to analyse the contractual cash flows generated by the financial instruments and to analyse the business model for managing the financial instruments.

Analysis of contractual cash flow characteristics

The aim of the analysis of contractual cash flow characteristics is to limit exclusively the recognition of revenues from financial assets using the effective interest method to the instruments whose characteristics are similar to those of a basic lending arrangement, meaning their associated cash flows are highly predictable. All other financial instruments that do not share these characteristics are measured at fair value through profit or loss, regardless of the business model used to manage them.

Contractual cash flow that represent solely payments of principal and interest (SPPI) on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement, interest predominantly consists of a consideration for the time value of money and for credit risk. Interest may also include a consideration for liquidity risk, administrative costs, and a commercial profit margin. Negative interest is not inconsistent with this definition.

All financial assets that are not basic will be mandatorily measured at fair value through profit or loss, regardless of the business model for managing them.

The Group can make the irrevocable decision, on a security-by-security basis, to classify and measure an investment in an equity instrument (shares and other equity securities) that is not held for trading purposes at fair value through other comprehensive income. Subsequently, the profit or loss accumulated in other comprehensive income will never be reclassified into profit or loss (only dividends from those investments will be recognised as income).

Analysis of the business model

The business model represents how the financial instruments are managed in order to generate cash flows and income.The Group uses several business models in the course of exercising its different business lines. 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;
- sales of assets realised or expected (value, 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);
- a 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, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

Fair value option

SPPI financial assets that are not held for trading purposes can be designated, at initial recognition, at fair value through profit or loss if such designation eliminates or significantly reduces discrepancies in the accounting treatment of related financial assets and liabilities (accounting mismatch).

CLASSIFICATION OF FINANCIAL LIABILITIES

Financial liabilities are classified into one of the following two categories:

- Financial liabilities at fair value through profit or loss: these are financial liabilities held for trading purposes, which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Group upon initial recognition to be measured at fair value through profit or loss using the fair value option;
- Debts: these include the other non-derivative financial liabilities and are measured at amortised cost.

Derivative financial assets and liabilities qualifying as hedging instruments are presented on separate lines of the statement of financial position (see Note 3.3).

RECLASSIFICATION OF FINANCIAL ASSETS

Reclassification of financial assets are only required in the exceptional event that the Group changes the business model used to manage these assets.

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods used by the Group to establish the fair value of financial instruments are detailed in Note 3.5.

INITIAL RECOGNITION

Purchases and sales of financial assets recorded under Financial assets at *fair value through profit or loss and Financial assets at fair value through other comprehensive income* are recognised in the statement of financial position at the delivery-settlement date. Changes in fair value between the trade and settlement dates are recorded in the income statement or booked to shareholders' equity depending on the accounting category of the relevant financial assets. Loans, receivables and securities at amortized cost are recorded in statement of financial position on the date they are paid or at the maturity date for invoiced services. The trade date is the date on which the contractual commitment becomes binding and irrevocable for the Group.

When initially recognised, financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or issuance, except for financial instruments recognised at fair value through profit or loss, for which these costs are booked directly to the income statement.

The fair value of structural notes and warrants is defined according to models or limited observable market data, and the sales margin is recognised at Societe Generale's level as it assumes the role of agent and absorbs the initial sales margin.

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 linked to ownership of the asset.

The Group also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party ("pass-through agreement") and for which it has transferred substantially all the risks and rewards. Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the statement of financial position 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 in the income statement for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the income statement on the prepayment date among *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 expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

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

All contractual terms shall be 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 return the debt instrument to the issuer before maturity remains consistent with SPPI cash flows, provided the prepayment amount primarily represents the principal remaining due and accrued but unpaid contractual interest, which may include a reasonable compensation. The fact that such compensation can be either positive or negative is not inconsistent with the SPPI nature of cash flows.

The prepayment compensation is considered as reasonable especially when:

- the amount is calculated as a percentage of the outstanding amount of the loan and is capped by regulations, 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 the interest that would be obtained by the reinvestment of the prepaid amount at a rate that reflects the relevant benchmark interest rate.

Basic financial assets (SPPI) are debt instruments which mainly include:

- cash and cash equivalents,
- fixed-rate loans,
- variable-rate loans that can include caps or floors,
- fixed or variable-rate debt securities (government or corporate bonds, other negotiable debt securities),
- securities purchased under resale agreements (reverse repos),
- guarantee deposits paid,
- trade receivables.

Contractual terms that would introduce exposure to risks or volatility in the contractual cash flows, 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 flows remains minimum.

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

- derivative instruments,
- shares and other equity instruments held by the entity,
- 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 the cash flow that would arise from a benchmark instrument. For instance, that is the case when an interest rate is periodically reset, but the frequency of that reset does not match the tenor of the interest rate (such as an interest rate reset every month to a one-year rate), or when the interest rate is periodically reset to an average of short- and long-term interest rates.

If the difference between the undiscounted contractual cash flows and the undiscounted benchmark cash flows is or may become significant, then the instrument is not considered basic.

Depending on the contractual terms, the comparison with benchmark cash flow may be performed through a qualitative assessment; but in other cases, a quantitative test is required. The difference between contractual and benchmark cash flows has to be considered in each reporting period and cumulatively over the life of the instrument. When performing this benchmark test, the entity considers factors that could affect future undiscounted contractual cash flows: using the yield curve at the date of the initial assessment is not enough, and the entity also has to consider whether the curve could change over the life of the instrument according to reasonably possible scenarios.

Furthermore, a specific analysis of contractual cash flow is required when financial assets are instruments issued by a securitisation vehicle or a similar entity that prioritises payments to holders using multiple contractually-linked instruments that create concentrations of credit risk (tranches). 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.

Note 3.1. – Cash, due from central banks

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Cash	1 551	1 630
Balances with central banks	9 260 583	5 171 825
Total	**9 262 134**	**5 173 455**
Mandatory reserve	*262 614*	*240 840*

Note 3.2. – Financial assets and liabilities at fair value through profit or loss

1. OVERVIEW OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2019		31.12.2018	
(in EUR thousand)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading portfolio	6 210 338	6 176 304	4 714 769	4 606 597
Financial instruments mandatorily at fair value through profit or loss	53 347 979	–	45 095 121	–
Financial instruments at fair value through profit or loss using the fair value option	–	52 895 594	–	45 054 613
Total	**59 558 317**	**59 071 898**	**49 809 890**	**49 661 210**

These assets and liabilities mainly include:

- financial derivatives;
- unsecured, secured and repack notes issued, measured at fair value through profit and loss using fair value option;
- fully funded swaps which are economically assimilated to loans with embedded derivatives measured mandatorily at fair value through profit and losses to hedge the notes issued;
- warrants issued by the Group.
- options purchased in order to hedge the issued warrants;

The financial instruments issued by the Group are subscribed by the investors through Societe Generale as a lead manager during the issuance period and as a market maker for a secondary market. The instruments which are unsold are held by Societe Generale.

In application of IAS 32 - Offsetting a financial asset and a financial liability, the Group proceeds to the accounting netting of the non-sold amounts.

As at 31 December 2019, the impact of the offsetting of financial assets and financial liabilities (decrease in the statement of financial position) is EUR 30 038 519 thousand for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2018: EUR 40 786 626 thousand) and EUR 6 692 028 thousand for the non-sold warrants and the corresponding Options (31 December 2018: EUR 5 281 042 thousand).

The gains and losses on foreign exchange transactions are accounted for according to principles in Note 8.5.

The accounting principles for hedging derivatives are disclosed in Note 3.3.

2. TRADING PORTFOLIO

ACCOUNTING PRINCIPLES

The trading book contains financial assets and liabilities held or accrued for the purpose of capital markets activities.

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 3.3).

The financial instruments recorded in the trading portfolio are measured at fair value at the statement of financial positiondate and recognised in the statement of financial position under *Financial assets or liabilities at fair value through profit or loss.* Changes in their fair value and revenues from derecognition associated to those instruments are recorded in the income statement as *Net gains and losses on financial instruments at fair value through profit or loss*. Interest income and expense is recorded in the income statement as Interest income and expense, except for warrant issuance activity and mirroring options, for which interest income and expenses are netted.

Financial assets held for trading are mainly:

- financial derivatives, of which back-to-back operations with Societe Generale Group (see Note 3.3 Financial derivatives);
- options traded with Societe Generale to mirror warrants issued;
- and repurchase agreements with Societe Generale.

Trading portfolio includes all the financial assets held for trading purpose regardless of the characteristics of their contractual cash flows. Only non-SPPI financial assets that are not held for trading are classified amongst *Financial assets measured mandatorily at fair value through profit or loss* (see section 3 below).

ASSETS

(in EUR thousand)	31.12.2019	31.12.2018
Interest rate instruments	104 212	117 553
Foreign exchange instruments	36 141	64 170
Equity and index instruments	3 698 444	3 937 634
Commodities instruments	102	295
Other forward financial instruments	2 360 686	500 804
Other trading instruments	10 753	94 313
Total	**6 210 338**	**4 714 769**

LIABILITIES

(in EUR thousand)	31.12.2019	31.12.2018
Interest rate instruments	90 588	108 879
Foreign exchange instruments	22 999	55 083
Equity and index instruments	3 695 372	3 939 938
Commodities instruments	1 553	186
Other forward financial instruments	2 365 298	501 763
Other trading instruments	494	748
Total	**6 176 304**	**4 606 597**

3. FINANCIAL INSTRUMENTS 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 bond equivalents that are not held for trading purposes and do not pass the SPPI test (non-basic or non-SPPI instruments).
- shares and share equivalents that are not classified in any other sub-category: trading book at fair value through profit or loss, instruments designated by the Group at fair value through other comprehensive income without subsequent reclassification to profit or loss.

These assets are recorded at fair value in the statement of financial position under *Financial assets at fair value through profit or loss* and changes in the fair value of these instruments (excluding interest income) are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*.

Interest income is recorded in the income statement as *Interest and similar income*.

Dividends on shares & equity securities are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*. (see paragraph 5 below).

BREAKDOWN OF FINANCIAL ASSETS MEASURED MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(in EUR thousand)	31.12.2019	31.12.2018
Bonds and other debt securities	–	5 178
Shares and other equity securities	71 299	27 810
Loans and receivables	53 276 680	45 062 133
Total	**53 347 979**	**45 095 121**

The loans and receivables recorded in the statement of financial position under *Financial assets at fair value through profit or loss* are mainly:

- loans that include an embedded derivative (swap or option)
- loans that include indexation clauses which are not SPPI compliant.

The Fully Funded Swaps (hereafter "FFS") are economically assimilated to loans with embedded derivatives (the swap embedded in the FFS). This type of financial assets comply with the IFRS definition of debt instruments (fixed maturity, coupon calculated as a rate, no right nor interest/control in an entity). As these financial assets of SGIS contain embedded derivatives that modify the cash flows of the entire contract, the contract does not pass the SPPI test and these financial assets are mandatorily measured at Fair Value through Profit and Loss ("FVTPL").

Shares and other equity securities are non consolidated shares held by the Group for structuring or financing activities.

4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS USING FAIR VALUE OPTION

ACCOUNTING PRINCIPLES

In addition to financial assets and liabilities held for trading, and financial assets measured mandatorily at fair value through profit or loss, 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 the fair value of these instruments (including interest) are recorded in the income statement under Net gains or losses on financial instruments at fair value through profit or loss.

For financial assets, this option may only be used to eliminate or significantly reduce accounting mismatches that would otherwise arise from applying different accounting treatments to certain related financial assets and liabilities.

For financial liabilities, this option may only be used in the following cases:

- to eliminate or reduce discrepancies in the accounting treatment of certain related financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

Furthermore, in order 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.

Assets

As at 31 December 2019, as well as at 31 December 2018, the Groups does not hold any asset recorded under *Assets at fair value through profit and loss using fair value option*.

Liabilities

Financial liabilities measured at fair value through profit or loss in accordance with the fair value option exclusively consist of structured bonds issued by the Group.

These financial liabilities are economically hedged by Fully Funded Swaps on the asset side. Regarding the liabilities, changes in fair value attributable to own credit risk are not recorded in other comprehensive income in order to avoir any accounting mismatch with the fair value of the corresponding asset, which are recorded at fair value through profit and loss.

5. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS FAIR VALUE THROUGH PROFIT OR LOSS

(in EUR thousand)	2019	2018*
Net gain/loss on trading portfolio (excluding derivatives)	1 829	(2 686)
Net gain/loss on financial instruments mandatorily at fair value through profit or loss (1)	13 331 243	(10 852 699)
Of which Dividend income	*27 091*	*23 008*
Net gain/loss on financial instruments measured using fair value option (1)	(13 275 937)	10 931 450
Net gain/loss on derivative instruments	(215)	(31 966)
Total of net gains and losses on financial instruments at fair value through profit or loss	**56 920**	**44 099**

(*) Restated figures, please refer to Note 1.7

(1) This item includes realised and unrealised gains during the financial year on Euribor securities in the amount of EUR 319 million.

Insofar as income and expenses recorded in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole. It should be noted that the income shown here does not include the refinancing cost of these financial instruments, which is shown under interest expense and interest income.

Note 3.3. – Financial derivatives

MAKING IT SIMPLE

Derivative instruments are financial instruments for which the value changes according to that of an underlying item and can be accompanied by a leverage effect. The items underlying these instruments are various (interest rates, exchange rates, equity, indexes, commodities, credit rating…), as are their forms (forward contracts, swaps, calls and puts…).

The Group may use these derivative instruments for their market activities to provide to its customers solutions to meet their risk management or revenue optimisation needs. In that case, they are accounted for as trading derivatives. These financial instruments are issued in back-to-back.

The Group may also use derivative instruments to manage and hedge its own risks. In which case, they are qualified as hedging derivatives. Hedging transactions can concern individual items or transactions (micro-hedging relationships) or portfolios of financial assets and liabilities that can generate a structural interest-rate risk (macro-hedging relationships).

Contrary to other financial instruments, derivative instruments are always measured at fair value in the statement of financial position, regardless their purpose (market activities or hedging transactions). The fair value adjustments of trading derivatives are directly recognised in the income statement. However, the accounting method used on hedging transactions aims to neutralise in the income statement the effects of the revaluation of hedging derivatives, as long as the hedge is effective.

ACCOUNTING PRINCIPLES

Derivatives are financial instruments meeting the following three criteria:

- their value changes in response to the change in a specified interest rate, foreign exchange rate, share price, index of prices, commodity price, credit rating, etc.;
- they require little to no initial investment;
- they are settled at a future date.

All financial derivatives are recognised at fair value in the statement of financial position as financial assets or financial liabilities. They are considered to be trading derivatives by default, unless they are designated as hedging instruments for accounting purposes.

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 entire hybrid contract is measured 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 is not measured at fair value through profit or loss, the embedded derivative is separated from the host contract if:

at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; and it would meet the definition of a derivative. As at 31 December 2019 and 2018, the Group did not have these instruments.

1. TRADING DERIVATIVES

ACCOUNTING PRINCIPLES

All financial derivatives are recognised at fair value in the statement of financial position as financial assets or financial liabilities. They are considered to be trading derivatives.

Trading derivatives are recorded in the statement of financial position under *Financial assets or liabilities at fair value through profit or loss*. Changes in fair value are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*.

Interest income and expense is recorded in the income statement as *Interest income and expense*.

Trading derivatives are mainly used by the Group for transactions with customers in back to back transactions with Societe Generale; or for issuance of warrants that are economically hedged by options traded with Societe Generale.

BREAKDOWN OF TRADING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

(in EUR thousand)	31.12.2019	31.12.2018
Interest rate instruments	**6 894 000**	**9 892 452**
Firm instruments	6 288 706	8 507 814
Swaps	*6 287 816*	*8 507 814*
FRAs	*890*	–
Options	605 294	1 384 638
Foreign exchange instruments	**42 361 275**	**59 202 614**
Firm instruments	15 276 878	32 910 075
Options	27 084 397	26 292 539
Equity and index instruments	**238 232 578**	**244 511 631**
Firm instruments	132 272	42 038
Options	238 100 306	244 469 593
Commodities instruments	**4 335 591**	**3 142 217**
Firm instruments	4 758	3 220
Options	4 330 833	3 138 997
Other forward financial instruments	**461 994**	**137 043**
Total	**292 285 438**	**316 885 957**

BREAKDOWN OF ASSETS

(in EUR thousand)	31.12.2019	31.12.2018
Interest rate instruments	104 212	117 553
Foreign exchange instruments	36 141	64 170
Equity and index instruments	3 698 444	3 937 634
Commodities instruments	102	295
Other forward financial instruments [(1)]	2 360 686	500 804
Other trading instruments	1 585	–
Total	**6 201 170**	**4 620 456**

BREAKDOWN OF LIABILITIES

(in EUR thousand)	31.12.2019	31.12.2018
Interest rate instruments	90 588	108 879
Foreign exchange instruments	22 999	55 083
Equity and index instruments	3 695 372	3 939 938
Commodities instruments	1 553	186
Other forward financial instruments	2 365 298	501 763
Other trading instruments [(1)]	182	21
Total	**6 175 992**	**4 605 870**

(1) Other trading instruments are mainly composed of structured optional products (back to back activities).

2. HEDGING DERIVATIVES

According to the transitional provisions of IFRS 9, the Group made the choice to maintain the IAS 39 provisions related to hedge accounting.

ACCOUNTING PRINCIPLES

In order to be hedged against certain market risks, the Group sets up hedging derivatives. From an accounting standpoint, the Group designates the hedging transaction as a fair value hedge, a cash flow hedge, depending on the risk and on the instruments that are hedged.

To designate an instrument as a hedging derivative, the Group must document the hedging relationship in detail, from the inception of the hedge. This documentation specifies the asset, the liability, the risk to be hedged and the associated risk management strategy, the type of financial derivative used and the valuation method that will be used to measure its effectiveness.

A derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk. This effectiveness is verified when changes in the fair value or cash flows of the hedged instrument are almost entirely offset by changes in the fair value or cash flows of the hedging instrument, with the expected ratio between the two changes ranging from 80% to 120%.

Effectiveness shall be assessed both when the hedge is first set up and throughout its life. Effectiveness is measured each quarter retrospectively (effectiveness measured on past periods). Where the effectiveness falls outside the range specified above hedge accounting in discontinued.

Hedging derivatives are recognised in the statement of financial position under Hedging derivatives.The purpose of these hedges is to protect the Group against an adverse fluctuation in the fair value of an instrument which could affect profit or loss if the instrument were derecognised from the statement of financial position.

FAIR VALUE HEDGES

The purpose of these hedges is to protect the Group against an adverse fluctuation in the fair value of an instrument which could affect profit or loss if the instrument were derecognised from the statement of financial position.

Changes in the fair value of the hedging derivative are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*; for interest rate derivatives, however, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest income and expense – Hedging derivatives* at the same time as accrued interest income and expenses related to the hedged item.

In the consolidated statement of financial position, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported in the income statement under Net gains and losses on financial instruments at fair value through profit or loss. To the extent that the hedge is highly effective, changes in the fair value of the hedged item and changes in the fair value of the hedging derivative are accurately offset through profit or loss, the difference corresponding to an ineffectiveness gain or loss. In the contemplated hedging structures of the Group, the main source of ineffectiveness comes from the credit risk component of the hedging instrument counterparty and the hedged instrument counterparty.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is terminated or sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value attributable to the hedged risk and the cumulative adjustments previously recognised under hedge accounting are amortised over its remaining life. Hedge accounting is also discontinued if the hedged item is sold prior to maturity or redeemed early.

CASH FLOW HEDGES

The purpose of interest rate cash flow hedges is to protect against changes in future cash flows associated with a financial instrument on the statement of financial position. The purpose of these hedges is to protect the Group against adverse fluctuations in the future cash-flows of an instrument or transaction that could affect profit or loss.

The effective portion of changes in the fair value of hedging derivatives is booked to *Unrealised or deferred gains and losses*, while the ineffective portion is recognised in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*. For interest rate derivatives, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest income and expense – Hedging derivatives*.

The effectiveness of the hedge is assessed using the hypothetical derivative method, which consists in i) creating a hypothetical derivative bearing exactly the same characteristics as the instrument being hedged (in notional terms, in terms of the date on which the rates are reset, in terms of the rates themselves, etc.), but which moves in the opposite direction and whose fair value is nil when the hedge is set up, then ii) comparing the expected changes in the fair value of the hypothetical derivative with those of the hedging instrument (sensitivity analysis).

Amounts directly recognised in equity in respect of the revaluation of cash flow hedging derivatives are subsequently reclassified to *Interest income and expense* in the income statement at the same time as the cash flows being hedged.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognised directly in equity are reclassified under Interest income and expense in the income statement over the periods during which interest income is affected by cash flows arising from the hedged item. If the hedged item is sold or redeemed earlier than expected, unrealised gains and losses recognised in equity are immediately reclassified in the income statement.

BREAKDOWN OF HEDGING DERIVATIVES

	31 December 2019		31 December 2018	
(in EUR thousand)	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Interest rate instruments				
Swaps	410	179 639	3 372	184 591
Equity and index instruments				
Equity and stock index options	-	-	6	-
Cash Flow Hedge				
Interest rate instruments				
Swaps	11	38 432	753	39 791
Other instruments				
Other forward financial instruments	26	174	30	622
Total	**447**	**218 245**	**4 161**	**225 004**

The Group sets up hedging relationships recognised for accounting purposes as fair value hedges in order to protect its fixed-rate financial assets and liabilities (primarily loans/borrowings, securities issued and fixed-rate securities) against changes in long-term interest rates. The hedging instruments used mainly consist of interest rate swaps.

Through some of its operations, the Group is exposed to future cash flow changes in its short and medium-term funding requirements, and sets up hedging relationships recognised for accounting purposes as cash flow hedges.

BREAKDOWN OF HEDGING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

DERIVATIVE ASSETS (NOTIONAL AMOUNT)

(in EUR thousand)	31 December 2019	31 December 2018
Interest rate instruments	5 737 000	7 248 000
Foreign exchange instruments	–	–
Equity and index instruments	–	–
Commodity instruments	–	–
Credit derivatives	–	–
Other forward financial instruments	1 919	1 917
Total	**5 738 919**	**7 249 917**

DERIVATIVE LIABILITIES (NOTIONAL AMOUNT)

(in EUR thousand)	31 December 2019	31 December 2018
Interest rate instruments	5 737 000	7 248 000
Foreign exchange instruments	-	-
Equity and index instruments	-	-
Commodity instruments	-	-
Credit derivatives	-	-
Other forward financial instruments	-	-
Total	**5 737 000**	**7 248 000**

BREAKDOWN OF NET GAINS/LOSSES ON HEDGING TRANSACTIONS

(in EUR thousand)	2019	2018
Net gain/loss on hedging transactions		
Net gain/loss on fair value hedging derivatives	*2 188*	*19 733*
Revaluation of hedged items attributable to hedged risks	*(6 319)*	*(23 179)*
Ineffective portion of cash flow hedge	*15*	*(327)*
Total of net gains and losses on financial instruments at fair value through profit or loss from hedging transactions	**(4 116)**	**(3 773)**

MATURITIES OF CASH FLOW HEDGED

The following table specify the amount of cash flow that is subject to a cash flow hedge relationship (broken down by expected due date) and the amount of highly probable hedged forecast transactions.

(in EUR thousand)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2019
Floating cash flows hedged (rates…) (1)	25 762 337	6 814 773	4 436 582	1 290 571	**38 304 263**
Highly probable forecast transaction	–	–	–	–	–
Other (Forex…)	–	–	–	–	–
Total	**25 762 337**	**6 814 773**	**4 436 582**	**1 290 571**	**38 304 263**

(in EUR thousand)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2018
Floating cash flows hedged (rates…) (1)	15 652 957	5 379 984	3 389 892	1 473 982	**25 896 815**
Highly probable forecast transaction	–	–	–	–	–
Other (Forex…)	–	–	–	–	–
Total	**15 652 957**	**5 379 984**	**3 389 892**	**1 473 982**	**25 896 815**

Hedge inefficiency is recorded in the consolidated income statement in “Net gains and losses on financial instruments at fair value” under “Net Ineffective portion of cash flow hedge” for EUR - 15 thousand (2018: EUR 327 thousand) and for its effective part in the consolidated statement of comprehensive income for an additional amount in 2019 of EUR 147 thousand.

The total of efficiency accounted for on cash flow hedge as at 31 December 2019 is EUR 30 341 thousand. (31 December 2018: EUR 30 194 thousand).

(1) The basis of estimated floating cash flows relies on used spot rates ate the end of the period.

MATURITIES OF HEDGING FINANCIAL DERIVATIVES (NOTIONAL AMOUNTS)

These items are presented according to the contractual maturity of the financial instruments.

(in EUR thousand)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2019
Interest rate instruments	395 000	750 000	3 806 000	786 000	**5 737 000**
Foreign exchange instruments	–	–	–	–	**–**
Equity and index instruments	–	–	–	–	**–**
Other forward financial instruments	–	–	1 919	–	**1 919**
Total	**395 000**	**750 000**	**3 807 919**	**786 000**	**5 738 919**

(in EUR thousand)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2018
Interest rate instruments	305 000	1 532 000	4 616 000	795 000	**7 248 000**
Foreign exchange instruments	–	–	–	–	**–**
Equity and index instruments	–	–	–	–	**–**
Other forward financial instruments	–	–	1 917	–	**1 917**
Total	**305 000**	**1 532 000**	**4 617 917**	**795 000**	**7 249 917**

Note 3.4. – Financial assets at fair value through other comprehensive income

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in EUR thousand)	31 December 2019	31 December 2018
Bonds and other debt securities	3 263 281	3 338 542
Shares and other equity securities	–	–
Total	**3 263 281**	**3 338 542**
o/w unrealized gain/loss through OCI, excluding deferred taxes and allowances for impairment losses	*38 405*	*54 836*
o/w Allowances for impairment losses	*44*	*13*

1. DEBT INSTRUMENTS

ACCOUNTING PRINCIPLES

Debt instruments are classified as *Financial assets at fair value through other comprehensive income* where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a Collect and Sell business model.

Accrued or earned income on debt instruments is recorded in profit or loss based on the effective interest rate, under *Interest and similar income*.

At the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under *Unrealised or deferred gains and losses*, except for foreign exchange differences, which are recorded in profit or loss. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Cost of risk* with a corresponding entry to *Unrealised or deferred gains and losses*. The applicable impairment rules are described in Note 3.9. The impairment does not impact the carrying amount of the assets.

If these instruments are sold, the impairments for credit risk are reversed in Cost of risk in the income statement, and the unrealised or deferred gains and losses are reclassified to profit or loss under Net gains or losses on financial assets at fair value through other comprehensive income.

Business model "hold to collect and sale"

The objective of this business model is to realise cash flows by both collecting contractual payments 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' objectives.

Cash management

Within the Group, the "hold to collect and sale" business model is mainly applied by the Treasury activity for managing HQLA securities (High Quality Liquid Assets) included in the liquidity buffer.

CHANGES OF THE CARRYING AMOUNT

(in EUR thousand)	2019
Balance as at 1 January	**3 338 542**
Acquisitions / disbursements	601 165
Disposals / redemptions	(653 442)
Change in scope and others	(1 479)
Changes in fair value during the year	(17 915)
Changes in related receivables	(3 929)
Translation differences	339
Balance on 31 December	**3 263 281**

BREAKDOWN OF CUMULATED UNREALISED GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY AND THAT WILL BE RECLASSIFIED SUBSEQUENTLY INTO INCOME

31 December 2019

(in EUR thousand)	Cumulated unrealized gains and losses	"o.w. without adjustments for credit risk"	"o.w. adjustments for credit risk"
Unrealised gains	43 040	42 980	60
Unrealised losses	(4 591)	(4 575)	(16)
Total	**38 449**	**38 405**	**44**

31 December 2018

(in EUR thousand)	Cumulated unrealized gains and losses	"o.w. without adjustments for credit risk"	"o.w. adjustments for credit risk"
Unrealised gains	61 356	61 343	13
Unrealised losses	(6 507)	(6 507)	–
Total	**54 849**	**54 836**	**13**

The amounts as at 31 December 2019 and 31 December 2018 that were reclassified into income from financial instruments at fair value through other comprehensive income are presented in paragraph 3 below.

2. EQUITY INSTRUMENTS

When exceptionally classified at fair value through other comprehensive income, at the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under *Unrealised or deferred gains and losses*. If the instruments are sold, the associated unrealised or deferred gains and losses are reclassified to *Retained earnings* at the opening of the next financial year. Dividend income, if it is considered as a return of investment, is recorded in the income statement under *Net gains or losses on financial assets at fair value through other comprehensive income*.

As at 31 December 2019 and 2018, the Group did not apply the fair value through other comprehensive income option to any equity instruments.

3. NET GAINS AND LOSSES RECOGNISED IN NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in EUR thousand)	2019	2018
Realised gains and losses on sale of debt instruments	–	(4)
Dividends incomes on financial assets at fair value through other comprehensive income	–	–
Total	**–**	**(4)**

Note 3.5. – Fair value of financial instruments

MAKING IT SIMPLE

The financial assets and liabilities recognised in the Group statement of financial position are measured either at fair value or at amortised cost. In the latter case, the fair value of the instruments is disclosed in the notes (see Note 3.6).

If an instrument is quoted on an active market, its fair value is equal to its market price.

But many financial instruments are not listed: most of the notes issued by the Group, loans and receivables, structured products.

Financial derivatives traded by the Group are mostly only negotiable on over-the-counter markets.

In such situations, the fair value of the instruments is calculated using measurement techniques or valuation models. Market parameters are included in these models and must be observable; otherwise they are determined based on internal estimates. The models and parameters used are subject to independent validations and internal controls.

ACCOUNTING PRINCIPLES

DEFINITION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market input based on assumptions that market operators would use to set the price of the instrument in question.

FAIR VALUE HIERARCHY

The fair values of financial instruments include accrued interest as applicable.

For information purposes, in the notes to the consolidated financial statements, the fair value of financial instruments is classified using a fair value hierarchy that reflects the observability level of the inputs used. The fair value hierarchy is composed of the following levels:

Level 1 (L1): instruments valued on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 1 instruments carried at fair value on the statement of financial position include in particular shares listed in an active market, government or corporate bonds priced directly by external brokers/dealers, derivatives traded on organised markets (futures, options), and units of funds (including UCITS) whose net asset value is available on the statement of financial position 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, industry group, pricing service or regulatory agency, and if they reflect actual and regular market transactions on an arm's length basis.

Determining whether a market is inactive requires the use of indicators such as a sharp decline in trading volume and the level of activity in the market, a sharp disparity in prices over time and among the various above-mentioned market participants, or the fact that the latest transactions conducted on an arm's length basis did not take place recently enough.

Where a financial instrument is traded in several markets to which the Group has immediate access, its fair value is represented by the market price at which volumes and activity levels are highest for the instrument in question.

Transactions resulting from involuntary liquidations or distressed sales are usually not taken into account to determine the market price.

Level 2 (L2): instruments valued using inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

These are instruments measured using a financial model based on observable market inputs. Prices published by an external source derived from the valuation of similar instruments are considered as data derived from prices.

Level 2 instruments include in particular non derivative financial instruments carried at fair value on the statement of financial position that are not directly quoted or do not have a quoted price on a sufficiently active market (e.g. corporate bonds, repos transactions, mortgage-backed securities, units of funds), and firm derivatives and options traded over-the-counter: interest rate swaps, caps, floors, swaptions, equity options, index options, foreign exchange options, commodity options and credit derivatives. The maturities of these instruments are linked to ranges of terms commonly traded in the market, and the instruments themselves can be simple or offer a more complex remuneration profile (e.g. barrier options, products with multiple underlying instruments), with said complexity remaining limited however. The valuation techniques used in this category are based on common methods shared by the main market participants.

This category also includes the fair value of loans and receivables measured at amortised cost in the balance-sheet granted to counterparties whose credit risk is quoted via Credit Default Swap (see Note 3.10).

Level 3 (L3): instruments valued using inputs that are not based on observable market data (referred to as unobservable inputs).

Accordingly, Level 3 financial instruments include derivatives with longer maturities than those usually traded and/or with specifically-tailored return profiles. Similarly, debt measured at fair value is classified as Level 3 where the valuation of the associated embedded derivatives is also based on unobservable inputs.

The main L3 complex derivatives are:

- Equity derivatives: options with long maturities and/or incorporating bespoke remuneration mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e.g. extrapolation from observable data, historical analysis). Hybrid equity instruments (i.e. having at least one non-equity underlying instrument) are also classified as L3 insofar as correlations between the different underlyings are generally unobservable;
- Interest rate derivatives: long-term and/or exotic options, products sensitive to correlation between different interest rates, different exchange rates, or between interest rates and exchange rates, for example for quanto products (in which the instrument is settled in a currency different from the currency of the underlying); they are liable to be classified as L3 because the valuation inputs are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (e.g. exchange rate correlations are deemed unobservable for the USD/JPY);
- Credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation (“N to default” products in which the buyer of the hedge is compensated as of the Nth default, which are exposed to the credit quality of the issuers comprising the basket and to their correlation, or CDO Bespoke products, which are Collateralised Debt Obligations created specifically for a group of investors and structured according to their needs), as well as products subject to credit spread volatility;
- Commodity derivatives: this category includes products involving unobservable volatility or correlation inputs (i.e. options on commodity swaps or instruments based on baskets of underlyings).

For unsecured Notes and Fully Funded Swaps

The fair value for both the unsecured Notes (liabilities) and the Fully Funded Swap (FFS) (assets) are calculated by discounting the expected future cash flows with the risk free curve. To take the credit adjustment into account, the risk free curve is adjusted with Societe Generale Group’s credit spread curve. A dedicated process has been implemented using Societe Generale Group and SGIS operational teams’ input. This process is fully functional, constantly monitored as of today.

For secured and Repack Notes

Secured Notes are Notes which are collateralized with assets deposited on segregated or pooled accounts with external custodian (The Bank of New York MELLON (Luxembourg) S.A. hereafter “BNY Mellon”) and pledged in favor of the Note holders.

Repack Notes are Notes which allow investors to calibrate the funding yield of their structure by selecting a bond (the “Reference Bond”) issued by a third-party issuer (the “Reference Bond Issuer”).

The collateral assets are composed of eligible securities.

Should Societe Generale defaults, the pledge on the assets is to be enforced; the Notes holders are exposed to credit risk of the collateral (external securities). Therefore, as Societe Generale and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with Societe Generale credit spread. Thus, no additional credit adjustment is needed for the secured Notes.

The fair value of the secured Notes and the Repack Notes and the associated FFS is computed, for each accounting period, by discounting the expected future cash flows by a composite Repo rate curve.

For Warrants and Options

For financial instruments recognised at fair value in the interim statement of financial position, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the interim statement of financial position date or if the clearing value does not reflect transaction prices.

However, due especially to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Company does not have quoted prices in the markets.

The base models may not fully capture all factors relevant to the valuation of SGIS on these financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, SGIS applies various techniques (from the Group) to estimate the credit risk associated with its financial instruments measured at fair value.

Deferred margin related to main unobservable inputs

The Company does not apply deferred margin related to its main unobservable inputs as margin on Notes and Warrants issued are offset by a similar margin on Fully Funded Swaps and Options purchased.

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE

31 December 2019

(in EUR thousand)	**(L1)**	**(L2)**	**(L3)**	**Total**
Trading portfolio	9 092	5 644 666	556 580	**6 210 338**
Financial assets measured mandatorily at fair value through profit or loss	22 846	21 603 504	31 721 629	**53 347 979**
Hedging derivatives	–	447	–	**447**
Financial assets at fair value through other comprehensive income	3 263 281	–	–	**3 263 281**
Total	**3 295 219**	**27 248 617**	**32 278 209**	**62 822 045**

31 December 2018

(in EUR thousand)	**(L1)**	**(L2)**	**(L3)**	**Total**
Trading portfolio	5 566	4 591 535	117 668	**4 714 769**
Financial assets measured mandatorily at fair value through profit or loss	15 288	20 623 893	24 455 940	**45 095 121**
Hedging derivatives	–	4 161	–	**4 161**
Financial assets at fair value through other comprehensive income	3 338 542	–	–	**3 338 542**
Total	**3 359 396**	**25 219 589**	**24 573 608**	**53 152 593**

As at 31 December 2019, the fair value hierarchy of financial assets by instrument type is as follows:

31 December 2019

(in EUR thousand)	**(L1)**	**(L2)**	**(L3)**	**Total**
Trading portfolio	**9 092**	**5 644 666**	**556 580**	**6 210 338**
Bonds and other debt securities	–	–	–	**–**
Shares and other equity instruments	9 092	–	–	**9 092**
Loans, receivables and repurchase agreements	–	76	–	**76**
Trading derivatives	–	5 644 590	556 580	**6 201 170**
o/w Interest rate instruments	–	*104 212*	–	***104 212***
o/w Foreign exchange instruments	–	*36 141*	–	***36 141***
o/w Equity and index instruments	–	*3 476 421*	*222 023*	***3 698 444***
o/w Commodity instruments	–	*102*	–	***102***
o/w Other forward financial instruments	–	*2 026 129*	*334 557*	***2 360 686***
o/w Other trading instruments	–	*1 585*	–	***1 585***
Financial assets measured mandatorily at fair value through profit or loss	**22 846**	**21 603 504**	**31 721 629**	**53 347 979**
Bond and other debt securities	–	–	–	**–**
Shares and other equity instruments	22 846	48 378	–	**71 224**
Loans and receivables	–	21 555 126	31 721 629	**53 276 755**
o/w Loans indexed on commodities instruments	–	*736 757*	*6 113*	***742 870***
o/w Loans indexed on credit derivatives/securities	–	*1 378 833*	*4 856 266*	***6 235 099***
o/w Loans indexed on equity and index securities	–	*15 198 731*	*20 867 313*	***36 066 044***
o/w Loans indexed on foreign exchange instruments/securities	–	*1 777 010*	*847 690*	***2 624 700***
o/w Loans indexed on interest rate instruments/securities	–	*1 921 912*	*3 961 009*	***5 882 921***
o/w Other financial instruments	–	*541 883*	*1 183 238*	***1 725 121***
Financial assets measured using fair value option through profit or loss	**–**	**–**	**–**	**–**
Hedging derivatives	**–**	**447**	**–**	**447**
Interest rate instruments	–	421	–	**421**
Equity and index instruments	–	–	–	**–**
Other financial assets	–	26	–	**26**
Financial assets at fair value through other comprehensive income	**3 263 281**	**–**	**–**	**3 263 281**
Debt instruments	3 263 281	–	–	**3 263 281**
Total financial assets at fair value	**3 295 219**	**27 248 617**	**32 278 209**	**62 822 045**

As at 31 December 2018, the fair value hierarchy of financial assets by instrument type is as follows:

31 December 2018

(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	**5 566**	**4 591 535**	**117 668**	**4 714 769**
Bonds and other debt securities	–	–	–	–
Shares and other equity instruments	5 566	–	–	**5 566**
Loans, receivables and repurchase agreements	–	88 747	–	**88 747**
Trading derivatives	–	4 502 788	117 668	**4 620 456**
o/w Interest rate instruments	–	*117 553*	–	***117 553***
o/w Foreign exchange instruments	–	*64 170*	–	***64 170***
o/w Equity and index instruments	–	*3 843 492*	*94 142*	***3 937 634***
o/w Commodity instruments	–	*295*	–	***295***
o/w Other forward financial instruments	–	–	–	–
o/w Other trading instruments	–	*477 278*	*23 526*	***500 804***
Financial assets measured mandatorily at fair value through profit or loss	**15 288**	**20 623 893**	**24 455 940**	**45 095 121**
Bonds and other debt securities	–	–	–	–
Shares and other equity instruments	15 288	12 522	–	**27 810**
Loans and receivables	–	20 606 193	24 455 940	**45 062 133**
o/w Loans indexed on commodities instruments	–	*1 160 486*	*40 872*	***1 201 358***
o/w Loans indexed on credit derivatives/securities	–	*1 509 044*	*4 490 176*	***5 999 220***
o/w Loans indexed on equity and index securities	–	*15 226 349*	*15 031 332*	***30 257 681***
o/w Loans indexed on foreign exchange instruments/securities	–	*793 456*	*779 644*	***1 573 100***
o/w Loans indexed on interest rate instruments/securities	–	*1 626 581*	*2 624 148*	***4 250 729***
o/w Other financial instruments	–	*285 099*	*1 489 768*	***1 774 867***
Financial assets measured using fair value option through profit or loss	–	–	–	–
Hedging derivatives	**–**	**4 161**	**–**	**4 161**
Interest rate instruments	–	4 125	–	**4 125**
Equity and index instruments	–	6	–	**6**
Other financial assets	–	30	–	**30**
Financial assets at fair value through other comprehensive income	**3 338 542**	–	–	**3 338 542**
Debt instruments	3 338 542	–	–	**3 338 542**
Total financial assets at fair value	**3 359 396**	**25 219 589**	**24 573 608**	**53 152 593**

2. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

31 December 2019

(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	–	5 616 719	559 585	**6 176 304**
Financial liabilities measured using fair value option through profit or loss	–	21 175 281	31 720 314	**52 895 595**
Hedging derivatives	–	218 245	–	**218 245**
Total	**–**	**27 010 245**	**32 279 899**	**59 290 144**

31 December 2018

(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	–	4 488 929	117 668	**4 606 597**
Financial liabilities measured using fair value option through profit or loss	–	20 600 376	24 454 237	**45 054 613**
Hedging derivatives	–	225 004	–	**225 004**
Total	**–**	**25 314 309**	**24 571 905**	**49 886 214**

As at 31 December 2019, the fair value hierarchy of financial liabilities by instrument type is as follows:

31 December 2019

(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	**–**	**5 616 719**	**559 585**	**6 176 304**
Other trading liabilities	–	313	–	**313**
Transaction derivatives	**–**	**5 616 406**	**559 585**	**6 175 991**
o/w Interest rate instruments	–	*90 588*	–	***90 588***
o/w Foreign exchange instruments	–	*22 999*	–	***22 999***
o/w Equity and index instruments	–	*3 473 384*	*221 988*	***3 695 372***
o/w Commodity instruments	–	*1 553*	–	***1 553***
o/w Other financial instruments	–	*2 027 882*	*337 597*	***2 365 479***
Financial liabilities at fair value through profit or loss	**–**	**21 175 281**	**31 720 314**	**52 895 595**
o/w Commodities instruments	–	*736 757*	*6 113*	***742 870***
o/w Credit derivatives/securities	–	*1 379 219*	*4 855 992*	***6 235 211***
o/w Equity and index securities	–	*15 197 980*	*20 866 396*	***36 064 376***
o/w Foreign exchange instruments/securities	–	*1 775 900*	*847 573*	***2 623 473***
o/w Interest rate instruments/securities	–	*1 921 464*	*3 961 009*	***5 882 473***
o/w Other financial instruments	–	*163 960*	*1 183 231*	***1 347 191***
Hedging derivatives	**–**	**218 245**	**–**	**218 245**
Interest rate instruments	–	218 071	–	**218 071**
Other financial instruments	–	174	–	**174**
Total financial liabilities at fair value	**–**	**27 010 245**	**32 279 899**	**59 290 144**

As at 31 December 2019, the fair value hierarchy of financial liabilities by instrument type is as follows:

31 December 2018

(in EUR thousand)	(L1)	(L2)	(L3)	Total
Trading portfolio	**–**	**4 488 929**	**117 668**	**4 606 597**
Other trading liabilities	–	730	–	**730**
Transaction derivatives	**–**	**4 488 199**	**117 668**	**4 605 867**
o/w Interest rate instruments	–	*108 879*	–	***108 879***
o/w Foreign exchange instruments	–	*55 083*	–	***55 083***
o/w Equity and index instruments	–	*3 845 796*	*94 142*	***3 939 938***
o/w Commodity instruments	–	*186*	–	***186***
o/w Other financial instruments	–	*478 255*	*23 526*	***501 781***
Financial liabilities at fair value through profit or loss	**–**	**20 600 376**	**24 454 237**	**45 054 613**
o/w Commodities instruments	–	*1 160 486*	*40 872*	***1 201 358***
o/w Credit derivatives/securities	–	*1 508 480*	*4 488 869*	***5 997 349***
o/w Equity and index securities	–	*15 221 303*	*15 031 014*	***30 252 317***
o/w Foreign exchange instruments/securities	–	*792 379*	*779 568*	***1 571 947***
o/w Interest rate instruments/securities	–	*1 626 565*	*2 624 147*	***4 250 712***
o/w Other financial instruments	–	*291 163*	*1 489 767*	***1 780 930***
Hedging derivatives	**–**	**225 004**	**–**	**225 004**
Interest rate instruments	–	224 382	–	**224 382**
Other financial instruments	–	622	–	**622**
Total financial liabilities at fair value	**–**	**25 314 309**	**24 571 905**	**49 886 214**

There have been no transfer of financial assets or liabilities measured at fair value from Level 2 to Level 1 in 2019, as well as in 2018.

3. FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The Group considers that the fair value of the financial instruments measured at amortized cost approximates the carrying amounts as at 31 December 2019 and 31 December 2018.

4. VARIATION IN LEVEL 3 FINANCIAL INSTRUMENTS

The following tables show a reconciliation of the opening and closing amounts of Level 3 which are recorded at fair value. Transfers from Level 3 to Level 2 occur when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs.

Since the transfer, these instruments have been valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

The below figures are valued on the liabilities side at fair value through profit or loss. Variations of Level 3 of financial instruments in assets are not presented because the variations would be consistent.

(in EUR thousand)	**Balance at 01.01.2019**	**Issues**	**Redemptions**
Trading portfolio	–	–	–
Debt securities issued	–	–	–
Amounts payable on borrowed securities	–	–	–
Bonds and other debt instruments sold short	–	–	–
Shares and other equity instruments sold short	–	–	–
Borrowings and securities sold under repurchase agreements	–	–	–
Other trading liabilities	–	–	–
Trading derivatives	**117 668**	**408 072**	**(175 707)**
Interest rate instruments	–	–	–
Foreign exchange instruments	–	–	–
Equity and index instruments	94 142	228 783	(153 324)
Commodity instruments	–	–	–
Credit derivatives	–	–	–
Other forward financial instruments	23 526	179 289	(22 383)
Financial liabilities measured using fair value option through profit or loss	**24 454 237**	**30 514 576**	**(20 458 301)**
Hedging derivatives	–	–	–
Interest rate instruments	–	–	–
Foreign exchange instruments	–	–	–
Equity and index instruments	–	–	–
Total financial liabilities at fair value	**24 571 905**	**30 922 648**	**(20 634 009)**

Transfer to Level 2	Transfer from Level 2	Gains and losses due to changes in fair value	Translation differences	Offsetting	Balance at 31.12.2019
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
(13 588)	**69 436**	**178 007**	–	**(24 303)**	**559 585**
–	–	–	–	–	–
–	–	–	–	–	–
(13 588)	–	83 393	–	(17 418)	**221 988**
–	–	–	–	–	–
–	–	–	–	–	–
–	69 436	94 614	–	(6 885)	**337 597**
349 154	**(2 833 767)**	**(4 048 824)**	–	**3 743 239**	**31 720 314**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
335 566	**(2 764 331)**	**(3 870 818)**	-	**3 718 938**	**32 279 899**

5. VALUATION METHODS OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ON THE BALANCE SHEET

For financial instruments recognised at fair value on the balance sheet, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the balance sheet date or if the clearing value does not reflect transaction prices.

However, due notably to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Group does not have quoted prices in the markets.

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for swaps or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions at the balance sheet date. These valuation models are validated independently by the experts from the Market Risk Department of Societe Generale Risk Division.

Furthermore, the inputs used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of Market Activities, in accordance with the methodologies defined by the Market Risk Department.

If necessary, these valuations are supplemented by additional reserves (such as bid-ask spreads and liquidity) determined reasonably and appropriately after an analysis of available information.

Derivatives and security financing transactions are subject to a Credit Valuation Adjustment (CVA) or Debt Valuation Adjustment (DVA).

The CVA is determined on the basis of the Group entity's expected positive exposure to the counterparty, the counterparty's probability of default and the amount of the loss given default. The DVA is determined symmetrically based on the negative expected exposure. These calculations are carried out over the life of the potential exposure, with a focus on the use of relevant and observable market data.

Observable data must be: independent, available, publicly distributed, based on a narrow consensus and/or backed up by transaction prices.

For example, consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For long maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of equity options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable inputs.

In the event of unusual tensions on the markets, leading to a lack of the usual reference data used to measure a financial instrument, the Risk Division may implement a new model in accordance with pertinent available data, similar to methods used by other market players.

Shares and other equity securities

For listed shares, fair value is taken to be the quoted price on the balance sheet date. For unlisted shares, fair value is determined depending on the type of financial instrument and according to one of the following methods:

- valuation based on a recent transaction involving the issuing company (third party buying into the issuing company's capital, appraisal by a professional valuation agent, etc.);
- valuation based on a recent transaction in the same sector as the issuing company (income multiple, asset multiple, etc.);
- proportion of net asset value held.

For unlisted securities in which the Group has significant holdings, valuations based on the above methods are supplemented by a discounted future cash flow valuation based on business plans or on valuation multiples of similar companies.

Debt instruments held in portfolio, issues of structured securities measured at fair value and financial derivatives

The fair value of these financial instruments is determined based on the quoted price on the balance sheet date or prices provided by brokers on the same date, when available. For unlisted financial instruments, fair value is determined using valuation techniques. Concerning liabilities measured at fair value, the on-balance sheet amounts include changes in Societe Generale's issuer credit risk.

Other debts

For listed financial instruments, fair value is taken as their closing quoted price on the balance sheet date. For unlisted financial instruments, fair value is determined by discounting future cash flows to present value at market rates (including counterparty risks, non-performance and liquidity risks).

6. ESTIMATES OF MAIN UNOBSERVABLE INPUTS

According to the fair value hierarchy established by IFRS 13, level 3 (L3) comprises products valued using inputs that are not based on observable market data (referred to as unobservable inputs).

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for notes or the Black & Scholes formula for certain options and using valuation parameters that reflect current market conditions as at the balance sheet date. These valuation models are validated independently by the experts from the Market Risk Division of Societe Generale's Risk Division.

Furthermore, the parameters used in the valuation models, whether derived from observable market data or not, are checked by the Group Finance Division of Market activity, in accordance with the methodologies defined by the Market Risk Division.

The notes and the related fully funded swaps are classified as level 3 when the valuation of the associated embedded derivatives (underlyings of the notes) is also based on unobservable market data.

On each element of an identified list of unobservable parameters, it comes to determining the uncertainty of marking, and cross sensitivities with this uncertainty for a confidence interval of the value of the positions.

In parallel, marking the levels of each of these parameters is collected and reported in the note.

The methods for determining the level of uncertainty, as well as calculating the confidence interval from sensibilities depend on each parameter.

The following table provides the valuation of level 3 instruments on the balance sheet and the range of values of the most significant unobservable inputs by main product type.

Type of underlyings	Assets In thousand EUR	Liabilities In thousand EUR	Main products	Valuation techniques used	Significant unobservable inputs	Range of unobservable inputs Min & Max
Equity / funds	21 089	21 089	Simple and complex instruments or derivatives on funds, equities or baskets on stocks	Various option models on funds, equities or baskets on stocks	Equity volatilities	[3.8% ; 90.5%]
					Equity dividends	[0% ; 21.3%]
					Unobservable correlations	[-80.0% ; 97.8%]
					Hedge funds volatilities	[8.5%; 20%]
					Mutual funds volatilities	[1.7% ; 42.2%]
Rates and Forex	6 326	6 329	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[-47.30% 90%]
			Forex derivatives	Forex option pricing models	Forex volatilities	[1.0% ; 32.8%]
			Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayement modeling	Constant pre-payment rates	[0% ; 20.0%]
			Inflation instruments and derivatives	Inflation pricing models	Inflation/ inflation correlations	[50.50% ; 88.90%]
Credit	4 856	4 856	Collateralized Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	[0% ; 100%]
					Recovery rate variance for single name underlyings	[0% ; 100%]
			Other credit derivatives (N to default, etc)	Credit default models	Time to default correlations	[0% ; 100%]
					Quanto correla-tions	[-50% ; 40%]
					Unobservable credit spreads	[0 bps ; 100 bps]
Commodity	6	6	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	
Total	**32 278**	**32 280**				

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments.

However, by the nature of its activities (mainly Private Banking, Securities Services and fully hedged issuance) the Group has very limited market risk exposure. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit of the Group.

Note 3.6. – Loans, receivables and securities at amortised cost

1. OVERVIEW OF FINANCIAL ASSETS AT AMORTISED COST

	31.12.2019		31.12.2018	
(in EUR thousand)	**Carrying amount**	o/w impairment	**Carrying amount**	o/w impairment
Due from banks	**9 495 045**	(405)	**10 018 941**	(353)
Customer loans	**28 357 556**	(25 446)	**25 802 754**	(36 456)
Securities	**5 412 725**	**(8)**	**5 642 478**	(13)
Total	**43 265 326**	**(25 859)**	**41 464 173**	**(36 822)**

ACCOUNTING PRINCIPLES

Loans, receivables and debt securities are measured at amortised cost where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a "Hold to Collect" business model.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, and their accrued or earned income is recorded in the income statement under Interest and similar income. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under Cost of risk with a corresponding impairment of amortised cost under balance sheet assets. The applicable impairment rules are described in Note 3.9.

Loans issued by the Group may be subject to renegotiations for commercial reasons, 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 are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans in the balance sheet at this same date. The new loans are subject to the SPPI test to determine how they are classified in the balance sheet. If a loan qualifies as SPPI, renegotiation fees received are included in the effective interest rate of the new instrument. The applicacle renegociation on loans rules are described in Note 3.9.

2. BUSINESS MODEL "HOLD TO COLLECT"

Under this model, financial assets are managed to realise cash flows by collecting contractual payments over the life of the instrument.

To achieve the objective of this business model, it is not necessary for the entity to hold all the instruments until maturity. Selling assets remains consistent with a business model whose objective is to collect contractual cash flows in the following cases:

- the financial asset is sold following an increase in the asset's credit risk; or
- the sale of the financial asset occurs close to its maturity and the proceeds from the sale are similar to the amount to be collected from the remaining contractual cash flows.

Other sales can be consistent with the objective of collecting contractual cash flows, as well, provided they are infrequent (even if significant in value) or insignificant in value, both individually and in aggregate terms (even if frequent). Such other sales include sales made to manage credit concentration risk (without an increase in the asset's credit risk). The Group has set up procedures for reporting and analysing all significant projected sales of financial assets held for collecting contractual cash flows, as well as a periodic review of sales that have occurred.

DUE FROM BANKS

(in EUR thousand)	31.12.2019	31.12.2018
Deposits and loans	–	–
Demand and overnights	–	–
Current accounts	817 909	462 021
Overnight deposits and loans and others	19	2
Term	–	–
Term deposits and loans	8 661 785	9 537 355
Subordinated and participating loans	–	–
Loans secured by notes and securities	15 518	19 433
Gross amount	**9 495 231**	**10 018 811**
Impairment	–	–
Allowances for impairment losses	(405)	(353)
Revaluation of hedged items	–	–
Net amount	**9 494 826**	**10 018 458**
Securities purchased under resale agreements	219	483
Total	**9 495 045**	**10 018 941**

CUSTOMER LOANS

(in EUR thousand)	31.12.2019	31.12.2018
Customer loans at amortized cost		
Trade loans	2 209 493	2 016 893
Housing loans	1 265 804	1 276 805
Overdrafts	641 929	815 870
Related receivables	41 999	42 441
Other customer loans	24 223 546	21 686 846
Gross amount	28 382 771	25 838 855
Allowances for impairment losses	(25 446)	(36 456)
Revaluation of hedged items	231	355
Total	**28 357 556**	**25 802 754**

Details of other customer loans as follows :

(in EUR thousand)	31.12.2019	31.12.2018
Short-term loans	18 693 334	15 401 038
Export loans	–	–
Equipment loans	356 145	–
Loans secured by notes and securities	–	–
Other loans	5 174 067	6 285 808
Other customer loans	**24 223 546**	**21 686 846**

SECURITIES

(in EUR thousand)	31.12.2019	31.12.2018
Negociable certificates, bonds and other debt securities	5 406 864	5 638 135
Related receivables	5 869	4 356
Securities before impairment	**5 412 733**	**5 642 491**
Impairment	(8)	(13)
Securities	**5 412 725**	**5 642 478**

Note 3.7. – Debts

ACCOUNTING PRINCIPLES

Debts include non-derivative financial liabilities that are not measured at fair value through profit or loss.

They are recognised in the balance sheet according to the type of instrument and counterparty, under Due to banks, Customer deposits, Debt securities issued or Subordinated debt.

Subordinated debts are all dated or undated borrowings, whether or not in the form of debt securities, which in the event of the liquidation of the borrowing company may only be redeemed after all other creditors have been paid.

Debts are initially recognised at cost, measured at the fair value of the amount borrowed net of transaction fees. These liabilities are measured at period-end at amortised cost using the effective interest rate method. As a result, issue or redemption premiums on bonds are amortised over the lifetime of the instruments concerned. Accrued or paid expenses are recorded in profit or loss under *Interest and similar expense*.

1. DUE TO BANKS

(in EUR thousand)	31.12.2019	31.12.2018
Demand deposits and current accounts	129 325	558 560
Overnight deposits and borrowings and others	6 301	5 510
Term deposits	23 774 173	17 378 265
Related payables	9 617	10 931
Securities sold under repurchase agreements	918 323	1 773 003
Total	**24 837 739**	**19 726 269**

2. CUSTOMER DEPOSITS

(in EUR thousand)	31.12.2019	31.12.2018
Other demand deposits	13 482 119	12 504 010
Other term deposits	14 358 447	13 353 333
Related payables	12 138	10 922
Revaluation of hedged items	–	–
Total customer deposits	**27 852 704**	**25 868 265**
Securities sold to customers under repurchase agreements	–	–
Total	**27 852 704**	**25 868 265**

BREAKDOWN OF OTHER DEMAND DEPOSITS BY CUSTOMER TYPE

(in EUR thousand)	31.12.2019	31.12.2018
Professionals and corporates	6 098 164	9 189 616
Individual customers	2 738 056	2 612 859
Financial customers	4 644 232	641 941
Others [(1)]	1 667	59 594
Total	**13 482 119**	**12 504 010**

3. DEBT SECURITIES ISSUED

(in EUR thousand)	31.12.2019	31.12.2018
Term savings certificates	–	–
Bond borrowings	–	–
Interbank certificates and negotiable debt instruments	223 535	454 626
Related payables	606	5 679
Revaluation of hedged items	–	–
Total	**224 141**	**460 305**

4. SUBORDINATED DEBT

As at 31 December 2018, the Group had a subordinated debt towards Societe Generale Paris for a nominal amount of EUR 400 000 thousand the terms of which were set out hereafter:

(in EUR thousand)	
Amount	400 000
Currency	EUR
Interest rate	3-month Euribor +3,098%
Initial maturity	24 December 2024

On 24 December 2019, this debt has been fully redeemed, following ECB (European Central Bank) approval. As such, as at 31 December 2019, the Group has no more subordinated debt.

Note 3.8. – Interest income and expense

MAKING IT SIMPLE

Interest is compensation for a financial service, consisting in a lender making a certain amount of cash available to a borrower for an agreed period of time. Such compensated financing arrangements can be loans, deposits or securities (bonds, negotiable debt securities…).

This compensation is a consideration for the time value of money, and additionally for credit risk, liquidity risk and administrative costs, all borne by the lender for the duration of the financing agreement.

Interest is recognised as expense or income over the life of the financing service granted or received, proportionally to the principal amount outstanding.

ACCOUNTING PRINCIPLES

Interest income and expense are recorded in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income).

Interest income and expense are recorded in the income statement under Interest and similar income and Interest and similar expense for:

- all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income);

(1) Including deposits linked to governments and central administrations.

- all financial derivatives;
- all financial instruments mandatorily measured at fair value through profit and loss (except for issuance activities of SGIS, which are included in net gain and loss in fair value) and;
- interest rate risk hedging derivatives for the portion of income or expenses representative of the effective interest rate;
- interest on lease liabilities (from IFRS 16 application).

Negative interest cashflows on assets are recorded under *Interest and similar expense*; positive interest cashflows on liabilities are recorded under *Interest and similar income*.

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking into account possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest, directly linked transaction costs, and all types of premiums and discounts.

Where a financial asset is classified in Stage 3 for impairment, subsequent interest income is recognised in profit or loss by applying the effective interest rate to the net carrying amount of the financial asset with an offsetting entry equal to the outstanding financial asset before impairment.

	2019			**2018**		
(in EUR thousand)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Financial instruments at amortised cost	703 124	(389 192)	313 932	664 845	(307 227)	357 618
Central banks	*4*	*(21 888)*	*(21 884)*	-	*(17 723)*	*(17 723)*
Bonds and other debt securities	*66 499*	*(21 485)*	*45 014*	*66 488*	*(8 980)*	*57 508*
Due from/to banks	*180 520*	*(184 593)*	*(4 073)*	*200 054*	*(141 976)*	*58 078*
Customer loans and deposits	*433 471*	*(149 515)*	*283 956*	*382 850*	*(125 123)*	*257 727*
Subordinated debt	–	*(11 195)*	*(11 195)*	–	*(11 402)*	*(11 402)*
Securities lending/borrowing	*3 587*	–	*3 587*	*3 125*	–	*3 125*
Securities purchased/sold under resale/purchase agreements and borrowings secured by notes and securities	*19 043*	*(516)*	*18 527*	*12 330*	*(2 023)*	*10 307*
Hedging derivatives	8 233	(79 622)	(71 389)	11 163	(86 358)	(75 195)
Financial instruments at fair value through other compre-hensive income	54 541	–	54 541	60 011	–	60 011
Lease agreement [1]	–	(528)	(528)	–	–	–
Real estate lease agreements	–	*(522)*	*(522)*	–	–	–
Non-real estate lease agreements	–	*(6)*	*(6)*	–	–	–
Subtotal interest income/expense on financial instruments using the effective interest method	**765 898**	**(469 342)**	**296 556**	**736 019**	**(393 585)**	**342 434**
Financial instruments at fair value through profit or loss	460	–	460	1 232	–	1 232
Total Interest income and expense	**766 358**	**(469 342)**	**297 016**	**737 251**	**(393 585)**	**343 666**
o/w interest income from impaired financial assets	*3 272*		*3 272*	*2 774*		*2 774*

These interest expenses include the refinancing cost of financial instruments at fair value through profit or loss, which results are classified in net gains or losses on these instruments. Given that income and expenses booked in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole.

(1) As a result of the application of IFRS 16 “Leases” as from 1 January 2019, lease agreeements also include interests on lease liabilities as expense.

Note 3.9. – Impairment and provisions

MAKING IT SIMPLE

Some financial assets (loans, debt securities) involve credit risk which exposes the Group to a potential loss if the counterparty or the securities issuer were to be unable to respect their financial commitments. To bear this risk, a portion of the contractual interest received by the bank on those assets, called credit margin, compensate it.

This potential loss, or expected credit loss, is recognised in profit or loss without waiting the occurrence of a default event on a specific counterparty.

For loans, receivables and debt securities measured at amortised cost or fair value through other comprehensive income, the expected credit loss, as assessed by the Group, is recognised in profit or loss in the Cost of risk. On balance sheet, this potential loss is recognised as an impairment that reduces the carrying amount of assets measured at amortised cost. Impairment are written-back in case of a subsequent decrease of credit risk.

Potential losses recognised in profit or loss represent initially the credit losses expected by the Group over the year to come. Subsequently, the amount is increased by the expected loss at maturity of the instrument in case of significant increase of risk. The losses are then reassessed if the counterparty or issuer of the security is in default.

For financial assets measured at fair value through profit or loss (including instruments hold by global markets activities), their fair value includes already the expected credit loss, as assessed by the market participant, on the residual lifetime of the instrument.

ACCOUNTING PRINCIPLES

RECOGNITION OF EXPECTED CREDIT LOSSES

Debt instruments classified as financial assets at amortised cost or as financial assets at fair value through other comprehensive income, customer receivables, as well as loan commitments granted and guarantee commitments issued, are systematically subject to impairment or provisions for expected credit losses. These impairments and provisions are recognised as the loans are granted, the commitments undertaken, or the debt securities purchased, without waiting for the occurrence of an objective evidence of impairment.

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

OBSERVED DETERIORATION IN CREDIT RISK
SINCE INITIAL RECOGNITION OF THE FINANCIAL ASSET

CREDIT RISK CATEGORY	**STAGE 1** PERFORMING ASSETS	**STAGE 2** UNDER-PERFORMING OR DOWNGRADED ASSETS	**STAGE 3** CREDIT-IMPAIRED OR DEFAULTED ASSETS
Transfer criteria	Initial recognition of the instrument in stage 1 ▶ *Maintained if the credit risk has not increased significantly*	Credit risk on the instrument has increased significantly since initial recognition / 30 days past due	Evidence that the instrument has become credit-impaired / 90 days past due
Measurement of credit risk	12-months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income recognition basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

EXPOSURES CLASSIFIED IN STAGE 1

At the initial recognition date, the exposures are systematically classified in Stage 1.

EXPOSURES CLASSIFIED IN STAGE 2

To identify Stage 2 exposures, the significant increase in credit risk is assessed by the Group using all available past and forward-looking data (behavioral scores, loan to value indicators, macro-economic forecast scenarios, etc.). This assessment of changes in credit risk takes account of the following three criteria's:

The counterparty's credit rating

The Group analyses changes in the counterparty's credit rating, as well as any changes in its operating sector, in macroeconomic conditions and in the behaviors of the counterparty that may, above and beyond the review of the credit rating, be a sign of deteriorating credit risk.

If, after a review, a counterparty is deemed "sensitive" (notion of watch list), all contracts between the Group and this counterparty are transferred into Stage 2 and the related impairment and provisions are increased up to the lifetime expected credit losses. Once a counterparty has been placed on a watch list, all new transactions originated with that counterparty are recorded in Stage 2.

The magnitude of the change in a counterparty's credit rating

This magnitude is assessed from contract to contract, from the date of their initial recognition to the balance sheet date.

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the balance sheet date is significant enough to prompt a change in the impairment Stage, thresholds are set once a year by the Risk Division. These transfer thresholds between Stage 1 and Stage 2 are determined for each homogenous portfolio of contracts (notion of risk segment) and are calculated based on the probability-of-default curves for each (thus, the threshold is different depending on whether it is a Sovereign portfolio or a Large Corporates portfolio, for instance). The thresholds are therefore differentiated based on the one-year probability of default curves; this assumes there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

From 2019 the thresholds are differentiated based on the lifetime probability-of-default curves for the Group's main portfolios. The transition from one-year probability-of-default curves to lifetime probability-of-default curves is ongoing for the remaining portfolios, assuming that there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

The existence of payments more than 30 days past due

There is a rebuttable presumption of a significant deterioration in credit risk when a payment on an asset is more than 30 days past due.

Once any one of these three criteria is met, the instrument is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

The first two criteria are symmetrical: a sufficient improvement in the credit rating, or removal from the watch list of sensitive counterparties, results in a return to Stage 1.

EXPOSURES CLASSIFIED IN STAGE 3

To identify Stage 3 exposures (doubtful exposures), the Group determines whether there is an objective evidence of impairment (default event):

- a significant deterioration in the counterparty's financial situation creates a strong probability that it will not be able to meet all 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 exposures. When a debtor belongs to a group, the impairment contagion principle may also be applied to all of the group's exposures.

In the case of a return in Stage 2, the exposures are kept in Stage 2 during a probation period before assessing whether they could be transferred in Stage 1. This probation period in Stage 2 is from six months to two years according to the nature of the risk portfolio to which the exposures belong.

MEASUREMENT OF DEPRECIATION AND PROVISION

Stage 1 exposures are impaired for the amount of credit losses that the Group expects to incur within 12 months (12-month expected credit losses), based on past data and the current situation. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring within the next 12 months.

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Group expects to incur over the life of the exposures (lifetime expected credit losses), taking into consideration past data, the present situation and reasonable forecast changes in economic conditions, and relevant macroeconomic factors through to maturity. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring through to the instrument's maturity.

Irrespective of the Stage in which the exposures are classified, cash flows are discounted using the initial effective interest rate of the financial asset. The amount of impairment is included in the net carrying amount of the credit impaired financial asset. Impairment allocations/reversals are recorded in profit or loss under *Cost of risk*.

ESTIMATION OF EXPECTED CREDIT LOSSES

The methodology for calculating Stage 1 and 2 expected credit losses is based on the Basel framework, which served as the basis for determining the methods for setting calculation inputs (probability of default and loss given default for exposures under the A-IRB and F-IRB approaches, and the provisioning rate for exposures under the standardised method).

Group portfolios have been segmented to ensure that they are consistent in terms of risk characteristics and to ensure better correlation with global and local macroeconomic variables.

This segmentation factors in all specific characteristics associated with the Group's activities. This new segmentation is consistent or equivalent to the segmentation defined in the Basel framework in order to ensure the uniqueness of past data on defaults and losses.

The forward-looking expected credit loss approach (12-month/ lifetime) is based first and foremost on the incorporation of economic forecasts in probability of default.

The main macroeconomic variable used for SG Luxembourg is the economic growth of Luxembourg, For SG Luxembourg Group, the macroeconomic variables used include growth of France (Monaco) and growth of Switzerland.

IFRS 9 expected credit losses are calculated using the probabilised average of 3 macroeconomic scenarios, established by Group economists for all entities of the Group (base scenarios and current stress scenarios, plus an optimistic scenario).

The probabilities used are based on past observations, spanning a 25-year period, of differences in outcome between the base scenario and the actual scenario (positive and negative differences).

The method is not based on expert opinion; rather it is intended to be replicated over time and updated each quarter.

The method is supplemented with a sector adjustment that increases or decreases expected credit loss in an effort to better anticipate defaults or recoveries in certain cyclical sectors.

On Private Banking perimeter, a simplified approach of expected credit losses calculation is deployed. This methodology is based on segmentation by homogeneous portfolio specification for which a provisioning rate is applied. These rates are reviewed by the business line on a quarterly basis.

Lastly, on an ancillary basis, loss allowances based on expert opinions that increase or decrease expected credit loss have been retained to factor in future risks which cannot be modelled (mainly legislative or regulatory changes).

These inputs are updated at each reporting date.

RESTRUCTURED LOANS

Loans issued or acquired by the Group may be restructured due to financial difficulties. This takes the shape of a contractual modification of the initial terms of the loan (e.g. lower interest rates, rescheduled loan payments, partial debt forgiveness, or additional collateral). This adjustment of the contractual terms is strictly linked to the borrower's financial difficulties and/or insolvency (whether they have already become insolvent or are certain to do so if the loan is not restructured).

Where they still pass the SPPI test, restructured loans are still recognized in the balance sheet and their amortised cost before credit risk allowance is adjusted for a discount representing the restructuration loss. This discount is equal to the negative difference between the present value of the new contractual cash flows resulting from the restructuring of the loan and the amortised cost before credit risk allowance less any partial debt forgiveness; it is booked to *Cost of risk* in the income statement. As a result, the amount of interest income subsequently recognised into income are still computed using the initial effective interest rate of the loan.

Post-restructuring, these financial assets are systematically classified in Stage 3 for impairment (credit-impaired exposures), as the borrowers are deemed to be in default. Stage 3 classification is maintained for at least one year, or longer if the Group is uncertain that the borrowers will be able to meet their commitments. Once the loan is no longer classified in Stage 3, the assessment of the significant increase of credit risk will be performed by comparing the credit risk level at the closing date and the level at the initial recognition date of the loan before restructuring.

Where they no longer pass the SPPI test, restructured loans are derecognised and replaced by new loans recognized according to the restructured terms and conditions. These new loans are then classified as *Financial assets measured mandatorily at fair value through profit or loss*.

Restructured loans do not include loans and receivables subject to commercial renegotiations that are loans to customers for which the Group has agreed to renegotiate the debt with the aim of maintaining or developing a commercial relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

OVERVIEW OF IMPAIRMENT AND PROVISIONS

(in EUR thousand)	31.12.2019	31.12.2018
Impairment of financial assets at fair value through other comprehensive income	**44**	**13**
Impairment of financial assets at amortised cost	**26 025**	**37 005**
Loans and receivables at amortized cost	*25 859*	*36 822*
Other assets at amortized cost	*166*	*183*
Total impairment of financial assets	**26 069**	**37 018**
Provisions on Financing commitments	821	803
Provisions on Guarantee commitments	315	302
Total credit risk provisions	**27 205**	**38 123**

1. IMPAIRMENT OF FINANCIAL ASSETS

BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

(in EUR thousand)	Amounts at 01.01.2019	Allocations	Write-backs available*	Net allocations	Write-backs used**	Currency and scope effects	Amounts at 31.12.2019
Financial assets at fair value through other comprehensive income	**13**	**46**	**(15)**	**31**	–	–	**44**
Impairment on performing outstandings (Stage 1)	13	46	(15)	31	–	–	44
Impairment on under-performing outstandings (Stage 2)	–	–	–	–	–	–	–
Impairment on doubtful outstandings (Stage 3)	–	–	–	–	–	–	–
Financial assets at amortised cost	**37 005**	**15 580**	**(23 225)**	**(7 645)**	**(3 514)**	**179**	**26 025**
Impairment on performing outstandings (Stage 1)	10 419	7 981	(6 355)	1 626	–	90	12 135
Impairment on under-performing outstandings (Stage 2)	968	813	(1 048)	(235)	–	7	738
Impairment on doubtful outstandings (Stage 3)	25 618	6 786	(15 822)	(9 036)	(3 514)	82	13 152
Total	**37 018**	**15 626**	**(23 240)**	**(7 614)**	**(3 514)**	**179**	**26 069**

* Write-backs available correspond to reversal of impairment
** Write-backs used correspond to utilisation of impairment previously recorded

(in EUR thousand)	Amounts at 01.01.2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Amounts at 31.12.2018
Financial assets at fair value through other comprehensive income	**743**	–	**(96)**	**(96)**	(596)	(38)	**13**
Impairment on performing outstandings (Stage 1)	147	–	(96)	(96)	–	(38)	13
Impairment on under-performing outstandings (Stage 2)	–	–	–	–	–	–	–
Impairment on doubtful outstandings (Stage 3)	596	–	–	–	(596)	–	–
Financial instruments at amortised cost	**57 853**	**25 620**	**(18 920)**	**6 700**	**(27 933)**	**385**	**37 005**
Impairment on performing outstandings (Stage 1)	9 419	4 745	(3 792)	953	–	47	10 419
Impairment on under-performing outstandings (Stage 2)	11 586	443	(11 080)	(10 637)	–	19	968
Impairment on doubtful outstandings (Stage 3)	36 848	20 432	(4 048)	16 384	(27 933)	319	25 618
Total	**58 596**	**25 620**	**(19 016)**	**6 604**	**(28 529)**	**347**	**37 018**

VARIATION OF IMPAIRMENT ACCORDING TO CHANGES IN THE CARRYING AMOUNT OF FINANCIAL ASSETS

(in EUR thousand)	Amounts at 31.12.2018	Production & Acquisition	Derecognition (among which write-offs) and repayments	Transfer between stages of impairment	Other variations	Amounts at 31.12.2019
Financial assets at fair value through other comprehensive income						
Impairment on performing outstandings (Stage 1)	13	–	–	31	–	44
Impairment on under-performing outstandings (Stage 2)	–	–	–	–	–	–
Impairment on doubtful outstandings (Stage 3)	–	–	–	–	–	–
Sub-Total	**13**	**–**	**–**	**31**	**–**	**44**
Financial assets at amortised cost						
Impairment on performing outstandings (Stage 1)	10 419	4 606	(1 827)	(1 063)	–	12 135
Impairment on under-performing outstandings (Stage 2)	968	195	(249)	(175)	–	740
Impairment on doubtful outstandings (Stage 3)	25 618	578	(15 565)	2 518	–	13 150
Sub-Total	**37 005**	**5 379**	**(17 640)**	**1 281**	**–**	**26 025**
Total	**37 018**	**5 379**	**(17 640)**	**1 312**	–	**26 069**

This decrease is linked to the Group strategy to write off its defaulted exposures highly impaired.

2. CREDIT RISK PROVISIONS

BREAKDOWN OF PROVISIONS

(in EUR thousand)	Amounts at 01.01.2019	Allocations	Write-backs available	Net impairment losses	Currency and scope effects	Amounts at 31.12.2019
Financing commitments	**803**	**694**	**(671)**	23	(5)	**821**
Provisions on performing outstandings (Stage 1)	803	577	(554)	23	(5)	821
Provisions on under-performing outstandings (Stage 2)	–	117	(117)	–	–	–
Provisions on doubtful outstandings (Stage 3)	–	–	–	–	–	–
Guarantee commitments	**302**	**293**	**(278)**	**15**	**(1)**	**316**
Provisions on performing outstandings (Stage 1)	301	222	(278)	(56)	(1)	244
Provisions on under-performing outstandings (Stage 2)	1	11	–	11	–	12
Provisions on doubtful outstandings (Stage 3)	–	60	–	60	–	60
Total	**1 105**	**987**	**(949)**	**38**	**(6)**	**1 136**

(in EUR thousand)	Amounts at 01.01.2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Amounts at 31.12.2018
Financing commitments	**1 412**	**637**	**(1 369)**	**(732)**	–	123	**803**
Provisions on performing exposures (Stage 1)	625	637	(422)	215	–	(37)	803
Provisions on under-performing exposures (Stage 2)	787	–	(947)	(947)	–	160	–
Guarantee commitments	**519**	**335**	**(508)**	**(173)**	–	**(44)**	**302**
Provisions on performing exposures (Stage 1)	111	334	(100)	234	–	(44)	301
Provisions on under-performing exposures (Stage 2)	408	1	(408)	(407)	–	–	1
Total	**1 931**	**972**	**(1 877)**	**(905)**	–	**79**	**1 105**

VARIATIONS OF PROVISIONS ACCORDING TO CHANGES IN THE AMOUNT OF FINANCING AND GUARANTEE COMMITMENTS

(in EUR thousand)	Amounts at 01.01.2019	Production	Derecognition	Transfer between stages of impairment	Other variations	Amounts at 31.12.2019
Financing and Guarantee commitments						
Provisions on performing outstandings (Stage 1)	1 104	502	(506)	(35)	-	1 065
Provisions on under-performing outstandings (Stage 2)	1	11	(2)	2	-	12
Provisions on doubtful outstandings (Stage 3)	-	-	-	60	-	60
Total	**1 105**	**512**	**(508)**	**28**	**-**	**1 137**

(1) For Asset management, NAV (Net Asset Value) of the fund.

3. COST OF RISK

ACCOUNTING PRINCIPLES

Cost of risk only includes net allocations to impairments losses allowances for credit risk, losses on irrecoverable loans and amounts recovered on amortised receivables.

The Group proceeds to a write off of irrecoverable loans and a reversal of impairment in *Cost of risk* when a debt is waived or when there are no longer any hopes of future recovery. The lack of future hopes of recovery is documented when a relevant authority issues a certificate as proof that the debt is uncollectible or when strong circumstantial evidences are identified (years in default, provisions at 100%, lack of recent recoveries, specificities of the case). According to this policy, the Group doesn't proceed to partial write off of its bad loans.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. In case of recoveries on an exposure previously written-off, such recoveries are recognised as *Amounts recovered on bad loans* on the year of collection.

(in EUR thousand)	2019	2018
Credit risk		
Net allocation to impairment losses	7 614	(6 604)
On financial assets at fair value through other comprehensive income	*(31)*	*96*
On financial assets at amortised cost	*7 645*	*(6 700)*
Net allocations to provisions	(38)	905
On financing commitments	*(23)*	*732*
On guarantee commitments	*(15)*	*173*
Losses not covered on irrecoverable loans	(501)	(1 809)
Amounts recovered on irrecoverable loans	61	2
Income from guarantee not taken into account for the calculation of impairment	361	–
Other risks	–	–
Total	**7 497**	**(7 506)**

Note 3.10. – Assets under management, commitments and assets pledged and received as securities

ACCOUNTING PRINCIPLES

LOAN COMMITMENTS

Loan commitments that are not considered as financial derivatives or that are not measured at fair value through profit and loss for trading purpose are initially recognised at fair value. Thereafter, they are provisioned as necessary in accordance with the accounting principles for *Impairment and provisions* (see Note 3.9).

GUARANTEE COMMITMENTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because of the failure of a specified debtor to make a payment at maturity at the initial or modified terms in the debt instrument.

When considered as non-derivative financial instruments, financial guarantees issued by the Group are initially recognised in the balance sheet at fair value. Thereafter, they are measured at either the amount of the obligation or the amount initially recognised (whichever is higher) less, when appropriate, the cumulative amortisation of a guarantee commission. Where there is objective evidence of impairment, a provision for financial guarantees given is recognised on the liabilities side of the balance sheet (see Note 3.9).

SECURITIES COMMITMENTS

Securities bought and sold, which are booked to *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, securities receivable or deliverable are not recognized on the balance sheet. Changes in the fair value of securities measured at fair value through profit or loss and securities measured at fair value through other comprehensive income between the trade date and the settlement-delivery date are booked to profit or loss or equity, depending on the accounting classification of the securities.

FIDUCIARY ASSETS

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated statement of financial position, as they are not assets of the Group.

The Group records though commitments due to the fiduciary transactions as it is committed to restitute the fiduciary advance to the clients with the proceeds of the fiducy to be received at the end of the transaction.

1. COMMITMENTS

COMMITMENTS GRANTED

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry a similar credit risk to loans.

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Loan commitments	**5 787 561**	**5 969 387**
To banks	2 200 409	2 282 104
To customers	*3 587 152*	*3 687 283*
Issuance facilities	–	–
Confirmed credit lines	*3 587 152*	*3 686 959*
Others	–	*324*
Guarantee commitments	**1 235 462**	**1 278 646**
On behalf of banks	*363 299*	*347 667*
On behalf of customers	*872 163*	*930 979*
Securities commitments	**3 709 129**	**2 805 099**
Securities to be delivered	*3 709 129*	*2 805 099*

COMMITMENTS RECEIVED

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Loan commitments	**1 862 374**	**2 144 762**
From banks	*1 862 374*	*2 144 762*
Guarantee commitments	**14 412 982**	**11 513 967**
From banks	*12 630 141*	*10 182 519*
Other guarantee commitments	*1 782 841*	*1 331 448*
Securities commitments	**7 212**	**14 982**
Securities to be received	*7 212*	*14 982*

2. FINANCIAL ASSETS PLEDGED AND RECEIVED AS SECURITY

FINANCIAL ASSETS PLEDGED

(in EUR thousand)	31.12.2019	31.12.2018
Book value of assets pledged as security for transactions in financial instruments [1]	5 533 092	5 463 692
Book value of assets pledged as security for off-balance sheet commitments	172 766	139 798
Total	**5 705 858**	**5 603 490**

As at 31 December 2019, the Group has pledged:

- collateral assets for secured issuances in amount of EUR 4 468 186 thousand (31 December 2018: EUR 3 609 288 thousand);
- collateral for derivative transactions for EUR 234 515 thousand (31 December 2018: EUR 189 078 thousand) and;
- collateral for repurchase agreements for EUR 830 391 thousand (31 December 2018: EUR 1 823 248 thousand).

FINANCIAL LIABILITIES RECEIVED AS PLEDGE

(in EUR thousand)	31.12.2019	31.12.2018
Book value of liabilities received as pledged security for transactions in financial instruments	13 095 097	10 299 937
Book value of liabilities received as pledged security for off-balance sheet commitments	1 325 536	1 212 300
Total	**14 420 633**	**11 512 237**

3. ASSETS UNDER MANAGEMENT

(in EUR thousand)	31.12.2019	31.12.2018
Custody assets	338 254 181	373 445 950
Fiduciary transactions	6 708 803	6 086 377
Asset management	17 300 598	14 673 880
Financial agent function	311 874 385	286 067 739
Total	**674 137 967**	**680 273 946**

The Group provides management and representation services to third parties, particularly wealth management services, custody and administration of securities, fiduciary representation and agent functions.

A fiduciary issuance program has been launched by Societe Generale Luxembourg in 2017, according to the Luxembourg Law of the 27th March 2003 on fiduciary operations. During 2019, the Bank issued 16 fiduciary notes from which 14 in EUR for a nominal amount of EUR 725,5 million and 2 in JPY for a total nominal amount of JPY 6,3 billion.

As at 31 December 2019, the Bank had 38 outstanding notes split between 22 notes in JPY (nominal of JPY 564.7 billion) and 16 notes in EUR (nominal of EUR 738 million) for a total nominal amount in countervalue of EUR 5.4 billion.

The Group fiduciary issuance with the Parent Company Societe Generale represents EUR 245 million as of 31 December 2019 (please refer to Note 8.7).

The total amount of fiduciary transactions also include other single fiduciary operations with some corporate clients.

(1) Assets pledged as security for transactions in financial instruments mainly include security deposit.

Note 3.11. – Transferred financial assets

ACCOUNTING PRINCIPLES

Transferred financial assets that are not derecognised include securities lending transactions and repurchase agreements as well as certain loans transferred to consolidated securitisation vehicles.

The tables below show securities lending and repurchase agreements that only concern securities recognised on the asset side of the balance sheet.

Securities involved in a repurchase agreement or securities lending transaction are held in their original position on the asset side of the Group's balance sheet. For repurchase agreements, the obligation to return the amounts deposited is recorded under *Liabilities* on the liabilities side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial liabilities at fair value through profit or loss*.

Securities involved in a reverse repurchase agreement or securities borrowing transaction are not recorded in the Group's balance sheet.

For securities received under a reverse repurchase agreement, the right to recover the amounts delivered by the Group is recorded under *Customer Loans and receivables or Due from banks* on the asset side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial assets at fair value through profit or loss*. In the case of a subsequent sale of the borrowed securities, a debt due to the lender of those securities is recognised on the Group balance sheet amongst *Financial liabilities at fair value through profit or loss*.

Securities lending and securities borrowing transactions that are fully matched by cash are assimilated to repurchase and reverse repurchase agreements and are recorded and recognised as such in the balance sheet.

With securities lending and repurchase agreements, the Group remains exposed to issuer default (credit risk) and to increases or decreases of securities value (market risk). The underlying securities cannot simultaneously be used as collateral in other transactions.

1. TRANSFERRED FINANCIAL ASSETS NOT DERECOGNISED

	31.12.2019	
(in EUR thousand)	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Financial assets at fair value through profit or loss	855 991	918 323
Financial assets at fair value through other comprehensive income	–	–
Total	**855 991**	**918 323**

	31.12.2018	
(in EUR thousand)	**Carrying amount of transferred assets**	**Carrying amount of assosciated liabilities**
Financial assets at fair value through profit or loss	1 741 344	1 773 003
Financial assets at fair value through other comprehensive income	–	–
Total	**1 741 344**	**1 773 003**

2. TRANSFERRED FINANCIAL ASSETS PARTIALLY OR FULLY DERECOGNISED

At 31 December 2019 and 2018, the Group carried out no material transactions resulting in the partial or full derecognition of financial assets leaving the Group with a continuous involvement in said assets.

Note 3.12. – Offsetting financial assets and financial liabilities

ACCOUNTING PRINCIPLES

A financial asset and a financial liability are offset and the net amount presented on the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in all circumstances, in both the normal course of business and in the event of default of one of the counterparties. In this respect, the Group recognises in its balance sheet the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

The following tables present the amounts of financial assets and financial liabilities set off on the Group's consolidated balance sheet. The gross outstanding amounts of these financial assets and financial liabilities are matched with the consolidated outstanding amounts presented in the balance sheet (net balance sheet amounts), after indicating the amounts set off on the balance sheet for these various instruments (amounts offset) and aggregating them with the outstanding amounts of other financial assets and financial liabilities not subject to a Master Netting Agreement or similar agreement (amounts of assets and liabilities not eligible for offsetting).

A financial asset and a financial liability are offset and the net amount presented on the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in all circumstances, in both the normal course of business and in the event of default of one of the counterparties.

The treatment is applied based on IAS 32 paragraph 42: "A financial asset and a financial liability shall be offset and the net amount presented in the interim balance sheet when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously."

In December 2014, a cash netting clause was added in the legal framework with Societe Generale Personne Morale and the Group consequently acquired a legally enforceable right to offset the recognized amount with the same counterparty (Societe Generale). The assets (the Fully Funded Swaps) and the liabilities (the Notes) are settled (and intended to be settled) simultaneously.

In June 2017, SGIS added a new cash netting clause in the legal framework with Societe Generale Personne Morale and the Company consequently acquired a legally enforceable right to offset the recognized amount with the same counterparty (Societe Generale). The assets (OTC Options) and the liabilities (the Warrants) are settled (and intended to be settled) simultaneously.

In application of IAS 32 - Offsetting a financial asset and a financial liability, the Company proceeds to the accounting netting of the non-sold amounts. The impact of the off-setting for the non-sold Notes and the corresponding Fully Funded Swaps and impact of the off-setting for the non-sold Warrants.

As at 31 December 2019, the impact of the offsetting of financial assets and financial liabilities (decrease in the balance sheet) is KEUR 30 038 519 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2018: KEUR 40 786 626) and KEUR 6 692 028 for the non-sold Warrants and the corresponding Options (31 December 2018: KEUR 5 281 042).

1. IMPACT OF OFFSETTING ON THE BALANCE SHEET AS AT 31 DECEMBER 2019

ASSETS		**Impact of offsetting on the balance sheet**		
(in EUR thousand)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Derivative financial instruments (see Notes 3.2 and 3.3)	447	–	–	447
Financial assets at fair value through profit or loss	877 030	95 411 834	(36 730 547)	59 558 317
Securities purchased under resale agreements (see Notes 3.2 and 3.6)	219	–	–	219
Guarantee deposits pledged (see Note 4.4)	252 020	–	–	252 020
Other assets not subject to offsetting	57 229 597	–	–	57 229 597
Total assets	**58 359 313**	**95 411 834**	**(36 730 547)**	**117 040 600**

LIABILITIES		**Impact of offsetting on the balance sheet**		
(in EUR thousand)	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Derivative financial instruments (see Notes 3.2 and 3.3)	218 245	–	–	218 245
Financial liabilities at fair value through profit or loss	387 604	95 414 841	(36 730 547)	59 071 898
Amount payable on borrowed securities (see Note 3.2)	–	–	–	–
Securities sold under repurchase agreements (see Notes 3.2 and 3.7)	918 323	–	–	918 323
Guarantee deposits received (See Note 4.4)	22 040	–	–	22 040
Other liabilities not subject to offsetting	53 731 312	–	–	53 731 312
Total liabilities	**55 277 524**	**95 414 841**	**(36 730 547)**	**113 961 818**

2. IMPACT OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

ASSETS		**Impact of offsetting on the balance sheet**		
(in EUR thousand)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Derivative financial instruments (see Notes 3.2 and 3.3)	4 161	–	–	4 161
Financial assets at fair value through profit and loss	583 763	95 293 794	(46 067 668)	49 809 890
Securities lent (see Notes 3.2 and 3.3)	–	–	–	–
Securities purchased under resale agreements (see Notes 3.2 and 3.6)	483	–	–	483
Guarantee deposits pledged (see Note 4.4)	326 382	–	–	326 382
Other assets not subject to offsetting	51 136 293	–	–	51 136 293
Total assets	**52 051 082**	**95 293 794**	**(46 067 668)**	**101 277 209**

LIABILITIES		**Impact of offsetting on the balance sheet**		
(in EUR thousand)	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet
Derivative financial instruments (see Notes 3.2 and 3.3)	225 004	–	–	225 004
Financial liabilities at fair value through profit and loss	537 132	95 191 746	(46 067 668)	49 661 210
Amount payable on borrowed securities (see Note 3.2)	–	–	–	–
Securities sold under repurchase agreements (see Notes 3.2 and 3.7)	1 773 003	–	–	1 773 003
Guarantee deposits received (See Note 4.4)	9 160	–	–	9 160
Other liabilities not subject to offsetting	46 575 952	–	–	46 575 952
Total liabilities	**49 120 251**	**95 191 746**	**(46 067 668)**	**98 244 329**

NOTE 4 – OTHER ACTIVITIES

Note 4.1. – Fee income and expense

ACCOUNTING PRINCIPLES

Fee income and *Fee expense* combine fees on services rendered and received, as well as fees on commitments that cannot be assimilated to interest. Fees that can be assimilated to interest are integrated into the effective interest rate on the associated financial instrument and are recorded under *Interest and similar income* and *Interest and similar expense* (see Note 3.8).

Transactions with banks includes the fees that relates to banking services such as brokerage fees, interchange fees, account management fees or fiduciary fee income if the counterparty is a bank.

Transactions with customers includes the fees from customers from the Group banking activities (in particular, brokerage fees, account management fees, fiduciary fee income if the counterparty is not a bank or structuring fees outside the effective interest rate).

Financial instruments operations gather specific services on financial instruments and are not directly linked to client account management.

(1) Fair value of financial instruments and collateral, capped at the net book value of the balance sheet exposure, so as to avoid any over-collateralisation effect.

In particular, the remuneration of issuance and structuration is composed by 2 distinct services:

- The issuing upfront fee for the initiation and structuration of the operation (thereafter issuing upfront fee);
- The account and security servicing during the lifecycle of the security (thereafter security servicing fee), accrued on a monthly basis, as the recognition of continuous services from the security servicing services of SGIS (according to the costs and resources engaged by SGIS).

Sundry services provided includes the fees from customers from the other Group activities (in particular, interchange fees, funds management fees or fees on insurance products sold within the network).

The Group recognises fee income or expense for an amount equivalent to the remuneration for the service provided and depending on the progress transferring control of these services:

- fees for ongoing services, such as some payment services, custody fees, or digital service subscriptions are recognised as income over the life of the service;
- fees for one-off services, such as fund activity, finder's fees received, arbitrage fees, or penalties on payment incidents are recognised as income when the service is provided.

The amount equivalent to the remuneration for the service provided is composed of fixed and variable contractual compensation whether they are paid in kind or in cash, less any payments due to customers (for example, in case of promotional offers). The variable compensation (for example, discounts based on the provided services volume over a period of time or fees payable subject to the achievement of a performance target, etc.) are included in the amount equivalent to the remuneration for the service provided if and only if this compensation is highly probable not to be subsequently reduced significantly.

The possible mismatch between the payment date of the service provided and the date of execution of the service gives contract assets and contract liabilities depending on the type of contract and mismatch which are recognized under *Other Assets* and *Other Liabilities* (see Note 4.4):

- customer contracts generate trade receivables, accrued income or prepaid income;
- supplier contracts generate trade payables, accrued expenses or prepaid expenses.

		2019			2018	
(in EUR thousand)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Transactions with banks	**369**	**(28 405)**	**(28 036)**	**892**	**(32 387)**	**(31 495)**
Transactions with customers	**60 666**	**-**	**60 666**	**86 376**	**-**	**86 376**
Financial instruments operations	**145 671**	**(45 311)**	**100 360**	**139 773**	**(48 931)**	**90 842**
Securities transactions	78 377	(45 235)	33 142	61 547	(47 283)	14 264
Primary market transactions [(1)]	57 938	–	57 938	62 481	–	62 481
Foreign exchange transactions and financial derivatives	9 356	(76)	9 280	15 745	(1 648)	14 097
Loan and guarantee commitments	**43 656**	**(38 857)**	**4 799**	**41 185**	**(34 631)**	**6 554**
Sundry services [(2)]	**140 815**	–	**140 815**	**167 380**	–	**167 380**
Asset management fees	57 369	–	57 369	61 134	–	61 134
Means of payment fees	3 230	–	3 230	2 965	–	2 965
Insurance products fees	2 402	–	2 402	2 487	–	2 487
Underwriting fees of UCITS	4 213	–	4 213	5 162	–	5 162
Other services [(3)]	73 601	–	73 601	95 632	–	95 632
Others [(4)]	**36 134**	**(46 530)**	**(10 396)**	**35 775**	**(62 898)**	**(27 123)**
Total	**427 311**	**(159 103)**	**268 208**	**471 381**	**(178 847)**	**292 534**

(1) Of which EUR thousand 52 679 in 2019 and 40 883 in 2018 of issuance activity.
(2) Mainly relates to client portfolio management fees on customers and UCITS portfolios.
(3) Of which EUR thousand 34 404 of fund administration income fee.
(4) Mainly relates to Fund administration fees, reinsurance fees paid as well as various fees re-charged by SG Paris.

Note 4.2. – Income and expense from other activities

ACCOUNTING PRINCIPLES

Other activities gather all services that are not directly in scope of banking activities.

The income and expense from other activities mainly relate to:

- Sundry activities that are not the main banking activities but are considered as an extension to banking services (safe deposit box rental, assistance and advice);
- Non-financing services.

(in EUR thousand)	2019	2018
Income from other activities	26 936	40 572
Expenses from other activities	(10 521)	(9 897)
Total	**16 415**	**30 675**

(1) As explained in Note 1.7, Income from other activities includes an excess remuneration of EUR thousand 14 384 for the year ended 31 December 2019 (EUR thousand 25 807 for the year ended 31 December 2018).

(2) Remaining part of other activities mainly refers in 2018 and 2019 to income from tax recharges in relation to non-consolidated entities that are fiscally integrated.

Note 4.3. – Insurance activities

MAKING IT SIMPLE

Insurance activities (life insurance and non-life insurance) add to the range of products included in the banking services offered to Group customers.

These activities are carried out by dedicated subsidiaries, subject to regulations specific to the insurance sector.

The rules for measuring and accounting for risks associated with insurance contracts are specific to the Insurance sector.

DEFERRED APPLICATION OF IFRS 9 BY INSURANCE SUBSIDIARIES

The amendments to IFRS 4 (Applying IFRS 9, “Financial Instruments”, with IFRS 4, Insurance Contracts) allow entities having insurance as their primary activity to delay the application of IFRS 9 until 1 January 2023, meaning they may continue applying IAS 39.

The European Commission also extended the deferral option to allow financial conglomerates falling within the scope of Directive 2002/87/EC to elect that all their entities operating in the insurance sector within the meaning of that Directive will defer the effective date of IFRS 9 until 1 January 2023.

The Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. The Group has made the necessary arrangements to forbid all transfers of financial instruments between its insurance sector and any other sector in the Group that would lead to a derecognition of the instrument by the seller, except for transfers of financial instruments measured at fair value through profit or loss by both sectors involved in such transfers.

Starting in financial year 2018, insurance activities are presented on separate lines in the consolidated financial statements for clarification purposes: *Investments of insurance activities* under balance sheet assets, *Insurance contracts related liabilities* under balance sheet liabilities, and *Net income from insurance activities* under *Net banking income* in the income statement.

On 26 June 2019, the IASB issued an exposure draft including a number of amendments to IFRS 17 “Insurance contracts.” The purpose of the modifications is to facilitate the implementation of the standard. On 17 March 2020, the IASB has proposed to defer its first application date, which would be postponed to the annual periods beginning on 1 January 2023.

The only subsidiary fully consolidated concerned is SG Ré as Sogelife is consolidated through equity method (cf Note 2.1). The regulatory status of SG Ré include this activity under insurance activities and SG Ré applies the exemption as presented above.

1. INSURANCE CONTRACTS RELATED LIABILITIES

ACCOUNTING PRINCIPLES

UNDERWRITING RESERVES OF INSURANCE COMPANIES

Underwriting reserves correspond to the commitments of insurance companies with respect to policyholders and the beneficiaries of policies.

In accordance with IFRS 4 on insurance policies, life and non-life underwriting reserves continue to be measured under the same local regulations, with the exception of certain prudential provisions that are cancelled (liquidity risk provision) or recalculated economically (overall management reserve).

Risks covered by non-life insurance policies are principally linked to home, car and accident protection guarantees. Underwriting reserves comprise reserves for unearned premiums (share of premium income relating to subsequent financial years) and for outstanding claims.

Risks covered by life insurance policies are principally death, invalidity and incapacity for work. Life insurance underwriting reserves mainly comprise actuarial reserves, which correspond to the difference between the present value of commitments falling to the insurer and those falling to the policyholder, and the reserve for claims incurred but not settled.

In life insurance products:

- underwriting reserves of life insurance contracts invested in EUR-denominated vehicles with profit-sharing clauses consist primarily of mathematical provisions and provisions for profit-sharing;
- underwriting reserves of life insurance contracts invested in unit-linked vehicles or with a significant insurance clause (mortality, invalidity, etc.) are measured at the inventory date according to the realisation value of the assets underlying these contracts.

Under the principles defined in IFRS 4, and in compliance with local regulations applicable with respect thereto, life insurance policies with discretionary profit-sharing features are subject to "mirror accounting", whereby any changes in the value of financial assets liable to affect policyholders are recorded in *Deferred profit-sharing*. This reserve is calculated to reflect the potential rights of policyholders to unrealised gains on financial instruments measured at fair value or their potential share of unrealised losses.

To demonstrate the recoverability of the deferred profit-sharing asset in the event of an unrealised net loss, two approaches are verified by the Group in order to show that the liquidity requirements caused by an unfavourable economic environment would not require assets to be sold in the event of unrealised losses:

- the first approach consists in simulating deterministic ("standardised" or extreme) stress scenarios. This is used to show that in these scenarios no significant losses would be realised on the assets existing at the balance sheet date for the scenarios tested;
- the aim of the second approach is to ensure that in the long or medium term, the sale of assets to meet liquidity needs would not generate any significant losses. The approach is verified considering projections based on extreme scenarios

CLASSIFICATION OF FINANCIAL LIABILITIES

At initial recognition, financial liabilities resulting from the Group's insurance activities are classified in the following accounting categories:

- financial liabilities measured at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that do not qualify as hedging instruments, as well as non derivative financial liabilities initially designated by the Group at fair value through profit or loss (fair value option). These financial liabilities mainly comprise investment contracts without discretionary profit-sharing clauses and with no insurance component, that do not meet the definition of an insurance contract under IFRS 4 (unit-linked insurance contracts only) and are thus governed by IAS 39;
- financial liabilities measured at amortised cost: other non-derivative financial liabilities, which are measured at amortised cost.

These financial liabilities are recorded in the balance sheet under *Debts* and *Financial liabilities measured at fair value through profit or loss*, except for derivative liabilities which are recorded under *Insurance contracts related liabilities*.

BREAKDOWN OF INSURANCE CONTRACTS RELATED LIABILITIES

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Underwriting reserves of insurance companies	207 893	246 124
Total	**207 893**	**246 124**

UNDERWRITING RESERVES OF INSURANCE COMPANIES

(in EUR thousand)	31.12.2019	31.12.2018
Life insurance underwriting reserves	135 470	137 498
Other than life insurance underwriting reserves	72 423	108 626
Total	**207 893**	**246 124**
Attributable to reinsurers	(3 484)	(169)
Underwriting reserves of insurance net of the share attributable to reinsurers	**204 409**	**245 955**

STATEMENT OF CHANGES IN UNDERWRITING RESERVES

(in EUR thousand)	Underwriting reserves for unit-linked policies	Life insurance underwriting reserves	Non-life insurance underwriting reserves
Reserves at 1 January 2019 (except provisions for deferred profit-sharing)	–	**137 498**	**108 626**
Allocation to insurance reserves	–	–	–
Revaluation of unit-linked policies	–	–	–
Charges deducted from unit-linked policies	–	–	–
Transfers and allocation adjustments	–	–	(36 203)
New customers	–	–	–
Profit-sharing	–	–	–
Others	–	(2 028)	–
Reserves at 31 December 2019 (except provisions for deferred profit-sharing)	**–**	**135 470**	**72 423**

UNDERWRITING OF INSURANCE COMPANIES BY REMAINING MATURITY

(in EUR thousand)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31.12.2019
Underwriting reserves of insurance companies	–	17 324	69 296	121 273	**207 893**

(in EUR thousand)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31.12.2018
Underwriting reserves of insurance companies	–	32 706	130 820	82 598	**246 124**

2. INVESTMENTS OF INSURANCE ACTIVITIES

As at 31 December 2019, derivative and non-derivative financial assets and investment property held by insurance entities are isolated on the balance sheet under *Investments of insurance companies*.

ACCOUNTING PRINCIPLES

CLASSIFICATION OF FINANCIAL INSTRUMENTS

When initially recognised, financial instruments are presented in the balance sheet under categories that determine their accounting treatment and their subsequent valuation method. This classification depends on the type of financial instrument and the purpose of the transaction.

Financial assets are classified into one of the following four categories:

- *Financial assets at fair value through profit or loss*: these are financial assets held for trading purposes, which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;

- *Loans and receivables:* these include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired, and not designated upon initial recognition to be carried at fair value through profit or loss (in accordance with the fair value option). They are measured at amortised cost, and impairment, determined on an individual or a collective basis, may be recorded if appropriate;
- *Held-to-maturity financial assets:* these are non-derivative financial assets with fixed or determinable payments and a fixed maturity, that are quoted in an active market and which the Group has the intention and ability to hold to maturity. They are measured at their amortised cost and may be subject to impairment as appropriate. Amortised cost includes premiums and discounts as well as transaction costs;
- *Available-for-sale financial assets:* these are non-derivative financial assets held for an indeterminate period, which the Group may sell at any time. By default, they are any assets that do not fall into one of the above three categories. These instruments are measured at fair value against Unrealised or deferred gains and losses. Interest accrued or paid on debt securities is recognised in the income statement using the effective interest rate method while dividend income earned on equity securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

RECLASSIFICATION OF FINANCIAL ASSETS

After their initial recognition, financial assets may not be later reclassified as *Financial assets at fair value through profit or loss*.

A non-derivative financial asset initially recognised under *Financial assets at fair value through profit or loss* as an asset held for trading purposes may only be reclassified out of this category under specific conditions framed by IAS 39 standard.

IMPAIRMENT

Impairment of financial assets measured at amortised cost

For debt instruments not measured at fair value through net income, the criteria used by the insurance entities to assess individually objective evidence of impairment include the following conditions:

- a significant decline in the counterparty's financial situation leads to a high probability of said counterparty being unable to fulfil its overall commitments, implying then a risk of loss for the insurance entity (the appreciation of this deterioration can be based on the evolution of the rating of the issuers or the variations of the credit spreads changes observed on these markets);
- the occurrence of late payment of coupons and more generally of arrears of more than 90 days;
- or, regardless of whether or not any past-due payments are recorded, there is objective evidence of impairment or legal proceedings have been initiated (bankruptcy, legal settlement, compulsory liquidation).

If there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity financial assets, are impaired, an impairment is recognised for the difference between the carrying amount and the present value of estimated future recoverable cash flows, taking into account any guarantees. This discount is calculated using the financial assets' original effective interest rate. The amount of this impairment is deducted from the carrying value of the impaired financial asset.

The allocations and reversals of impairments are recorded in the income statement under net income from investments in the Net income from insurance activities. The impaired loans or receivables are remunerated for accounting purposes by the reversal over time of the discounting to present value, which is recorded under interest income in the Net income from insurance activities. Where there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, be it significant or not, insurance entity 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 homogeneous portfolio, 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.

Impairment of available-for-sale financial assets

An available-for-sale financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of this asset.

For listed equity instruments, a significant or prolonged decline in their price below their acquisition cost constitutes objective evidence of impairment. For this purpose, insurance entities consider as impaired listed shares showing an unrealised loss greater than 50% of their acquisition price on the balance sheet date, as well as listed shares for which the quoted prices have been below their acquisition price on every trading day for at least the last 24 months before the balance sheet date. Further factors, such as the financial situation of the issuer or its development outlook, can lead the insurance entities to consider that the cost of its investment may not be recovered even if the abovementioned criteria are not met. An impairment loss is then recorded through net income equal to the difference between the last quoted price of the security on the balance sheet date and its acquisition price.

For unlisted equity instruments, the criteria used to assess the evidence of impairment are identical to those mentioned above. The value of these instruments at the balance sheet date is determined using the valuation methods described in Note 3.5.

The criteria for the impairment of debt instruments are similar to those for the impairment of financial assets measured at amortised cost. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in shareholders' equity under Unrealised or deferred gains and losses and subsequent objective evidence of impairment emerges, insurance entities recognise the total accumulated unrealised loss previously recorded in shareholders' equity in the income statement among under net income from investments in the Net income from insurance activities as far as debt instruments and equity instruments are concerned.

This cumulative loss is measured as the difference between the acquisition cost (net of any repayments of principal and amortisation) and the present fair value, less any impairment of the financial asset that has already been recorded through profit or loss.

Impairment losses recognised through profit or loss on an equity instrument classified as available-for-sale are only reversed through profit or loss when the instrument is sold. Once an equity instrument has been recognised as impaired, any further loss of value is recorded as an additional impairment loss. For debt instruments, however, an impairment loss is reversed through profit or loss if they subsequently recover in value following an improvement in the issuer's credit risk.

OTHER ACCOUNTING PRINCIPLES

Accounting principles relative to fair value, initial recognition of financial instruments, derecognition of financial instruments, derivative financial instruments, interest income and expense, transferred financial assets and offsetting of financial instruments are similar to those described in Note 3 (Financial instruments).

OVERVIEW OF INVESTMENTS OF INSURANCE ACTIVITIES

(in EUR thousand)	31.12.2019	31.12.2018
Available-for-sale financial assets	**527 812**	**479 659**
Debt instruments	*373 027*	*332 366*
Equity instruments	*154 785*	*147 293*
Due from banks	27 436	49 086
Customer loans	–	–
Real estate investments	–	–
Total investments of insurance activities before elimination of intercompany transactions	**555 248**	**528 745**
Elimination of intercompany transactions	(27 436)	(49 086)
Total investments of insurance activities after elimination of intercompany transactions (1)	**527 812**	**479 659**

The following tables show the carrying amounts after eliminating intercompany transactions.

ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

The following table shows the carrying amount of the financial assets included in *Investments from insurance activities*, whereby those assets whose contractual conditions give rise to cash-flows on set dates that are solely payments of principal and interest (basic instruments) are presented separately from trading assets and assets measured using the fair value option through profit or loss.

	31.12.2019			
(in EUR thousand)	Basic debt instruments	Equity instruments	Total carrying amount	Fair value
Financial assets at fair value through profit or loss	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	373 027	154 785	527 812	527 812
Due from banks	–	–	–	–
Customer loans	–	–	–	–
Total financial invesments	**373 027**	**154 785**	**527 812**	**527 812**

	31.12.2018			
(in EUR thousand)	Basic debt instruments	Equity instruments	Total carrying amount	Fair value
Financial assets at fair value through profit or loss	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	332 366	147 293	479 659	479 659
Due from banks	–	–	–	–
Customer loans	–	–	–	–
Total financial invesments	**332 366**	**147 293**	**479 659**	**479 659**

(1) Investments in other Group companies that are made in representation of unit-linked liabilities are kept in the Group's consolidated balance sheet without any significant impact thereon.

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

				31.12.2019
(in EUR thousand)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (trading portfolio)	–	–	–	–
Financial assets at fair value through profit or loss using the fair value option	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	525 615	–	2 197	527 812
Total	**525 615**	**–**	**2 197**	**527 812**

				31.12.2018
(in EUR thousand)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (trading portfolio)	–	–	–	–
Financial assets at fair value through profit or loss using the fair value option	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	477 404	–	2 255	479 659
Total	**477 404**	**–**	**2 255**	**479 659**

CHANGES IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(in EUR thousand)	2019	2018
Balance as of 1 January	479 659	463 132
Acquisitions	151 389	76 126
Disposals / redemptions	(113 665)	(41 891)
Transfers to held-to-maturity financial assets	–	–
Change in scope and others	(3 230)	(3 279)
Gains and losses on changes in fair value recognised directly in equity during the year	13 717	(14 429)
Impairment losses on equity instruments recognised in profit and loss	(58)	–
Translation differences	–	–
Balance as of 31 December	**527 812**	**479 659**

UNREALISED GAINS AND LOSSES ON AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	1 January 2019		
(in EUR thousand)	**Capital gains**	**Capital losses**	**Net revaluation**
Unrealised gains and losses of insurance companies	**31 165**	**(884)**	**30 281**
On equity instruments available-for-sale	*19 449*	*(319)*	*19 130*
On debt instruments available-for-sale	*11 716*	*(565)*	*11 151*
Deferred profit-sharing	–	–	–

	1 January 2018		
(in EUR thousand)	**Capital gains**	**Capital losses**	**Net revaluation**
Unrealised gains and losses of insurance companies	**19 639**	**(3 075)**	**16 564**
On available-for-sale equity instruments	*11 899*	*(319)*	*11 580*
On available-for-sale debt instruments	*7 740*	*(2 756)*	*4 984*

3. NET INCOME FROM INSURANCE ACTIVITIES

ACCOUNTING PRINCIPLES

INCOME AND EXPENSE RELATED TO INSURANCE CONTRACTS

Income and expense related to insurance contracts issued by Group insurance companies, associated fee income and expense, and income and expense related to investments of insurance companies are recorded under *Net income from insurance activities* in the income statement.

Other income and expense are recorded under the appropriate headings.

Changes in the provision for deferred profit-sharing are recorded under *Net income from insurance activities* in the income statement or under *Unrealised or deferred gains and losses* under the appropriate headings for the underlying assets in question.

The following table shows the breakdown of income and expense from insurance activities and associated investments presented on a separate line under *Net Banking Income*: Net income from insurance activities (after eliminating intercompany transactions).

(in EUR thousand)	**2019**	**2018**
Net premiums	122 090	123 008
Net income from investments	7 679	3 089
Cost of benefits (including changes in reserves)	(89 747)	(86 677)
Other net technical income (expense)	(4 398)	(4 282)
Net income of insurance activities	**35 624**	**35 138**
Funding cost	(2 802)	(2 893)
Net banking income of insurance companies	**32 822**	**32 245**

NET INCOME FROM INVESTMENTS

(in EUR thousand)	**2019**	**2018**
Dividend income on equity instruments	435	595
Interest income		
On available-for-sale financial assets	*7 050*	*7 550*
On loans and receivables	*–*	*–*
Other net interest income	*–*	*(3 130)*
Net gains or losses on financial instruments at fair value through profit or loss	(1 745)	(2 122)
Net gains or losses on available-for-sale financial instruments		
Capital gain or loss on sale of debt instruments	*1 997*	*196*
Capital gain or loss on sale of equity instruments	*–*	*–*
Impairment losses on equity instruments	*(58)*	*–*
Net gains or losses on real estate investments	–	–
Total net income from investments	**7 679**	**3 089**

4. MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risks:

- underwriting risks, particularly risk through life insurance, individual personal protection and non-life insurance. This risk can be biometrical: disability, longevity, mortality, or related to policyholders' behaviour (risk of lapses). To a lesser extent, the Insurance business line is also exposed to non-life and health risks. Such risks can come from pricing, selection, claims management or catastrophic risk;
- risks related to financial markets and ALM: the Insurance business line, mainly through life insurance, is exposed to instabilities on the financial markets (changes in interest rates and stock market fluctuations) which can be made worse by policyholder behaviour.

Managing these risks is key to the Insurance business line's activity. It is carried out by qualified and experienced teams, with major bespoke IT resources. Risks are monitered and regularly reported, they are guaranted by risk policies validated by the Board of Directors of each entity.

Risk Management techniques are based on the following:

- heightened security for the risk acceptance process, with the aim of guaranteeing that the price schedule matches the policyholder's risk profile and the guarantees provided;
- regular monitoring of indicators on product claims rates in order to adjust certain product parameters, such as pricing or the level of guarantee, if necessary;
- implementation of a reinsurance plan to protect the business line from major/serial claims;
- application of policies on risk, provisioning and reinsurance.

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimization of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analyzed by the Finance and Risk Department of the insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behaviour (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per issuer rating and assets class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA report (Own Risk and Solvency Assessment), transferred to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

BREAKDOWN BY RATING OF BASIC FINANCIAL INSTRUMENTS

The following tables show the carrying amounts after eliminating intercompany transactions.

	31.12.2019		
(in EUR thousand)	**Available-for-sale financial assets**	**Due from banks**	**Total**
AAA	34 296	–	**34 296**
AA+ / AA / AA-	191 332	–	**191 332**
A+ / A / A-	115 290	27 436	**142 726**
BBB+ / BBB / BBB-	164 321	–	**164 321**
BB+ / BB / BB-	–	–	**–**
B+ / B / B-	–	–	**–**
CCC+ / CCC / CCC-	–	–	**–**
CC+ / CC / CC-	–	–	**–**
Lower than CC-	–	–	**–**
Without rating	22 573	–	**22 573**
Total before intercompany elimination	**527 812**	**27 436**	**555 248**
Intercompany amounts	–	(27 436)	**(27 436)**
Carrying amount	**527 812**	**–**	**527 812**

The rating scale is the scale used for Solvency 2 purposes, which calls for the second highest rating determined by the rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings) to be used. The ratings in question apply to issues or, where these are not available, to issuers.

	31.12.2018		
(in EUR thousand)	**Available-for-sale financial assets**	**Due from banks**	**Total**
AAA	31 792	–	**31 792**
AA+ / AA / AA-	154 214	–	**154 214**
A+ / A / A-	96 823	49 086	**145 909**
BBB+ / BBB / BBB-	133 324	–	**133 324**
BB+ / BB / BB-	6 870	–	**6 870**
B+ / B / B-	1 444	–	**1 444**
CCC+ / CCC / CCC-	–	–	**–**
CC+ / CC / CC-	–	–	**–**
Lower than CC-	–	–	**–**
Without rating	55 192	–	**55 192**
Total before intercompany elimination	**479 659**	**49 086**	**528 745**
Intercompany amounts	–	(49 086)	**(49 086)**
Carrying amount	**479 659**	**–**	**479 659**

Note 4.4. – Other Assets And Liabilities

1. OTHER ASSETS

(in EUR thousand)	31.12.2019	31.12.2018
Guarantee deposits paid [(1)]	252 020	326 382
Settlement accounts on securities transactions	334 603	102 647
Prepaid expenses	8 950	11 994
Miscellaneous receivables	306 369	406 396
Amounts receivable and prepayments	*161 330*	*196 480*
Accrued income	*16 975*	*45 470*
Other	*128 064*	*164 446*
Gross amount	**901 942**	**847 419**
Impairment	(166)	(183)
Net amount	**901 776**	**847 236**

2. OTHER LIABILITIES

(in EUR thousand)	31.12.2019	01.01.2019*	31.12.2018
Guarantee deposits received [(2)]	22 040	9 160	9 160
Settlement accounts on securities transactions	430 237	67 448	67 448
Expenses payable on employee benefits	25 953	24 210	24 210
Lease liability [(3)]	106 962	129 441	–
Deferred income [(4)]	16 397	9 520	9 520
Miscellaneous payables [(5)]	695 330	1 173 360	1 173 360
Other securities transactions	*14*	*21*	*21*
Amounts payables and sundry creditors	*695 316*	*1 173 339*	*1 173 339*
Total	**1 296 919**	**1 413 139**	**1 283 698**

(*) First-time application of IFRS 16 impact, please also refer to Note 1.

(1) Mainly relates to guarantee deposits paid on financial instruments.
(2) Mainly relates to guarantee deposits received on financial instruments.
(3) Lease liability recorded as a result of the application of IFRS 16 “Leases” as from 1 January 2019 (see Note 1).
(4) Of which EUR 7 605 thousand of deffered income from SGIS, due to a change in accounting policy.
(5) Miscellaneous payables primarily include other securities transactions and amounts payable and sundry creditors .

NOTE 5 – PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

MAKING IT SIMPLE

Employee benefits correspond to the compensation granted by the Group to its employees in exchange for work carried out during the annual reporting period.

All forms of compensation for work rendered are recorded in the expenses:

- whether it be paid to employees or to outside social security agencies,
- whether it be paid during the annual reporting period or to be paid by the Group in the future as entitlements to employees (pension plans, retirement benefits…).
- whether it be paid in cash or in shares of Societe Generale S.A.

ACCOUNTING PRINCIPLES

Employee benefits are divided into four categories:

- Short-term employee benefits which are employee benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, such as fixed and variable compensation, annual leave, taxes and social security contributions, mandatory employer contributions and profit-sharing;
- Post-employment benefits, including defined contributions plans and defined benefit plans such as pension plans and retirement benefits;
- Long-term employee benefits which are employee benefits not expected to be settled wholly before twelve months, such as defined variable compensation paid in cash and not indexed to the Group share, long service awards and time saving accounts;
- Termination benefits.

Note 5.1. – Personnel expenses and related party transactions

ACCOUNTING PRINCIPLES

Personnel expenses include all expenses related to personnel, including employee benefits and expenses related to payments based on the Group shares.

Short-term employee benefits are recorded under *Personnel expenses* during the period according to the services provided by the employee.

The accounting principles relating to post-employment benefits and long-term benefits are described in Note 5.2.

PERSONNEL EXPENSES

(in EUR thousand)	2019	2018
Employee compensation	(191 773)	(179 404)
Social security charges and payroll taxes	(18 326)	(17 036)
Net pension expenses - defined contribution plans	(6 740)	(4 383)
Net pension expenses - defined benefit plans	(9 327)	(14 043)
Total	**(226 166)**	**(214 866)**

Over the course of 2019, the Group employed an average of 1 993 employees (2018: 1 965 employees), including representive offices abroad.

Staff may be broken down as follows:

Average full time-equivalent employees over the year)	31 December 2019	31 December 2018
General Management	31	16
Senior managers	479	424
Other employees	1 483	1 525
Total	**1 993**	**1 965**

The variation in staff regarding General Management and senior managers is due to a change of methodology.

Note 5.2. – Employee benefits

Group entities in Luxembourg and abroad, may award their employees:

- post-employment benefits, such as pension plans or retirement benefits;
- termination benefits.

DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS

(in EUR thousand)	Provisions at 01.01.2019	Allocations	Write-backs/ utilization	Net allocation	Actuarial gains and losses	Other	Provisions at 31.12.2019
Provisions for employee benefits	**58 813**	**8 447**	**(7 796)**	**651**	**8 836**	**2 366**	**70 666**
Provisions for retiment plans	*49 745*	*6 851*	*(7 204)*	*(353)*	*8 836*	*626*	*58 854*
Provisions for other long-term benefits	*7 945*	*1 332*	*(592)*	*740*	*-*	*1 759*	*10 444*
Other provisions for employee benefits	*1 123*	*264*	*-*	*264*	*-*	*(19)*	*1 368*

1. POST-EMPLOYMENT BENEFITS

ACCOUNTING PRINCIPLES

Post-employment benefits can be broken down into two categories: defined contribution pension plans or defined benefit pension plans.

DEFINED CONTRIBUTION PLANS

Defined contribution plans limit the Group's liability to the subscriptions paid into the plan but do not commit the Group to a specific level of future benefits. Contributions paid are recorded as an expense for the current year.

DEFINED BENEFIT PLANS

Defined benefit plans commit the Group, either formally or constructively, to pay a certain amount or level of future benefits and therefore bare the associated medium or long-term risk.

Provisions are recognised on the liabilities side of the balance sheet under *Provisions*, to cover the whole of these retirement obligations. These provisions are assessed regularly by independent actuaries using the projected unit credit method. This valuation technique incorporates assumptions about demographics, early retirement, salary rises and discount and inflation rates.

The Group previously chose to finance defined benefit plans through assets held by a long-term employee benefit fund or by qualifying insurance policies. Since then, the Group transferred employees to a defined contributions plan on voluntary basis.

Funding assets, made by funds are classified as plan assets if assets are held by a fund that is legally separate from the reporting entity and are available to be used only to pay employee benefits.

When these plans are financed from extrernal funds classified as plan assets, the fair value of these funds is substracted from the provision to cover obligations.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognised as actuarial gains and losses. Actuarial gains and losses, as well as the return on plan assets excluding amounts expensed as net interest on the net defined benefit liability (or asset) and any change in the effect of the asset ceiling are components used to re-measure the net defined benefit liability (or asset). These components are immediately and fully recognised in shareholder's equity among Unrealised or deferred gains and losses and they cannot be subsequently reclassified as income.

In the Group consolidated financial statements, since 1 Januray 2019, these items that cannot be subsequently reclassified as income are displayed separately in the Statement of net income and unrealised or deferred gain and losses, but are transferred immediately to retained earnings in the Statement of changes in shareholder's equity so that they are presented directly under Retained earnings on the liabilities side of the balance sheet (IAS 19R).

Where a new or amended plan comes into force, past service cost is immediately recognised in profit or loss.

An annual charge is recorded under Personnel expenses for defined benefit plans consisting of:

- the additional entitlements vested by each employee (current service cost);
- past service cost resulting from a plan amendment or a curtailment;
- the financial expense resulting from the discount rate and the interest income on plan assets (net interest on the net defined benefit liability or asset);
- plan settlements.

POST-EMPLOYMENT DEFINED BENEFIT PLANS

PLANS' PROVISIONS AND ASSUMPTIONS

Disclosures are provided only for the main retirement plans of the Group: the Luxembourg plan in place at Societe Generale Luxembourg S.A. , Societe Generale Private Wealth Management S.A. ("SGPWM") and the Swiss plan in place at SG Private Banking (Suisse) S.A. ("SGPBS").

THE LUXEMBOURG RETIREMENT PLAN PROVISIONS

The Group offers a supplemental defined benefit retirement plan to all eligible employees at its headquarters in Luxembourg.

Under the defined benefit retirement plan, payment of a supplementary pension to the Luxembourg government pension starting from age 65 is planned. The goal of the business pension plan is to grant, for 35 years of service, benefits equal to approximately 60% of salary at retirement, including Luxembourg Social Security.

More specifically, for 35 years of service in the company, the retirement benefit will be equal to 8.33% of the portion of the final pensionable salary, limited to the pension ceiling plus 62.5% of the final pensionable salary that surpasses this ceiling. The salary used for calculation purposes is the annual base salary. The pension benefit is a planned joint and survivor annuity of 60% to the survivor after retirement.

The plan allows for payment of capital instead of the planned supplemental retirement annuity. By its nature, this defined benefit retirement plan exposes SG Luxembourg to certain associated actuarial risks*, such as investment risk, interest rate risk, longevity, inflation and the effect of an increase in payroll.

* Those risks are applicable to all pension plan of the Group.

The risks defined below are applicable for all plans defined among the Group:

Investment risk	The present value of the defined benefit commitment is calculated using a discount rate determined by reference to the interest rates of the highest-quality corporate bonds. If the return on plan assets is below this rate, this will create a plan deficit. The plan assets are limited to those of a reduced insurance group that benefits from a guaranteed return from an insurer.
Interest rate risk	A decline in interest rates for bonds will increase the plan's commitments.
Longevity risk	The present value of the pension commitment is calculated taking into account the estimated mortality tables. The objective being to best reflect the mortality of the pension plan's participants. However, an increase in the life expectancy of participants will increase the plan's commitments.
Risk of payroll growth	The present value of the pension commitment is calculated under the assumption that the pension plan's participants' salaries will increase. Any future increase that is greater than the estimate will increase the plan's commitments.
Inflation risk	The inflation rate directly affects the changes in payrolls and the pension ceiling. An increase in the inflation rate will cause an increase in the current value of the pension commitments.

Risks related to benefits paid to beneficiaries in the event of the death of a plan participant before retirement age is insured by an insurance company.

THE SWISS RETIREMENT PLAN PROVISIONS

The plan provisions detailed were effective from 1 January 2011.

All employees aged at least 18 with an indefinite working contract beyond 3 months are eligible.

For death and disability benefits, participation starts at hire date, but not before 1st of January following 17th birthday. For retirement and termination benefits, participation starts at hire date, but not before 1st of January following 22nd birthday.

The participant has the option of electing to take all the benefit as a pension payable monthly or electing to take part or all of the benefit as a lump sum.

Annual pension is payable monthly (if married or have a registered partner, 60% J&S annuity and if single, life annuity): Accrued Retirement Savings Capital converted to annuity using conversion rates, varying by portion of benefit associated with BVG (Survivors', disability and pension plan) minimum benefit and portion of benefit in excess of BVG minimum benefit.

Lump sum: Accrued Retirement Savings Capital.

The plan must be financed.

The components of the overall contribution include the cost of:

- retirement benefits;
- risk benefits (death, disability), including cost-of-living adjustments;
- payments to the Guarantee Fund;
- administrative costs.

The Group has measured the obligations of the retirement plan as at 31 December 2019 and as at 31 December 2018 in accordance with IAS19 Revised.

The present value of the defined benefit pension obligation as well as the pension cost related to one year of service were measured using the actuarial method called the "projected unit credit method".

The principal assumptions used for measuring pension fund obligations are summarized below:

	31 December 2019		31 December 2018	
Luxembourg				
SG Luxembourg				
Discount rate	0.82%		1.60%	
Inflation rate	1.30%		1.50%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Rate	Age	Rate
	<35 years	1.9%-2.00%	<35 years	1.9%-2.00%
	35 years <= age < 45 years	1%-1.3%	35 years <= age < 45 years	1%-1.3%
	45 years <= age < 55 years	0.3%-0.65%	45 years <= age < 55 years	0.3%-0.65%
	55 years <= age < 65 years	0%-0.7%	55 years <= age < 65 years	0%-0.7%
SG PWM				
Discount rate	0.81%		1.80%	
Inflation rate	1.22%		1.70%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Rate	Age	Rate
	<35 years	1.9%-2.00%	<35 years	1.9%-2.00%
	35 years <= age < 45 years	1%-1.3%	35 years <= age < 45 years	1%-1.3%
	45 years <= age < 55 years	0.3%-0.65%	45 years <= age < 55 years	0.3%-0.65%
	55 years <= age < 65 years	0%-0.7%	55 years <= age < 65 years	0%-0.7%
Switzerland				
SGPBS				
Discount rate	0.13%		0.68%	
Inflation rate	1.00%		1.00%	
Expected rate of return on assets	n/a		n/a	
Compensation increase rate (excluding indexation)	0.20%		1.20%	

The discount rate used as at 31 December of the year in question is based on the yield curve for corporate bonds rated AA.

This curve is observed in October 2019 via the Merrill Lynch Index.

IAS19 requires taking the same rate for the expected return. The inflation rates used are in line with the long-term objectives of the central banks of the Euro zone.

The cost of services rendered and the net interest on net liabilities (assets) are reported under “Personnel expenses” in profit or loss.

Following the adoption of IAS 19R, the “corridor” method is no longer used: net actuarial gains are now reported at their total amount on the liability side of the consolidated statement of financial position.

Revaluations of net liabilities (assets) are reported in the other items of comprehensive income.

PENSION PLAN LIABILITIES

The pension plan's liabilities according to IAS 19R breaks down as follows:

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Defined benefit obligation	217 981	192 119
Fair value of plan assets	(159 127)	(142 374)
Net defined benefit asset/ (liability)	**58 854**	**49 745**

ACTUARIAL GAINS AND LOSSES (*)

Total actuarial gains and losses increases or decreases provision booked by the bank.

Actuarial gains and losses for the period are booked against Other Comprehensive Income.

Each January 1st, actuarial gains and losses for the period are reclassified towards reserves with no impact on provision calculation

As at 31 December 2019, total actuarial gains and losses recorded in OCI and retained earnings, gross from deferred taxes, were as follows:

(in EUR thousand)	
Total at 1 January 2018	**2 275**
Net 2018 change [1]	(11 269)
Total at 31 December 2018	**(8 994)**
Net 2019 change [2]	8 836
Total at 31 December 2019	**(158)**

RECONCILIATION OF ASSETS AND LIABILITIES RECORDED IN THE BALANCE SHEET

(in EUR thousand)	**31.12.2019**	**31.12.2018**
A - Present value of funded defined benefit obligations	217 981	192 119
B - Fair value of plan assets and separate assets	(159 127)	(142 374)
C = A + B Deficit (surplus)	**58 854**	**49 745**
D - Present value of unfunded defined benefit obligations	–	–
E - Change in asset ceiling	–	–
C + D + E = Net balance recorded in the balance sheet	**58 854**	**49 745**

COMPONENTS OF THE COST OF DEFINED BENEFITS

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Current service cost including social security contributions	6 219	8 528
Employee contributions	–	–
Past service cost/curtailments	–	-
Settlements	–	–
Net interest	632	546
A - Components recognised in income statement	**6 851**	**9 074**
Actuarial gains and losses on assets	–	–
Actuarial gains and losses due to changes in demographic assumptions	–	–
Actuarial gains and losses due to changes in economic and financial assumptions	15 814	(3 940)
Actuarial gains and losses due to experience	54	5 183
Return on assets excluding amounts included in interest income	(7 032)	4 684
B - Components recognised in unrealised or deferred gains and losses	**8 836**	**5 927**
C = A + B Total components of the cost of defined benefits	**15 687**	**15 001**

(1) See note 7.2 Actuarial gains and losses on defined benefits plans gross value 01.01.2019

(2) See note 7.2 Actuarial gains and losses on defined benefits plans gross value 31.12.2019

CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

(in EUR thousand)	31.12.2019	31.12.2018
Balance at 1 January	**192 119**	**181 943**
Current service cost including social security contributions	10 703	11 324
Past service cost / curtailments	(1 733)	-
Settlements	–	–
Net interest	1 633	1 359
Actuarial gains and losses due to changes in demographic assumptions	–	–
Actuarial gains and losses due to changes in economic and financial assumptions	–	–
Actuarial gains and losses due to experience	–	–
Revaluation – actuarial gains and losses	16 288	1 223
Foreign exchange adjustment	5 970	5 662
Benefit payments	(1 669)	(1 501)
Change in consolidation scope	–	–
Payment from plan assets	(5 308)	(7 950)
Transfers and others	(22)	59
Balance at 31 December	**217 981**	**192 119**

CHANGES IN THE FAIR VALUE OF PLAN ASSETS

(in EUR thousand)	31.12.2019	31.12.2018
Balance at 1 January	**142 374**	**140 344**
Interest income	1 001	813
Expected return on plan assets	–	–
Expected return on separate assets	–	–
Actuarial gains and losses due to assets	7 009	–
Foreign exchange adjustment	5 426	5 353
Employee contributions	2 963	2 833
Employer contributions to plan assets	5 662	5 586
Benefit payments	(5 308)	(7 901)
Change in consolidation scope	–	–
Return on assets excluding amounts included in interest income	–	(4 654)
Transfers and others	–	–
Balance at 31 December	**159 127**	**142 374**

SENSITIVITY ANALYSIS

Actuarial assumptions which are significant in determining pension commitments are: discount rates, inflation and future payroll growth.

The calculation's sensitivity to these individual key assumptions was analyzed on the date of the calculation, i.e. 31 December 2019, using the same projection method (projected unit credit method).

The impact of each individual assumption is not representative of the potential impact of a sensitivity analysis based on combined variations of assumptions.

DBO sensitivity to a change of assumptions by +0.5%, -0.5% would have the following effect as at 31 December 2019:

2019

Luxembourg

SG Luxembourg

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	7.4%	7.5%	(1.2)%
Discount rate +0,5%:	(6.8)%	(6.8)%	0.7%
Inflation rate -0,5%:	(5.0)%	(6.0)%	(5.9)%
Inflation rate +0,5%:	5.4%	6.5%	6.4%
Salary increase +0,5%:	11.1%	13.6%	13.3%

SG PWM

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	9.3%	9.5%	1.5%
Discount rate +0,5%:	(8.4)%	(8.4)%	(2.1)%
Inflation rate -0,5%:	(7.7)%	(8.5)%	(8.6)%
Inflation rate +0,5%:	8.4%	9.3%	8.9%
Salary increase +0,5%:	18.2%	20.3%	19.8%

Switzerland

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	7.2%	7.8%	5.9%
Discount rate +0,5%:	(6.5)%	(7.5)%	(7.0)%
Inflation rate -0,5%:	(0.9)%	0.0%	0.0%
Inflation rate +0,5%:	1.0%	(0.1)%	(0.1)%
Salary increase +0,5%:	1.0%	(0.1)%	(0.1)%

LUXEMBOURG'S PLAN FINANCING

Luxembourg law does not require companies to outsource pension obligations to a pension fund or an insurance group.

The Group's retirement plan is funded directly by the payment of benefits when they become due. In order to provide the benefits expected, the Group recognizes accounting reserves in consolidated statement of financial position liabilities. The retirement plan can be considered as an internally-funded retirement plan. Pension plan liabilities are recognized in the consolidated balance sheet of the company while pension plan assets are included in the assets used in the company's business activities. Should the company become insolvent, a mechanism to protect pension rights is provided through insolvency insurance with the German pension security fund ("Pensionssicherungsverein" - PSV).

Finally, for staff hired before 1997, a small part of the retirement obligation is funded in a former insurance group that no longer receives additional inflows of contributions. There is also a reduced hedging insurance reserve.

Plan duration:

In years		31.12.2019	31.12.2018
Luxembourg	SG Luxembourg	14.2	14.4
	SGPWM	17.4	17.8
Switzerland	SGPBS	13.6	13.2

Expected future benefit payments are as follows:

	Luxembourg	Switzerland
		31.12.2019
Year		*(in EUR thousand)*
2021	963	11 069
2022	856	9 385
2023	1 321	9 462
2024	1 194	9 970
2025-2028	13 561	44 063

	Luxembourg	Switzerland
		31.12.2018
Year		*(in EUR thousand)*
2020	891	9 113
2021	1 424	10 116
2022	983	8 751
2023	1 658	8 914
2024-2028	11 184	41 796

TREATMENT OF ENTITIES THAT PARTICIPATE IN THE PLAN BUT ARE NOT PART OF SG LUXEMBOURG GROUP

For entities that participate in the plan but are not part of SG Luxembourg Group, paragraphs 32 to 39 of IAS 19 apply, and the plan is treated as a multiemployer plan.

There are two possible scenarios, depending on whether the entity does or does not have sufficient data to categories the plan in its books as a defined benefit or defined contribution plan.

The number of employees (active or retired) benefiting from the plan in each entity must be considered as a major feature. In fact, the use of projection techniques (IAS 19R's projected unit credit method) and all demographic parameters based on a small number of people cannot give truly pertinent results and generates significant statistical volatility each time there is a change in personnel. In such cases the results could be considered insufficiently reliable.

Furthermore, some of these entities have an employee policy based on the use of employees that stay with the entity for a short period (four to five years) and come from/return to SG Luxembourg, effectively resulting in high employee turnover. Similarly, in this context, projecting these employees' compensation over the long term does not make much sense as, by design, they do not remain with the company although they stay with the Group.

Within this framework, and in order to prevent administrative work that does not take into account financial challenges at the SG Luxembourg Group level, these entities treat this plan as a defined benefit plan (paragraph 36) and pay SG Luxembourg their share of the total annual cost of financing the plan, proportional to the percentage of total eligible employees represented by the entities' employees, through a contractual agreement.

The materiality threshold has been set at 20 people (i.e., 3% of the total number of employees benefiting from the plan) as defined with the actuary in charge of the work.

TREATMENT OF ENTITIES THAT DO NOT PARTICIPATE IN THE PENSION PLAN AND EMPLOY STAFF FROM AN AFFILIATED ENTITY

This occurs when SG Luxembourg assigns its personnel to other Societe Generale Group entities. In such cases, employee entitlements in the pension plan are maintained during their assignment period.

The obligation remains with the original affiliation entity. The unaffiliated entity, to which an employee is assigned, has no obligation, not even an implicit one, to the defined benefit plan.

The original entity therefore invoices the expense of maintaining the employee's entitlements under the supplementary pension plan to the entity to which the employee is assigned, as it does for other employee benefits. Societe Generale has implemented a standard reinvoicing contract that the assigning entity must use, filling out the appendices with the various benefits due to the employee in question.

Accordingly, the accounting treatment used is the one used for intra-Group billing of payroll expenses in the entity to which an employee is assigned and for defined benefits in the original entity. Income received from each entity contributes to the financing of the plan at the original entity.

For simplicity's sake, the invoicing principles is based on a fixed amount, defined annually in proportion to the length of time that employees are assigned to an entity and based on the annual cost of the plan and the percentage represented by assigned employees in the total number of eligible employees in the plan.

Defined contribution plan

Starting in 2015, all new incoming SG Luxembourg employees enroll in a defined contribution pension plan.

Retirement capital

Retirement capital, or Early Retirement capital, is paid to Plan Members when they retire at normal retirement age or when they take early retirement, respectively.

Plan Members have the option of taking all of the benefit as a pension payable monthly or taking part or all of the benefit as a lump sum.

Death benefit

If a Plan Member dies before retirement age, the retirement savings at the time of death are paid in the form of capital to the Beneficiaries designated in the event of death.

Employer contributions

Employer contriutions are calculated as follows: 2.5% S1 + 9% S2

Where:

- S1 represents the portion of S below the annual cap on contributions to Social Security in force as of the calculation date;
- S2 represents the portion of S which exceeds this cap;
- S represents January's monthly salary x 13.

The employer contribution is multiplied by the percentage of employee time as of the calculation date.

The employer contribution for the year of enrolment in the plan may be paid, in accordance with the plan's administrative provisions, in the year of enrolment or in the following year.

Personal contributions

The Plan Member may elect to contribute to the Plan and can choose the monthly or annual contribution amount at the time of enrolment.

Funding vehicle

The Plan Member may choose from among three financial management and investment formulas for investing the investment of employer contributions, and for the transfer of any entitlements resulting from employer contributions.

However, according to current legal provisions, personal contributions may only be invested in a fund with a guaranteed rate of return at least equal to the rate set by the Commissariat aux Assurances (Luxembourg Insurance Commission).

Finance

The company guarantees the payment of benefits and contributions provided for by the supplementary pension plan.

To accomplish this, the Company signed a group insurance contract with the AXA insurance company.

2. LONG-TERM BENEFITS

ACCOUNTING PRINCIPLES

Long-term employee benefits are benefits other than post-employment and termination benefits that are paid to employees more than twelve months after the end of the annual period in which they provided the related services.

Long-term benefits are measured and recognised in the same way as post-employment benefits, with the exception of actuarial gains and losses, which are immediately recognised in the consolidated statement of comprehensive income.

EMPLOYEE BENEFITS - JUBILEE AWARDS

PLANS' PROVISIONS AND ASSUMPTIONS

Disclosures are provided only for the three mains jubilee plans in the Group: the Luxembourg plan in place at Societe Generale Luxembourg S.A., the SGPWM plan and the Swiss plan in place at SG Private Banking Suisse S.A.

SG Luxembourg Group employees are entitled to a plan that provides for a jubilee award which is a function of their seniority in the Group.

The defined benefit obligation corresponding to this plan was estimated according to the standard IAS19. For this plan, the actuarial gains and losses are immediately recognized in the consolidated income statement account.

The principal assumptions used for measuring the jubilee plan obligations are summarized below:

	31.12.2019		31.12.2018	
Luxembourg				
SG Luxembourg				
Discount rate	0.64%		1.20%	
Inflation rate	1.07%		1.50%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Age	Age	Age
	<35 years	1.9% - 2%	<35 years	1.90% - 2.00%
	35 years <= age < 45 years	1% - 1.3%	35 years <= age < 45 years	1.00% - 1.30%
	45 years <= age < 55 years	0.3% - 0.65%	45 years <= age < 55 years	0.30% - 0.65%
	55 years <= age < 65 years	0% - 0.7%	55 years <= age < 65 years	0.70%
SG PWM				
Discount rate	0.69%		1.30%	
Inflation rate	1.12%		1.60%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate (excluding indexation)	1.00%		1.00%	
Switzerland				
Discount rate	(0.04)%		0.14%	
Inflation rate	1.00%		1.00%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate (excluding indexation)	0.20%		0.20%	

PLAN RESULTS

The cost associated with jubilee awards is reported under "Personel expenses" in Profit or Loss and breaks down as follows:

Service cost	957	636
Financial cost	58	51
Actuarial gains and losses	–	(55)
Total	**1 015**	**632**

CHANGE IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS DURING THE YEAR

The reconciliation of opening and closing obligation balances related to defined benefits for the current year is as follows:

(in EUR thousand)	31.12.2019	31.12.2018
Obligation in relation to defined benefits – Opening	**5 786**	**5 534**
Total (expense)/ revenue recognized in the income statement	1 015	632
Paid benefits	(159)	(414)
Other	(23)	–
Translation effect	39	34
Obligation in relation to defined benefits – Closing	**6 658**	**5 786**

NOTE 6 – INCOME TAX

MAKING IT SIMPLE

Income tax expenses are presented separately from other taxes which are classified among *Other operating expenses*. They are calculated according to the rates and tax regulations applicable in the countries where each consolidated entity is located.

Income tax presented in the income statement includes current taxes and deferred taxes:

- current taxes correspond to the amount of taxes due (or refundable) as calculated according to the taxable profit base for the reporting period.
- deferred taxes correspond to the amount of taxes resulting from past transactions and that will be payable (or refundable) in a future reporting period.

ACCOUNTING PRINCIPLES

CURRENT TAXES

Current tax is based on the taxable profits of each consolidated taxable entity and determined in accordance with the rules established by the local taxation authorities, upon which income taxes are payable. This tax expense also includes net allowances for tax adjustments pertaining to income tax.

Tax credits arising in respect of interest from loans and income from securities are recorded in the relevant interest account as they are applied in settlement of income taxes for the year. The related tax charge is included *under Income Tax* in the consolidated income statement.

DEFERRED TAXES

Deferred taxes are recognised whenever the Group identifies a temporary difference between the book value and tax value of balance sheet assets and liabilities that will affect future tax payments. Deferred tax assets and liabilities are measured in each consolidated taxable entity considering rules established by the local taxation authorities.

The amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realized or the liability settled. These deferred taxes are adjusted in the event of changes to tax rates. This amount is not discounted to present value.

Deferred tax assets can result from deductible temporary differences or from tax loss carry forwards. These deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set time. Temporary differences or tax loss carry forwards can also be used against future taxable profit. Tax loss carry forward review taking into account the tax system applicable to each relevant tax entity and a realistic projection of their tax income or expense, based on their business development outlook: any previously unrecognized deferred tax assets are recorded in the consolidated statement of financial position to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered; however, the carrying value of deferred tax assets already recognized in the consolidated statement of financial position is reduced where a risk of total or partial non-recovery occurs.

Current and deferred taxes are recognized in the consolidated income statement *under Income Tax*. However, deferred taxes related to gains and losses recorded under “Unrealized or deferred gains and losses” are also recognized under the same heading in the consolidated statement of comprehensive income.

TAX INTEGRATION

Since financial year 2005, SG Luxembourg has elected to be considered as an integrated group for tax purposes (intégration fiscale or tax integration).

As at 31 December 2019, 17 subsidiaries were included in the group filing a consolidated return (2018: 18 subsidiaries). In accordance with a tax integration agreement entered into with

SG Luxembourg, some affiliates recognize in their financial statements the tax which they would have paid had they not been included in SG Luxembourg's Group tax scope.

Tax integration implies that the Head of the tax group, Societe Generale Luxembourg, should be in charge of income tax payment for the whole Group.

SG Luxembourg establishes its income tax provisions ("Impôt sur le revenu des collectivités" or "IRC", and the "Impôt commercial communal" or "ICC") based on the taxable income of the entire consolidated group, including its own revenue.

Tax prepayments due by SG Luxembourg are also calculated on this basis and paid by SG Luxembourg as the lead company of the integrated group. Tax are prepaid and then, when the right amount is known, the prepayment is netted with the definitive amount.

There is no tax filing integration for wealth tax. However, in compliance with existing tax law, SG Luxembourg sets up, on behalf of some affiliates, a special reserve for the purpose of charging each of these affiliates for the wealth tax. The reserve thus constituted for each affiliate is equal to five times the wealth tax due in principle by each of the members of the integrated group and is unavailable for a period of five years.

The reserve for the wealth tax charged to affiliates is separate from the tax expense reserve set up for SG Luxembourg's own needs. The reserve is set up each year and maintained for the specified legal time limit i.e. five years. The maximum amount of wealth tax that can be charged by affiliates and by SG Luxembourg is determined by reference to the IRC payable by the integrated group before the allocation of tax credits.

PROVISIONS FOR TAX ADJUSTMENTS

Provisions for tax adjustments represent liabilities whose timing or amount cannot be precisely determined and that are adjusted throughout time. The expected outflows are then discounted to present value to determine the amount of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax adjustments are booked to the consolidated income statement under "Income tax".

TAX PROVISIONS

Provisions may be recorded:

- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;
- and when the amount of probable outflow of resources can be reliably estimated.

Information on the nature and the amount of the associated risks is not disclosed when the Group considers that such disclosure could seriously undermine its position in a dispute with other parties on the object of the provision.

1. INCOME TAX

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Current taxes	(20 368)	(40 611)
Deferred taxes	(25 141)	(11 870)
Total taxes	**(45 509)**	**(52 481)**

Reconciliation of the difference between the Group's standard tax rate and its effective tax rate:

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Income before tax excluding net income from companies accounted for using the equity method	318 412	338 735
Tax rate applicable at the end of the year	24.94%	26.01%
Theoretical income tax	**(79 412)**	**(88 105)**
Tax effect of non-taxable income	32 402	42 450
Tax effect of non-deductible expenses	(2 896)	16
Tax without basis *	(4 309)	(1 753)
Provisions for tax adjustments	–	–
Sub-consolidated results taxed at other rates	5 810	(1 307)
Previous year corrections	(365)	433
Other items	3 261	(4 215)
Total income tax	**(45 509)**	**(52 481)**

*mainly refers to tax expenses of fiscally integrated entities.

Tax credits resulting on income from receivables and trading portfolios, when used to settle the tax on income due in the same period, are booked in the same accounts as the income they are linked to. The corresponding tax charge is maintained in the account "Tax expense", explaining the transfer in the net banking result.

Tax impact on non-taxable income is mainly explained through various income received from fully taxable resident or non-resident participations held by the Group. As all conditions for participation exemption regime are met (EU parent directive and article 166 LITL), the Group avoids double taxation by using these provisions.

Without considering this participation exemption regime, effective tax rate of the Group amounts to 15.91 % in 2019 (2018: 17.71 %).

2. TAX ASSETS AND LIABILITIES

TAX ASSETS

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Current tax assets	5 124	5 759
Deferred tax assets	6 595	13 579
o/w deferred tax assets on tax loss carryforward	*6 595*	*12 687*
o/w deferred tax assets on temporary differences	*–*	*892*
Total	**11 719**	**19 338**

TAX LIABILITIES

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Current tax liabilities	10 804	25 681
Deferred tax liabilities and provision from income tax adjustments (1)	163 943	130 925
Total	**174 747**	**156 606**

Each year, the Group performs a review of tax loss carryforward, according to the tax system applicable for each relevant tax entity and a realistic forecast of its tax results. For this purpose, tax results are determined based on the forecast of the performance of each business line entering in the Group budgetary path.

In addition, they include accounting and tax adjustments (of which the reversal of deferred tax assets and liabilities bases on temporary differences) applicable to concerned entities and jurisdictions. These adjustments are determined based on historical tax results and on the Group's tax expertise. Beyond the Group budgetary path and/or the strategic review, extrapolations are performed particularly from macro-economic assumptions (for example, the evolution of interest rates).

By nature, the appreciation of macro-economic factors chosen and the internal estimations used to determine the tax results contain risks and uncertainties on their realisation over the estimated horizon of the losses absorption. These risks and uncertainties concern the possibilities of change of tax rules applicable (tax result computation as well as rules of imputation of tax losses carried forward) or the achievement of the strategic assumptions.

With the application of IFRIC 23 from January 2019, the Group has reviewed all the possible tax adjustments and incertainties in order to qualify the risk from a miscalcultation of tax income. The review had a classification impact as an amount of provision was moved to deffered tax liabilities, but it has no impact on the 2019 tax income.

The interpretation of IFRIC 23 leads nevertheless to a reclassification of an amount of EUR 18 954 thousand from Other provisions to deffered Tax liabilities. The classification under tax liability aims to clarify the nature of the risk for the provision amount that was recorded in the accounts in the former years.

To ensure the robustness of the tax result projections, the Group realises sensitivity analysis on the achievement of budgetary and strategic assumptions.

At 31 December 2019, these analyses confirm the probability for the Group to use tax loss carryforwards subject to deferred tax assets against future taxable profit.

(1) Since 1 January 2019, provision for income tax adjustements are presented under "tax liabilities" as a consequence of the application of IFRIC 23 "Uncertainties over Income Tax Treatments", please refer to Note 8.3

3. CHANGE IN DEFERRED TAX

The change in deferred taxes is analysed as follows:

ASSETS

(in EUR thousand)	31.12.2019	31.12.2018
Net opening balance	**13 579**	**12 070**
Items taken directly to net profit or loss	(6 984)	1 509
Items taken directly to equity	–	–
Impact change in accounting policy	–	–
Closing balance	**6 595**	**13 579**

LIABILITIES

(in EUR thousand)	31.12.2019	31.12.2018
Net opening balance	**130 925**	**131 847**
Items taken directly to net profit or loss	18 157	13 379
Items taken directly to equity	(3 068)	(9 782)
Others movements	(1 071)	(4 519)
Closing balance	**144 943**	**130 925**

4. DEFERRED TAX ASSETS RECOGNIZED ON TAX LOSS CARRY FORWARD

As at 31 December 2019 and 2018, based on the tax system of SGBT CI and a realistic projection of their tax income or expense, the projected period for deferred tax asset recovery is indicated in the table below:

(in EUR thousand)	Amount	Statutory time limit on carry forwards	Expected recovery period
SGBT CI S.A.			
31 December 2019	6 595	Illimited	Within 5 years
31 December 2018	12 687	Illimited	Within 5 years

NOTE 7 – SHAREHOLDERS' EQUITY

MAKING IT SIMPLE

Equity are the resources contributed to the Group by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings). It also includes resources received when financial instruments are issued and for which the issuer has no contractual obligation to deliver cash to the holders of these instruments (such as certain perpetual subordinated notes).

Equity has no contractual maturity, and when compensation is awarded to shareholders or holders of other equity instruments, it does not affect the income statement but directly reduces the retained earnings in the equity.

The statement "Changes in Shareholders' Equity" presents the various changes that affect the components of equity over the reporting period.

Note 7.1. – Shareholders' equity

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Share capital	1 389 043	1 389 043
Share premium	2 817	2 817
Consolidation reserve	468 827	530 685
Revaluation reserve	24 672	37 182
Legal reserve	138 905	138 905
Special reserve for Net Wealth Tax reduction	207 569	218 566
Retained earnings	563 402	548 437
Net income for the year	283 445	296 545
Total	**3 078 680**	**3 162 180**

1. SHARE CAPITAL

As at 31 December 2019 and 2018, the fully subscribed share capital amounted to EUR 1 389 042 648 divided into 11 024 148 registered shares with a nominal value of EUR 126 each.

2. CONSOLIDATION RESERVE

Consolidation reserves represent the contribution of the subsidiaries to the reserves of the Group.

3. REVALUATION RESERVE

Revaluation reserve is composed of translation reserves, change in fair value of assets available-for-sale, change in fair value of hedging derivatives, change in fair-value of debt instruments at fair value through other comprehensive income, change in gains and losses on entities accounted for using the equity method and actuarial gains and losses on post-employment defined benefits plans. Please refer to the note 7.2. If the instruments are sold, the associated unrealised or deferred gains and losses are reclassified to Retained earnings at the opening of the next financial year.

(in EUR thousand)	31 December 2019	31 December 2018
Translation reserve	(2 237)	(1 279)
Revaluation of debt instruments at fair value through other comprehensive income	38 449	54 849
Revaluation reserve of available-for-sale financial assets	30 281	16 564
Revaluation of hedging derivatives	(30 341)	(30 194)
Unrealized gains and losses of entities accounted for using the equity method	5 844	3 909
Tax related	(10 724)	(11 452)
Unrealized or deferred gains (losses) that may be reclassified subsequently to profit or loss	**31 272**	**32 397**
Actuarial gains (losses) on defined benefits plans	(8 836)	8 994
Unrealised gains and losses of entities accounted for using the equity method	(105)	13
Revaluation of equity instruments at fair value through other comprehensive income	-	-
Tax related	2 341	(4 222)
Unrealized or deferred gains (losses) that will not be reclassified subsequently to profit or loss	**(6 600)**	**4 785**
Total Revaluation reserve	**24 672**	**37 182**

4. LEGAL RESERVE

In accordance with legal requirements, 5% of the net income for the period must be allocated to a legal reserve. This allocation is no longer required once this reserve reaches 10% of the subscribed and paid-up share capital. The legal reserve cannot be used for dividend payments.

As at 31 December 2019 and 2018 the legal reserve reached 10% of the capital and amounted to EUR thousand 138 905.

5. SPECIAL RESERVE FOR NET WEALTH TAX REDUCTION

For the reporting periods ended 31 December 2013 to 2018, the Group reduced its Net Wealth Tax charge in accordance with the tax legislation; i.e. by setting up an unavailable reserve in an amount equal to five times the amount of the Net Wealth Tax reduction. The lock-in period on this reserve is five years starting on 1 January of the year following the year in which the Net Wealth Tax has been reduced.

(in EUR thousand)	31.12.2019	31.12.2018
2013	–	52 280
2014	49 939	49 939
2015	1 485	1 484
2016	30 981	30 981
2017	41 356	41 356
2018	42 525	42 526
2019	41 283	–
Total	**207 569**	**218 566**

Note 7.2. – Gains and losses recognised in other comprehensive income

BREAKDOWN OF CHANGES OF UNREALISED OR DEFERRED GAINS AND LOSSES

	01.01.2019		
(in EUR thousand)	**Gross value**	**Tax**	**Net value**
Translation differences	(1 279)	–	(1 279)
Revaluation of debt instruments at fair value through other comprehensive income	54 849	(14 022)	40 827
Revaluation of available-for-sale financial assets [1]	16 564	(4 308)	12 256
Revaluation of hedging derivatives	(30 194)	7 853	(22 341)
Unrealised gains and losses of entities accounted for using the equity method	3 909	(975)	2 934
Subtotal of unrealised gains and losses with subsequent recycling in the income statement	**43 849**	**(11 452)**	**32 397**
Actuarial gains and losses on defined benefit plans [2]	8 994	(4 218)	4 776
Unrealised gains and losses of entities accounted for using the equity method [2]	13	(4)	9
Subtotal of unrealised gains and losses without subsequent recycling in the income statement	**9 007**	**(4 222)**	**4 785**
Total of unrealised gains and losses	**52 853**	**(15 674)**	**37 182**

	01.01.2018		
(in EUR thousand)	**Gross value**	**Tax**	**Net value**
Translation differences	4 604		4 604
Revaluation of debt instruments at fair value through other comprehensive income	85 037	(22 056)	62 981
Revaluation of available-for-sale financial assets [1]	30 992	(8 061)	22 931
Revaluation of hedging derivatives	(26 332)	6 849	(19 483)
Unrealised gains and losses of entities accounted for using the equity method	5 870	(1 605)	4 265
Subtotal of unrealised gains and losses with subsequent recycling in the income statement	**100 171**	**(24 873)**	**75 298**
Actuarial gains and losses on defined benefit plans [2]	2 275	(581)	1 694
Revaluation of own credit risk on financial liabilities at fair value through profit or loss [3]	–	–	–
Revaluation of equity instruments at fair value through other comprehensive income [2]	(1)	–	(1)
Unrealised gains and losses of entities accounted for using the equity method [2]	–	–	–
Subtotal of unrealised gains and losses without subsequent recycling in the income statement	**2 274**	**(581)**	**1 693**
Total of unrealised gains and losses	**102 445**	**(25 454)**	**76 991**

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.
(2) Gains and losses presented in these items are transferred into Retained earnings at the opening of the next financial year since 01.01.2019. “Variation of the period” is cumulated variation for reclassification to Reserves (EUR 4 785 thousands as of 01.01.19) and the actuarial gains and losses of the period net for deferred taxes (EUR (6 600) thousands as of 31.12.19)
(3) In case of derecognition of a financial liability, potential realized gains and losses attributable to Group own credit risk are transfered into Retained earnings at the opening of the next financial year (see Note 3.2).

	Variation				31.12.2019			
Net Group share	**Gross value**	**Tax**	**Net value**	**Net Group share**	**Gross value**	**Tax**	**Net value**	**Net Group share**
–	(958)	–	(958)	–	(2 237)	–	(2 237)	–
–	(16 400)	4 681	(11 719)	–	38 449	(9 341)	29 108	–
–	13 717	(3 244)	10 473	–	30 281	(7 552)	22 729	–
–	(147)	(285)	(432)	–	(30 341)	7 568	(22 773)	–
–	1 935	(424)	1 511	–	5 844	(1 399)	4 445	–
–	**(1 853)**	**728**	**(1 125)**	**–**	**41 996**	**(10 724)**	**31 272**	**–**
–	(17 830)	6 531	(11 299)	–	(8 836)	2 313	(6 523)	–
–	(118)	32	(86)	–	(105)	28	(77)	–
–	**(17 948)**	**6 563**	**(11 385)**	**–**	**(8 941)**	**2 341**	**(6 600)**	**–**
–	**(19 801)**	**7 291**	**(12 510)**	**–**	**33 055**	**(8 383)**	**24 672**	**–**

	Variation				31.12.2018			
Net Group share	**Gross value**	**Tax**	**Net value**	**Net Group share**	**Gross value**	**Tax**	**Net value**	**Net Group share**
–	(5 883)	–	(5 883)	–	(1 279)	–	(1 279)	–
–	(30 188)	8 034	(22 154)	–	54 849	(14 022)	40 827	–
–	(14 428)	3 753	(10 675)	–	16 564	(4 308)	12 256	–
–	(3 862)	1 004	(2 858)	–	(30 194)	7 853	(22 341)	–
–	(1 960)	630	(1 331)	–	3 909	(975)	2 934	–
–	**(56 322)**	**13 421**	**(42 901)**	**–**	**43 849**	**(11 452)**	**32 397**	**–**
–	6 719	(3 637)	3 082	–	8 994	(4 218)	4 776	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	13	(4)	9	–	13	(4)	9	–
–	**6 732**	**(3 641)**	**3 091**	**–**	**9 007**	**(4 222)**	**4 785**	**–**
–	**(49 590)**	**9 780**	**(39 810)**	**–**	**52 852**	**(15 674)**	**37 182**	**–**

NOTE 8 – ADDITIONAL DISCLOSURES

Note 8.1. – Segment reporting

1. DEFINITION OF SEGMENT REPORTING

The Group includes in the results of each segment all operating income and expenses directly related to its activity. Income for each segment, except for the Corporate Center, also includes the return on equity allocated to it, based on the estimated rate of return on Group equity. Transactions between segments are carried out under the same terms and conditions as those applying to non-Group customers, while these transactions are eliminated from segment assets and liabilities.

For the purpose of segment reporting by geographical region, segment profit or loss and assets and liabilities are presented based on the location of the booking entities.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

In 2019 and 2018, the Group's core businesses are managed through the following strategic segments of activity that are regrouped into five segments:

1. Private Banking

Societe Generale Luxembourg Private Banking has a foothold in Luxembourg, Switzerland and Monaco. It offers global financial engineering and wealth management solutions, in addition to global expertise in structured products, hedge funds, mutual funds, private equity funds, life insurance and real estate investment solutions. It also offers customer access to the capital markets.

2. Securities services

The Securities Services (SGSS) business in Luxembourg offers a comprehensive and complete range of Assets and Securities services to Corporate and Financial Institutions as well as Institutional Investors, including:

- custody and depository bank activities, covering all asset classes;
- fund administration services for investment managers on all asset classes including complex financial products;
- private asset services for alternative investment managers covering real estate, private equity and infrastructure funds;
- issuer services, including issuing and paying agency services to large international corporate bond programs;
- transfer agent activities, providing a comprehensive array of services to support fund distribution;
- middle office and trade execution services.

3. Corporate and Investment Banking that includes;

The Corporate Banking and Cash Management teams in Luxembourg are geared to economic and financial operators and particularly domestic and international financial institutions, medium and large companies with international and multinational activities that require flow management assistance for their banking, commercial, corporate flows and/or payment flow assistance. The business line offers a full and integrated range of solutions and services, leveraging the expertise of the Transaction Banking business lines. It houses five banking activities:

- cash management;
- short & medium term financing;
- financial & commercial guarantees issuance;
- foreign exchange services and interest rate hedging;
- financial assets custody

The ***Global Banking & Advisory (GLBA)*** platform in Luxembourg contributes to Group worldwide platform composed by expert teams located in Europe, the CEEMEA region, the Americas and in Asia region, whose knowledge of customers and local regulations are key to conducting domestic, international and cross-border activities due to the international dimension of customers. Leveraging this global expertise and sectoral knowledge, the Financing Banking teams provide issuer clients with a full range of products and integrated solutions, products and advisory, and are housed in three divisions:

- The Asset Finance division, which consists of five businesses: export finance, aircraft finance, shipping finance, real estate finance, and structured solutions and leasing. Through a wide range of products, experienced professionals design tailor-made solutions for customers, financial companies and public institutions, combining financial knowledge and industry expertise.
- The Natural Resources and Infrastructures division is tasked with developing a global activity in the natural resources, energy and infrastructure sector by providing clients with financing solutions, as well as advisory services. The customers of this division are producers, operators, refinery groups, traders, commodity service providers, commodity and distributor logistics companies, as well as public and private institutions.
- The Asset Backed Product division, which combines GLBA's expertise in the primary markets, blends sectoral skills, securitisation and structuring with know-how in secondary market trading, distribution channels and debt security refinancing, making it possible to capitalise on credit capacities and act as the single entry point for ABS-type products and structured loans, and assist the development of our issuer clients and investors.

Within the ***Global Markets Business Unit***, the Issuing activity is performed by SG Issuer (SGIS) as well as through the "SOGEIS" framework based on Luxembourg's fiduciary legal framework and provides investors with access to the entire range of financial engineering services (Asset and Liability Management – portfolio management, securitisation, risk policy management and Capital Management – strategic management of shareholdings, equity-linked products, and employee savings plans). SGIS issues both secured and unsecured notes through private placements or public offerings. SOGEIS only issues secured notes. The securities issued by SG Issuer or by SG Luxembourg via SOGEIS are also backed by a guarantee from the Societe Generale Group.

4. Insurances activities

The Insurance activities develop the Group's Insurance business through the integrated bank-insurance model.

5. Corporate Center

It includes Treasury and Assets Liabilities Management functions which are responsible for monitoring, managing and hedging structural risks (liquidity, interest rate and forex) arising from all the active business units within SG Luxembourg namely Securities Services, Private Banking, Corporate Banking and Cash Management. This team is also in charge of the oversight of similar activities in Monaco and Switzerland SG Luxembourg's affiliates devoted to the Private Banking area, and operates under the functional oversight of the Group central departments.

It recognises too the carrying cost of equity investments in subsidiaries and related dividend payments, as well as income and expenses stemming from the Group's Asset and Liability Management (ALM) and income from the Group's management of its assets (management of its industrial and bank equity portfolio and of its real estate assets). Income or expenses that do not relate directly to the activity of the core businesses are also allocated to the Corporate Center.

2. SEGMENT REPORTING BY OPERATING SEGMENTS

Amounts by division incorporate the organizational structure of Group activities.

Operating segments as at 31 December 2019 have been defined according to a new methodology. The segment reporting as at 31 December 2018 has not been restated.

31 December 2019

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Interest margin	145 665	33 750	180 512	77	(62 987)	**297 016**
Net fees income	114 801	127 550	27 299	2 688	(4 130)	**268 208**
Net income from other activity	(70)	398	17 728	9	(1 650)	**16 415**
Total income on financial instruments	41 760	1 447	573	-	83 949	**127 729**
Net income of insurance activities	–	–	–	35 624	–	**35 624**
Internal remuneration	3 855	1 418	9 202	–	(14 475)	**–**
Net banking income	**306 011**	**164 563**	**235 314**	**38 398**	**707**	**744 992**
Operating expenses	(229 651)	(127 532)	(48 004)	(2 162)	(31 838)	**(439 187)**
Gross operating income	**72 505**	**35 613**	**178 108**	**36 235**	**(16 656)**	**305 805**
Cost of risk	(3 663)	(231)	11 440	-	(49)	**7 497**
Operating income	**68 841**	**35 381**	**189 548**	**36 235**	**(16 705)**	**313 302**
Net income from investments accounted for using the equity method	–	–	–	10 564	–	**10 564**
Net income/expense from other assets	1 010	1 025	1 025	1 025	1 025	**5 110**
Consolidated Net Income before tax	**69 851**	**36 406**	**190 573**	**47 824**	**(15 680)**	**328 976**
Tax expenses	(22 531)	(8 509)	(50 981)	(3 892)	40 404	**(45 509)**
Consolidated net income	**47 320**	**27 898**	**139 593**	**43 932**	**24 724**	**283 467**

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Total assets	**38 758 265**	**27 693**	**76 304 653**	**582 234**	**1 367 755**	**117 040 600**
Total liabilities and equity	**34 723 708**	**1 064 645**	**78 056 699**	**582 234**	**2 613 314**	**117 040 600**

31 December 2018

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Net banking income	**249 125**	**207 508**	**233 324**	**27 531**	**50 171**	**767 659**
Personnel expenses	(133 951)	(71 908)	(8 802)	(57)	(148)	**(214 865)**
Other operating expenses	(71 769)	(81 835)	(32 207)	(1 188)	(682)	**(187 681)**
Amortisation, depreciation and impairment of tangible and intangible fixed assets	(15 047)	(2 054)	(695)	(219)	(218)	**(18 233)**
Gross operating income	**28 358**	**51 711**	**191 620**	**26 067**	**49 123**	**346 879**
Cost of risk	(5 009)	202	(2 699)	-	-	**(7 506)**
Operating income	**23 349**	**51 913**	**188 921**	**26 067**	**49 123**	**339 373**
Net income from investments accounted for using the equity method	-	-	-	10 303	-	**10 303**
Net income/expense from other assets	(638)	-	-	-	-	**(638)**
Consolidated Net Income before tax	22 711	51 913	188 921	36 370	49 123	**349 038**
Tax expenses	(3 408)	(7 792)	(28 451)	(5 458)	(7 372)	**(52 481)**
Consolidated net income	**19 303**	**44 121**	**160 470**	**30 912**	**41 751**	**296 557**

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Total assets	**9 209 937**	**38 960**	**64 712 219**	**551 220**	**26 764 873**	**101 277 209**
Total liabilities and equity	**13 485 218**	**699 327**	**70 415 965**	**551 220**	**16 125 479**	**101 277 209**

3. SEGMENT REPORTING BY GEOGRAPHICAL REGION

31 December 2019

(in EUR thousand)	Luxembourg	Monaco	Switzerland	Other	**Total**
Net banking income	495 615	50 127	122 928	76 322	744 992
Total assets	**107 442 196**	**3 282 522**	**3 717 769**	**2 598 113**	**117 040 600**
Total liabilities	**107 442 196**	**3 282 522**	**3 717 769**	**2 598 113**	**117 040 600**

31 December 2018

(in EUR thousand)	Luxembourg	Monaco	Switzerland	Other	**Total**
Net banking income	614 028	55 494	96 686	1 451	767 659
Total assets	**93 048 496**	**3 226 853**	**2 860 220**	**2 141 640**	**101 277 209**
Total liabilities	**95 237 113**	**2 212 820**	**3 758 708**	**68 568**	**101 277 209**

Note 8.2. – Other operating expenses

ACCOUNTING PRINCIPLES

The Group records operating expenses under expenses, according to the type of services to which they refer and the rate of use of said services.

Other mainly includes building maintenance and other costs, travel and business expenses, and advertising expenses.

Other operating expenses mainly include lease payments, building maintenance and other costs, travel and business expenses, outsourcing and advisory fees and marketing and advertising expenses.

(in EUR thousand)	31.12.2019	31.12.2018
IT expenses	(34 179)	(40 138)
Telecommunication expenses	(3 718)	(3 311)
Marketing, advertising and public relations	(5 979)	(6 605)
Professional fees	(34 006)	(28 116)
Premises and equipment leases [(1)]	(6)	(21 411)
Service and maintenance	(10 964)	(11 164)
Administrative expenses	(1 139)	(1 289)
VAT and other taxes	(19 426)	(17 119)
Training	(1 275)	(1 091)
Insurance fees	(899)	(1 275)
Data provider fees	(7 538)	(5 945)
Re-charge fees [(2)]	(53 332)	(44 515)
Other operating expenses	(778)	(5 702)
Total	**(173 239)**	**(187 681)**

CONTRIBUTION TO BANK RESOLUTION MECHANISMS

The banks records the expenses due from its contribution to bank resolution mechanisms under other operating expenses.

At the European level by the "Single Resolution Fund" (SRF), represented in Luxembourg by the "Fonds de Résolution Luxembourgeois" (Luxembourg Resolution Fund, FRL). On 1 January 2016, the "Fonds Nationaux de Résolution" (National Resolution Funds) were merged within the SRF.

By the beginning of 2024, the amount of the SRF's financial resources must reach at least 1% of the guaranteed deposits, as laid down in Article 1, Paragraph 36 of the Law, of all approved financial institutions in all participating Member States. This amount has been collected since 2015 and will continue to be collected until 2023 from credit institutions through annual contributions.

In 2019, the Bank paid an amount of EUR 10 803 581 (EUR 9 804 175 in 2018) for the Single Resolution Fund contribution.

Note 8.3. – Provisions

ACCOUNTING PRINCIPLES

Under statement of financial liabilities, *Provisions* are comprised of provisions for financial instruments, disputes, employee benefits and income tax adjustments (only for 2018).

Provisions, other than those for credit risk or employee benefits, are recognized when the Group has a present obligation (legal, contractual or implicit) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined based on the best estimate of the expenditure required to settle the obligation, in application of certain assumptions. Provisions are discounted when the effect of the time value of money is material, using a discount rate that reflects current market assessments of the time value of money. Provisions are booked in profit and loss accounts according to the nature of the expenses.

Provisions include provisions for credit risk related to guarantee commitments granted to third parties by the Group and to contingent liabilities whose timing or amount cannot be precisely determined (primarily legal disputes and restructuring).

Probable losses incurred by the Group in identifying objective evidence of credit risk related to loan and guarantee commitments are recorded in the consolidated income statement of under Cost of risk against a liability booked under Provision in the consolidated statement of financial position.

Provisions are presented in Note 5.7. Information relating to the nature and the amount of the relevant risks is not disclosed if the Group considers that it could cause the Group serious harm in a dispute with third parties on the matter covered by the provision.

(1) Decrease related to the first time application of IFRS 16 Leases (see Note 1).
(2) Mainly reinvoiced personnel fees from SG Group and allocated share of headquarter expenses.

1. BREAKDOWN OF PROVISIONS

(in EUR thousand)	Provisions at 31.12.2018	Provisions at 01.01.2019	Allocations	Write-backs available	Net allocation	Actuarial gains and losses	Currency and others	Provisions at 31.12.2019
Provisions for credit of risk on off statement of financial commitments (see Note 3.9)	1 104	–	987	(949)	38	–	(6)	1 136
Provisions for employee benefits (see Note 5.2)	58 813	–	8 447	(7 796)	651	8 836	2 366	70 666
Other provisions [(1)]	27 241	(19 000)	412	(4 822)	(4 410)	–	1 899	5 730
Total	**87 158**	**(19 000)**	**9 846**	**(13 567)**	**(3 721)**	**8 836**	**4 259**	**77 532**

(in EUR thousand)	Provisions at 01.01.2018	Allocations	Write-backs available	Net allocation	Write-backs used	Acturial gains and losses	Currency and others	Provisions at 31.12.2018
Provisions for credit of risk on off statement of financial statements commitments (see Note 3.9)	1 931	972	(1 877)	(905)	–	78	–	1 104
Provisions for employee benefits (see Note 5.2)	50 660	10 079	(7 616)	2 463	(24)	(1 005)	6 719	58 813
Other provisions [(1)]	25 454	3 160	(529)	2 631	–	(844)	–	27 241
Total	**78 045**	**14 211**	**(10 022)**	**4 189**	**(24)**	**(1 771)**	**6 719**	**87 158**

2. OTHER PROVISIONS

Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

The Group operates in a regulatory and legal environment that, by nature, has an element of litigation risk inherent in its operations. As a result, the Group is involved in various litigations, both in Luxembourg and in other jurisdictions in the ordinary course of its business. The Group has implemented formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in Note 2.

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange. These provisions for litigations are classified among the “Others provisions” included in the “Provisions” item in the liabilities of the balance-sheet.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

Societe Generale Private Banking (Suisse), along with several other financial institutions, has been named as a defendant in a putative class action that is pending in the US District Court for the Northern District of Texas. The plaintiffs seek to represent a class of individuals who were customers of Stanford International Bank Ltd. (“SIBL”), with money on deposit at SIBL and/or holding Certificates of Deposit issued by SIBL as of 16 February 2009. The plaintiffs allege that they suffered losses as a result of fraudulent activity at SIBL and the Stanford Financial Group or related entities, and that the defendants are responsible for those alleged losses. The plaintiffs further seek to recoup payments made through or to the defendants on behalf of SIBL or related entities on the basis that they are alleged to have been fraudulent transfers. The Official Stanford Investors Committee (“OSIC”) was permitted to intervene and filed a complaint against Societe Generale Private Banking (Suisse) and the other defendants seeking similar relief.

The motion by Societe Generale Private Banking (Suisse) to dismiss these claims on grounds of lack of jurisdiction was denied by the court by order filed 5 June 2014. Societe Generale Private Banking (Suisse) sought reconsideration of the Court’s jurisdictional ruling, which the Court ultimately denied. On 21 April 2015, the Court permitted the substantial majority of the claims brought by the plaintiffs and the OSIC to proceed.

On 7 November 2017, the District Court denied the plaintiffs’ motion for class certification. The plaintiffs sought leave to appeal this decision, which the court of appeal denied on 20 April 2018.

(1) Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

On 3 May 2019, several hundred individual plaintiffs filed motions to intervene in the pending OSIC action seeking recovery in their individual capacities for losses on their Stanford investments. The defendant financial institutions, including Societe Generale Private Banking (Suisse), opposed these motions. By order of 18 September 2019 the court denied the motions to intervene. One group of plaintiffs appealed the denial, and another initiated a separate action in Texas state court in Houston in November 2019.

On 22 December 2015, the OSIC filed a motion for partial summary judgment seeking return of a transfer of USD 95 million to Societe Generale Private Banking (Suisse) made in December 2008 (prior to the Stanford insolvency) on the grounds that it is voidable under Texas state law as a fraudulent transfer. Societe Generale Private Banking (Suisse) has opposed this motion.

Societe Generale Private Banking (Suisse) and certain of Societe Generale's subsidiaries and Societe Generale("SG entities") are defendants in an action pending in the US Bankruptcy Court in Manhattan brought by the Trustee appointed for the liquidation of Bernard L. Madoff Investment Securities LLC ("BLMIS"). The action is similar to those brought by the BLMIS Trustee against numerous institutions and seeks recovery of amounts allegedly received by the SG entities indirectly from BLMIS through so-called "feeder funds" that were invested in BLMIS and from which the SG entities received redemptions. The suit alleges that the amounts that the SG entities received are avoidable and recoverable under the US Bankruptcy Code and New York state law. The BLMIS Trustee seeks to recover, in the aggregate, approximately $150 million from the SG entities. The SG entities are defending the action. In decisions dated 22 November 2016 and 3 October 2018, the Court rejected most of the claims brought by the BLMIS Trustee. The Trustee appealed to the US Court of Appeals for the Second Circuit. By order dated 25 February 2019, the Second Circuit vacated the judgments and remanded for further proceedings. By order dated 23 April 2019, the Second Circuit has stayed the mandate, pending disposition of Defendant-Appellees' petition for review by the United States Supreme Court.

Note 8.4. – Tangible and intangible fixed assets

As a result of the first application of IFRS 16 "Leases" as from 1 January 2019, the Group recognises right-of-use assets that represent its right to use the underlying leased assets under Tangible and intangible fixed assets.

ACCOUNTING PRINCIPLES

Tangible and intangible fixed assets include operating and investment fixed assets.

Tangible and intangible fixed assets are carried at their purchase price on the asset side of the statement of financial position, less depreciation, amortisation and impairment.

Software developed internally is recorded under fixed asset, on the asset side of the statement of financial position in the amount of the direct cost of development.

Depreciation and amortization expenses are recognized in consolidated income statement under *"Amortization, depreciation and impairment of property, plant and equipment and other intangible assets"*.

The range of the useful life of assets used by the Group is as follows:

Intangible assets are amortized using the straight-line method based on their estimated useful lives; the amortization rates used range from 20% to 33.33%.

Property, plant and equipment are depreciated using the straight-line method based on their estimated useful lives; the depreciation rates used are:

- other facilities, office furniture and equipment: 10 - 33.33%
- computer hardware: 20 - 33.33%

Land with an indefinite life is not depreciated.

Any residual value of the asset is deducted from its depreciable amount. If there is a subsequent decrease or increase in this initial residual value, the depreciable amount of the asset is adjusted, leading to a prospective modification of the depreciation schedule.

Depreciation and amortisation are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Fixed assets grouped into Cash Generating Units are tested for impairment whenever there is any indication that their value may have diminished. Allocations and reversals of provisions for impairment are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Realised capital gains and losses on operating fixed assets are recognised under *Net income from other assets*.

RIGHTS-OF-USE FOR ASSETS LEASED BY THE GROUP

LEASE

Definition of the lease

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

- Control is conveyed when the customer has both the right to direct the identified asset's use, and to obtain substantially all the economic benefits from that use throughout the lease period.
- The existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset; this condition is measured with regard to the facts and circumstances existing at the commencement of the contract. If the lessor has the option of freely substituting the leased asset, the contract can not be

qualified as a lease, since its purpose is the provision of a capacity and not an asset.

- A capacity portion of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). Conversely, a portion of the capacity or of an asset that is not physically distinct does not constitute an identified asset (e.g. the lease of co-working area within a unit with no pre-defined location inside that unit).

Separation of lease and non-lease components

A contract may cover the lease of an asset by the lessor as well as the supply of additional services by that lessor. In this scenario, the lessee can separate the lease components from the non-lease components of the contract and treat them separately. The rental payments stipulated in the contract must be separated between the lease components and the non-lease components based on their individual prices (as directly indicated in the contract or estimated on the basis on all of the observable information). If the lessee cannot separate the lease components from the non-lease components (or services), the entire contract is treated as a lease.

LEASE TERM

Definition of the lease term

The lease period to be applied in determining the rental payments to be discounted matches the non-cancellable period of the lease adjusted for:

- options to extend the contract that the lessee is reasonably certain to exercise,
- and early termination options that the lessee is reasonably certain not to exercise.

Following the decision of IFRIC consultation in November 2019, the measurement of the reasonable certainty of exercising or not exercising the extension or early termination options shall take into account all the facts and circumstances that may create an economic incentive to exercise or not these options, specifically:

- the conditions for exercising these options (including measurement of the amount of the rental payments in case of an extension, or of the amount of penalties that may be imposed for early termination),
- substantial changes made to the leased premises (specific layouts, such as a bank vault),
- the costs associated with terminating the contract (negotiation costs, moving costs, research costs for a new asset that meets the lessee's requirements, etc.),
- the importance of the leased asset for the lessee, in view of its specific nature, its location, or the availability of substitute assets (specifically for branches located in commercially strategic sites, given their accessibility, expected traffic, or the prestige of the location),
- the history of renewals of similar contracts, as well as the strategy for the future use of the assets (based on the prospect of redeployment or rearrangement of a commercial branch network, for example).

Changing the lease term

In the event of a change of circumstances of the lessee which has an impact on the certainty of exercise of an option that the lessee has or has not included in its calculation of the lease term, the term must be re-estimated.

The entity must also revise the term of the lease contract in any one of the following situations:

- the lessee exercises an option that had not been included when calculating the term of the lease;
- the lessee does not exercise an option that had been included when calculating the term of the lease;
- the lessee is contractually obliged, due to an event, to exercise an option that had not been included when calculating the term of the lease;
- the lessee is contractually prevented, due to an event, from exercising an option that had been included when calculating the term of the lease.

Following a change in the lease term (re-estimate or revision), the lease obligation must be reassessed to reflect those changes. The revised rate is the interest rate implicit in the lease for the remaining term of the contract if it is possible to calculate this rate, otherwise the lessee must use its incremental borrowing rate on the date of modification of the lease term.

ACCOUNTING TREATMENT BY THE GROUP AS A LESSEE

On the commencement date (on which the leased asset is made available for use), the lessee must record a lease liability on the liabilities side of the statement of financial position and a right-of-use asset on the assets side of the statement of financial position except for the exemptions described below.

In the income statement, the lessee must recognise an interest expense (see Note 3.8) calculated on the lease liability under *Net banking income* and a depreciation of the right-of-use

LEASE TERM = **Non-cancellable period of the lease** + **Periods covered by an option to extend the lease*** + **Periods covered by an option to terminate the lease****

* if the lessee is reasonably certain to exercise that option.
** if the lessee is reasonably certain not to exercise that option.

under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

The rental payments will partly reduce the lease liability and partly remunerate this liability in the form of interest expense.

Exemptions and exclusions

Lessee may choose not to apply the new lease treatment to contracts on low-value items by applying the exemption threshold of EUR 5,000 determined by the Group (the threshold should be measured against the replacement cost per unit of the leased asset). This last simplification applies specifically to small equipment such as personal computers, tablets, telephones, and small items of office furniture.

The Group has chosen to apply this exemption permitted. Related expenses are disclosed in the table below, and classified under other operating expenses (Note 8.2) .

Rental payment amounts

The payments to be considered for the measurement of the lease liability include fixed and variable rental payments based on an index (e.g. consumer price index or construction cost index) or a benchmark interest rate (Euribor), plus, where applicable, the funds that the lessee expects to pay the lessor for residual value guarantees, purchase options, or early termination penalties.

However, variable lease payments that are indexed on the use of the leased asset (indexed on revenue or mileage, for example) are excluded from the measurement of lease liability. This variable portion of the rental payments is recorded in the net income over time according to fluctuations in contractual indexes fluctuations.

SG Luxembourg does not have variable rental payments.

Rental payments have to be considered based on their amount net of value-added tax. In addition, for building leases, occupancy taxes and property taxes passed on by lessors will be excluded from lease liabilities because their amount, as set by the competent public authorities, is variable. The liability initial amount is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the statement of financial position.

After the commencement date, the amount of the lease liability may be adjusted if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

As applicable, the lessee must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

Recognition of a lease liability

The initial amount of the liability is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the statement of financial position.

The lease liability is recorded under *Other liabilities* (see Note 4.4).

After the commencement date, the amount of the lease liability may be adjusted if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

The Group, as a lessee, must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

Recognition of a right-of-use

On the availability date of the leased asset, the lessee must enter a right-of-use to the leased asset, on the assets side of the statement of financial position, for an amount equal to the initial value of the lease liability, plus, as applicable, initial direct costs, advance payments, and restoration costs.

This asset is then depreciated on a straight-line basis over the lease period that is applied for measuring the lease liability.

After the commencement date, the asset's value may be adjusted if the lease is amended, as it is the case for the lease liability.

Rights-of-use is presented on the lessee's statement of financial position under the items of fixed assets where properties of the same type that are held in full ownership are entered. If the lease stipulates the initial payment of a leasehold right to the former tenant of the premises, the amount of that right is stated as a separate component of the right of use and presented under the same heading as the latter.

Lease discount rates

The implicit contract rates are not generally known nor easily determined, specifically for building leases. Therefore, the Group has decided to use the lessees' incremental borrowing rate to discount the rental payments as well as the amount of lease liabilities.

The incremental borrowing rate is determined through a function of three factors specific to each contract:

- the duration of the contract and the currency of the lessee entity, which together define the risk-free rate;
- the country of the lessee, which defines the liquidity spread.

The liquidity spread by country is defined centrally by the Group on basis of macroeconomic observations.

CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS

31 December 2019

(in EUR thousand)	Gross book value as at 1 January 2019	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	30 923	5 263	(376)	6 331
Internally generated assets	24 269	–	–	6 423
Assets under development	21 257	6 994	–	(14 222)
Others	1 500	–	–	–
Sub-total	**77 949**	**12 257**	**(376)**	**(1 468)**
Property and Equipment				
Land and buildings	24 849	–	(2 609)	–
Assets under development	767	5 702	(714)	61
Others	63 141	3 803	(1 080)	951
Sub-total	**88 757**	**9 505**	**(4 403)**	**1 012**
Right-of-use	**129 441**	**812**	**(34)**	**(847)**
Property and equipment, other intangible and right-of-use assets	**296 147**	**22 574**	**(4 813)**	**(1 303)**

31 December 2018

(in EUR thousand)	Gross book value as at 1 January 2018	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	54 888	7 192	(30 692)	(465)
Internally generated assets	24 269	–	–	–
Assets under development	32 609	3 231	(1 399)	(13 184)
Others	1 500	–	–	–
Sub-total	**113 266**	**10 423**	**(32 091)**	**(13 649)**
Property and Equipment				
Land and buildings	24 507	342	–	–
Assets under development	–	763	–	4
Others	86 137	3 201	(25 829)	(368)
Sub-total	**110 644**	**4 306**	**(25 829)**	**(364)**
Property and equipment and other intangible assets	**223 910**	**14 729**	**(57 920)**	**(14 013)**

Gross value as at 31 December 2019	Accumulated depreciation and amortisation of assets at 1 January	Allocations to amortisation and depreciation in the year	Impairment of assets in the year	Write-backs from amortisation and depreciation in the year	Other	Net book value as at 31 December 2019
42 141	(20 742)	(6 713)	–	188	(159)	14 715
30 692	(16 460)	(4 036)	–	–	(550)	9 646
14 029	–	–	–	–	–	14 029
1 500	(1 406)	(94)	–	–	–	-
88 362	**(38 608)**	**(10 843)**	**-**	**188**	**(709)**	**38 390**
22 240	(18 636)	(637)	–	952	–	3 919
5 816	–	–	–	–	–	5 816
66 815	(40 193)	(5 729)	–	901	(341)	21 453
94 871	**(58 829)**	**(6 366)**	–	**1 853**	**(341)**	**31 188**
129 372	–	**(22 573)**	–	–	**(120)**	**106 679**
312 605	**(97 437)**	**(39 782)**	**-**	**2 041**	**(1 170)**	**176 257**

Gross value as at 31 December 2018	Accumulated depreciation and amortisation of assets at 1 January	Allocations to amortisation and depreciation in the year	Impairment of assets in the year	Write-backs from amortisation and depreciation in the period	Other	Net book value as at 31 December 2018
30 923	(46 582)	(6 014)	–	30 692	1 162	10 181
24 269	(12 619)	(4 370)	–	–	529	7 809
21 257	–	–	–	–	–	21 257
1 500	(1 281)	(125)	–	–	–	94
77 949	**(60 482)**	**(10 509)**	–	**30 692**	**1 691**	**39 341**
24 849	(17 992)	(644)	–	–	–	6 213
767	–	–	–	–	–	767
63 141	(59 043)	(7 080)	–	25 829	101	22 948
88 757	**(77 035)**	**(7 724)**	–	**25 829**	**101**	**29 928**
166 706	**(137 517)**	**(18 233)**	–	**56 521**	**1 792**	**69 269**

The Group's tangible assets are classified as follows:

Property Leases

Most of the leases (>90%) involve building leases contracted for the lease of commercial and office space:

The concerned buildings consist in office buildings leased to the Group and its subsidiaries at Luxembourg level or the local head offices of foreign representation desks.

Equipment Leases

Other leases (<10%) are mainly related to the lease of vehicles.

DETAILS OF THE EXPENSES ON LEASES

31 December 2019

(in EUR thousand)	Real estate	Computer equipment	Others	Total
Lease	**(21 997)**	**(445)**	**(2 514)**	**(24 956)**
Interest expenses on lease liabilities	(521)	(1)	(6)	**(528)**
Depreciation charge for right-of-use assets	(19 863)	(399)	(2 311)	**(22 573)**
Expense relating to short-term leases [1]	(1 607)	(29)	(197)	**(1 833)**
Expense relating to leases of low-value assets [1]	(6)	(16)	–	**(22)**
Expense relating to variable lease payments	–	–	–	**–**

Note 8.5. – Foreign exchange transactions

ACCOUNTING PRINCIPLES

At the consolidated statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Euro at the prevailing spot exchange rate. Realized or unrealized foreign exchange losses or gains are recognized in the consolidated income statement.

Forward foreign exchange transactions are recognized at fair value based on the forward exchange rate for the remaining maturity. Spot foreign exchange positions are valued using the official spot rates prevailing at the end of the period. Unrealized gains and losses are recognized in the consolidated income statement under Net gains and losses on financial instruments at fair value through profit or loss (see Note 7.3), except when hedge accounting is applied to a cash-flow hedge transaction or to a hedge of a net investment in a foreign currency operation (see Note 3.5).

Non-monetary financial assets denominated in foreign currencies, including shares and other variable income securities that are not part of the trading portfolio, are converted into the entity's functional currency at the spot exchange rate prevailing at the end of the period.

Foreign exchanges losses or gains are recognised either in the income statement under Net gains and losses on financial instruments at fair value through profit or loss, or under other comprehensive income (Unrealised and deferred gains and losses), depending on the accounting of the gains or losses relative to these assets/liabilities.

The main spot exchange rates used as at 31 December 2019 and 2018 are as follows:

31.12.2019		31.12.2018	
EUR 1 =	USD 1.1234	**EUR 1 =**	USD 1.1450
EUR 1 =	GBP 0.8508	**EUR 1 =**	GBP 0.8945
EUR 1 =	CHF 1.0854	**EUR 1 =**	CHF 1.1269

(1) See Note 8.2 on Other operating expenses.

BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

The table presents the split of assets and liabilities by currency, countervalued in Euros as at 31 December 2019 and 31 December 2018.

	31 December 2019		31 December 2018	
(in EUR thousand)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
EUR	60 006 756	82 160 112	50 114 823	80 421 483
USD	31 328 133	20 609 313	28 478 566	13 217 703
GBP	5 671 812	2 774 459	4 336 550	2 325 999
JPY	4 898 821	1 911 007	5 257 282	576 461
AUD	4 663 897	3 066 790	656 427	212 893
CZK	2 068 014	1 403 005	787 895	350 519
RUB	955 565	467 885	10 506	6 600
RON	880 076	506 927	17 814	1 777
CHF	325 722	18 836	4 291 535	1 005 416
SEK	72 284	48 373	1 863 050	1 054 615
DKK	28 287	14 298	321 085	6 037
Other currencies	6 141 233	4 059 595	5 141 676	2 097 706
Total	**117 040 600**	**117 040 600**	**101 277 209**	**101 277 209**

NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS ON FOREIGN EXCHANGE TRANSACTIONS

(in EUR thousand)	**2019**	**2018**
Net gains and losses on foreign exchange transactions	74 925	66 207
Total	**74 925**	**66 207**

Note 8.6. – Fees paid to statutory auditors

In accordance with the requirements of article 107 (15) of the banking law dated 17 June 1992, as amended, and of article 10 (2) g) of the EU Regulation 537-2014, the fees paid to the Bank's independent auditors, Ernst & Young and Deloitte, during the 2019 and 2018 fiscal years in relation with Societe Generale Luxembourg Group of were as follows:

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Statutory audit of the consolidated financial statements	(3 200)	(3 296)
Other assurance services	(362)	(115)
Tax consulting services	–	–
Other services	(5)	(78)
Total	**(3 567)**	**(3 489)**

Note 8.7. – Transactions with related parties

In addition to transactions with key management, the Group enters into transactions with non-consolidated entities on which the Societe Generale Group controls exclusively or jointly or has significant influence over. Other related parties refer to entities other than headquarter and subsidiaries (only Sogelife on a equity method) that are part of the Societe Generale Group. The following table shows the outstanding balance at year end:

OUTSTANDING ASSETS WITH RELATED PARTIES

As at 31 December 2019

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Financial assets at fair value through profit or loss	58 786 475	–	115	**58 786 590**
Other assets	9 347 682	43 651	10 295 078	**19 686 411**
Total	**68 134 157**	**43 651**	**10 295 193**	**78 473 001**

As at 31 December 2018

(in EUR thousand)	Headquarter*	Subsidiaries	Other related parties	Total
Financial assets at fair value through profit or loss	49 182 457	–	183 952	**49 366 409**
Other assets	9 816 347	40 841	10 274 808	**20 131 996**
Total	**58 998 804**	**40 841**	**10 458 760**	**69 498 405**

OUTSTANDING LIABILITIES WITH RELATED PARTIES

As at 31 December 2019

(in EUR thousand)	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Liabilities at fair value through profit or loss	82 793	–	5 073	**87 866**
Customer deposits	–	72 695	7 455 824	**7 528 519**
Other liabilities	31 713 021	–	2 803 174	**34 516 195**
Total	**31 795 814**	**72 695**	**10 264 701**	**42 132 580**

As at 31 December 2018

(in EUR thousand)	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Liabilities at fair value through profit or loss	174 824	–	91 487	**266 307**
Customer deposits	–	41 693	7 314 616	**7 356 309**
Other liabilities	22 502 826	–	2 992 447	**25 495 273**
Total	**22 677 650**	**41 693**	**10 398 546**	**33 117 889**

* Restated figures

NET BANKING INCOME FROM RELATED PARTIES

2019

(in EUR thousand)	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Net interest and similar income	(81 381)	1 103	66 870	**(13 408)**
Fees	(29 131)	4 449	(48 575)	**(73 257)**
Net income from financial transactions	12 856	–	42 874	**55 730**
Net income from other activities [1]	16 911	–	–	**16 911**
Net banking income	**(80 745)**	**5 552**	**61 169**	**(14 024)**
General Administrative expense	54 664	(1 772)	3 504	**56 396**
Gross operating income	**(26 081)**	**3 780**	**64 673**	**42 372**
Cost of risk	–	–	–	**–**
Operating income	**(26 081)**	**3 780**	**64 673**	**42 372**
Net income from investments accounted for using the equity method	–	–	–	**–**
Consolidated Net Income before tax	**(26 081)**	**3 780**	**64 673**	**42 372**
Tax expenses	–	–	–	**–**
Consolidated Net Income	**(26 081)**	**3 780**	**64 673**	**42 372**

2018

(in EUR thousand)	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Net interest and similar income	(52 308)	2 030	68 583	**18 305**
Fees	26 117	4 285	(53 169)	**(22 767)**
Net income from financial transactions	76 076	9 965	(18 425)	**67 616**
Net income from other activities [2]	26 575	–	56 861	**83 436**
Net banking income	**76 460**	**16 280**	**53 850**	**146 590**
General Administrative expense	50 760	(1 106)	(4 692)	**44 962**
Gross operating income	**127 220**	**15 174**	**49 158**	**191 552**
Cost of risk	–	–	–	–
Operating income	**127 220**	**15 174**	**49 158**	**191 552**
Net income from investments accounted for using the equity method	–	–	–	–
Impairment losses on goodwill	–	–	–	–
Consolidated Net Income before tax	**127 220**	**15 174**	**49 158**	**191 552**
Tax expenses	–	–	–	–
Consolidated Net Income	**127 220**	**15 174**	**49 158**	**191 552**

(1) As explained in Note 1.7, Income from other activities includes an excess remuneration of EUR thousand 14 384 for the year ended 31 December 2019.
(2) As explained in Note 1.7, Income from other activities includes an excess remuneration of EUR thousand 25 807 for the year ended 31 December 2018.

COMMITMENTS TO RELATED PARTIES

As at 31 December 2019

(in EUR thousand)	Headquarter [1]	Subsidiaries	Other related parties	Total
Commitments granted	6 369 498	–	882 945	**7 252 443**
Commitments received	12 783 220	–	1 590 517	**14 373 737**
Derivative financial assets commitments	141 956 041	–	13 231 189	**155 187 230**
Derivative financial liabilities commitments	129 190 370	–	12 759 535	**141 949 905**

As at 31 December 2018

(in EUR thousand)	Headquarter	Subsidiaries	Other related parties	Total
Commitments granted	5 448 026	–	555 094	**6 003 120**
Commitments received	11 331 168	–	1 680 812	**13 011 980**
Derivative financial assets commitments	103 310 835	–	14 807 211	**118 118 046**
Derivative financial liabilities commitments	119 574 298	–	13 891 946	**133 466 244**

EMPLOYEE BENEFITS FOR KEY MANAGEMENT PERSONNEL

Key management personnel include the authorized management of the Group, their respective spouses and any children residing in the family home, subsidiaries which are controlled either exclusively or jointly by the Group, and companies over which the Group exercises significant influence.

(in EUR thousand)	31.12.2019	31.12.2018
Short-term benefits	1 068	1 050
Post-employment benefits	33	28
Long-term benefits	36	79
Share-based payments	132	270
Total	**1 269**	**1 427**

Share-based payments are deffered payments in actions from Societe Generale Group.

Note 8.8. – Dividends paid and proposed

(in EUR thousand)	31.12.2019	31.12.2018
Declared and paid during the year		
Dividends on ordinary shares	359 000	298 000
Dividends per share (in EUR)	33	27
Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)		
Dividends on ordinary shares	–	359 000
Dividends per share (in EUR)	–	33

In accordance with ECB and CSSF recommendations, no dividend will be paid by SG Luxembourg in 2020.

(1) The commitments towards Headquarters include the fiduciary notes issued by the Bank and disclosed in Note 3.10.

NOTE 9 – NOTE ON RISK EXPOSURES

The understanding, identification, mitigation and management of risk are essential elements for the successful management of the Group. The Group deployed a strategy to ensure the implementation of robust and efficient risk management and monitoring organization where the main objective is:

- to contribute to the development of the Group's business lines by optimizing the overall profitability in consideration of assumed risks;
- to ensure the Group's sustainability by rolling out a high-performance organization for the analysis, valuation and monitoring of risks: global risk policies and procedures define the framework for controlling all types of risks by describing the methods used, defining limits, as well as setting escalation procedures;
- to provide the Management Board and the Board of Directors with a comprehensive, objective and relevant overview of the risks;
- to design dedicated risk monitoring reports sent and presented to the Chief Risk Officer (CRO) on a regular basis;
- to ensure that the risk limits are compatible with the Group's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Group is willing to take in order to achieve its strategic and financial goals;
- to ensure compliance with banking regulation requirements by submitting regular reports to the regulators (CSSF, ECB, EBA and BCL), taking part in regulatory discussions and analyzing all new requirements related to risk management that could affect the regulatory monitoring of the Group's activities.

The governance of risk management relies on an active involvement from all the company's managers, a clearly defined internal rules and procedures, and monitoring performed by independent operational management teams to structure the underwriting of new risks in order to ensure regular monitoring and proper implementation of rules and procedures.

SG Luxembourg's Risk Committee, chaired by the Chief Executive Officer, meets quarterly to review risk management and, if necessary, to determine whether to accept or manage risks. It aims to:

- inform Executive Management about the nature and magnitude of the risks to which the Group is exposed and, accordingly, to provide analyses of the credit portfolio on a periodic basis;
- identify possible remedial measures for identified risks;
- examine provisions from a prudential perspective;
- report on the progress of any initiatives initiated by the Risk Department in terms of managing counterparty, market, credit and operational risk.

To reflect a sound management of risk and develop an integrated risk culture, the Group has set up an effective Risk Management organization, in adequacy with its activities, encompassing the relevant risks resulting from the activities:

At the Management Board level, the overall Risk Management framework remains under the CRO's responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the Group's overall risk profile to be defined and managed.

The CRO delegates the day-to-day supervision of the department to the Head of the Group's Risk Management.

Note 9.1. – Credit risk

Credit risk is defined by the Group as the risk of loss resulting from the inability of the Group's customers, sovereign issuers or other counterparties to honor their financial commitments. It also includes the counterparty risk relating to the market activities conducted by the Group entities.

In 2013, the Group adopted a Group-wide credit risk policy covering all of its activities that specified the risk tolerance of the various business lines and established a number of common principles relating to the acceptance and monitoring of risk. This policy has been validated by the Group's Board of Directors.

The approval of risks complies with rules common to all business lines:

- all transactions resulting in a counterparty risk are subject to a prior analysis by a unit monitoring credit risk and to an authorization process;
- the Group's internal organization makes appropriate arrangements to monitor clients' creditworthiness. This approach primarily concerns large exposures to "corporations" or financial institutions and limits concentration risk;
- with support from their associated risk departments, the business lines are responsible for analyzing and approving risk insofar as their delegations of authority permit;
- the comparison of the commercial interest, driven by a profitability/risk pairing on the one hand, and the independent opinion of the risk departments on the other hand, supports the decision-making. In the event of a disagreement between the parties, an arbitration process for the decision exists, with limits on the amount;
- all decisions in respect of the granting of credit must automatically take into account the risk ratings attributed internally to the counterparties, such as were communicated by the business lines and approved by the SG Luxembourg Group's risk management team.

Loans extended by the Private Banking division are offered only to clients with assets on the Group's books. Credit policy is based, in particular, on the nature of the collateral. This policy is underpinned by a market "stress test" approach with application of the appropriate discounts to the value of the collateral based on its quality, liquidity, volatility and degree of asset diversification. Exposures and collateral are monitored daily for risk.

For corporate and institutional credit risks, the Group has a strong governance system covering its credit approval process, which relies on case-by-case analysis of exposure and the financial soundness of the counterparties. This analysis is geared towards assessing the ability of the counterparty to meet its obligations.

The credit policy focuses on the quality of the counterparty, as assessed by an internal rating, and the financing structure, which enables the Group to calculate the loss in the event of default.

With regard to financial engineering, any risk-taking sought by the business line is reviewed on a case-by-case basis for structural, contractual and counterparty quality. The review may lead to the conducting of "stress tests" to validate the counterparty's ability to pay back loans under deteriorated conditions or the profitability of the assets financed.

A Credit Committee, chaired by an approved member from SG Luxembourg's General Management, approves the Group's main exposures within the limits of the Committee's delegated responsibilities. The Risk Department is responsible for monitoring exposure, compiling reports and issuing alerts accordingly as well as for the regular updating of analyses. Regarding counterparty banks and brokers, the Group's Risk Department relies on the analytical capabilities of the SG Luxembourg Group, which validates the internal counterparty credit rating. The level of outstanding loans is assessed locally allowing to the special needs of the Treasury. The Group strives to establish master netting agreements and collateralization contracts with most of the Group counterparties with which it trades on the markets.

1. CREDIT RISK CONSIDERATIONS UNDER IFRS 9

ESTIMATING EXPECTED CREDIT LOSSES

The Group is exposed to counterparty and concentration risks, which may have a material adverse effect on the Group's business, results of operations and financial position. The Group is exposed to credit risk with respect to numerous counterparties in the ordinary course of its trading, lending, issuing and deposit-taking, clearing, settlement and other activities. These counterparties include, among others, institutional clients, brokers and dealers, commercial and investment banks, corporates, clearing houses, hedge funds, and sovereign states. The Group may realise losses if a counterparty defaults on its obligations, if the Group encounters legal or other difficulties in enforcing its collateral or/and if the value of the collateral is not sufficient to fully recover the exposure.

Many of the Group's hedging and other risk management strategies also involve transactions with financial services counterparties. Any default or insolvency on the part of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies.

Following the financial crisis, regulators have encouraged or imposed the mandatory netting of certain financial instruments formerly traded over-the-counter, which has increased the exposure of the Group and other financial market participants to the clearing houses: the default of any one of them or of one of their members could affect the financial markets and could have negative consequences for the Group.

Consequently, the default of one or more significant counterparties of the Group could have a material adverse effect on the Group's cost of risk, results of operations and financial position.

This risk is increased if exposures are concentrated on a particular counterparty, borrower or issuer (including sovereign issuers), or on a particular country or industry. The devices and methods the Group uses to ensure the diversification of its credit and counterparty risks may prove insufficient or defective in preventing the concentration of credit risk. Such a concentration of risk could result in losses for the Group, even when economic and market conditions are generally favourable for its competitors, and may have a material adverse impact on the Group's business, results of operations and financial position.

The Group's results of operations and financial position could be adversely affected by a late or insufficient provisioning of credit exposures.

The Group regularly records provisions for loan losses in connection with its lending activities in order to anticipate the occurrence of losses and moderate the volatility of its results. The amount of loan loss provisions is based on the most accurate assessment to date of the recoverability of the debts in question. This assessment relies on an analysis of the current and prospective situation of the borrower as well as an analysis of the value and recoverability of the debt, taking into account any security interests. In some cases (loans to individual customers), the provisioning method may call for the use of statistical models based on the analysis of loss and recovery historical data.

The Group could be required to substantially increase its provisions for loan losses, following an increase in defaults or a re-evaluation of recovery prospects. A significant increase in loan loss provisions, or the occurrence of loan losses in excess of its provisions, could have a material adverse effect on Group's cost of risk, results of operations and financial position.

Since 1 January 2018, the Group has been recording provisions on performing loans under the IFRS 9 accounting standard. This assessment is based on statistical models for assessing probabilities of default and potential losses in the event of default, which take into account a prospective analysis based on macroeconomic scenarios. The Group's cost of risk could be negatively impacted by a proven or anticipated deterioration in the quality of the outstanding loan portfolios or macroeconomic prospects. In addition, IFRS 9 accounting standard principles and provisioning models could be pro-cyclical in the event of a sharp and sudden deterioration in the environment or result in enhanced volatility in the event of fluctuations in the economic prospects. This could lead to a significant and/or not fully anticipated change in the cost of risk and therefore in the Group's results.

Accounting policies having to do with determining the outstandings to be provisioned as well as the principles for classification in stages of provisioning are described in Note 3.9.

2. RISK MEASUREMENT AND INTERNAL RATINGS

To calculate its capital requirements under the IRB method, The Group estimates its Risk-Weighted Assets (RWA) and the Expected Loss (EL) that may be incurred in light of the nature of the transaction, the quality of the counterparty and all measures taken to mitigate risk;

To calculate its RWA, the Group uses its own Basel parameters, which are estimated using its internal risk measurement system:

- the Exposure at Default (EAD) value is defined as the Group's exposure in the event that the counterparty should default. The EAD includes exposures recorded on the statement of financial position (loans, receivables, accrued income, 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 Group 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.

The Group also takes into account:

- the impact of guarantees and credit derivatives, by substituting the PD, the LGD and the risk-weighting calculation of the guarantor for 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 in either at the level of the LGD models for the pools concerned or on a line-by-line basis.

ANALYSIS OF GROSS OUTSTANDINGS AND PROVISIONS FOR CREDIT RISK

The following tables detail the provisioned outstandings (balance sheet and off-balance sheet) subject to impairment and provisions in accordance with the model for estimating expected credit losses introduced by IFRS 9 and the impairment and provisions by stage.

The scope of these tables includes:

- securities (excluding securities received under repurchase agreements), customer loans and due from banks measured at amortised cost;
- financing and guarantee commitments.

TABLE 1: BASEL PORTFOLIO BREAKDOWN OF PROVISIONED OUTSTANDINGS

	31 December 2019				31 December 2018			
(in EUR thousand)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Sovereign	17 075	–	–	**17 075**	29 215	–	–	**29 215**
Institutions	15 067 320	–	–	**15 067 320**	15 832 925	–	–	**15 832 925**
Corporates	31 154 516	83 181	66 785	**31 304 482**	29 422 644	33 833	242 332	**29 698 809**
Retail	3 765 324	70 259	89 749	**3 925 331**	3 055 600	69 336	63 144	**3 188 080**
Total	**50 004 234**	**153 440**	**156 534**	**50 314 208**	**48 340 384**	**103 169**	**305 477**	**48 749 029**

Institutions are credit institutions (such as banks) or an investment firms (professional entities of financial sector).

Sovereign means nations and governments as well as agencies and entities owned by governments and central banks.

Corporates are companies and entities with legal personality and a defined purpose among various activity sectors, and different from institutions.

Retail are single persons, group of persons or small or medium size entreprise acting for their own.

TABLE 2: GEOGRAPHICAL BREAKDOWN OF PROVISIONED OUTSTANDINGS

	31 December 2019				31 December 2018			
(in EUR thousand)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
EU	43 155 685	146 698	136 007	**43 438 390**	45 123 818	79 417	303 232	**45 506 467**
Outside EU	6 848 549	6 742	20 527	**6 875 818**	3 216 565	23 752	2 245	**3 242 563**
Total	**50 004 234**	**153 440**	**156 534**	**50 314 208**	**48 340 384**	**103 169**	**305 477**	**48 749 029**

TABLE 3: BASEL PORTFOLIO BREAKDOWN OF PROVISIONS AND IMPAIRMENT FOR CREDIT RISK

	31 December 2019				31 December 2018			
(in EUR thousand)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	–	–	–	–	5	–	–	**5**
Institutions	584	–	–	**584**	441	–	–	**441**
Corporates	10 189	71	11 875	**22 136**	10 886	18	24 467	**35 370**
Retail	2 425	513	1 337	**4 274**	190	767	1 153	**2 110**
Total	**13 199**	**584**	**13 212**	**26 994**	**11 522**	**785**	**25 620**	**37 927**

TABLE 4: GEOGRAPHICAL BREAKDOWN OF PROVISIONS AND IMPAIRMENT FOR CREDIT RISK

	31 December 2019				31 December 2018			
(in EUR thousand)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
EU	10 902	580	13 212	**24 694**	10 603	753	25 620	**36 976**
Outside EU	2 297	3	-	**2 300**	919	32	-	**951**
Total	**13 199**	**584**	**13 212**	**26 994**	**11 522**	**785**	**25 620**	**37 927**

TABLE 5: PROVISIONING OF DOUBTFUL LOANS

(in EUR thousand)	31.12.2019	31.12.2018
Gross book outstandings	50 314 208	48 749 029
Doutbful loans	156 534	305 477
GROSS DOUBTFUL LOANS RATIO	**0.3%**	**0.6%**
Stage 1 provisions	13 199	11 522
Stage 2 provisions	584	784
Stage 3 provisions	13 212	25 620
GROUP GROSS DOUBTFUL LOANS COVERAGE RATIO (STAGE 3 PROVISIONS / DOUBTFUL LOANS)	**8.5%**	**8.4%**

Scope: customer loans, amounts due from banks, operating leases, lease financing and similar agreements

3. ANALYSIS OF MAXIMUM CREDIT RISK EXPOSURE

The following table shows the maximum exposure to credit risk by class of financial asset and commitment. It also shows the total fair value of collateral.

Any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates) is not presented.

	31 December 2019		31 December 2018	
(in EUR thousand)	Credit risk exposures	Collateral	Credit risk exposures	Collateral
Financial assets at fair value through profit or loss	–	–	1	–
Hedging derivatives	447	–	4 161	–
Financial assets at fair value through other comprehensive income	3 263 281	168 269	3 338 542	162 110
Securities at amortized cost	5 412 725	5 126 491	5 642 478	–
Due from banks at amortised cost (1)	9 495 045	219 911	10 018 941	59 376
Customer loans at amortised cost	28 357 556	22 671 108	25 802 754	19 419 963
Investments of insurance activities	–	–	–	–
Other assets	302 386	–	341 999	–
Total	**46 831 439**	**28 185 779**	**44 806 877**	**19 641 448**
Loan commitments	5 787 561	–	5 969 387	–
Financial guarantees	1 235 462	35 485	1 278 646	72 495
Other commitments	3 709 129	–	2 805 099	–
Total	**10 732 151**	**35 485**	**10 053 131**	**72 495**

(in EUR thousand)	31.12.2019	31.12.2018
Due from banks at amortised cost	**–**	**–**
Other collateralized loans	**219 911**	**59 376**
Cash	*52 478*	*2 436*
Rest	*167 433*	*56 940*
Financial guarantees received	**–**	**–**

Below are detailed as at 31 December the financial effect of the collateral related to loans and advances to customers.

(in EUR thousand)	31.12.2019	31.12.2018
Customers loans at amortised cost		
Mortgage loans	**3 280 873**	**3 238 558**
Residential	*3 108 779*	*3 238 558*
Commercial	*172 094*	–
Other collateralized loans	**10 059 821**	**7 711 489**
Cash	*5 221 465*	*4 398 034*
Others	*4 838 356*	*3 313 454*
Financial guarantees received	**9 330 414**	**8 469 916**
Total	**22 671 108**	**19 419 963**

(1) Below is detailed as at 31 December the financial effect of the collateral related to due from banks at amortised cost

COLLATERAL AND OTHER CREDIT ENHANCEMENT

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables;
- for retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

For securities collateral, a loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets.

The Risk department monitors the market value and the loanable value of collateral and will request additional collateral in accordance with the underlying agreement.

For real estate, the Group obtains a detailed real estate expert appraisal with a study of the market by an independent company for all financing of more than 2.5 M€. A loan to value is also determined, generally between 50 and 65% depending the type of credit. The location of the assets is limited to the following countries: France, Belgium, Luxembourg, Italy, Monaco, Switzerland and the UK.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds generally at auctions to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position and treated as non-current held for sale.

CREDIT QUALITY OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR INDIVIDUALLY IMPAIRED

The Group records Expected Credit Losses on financial assets, financial guarantees and other financial commitments on basis of Group calculation rules defined in Note 3.9. The Group determines that "individually impaired" financial assets refer mainly to financial assets classified in Stage 3 under IFRS 9.

Analysis of risk exposure by rating

The Group manages the credit quality of financial assets using internal risk ratings. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

Internal rating is based on a detailed analysis of qualitative and financial information of the counterparty, the economic, sector or juridical background, etc.

The internal ratings are regularly assessed and reviewed by the Risk Division, at least once a year.

The rating determines the level of probability of default of the counterparty and is directly influenced by the level of risk weight. There's a correspondence between internal and external ratings (see table hereafter).

Counterparty internal rating	Indicative equivalent FitchRatings	Indicative equivalent Moody's	Indicative equivalent S&P	Probability of Default (one year)
1	AAA	AAA	AAA	0.01%
2	AA+ à AA-	AA1 à AA3	AA+ à AA-	[0.01% -0.03%]
3	A+ à A-	A1 à A3	A+ à A-	[0.03% -0.06%]
4	BBB+ à BBB-	BAA1 à BAA3	BBB+ à BBB-	[0.13% -0.50%]
5	BB+ à BB-	BA1 à BA3	BB+ à BB-	[1.10% -3.26%]
6	B+ à B-	B1 à B3	B+ à B-	[4.61% -11.42%]
7	CCC+ à CCC-	CAA1 à CAA3	CCC+ à CCC-	[14.33% -27.25%]
8,9 and 10	CC and below	CA and below	CC and below	100%

For private banking, the approach is based on the collateral and the Group's operational capacity to track changes in each loan's collateral. Loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets. The Group implemented a monitoring mechanism for detecting collateral downgrading and defining, with its clients, measures for making up insufficient margins.

Exposures are classified in nine credit pools. Each credit pool is allocated an internal as follows:

Exposure class	Credit pool	PD (%)
LOMBARD	Pool 1	0.20%
	Pool 2	0.20%
	Pool 3	0.20%
	Pool 4	0.20%
REAL ESTATE	Pool 5	1.23%
PATRIMONIAL	Pool 6	0.53%
	Pool 7	0.53%
UNSECURED	Pool 8	0.34%

As at 31 December 2019 and 2018, the breakdown of EAD by the Basel method is as follows:

	31.12.2019	31.12.2018
IRBA	92%	91%
Standard	8%	9%
Total	**100%**	**100%**

4. ANALYSIS OF RISK EXPOSURE BY NATURE

ANALYSIS BY INDUSTRY

The breakdown of exposure to credit risk by economic sector is not considered a decision-making criterion given the specific nature of the Group's activity. However, the breakdown by type of counterparty, which excludes investments of insurance activities and doubtful loans, is as follows:

As at 31 December 2019

(in EUR thousand)	Central administrations	Credit institutions	Other financial corporations	Non-financial corporations	Retail customers	Total
Cash, due from central banks	9 260 583	–	–	–	–	**9 260 583**
Financial assets at fair value through profit or loss	–	–	–	–	–	**–**
Hedging derivatives	–	447	–	–	–	**447**
Financial assets at fair value through other comprehensive income	3 030 546	232 735	–	–	–	**3 263 281**
Securities at amortized cost	–	285 861	5 126 872	–	–	**5 412 733**
Due from banks and customers loans at amortised cost	16 764	11 589 860	2 609 074	19 927 014	3 579 506	**37 722 218**
Total financial assets	**12 307 893**	**12 108 902**	**7 735 947**	**19 927 014**	**3 579 506**	**55 659 262**
Loan commitments given	311	2 682 148	526 685	2 451 815	126 601	**5 787 561**
Financial guarantees	–	509 506	129 850	466 630	129 475	**1 235 462**
Other commitments	–	3 709 129	–	–	–	**3 709 129**
Total given commitments	**311**	**6 900 783**	**656 536**	**2 918 445**	**256 077**	**10 732 151**

As at 31 December 2018

(in EUR thousand)	Central administrations	Credit institutions	Other financial corporations	Non-financial corporations	Retail customers	Total
Cash, due from central banks	5 172 451	–	–	–	–	**5 172 451**
Financial assets at fair value through profit or loss	–	1 000	–	–	–	**1 000**
Hedging derivatives	–	4 161	–	–	–	**4 161**
Financial assets at fair value through other comprehensive income	2 849 177	391 686	68 639	29 040	–	**3 338 542**
Securities at amortized cost	–	676 960	2 987 027	1 978 504	–	**5 642 491**
Due from banks and customers loans	29 215	11 762 564	3 221 526	17 675 544	2 864 178	**35 553 027**
Total financial assets	**8 050 843**	**12 836 371**	**6 277 192**	**19 683 089**	**2 864 178**	**49 711 671**
Loan commitments given	–	2 972 264	478 394	2 357 543	161 186	**5 969 387**
Financial guarantees	–	418 033	71 586	686 408	102 618	**1 278 646**
Other commitments	–	2 799 528	2 307	–	3 264	**2 805 099**
Total given commitments	**–**	**6 189 825**	**552 288**	**3 043 951**	**267 068**	**10 053 132**

Central administrations include the public sector, composed of national, regional and local governments, except for undertakings under public or private law controlled by these governments.

Financial institutions include banks, multilateral development banks and central banks.

Institutions other than financial institutions are investment firms.

Corporate are counterparties that do not meet the requirements to be included in the other columns.

Retail customers are made up of individuals.

5. QUALITY OF FINANCIAL ASSETS

PAST DUE AND IMPAIRED LOANS AND ADVANCES

As at 31 December 2019

	Past due but not impaired assets		
(in EUR thousand)	≤ 30 days	> 30 days ≤ 90 days	Unlikely to pay or ≤ 90 days
Credit Institutions	–	–	–
Other financial corporations	–	–	–
Non financial Corporations	118 932	37 753	14 230
Households	55 689	10 554	8 825
Total	**174 621**	**48 307**	**23 055**

As at 31 December 2018

	Past due but not impaired assets		
(in EUR thousand)	≤ 30 days	> 30 days ≤ 90 days	Unlikely to pay or ≤ 90 days
Credit Institutions	–	–	–
Other financial corporations	–	–	–
Non financial Corporations	136 616	53 111	85 170
Households	129 412	56 371	39 238
Total	**266 028**	**109 482**	**124 408**

GUARANTEES HELD FOR PAST DUE OR INDIVIDUALLY IMPAIRED ASSETS AND DEBT INSTRUMENTS

(in EUR thousand)	31 December 2019	31 December 2018
Past due	222 928	375 511
Impaired	156 234	305 477
Total	**379 162**	**680 988**

Credit impaired assets						
> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total Past Due but not impaired and Credit Impaired Assets	Gross carrying amount of individually impaired financial assets	Guarantees held for past due or individually impaired assets and debt instruments
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	8 219	44 336	–	223 470	66 785	204 234
3 498	51 969	25 156	–	155 691	89 449	132 803
3 498	**60 188**	**69 492**	**–**	**379 161**	**156 234**	**337 037**

Credit impaired assets						
> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total Past Due but not impaired and Credit Impaired Assets	Gross carrying amount of individually impaired financial assets	Guarantees held for past due or individually impaired assets and debt instruments
–	–	–	–	–	–	–
–	–	–	–	–	–	–
125 677	10 934	20 550	–	432 058	242 332	325 265
8 543	2 425	12 939	–	248 928	63 144	226 017
134 220	**13 359**	**33 489**	**–**	**680 986**	**305 476**	**551 282**

6. ANALYSIS OF ASSETS' IMPAIRMENT

Assets' impairment is broken down as follows:

31 December 2019

(in EUR thousand)	**Assets' impairments as at 1 January 2019**	**Allocations**	**Write-backs available**	**Net impairment losses**	**Reversals used**	**Currency and scope effects**	**Asset impairments as at 31 December 2019**
Financial assets at fair value through other comprehensive income	13	46	(15)	31	–	–	44
Securities at amortized cost	13	8	(13)	(5)	–	–	8
Due from banks at amortised cost	353	212	(263)	(51)	–	103	405
Customers loans at amortised cost	36 456	15 165	(22 732)	(7 567)	(3 514)	71	25 446
Other assets	183	195	(217)	(22)	–	5	166
Total	**37 018**	**15 626**	**(23 240)**	**(7 614)**	**(3 514)**	**179**	**26 069**

31 December 2018

(in EUR thousand)	**Assets' impairments as at 1 January 2018**	**Allocations**	**Write-backs available**	**Net impairment losses**	**Reversals used**	**Currency and scope effects**	**Asset impairments as at 31 December 2018**
Financial assets at fair value through other comprehensive income	743	–	(96)	(96)	(596)	(38)	13
Securities at amortized cost	–	20	(10)	10	–	3	13
Due from banks at amortised cost	697	548	(994)	(446)	–	102	353
Customers loans at amortised cost	56 933	24 650	(17 466)	7 184	(27 933)	272	36 456
Other assets	222	394	(439)	(45)	–	5	183
Total	**58 596**	**25 612**	**(19 005)**	**6 607**	**(28 529)**	**345**	**37 018**

7. COLLATERAL OR OTHER CREDIT ENHANCEMENTS OBTAINED BY TAKING POSSESSION OF THE GUARANTEE HELD

The carrying value of assets obtained during the period by taking possession of the guarantees held is:

(in EUR thousand)	**31 December 2019**	**31 December 2018**
Cash	–	945
Securities	–	–
Mortgage	395	5 023
Total	**395**	**5 968**

8. RESTRUCTURED DEBT

For the 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). The Group aligned its definition of restructured loans with the EBA definition.

Restructured debt does not include commercial renegotiations involving customers for which the Group 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 Group remains uncertain of their ability to meet their future commitments and for a minimum of one year.

(in EUR thousand)	**31.12.2019**	**31.12.2018**
Non-performing restructured debt	2 702	7 650
Performing restructured debt	3 981	6 118
Total	**6 683**	**13 768**

Note 9.2. – Market risk

GENERAL

Market risk is defined as the risk of loss due to unfavorable movements in market factors such as interest rates share prices or currency exchange rates impacting the value of the Group's proprietary positions.

Although the primary responsibility of the monitoring of risks lies down with the managers of the trading rooms (Front Office) the organization of the supervision relies on the independent structures which in particular are in charge of:

- the calculation on a daily basis of market risks based on a formal and secure procedure;
- the daily monitoring of compliance with the limits notified for each activity;
- the preparation of a daily report on the use of the limits sent to the general management of the entities concerned to the front office and to the SG Luxembourg Group's market risk department.

The Group's market risk assessment is based on daily indicators which are used to define exposure limits:

- **the Value at Risk (VaR) 1** day at 99% in accordance with the internal regulatory model a composite indicator enabling the day-to-day monitoring of the market risks. The method used is based on "historical simulations" which implicitly take into account the correlations among all the different markets;
- **the stress testing** based on ten-year risk indicators. Stress testing makes it possible to limit exposure to systemic risks and to cases of exceptional market shock. A stress test estimates the loss resulting from an extreme shift in market prices over a period corresponding to the time required to unwind or hedge the positions affected (5 to 20 days for most trading positions). This estimate uses historical scenarios as well as theoretical scenarios that are regularly reviewed and updated by the SG LUXEMBOURG Group Risk Division. At the end of the most recent review the stress test used 18 scenarios (3 historical and 15 theoretical);
- **additional indicators** (in sensitivity nominal holding or modify duration etc.) enable to ensure consistency between the overall risk limits and the operational thresholds used by the Front Office. These limits also allow mitigating the risks which would only partially be caught by the "VaR" or stress testing.

MEASUREMENT OF MARKET RISK AND DEFINITION OF LIMITS

Market risk is managed through procedures that explain how and when to activate and monitor limits for SG Luxembourg independently and for its subsidiaries.

Although primary responsibility for risk monitoring naturally falls into front office managers the oversight mechanism also relies on independent structures.

From an organizational viewpoint responsibility for managing market risk within SG Luxembourg Group is distributed as follows:

- Societe Generale Group's Market Risk Department establishes the risk measurement methods and control procedures centrally, handles Societe Generale Group's market risk reporting, examines and validates the limits requests from the various activities.
- The entities of SG Luxembourg Group bearing market risk (SG Luxembourg and SGPB Switzerland) have a dedicated risk team independent from the business lines in charge of managing risks resulting from market activities. Within SG Luxembourg in order to come into alignment with the organisational model adopted by SG Group an organisation change has been initiated. From November 2018 the daily market risk calculation and monitoring and the limits and methodologies validation are under the accountability of the Risk department.

The supervision of market risk primarily covers:

- The daily calculation of market risks based on a formal and secured procedure;
- The daily monitoring of compliance with the limits notified for each activity;
- The preparation of a daily report on the use of the limits sent to the general management of the entities concerned to the front office and to Societe Generale Group's market risk department.

Market risk management is based on a combination of several types of indicators:

- 99% Value at Risk (VaR) in accordance with the internal regulatory model used to calculate capital: synthetic indicator for day-to-day monitoring of market risks incurred by SG Luxembourg as part of its trading activities. 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 the Bank's positions (i.e. interest rates share prices;
  - exchange rates commodity prices volatility credit spreads etc.);
  - definition of 260 scenarios corresponding to one-day variations in these market parameters over a rolling one-year period;
  - application of these 260 scenarios to the market parameters of the day;
  - 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 relevance of the model is checked through ongoing backtesting in order to verify whether the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval.

- The Market Stress Test which consists of a series of historical (scenarios already observed in the past) and hypothetical (scenarios defined with bank economists) multi-factor stress tests allows to take into account extraordinary market disruptions with a 10-year occurrence. These indicators estimate the loss resulting from a severe change in market parameters over a time horizon corresponding to the time needed to unwind or cover the positions in question. The Market Stress Test limit covers the most impaired of these scenarios.
  - 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 Group's trading positions could generate significant losses;
  - 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;
  - risks are calculated daily for each market activity of the Group all products included. A limit in "stress-test" is set for the global activity of the Group;
  - different Stress test scenarios are subject to regular review and improvements from teams of economists of the Societe Generale Group.
- An "Emerging Countries" stress test combining shocks calibrated to the history of fluctuations observed in the past. The calibration is created from the 99% quantile of the shock distribution by risk factor for each country. An aggregation by country region and worldwide is used to quantify the risk by geographical area. The Stress Test limit relates to the most sensitive area.
- These scenarios are supplemented by a set of adverse stress tests calculated by activity or risk factor to take extreme risks on a specific market into account (dislocation liquidity concentration etc.).
- "Sensitivity" and "nominal" indicators control position size: sensibilities are calculated using the major valuation risk factors (e.g. sensitivity of an option to changes in underlying asset prices); nominal values are used for significant positions in terms of risk.

Metrics 2019

SG Luxembourg	Limit (€k)	Average use (€k)	Number of overruns observed	Maximum use (€k)	Maximum period of overrun
VaR	250	0.47	–	6.93	N/A
Stress Test	500	10.62	–	53.46	N/A
Emerging Stress Test	500	0.53	–	3.49	N/A
10bp sensitivity	15	–	–	0.10	N/A
Cross Currency 1bp sensitivity	6	–	–	0.02	N/A
Nominal FX Position	2 000	0.31	–	51.39	N/A
Precious metal position	500	4.91	–	47.37	N/A

Metrics 2018

SG Luxembourg	Limit (€k)	Average use (€k)	Number of overruns observed	Maximum use (€k)	Maximum period of overrun
VaR	500	15	–	22.8	N/A
Stress Test	1 000	50.8	–	60	N/A
Emerging Stress Test	1 600	4	–	4.8	N/A
10bp sensitivity	30	(0.2)	–	0.5	N/A
Cross Currency 1bp sensitivity	6	0.0094	–	–	N/A
Nominal FX Position	5 000	345.4	–	690.7	1
Precious metal position	500	0.1	–	13.3	N/A

Over 2019 the both principal metrics levels VaR and Stress Test remained low overall (respectively maximum EUR 6 928 and maximum EUR 53 464) way under the limits validated by the head office. These both indicators never reached their limit over 2019.

INTEREST RATE RISK

DEFINITIONS

Structural interest rate and foreign exchange rate risks result from commercial activities and their hedging transactions, as well as from own account transactions performed by the SG Luxembourg consolidated entities. SG Luxembourg Group measures and strictly controls structural risks.

Interest rate and foreign exchange risks related to the trading portfolio do not fall within the scope of structural risk measurement. They fall under market risks.

STRUCTURAL INTEREST RATE RISK

structural interest rate risk (also referred to as Interest Rate Risk in the Banking Book – IRRBB: “Interest Rate Risk in the Banking Book”) refers to the risk – whether current or prospective – to the SG Luxembourg Group’s equity and earnings (hence for the Net Present Value and the Net Interest Margin) posed by adverse movements in interest rates affecting the items comprising its banking book.

There are four main types of risk:

- rates level risk;
- curve risk, related to the term structure of the instruments in the banking book;
- optional risk arises from automatic options (typically caps and floors on the floating rate of a loan) and behavioral options (typically the right for a customer to prepay a fixed rate loan with no or fixed penalty);
- basis risk, related to the impact of relative changes in interest rates indices in statement of financial position and off-balance sheet items.

All four types of IRRBB may potentially affect the value or yield of interest-rate sensitive assets, liabilities and off-balance sheet items. Assets, liabilities and off-balance sheet items are analyzed without prior allocation of the liabilities to the assets. Instalments on the outstanding are calculated considering the contractual characteristics of the transactions and the results of modelling of client behavior (in particular for sight accounts, special savings plans and loan prepayments), as well as assumptions based on conventional scenarios for certain aggregates).

Main internal amortization standards are:

- For the SG Luxembourg Group's own funds, the retained internal standard for amortization is based on the assumption that such items constitute long term fixed rate resources. The standard has been built on the assumption of a reinvestment every year of one tenth of the amount, on 10 year fixed rate instruments. The expected average replacement rate will then converge to the moving average over 10 years of 10 year rates.
- In connection with the above, this standard also applies to the subsidiaries' own funds and the corresponding investment in such subsidiaries, as well as to provisions, intangible assets and goodwill. For intangible assets, the retained maturity is nevertheless capped to the remaining IFRS amortization schedule.

SG Luxembourg Group structural interest rate risk management primarily relies on the sensitivity of Net Present Value ("NPV") of fixed-rate residual positions (excesses or shortfalls) to interest rate changes according to several interest rate scenarios.

Such NPV sensitivity captures the rates level risk, the curve risk and the optional risk:

- when automatic options are identified, their NPV is calculated with standard pricing tools;
- when behavioral options are modeled, the risk metrics include either their intrinsic values calculated as the NPV of the expected amortization modeled profile or the marked to market value calculated with specific pricing tools, thus including also the time value of the option.

The NPV is calculated by discounting actual principal cash flows as well as either actual or estimated coupons flows. When estimated, the coupons proxy is based on the interest rates levels as of the NPV calculation date. In any case, the coupons do not include any sales margin.

Thresholds/limits are declined on:

- Global (all currencies)
- Four Group steering scenarios (2 business-as-usual and 2 under stress):
  - an immediate and parallel 10 bps rise in the yield curve;
  - an immediate and parallel 10 bps fall in the yield curve;
  - an immediate non-parallel yield curve shock to the upside corresponding to stressed values defined currency by currency ("NIRUP" scenario);
  - an immediate non-parallel yield curve shock to the downside corresponding to stressed values defined currency by currency ("NIRDW" scenario).

Societe Generale Group Finance Committee sets and approves, on a yearly basis, the NPV sensitivity thresholds/limits applicable for SG Luxembourg on a solo basis (as a main entity of the Group). For the others entities within the consolidated perimeter of SG Luxembourg Group, the NPV sensitivity threshold and limits are set and approved by their respective BU ALCOs.

IRRBB risks being concentrated at SG Luxembourg standalone entity, the risk appetite at the consolidated level is identical to the NPV thresholds/limits notified at solo level and focus on the global (all currencies) NPV sensitivity. The sensitivity on a currency basis is however monitored on a monthly basis and discussed during SG Luxembourg ALM Committee.

The current limits applicable to SG Luxembourg and the entities of its consolidated perimeter are presented in the table below (including limits as of Q4-19 and new limits starting Q1-20):

		Q4-19			
		+10 bps	-10 bps	NIRUP	NIRDW
Entity name	**Currency**	**[0-end[**	**[0-end[**	**[0-end[**	**[0-end[**
SG Luxembourg *including Société Immobilière de l'Arsenal including Coparer Holding*	EUR	-8.63	-8.63	-70.08	-40.97
	USD	-1.13	-1.13	-9.14	-6.47
	CHF	-0.63	-0.63	-5.08	-3.59
	Aggregate	-6.48	-6.48	-52.56	-30.73
	Global	-16.48	-16.48	-133.81	-79.60
SG Private Banking Switzerland	EUR	-0.45	-0.45	-3.66	-2.14
	USD	-0.45	-0.45	-3.66	-2.59
	CHF	-0.45	-0.45	-3.66	-2.59
	Aggregate	-0.34	-0.34	-2.74	-1.94
SG Private Banking Monaco	EUR	-0.14	-0.14	-1.12	-0.65
	USD	-0.14	-0.14	-1.12	-0.79
	Aggregate	-0.10	-0.10	-0.84	-0.49
SG Life Insurance Broker	-	Not monitored			
SG Private Wealth Management	-	Not monitored			
SG Capital Market Finance	EUR	0.15	-0.30	0.46	-1.24
	USD	-0.08	-0.08	-0.62	-0.44
SG Financing and Distribution	-	Not monitored			
SGBT Credit International	EUR USD	Not monitored			
SGBT Asset Based Funding	EUR	-0.04	-0.04	-0.31	-0.18
	USD	-0.04	-0.04	-0.31	-0.22
SGBT Finance Ireland	EUR	-0.04	-0.04	-0.31	-0.18
Montalis Investment	EUR	-0.04	-0.04	-0.31	-0.18
	USD	-0.04	-0.04	-0.31	-0.22
SG Hedging Limited	EUR	-0.04	-0.04	-0.31	-0.18
IVEFI	EUR	Not monitored			
SG Issuer	EUR	-0.13	-0.13	-1.02	-0.59
	USD	-0.13	-0.13	-1.02	-0.72
	GBP	-0.13	-0.13	-1.02	-0.72
SG Ré	EUR	-0.53	-0.53	-4.30	-2.50
Sogelife	EUR	-0.34	-0.34	-2.74	-1.60

SG Luxembourg Finance Committee and the Board of Directors are notified on each interim statement of finance al position date of the results of the "Supervisory Outlier Test" ("SOT") as defined in articles 113 and 114 of the EBA guidelines dated 19 July 2018. These tests are based on EVE sensibility (the EVE being the NPV after exclusion of own funds, investments in subsidiaries and intangible assets):

- According to article 113, the EVE sensitivity to +/- 200bp interest rates shocks shall remain below 20% of the SG Luxembourg regulatory capital Tier 1 and Tier 2.
- According to article 114, the EVE sensitivity to interest rates shocks corresponding to the 6 scenarios detailed in Appendix III of the EBA Guidelines shall remain below 15% of the SG Luxembourg Tier 1 capital.

CURRENCY RISK

Structural exchange risk is the risk that a loss occurs due to an unfavourable movement of the exchange rate that would affect the Group due to existing opened positions in foreign currencies.

Structural exchange rate risk is mainly caused by:

- foreign currency denominated capital contributions and equity investments financed through the purchase of foreign currencies;
- retained earnings in foreign subsidiaries;
- investments made by certain foreign subsidiaries in a currency other than that used for their equity funding for regulatory reasons.

OBJECTIVE OF THE GROUP

The Group's policy consists in calibrating the hedging of its net investments in foreign entities in such a way as to reduce the sensitivity of its Common Equity Tier 1 ratio to fluctuations in exchange rates as far as possible. To this end, it enters into hedging transactions to maintain a currency exposure reducing such sensitivity to within limits. The Group quantifies its exposure to structural foreign exchange rate risks by analyzing all assets and liabilities denominated in foreign currencies.

MEASUREMENT AND MONITORING OF STRUCTURAL FOREIGN EXCHANGE RATE RISKS

The Group settles many forward foreign exchange transactions that are systematically backed by spot transactions. The residual position on those operations corresponds to interests of the currency in which the forward operation has been concluded and therefore represents an interest rate position monitored by the treasury desk.

The structural currency risk is monitored through monitoring process of the market currency risk. Those monitoring processes cover both natures of currency risks. Please refer to Note 9.2 for more details on those risk monitoring processes.

SENSITIVITY OF THE PROFIT OF THE GROUP TO A 10% CURRENCY CHANGE

The table below presents the impact on the Group profit of a 10% currency depreciation or appreciation as at 31 December 2019 and 2018:

	31.12.2019		31.12.2018	
(in EUR thousand)	**Effect on the profit of a 10% currency appreciation**	**Effect on the profit of a 10% currency depreciation**	**Effect on the profit of a 10% currency appreciation**	**Effect on the profit of a 10% currency depreciation**
EUR	-	-	-	-
USD	(126)	28	(23)	28
GBP	(101)	22	-	-
JPY	-	-	1	(1)
AUD	(1)	-	(73)	88
CZK	10	(2)	-	1
RUB	(4)	1	(2)	3
RON	-	-	-	-
Others	4	(1)	1	(1)
Total	**(218)**	**48**	**(96)**	**118**

MONITORING OF FOREIGN CURRENCY RISK EXPOSURE

The Group sets an overnight global limit to EUR 2 million that breaks down as follows: the global limit and all specifics limits has been decreased compared to 2019.

Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR
AUD	+/-1.0	NZD	+/-0.5	PLN	+/-0.5	HUF	+/-0.2	RON	+/-0.2
CHF	+/-1.0	SEK	+/-0.5	RUB	+/-0.5	IDR	+/-0.2	RSD	+/-0.2
EUR		SGD	+/-0.5	TRY	+/-0.5	ILS	+/-0.2	SAR	+/-0.2
GBP	+/-1.0	BRL	+/-0.5	TWD	+/-0.2	INR	+/-0.2	THB	+/-0.2
JPY	+/-1.0	CNY	+/-0.5	ZAR	+/-0.5	MYR	+/-0.2	ARS	+/-0.1
USD	+/-1.0	CZK	+/-0.5	AED	+/-0.2	OMR	+/-0.2	BGN	+/-0.1
CAD	+/-0.5	HKD	+/-0.5	BHD	+/-0.2	PEN	+/-0.2	ISK	+/-0.1
DKK	+/-0.5	KRW	+/-0.2	COP	+/-0.2	PHP	+/-0.2		
NOK	+/-0.5	MXN	+/-0.5	EGP	+/-0.2	QAR	+/-0.2		

As at 31 December 2019 the opened positions of SG Luxembourg Group are as follows: since November 2015 the FX position is monitored on a daily basis on the Trading Book perimeter only which explains why the FX levels are close to 0.

IMPACT OF CURRENCY RATE DEPRECIATION ON EQUITY TIER 1 RATIO AND PROFIT

The foreign exchange position is hedged on a daily basis with marginal overnight open positions and no structural FX position remaining at SG LUXEMBOURG level. Considering this no additional capital charge is deemed necessary to cover this risk and no significant impact is to be considered on profit.

OTHER ENTITIES SIGNIFICANTLY EXPOSED TO MARKET RISK

Societe Generale Private Banking (Suisse) S.A.

Societe Generale Private banking Suisse S.A. manages all of its positions through a system based on limits. Those limits are mainly set in terms of positions. On an accounting level the evaluation of the trading portfolio positions is performed daily at the market price.

- Risk management

Monitoring of market risk of Societe Generale Private banking Suisse S.A. is the responsibility of the Risk management the control of the forex activity and of the bonds positions is managed daily in relation to the overnight limits. Such control is performed by the department responsible for market and counterparties risk who then reports daily to the Chief Executive Officer the Chief Operating Officer and the Chief Risk Officer. The Societe Generale Group is informed on those exposures on a weekly basis. Such report contains the market value of the bond positions the forex positions and the commodities positions the utilization the limits applied and the result.

- Risk monitoring and management

Positions for own account are limited to:

- some forex operations and on forex derivatives (spot swap forwards) and on commodities. Daily limits are as follows: Forex: EUR 5 million Commodities: EUR 1 million;
- long positions towards head office (Paris) or other credit institutions allowed by Group policy;
- overnight placings;
- positions from client portfolios following execution errors or commercial gestures from Societe Generale Private Banking Suisse S.A.

Maximum amount of funds / hedge funds that can be held in trading book is of EUR 9 million. Such position should be explained in detail by the Back Office to the Risk Management department validated by the Chief Commercial Officer the Chief Risk Officer the Chief Financial Officer and the Chief Compliance Officer.

Follow-up of client bonds positions in the trading portfolio is performed jointly by the investment and risk teams.

When shares or shares of funds are taken in the trading portfolio Management is informed.

Limits definition is evaluated following a risk appetite estimate from the business line and validated by the Management.

Exposure towards those limits as at 31 December 2019 and 2018 are as follows:

			2019			2018
SGPB Switzerland	**Limit (€k)**	**Average use (€k)**	**% use**	**Limit (€k)**	**Average use (€k)**	**% use**
Stress Test	9 000	1 631.54	18.13%	9 000	1 551.90	17.24%
10bp sensitivity	35	0.81	2.31%	35	0.30	0.86%
Nominal FX Postion	5 000	1 539.67	30.79%	5 000	817.90	16.36%
Precious metal position	1 000	45.65	4.57%	1 000	38.10	3.81%

Societe Generale Private Banking (Monaco) S.A.M.

Societe Generale Private Banking Monaco S.A.M. does not have any management and monitoring capability in relation to market risk. It backs systematically each operation with its head office SG Luxembourg. It therefore does not manage any open position on derivatives. Clients of Societe Generale Private Banking Monaco S.A.M. perform operations on derivatives. Even though the market risk does not exist the counterparty risk exists on such operation.

For those operations clients systematically sign a derivative product convention. If the maturity of the positions is short the potential risk is collateralized by the client investment portfolio. Otherwise a cash collateral is systematically required to cover the position. Such position is accounted for 25 to 30% of the position representing the extreme volatility risk of the position.

Note 9.3. – Liquidity Risk

The Group measures and oversees liquidity risk using gaps (static and stressed) based on "asset-liability" scenarios and using regulatory liquidity ratios (LCR and NSFR).

Liquidity risks reflect a mismatch between statement of financial position's 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 statement of financial position and its run-off are managed by the ALM (Asset and Liability Management) unit and monitored by the ALM Committee which in turn determines the refinancing requirements of the Group's entities.

SG Luxembourg Group is required to report the liquidity ratios defined by the CRD4. The ALM unit is currently responsible for producing and analysing the CRD4 liquidity ratios (LCR and NSFR) of SG Luxembourg Group and sub-group via a process coordinated with Societe Generale Group.

It submits the LCR monthly and the NSFR quarterly to the CSSF and BCL. The ALM unit is also in charge of oversight and projections of the short-term LCR.

The ALM Committee chaired by the Chief Executive Officer of SG Luxembourg meets once a month and supervise and validate the Group's liquidity position based on the associated metrics produced.

1. BREAKDOWN OF FINANCIAL ASSETS BY RESIDUAL MATURITY

31 December 2019

(in EUR thousand)	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined**	**Total**
Cash, due from central banks	9 262 134	–	–	–	–	**9 262 134**
Financial assets at fair value through profit or loss	4 502 852	12 266 294	20 943 221	21 845 950	–	**59 558 317**
Hedging derivatives	447	–	–	–	–	**447**
Financial assets at fair value through other comprehensive income	–	277 225	2 116 459	869 597	–	**3 263 281**
Securities at amortized cost	5 249 680	14 788	122 804	25 453	–	**5 412 725**
Due from banks at amortised cost	4 022 338	1 429 043	2 602 943	1 440 721	–	**9 495 045**
Customer loans at amortised cost	9 871 862	4 156 865	11 344 855	2 983 974	–	**28 357 556**
Investments of insurance activities	41 268	46 017	201 777	238 750	–	**527 812**
Total	**32 950 581**	**18 190 232**	**37 332 059**	**27 404 445**	**–**	**115 877 317**

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Cash, due from central banks	4 941 281	17 919	95 202	119 053	–	**5 173 455**
Financial assets at fair value through profit or loss	3 949 322	8 233 043	20 512 565	17 114 960	–	**49 809 890**
Hedging derivatives	4 161	–	–	–	–	**4 161**
Financial assets at fair value through other comprehensive income	3 603 834	(43 065)	(96 512)	(125 715)	–	**3 338 542**
Securities at amortized cost	1 099 419	1 521 939	3 012 549	8 571	–	**5 642 478**
Due from banks at amortised cost	4 429 511	1 416 013	2 808 676	1 364 741	–	**10 018 941**
Customer loans at amortised cost	5 206 301	5 128 123	13 827 195	1 641 135	–	**25 802 754**
Investments of insurance activities	19 737	40 299	220 886	198 737	–	**479 659**
Total	**23 253 566**	**16 314 271**	**40 380 561**	**20 321 482**	**–**	**100 269 880**

2. BREAKDOWN OF FINANCIAL LIABILITIES BY RESIDUAL MATURITY

31 December 2019

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Financial liabilities at fair value through profit or loss	3 928 884	12 287 777	20 972 412	21 882 825	–	**59 071 898**
Hedging derivatives	218 245	–	–	–	–	**218 245**
Due to banks	7 814 186	7 123 370	7 608 364	2 291 819	–	**24 837 739**
Customer deposits	17 306 154	3 356 905	4 651 808	2 537 837	–	**27 852 704**
Debt securities issued	224 139	–	2	–	–	**224 141**
Subordinated debts	–	–	–	–	–	**–**
Insurance contracts related liabilities	35	17 682	69 155	121 021	–	**207 893**
Total	**29 491 643**	**22 785 734**	**33 301 741**	**26 833 502**	**–**	**112 412 620**

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Financial liabilities at fair value through profit or loss	3 720 127	8 243 433	20 544 638	17 153 012	–	**49 661 210**
Hedging derivatives	225 004	–	–	–	–	**225 004**
Due to banks	5 326 345	4 472 744	8 699 838	1 227 342	–	**19 726 269**
Customer deposits	10 293 620	5 567 865	7 898 271	2 108 509	–	**25 868 265**
Debt securities issued	111 444	309 004	38 142	1 715	–	**460 305**
Subordinated debts	1	400 248	–	–	–	**400 249**
Insurance contracts related liabilities	106	30 986	122 474	92 558	–	**246 124**
Total	**19 676 647**	**19 024 280**	**37 303 363**	**20 583 136**	**–**	**96 587 426**

3. BREAKDOWN OF COMMITMENTS BY RESIDUAL MATURITY

COMMITMENTS GRANTED

31 December 2019

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loan commitments	3 254 803	52 062	684 404	1 796 292	**5 787 561**
Guarantee commitments	1 161 148	48 694	15 439	10 180	**1 235 461**
Securities commitments	877 593	152 091	679 308	2 000 137	**3 709 129**
Total	**5 293 544**	**252 847**	**1 379 151**	**3 806 609**	**10 732 151**

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loan commitments	3 070 805	27 044	641 568	2 229 970	**5 969 387**
Guarantee commitments	1 203 143	52 321	20 758	2 424	**1 278 646**
Securities commitments	15 227	18 253	146 800	2 624 819	**2 805 099**
Total	**4 289 176**	**97 617**	**809 125**	**4 857 213**	**10 053 132**

COMMITMENTS RECEIVED

31 December 2019

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	1 692 687	-	169 687	-	**1 862 374**
Guarantee commitments	1 782 841	-	-	12 630 141	**14 412 982**
From banks	-	-	-	*12 630 141*	***12 630 141***
Other guarantee commitments	*1 782 841*	-	-	-	***1 782 841***
Securities commitments	7 212	-	-	-	**7 212**
Other commitments	6 605 134	-	680 850	-	**7 285 984**
Total	**10 087 874**	**–**	**850 537**	**12 630 141**	**23 568 552**

31 December 2018

(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	2 091 712	–	53 050	–	**2 144 762**
Guarantee commitments	10 082 446	86 026	12 866	1 181	**11 513 967**
From banks	*8 750 998*	*86 026*	*12 866*	*1 181*	***8 851 071***
Other guarantee commitments	*1 331 448*	–	–	–	***1 331 448***
Securities commitments	14 158	824	–	–	**14 982**
Other commitments	1 331 448	–	–	–	**1 331 448**
Total	**13 519 764**	**86 850**	**65 916**	**1 181**	**13 673 711**

Note 9.4. – Operational risk

Operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures human error or external events including IT risk and management risk. Particular attention is paid to the risk of compliance which is the subject of enhanced structural organization.

The Group is engaged in the process of strengthening the control and steering the operational risks implemented by the SG Luxembourg Group. This approach is steered by the operational risks department attached to the Group's risk management division and is relayed by the different units monitoring operational risks responsible for implementing the Group's policies and directives and for monitoring and steering the operational risks.

The valuation of operational risk is based on the advanced assessment approaches deployed under the Basel II reforms. The AMA (Advanced Measurement Approach) method is used to calculate the regulatory capital requirement for operational risk.

Although the primary responsibility for controlling operational risks lays down with all department managers within the business lines and support functions who must promote the culture of operational risks within their teams on a daily basis the follow-up organization relies mainly on 3 processes supervised by the operational risk departments and consolidated within the SG Luxembourg Group:

i. the periodic self-assessment of the risks and controls (Risk and Control Self-Assessment- RCSA) which aims to:
   - identify and measure the operational risks inherent in each activities and department of all entities of SG Luxembourg Group;
   - assess the quality of prevention and control systems in place to reduce these risks and thereby measure exposure to the latent risks with which each activity/department must contend;
   - implement corrective action plans.

ii. the gathering of internal data relating to losses associated with operational risks with a comprehensive declaration and on a specific tool providing all the information necessary for analysis and monitoring this data being relayed to the senior management. The approach closely follows the formulation and follow-up of corrective actions that have to be subject to a degree of criticality a deadline and the appointment of a manager;

iii. analyses of scenarios targeting particularly sensitive functions and processes within the Group. These are assessments of severe operational risks which the Group may face under certain conditions. These analyses aim to assess rarely occurring but extremely severe potential losses.

NOTE 10 – CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor. The adequacy of the Group's capital is monitored using among other measures the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios).

SG Luxembourg Group has fully complied with all its externally imposed capital requirements over the reported period.

Note 10.1. – Capital management

As part of managing its capital the Group (under the supervision of the Finance Division) ensures that its solvency level is always compatible with the following objectives:

- 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 scenarios;
- meeting the expectations of its various stakeholders: supervisors debt and equity investors rating agencies and shareholders.

The Group determines its internal solvency targets in accordance with these objectives and regulatory thresholds.

The 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.

The Group has fully complied with all its externally imposed over the reported period.

1. LEVERAGE RATIO MANAGEMENT

The Group steers its leverage effect according to the CRR leverage ratio rules as amended by the delegated act of 10th October 2014.

Steering the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Group's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Group sets for itself. To this end the "leverage" exposure of the different business lines is contained under the Finance Division's control.

The group fully complied with all its externally imposed capital requirements over the reported period.

Return on assets (i.e. Net Income divided by the total consolidated statement of financial position per consolidated financial statements) for the Group stood at 0 24% as at 31 December 2019 (2018: 0.29%).

2. LARGE EXPOSURES

The CRR (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such the SG Luxembourg Group must not have any exposure where the total amount of net risks incurred on a single beneficiary exceeds 25% of the Group's capital.

The eligible capital used to calculate the large exposure ratio is the 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%).

Note 10.2. – Regulatory capital

Reported according to international financial reporting standards (IFRS) Societe Generale's regulatory capital consists of the following components.

1. COMMON EQUITY TIER 1 CAPITAL

According to CRR/CRD4 regulations 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;
- unrealized capital gains and losses on cash flow hedging;
- income on own credit risk;
- deferred tax assets on tax loss carry forwards;
- 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 loss on equity portfolio exposures;
- value adjustments resulting from the requirements of prudent valuation;
- securitization exposures weighted at 1 250% where these positions are not included in the calculation of total risk weighted exposures.

2. TIER 2 CAPITAL

Tier 2 capital includes:

- undated deeply subordinated notes;
- dated 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.

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares;
- holding of Tier 2 hybrid shares issued by financial sector;
- entities;
- share of non-controlling interest in excess of the minimum capital requirement in the entities concerned.

SG Luxembourg is benefiting from a favorable assessment by the rating agency Standard & Poor's with regard to the Group's financial stability: A-1 in the short term A in the long term (confirmed in October 2018).

The Group's capital on a consolidated basis is made of:

- core Tier I capital: EUR 2 468 million (2018 2 560 million);
- additional eligible capital: EUR [0] million (2018: 360 million).

The Group has not issued any hybrid securities or subordinated borrowings not eligible for prudential capital.

NOTE 11 – EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

NOTE ON THE CHANGE OF NAME OF THE GROUP

In 2019 the Board of Societe Generale Bank & Trust Group has decided to change its name to Societe Generale Luxembourg. The new name became official on 27 January 2020.

NOTE ON COVID 19 CRISIS

The development of the COVID-19 virus into a pandemic has created an unprecedented environment both operationally and in financial markets. In this context, the Bank has been closely monitoring the situation and following instructions with the whole Societe Generale Group given by the World Health Organisation and the authorities in Luxembourg. The Bank has put in place the necessary measures to ensure business continuity with consideration for staff and client health and safety as a priority. It is too early to perform a detailed assessment of the impact on Societe Generale. Nevertheless, it is expected that the financial market environment will affect the Bank's fee and net interest income through, respectively, reduced assets under management levels and reduced margins on client cash holdings given the reduced interest rates enacted as part of stimulus measures.

As at 31 December 2019, the COVID crisis had no impact on the Bank's financial statements, neither on net income nor on net cost of risk.

As a result economic uncertainties have arisen which are likely to negatively impact 2020 net income and financial position. Given then uncertainties and ongoing developments the Bank cannot accurately and reliably estimate the quantitative impact. Given that Societe Generale Luxembourg enjoys strong solvency and short-term liquidity levels well above regulatory requirements, the Bank's sustainability in the coming year and beyond is not expected to be affected.

Societe Generale Luxembourg
Société Anonyme
11, avenue Emile Reuter
L-2420 Luxembourg

R.C.S. Luxembourg: B 006.061

Photo credits: Olivier Minaire Photography
Studio Société Générale – Réf.: (A) 720469 – 05/2020.

Societe Generale participates in the financing of paper recycling. This document was printed on paper from sustainably managed forests.