SOCIETE GENERALE LUXEMBOURG

PILLAR 3 2022

RISK REPORT

Societe Generale Luxembourg
11 Avenue Emile Reuter
L-2420 Luxembourg

Pillar 3 on 31 December 2022 positions

R.C.S. Luxembourg: B 006.061

CONTENTS

FOREWORD . . . 3

1. KEY FIGURES . . . 4

1.1 ENVIRONMENTAL AND SOCIAL RISK STRATEGY . . . 5

1.2 UKRAINE AND RUSSIAN CRISIS IMPACT ON RISK MANAGEMENT . . . 6

2. GOVERNANCE AND RISK MANAGEMENT ORGANISATION . . . 7

2.1 INTRODUCTION . . . 7

2.2 TYPES OF RISKS . . . 7

2.3 RISK APPETITE . . . 8

2.4 RISK MAPPING FRAMEWORK AND STRESS TESTS . . . 8

2.5 RISK PLAYERS AND MANAGEMENTS . . . 9

2.6 INTERNAL CONTROL . . . 13

3. CAPITAL MANAGEMENT AND ADEQUACY . . . 15

3.1 THE REGULATORY FRAMEWORK . . . 15

3.2 SCOPE OF APPLICATION – PRUDENTIAL SCOPE . . . 16

3.3 REGULATORY CAPITAL . . . 17

3.4 CAPITAL REQUIREMENTS . . . 18

3.5 CAPITAL MANAGEMENT . . . 19

3.6 LEVERAGE RATIO MANAGEMENT . . . 21

3.7 RATIO OF LARGE EXPOSURES . . . 23

3.8 QUALITATIVE AND QUANTITATIVE INFORMATION ON REGULATORY OWN FUNDS AND COUNTERCYCLICAL CAPITAL BUFFER . . . 24

4. CREDIT RISKS . . . 32

4.1 CREDIT RISK MANAGEMENT: ORGANISATION AND STRUCTURE . . . 32

4.2 CREDIT POLICY . . . 32

4.3 RISK SUPERVISION AND MONITORING SYSTEM . . . 33

4.4 IFRS 9 ORGANISATION . . . 35

4.4.1 CRISES: COVID-19 AND WAR IN UKRAINE . . . 36

4.5 REPLACEMENT RISK . . . 41

4.6 HEDGING OF CREDIT RISK . . . 42

4.7 RISK MEASUREMENT AND INTERNAL RATINGS . . . 44

4.8 QUANTITATIVE INFORMATION ON CREDIT RISK AND COUNTERPARTY CREDIT RISK . . . 47

5. SECURITIZATION . . . 55

5.1 SECURITIZATION . . . 55

5.2 ACCOUNTING METHODS . . . 55

5.3 MONITORING OF SECURITIZATION RISKS . . . 55

6. MARKET RISKS **56**
6.1 ORGANISATION 56
6.2 INDEPENDENT PRICING VERIFICATION 56
6.3 METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS 56
6.4 RISK-MITIGATION AND HEDGING 57
6.5 MARKET RISK CAPITAL REQUIREMENTS 57
7. OPERATIONAL RISKS **58**
7.1 OPERATIONAL RISK MANAGEMENT: ORGANISATION AND GOVERNANCE[4] 58
7.2 OPERATIONAL RISK MEASUREMENT 59
7.3 OPERATIONAL RISK MONITORING PROCESS 60
7.4 OPERATIONAL RISK MODELLING, INSURANCE AND CAPITAL REQUIREMENTS 61
8. STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS **62**
8.1 ORGANISATION OF THE MANAGEMENT OF STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS 62
8.2 STRUCTURAL INTEREST RATE RISK (INTEREST RATE RISK IN THE BANKING BOOK – IRRBB) 63
8.3 STRUCTURAL FOREIGN EXCHANGE RATE RISK 64
9. LIQUIDITY RISK **65**
9.1 GOVERNANCE AND ORGANISATION 65
9.2 THE APPROACH TO LIQUIDITY RISK MANAGEMENT 65
9.3 REFINANCING STRATEGY 66
9.4 ASSET ENCUMBRANCE 66
9.5 REGULATORY LIQUIDITY RATIOS 67
10. COMPLIANCE, REPUTATIONAL AND LEGAL RISKS **72**
10.1 COMPLIANCE 72
10.2 RISKS AND LITIGATION 74
11. RISKS RELATING TO INSURANCE ACTIVITIES **75**
12. REMUNERATION **76**
12.1 SGL GROUP'S REMUNERATION POLICY 76
12.2 ADDITIONAL INFORMATION ABOUT REGULATED STAFF 76
13. APPENDIX **78**
13.1 PILLAR 3 CROSS REFERENCE TABLE 78
13.2 INDEX OF THE TEMPLATES DISCLOSED IN THE PILLAR 3 79
13.3 GLOSSARY 82

FOREWORD

The purpose of this report is to provide Pillar 3 disclosures for Société Générale Luxembourg Group (hereafter "SGL Group") as required by the regulatory framework for capital & liquidity pursuant to Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR"). The CRR was amended by the Regulation (EU) No 2019/876 ("CRR 2") and has entered fully into to force since 28 June 2021.

The CRR 2 significantly amends the CRR in several aspects, such as the standardized approach for counterparty credit risk (SA-CCR), the introduction of minimum requirements for leverage ratio (LR), net stable funding ratio (NSFR), own funds and eligible liabilities (MREL). Following CRR article 434a, the EBA has implemented a more comprehensive, unified and standardized approach to Pillar 3 that holds its own Implementing Technical Standards on institutions' public disclosures. This will repeal the disclosure requirements included in the previous regulations and guidelines.

In line with CRR Article 13 (1), significant subsidiaries and those subsidiaries which are of significance for their local market are required to disclose information to the extent applicable in respect to own funds, capital requirements, countercyclical capital buffers, credit risk, remuneration policy, leverage ratio and liquidity requirements on an individual or sub-consolidated basis. Being of a part of Société Générale Group (hereafter "SG Group"), Société Générale Luxembourg (hereafter "SGL" or "Bank") has been identified as significant subsidiary and hence required to provide additional disclosure requirements in accordance with CRR Article 13 (1) on sub-consolidated basis.

According to CRR article 433 (2), SGL Group is required to publish the Pillar 3 disclosure report on an annual basis on its website.

The information presented in this document aims at providing a comprehensive description of SGL Group's Risk Management organization, along with a quantitative and qualitative overview of SGL Group's risk exposure as of December 31, 2022.

Please note that some rows and columns from the Pillar 3 templates that are not relevant or not applicable would not be disclosed in order to enhance readability.

1. KEY FIGURES

This risk report provides in-depth information on the SGL Group's approach and strategy for managing its equity capital and risks.

The report also aims to meet the requirements of various stakeholders, including regulators (in compliance with Part Eight of the CRR), investors and analysts.

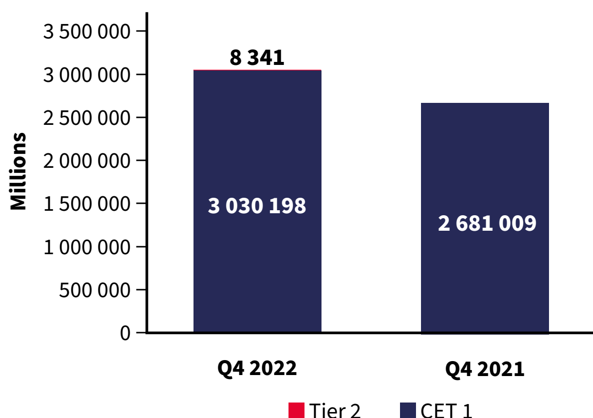
SUMMARY CONSOLIDATED PROFIT AND LOSS[1]

(in EUR thousand)	31 December 2022	31 December 2021
Net banking income	807 857	703 680
Net income for the period	232 578	303 907
Net income for the period/ total assets	0.34%	0.45%
Cost of risk	(168 298)	2 045

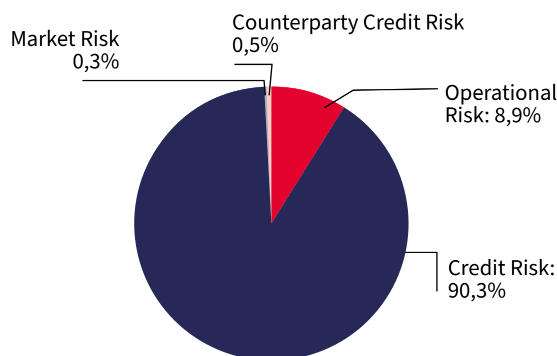
SUMMARY CONSOLIDATED BALANCE SHEET[1]

(in EUR thousand)	31 December 2022	31 December 2021
Total Assets	67 889 036	66 841 783
Total Liabilities	64 310 794	63 495 231
Total Equity	3 578 242	3 346 552

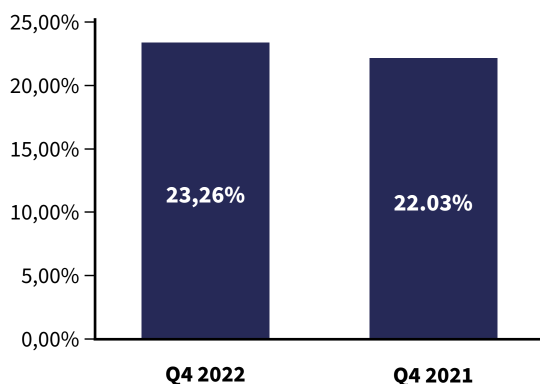
SGL GROUP OWN FUNDS



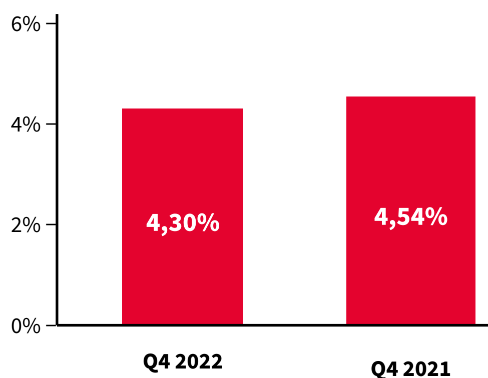
SGL GROUP RWAS BY RISK TYPE



SGL GROUP SOLVENCY RATIO

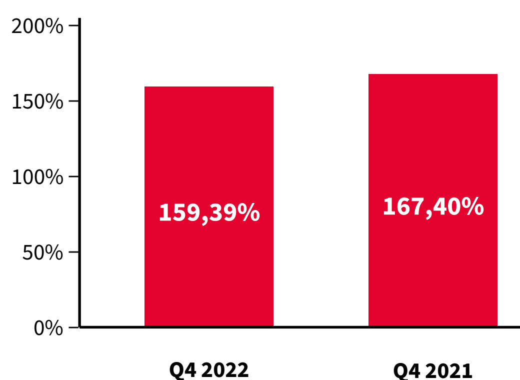


SGL GROUP LEVERAGE RATIO

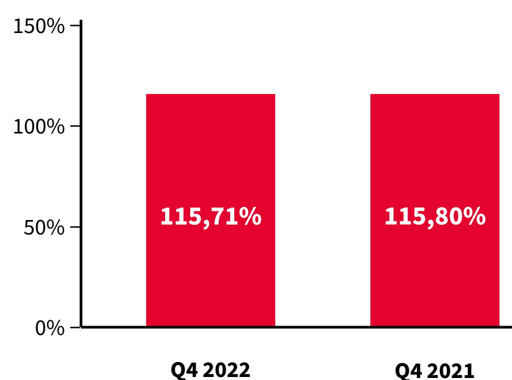


1 As per consolidated financial statements.

SGL GROUP LIQUIDITY COVERAGE RATIO



SGL GROUP NET STABLE FUNDING RATIO



1.1 ENVIRONMENTAL AND SOCIAL RISK STRATEGY

Being one of the oldest banks in Luxembourg, SGL 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.

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

As a Corporate, we natively pursue our environmental and social initiatives in order to be a responsible employer and to contribute positively to climate and environment preservation.

As a Bank, we aim to embed ESG in all our activities, and in particular by intensifying our offer of sustainable and positive impact investment products and services, and by fostering sustainable and positive impact financing and services.

The third pillar of our strategy is to **enrich our environmental and social risk framework** in order to follow carefully the ESG Group's mandatory instructions, but also to anticipate regulatory developments at the local and European levels.

SGL Group is focusing on:

- Enriching existing risks maps with the environmental and social risk dimension:
  - Operationalize SG Group's ESG strategy and commitments (Portfolio alignment, Sectorial Policies, Voluntary disclosures, reduction of greenhouse gas footprint, Responsible employer…)
  - Address regulatory obligations (ECB guidelines on Climate & Environmental EBA guidelines on Loan Origination, Mandatory disclosure, EU Taxonomies,…)
  - A E&S Risk factors identification was realized since 2021 within ICAAP exercises, following the publication in November 2020 of the ECB guide on climate related and environmental risks
  - An add on Internal Capital Need (ICAAP 2022) has been calculated by applying SG Group methodology on SGL credit portfolio to quantify these new ESG risk factors
- Updating risk assessment and reporting tools and procedures:
  - Integration and subsequent monitoring of a renewable limit in SGL Risk Appetite Statement since 2021
  - ESG risk analysis was introduced within corporate credit granting process when relevant (counterparties belonging to sensitive sectors)
  - On Private Banking activities, enforcement of exclusion list for eligible financial collateral in the Credit Policy and the appropriate approach for real estate financing is currently under evaluation
- Updating its governance to foster and control the adequate integration of this dimension into our risk management framework:
  - Appointment of a CSR Coordinator in charge of coordinating and implementing the CSR strategy defined by the BUs/SUs and monitoring the E&S risk framework
  - Launch of a quarterly CSR Committee at SGL Group level in 2019 in charge of monitoring the strategy and coordinating our various CSR initiatives
  - Launch of a CSR Community in 2019 with more than 250 members as today
  - Launch in January 2021 of a monthly CSR Risk Management Committee (in charge of ensuring compliance with the transposition of Environmental and Social instructions and regulations in our regulatory framework)
- Educating our stakeholders on this environmental and social dimension.

1.2 UKRAINE AND RUSSIAN CRISIS IMPACT ON RISK MANAGEMENT

The economic and financial environment remains exposed to intensifying geopolitical risks. Tensions between Russia and Western countries over the situation in Ukraine have increased significantly since mid-February 2022. The exceptional economic and financial sanctions put in place by a large number of countries, particularly in Europe and the United States, against Russia and Belarus could significantly affect operators with links to Russia, with a material impact on SGL Group's risks (credit and counterparty, reputation, compliance, legal, operational, etc.).

Based on the sanctions published since the beginning of the conflict, the SGL Group is exposed to Russian risk either through compliance and reputation risk or through credit risk (namely in the corporate financing activity and the private banking activity).

Since the start of the crisis, SGL had set up a very close monitoring of its credit exposures on Russian counterparties and clients:

- In terms of compliance and reputation risk, the regulatory framework is updated every day and the potential impacts on SGL Group are meticulously assessed, based on a clear and up to date view of the client portfolio.
- A regular review of the credit exposures is performed, and corrective measures are decided. Every file is subject to deep analysis, all the options are assessed, and decisions are taken in order to minimize the risk of loss for the Bank while being in full compliance with the regulation and the international decisions.
- In terms of operational risk and IT security, protective measures were taken very quickly in order to prevent cyberattacks (fixing of vulnerabilities in web applications, strengthening of the password policy).

However, any new international sanctions or Russian countermeasures could have an impact on the global economy and consequently on the SGL Group risks. SGL Group will continue to analyze in real time the developments of this crisis and its impacts and will enforce the necessary measures to comply with legislation in force and protect SGL Group's franchise.

In order to cover these risks, SGL Group has computed a dedicated overlay based on multi-scenarios approach.

2. GOVERNANCE AND RISK MANAGEMENT ORGANISATION

In accordance with Regulation CRR 575/2013 of the European Parliament and of the Council dated 26 June 2013 and with the CSSF circular 17/673, this report, published under the responsibility of SGL Group Authorised Management, sets out the quantitative and qualitative information required on own funds and risk management within SGL Group, to ensure transparency vis-à-vis market players. This information has been prepared in compliance with the internal control procedures approved by the Board of Directors in the course of the validation of the SGL Group Risk Appetite Framework and SGL Group Risk Appetite Statement.

SGL Group is part of SG Group and as such SGL risk profile is integrated into the monitoring performed by SG Group. The risk profile and governance of SG Group is detailed in a separate Pillar 3 report published on the website of SG Group. On a consolidated basis, exposures towards SG Group represent about 39% of total exposures which in the various tables of Chapter 4 Credit Risk primarily relate to exposures to "Institutions".

2.1 INTRODUCTION

A strong risk culture is an integral part of the corporate culture. The identity of SG Group and SGL Group are built around four values: teamwork, innovation, commitment and responsibility. The SGL Group strives for all staff to adopt these values and conduct their business with ethics and responsibility. These elements of culture and expected behaviours are criteria incorporated into the entire HR process (recruitment, performance assessment, promotion, compensation, penalties, etc.). The notion of risk specific to a function is explicitly included in each job description sent to employees and is emphasized when setting objectives.

2.2 TYPES OF RISKS

SGL Group's business model involves the following main risk categories:

- **Credit and counterparty risk (including concentration effects)** is the risk of losses arising from the inability of customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and securitisation activities. In addition, credit risk may be further amplified by individual, country and sector concentration risk.
- **Market risk** is the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include but are not limited to exchange rates, interest rates, and the price of securities (equity, bonds), commodities, derivatives and other assets.
- **Operational risk** is the risk of losses resulting from inadequacies or failures in processes, personnel or information systems, or from external events.
- **Structural interest and exchange rate risk** is the risk of losses of interest margin or of the value of the fixed-rate structural position due to changes in interest or exchange rates. Structural interest and exchange rate risks arise from commercial activities and from corporate centre transactions.
- **Liquidity risk** is the inability to meet financial obligations at a reasonable cost. Funding risk is the risk of being unable to finance the development of activities in line with commercial objectives and at a competitive cost.
- **Non-compliance risk** (including legal and tax risks) is the risk of court-ordered, administrative or disciplinary sanctions, or of material financial loss, due to failure to comply with the provisions governing activities.
- **Reputational risk** is the risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the ability to maintain or engage in business relationships and to sustain access to sources of financing.

- **Risks related to insurance activities:** through its reinsurance subsidiaries (SG Ré, SGL Ré) and its newly created credit insurance subsidiary SG LuCI, SGL is exposed to risks related to this business, mainly balance sheet management risks (interest rate, valuation, counterparty and foreign exchange risk).

2.3 RISK APPETITE

Risk appetite is the level of risk that SGL Group is prepared to bear in the course of pursuing its strategic objectives. It is formalised in the risk appetite statement document, which describes the principles, policies and metrics that set the risk appetite. The definition of the risk appetite framework and how to adapt it are under the oversight of the Authorised Management. The Authorised Management regularly ensures compliance with the risk appetite framework and is responsible for ensuring the effectiveness and integrity of the risk appetite implementation mechanism.

The SGL's Board of Directors approves annually the risk appetite governance, implementation and adaptation mechanism. The Board is regularly informed through the Risk and Compliance Committee of the risk appetite framework and whether the mechanism is operating appropriately based on periodic assessments by the Internal Audit Division. The Board also sets the compensation of the Authorised Management and decides on the principles of the compensation policy, in particular for regulated persons whose activities may have a significant impact on the bank's risk profile and ensures that they are in keeping with risk management objectives. The risk appetite exercise is shared with the various business lines and performed in a manner consistent with objectives, budget procedures and limits. It is also shared with the Finance and Risk Divisions of SG Group. The scope of the risk appetite framework matches the consolidated prudential scope in force for establishing its various regular disclosures to the ECB and the CSSF. Risk appetite in relation to the major risks to which SGL Group is exposed is regulated by limits and thresholds. These metrics aid in reaching financial targets and orienting the profitability profile.

2.4 RISK MAPPING FRAMEWORK AND STRESS TESTS

The risks to which SGL Group is exposed are each covered by measurement elements standardized at SG Group level and/or by regulations. The Risk Division's information system for monitoring loans relies on a regular reconciliation of commitments, collateral and internal credit limits. This credit risk architecture is regularly upgraded and maintained according to the project and development maintenance catalogues of the Risk Division to ensure risk monitoring and regulatory requirements. The liquidity and exchange rate risk monitoring mechanism, which is based on SG Group reporting tools and calculators, is linked to the same architecture to ensure consistency between the risk and finance functions and the managed indicators. Oversight of operational risk is primarily provided via the use of an SG Group community tools for entering, reporting and consolidating information, including incidents, permanent monitoring and action plans.

Stress tests or crisis simulations are used to assess the potential impact of a downturn in activity on the behaviour of a portfolio, activity or entity. They are used to help identify, assess and manage risk, and to evaluate SGL Group's capital adequacy with regard to risks.

In the context of the budget, SG Group performs annually, in November, a stress test exercise (referred to "Budget global stress" or "stress global du budget" in French) aiming at assessing the resilience of SG Group in a plausible but severe scenario in which all the risks would not materialize simultaneously.

In the 2022 budget year, SG Group used models of projected income to estimate, under stress, the commissions and income from investment banking customers. These models had already been tested during the 2019 EBA stress test exercise and have continued to be improved since then taking account of the feedback from business experts.

SGL Group stress test (balance sheet, net banking income and risk weight assets impacts) has been built on the basis of SG Group stress test by businesses considering some adjustments reviewed with the businesses (both in Luxembourg and at the SG Group level).

As such, the stress test framework in place is part of preparing SGL Group's Risk Appetite and Internal Capital Adequacy Assessment Process (ICAAP). It is used in particular to check SGL's compliance with prudential ratios. It covers all of SGL Group's activities and is based on two global three-year-horizon macroeconomic scenarios: a core budgetary macroeconomic scenario and a macroeconomic scenario of severe but plausible stress extrapolated on the basis of the core scenario. Each scenario is developed for a large number of countries or regions and incorporates a series of economic and financial variables. Each global scenario is consistent on two levels: consistency

between national scenarios and consistency of trends in national aggregates for each individual country.

The core scenario is meant to represent the most likely course of events at the time of its formulation. It is developed on the basis of a series of observed factors, including the recent economic situation and trends in economic (budgetary, monetary and exchange rate) policy. Based on these observed factors, economists determine the most likely trajectory for the economic and financial variables over a given time frame.

The stressed scenario is intended to simulate a loss of business (based on real GDP figures) deviating from the core scenario, on a scale similar to that observed during a past baseline recession chosen for its severity. It is a systematic stress scenario, meaning it is constant in scale from one period to the next, whatever the trajectory forecast by the core scenario, as long as the baseline recession remains constant. The stress scenario is also generic, in that its triggering event is not specified. The impact of the stress scenario on the other economic and financial variables is determined by measuring its deviation from the core scenario.

The stagflationary Stress scenario starts from a negative supply shock, modelled on the 1979 oil price shock, with an oil equivalent energy price shock of $70/b, $120/b, $80/b, $50/b over 4yrs.

This initial energy price shock then spills over to broader commodity prices and triggers protectionist measures. The inflation shock for the advanced economies is set to +6 pts in the first year after the initial shock, followed by +2 pts, +1 pt and +1 pt in the subsequent three years.

The major Central Banks respond promptly to the price shocks to avoid that the initial direct price shocks and related indirect effects will spill over to more durable second rounds effects (wage-price spiral). As a result, yield curves invert. While not the initial cause, a financial crisis results. In the euro area, sovereign spreads come under renewed sharp pressure.

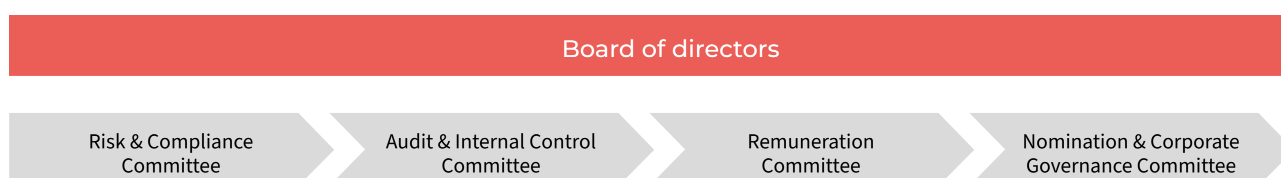
The supply side of the economy comes under pressure as production costs increase and with potential disruption to the availability of inputs, while the demand side suffers from a loss of purchasing power as incomes fail to keep pace with headline inflation. The demand side is further dampened by a sharp tightening of financial conditions. Already in the first year after the initial shock, a severe hit materializes on GDP growth (-5 pts). This is followed by a GDP growth shock of -3 pts, -1.5 pt and -0.5 pt in the subsequent three years. The GDP growth shock is set identical across the advanced and emerging economies.

As the demand side of the economic slumps, inflationary pressures start to ease in the second year of the shock albeit it still at high levels due to on-going supply side frictions. While Central Banks find some room for policy easing, this is very gradual only and not least compared to the easing cycles observed in recent decades.

The Stagflationary Stress further assumes that governments do not respond with fiscal easing beyond the automatic stabilizers. Governments may find fiscal capacity to be limited given already elevated government debt levels and tighter financial conditions.

2.5 RISK PLAYERS AND MANAGEMENTS

As of 31 December 2022, the specialized committees of the Board were:



- **Audit and Internal Control Committee:** At 31 December 2022, the Audit and Internal Control Committee comprised four members including three Independent Directors: Didier MOUGET (independent director), Isabelle GOUBIN (independent director), Marie DOUCET (independent director) and Patrick SUET. The Committee is chaired by Didier MOUGET.

The Audit and Internal Control Committee's mission is to monitor issues related to the preparation and control of accounting and financial information as well as the monitoring of the effectiveness of internal control, measurement, monitoring and risk control systems.

In particular, it is responsible for:

- ensuring the monitoring of the process for the production of the financial information, particularly reviewing the quality and reliability of existing systems, making proposals for their improvement and ensuring that corrective actions have been implemented in the event of a malfunction in the process; where appropriate, it makes recommendations to ensure their integrity;
- analysing the draft accounts to be submitted to the Board of Directors in order to, in particular, verify the clarity of the information provided and assess the relevance and consistency of the accounting methods adopted for drawing up annual accounts and consolidated annual accounts;

- conducting the procedure for selecting the Statutory Auditors and issuing a recommendation to the Board of Directors, developed in accordance with the provisions of the CSSF Circular 12/552;
- ensuring the independence of the Statutory Auditors in accordance with the regulations in force;
- approving the provision of services other than the certification of accounts after analyzing the risks to the Statutory Auditor's independence and the safeguard measures applied by the latter;
- reviewing the work programme of the Statutory Auditors and, more generally, monitoring the control of the accounts by the Statutory Auditors in accordance with the regulations in force;
- ensuring the monitoring of the effectiveness of internal control, risk management and internal audit systems, with regard to the procedures for the preparation and processing of the accounting and financial information. To this end, the Committee is responsible in particular for:
  - reviewing SGL Group's permanent control quarterly dashboard,
  - reviewing the internal control and risk control of the business segments, divisions and main subsidiaries,
  - reviewing SGL Group's periodic monitoring program and giving its opinion on the organisation and functioning of the internal control departments,
  - reviewing the reports prepared in order to comply with the regulations in terms of internal control

It regularly reports to the Board of Directors on the performance of its missions, including the outcomes of the mission of certification of the accounts, how this mission contributed to the integrity of the financial information and the role it played in this process. It informs the Board of Directors without delay of any difficulty encountered.

The Statutory Auditors are invited to the Audit and Internal Control Committee meetings.

The Audit and Internal Control Committee also includes the heads of the internal control functions (risk, second level permanent control, compliance, internal audit) as well as the Chief Financial Officer and, where necessary, the managers in charge of preparing the accounts, internal control, risk control, compliance control and periodic control.

- **Risk and Compliance Committee:** At 31 December 2022, the Risk and Compliance Committee comprised three Directors, including two Independent Directors: Isabelle GOUBIN (independent director), Didier MOUGET (independent director) and Frédéric SURDON. The Committee is chaired by Isabelle GOUBIN.

The Risk and Compliance Committee advises the Board of Directors on the overall strategy regarding Risks and Compliance and the appetite regarding all kinds of risks, both current and future, and assists it when it controls the implementation of this strategy. Its objective is also to assess the risk management taking into account regulatory changes and their impacts.

In particular, in terms of Risks, it is responsible for:

- presenting a synthesis of the risk supported by SGL Group:
  - quality of credit portfolio
  - non-performing loans and net cost of risk ratio
  - operational losses and related action plans
  - IT security and business continuity management items
  - market risk limits overview
- preparing the debates of the Board of Directors on documents relating to risk appetite;
- reviewing the risk control procedures and is consulted for the setting of overall risk limits;
- undertaking a regular review of the strategies, policies, procedures and systems used to detect, manage and monitor the liquidity risk and communicating its conclusions to the Board of Directors;
- issuing an opinion on SGL Group's provisioning policy, as well as on specific provisions for significant amounts;
- reviewing the reports prepared to comply with the banking regulations on risks;

In terms of Compliance, it is responsible for:

- presenting the regulatory changes and their impact on processes and procedures regarding the fight against money laundering and terrorist financing, professional and personal ethics
- presenting the result of the work, checks and findings carried out in terms of: KYC/AML/FT, interests' clients and investors protection, markets' integrity, personal ethics, compliance issues related to new products and services, cross-border activities, data protection or tax transparency issues
- reviewing the quality of the processes and the progress of implementation of new tools/methodologies' projects
- reviewing suspicious transaction reports and information/ investigation's requests from authorities
- reviewing complaints related to Compliance issues
- monitoring the observations and reports of regulatory authorities;
- **Remuneration Committee:** At 31 December 2022, the Remuneration Committee comprised four Directors, two Group representative, one Independent Director and one Director representing employees: Marie DOUCET, Patrick FOLLEA, Christophe LATTUADA and Frédéric ROVEDA. The Committee is chaired by Marie DOUCET.

The Remuneration Committee prepares the decisions that the Board of Directors adopts regarding compensation, especially those that have an impact on the risk and the management of risks in the Company.

It conducts an annual review of:

- the principles of the Company's compensation policy;
- the compensation policy for regulated employees within the meaning of the banking regulations;
- **Nomination and Corporate Governance Committee:** At 31 December 2022, the Nomination and Internal Governance Committee comprised two Directors and one Independent

Director: Patrick SUET, Christophe LATTUADA and Marie DOUCET (independent director). The Committee is chaired by Patrick SUET.

The Nomination and Corporate Governance Committee:

- is responsible for making proposals to the Board of Directors for the appointment of Directors and Committees members as well as on the succession of the executive officers, especially in the event of an unforeseeable vacancy, after having carried out necessary studies. To this end, it prepares the selection criteria to be submitted to the Board of Directors, proposes to the Board of Directors an objective to be achieved in relation to the balanced representation of women and men on the Board of Directors and develops a policy designed to achieve this objective;
- periodically reviews the structure, size, composition of the Board of Directors and its work effectiveness and submits to the Board of Directors any recommendation relevant to the carrying out of the annual assessment of the Board of Directors and its members;
- periodically reviews the Board of Directors' policies regarding the selection and appointment of the members of the management body and Key Functions (Chief Risk Officer, Chief Compliance Officer and Chief Internal Audit Officer) and Effective Senior Managers; it makes recommendations in this area;
- is informed in advance of the appointment of the Chief Risk Officer, Chief Compliance Officer, Chief Internal Audit Officer and Chief Finance Officer. This committee is also informed of the succession plan for these senior officers;
- prepares the review by the Board of Directors of corporate governance issues as well as the Board of Directors' work on matters relating to Corporate culture.

Oversight of internal control and risk management is also exercised by a number of additional committees directly chaired by the Authorized Management:

- The Finance Committee which defines SGL Group's financial strategy and ensures the steering of scarce resources (capital, liquidity, balance sheet and fiscal capacity), their allocation, and the monitoring of structural risks.
- The Assets Liabilities Committee ensures the control of structural risks (Interest rate and foreign exchange risks in the banking book and, Liquidity risk of the entire banking and trading book) including employee benefits and their investments, in compliance with the Group's ALM standards
- The Enterprise Risk Committee which objective is to enable SGL management to ensure the management and reporting of the major cross-sector risk processes within the scope of SG Luxembourg
- The Compliance Committee reviews the non-compliance risks of the perimeter of SGL Group and the related main elements at stake.
- The IS Security Committee defines and follows SGL Group's: security policy strategy and governance, data leakage, security and security incidents reporting, prioritization of actions based on risk assessments, optimization of capital allocated to Information Security and all other areas essential to the management of security policy. It also ensures consistency with SG Group projects and the defined SG Group strategy.
- The IS Strategic Committee validates SGL information system strategy, follows this strategy and follows the decommissioning plan
- The Internal Control Coordination Committee ensures the consistency and effectiveness of internal control within SGL Group and evaluates in detail the control framework
- The Data Quality Committee oversees the definition, prioritization, and implementation of remediation plans to correct quality anomalies
- The Outsourced Services Committee Review monitors the portfolio of outsourced services ("OS") of Société Générale Luxembourg and subsidiaries within the risk management framework
- The CSR Committee defines SGL's Corporate Social Responsibility strategy and monitors its effective implementation.

The main Divisions in charge of risk managements are:

The Risk Division whom main responsibilities are to contribute to the development of SGL Group's activities and profitability by defining its risk appetite (broken down by business) under the aegis of the Authorized Management and in collaboration with the Finance Division and Core Businesses, and to establish a risk management and monitoring system. In exercising its functions, the Risk Division reconciles independence from the business lines and close cooperation with the Core Businesses, which bear primary responsibility for the transactions that they initiate. Accordingly, the Risk Division oversees the risk function hierarchically or functionally.

To this end, the Risk Division is responsible for setting the risk appetite; identifying all risks; implementing a governance and monitoring system for these risks, including cross-business risks, regularly reporting on their nature and extent to Authorized Management, the Board of Directors and the supervisory authorities; contributing to the definition of risk policies, taking into account the aims of the business lines and the relevant risk issues; defining and validating risk analysis, assessment, approval and monitoring methods and procedures; validating transactions and limits proposed by business managers; defining and validating the risk monitoring information system; and ensuring its suitability for the needs of the businesses.

The Risk Division manages:

- Credit risk through a process shared across all business units that ensures the authorisation of risk taking and controls of the risk. The main components of this mechanism are a prior analysis of the risk by a credit risk monitoring unit followed by an approval process procedure of any risk taking, and complemented by daily, monthly and quarterly reviews of compliance with risk taking limits and the suitability of collateral;
- Operational risk through a second-level of supervision which defines, challenges and controls the first line of defence which is part of business lines. A set of indicators and exercises guarantees the resilience of the bank: an annual exercise aimed at risk assessment and mapping, a set of key risk indicators, a mechanism for collecting and

tracking operational risk incidents, a crisis management and business continuity mechanism;

- Market risk through the daily monitoring of risk metrics (primarily the Value at Risk and Stressed Value at Risk) in order to ensure exposures remain within limit levels approved by the bank's Board.
- Supervision of ALM Risk (IRRBB Risk and Liquidity Risk) as second line of defense (cf. below)

The Compliance Division is responsible for compliance and ensures that banking and investment activities are compliant with all laws, regulations and ethical principles applicable to them. It also manages reputational risk. Compliance risk management includes dedicated procedures related to:

- Anti-money-laundering and terrorism financing (including S&E issues);
- ABC& Ethics and Conduct (ABC, CSR)
- Client protection;
- Market integrity;
- Tax transparency
- Data protection

Furthermore, the compliance function is in charge of overseeing the annual assessment of exposure to compliance risks, which consists of a granular assessment of intrinsic regulatory risks and the means implemented to bring them under control. This assessment is supplemented by an annual risk assessment exercise related to sanctions and embargoes.

The Finance Division is in charge of:

- Liquidity and refinancing risk: Various indicators are produced to track liquidity risk and thereby ensure that the risk assumed remains consistent with the framework set by management. These indicators cover different aspects of liquidity risk management: independence from financing not related to commercial activity, the business-as-usual liquidity situation, and liquidity in a period of stress. These indicators are enforced either by regulatory limits (to which SGL Group adds a safety buffer) or by internal limits, discussed and set jointly by the central teams. Likewise, the ALM behavioural models for liquidity and interest rates are reviewed annually and centrally validated by those same teams. Oversight of the indicators is provided by teams including ALM and cash flow. Level 1 control is provided by a local team. Level 2 control is carried out jointly by the SGL Group Risk Division and the SG Group Finance Division.
- Interest rate risk and foreign exchange risk: interest rates and foreign exchange risk influence assets and profitability, as markets exhibit fluctuations. In the SGL Group, the monitoring of interest rate risk and foreign exchange risk is centrally delegated to two different teams based on whether the transactions are categorised as structural or market.

The level 2 permanent control is performed by an independent team attached to the Deputy CEO in charge of the General Secretary, Risk and Compliance functions on the following areas :

- Finance, where the level 2 permanent control mission focuses on the quality of accounting, regulatory and financial information, taxation except the prevention of risks
- Compliance where the Level 2 control mission focuses on non-compliance risks grouped into two broad categories:
  - Financial security: customer knowledge the fight against money laundering and the financing of terrorism; compliance with rules on international sanctions and embargoes, including declarations of suspicion to the referring authorities when necessary
  - Other regulatory risks: client protection; integrity of financial markets; fight against corruption; ethics and conduct; compliance with international tax regulations based on knowledge of clients' tax profiles; protection of personal data; corporate social responsibility.
- Risks where the level 2 control mission focuses on operational risks, including the risks specific to the various businesses: operational risks related to the Sourcing, Communication, HR, Real Estate, IS/ISS processes or operational risk related to credit, market and liquidity risks.

Three different bodies ensure the second line of defence (LOD2) function regarding the liquidity risk as well as the interest rate and the foreign exchange risks on the banking book:

- The Risk Division of SGL Group is in charge of the overall follow up of the activity, including the second level monitoring of liquidity metrics, participation on all asset and liabilities management committees, participation in the model and limit definition process;
- The Risk Division of SG Group has as primary role to review and validate liquidity models and limits, and they have the necessary expertise to reach this goal. More generally, they are also entitled to define, for the whole perimeter of SG Group, the framework for liquidity risk management and to centralize the review of the liquidity risk metrics;
- The Second Level Control function within SGL Group is in charge to review and to assess, following an annual control schedule, the permanent control framework of the bank. In this context, they perform notably deep controls on the quality of the liquidity metrics and on the production process.

The governance and organisational principles of the Internal Audit Department are formalised through the Directive DI. 10380 dated February, 23rd, 2023 regarding the organisation of internal governance of the SGL Group and the Directive no. DI-10020 dated April 5th, 2022 regarding the organisation of the internal control system within the SGL Group. The Audit Charter sets out the rules of the General Inspection and Internal Audit activity in terms of objectives, obligations and powers.

The Board of Directors approved the updated Audit Charter on March 23rd 2023.

The General Inspection and Internal Audit Department constitute the third line of defence, and is an independent and objective activity. The General Inspection has a global mandate, and perform audit missions, strategic reviews worldwide.

The Internal Audit provides SGL Group with assurance how effectively SGL group is controlling its operations, advises on improvements and contributes to the creation of added value.

As third line of defence, the General Inspection and Internal Audit have an internal audit mandate to conduct periodic controls. Under this mandate, the General Inspection and Internal Audit assess the quality of risk management within an audited scope, the appropriateness and effectiveness of the permanent control framework, the risk sensitivity of management and compliance with codes of conduct and expected professional practices.

The internal audit mandate covers all SGL Group activities and entities, including local and foreign subsidiaries and branches of SGL, and can focus on all aspects of their operations without exception.

2.6 INTERNAL CONTROL

Internal control is part of a regulatory framework, the Basel Committee has defined four principles – independence, universality, impartiality, and sufficient resources – which must form the basis of internal control carried out by credit institutions. These principles are completed by EBA's recommendations and CSSF's circulars.

Within SGL Group, these principles are applied through directives, procedures, instructions and dedicated committees defined at SGL Group level to comply with all regulatory requirements.

Coherence is ensured with the general framework defined by SG Group's internal control, the SG Group Audit Charter, and other frameworks relating to the management of credit risks, market risks, operational risks, structural interest rate, exchange rate and liquidity risks, compliance control and reputational risk control.

Control is based on a body of standards and procedures.

All SGL Group's activities are governed by rules and procedures covered by a set of documents referred to collectively as the "Normative Documentation". This documentation includes any documents:

- setting forth rules for action and behavior applicable to staff;
- defining the structures of the businesses and the sharing of roles and responsibilities;
- describing the management rules and internal procedures specific to each business and activity.

The internal control system is represented by all methods, which ensure that the operations carried out and the organization and procedures implemented comply with:

- legal and regulatory provisions;
- professional and ethical practices;
- the internal rules and guidelines defined by the Authorised Management.

The internal control system is organised according to the "three lines of defence" model in accordance with the texts of the Basel Committee:

- The first line of defence includes all employees and operational management, both within the businesses and in Corporate Divisions (in the latter case, with respect to their own operations).

Operational management is responsible for risks, their prevention and their management – by putting in place first-level of permanent control measures, among other things – as well as for implementing corrective or remedial actions in response to any failures identified by controls and/or process steering;

- The second line of defence is provided by the compliance and risk divisions.

Within the internal control framework, these functions are tasked with continuously verifying that the security and management of risks affecting operations are ensured, under the responsibility of operational management, through the effective application of established standards, defined procedures, methods and controls as instructed.

Accordingly, these functions must provide the necessary expertise to define, within their respective fields, the controls and other means of risk management to be implemented by the first line of defence, and to oversee that they are effectively implemented; they conduct second-level permanent control over all of the risks, employing the controls they have established or that have been established by other expert functions (e.g. sourcing, legal, tax, human resources, information system security, etc.) and by the businesses;

- The third line of defence is provided by the Internal Audit Division. This division conducts an independent, objective and critical assessment of the first two lines of defense and the internal governance system as a whole.

The three lines of defense are complementary, with each line of defense carrying out its control responsibilities independently of the others.

In order to coordinate the three lines of defence, an Internal Control Coordination Committee (ICCC) are in place formed under the Authorised Management of SGL. This committee is decision-making body that eventually makes recommendations, initiates and follows action plans, and observations of inadequacy or dysfunction.

The objective of this Committee is to ensure the overall consistency of the control system by means of a cross-disciplinary approach to the topics.

The ICCC (Internal Control Coordination Committee) provides a global focus on SGL/subsidiaries.

The ICCC is an element of the overall architecture of the internal control system of the SGL Group, as well as of its coherence and effectiveness.

As such, the ICCC:

- ensures the consistency of the overall organizational structure and governance of internal control;
- monitors the effectiveness of the system.

A review of the internal control system covering all BUs/SUs (including feedback from subsidiaries/meetings within each BU/SU) making up the SGL Group is carried out.

This involves in particular:

- identifying the risks involved
- reviewing the internal control system, the results of controls and any shortcomings identified
- presenting the action plans envisaged and/or implemented by the BU/SU/Authorized Management to remedy them, and
- to monitor the action plans and main recommendations of the internal (permanent and periodic) and external (supervisory authorities) control bodies.

3. CAPITAL MANAGEMENT AND ADEQUACY

3.1 THE REGULATORY FRAMEWORK

The Basel Committee, mandated by the G20, defined the new rules governing capital and liquidity aimed at making the banking sector more resilient. The so-called Basel 3 rules were published in December 2010. They were translated into European law by a directive (CRD4) and a regulation (CRR) which entered into force on 1st January 2014. It was amended by the Regulation CRR2 and the Directive CRD5 which fully entered into force on 28 June 2021.

The general framework defined by Basel 3 is structured around three pillars:

- Pillar 1 sets the minimum solvency requirements and defines the rules that banks must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods;
- Pillar 2 relates to the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar 1, and to calibrate additional capital requirements with regard to all the risks to which these institutions are exposed;
- Pillar 3 encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to better assess a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

SGL Group complied with the minimum ratio requirements applicable to its activities for the year 2022.

3.2 SCOPE OF APPLICATION – PRUDENTIAL SCOPE

SGL Group amended the consolidation perimeter as follows:

- New credit insurance entity created:
  - Société Générale Luxembourg Credit Insurance (hereafter "SG LuCi")

Please refer to Note 2.2. from the 2022 consolidated financial statements for more information on the significant variation compared to 2021.

SGL Group's prudential reporting scope includes all consolidated subsidiaries, with the exception of insurance and reinsurance subsidiaries, which are subject to separate capital supervision (see table 1).

TABLE 1: EU LI3 - OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

a	b	c	e	f	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation			Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	
SGBT Asset Based Funding S.A.	Full consolidation	X			Investment & management
Société Immobilière de l'Arsenal S.à.r.l.	Full consolidation	X			Non-financial corporation
SGBT Finance Ireland Ltd.	Full consolidation	X			Corporate Financing
Montalis Investment B.V.	Full consolidation	X			Corporate Financing
SG Luxembourg S.A.	Full consolidation	X			Bank
SG Private Banking (Monaco) S.A.	Full consolidation	X			Private Banking
Ivefi S.A.	Full consolidation	X			Other financing corporation
SG Private Banking (Suisse) S.A.	Full consolidation	X			Bank
SG Financing and Distribution S.A.	Full consolidation	X			Financial Services/Bank
SG Private Wealth Management S.A.	Full consolidation	X			Wealth management
Société Générale Luxembourg Leasing S.A.	Full consolidation	X			Leasing Services
Surya Investments S.A.	Full consolidation	X			Leasing Services
SGBT Italia	Full consolidation	X			Private Banking
SGBT CI S.A.	Full consolidation	X			Corporate Financing
SG Issuer S.A.	Equity method		X		Security Issuance
SG Capital Market Finance S.A.	Full consolidation	X			Financial Services/Bank
SG Life Insurance Broker S.A.	Full consolidation	X			Brokerage
SGL Ré S.A.	Full consolidation			X	Reinsurance
Société Générale Luxembourg Credit Insurance	Full consolidation			X	Insurance
Société Générale Ré S.A.	Full consolidation			X	Reinsurance
Sogelife S.A.	Equity method			X	Insurance

3.3 REGULATORY CAPITAL

Reported according to international financial reporting standards (IFRS) as adopted by the European Union, SGL Group's regulatory capital consists of the following components.

COMMON EQUITY TIER 1 CAPITAL

According to CRR2/CRD5 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;

Deductions from Common Equity Tier 1 capital essentially involve the following:

- estimated dividend payment;
- goodwill and intangible assets, net of associated deferred tax liabilities;
- unrealised capital gains and losses on cash flow hedging;
- 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;
- value adjustments resulting from the requirements of prudent valuation;
- excess of deduction from T2 items in CET1 capital;
- insufficient coverage for non-performing exposures.

ADDITIONAL TIER 1 CAPITAL

SGL Group has no Additional Tier 1 capital.

TIER 2 CAPITAL

According to CRR2/CRD5 regulations, Tier 2 capital is made up primarily of the following:

- IRB Excess of provisions over expected losses eligible;
- Deduction of T2 instruments of financial sector entities where the institution has a significant investment.

SGL Group's capital on a consolidated basis is composed of:

- Common Equity Tier 1 capital: EUR 3 030 million (2021: EUR 2 681 million).
- Tier 2 capital : EUR 8 million (2021: EUR 0 million)

SGL Group is benefiting from a favorable assessment by the rating agency Standard & Poor's with regard to SG Group's financial stability: A-1 in the short-term A in the long term (confirmed in December 2022).

The SGL Group has not issued any hybrid securities or subordinated borrowings not eligible for prudential capital. SGL Group has issued non-Preferred borrowings to manage losses absorption and recapitalization required according to the BRRD II.

SOLVENCY RATIOS

The solvency ratios are set by comparing SGL group's equity (Common Equity Tier 1 (CET1), Tier 1 (T1) or Total Capital (TC)) with the sum of risk-weighted credit exposures and the capital requirement multiplied by 12.5 for market and operational risks. They are expressed as a percentage of RWA and according to the split of own funds i.e.: Common Equity Tier 1 (CET1), Tier 1 (T1) or Total Capital (TC).

Every quarter, each ratio is calculated following the accounting closing and then compared to the supervisory requirements.

As of 31st December 2022, the Overall Capital requirements (OCR) to be made up of Common Equity Tier 1 capital (CET1) applicable to the SGL Group was set to 8.21%. The breakdown of OCR to be made up of CET1 is the following:

- Minimum capital requirements for CET1 capital: 4.5%
- Pillar 2 requirements (P2R) for CET1 capital: 0.56%
- Capital conservation buffer: 2.5%
- Institution Specific Countercyclical capital buffer: 0.15%
- Other Systemically Important Institution buffer (O-SII): 0.5%

As part of Other Systemically Important Institution (O-SII), a discretionary specific systemic buffer is applicable to SGL Group (art.59-9 LSF). For 2022, this specific capital buffer reaches it fully loaded level of 0.5%.

The countercyclical buffer plays a role in determining the overall buffer requirement. The countercyclical buffer rate is set by country. Each establishment calculates its countercyclical buffer requirement by measuring the average countercyclical buffer rate for each country, adjusted to take into account the relevant credit risk exposures in these countries. The countercyclical buffer rate, in force as of 1st January 2016, generally lies between 0% and 2.5% by country. The countercyclical buffer requirement for SGL Group as of 31st December 2022 represents an add-on of 0.15%.

Following the Supervisory Review and Evaluation Process (SREP) notification, SGL has been informed by official letter by the CSSF that The Bank must hold 1% of P2R entirely in the form of CET1.

The ECB allowed banks to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital to meet the P2Rs. SGL Group were thus allowed to meet their P2R as follows:

- 0.5625% in the form of CET1 capital
- 0.75% in the form of Tier 1 capital
- 1% in the form of Total capital

3.4 CAPITAL REQUIREMENTS

The Basel 3 Accord established the new rules for calculating minimum capital requirements in order to more accurately assess the risks to which banks are exposed. The calculation of credit risk-weighted assets takes into account the transaction risk profile based on two approaches for determining risk-weighted assets: (i) a standard method, and (ii) advanced methods based on internal models for rating counterparties.

TABLE 2: EU OV1 - OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
(in EUR 1000)		T	T - 1	T
1	Credit risk (excluding CCR)	9 173 656	8 415 318	733 893
2	*Of which the standardised approach*	*1 036 243*	*1 219 737*	*82 899*
3	*Of which the Foundation IRB (F-IRB) approach*	*49 676*	*47 849*	*3 974*
EU 4a	*Of which equities under the simple riskweighted approach*	*144 315*	*125 306*	*11 545*
5	*Of which the Advanced IRB (A-IRB) approach*	*7 520 230*	*6 695 969*	*601 618*
6	Counterparty credit risk - CCR	62 323	45 717	4 986
7	*Of which the standardised approach*	*58 699*	*40 747*	*4 696*
EU 8b	*Of which credit valuation adjustment - CVA*	*3 502*	*3 418*	*280*
9	*Of which other CCR*	*122*	*1 552*	*10*
15	Settlement risk	201	74	16
16	Securitisation exposures in the non-trading book (after the cap)	2 622 073	2 622 073	209 766
EU 19a	*Of which 1250%*	*2 622 073*	*2 622 073*	*209 766*
20	Position, foreign exchange and commodities risks (Market risk)	39 184	22 793	3 135
21	*Of which the standardised approach*	*39 184*	*22 793*	*3 135*
23	Operational risk	1 165 840	1 062 725	93 267
EU 23a	*Of which basic indicator approach*	*102 238*	*86 067*	*8 179*
EU 23c	*Of which advanced measurement approach*	*1 063 601*	*976 658*	*85 088*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	432 687	326 456	34 615
29	**Total**	**13 063 277**	**12 168 700**	**1 045 062**

3.5 CAPITAL MANAGEMENT

As part of managing its capital, SGL Group (under the supervision of the Finance Division) ensures that its solvency level is always compatible with the following objectives:

- meeting its regulatory requirement;
- maintaining its financial solidity and respecting the Risk Appetite targets;
- preserving its financial flexibility to finance organic growth, within SG Group risk weighted assets allocation;
- maintaining the bank's resilience in the event of stress scenarios;

SGL Group Board of Directors approves its internal capital risk appetite thresholds and limits in accordance with these objectives and regulatory requirements.

SGL Group has an internal process (Internal Adequacy Assessment Process "ICAAP") for assessing the adequacy of its capital that measures the adequacy of the Group's capital ratios in light of regulatory constraints and future regulatory changes. This process also includes stress tests and a reverse stress test. The assessment of this adequacy is based on a selection of key metrics that are relevant to SGL Group in terms of risk and capital measurement, such as solvency ratios (CET1, Tier 1, Total Capital), leverage ratio and MREL ratios. The capital regulatory indicators are supplemented by an assessment of the internal capital needs by available CET1 capital, thus confirming the relevance of the targets set in the risk appetite.

As of 31st December 2022, the SGL Group's Common Equity Tier 1 ratio stood at 23.20% and the total capital ratio at 23.26% (please refer to chapter 3.8 for more details).

TABLE 3: EU KM1 - KEY METRICS TEMPLATE

(in EUR 1000)		a	e
		T	T-4
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	3 030 198	2 681 009
2	Tier 1 capital	3 030 198	2 681 009
3	Total capital	3 038 539	2 681 009
	Risk-weighted exposure amounts		
4	Total risk exposure amount	13 063 277	12 168 700
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	23.20%	22.03%
6	Tier 1 ratio (%)	23.20%	22.03%
7	Total capital ratio (%)	23.26%	22.03%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.00%	1.00%
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*0.56%*	*0.56%*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*0.75%*	*0.75%*
EU 7d	Total SREP own funds requirements (%)	9.00%	9.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.15%	0.10%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0.50%	1.00%
11	Combined buffer requirement (%)	3.15%	3.60%
EU 11a	Overall capital requirements (%)	12.15%	12.60%
12	CET1 available after meeting the total SREP own funds requirements (%)	18.14%	16.97%
	Leverage ratio		
13	Total exposure measure**	70 548 375	59 023 526
14	Leverage ratio (%)	4.30%	4.54%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	*0.00%*	*0.00%*
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.12%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0%	0%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.12%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	13 834 165	12 384 863
EU 16a	Cash outflows - Total weighted value	25 152 295	19 578 178
EU 16b	Cash inflows - Total weighted value	16 472 676	12 178 758
16	Total net cash outflows (adjusted value)	8 679 619	7 399 420
17	Liquidity coverage ratio (%)	159.39%	167.38%
	Net Stable Funding Ratio		
18	Total available stable funding	35 773 866	34 733 232
19	Total required stable funding	30 917 759	29 990 317
20	NSFR ratio (%)	115.71%	115.81%

* The leverage ratio requirements become binding starting June 28, 2021.

** SGL Group has deducted the Central Bank exposures from the leverage ratio in Q4-2021 following the decision 2021/1074 of the ECB of 18 June 2021.

3.6 LEVERAGE RATIO MANAGEMENT

SGL Group calculates its leverage ratio according to the CRR leverage ratio rules, as amended by the Delegated Act of 10th October 2014 and manages it according to the changes brought by CRR2 applicable from June 2021.

Managing the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling SGL Group's leverage exposure (the ratio's denominator) to achieve the target ratio levels that SGL Group sets for itself.

SGL Group aims to maintain a consolidated leverage ratio higher than the 3.0% minimum in the Basel Committee's recommendations. To this end, SGL Group determines its internal capital risk appetite thresholds and limits in accordance with these objectives.

As of 31st December 2022, SGL Group's leverage ratio stood at 4.30%.

TABLE 4: EU LR1 - SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		a
(in EUR 1000)		**Applicable amount**
1	Total assets as per published financial statements	67 889 036
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(178 995)
8	Adjustment for derivative financial instruments	(273 290)
9	Adjustment for securities financing transactions (SFTs)	0
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3 171 197
12	Other adjustments	(59 573)
13	**Total exposure measure**	**70 548 375**

TABLE 5: EU LR2 - LEVERAGE RATIO COMMON DISCLOSURE

		CRR leverage ratio exposures	
		a	**b**
(in EUR 1000)		**T**	**T-1**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)*	67 091 230	56 088 081
6	(Asset amounts deducted in determining Tier 1 capital)	(59 573)	(58 036)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**67 031 657**	**56 030 045**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	155 088	120 620
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	190 433	237 342
13	**Total derivatives exposures**	**345 521**	**357 962**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	0	0
18	**Total securities financing transaction exposures**	**0**	**0**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	5 175 005	3 851 827
20	(Adjustments for conversion to credit equivalent amounts)	(2 003 808)	(1 216 308)
22	**Off-balance sheet exposures**	**3 171 197**	**2 635 519**
	Excluded exposures		
EU-22k	**(Total exempted exposures)**	**0**	**0**
	Capital and total exposure measure		
23	Tier 1 capital	3 030 198	2 681 009
24	**Total exposure measure**	**70 548 375**	**59 023 526**
	Leverage ratio		
25	Leverage ratio (%)	4.30%	4.54%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	4.30%	4.54%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of Central bank reserves) (%)	4.30%	3.88%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.12%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	*of which: to be made up of CET1 capital*	*0.00%*	*0.00%*
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.12%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	N/A***	N/A***
	Disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	0	710 717
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	0	0
30	Total exposure measure (including the impact of any applicable temporary exemption of Central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	70 548 375	59 734 243
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of Central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	70 548 375	69 725 359

31	Leverage ratio (including the impact of any applicable temporary exemption of Central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.30%	4.49%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of Central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.30%	3.85%

* SGL Group has deducted the Central Bank exposures from the leverage ratio in Q4-2021 following the decision 2021/1074 of the ECB of 18 June 2021.

TABLE 6: EU LR3 - SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		a
	(in EUR 1000)	**CRR leverage ratio exposures**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**67 091 230**
EU-2	Trading book exposures	1 934
EU-3	Banking book exposures, of which:	67 089 296
EU-5	Exposures treated as sovereigns	14 353 690
EU-7	Institutions	22 409 095
EU-8	Secured by mortgages of immovable properties	947 631
EU-9	Retail exposures	2 350 659
EU-10	Corporates	24 043 454
EU-11	Exposures in default	129 215
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2 855 552

3.7 RATIO OF LARGE EXPOSURES

The CRR 2 (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such, the SGL Group must not have any exposure where the total amount of net risks incurred on a single beneficiary exceeds 25% of the SGL Group's Tier 1 capital. The eligible capital used to calculate the large exposure ratio is the Tier 1 regulatory capital.

On 31 December 2022, SGL Group had no additional RWA requirements due to the large exposure's framework.

3.8 QUALITATIVE AND QUANTITATIVE INFORMATION ON REGULATORY OWN FUNDS AND COUNTERCYCLICAL CAPITAL BUFFER

TABLE 7: EU CCA - MAIN FEATURES OF REGULATORY OWN FUNDS INSTRUMENTS AND ELIGIBLE LIABILITIES INSTRUMENTS

		a	b	c
		Qualitative or quantitative information - Free format	**Qualitative or quantitative information - Free format**	**Qualitative or quantitative information - Free format**
1	Issuer	SG Luxembourg S.A.	SG Luxembourg S.A.	SG Luxembourg S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A
2a	Public or private placement	Private	Private	Private
3	Governing law(s) of the instrument	Luxembourg law	Luxembourg law	Luxembourg law
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	Yes	Yes
	Regulatory treatment			
4	*Current treatment taking into account, where applicable, transitional CRR rules*	*Common Equity Tier 1*	*Ineligible*	*Ineligible*
5	*Post-transitional CRR rules*	*Common Equity Tier 1*	*Eligible liabilities*	*Eligible liabilities*
6	*Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated*	*Solo and (Sub-) Consolidated*	*Solo and (Sub-) Consolidated*	*Solo and (Sub-) Consolidated*
7	*Instrument type (types to be specified by each jurisdiction)*	*Ordinary share*	*Borrowing*	*Borrowing*
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	1389	400	750
9	Nominal amount of instrument	EUR 126	MEUR 400	MEUR 750
EU-9a	Issue price	N/A	N/A	N/A
EU-9b	Redemption price	N/A	N/A	N/A
10	Accounting classification	Shareholder’s equity	Liability at amortised cost	Liability at amortised cost
11	Original date of issuance	11/4/1956	24/01/2020	15/12/2022
12	Perpetual or dated	Perpetual	dated	dated
13	*Original maturity date*	*N/A*	*24/01/2024*	*15/12/2026*
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes
15	*Optional call date, contingent call dates and redemption amount*	*N/A*	*24/01/2023*	*15/12/2025*
16	*Subsequent call dates, if applicable*	*N/A*	*N/A*	*N/A*
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	EURIBOR 3M	EURIBOR 3M
19	Existence of a dividend stopper	N/A	N/A	N/A

EU-20a	*Fully discretionary, partially discretionary or mandatory (in terms of timing)*	*Fully discretionary*	*Mandatory*	*Mandatory*
EU-20b	*Fully discretionary, partially discretionary or mandatory (in terms of amount)*	*Fully discretionary*	*Mandatory*	*Mandatory*
21	*Existence of step up or other incentive to redeem*	*N/A*	*No*	*No*
22	*Noncumulative or cumulative*	*N/A*	*Non cumulative*	*Non cumulative*
23	Convertible or non-convertible	N/A	Non convertible	Non convertible
24	*If convertible, conversion trigger(s)*	*N/A*	*N/A*	*N/A*
25	*If convertible, fully or partially*	*N/A*	*N/A*	*N/A*
26	*If convertible, conversion rate*	*N/A*	*N/A*	*N/A*
27	*If convertible, mandatory or optional conversion*	*N/A*	*N/A*	*N/A*
28	*If convertible, specify instrument type convertible into*	*N/A*	*N/A*	*N/A*
29	*If convertible, specify issuer of instrument it converts into*	*N/A*	*N/A*	*N/A*
30	Write-down features	N/A	Yes	Yes
31	*If write-down, write-down trigger(s)*	*N/A*	*On supervisory request*	*On supervisory request*
32	*If write-down, full or partial*	*N/A*	*full*	*full*
33	*If write-down, permanent or temporary*	*N/A*	*Permanent*	*Permanent*
34	*If temporary write-down, description of write-up mechanism*	*N/A*	*N/A*	*N/A*
34a	Type of subordination (only for eligible liabilities)	N/A	Contractual	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	1	5	5
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to deeply subordinated notes	Unsecured senior debt	Unsecured senior debt
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A	N/A	N/A

TABLE 8: EU CC1 - COMPOSITION OF REGULATORY OWN FUNDS

		a	b
(in EUR 1000)		**Amounts**	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1 391 860	
	of which: Fully paid-up capital instruments	1 389 043	a
	of which: Share premium	2 817	b
2	Retained earnings	1 591 981	b
3	Accumulated other comprehensive income (and other reserves)	122 432	b and c
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3 106 274**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(6)	N/A
8	Intangible assets (net of related tax liability) (negative amount)	(24 714)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(34 853)	c
12	Negative amounts resulting from the calculation of expected loss amounts	0	N/A
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0	
27a	Other regulatory adjustments	(16 503)	e (deposit guarantee scheme reserve deduction)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(76 076)**	
29	**Common Equity Tier 1 (CET1) capital**	**3 030 198**	
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0	
42a	Other regulatory adjustments to AT1 capital	0	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**3 030 198**	
Tier 2 (T2) capital: instruments			
50	Credit risk adjustments*	**45 341**	
51	**Tier 2 (T2) capital before regulatory adjustments**	**45 341**	
Tier 2 (T2) capital: regulatory adjustments			
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(37 000)	f (subordinated loans to an insurance subsidiary)
EU-56b	Other regulatory adjustments to T2 capital	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(37 000)**	
58	**Tier 2 (T2) capital**	**8 341**	
59	**Total capital (TC = T1 + T2)**	**3 038 539**	
60	**Total Risk exposure amount**	**13 063 277**	

Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	23.20%	
62	Tier 1 capital	23.20%	
63	Total capital	23.26%	
64	Institution CET1 overall capital requirements	8.21%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical capital buffer requirement	0.15%	
67	of which: systemic risk buffer requirement	0%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.50%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.56%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	18.14%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	75 416	g
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	169 277	g
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	3 798	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	13 231	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	83 483	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	45 341	

* In Q4 2022, SGL Group has a Tier 2 capital coming from IRB Excess of provisions over expected losses eligible.

TABLE 9: EU CC2 - RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

		a	b	c
		Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
(in EUR 1000)		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, due from Central banks*	12 535 411	20 232 304	
2	Financial assets at fair value through profit or loss	982 165	1 126 716	g
3	Hedging derivatives	217 206	217 206	
4	Financial assets at fair value through other comprehensive income	2 067 407	2 067 407	
5	Securities at amortized cost	9 291 435	9 291 435	
6	Due from banks at amortised cost*	21 990 338	14 252 004	
7	Customer loans at amortised cost	19 965 886	19 981 470	f
8	Investments of insurance activities	230 693	0	
9	Tax assets	5 321	5 321	
10	Other assets	365 960	367 534	e
11	Investments accounted for using the equity method	93 125	24 554	
12	Tangible and intangible fixed assets and right of use assets	144 089	144 089	d
13	**Total assets**	**67 889 036**	**67 710 040**	
Liabilities – Breakdown by liability classes according to the balance sheet in the published financial statements				
1	Financial liabilities at fair value through profit or loss	399 349	399 349	
2	Hedging derivatives	16 003	16 003	
3	Debt securities issued	22 394	22 394	
4	Due to banks	21 543 080	21 888 085	
5	Customer deposits	41 283 263	41 013 273	
6	Tax liabilities	122 629	75 585	
7	Other liabilities	790 338	787 239	
8	Insurance contracts related liabilities	77 041	0	
9	Provisions	56 697	74 026	
10	**Total liabilities**	**64 310 794**	**64 275 954**	
Shareholders' Equity				
1	Issued Capital	1 389 043	1 389 043	a
2	Reserves and retained earnings	1 923 582	1 652 641	b
3	Net income	232 578	327 705	
4	Unrealised or deferred capital gains and losses	32 932	64 590	c
5	Non-controlling interests	107	107	
6	**Total shareholders' equity**	**3 578 242**	**3 434 086**	

*In accordance with FINREP ITS instructions, other demand deposits are reported as "Cash, cash balances at Central Banks, other demand deposits"

TABLE 10: EU CCYB2 - AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(in EUR 1000)		**a**
1	Total risk exposure amount	13 063 277
2	Institution specific countercyclical capital buffer rate	0.15%
3	Institution specific countercyclical capital buffer requirement	19 265

TABLE 11: EU CCYB1 - GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER

		a	b	e	f
		General credit exposures			
		Exposure value under the standardised approach	Exposure value under the IRB approach	Securitisation exposures Exposure value for non-trading book	Total exposure value
010	**Breakdown by country:**				
011	United Arab Emirates	0	1 516 636	0	1 516 636
012	Bulgaria	0	2 516	0	2 516
013	Switzerland	42 469	1 027 662	0	1 070 131
014	Czech Republic	0	5 981	0	5 981
015	Denmark	0	0	0	0
016	Spain	0	529 588	0	529 588
017	France	265 556	3 067 406	209 766	3 542 728
018	United King-dom	85 434	584 431	0	669 865
019	Hong Kong	0	38 170	0	38 170
020	Iceland	0	0	0	0
021	Luxembourg	374 669	7 811 325	0	8 185 994
022	Monaco	42 731	1 695 199	0	1 737 930
023	Norway	0	360	0	360
024	Russian Federation	272 894	389 518	0	662 412
025	Romania	0	312	0	312
026	Slovakia	0	0	0	0
027	Sweden	0	184 442	0	184 442
028	United States	0	1 148 761	0	1 148 761
029	Virgin Islands, British	0	249 682	0	249 682
030	Other countries*	135 935	3 503 777	0	3 639 712
031	**Total**	**1 219 688**	**21 755 767**	**209 766**	**23 185 221**

* For which no countercyclical buffer has been defined by the competent authority and the own fund requirement weight is less than 2%

g	i	j	k	l	m
Own fund requirements			Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
Relevant credit risk exposures - Credit risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
20 161	0	20 161	252 009	2.51%	0.00%
53	0	53	665	0.01%	1.00%
33 609	0	33 609	420 107	4.18%	0.00%
70	0	70	876	0.01%	1.50%
0	0	0	0	0.00%	2.00%
26 625	0	26 625	332 808	3.31%	0.00%
99 724	209 766	309 490	3 868 620	38.53%	0.00%
14 855	0	14 855	185 688	1.85%	1.00%
451	0	451	5 636	0.06%	1.00%
0	0	0	0	0.00%	2.00%
194 376	0	194 376	2 429 704	24.20%	0.50%
35 311	0	35 311	441 393	4.40%	0.00%
2	0	2	19	0.00%	2.00%
45 363	0	45 363	567 041	5.65%	0.00%
1	0	1	17	0.00%	0.50%
0	0	0	0	0.00%	1.00%
5 796	0	5 796	72 446	0.72%	1.00%
19 106	0	19 106	238 820	2.38%	0.00%
21 155	0	21 155	264 438	2.63%	0.00%
76 766	0	76 766	959 574	9.56%	0.00%
593 423	**209 766**	**803 189**	**10 039 860**	**100.00%**	**–**

4. CREDIT RISKS

Credit and counterparty risk (including concentration effects) means the risk of losses arising from the inability of the SGL Group's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and securitisation activities. In addition, credit risk may be further amplified by individual, country and sector concentration risk. It is extended to supplier risks and takes into account techniques for limiting the effects of concentration. It also incorporates settlement/delivery risk.

4.1 CREDIT RISK MANAGEMENT: ORGANISATION AND STRUCTURE

For each business line, the risk tolerance is consistent with the decisions and orientations taken by SGL Board of Directors and the strategy, guidelines and practices defined by the SG Group. This risk tolerance is monitored by the Risk Division which has defined a control and monitoring system, in conjunction with the business divisions and based on the credit risk policy.

The Risk Division is responsible for:

- setting global and individual credit limits by client, client category or transaction type;
- authorizing transactions submitted by the sales departments;
- approving ratings or internal client rating criteria;
- monitoring exposures (daily, monthly, large exposures and various specific credit portfolios;
- approving specific and general provisioning policies.

In addition, a specific department performs comprehensive portfolio analyses, provides the associated reports, including those for the supervisory authorities and assumes the Risk Project steering.

The amount of exposure for each client group is assessed relative to the amount of SGL Group's own capital under the Large Exposure approach. In addition, the SGL Group has defined an individual concentration management policy for corporate clients. This policy relies on an internal reference table for evaluating the level of individual concentration, taking into account a consistent measure of exposure (senior unsecured equivalent exposure) and based on the duration of the commitments and the counterparty's rating. The governance rules for tracking and validating individual concentration and the approval level of threshold breaches have been validated by the Risk Committee and the Board of Directors. All of the client groups that have a high exposure level are regularly presented in the Risk Committee. This governance requires that every new transaction with a concentration greater than a specific threshold must be approved by SGL CEO.

4.2 CREDIT POLICY

SGL Group's credit policy is based on the principle that approval of any credit risk undertaking must be based on sound knowledge of the client and the client's business, an understanding of the purpose and structure of the transaction, and of the sources of repayment of the debt. Credit decisions must also ensure that the structure of the transaction will minimise the risk of loss in the event that the counterparty defaults. Furthermore, the credit approval process takes into consideration the overall commitment of SGL Group to which the client belongs. Risk approval forms part of the SGL Group's risk management strategy in line with its risk appetite.

The risk approval process is based on four core principles:

- all transactions involving credit risk (debtor risk, settlement/delivery risk, issuer risk and replacement risk) must be pre-authorised;
- responsibility for analysing and approving transactions lies with the dedicated primary customer relation unit and risk unit, which examine all authorisation requests relating to a specific client or client group, to ensure a consistent approach to risk management;
- the primary customer relation unit and the risk unit must be independent from each other;
- For corporate clients, credit decisions must be systematically based on internal risk ratings (obligor rating), as provided by the primary customer relation unit and approved by the Risk Division. The Risk Division submits recommendations on the limits which it deems appropriate for certain countries, geographic regions, sectors, products or customer types, in order to reduce risks with strong correlations. These limits form part of the Risk Appetite Exercise and are subject to approval of the Board of Directors.

4.3 RISK SUPERVISION AND MONITORING SYSTEM

Private bank activities

As mentioned above; the business line has a specific credit policy that is regularly updated and adapted to each of its entities, which specifies the practical terms for implementation.

The risk associated with Private Banking clients is primarily managed through the quality of the debtor and its credit worthiness with a case-by-case analysis of the transaction.

The minimisation of risk of loss and the optimisation of the profitability/capital ratio allocated to the risks is a major goal. Loan approval is primarily offered to clients who hold assets with SGL Group, or prospects that have a real development potential for its target business. In principle, any credit exposure granted must receive a guarantee (pledge/surety/collateral), preferably drawing on financial assets and meeting criteria such that the potential risk of loss is minimal. Private banking aims for a net cost of risk goal no greater than 20 bps of exposures. The credit approach is based on the bank's operational capacity to track changes in each loan's collateral.

Loan to value is determined by applying discounts to the value of the collateralized assets based on its quality, liquidity, volatility, and diversification of assets. SGL Group implements a monitoring mechanism for detecting degradation in collateral and if it arises defining, with its clients, measures for resolving any margin shortfall. The loan applications are also reviewed in order to assess the debtor's quality and make a decision about the transaction (background and economic justification for the financing).

SGL Group also offers centralized cash management services to Private banking clients which generate interbank exposures and exposures to financial institutions with respect to the conversions performed and the hedging transactions. The risk policy in the matter relies on privileged recourse to the entities of SGL Group for treasury activities, with limitation to the minimum of the external interbank loans (overnight and term loans); increased reinvestment with respect to Central Banks; close management of depositor risk in the corresponding banks (nostri accounts); and prioritised use of clearing for interbank foreign-exchange activity.

Corporate loans

The business line's credit approach is based on a case-by-case approval of the proposed arrangements and structures, from regulatory, prudential, tax, risk and accounting perspectives. As mentioned above, the credit approach is in line with a comprehensive banking relationship which disallows the approval of credit in the absence of a business relationship with SG Group. Beyond the unit credit limits for each client, counterparty, or group of clients and counterparties, SGL Group sets limits and thresholds in terms of concentration. It pays particular attention to the concentration of its credit risks while ensuring, along several axes, that its exposures are well diversified. These thresholds are set and reviewed annually and are steered through the quarterly Risk Committee. In the event these limits and thresholds are breached, an action plan is established. The limits and thresholds are approved by the Board.

SGL Group regularly measures industry concentrations. Sensitive industries are identified by risk rating; by a net exposure after deducting guarantees, insurance and cash collateral or by a decision of the Risk Committee. Industries identified as posing a concentration risk are covered by special guidance through an industry-based limit approved in the Risk Committee. The calibration of the thresholds primarily relies on measuring risk in stress tests, particularly by measuring the estimated loss to the SGL Group equity in a stress scenario.

Monitoring of Country Risk

Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing regulatory, political, economic, social and financial conditions in the country of exposure. It includes exposure to any kind of counterparty, including a sovereign state (sovereign risk is also controlled by the system of counterparty risk limits). Overall limits and strengthened monitoring of exposures have been established for countries based on their internal ratings and governance indicators. Supervision is not limited to emerging markets. Country limits are approved annually by Authorised Management and the Board of Directors

They can be revised downward at any time if the country's situation deteriorates or is expected to deteriorate. All of SGL Group's exposures (securities, derivatives, loans and guarantees) are taken into account by this monitoring. The country risk methodology determines an initial country of risk and a final country of risk (after the effects of any guarantees) within the country limits framework.

Credit stress tests

With the aim of identifying, monitoring and managing credit risk, the Risk Division had implemented a stress test plan, as promoted in Circular CSSF 11/506 updated by Circular CSSF 20/573, in order to assess to what extent unfavourable elements may challenge the match between the business model (activity stress), the risk profile and the existing capacity to manage and support the risk. This exercise leads, if required, to the development and implementation of corrective action plans to guarantee the longevity of the institution.

Like global stress tests, specific stress tests draw on a core scenario and a stressed scenario, which are defined by the SG

Group's sector experts and economists. The core scenario draws on an in-depth analysis of the situation surrounding the activity or the relevant country. The stressed scenario describes triggering events and assumptions regarding the development of a crisis, both in quantitative terms (changes in a country's GDP, the unemployment rate, deterioration in a sector) and qualitative terms.

Structured around the portfolio analysis function, the Risk Division teams translate these economic scenarios into impacts on risk parameters (default exposure, default rate, provisioning rate at entry into default, etc.). To this end, the leading methods are based in particular on the historical relationship between economic conditions and risk parameters. As with the global stress tests, in connection with the regulatory pillar, stress tests routinely take into account the possible effect of counterparty performance for counterparties in which the SGL Group is most highly concentrated in a stressed environment.

Impairment

Impairments include impairments on groups of homogeneous assets, which cover performing loans, and specific impairments, which cover counterparties in default.

Impairments on groups of homogeneous assets are collective impairments booked for portfolios that are homogeneous and have a deteriorated risk profile although no objective evidence of default can be observed at an individual level.

These homogeneous groups include sensitive counterparties, sectors or countries. They are identified through regular analyses of the portfolio by sector, country or counterparty type.

These impairments are calculated on the basis of assumptions on default rates and loss rates after default. These assumptions are calibrated by homogeneous group based on their specific characteristics, sensitivity to the economic environment and historical data. They are reviewed periodically by the Risk Division of SG Group.

Decisions to book specific impairments on certain counterparties are taken where there is objective evidence of default. The amount of impairment depends on the probability of recovering the amounts due. The expected cash flows are based on the financial position of the counterparty, its economic prospects and the guarantees called up or that may be called up.

A counterparty is deemed to be in default when at least one of the following conditions is verified:

- a significant decline in the counterparty's financial position leads to a high probability of it being unable to fulfil its overall commitments (credit obligations), thereby generating a risk of loss to The Bank whether or not the debt is restructured; and/or
- regardless of the type of loan (property or other), one or more receivables past due at least 90 days have been recorded (with the exception of loans restructured on probation, which are considered to be in default at the first missed payment, in accordance with the technical standard published in 2013 by the EBA relative to restructured loans); and/or
- a recovery procedure is under way; and/or
- the debt was restructured less than one year previously; and/or
- legal proceedings such as a bankruptcy, legal settlement or compulsory liquidation are in progress.

SGL Group applies the default contagion principle to all of counterparty's outstanding exposures. When a debtor belongs to a group, all of the group's outstanding exposures are generally defaulted as well.

Restructured loan

Loans issued or acquired by The SGL 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 SGL 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 SGL 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.

4.4 IFRS 9 ORGANISATION

IFRS 9 Debt instruments provisioning: general concepts

An impairment or loss allowance will be recognized for expected credit losses on debt instruments classified in financial assets at amortised cost or at fair value through equity, for lease receivables and for loan commitments and financial guarantees given. These impairments and allowances are recognised as soon as the loan is granted or as soon as the bonds are acquired, without waiting for the occurrence of an objective evidence of impairment.

The objective is to provide a gradual and phased approach to the recognition of loss allowances for credit risk symmetrically to the recognition in profit/(loss) of the credit margin included in the interest income.

The financial assets will be allocated to three categories according to the gradual increase in their credit risk since initial recognition. Impairment will be booked to each of these categories as follows:

CREDIT RISK IDENTIFIED FROM INITIAL RECOGNITION OF THE FINANCIAL ASSET

RISK CATEGORIES	**STAGE 1** PERFORMING LOANS	**STAGE 2** SIGNIFICANT INCREASE IN CREDIT RISK	**STAGE 3** DOUBTFUL DEBT/ CREDIT IMPAIRED
TRANSFER CRITERIA	Initial classification in Stage 1 > *Maintained as long as there is no significant increase in credit risk*	There is a significant increase in credit risk since initial reco-gnition on the balance sheet/ more than 30 days past due	Default identified/ more than 90 days past due
CREDIT RISK MEASUREMENT	12-months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
BASIS OF CALCULATION OF INTEREST INCOME	Gross carrying amount of the financial asset before allowance for impairment	Gross carrying amount of the financial asset before allowance for impairment	Net carrying amount of the financial asset after allowance for impairment

A significant increase in credit risk will be assessed on an instrument-by-instrument basis, but may also be assessed on the basis of homogenous portfolios of similar assets, where individual assessment is not relevant. A counterparty-based approach (applying the default contagion principle to all of the counterparty's outstanding loans) will also be possible if it gives similar results. SGL Group take into account all available information as well as the potential consequences of a change in macro-economic factors so that any significant increase in the credit risk on a financial asset can be assessed as early as possible. There will be a rebuttable presumption that the credit risk on a financial asset has increased significantly when the contractual payments on this asset are more than 30 days past due. However, this 30-day late period is an ultimate indicator. The entity should use all available information (behaviour scores, "loan to value" type indicators, etc.) and apply a forward looking approach to assess whether there is a significant increase in credit risk before contractual payments are over 30 days past due. Application of IFRS 9 will not alter the definition of default currently used by SGL Group to determine whether or not there is objective evidence of impairment of a financial asset. An asset will notably be presumed in default if one or more contractual payments are more than 90 days past due. Impairment of groups of similar assets will be replaced by impairment calculated according to the 12-month or lifetime expected credit losses:

- A portion of the exposures on counterparties whose financial position has deteriorated since initial recognition of the financial assets, but where no individual objective indication of impairment has been identified (increase in credit risk) will be included in Stage 2 and impairment will be calculated in the amount of the lifetime ECL;
- Exposures on counterparties in economic sectors considered to be in crisis following the occurrence of loss events, or exposures on regions or countries in which an increase in credit risk has been assessed will be classified either in Stage 1 (impairment calculated in an amount equal to the 12-month ECL) or Stage 2 (impairment calculated in an amount equal to the lifetime ECL), depending on their individual credit risk and factoring in the deterioration in the sector or country from inception to the balance sheet date.

12-month expected credit losses will be measured taking into account past events, the current situation, as well as reasonable forward-looking information. Therefore, these expected losses will not be calculated according to average data observed through the cycle.

The calculation of lifetime expected credit losses will take into account historical data, the current situation, and reasonable

forward-looking information on possible changes in general economic conditions, as well as relevant macroeconomic factors until contract maturity.

An impairment or loss allowance must be recognized for expected credit losses on debt instruments classified in financial assets at amortised cost or at fair value through equity, for lease receivables and for loan commitments and financial guarantees given, according to IFRS 9 standards.

The expected credit loss must be at least equal to the 12-month expected credit loss and must be adjusted to give the lifetime expected credit loss for the remaining term of the financial instrument, if there is a significant increase in credit risk since initial recognition.

Therefore the main change is the recognition of impairment on sound loans, from inception or from acquisition of the bonds.

IFRS 9 implementation principles

Since 1 January 2018, SGL Group has been recording provisions on performing loans under the IFRS9 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. SGL 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 SGL Group’s results.

The methodology for calculating Stage 1 and 2 expected credit losses is based on the Basel framework, which served as the basis for selecting the methods for valuing the parameters for calculating IFRS 9 provisions (probability of default and loss given default for exposures under the A-IRB approaches, and the provisioning rate for exposures under the standardised method). The segmentation of portfolios is realized at the level of SGL to ensure that they are consistent in terms of risk characteristics and to ensure better correlation with global and local macroeconomic variables. This new segmentation is consistent or equivalent to one defined in the Basel framework in order to ensure the uniqueness of past data on defaults and losses.

The forward-looking ECL approach (12-month/lifetime ECL) is based first and foremost on the incorporation of economic forecasts in probability of default. The main macroeconomic variable used for SGL Group is the economic growth of each European country.

The ECL is calculated using assumptions on default rates and losses on default. It takes into account macro-economic forecasts specific to the business sector or country. The assumptions are calibrated by homogenous groups of assets based on each group’s specific characteristics, its sensitivity to the economic environment and historical data. The assumptions are reviewed periodically by the Risk Division of SGL Group.

On private banking perimeter, a simplified approach of expected credit losses calculation is deployed.

Under the simplified method, given the unavailability or lack of depth of historical data and the small size of portfolios at SG Group level, for Stage 1 exposures the ECL is estimated on the basis of a flat-provisioning rate per homogeneous risk group (pools).

This rate, reviewed quarterly by SG Group Risk department in charge with the business line, is determined based on statistical approach using PD x LGD estimated based on historical default and recovery rates per portfolio.

For Stage 2 exposures, SGL applies an individual approach, based on an expert analysis for each counterparty or transaction. However, a floor, which corresponds to S1 provisioning rate must be applied to Private Banking Stage 2 expected credit losses.

4.4.1 Crises: Covid-19 and war in Ukraine

The lifting of the Covid-19-related restrictions in several major economies has supported economic activity even if the lockdowns in Mainland China have hampered it.

However, 2022 has been marked by the war in Ukraine. The conflict had and continues to be a significant economic cost and is accompanied by a very high degree of uncertainty.

In the euro area, the supply difficulties, the increase in energy costs, the decline in purchasing power together with high inflation and the tightening of economic policies are the main bottlenecks to growth. If pandemic-related risks have decreased significantly in the short-term, the strong uncertainties related to the war in Ukraine jeopardise these prospects and a more pronounced slowdown is anticipated in 2023.

Furthermore, SG Group announced in April 2022, the cessation of its banking and insurance business in Russia. In May 2022, the SG Group completed the sale of Rosbank and its insurance subsidiaries in Russia.

In this context, SG Group has updated the macroeconomic scenarios selected to prepare the consolidated financial statements and has continued to apply certain adjustments to its models.

Macroeconomic scenarios

SGL Group approach relies on SG Group’s modelizations for macroeconomic scenario and analysis of activities.

The details of evolutions to macroeconomic scenarios and their impacts on calculation of Expected Credit Losses (ECL) under IFRS 9 are presented below.

As of 31 December 2022, SG Group has selected three scenarios to factor in the uncertainties relating to the war in Ukraine, the ongoing Covid-19 pandemic and the current macro-economic context. The SG Extended scenario, built specifically in the context of the sanitary crisis, has become obsolete owing to the evolution and to the management of the crisis during 2022.

The assumptions selected to draw up the scenarios are listed below:

- The central scenario (SG Central) simulates a sharp economic slowdown in 2023, and only a modest rebound in 2024 growth. In 2023, inflation will remain high, close to 5.5% before dropping below 3% in 2024 and returning to target in the mid-term. The ECB will continue tightening its monetary policy in the short term; but a possible easing might start at the end of 2023.
- The favourable scenario (SG Favourable) describes an accelerated economic growth compared to the trajectory projected in the central scenario. This growth may result from improved supply conditions owing to a positive shock on productivity or from unexpectedly improved demand conditions (situation observed in several economies in 2021/2022 following releases from lockdowns). In both cases, stronger growth will have a positive impact on employment and/or the profitability of companies.
- The stressed scenario (SG Stress) corresponds to a crisis situation leading to a negative deviation in Gross Domestic Product (GDP hereafter) compared to the central scenario. This scenario may result from a financial crisis (2008 crisis, Euro area crisis…), an exogenous crisis (Covid-19-like pandemic) or a combination of both.

These scenarios are developed by Société Générale Economic and Sector Research for all the entities of the SG Group based on the information published by the statistical institutes in each country.

Forecasts from institutions (IMF, Global Bank, ECB, OECD…) and the consensus among market economists serve as a reference to challenge the Group's forecasts in order to ensure the relevance and consistency of the thus-constructed scenarios.

The scenarios provided by SG Group economists are incorprorated into the credit loss provisioning models over a three-year horizon, followed by a two-year period to gradually return by the fifth year to the average probability of default observed during the calibration period. The assumptions made by the SG Group with a view to developing these macro-economic scenarios are updated to account for the uncertainties about the economic consequences of the war in Ukraine and the remaining uncertainties regarding the Covid-19 pandemic.

Variables

The GDP growth rate, the profit margin of businesses in France, the unemployment rates, the inflation rate in France and the yield on France 10-year government bonds are the main variables used in the expected credit losses valuation models.

The variables with the stronger impact on the determination of expected credit losses (GDP growth percentage for the major countries in which the Group operates and profit margin of businesses in France) for each scenario are detailed hereinafter:

SG Favourable scenario (%)	2023	2024	2025	2026	2027
France GDP	1.5	2.8	2.0	2.1	1.3
Profit margin of French companies	32.7	32.7	32.9	32.9	32.3
Euro area GDP	1.2	2.7	2.0	2.1	1.3
United States GDP	1.0	2.6	2.8	2.8	2.3
China GDP	5.5	6.3	5.1	5.2	4.4

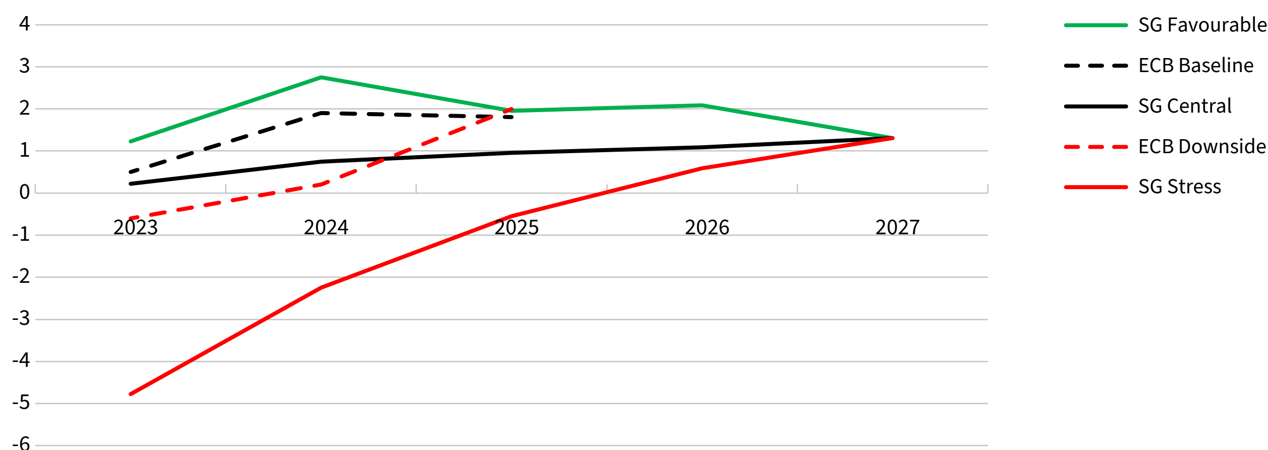
SG Central scenario (%)	2023	2024	2025	2026	2027
France GDP	0.5	0.8	1.0	1.1	1.3
Profit margin of French companies	32.1	32.4	32.4	32.4	32.3
Euro area GDP	0.2	0.7	1.0	1.1	1.3
United States GDP	0.0	0.6	1.8	1.8	2.3
China GDP	4.5	4.3	4.1	4.2	4.4

SG Stress scenario (%)	2023	2024	2025	2026	2027
France GDP	(4.5)	(2.2)	(0.5)	0.6	1.3
Profit margin of French companies	29.9	30.2	30.2	30.2	32.3
Euro area GDP	(4.8)	(2.3)	(0.5)	0.6	1.3
United States GDP	(5.0)	(2.4)	0.3	1.3	2.3
China GDP	(0.5)	1.3	2.6	3.7	4.4

These simulations assume that the historical relationships between the key economic variables and the risk parameters remain unchanged. In practice, these correlations may be impacted by geopolitical or climatic events, changes in behaviour, legal environment or granting policy.

The illustration below compares the GDP forecasts in the euro area used by SG Group for each scenario with the scenarios published by the ECB in December 2022.

GDP FORECASTS BY SCENARIO, IN PERCENTAGE



Weighting of the macroeconomic scenarios

the probabilities used are based on the differences observed over the past 25 years between the forecasts made by a consensus of economists regarding the US GDP and the occurred actual scenario (forecast similar to the actual scenario, significantly optimistic or pessimistic).

In order to better account for a possible reversal of the cycle, SG Group applies a methodology for weighting scenarios and assigns a higher weight to the Central scenario when the economy is depressed. Conversely, the methodology provides for a higher weight to be assigned to the SG Stress scenario when the economy moves towards the peak of the cycle. Accordingly, the weighting applied to the Central scenario is set at 60% as of 31 December 2022 in relation to the cancellation of the SG Extended scenario.

Presentation of the changes in weightings:

	31 December 2022	30 June 2022	31 December 2021
SG Central	60%	60%	50%
SG Extended	NA	NA	10%
SG Stress	30%	30%	30%
SG Favourable	10%	10%	10%

Update and adjustments to take into account uncertainties: war in ukraine, covid-19 and economic consequences

to take into account the uncertainties relating to the Covid-19 crisis, the SG Group updated as of 31 December 2022 the model and post-model adjustments set out since the beginning of the health crisis in line with 2021.

In 2022, the SG Group reviewed the parameters used in the models on the basis of the new macroeconomic scenarios taking into account the specific conditions created by the war in Ukraine.

The impacts of the adjustments to models and post-models on the determination of expected credit losses are described hereinafter.

UPDATE OF THE MODELS AND PARAMETERS USED TO ESTIMATE EXPECTED CREDIT LOSSES

GDP ADJUSTMENT

The containment measures taken by governments in the context of the Covid-19 crisis resulted in a sudden decline in economic activity reflected in high volatility in quarterly GDP growth rates (year-on-year) in the 2021 and 2022 forecasts in the countries where the SG Group operates.

In order to account for this time-lag, SG Group revised its models in 2020, using, for each quarter between 2020 and 2022, an average of the changes in GDP over the last eight quarters compared to a base of 100 in 2019. This adjustment has not been used to determine the GDP rates for 2023 to 2026.

As of 31 December 2022, the GDP rates used in the models have been determined as follows:

- For each quarter of 2022, SG Group has used in its models an average of the changes in GDP over the last eight quarters compared to a base of 100 in 2019. This adjustment has been applied to each of the three scenarios (SG Favourable, SG Central and SG Stress) for the GDP series used in the modelling of expected credit losses.
- The data displayed for 2022 in the table below correspond to the weighted average of the GDP growth rates of the three scenarios, adjusted as described above.
- The data displayed for the years 2023 to 2026 in the table below correspond to the weighted average of the GDP growth rates of the three scenarios.

	2022	2023	2024	2025	2026
Euro area	(1.4)	(1.2)	0	0.6	1.0
France	(1.8)	(0.9)	0.1	0.6	1.0
United States of America	0.9	(1.4)	(0.1)	1.4	1.8
China	3.0	3.1	3.6	3.7	4.2

ADJUSTMENTS SUPPLEMENTING THE APPLICATION OF MODELS

SECTORAL ADJUSTMENTS

SG Group can supplement the models with two types of sectoral adjustments: the first relates to the possible revision of the expected credit loss estimates of some sectors (with no impact on the classification of loans); the second, implemented since 2020 in relation with Covid-19 crisis, supplements the analysis of the increase in credit risk and may lead to additional transfers to Stage 2.

ESTIMATE OF THE EXPECTED CREDIT LOSSES

The different models used to estimate the expected credit losses may be supplemented by sectoral adjustments that increase or decrease the amount of expected credit losses. These adjustments allow to better anticipate defaults or recoveries in some cyclical sectors that have known peaks of default in the past or that are particularly vulnerable to the current crisis and for which SG Group exposure exceeds a threshold is reviewed yearly by the Risk division.

These sectoral adjustments are reviewed and updated on a quarterly basis by the Risk division and approved by SG Group Management according to the materiality threshold.

The main sectors impacted are the commercial real-estate sector, as well as leisure, oil and gas, cruise operators and airline sectors.

The total sectoral adjustments amount to EUR 2.2 million as of 31 December 2022.

These specific adjustments aim to take into account the impact of the commodities supply issues resulting from the war in Ukraine as well as the impact of a lasting stagflation on the most exposed sectors.

ADDITIONAL CRITERION OF TRANSFER TO STAGE 2

Since 2020 and the onset of the Covid-19 crisis, to supplement the criteria for the transfer to underperforming loans classified as Stage 2 applied at an individual level, an additional expert analysis on the outstanding portfolios for which the increase in credit risk has been deemed significantly since their granting had been conducted at the end of the year.

The subsequent productions are not affected by these provisions. As a result of this analysis, conducted half-yearly and in line with the governance set up during the Covid-19 crisis, additional transfers have been made to Stage 2 underperforming loans for all the outstanding loans granted prior to COVID crisis of the sectors considered by SG Group as the most affected.

As of 31 December 2022, the remaining affected sectors are shipping, aeronautical & railway construction, air and space transport, hotels, catering and leisure. For the relevant outstanding loans, in addition to these transfers to Stage 2, the provision has been estimated taking account of the sectoral adjustments (described above) that might have been applied.

OTHER CREDIT RISK ADJUSTMENTS RELATED TO THE WAR IN UKRAINE

ADDITIONAL CRITERION OF TRANSFER TO STAGE 2

On Corporate and Investment banking perimeter, all exposures to Russian counterparties have been transferred in stage 2 (on stage 3 for the defaulted ones).

On Private Banking perimeter, exposures to Russian clients have been transferred in stage 2 on a case-by-case basis.

ADDITIONAL CRITERION OF TRANSFER TO STAGE 3

On Corporate and Investment banking perimeter, in relation to the war in Ukraine, by precautionary principle, SGL group transferred in Stage 3, the Russian counterparties which have a sanctioned Ultimate Beneficial Owner (UBO) owning a participation upper to 50%.

On Private Banking perimeter, the Russian sanctioned clients have been transferred in Stage 3.

SPECIFIC ADJUSTMENTS

For Russian Investment banking clients, an overlay has been computed based on multi-scenarios approach.

- **Business as usual scenario** (probable to 35%): PD and LGD remain unchanged.
- **Intermediate scenario** (probable to 40%): deepening of the crisis. The average rating of the portfolio decreases to 7. LGDs are downgraded, especially as financing is less secure. To date, this scenario is considered the most likely.
- **Extreme scenario** (probable to 25%): default by all counterparties. LGD downgraded, as in the intermediate scenario. This scenario is still considered to have a lower probability.

On Corporate and Investment banking perimeter, this overlay, impacting stage 2, is related to the increase of credit risk on Russian counterparties portfolio offshore exposures to take into account the specific risk linked to the current geopolitical situation.

On Private Banking perimeter, SG Group decided to provide a specific adjustment to consider the specific risk on the offshore credit portfolio to Russian clients (out of sanctioned or restricted PEP counterparties). This overlay impacted stage 1 as the Private banking exposures have a very good level of collateralization.

The total specific adjustments amount to EUR 109 million as at December 31, 2022.

IMPACTS ON CREDIT EXPOSURES

The tables below present the exposures (measured at amortised cost) booked by the SGL Group entities on Russian counterparties and clients (nationality and/or tax residence).

- **GLBA perimeter - corporate exposures**

	12.31.2022	
(In EUR million)	**Gross outstanding**	**Net outstanding***
Russia clients exposures	676	396

*The net outstanding columns does not take into account the exposures covered by a specific credit insurance.

- **Private banking perimeter - retail exposures**

	12.31.2022
(In EUR million)	**EAD**
Russia clients exposures	513
of which restricted clients*	47

*The restricted clients correspond to clients with Russian nationality and tax residence out of EU.

All the exposures related to corporates counterparties (726 million euros) have been classified as “sensitive” and transferred in Stage 2 and for 2 counterparties in Stage 3.

On the Private Banking perimeter, as the exposures are fully collateralized by real estate or financial collaterals, a case-by-case analysis has been performed to identify “sensitive” counterparties.

CALCULATION OF EXPECTED CREDIT LOSSES

The main evolutions that occurred over the year are the following at SG Luxembourg Group level:

- The credit risk adjustments related to the war in Ukraine on Russian deals on Corporate and Investment Banking and Private banking perimeters;
- The expected credit losses model update to materialise the impact of the macroeconomic scenarios described above;
- The sectorial adjustment update on Corporate Banking perimeter to take into account the strong uncertainties related to the war in Ukraine.

Based on the scenarios and weightings mentioned above, and after taking into account the methodological adjustments, the calculation of expected credit losses led SG Luxembourg Group to record a Net Cost of Risk of EUR 168.3 million as of December 31, 2022.

The sharp increase of interest rates had no significant impact on the Group’s net cost of risk as of December 31, 2022.

SG Luxembourg Group cost of risk as at December 31, 2022 split by business lines:

(In EUR million)	2022 NCR		
Business line	**Stage 1 & Stage 2**	**Stage 3**	**Global**
Private Banking	6.52	13.81	20.33
Securities services	0.03	-	0.03
Corporate and Investment Banking	128.6	19.88	148.48
Corporate center	(0.54)	-	(0.54)
SG Luxembourg Group	**134.61**	**33.69**	**168.3**

Covid-19 support measures

Moratoriums have been granted in order to defer for a few months the repayment of loans instalments (principal and interests).

The terms of the moratoriums granted by SGL Group to its clients is different from entity to entity.

In Luxembourg, the moratoriums took the form of a 6 months payment deferment on loans granted to corporates and private banking customers (principal and interests), with interests on the deferral charged only on the principal. During 2021, these moratoriums have been fully regularized.

Abroad, various cases have been observed, both over the duration of the moratorium (never exceeding 9 months), and over its terms (interest charged for the deferment for SGPB Monaco, not charged for SGPB Switzerland).

As of 31 December 2022, the approved moratoriums amount a total commitment of 28 million euros regarding four residual cases in SGPB Monaco.

From an accounting point of view, these moratoriums were not considered as substantial modifications of the contractual cash flows of the loans to which they were applied, and therefore a classification as forebearance or in default of these loans. Given the low number of moratoriums, the loss relating to the moratoriums recorded in the interest margin amounts is non-material for SGL Group.

As recommended by the prudential and supervisory authorities and repeated over by the IASB in a press release of the 27th of March 2020, the granting of moratoriums directly related to the cash flow difficulties generated by the occurrence of the Covid-19 crisis did not lead to the automatic transfer of these credit outstanding's neither into Stage 2, nor into Stage 3. A case-by-case analysis was conducted on the most significant exposures and on those with increased risks particularly due to their ante-crisis Basel scoring.

4.5 REPLACEMENT RISK

Replacement risk, i.e. counterparty risk associated with market transactions, is a type of credit risk (potential loss in the event that the counterparty defaults). It represents the current cost to the SGL Group of replacing transactions with a positive market value should the counterparty default. Transactions giving rise to a replacement risk are, inter alia, security repurchase agreements, securities lending and borrowing, purchase/sale transactions or foreign exchange transactions in Delivery Versus Payment (DVP) and derivative contracts such as swaps, options and futures traded over the counter or with central counterparty clearing houses (CCP).

Management of counterparty risk linked to market transactions

SGL Group places great emphasis on carefully monitoring its credit and counterparty risk exposure in order to minimise its losses in case of default. Counterparty limits are assigned to all counterparties on the supervision of SG Group Risk Division.

The credit profile of counterparties is reviewed on a regular basis and limits are set both according to the type and maturity of the relevant instruments. The intrinsic creditworthiness of counterparties and the reliability of the associated legal documentation are two factors considered when setting these limits. Information technology systems allow both traders and the Risk Division to ensure that counterparty limits are not exceeded. Any significant weakening in the bank's counterparties also prompts urgent internal rating reviews. A specific supervision and approval process is put in place for more sensitive counterparties or more complex financial instruments.

Setting individual counterparty limits

In order to quantify the potential risk, SGL Group uses the internal model and associated metrics of the SG Group which estimates a loss distribution. Two metrics from the loss distribution are used to monitor the risk:

- Current average risk, particularly suitable for analysing the risk exposure for a portfolio of customers;
- Credit VaR (or CVaR): the largest loss that would be incurred after eliminating the top 1% of the most adverse occurrences, used to set the risk limits for individual counterparties.

Wrong-way risk

Wrong-way risk is the risk that occurs when the exposure-at-default to a counterparty increases when the probability that the counterparty defaults also increases.

Within SGL Group this risk can occur mainly in its private banking activities where clients could provide collateral whose value is correlated with their own probability of default. SGL Group limits this risk by having a limit on the percentage of collateral requirements met with collateral presenting wrong-way risk. This ensures that most of the collateral value provided is not correlated with the probability of default.

4.6 HEDGING OF CREDIT RISK

Guarantees and collateral

SGL Group uses credit risk mitigation techniques both for market, commercial and private banking activities. These techniques provide partial or full protection against the risk of debtor insolvency.

There are two main categories:

- A commitment made by a third party to replace the primary debtor in the event of the latter's default. These guarantees encompass the protection commitments and mechanisms provided by banks and similar credit institutions, specialised institutions (insurers, export credit agencies or credit insurers mainly).
- Collateral can consist of physical assets in the form of property, as well as financial instruments such as cash, high-quality investments and securities, and also insurance policies. It could also include precious metal. Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity. The SGL Group proactively manages its risks by diversifying guarantees

During the credit approval process, an assessment is performed on the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations. This process also ensures that the collateral or guarantee successfully meets the criteria set forth in the Capital Requirements Directive (CRD).

Guarantor ratings are reviewed internally at least once a year and collateral is subject to revaluation at least once a year. The Risk function is responsible for approving the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, whether during the approval phase for a new loan or upon the annual renewal of the credit application.

Mitigation of counterparty risk linked to market transactions

SGL Group uses a number of techniques to manage its credit risk. With regard to counterparties dealing with market transactions, it seeks to implement master agreements with a termination clearing clause wherever it can. In the event of default, these allow netting of all due and payable amounts. These contracts usually call for the revaluation of the required collateral at regular intervals (often on a daily basis) and for the payment of the corresponding margin calls. Collateral is largely composed of cash and high-quality liquid assets, such as government bonds with a high rating. Other tradable assets are also accepted, provided that the appropriate haircuts are made to reflect the lower quality and/or liquidity of the asset.

A financial asset and a financial liability are offset and the net amount presented on the balance sheet when the SGL 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 SGL 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.

TABLE 12: EU CR3 - CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

		Unsecured carrying amount	**Secured carrying amount**			
				Of which **secured by collateral**	*Of which* **secured by financial guarantees**	
						Of which **secured by credit derivatives**
(in EUR 1000)		**a**	**b**	**c**	**d**	**e**
1	Loans and advances	35 459 051	19 222 680	11 364 092	7 858 588	0
2	Debt securities	2 710 506	8 697 121	8 296 970	400 151	
3	**Total**	**38 169 557**	**27 919 800**	**19 661 062**	**8 258 739**	**0**
4	*Of which non-performing exposures*	*104 890*	*284 432*	*193 264*	*91 168*	*0*
EU-5	*Of which defaulted*	*104 890*	*284 432*			

TABLE 13: EU CR4 - STANDARDISED APPROACH -CREDIT RISK EXPOSURE AND CRM EFFECTS

		Exposures before CCF and before CRM		**Exposures post CCF and post CRM**		**RWAs and RWAs density**	
Exposure classes		**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**RWAs**	**RWAs density (%)**
(in EUR 1000)		**a**	**b**	**c**	**d**	**e**	**f**
1	Central governments or Central banks	18 829	0	18 829	0	9 495	50.43%
6	Institutions	2 427 898	379 617	224 424	463 762	95 684	13.90%
7	Corporates	9 978 502	568 131	451 045	10 112	467 597	101.40%
10	Exposures in default	129 215	0	87 414	0	88 164	100.86%
14	Collective investment undertakings	30	0	30	0	379	1 250.00%
16	Other items	353 549	42 751	353 549	21 375	374 924	100.00%
17	**Total**	**12 908 024**	**990 499**	**1 135 292**	**495 249**	**1 036 243**	**63.55%**

TABLE 14: EU CR7-A - IRB APPROACH - DISCLOSURE OF THE EXTENT OF THE USE OF CRM TECHNIQUES

A-IRB (in EUR'000)		**Total exposures***	Part of exposures covered by **Financial Collaterals (%)**	Part of exposures covered by **Other eligible collaterals (%)**
		a	b	c
1	Central governments and Central banks	14 886 870	0.00%	1.96%
2	Institutions	25 414 068	0.46%	0.00%
3	Corporates	11 953 800	0.12%	31.32%
3,1	*Of which Corporates – SMEs*	*4 786 373*	*0.01%*	*46.90%*
3,2	*Of which Corporates – Specialised lending*	*1 872 470*	*0.00%*	*43.72%*
3,3	*Of which Corporates – Other*	*5 294 958*	*0.26%*	*12.84%*
4	Retail	3 578 118	0.00%	29.73%
4,2	*Of which Retail – Immovable property non-SMEs*	*962 614*	*0.00%*	*97.84%*
84,5	*Of which Retail – Other non-SMEs*	*2 615 504*	*0.00%*	*4.66%*
5	**Total**	**55 832 856**	**0.24%**	**9.13%**

*Exposure value have been disclosed after substitution effect despite the instructions from the ITS of Pilar 3.

4.7 RISK MEASUREMENT AND INTERNAL RATINGS

SGL Group uses the internal models developed by SG Group since 2007. SGL Group obtained the authorisation from SG Group supervisory authorities to apply the Advanced Internal Ratings-Based (AIRB) approach to most of its exposures in order to calculate the capital requirements in respect of credit risk.

Since the initial authorisation was given, the transition from the standard approach to the AIRB approach for some of its activities and exposures has been selective and marginal. Exposures treated under the Standardised approach for Credit Risk are limited and mainly correspond to SGCMF and SGFD (subsidiaries of SGL).

Credit risk measurement for wholesale clients

SGL Group uses the SG Group rating system for Wholesale clients, for example for exposures to Sovereign, Financial Institutions and Specialised Lending. The SG Group's credit risk measurement system, which estimates internal Basel parameters, uses a quantitative evaluation mechanism coupled with an expert opinion.

For Corporate, Banking and Sovereign portfolios, the measurement system is based on three key components:

- a counterparty rating system;
- a system that automatically assigns Loss Given Default (LGD) and Credit Conversion Factor (CCF) parameters according to the characteristics of each transaction;
- a collection of procedures setting out the rules relating to ratings (scope, revision frequency, rating approval procedure, etc.), as well as to the supervision, backtesting and validation of models. Among other things, these procedures help to support the human judgement that provides the critical scrutiny that is an essential complement to the models for these portfolios.

Credit risk Mitigation techniques			Credit risk Mitigation methods in the calculation of RWEAs	
Funded credit Protection (FCP)				
Part of exposures covered by **Immovable property Collaterals (%)**	Part of exposures covered by **Receivables (%)**	Part of exposures covered by **Other physical collateral (%)**	**RWEA without substitution effects** (reduction effects only)	**RWEA with substitution effects** (both reduction and substitution effects)
d	**e**	**f**	**m**	**n**
0.00%	0.00%	1.96%	1 903	18 075
0.00%	0.00%	0.00%	1 690 896	2 142 333
19.35%	3.12%	8.85%	5 141 955	4 706 050
46.90%	*0.00%*	*0.00%*	*1 706 316*	*1 738 020*
3.62%	*0.00%*	*40.10%*	*645 797*	*631 174*
0.00%	*7.05%*	*5.79%*	*2 789 842*	*2 336 856*
29.73%	0.00%	0.00%	685 476	653 773
97.84%	*0.00%*	*0.00%*	*398 486*	*383 899*
4.66%	*0.00%*	*0.00%*	*286 990*	*269 874*
6.05%	**0.67%**	**2.42%**	**7 520 230**	**7 520 230**

RATING SYSTEM

The rating system consists in assigning a rating to each counterparty according to an internal scale, for which each grade corresponds to a probability of default determined using historical series observed by Standard & Poor's over more than 20 years.

The following table presents SG's internal rating scale and the corresponding scales of the main external credit assessment institutions, as well as the corresponding mean probability of default.

The rating assigned to a counterparty is generally proposed by a model and then adjusted and approved by experts in the Risk function further to the individual analysis of each counterparty.

The counterparty rating models are structured in particular according to the type of counterparty (companies, financial institutions, public entities, etc.), the country, geographic region and size of the company (usually assessed through its annual revenue).

The Company rating models are underpinned by statistical models (regression methods) of client default. They combine quantitative parameters derived from financial data that evaluate the sustainability and solvency of counterparties and qualitative parameters that evaluate economic and strategic dimensions.

LGD MODELS

The Loss Given Default (LGD) is an economic loss that is measured by taking into account all parameters pertaining to the transaction, as well as the fees incurred for recovering the receivable in the event of a counterparty default.

The models used to estimate the Loss Given Default (LGD) excluding retail clients are applied by regulatory sub-portfolios, type of asset, size and location of the transaction or of the counterparty, depending on whether or not collateral has been posted, and the nature thereof if applicable. This makes it possible to define homogenous risk pools, particularly in terms of recovery, procedures and the legal environment.

These estimates are founded on statistics when the number of loans in default is sufficient. In such circumstances, they are based on recovery data observed over a long period. When the number of defaults is insufficient, the estimate is revised or determined by an expert.

CCF MODELS (CREDIT CONVERSION FACTOR)

For its off-balance sheet exposures, the SGL Group is authorized to use the internal approach for "term loan with drawing period" products and revolving credit lines.

BACKTESTS

The performance level of the entire wholesale client credit system is measured by regular back tests that compare PD, LGD and CCF estimates with actual results by portfolio.

The compliance of this system is based on the consistency between the parameters used and the long-term trends analysed, with safety margins that take into account areas of uncertainty (cyclicality, volatility, quality of data, etc.).

The safety margins applied are regularly estimated, checked and revised if necessary. The results of back tests can justify the implementation of remedial plans if the system is deemed to be insufficiently prudent.

Credit risk measurements of retail clients

SGL Group uses retail client credit models for its Private banking activities.

PROBABILITY OF DEFAULT MODELS

The modelling of the probability of default of retail client counterparties is carried out specifically by each of the SG Group's business lines recording its assets using the IRBA method. The models incorporate data on the payment behaviour of counterparties.

Once the counterparties have been classified into statistically distinct homogenous risk pools, the probability of default parameters are estimated by observing the average long-term default rates for each product. These estimates are adjusted by a safety margin to estimate as best as possible a complete default cycle, using a through-the-cycle (TTC) approach.

LGD MODELS

The models for estimating the Loss Given Default (LGD) of retail customers are specifically applied by business line portfolio. LGD values are estimated by product, according to the existence or not of collateral.

Consistent with operational recovery processes, estimate methods are generally based on a two-step modelling process that initially estimates the proportion of defaulted loans in loan termination, followed by the loss incurred in case of loan termination.

The expected losses are estimated using internal long-term historical recovery data for exposures that have defaulted. These estimates are adjusted by safety margins in order to reflect the possible impact of a downturn.

CCF MODELS (CREDIT CONVERSION FACTOR)

For its off-balance sheet exposures, SGL Group applies its estimates for revolving loans and overdrafts on current accounts held by retail customers.

BACKTESTS

The performance level of the entire retail client credit system is measured by regular back tests, which check the performance of PD, LGD and CCF models and compare estimated figures with actual figures.

Each year, the average long-term default rate observed for each homogenous risk pool is compared with the PD. If necessary, the calibrations of PD are adjusted to preserve a satisfactory safety margin. The discrimination level of the models and changes in the portfolio's composition are also measured.

Regarding the LGD, the back test consists in comparing the last estimation of the LGD obtained by computing the average level of payments observed and the value used to calculate regulatory capital.

The difference should in this case reflect a sufficient safety margin to take into account a potential economic slowdown, uncertainties as to the estimation, and changes in the performance of recovery processes.

Likewise, for the CCF, the level of conservatism of estimates is assessed annually by comparing estimated drawdowns to observed drawdowns on the undrawn part.

TABLE 15: INTERNAL RATING SCALE[2] AND CORRESPONDING SCALES OF RATING AGENCIES

Counterparty internal rating	DBRS	Fitch Ratings	Moody's	S&P	1 year PD
1	AAA	AAA	Aaa	AAA	0.01%
2	AA high to HH low	AA+ to AA-	Aa1 to Aa3	AA+ to AA-	0.02%
3	A high to A low	A+ to A-	A1 to A3	A+ to A-	0.04%
4	BBB high to BBB low	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	0.30%
5	BB high to BB low	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	2.16%
6	B high to B low	B+ to B-	B1 to B3	B+ to B-	7.93%
7	CCC high to CCC low	CCC+ to CCC-	Caa1 to Caa3	CCC+ to CCC-	20.67%
8, 9 and 10	CC and below	CC and below	Ca and below	CC and below	100.00%

[2] The internal rating scales used by SGL Group correspond to the scales used by SG Group.

4.8 QUANTITATIVE INFORMATION ON CREDIT RISK AND COUNTERPARTY CREDIT RISK

TABLE 16: EU CR8 - RWEA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE IRB APPROACH

		Risk weighted exposure amount
(in EUR 1000)		a
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**6 695 969**
2	Asset size (+/-)	1 163 355
3	Asset quality (+/-)	(472 162)
4	Model updates (+/-)	82 701
5	Methodology and policy (+/-)	0
6	Acquisitions and disposals (+/-)	0
7	Foreign exchange movements (+/-)	88 521
8	Other (+/-)	(38 153)
9	**Risk weighted exposure amount as at the end of the reporting period**	**7 520 230**

TABLE 17: EU CR10 - SPECIALISED LENDING AND EQUITY EXPOSURES UNDER THE SIMPLE RISK WEIGHTED APPROACH

Template EU CR10.5

Equity exposures under the simple risk-weighted approach						
Categories	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
(in EUR 1000)	a	b	c	d	e	f
Private equity exposures	0	0	190%	0	0	0
Exchange-traded equity exposures	8 501	0	290%	8 501	24 652	68
Other equity exposures	32 341	0	370%	32 341	119 663	776
Total	**40 842**	**0**		**40 842**	**144 315**	**844**

SGL Group does not have any specialized lending exposures treated under the slotting approach, therefore template EU CR10.1/2/3/4 are not produced.

TABLE 18: EU CR1-A - MATURITY OF EXPOSURES

		a	b	c	d	e	f
		Net exposure value					
(in EUR 1000)		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	**Total**
1	Loans and advances	107 266	15 427 450	13 739 651	5 111 655	64 075	**34 450 097**
2	Debt securities	0	8 825 761	2 329 903	251 901	0	**11 407 565**
3	**Total**	**107 266**	**24 253 211**	**16 069 554**	**5 363 556**	**64 075**	**45 857 662**

TABLE 19: EU CR2 - CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

		a
	(in EUR 1000)	**Gross carrying amount**
010	**Initial stock of non-performing loans and advances**	**426 429**
020	Inflows to non-performing portfolios	389 960
030	Outflows from non-performing portfolios	(344 164)
040	Outflows due to write-offs	0
050	Outflow due to other situations	(344 164)
060	**Final stock of non-performing loans and advances**	**472 225**

TABLE 20: EU CR1 - PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

		a	b	c	d	f
		Gross carrying amount/nominal amount				
		Performing exposures			**Non-performing exposures**	
	(in EUR 1000)		Of which stage 1	Of which stage 2		Of which stage 3
005	Cash balances at Central banks and other demand deposits	20 231 633	20 231 633	0	0	0
010	Loans and advances	34 216 160	32 988 167	1 011 370	472 225	472 225
030	*General governments*	*4 281*	*4 281*	*0*	*0*	*0*
040	*Credit institutions*	*14 252 540*	*14 252 540*	*0*	*4*	*4*
050	*Other financial corporations*	*3 565 305*	*3 337 391*	*11 291*	*10 532*	*10 532*
060	*Non-financial corporations*	*13 138 058*	*12 191 691*	*946 367*	*409 243*	*409 243*
070	*Of which SMEs*	*3 308 494*	*3 247 803*	*60 691*	*183 246*	*183 246*
080	*Households*	*3 255 976*	*3 202 265*	*53 711*	*52 446*	*52 446*
090	Debt securities	11 407 627	11 358 904	0	0	0
110	*General governments*	*1 814 631*	*1 814 631*	*0*	*0*	*0*
120	*Credit institutions*	*252 776*	*252 776*	*0*	*0*	*0*
130	*Other financial corporations*	*9 340 220*	*9 291 497*	*0*	*0*	*0*
150	Off-balance-sheet exposures	5 239 923	5 193 852	46 071	0	0
180	*Credit institutions*	*730 235*	*699 332*	*30 902*	*0*	*0*
190	*Other financial corporations*	*2 280 673*	*2 280 537*	*136*	*0*	*0*
200	*Non-financial corporations*	*1 668 898*	*1 664 638*	*4 260*	*0*	*0*
210	*Households*	*560 117*	*549 344*	*10 773*	*0*	*0*
220	**Total**	**71 095 343**	**69 772 556**	**1 057 441**	**472 225**	**472 225**

	g	h	i	j	l	n	o
	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					**Collateral and financial guarantees received**	
	Performing exposures – accumulated impairment and provisions			**Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**On performing exposures**	**On non-performing exposures**
		Of which stage 1	Of which stage 2		Of which stage 3		
	0	0	0	0	0	0	0
	(155 385)	(22 259)	(133 126)	(82 903)	(82 903)	18 938 248	284 432
	(1)	*(1)*	*0*	*0*	*0*	*0*	*0*
	(540)	*(540)*	*0*	*0*	*0*	*2 178 874*	*0*
	(2 213)	*(1 543)*	*(670)*	*(757)*	*(757)*	*2 123 092*	*9 530*
	(146 602)	*(14 379)*	*(132 223)*	*(70 052)*	*(70 052)*	*11 537 926*	*249 406*
	(9 284)	*(9 044)*	*(240)*	*(23 872)*	*(23 872)*	*3 090 026*	*158 238*
	(6 030)	*(5 797)*	*(233)*	*(12 094)*	*(12 094)*	*3 098 356*	*25 496*
	(62)	(62)	0	0	0	8 697 121	0
	0	*0*	*0*	*0*	*0*	*0*	*0*
	0	*0*	*0*	*0*	*0*	*0*	*0*
	(62)	*(62)*	*0*	*0*	*0*	*8 697 121*	*0*
	1 883	1 797	86	0	0	1 730 689	0
	63	*19*	*45*	*0*	*0*	*159*	*0*
	591	*591*	*0*	*0*	*0*	*599 528*	*0*
	976	*935*	*41*	*0*	*0*	*828 638*	*0*
	253	*253*	*0*	*0*	*0*	*302 364*	*0*
	(157 330)	**(24 119)**	**(133 211)**	**(82 903)**	**(82 903)**	**29 366 057**	**284 432**

TABLE 21: EU CQ3 - CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

		a	b	c	d	e
		Gross carrying amount/nominal amount				
		Performing exposures				
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days
005	Cash balances at Central banks and other demand deposits	20 231 633	20 231 633	0	0	0
010	Loans and advances	*34 216 160*	*34 186 739*	*29 421*	*472 225*	*192 677*
030	*General governments*	*4 281*	*4 281*	*0*	*0*	*0*
040	*Credit institutions*	*14 252 540*	*14 252 540*	*0*	*4*	*4*
050	*Other financial corporations*	*3 565 305*	*3 561 305*	*4 000*	*10 532*	*0*
060	*Non-financial corporations*	*13 138 058*	*13 124 980*	*13 078*	*409 243*	*174 131*
070	*Of which SMEs*	*3 308 494*	*3 295 416*	*13 078*	*183 246*	*118 017*
080	*Households*	*3 255 976*	*3 243 633*	*12 343*	*52 446*	*18 542*
090	Debt securities	11 407 627	11 407 627	0	0	0
110	*General governments*	*1 814 631*	*1 814 631*	*0*	*0*	*0*
120	*Credit institutions*	*252 776*	*252 776*	*0*	*0*	*0*
130	*Other financial corporations*	*9 340 220*	*9 340 220*	*0*	*0*	*0*
150	Off-balance-sheet exposures	*5 239 923*			*0*	
180	*Credit institutions*	*730 235*			*0*	
190	*Other financial corporations*	2 280 673			0	
200	*Non-financial corporations*	*1 668 898*			*0*	
210	*Households*	*560 117*			*0*	
220	**Total**	**71 095 343**	**65 825 999**	**29 421**	**472 225**	**192 677**

f	g	h	i	j	k	l
Gross carrying amount/nominal amount						
Non-performing exposures						
Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
0	0	0	0	0	0	0
4	*207 407*	*12 282*	*44 913*	*10 989*	*3 952*	*472 225*
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*4*
0	*500*	*10 032*	*0*	*0*	*0*	*10 532*
4	*192 639*	*2 250*	*36 266*	*0*	*3 952*	*409 243*
4	*22 756*	*2 250*	*36 266*	*0*	*3 952*	*183 246*
0	*14 268*	*0*	*8 647*	*10 989*	*0*	*52 446*
0	0	0	0	0	0	0
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*0*
						0
						0
						0
						0
						0
4	**207 407**	**12 282**	**44 913**	**10 989**	**3 952**	**472 225**

TABLE 22: EU CQ1 - CREDIT QUALITY OF FORBORNE EXPOSURES

		a	b	c	d
		Gross carrying amount/nominal amount of exposures with forbearance measures			
		Performing forborne	**Non-performing forborne**		
(in EUR 1000)				Of which defaulted	Of which impaired
010	Loans and advances	327 072	5 582	5 582	5 582
050	*Other financial corporations*	*252*	*0*	*0*	*0*
060	*Non-financial corporations*	*317 319*	*3 284*	*3 284*	*3 284*
070	*Households*	*9 501*	*2 297*	*2 297*	*2 297*
090	Loan commitments given	12 075	0	0	0
100	**Total**	**339 147**	**5 582**	**5 582**	**5 582**

		e	f	g	h
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		**Collateral received and financial guarantees received on forborne exposures**	
(in EUR 1000)		**On performing forborne exposures**	**On non-performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
010	Loans and advances	(25 743)	(537)	306 373	5 044
050	*Other financial corporations*	*0*	*0*	*252*	*0*
060	*Non-financial corporations*	*(25 730)*	*(164)*	*294 709*	*3 120*
070	*Households*	*(12)*	*(373)*	*11 413*	*1 924*
090	Loan commitments given	0	0	0	0
100	**Total**	**(25 743)**	**(537)**	**306 373**	**5 044**

TABLE 23: EU CQ4 - QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

		a	c	e	f	g
		Gross carrying/nominal amount		**Accumulated impairment**	**Provisions on off-balance-sheet commitments and financial guarantees given**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
(in EUR 1000)			Of which defaulted			
010	**On-balance-sheet exposures**	**46 096 011**	**472 225**	**(238 349)**		**0**
020	*France*	*21 668 903*	*68 959*	*(15 516)*		*0*
030	*Luxembourg*	*8 280 251*	*13 865*	*(32 489)*		*0*
040	*Other countries**	*16 146 857*	*389 400*	*(190 344)*		*0*
050	**Off-balance-sheet exposures**	**5 239 923**	**0**		**1 883**	
060	*France*	*1 471 930*	*0*		*426*	
070	*Luxembourg*	*1 718 618*	*0*		*504*	
080	*Other countries**	*2 049 375*	*0*		*953*	
150	**Total**	**51 335 934**	**472 225**	**(238 349)**	**1 883**	**0**

*Materiality threshold of 10% for each exposure class.

TABLE 24: EU CQ5 - CREDIT QUALITY OF LOANS AND ADVANCES BY INDUSTRY

		a	c	e	f
		Gross carrying amount		**Accumulated impairment**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
(in EUR 1000)			Of which defaulted		
010	Agriculture, forestry and fishing	0	0	0	0
020	Mining and quarrying	636 913	0	(50 691)	0
030	Manufacturing	1 426 359	223 867	(101 956)	0
040	Electricity, gas, steam and air conditioning supply	276 549	0	(219)	0
050	Water supply	0	0	0	0
060	Construction	80 341	0	(79)	0
070	Wholesale and retail trade	81 118	0	(23)	0
080	Transport and storage	1 048 733	0	(1 112)	0
090	Accommodation and food service activities	232 058	0	(25 585)	0
100	Information and communication	82 730	0	(114)	0
110	Financial and insurance activities	481 095	7 291	(2 574)	0
120	Real estate activities	305 812	0	(1 200)	0
130	Professional, scientific and technical activities	667 539	4 217	(457)	0
140	Administrative and support service activities	5 423 193	0	(448)	0
150	Public administration and defense, compulsory social security	0	0	0	0
160	Education	0	0	0	0
170	Human health services and social work activities	2 101	0	(1)	0
180	Arts, entertainment and recreation	0	0	0	0
190	Other services	2 802 760	173 867	(32 193)	0
200	**Total**	**13 547 301**	**409 243**	**(216 653)**	**0**

TABLE 25: EU CQ7 - COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

		a	b
		Collateral obtained by taking possession	
(in EUR 1000)		**Value at initial recognition**	**Accumulated negative changes**
010	Property, plant and equipment (PP&E)	0	0
020	*Other than PP&E*	*904*	*(114)*
030	*Residential immovable property*	*904*	*(114)*
040	*Commercial Immovable property*	*0*	*0*
050	*Movable property (auto, shipping, etc.)*	*0*	*0*
060	*Equity and debt instruments*	*0*	*0*
070	*Other collateral*	*0*	*0*
080	**Total**	**904**	**(114)**

5. SECURITIZATION

5.1 SECURITIZATION

This chapter presents information on SGL Group's securitization activities. SGL Group does not carry out any securitizations as a sponsor. However, SGCMF (a subsidiary of SGL) invested in securitization assets ("Assets") fully financed by deposits with a limited recourse feature. The deposits are thus reimbursed only to the extent SGCMF receives repayment under the Assets. In 2017, SGCMF has issued a first loss guarantee in favour of SG Group which covers the first loss of a portfolio of assets selected by SGCMF among those which have been purchased by SGCMF in the normal course of its business. The first loss guarantee is collateralized by a cash deposit pledged for the benefit of SG Group. If triggered the first loss guarantee could result in a maximum loss of EUR 209 766 KEUR at 31 December 2022.

In accordance with Regulation (EU) 575/2013, this investment is subject to the Securitization framework provided by Part 3, Title II, Chapter 5 of the Regulation and by the Regulation (EU) 2017/2402 laying down a general framework for securitisation. It should be noted that there is no expectation that SGL or any of its subsidiaries (other than SGCMF) will invest or undertake additional securitization activities.

For prudential purposes, this first loss guarantee is considered as a banking book exposure, where The Bank invests in a synthetic securitization. This first loss is risk-weighted at 1250%. This thus generates total risk-weighted assets of 2 622 073 KEUR at 31 December 2022.

5.2 ACCOUNTING METHODS

This first loss guarantee is recorded at amortized cost represented as the conclusion of a guarantee commitment together with a cash deposit whose cash flows are "Solely Payment of Principal and Interest". The guarantee commitments given are subject to an Expected Credit Loss (ECL) provision. This ECL is thus accounted under IFRS 9 upon conclusion of the commitment.

5.3 MONITORING OF SECURITIZATION RISKS

In term of risk governance, the Assets covered by the first loss guarantee are selected through a two-step mechanism:

I. at inception, Assets are selected as follows: SGCMF analyses the risks associated to the new Asset based on a traditional credit analysis and then decides if the exposure is eligible to the first loss guarantee.

II. at each renewal of the first loss guarantee, SGCMF performs an acceptance committee and decides which exposures will remain or be added to or excluded from the first loss guarantee.

Securitization risks are monitored through a quarterly portfolio review according to the rules established by SG Group based on the pool of underlying assets. The maturity is short (1-6 months) and renewable at SGCMF's initiative, allowing SGCMF to remain agile in the management of its risk profile, and be able to quickly adjust to a deteriorating credit environment if needed.

6. MARKET RISKS

Market risks are the risks of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters, and the correlations between them. These parameters include, but are not limited to, exchange rates, interest rates, prices of securities (equities or bonds), commodities, derivatives and other assets. They apply to all trading book transactions.

6.1 ORGANISATION

Market risk is managed through procedures that explain how and when to activate and monitor limits for SGL independently and for its subsidiaries.

Although primary responsibility for risk monitoring naturally falls onto front office managers, the oversight mechanism also relies on independent structures.

From an organisational viewpoint, responsibility for managing market risk within SGL Group is distributed as follows:

- SG Group's Market Risk Department establishes the risk measurement methods and control procedures, centrally handles SG Group's market risk reporting, examines and validates the limits requests from the various activities.
- The entities of SGL Group bearing market risk (SGL and SGPB Switzerland) have a dedicated risk team, independent from the business lines, in charge of managing risks resulting from market activities. From November 2018, this function is 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 involved entities, to the front office and to SG Group's market risk department.

6.2 INDEPENDENT PRICING VERIFICATION

Market products are marked to market, when such market prices exist. Otherwise, they are valued using parameter-based models.

The prices provided by the counterparties are verified daily by the Risk Division comparing them to prices produced by internal models. Each internal model is independently validated by the Market Risk Department of SG Group, including the validity of the market data sources used.

6.3 METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS

The SGL Group policy is to strictly limit market risk taking, in particular through the implementation of very low limits with regard to the SGL Group's capital, and restrictions on the nature of instruments held.

For some entities, including SGPB Monaco, the ability to be exposed to market risk is excluded from the business model (systematic and "line to line" hedging of client operation through a symmetrical transaction concluded with SGL). For others (SGL and SGPB Switzerland), very low limits are set up and are strictly monitored (see below).

SGL and subsidiaries exposed to market risk are using SG Group's methodology and applications to properly monitor market risk exposures. The market risk assessment is mainly based on three daily indicators, which are monitored through limits.

- 99% Value at Risk (VaR) and Stressed Value-at-Risk (SVaR) in accordance with the internal regulatory model used to calculate capital: synthetic indicator for day-to-day monitoring of market risks incurred by SGL as part of its trading activities. The “historical simulation” method is used, which takes into account shocks and correlations between various markets using a one-day horizon calculated on a rolling one-year basis (for the VaR) and on a stresses annual window chosen a long-term period (for the SVaR).
- 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.
- 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.

These indicators are bounded by a set of limits, defined and calibrated by the Risk Division in coordination with the Front Offices.

6.4 RISK-MITIGATION AND HEDGING

The hedging strategy depends on the type of activity. Only foreign exchange activity is generating market risk exposure for SGL Group and classified in the trading book. The residual FX positions are held in case of impossibility, for Front Office, to hedge the position under convenient market conditions. These exposures are bound by very low limits so that, in case of loss occurrence, this will not have significant impact on the P&L of SGL Group.

6.5 MARKET RISK CAPITAL REQUIREMENTS

SGL Group applies the standardized approach to measure its minimum capital requirements. The breakdown of the RWAs and capital requirements are provided in the next table:

TABLE 26: OVERVIEW OF RWAS ON MARKET RISK UNDER THE STANDARDISED APPROACH

(in EUR 1000)	**Risk weighted exposure amount**
Interest rate risk (general and specific)	811
Equity risk (general and specific)	0
Foreign exchange risk[3]	0
Commodity risk	38 373
Total	**39 184**

[3] SG Luxembourg Group does not have minimal capital requirements for foreign exchange rate risk because it does not meet the de *minimis* threshold as set by the Capital Requirements Regulation 575/2013.

7. OPERATIONAL RISKS

Operational risks correspond to the risk of losses resulting from inadequacies or failures in processes, personnel or information systems, or from external events.

7.1 OPERATIONAL RISK MANAGEMENT: ORGANISATION AND GOVERNANCE[4]

SGL Group strives to strictly limit its operational risks and participates in the approach of strengthening the management and oversight of operational risks that the SG Group has had in place for several years. This approach is overseen by the operational risk department, which belongs to the Risk Division of the SG Group.

These include, among others, the monitoring of losses and incidents, managerial supervision, Risk and Control Self Assessment, business continuity plans, the New Product Committees, and specific complementary schemes dedicated to the management of compliance risks and information system security risks.

The Operational Risk Department

The Operational Risk Department within the SGL Group Risk Division (LoD2) works in close cooperation with operational risk staff in the core businesses and Corporate Divisions (LoD1).

The Operational Risk Department is part of the second line of defense and is notably responsible for:

- organising the Operational Risk function (policy and standard);
- managing schemes for first-level permanent control of SGL Group and organising the managers coordinating first-level permanent control;
- designing and implementing SGL Group's operational risk management system, in particular : tracking and collecting system for operational incidents, challenging Risk and control Self Assessment, monitoring of controls of first line of defense (managerial supervision);
- promoting high vigilance of operational risk within SGL Group;
- combatting fraud;
- contributing on new product committee (NPC) and outsourced externalized supervision (OES). Process, which is under corporate secretary supervision.

The Control Department

The permanent Level 2 control is one of the missions of the second line of defenses (Risk, Compliance and Finance), which consists of continuously verifying that the security, assessment and risk management of operations are ensured, under the responsibility of operational management, by the effective implementation of the standards enacted, the procedures defined, the methods and controls requested.

The permanent Level 2 control ensures that Level 1 control works properly: the objective of the permanent Level 2 control is to assess the effectiveness of Level 1 controls and to give,

(i) an opinion on the quality of Level 1 controls (design, definition of their modus operandi, quality of implementation),

(ii) their effectiveness,

(iii) their suitability in terms of covering the operational risks of the bank's and the group's activities, and thus contribute to the evaluation of the operational effectiveness of the Business/Service Units risk management system including Level 1 controls.

The 2nd level permanent controls department is under the supervision of General Secretary of SGL.

The Business Continuity function (preparing the overall SGL Group business continuity and crisis management policy, managing the policy and coordinating its implementation) and **the department in charge of Information System CyberSecurity** (information cybersecurity policy definition and

[4] Non-compliance and reputational risk are presented in detail in Chapter 10.

governance, access management, prevention of information leaks, anonymization rules, application security definition and governance, prevention and awareness-building, particularly with respect to cybercrime) are both conduct their activities under **SGL COO**.

The Operational Risk function

In addition to the Operational Risk Department, the Operational Risk function includes Operational Risk Managers (ORMs) in the business lines and Supports functions, who are generally under the authority of the different Chiefs Operational Officers. They constitute the first line of defense and are the primary stakeholders responsible for managing and monitoring their own risks. They must in particular:

- identify their own risk and ensure the implementation of the ongoing control system by assigning the necessary and sufficient resources and ensuring that employees are made aware of it;
- adapt the risk appetite within their scope of activity and incorporate it into the risk management culture;
- ensure compliance with the limits and policies set and alert the function in question and the higher-ups if those limits and policies are exceeded or ignored.

The governance is completed by:

- New Product Committees for approving the risk (including operational risk) of new activities or new products

  or
- a process for validating the subcontracting and outsourcing of activities and services

These committees are under the responsibility of the Corporate Secretary and are chaired by an Authorized Director.

The decisions and conditions issued by these committees are recorded in SG Group tools.

This mechanism is supplemented by dedicated monitoring of the discretionary portfolio management and patrimonial engineering activities risk.

7.2 OPERATIONAL RISK MEASUREMENT

SGL Group uses the internal models developed by SG Group. Since 2007, SGL Group has used the Advanced Measurement Approach (hereafter 'AMA'), as proposed by the Capital Requirements Directive, to measure operational risk and calculated capital needed, except for SG CMF and SGFD which used a basic indicator approach (15% of 3 last year NBI).

Today the AMA covers more than 91% of the SGL Group's total net banking income.

TABLE 27: OVERVIEW OF RWAS ON OPERATIONAL RISK

(in EUR 1000)	**Risk weighted exposure amount**
Basic indicator approach (BIA)	102 238
Advanced Measurement Approach (AMA)	1 063 601
Total	**1 165 840**

TABLE 28: EU OR1 - OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

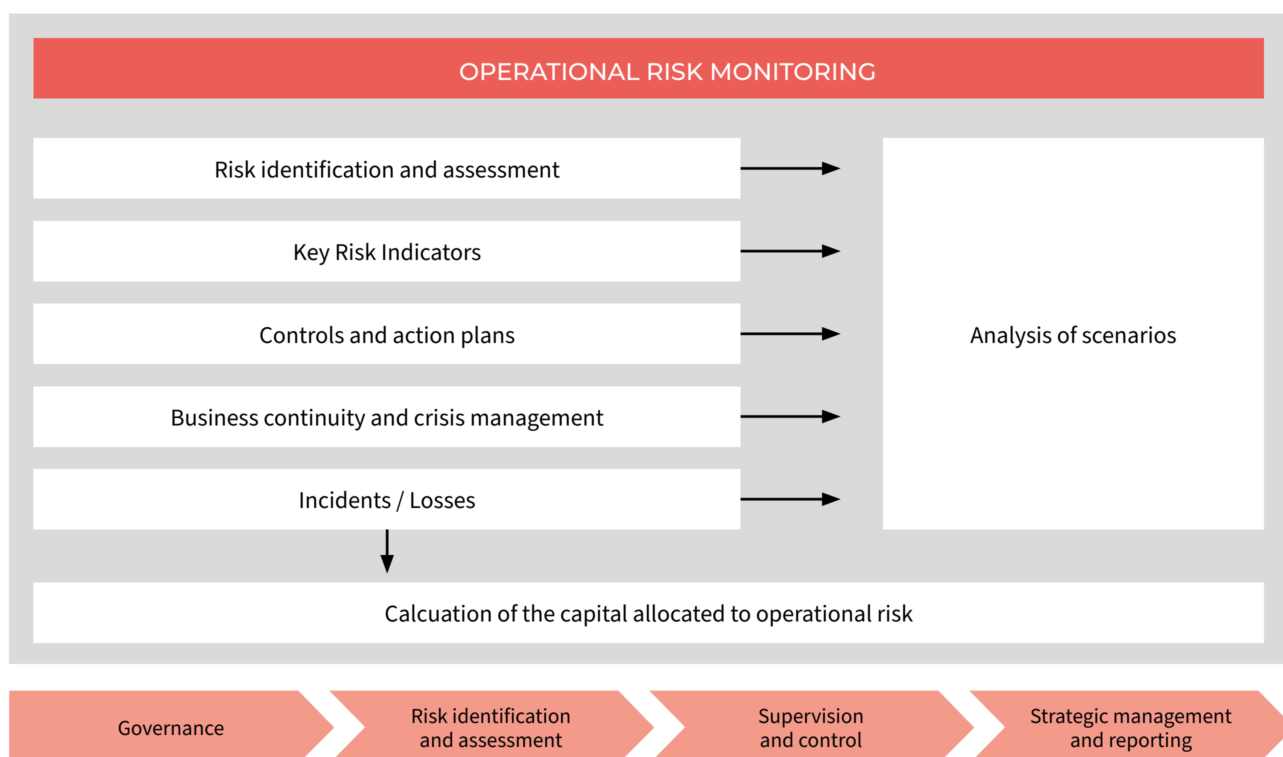
		a	b	c	d	e
	Banking activities	**Relevant indicator**			**Own funds requirements**	**Risk exposure amount**
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	47 347	48 300	67 934	8 179	102 238
5	Banking activities subject to advanced measurement approaches AMA	1 021 003	668 150	697 230	85 088	1 063 601

7.3 OPERATIONAL RISK MONITORING PROCESS

The frameworks specifically established by regulations have been implemented on the basis of existing procedures wherever possible.

They notably include:

- the gathering of internal data on operational risk losses;
- the analysis of external loss data (SG Group responsibility)
- the analysis of scenarios (SG Group responsibility)
- Risk and Control Self-Assessment (RCSA) processes;
- Key Risk Indicators (KRI);
- permanent second-level control;
- crisis management and business continuity planning;
- combating fraud;
- New Product Committees;
- the monitoring of external service providers



Although primary responsibility for risk management falls on the business lines and support staff, which must promote operational risk culture within their teams on a daily basis, the tracking mechanism relies mainly on four processes overseen by the operational risk departments within SGL Group:

- **The annual Risk and Control Self-Assessment (RCSA)** which aims to:
  - identify and assess the intrinsic operational risks to which each activity of SGL Group is exposed (disregarding prevention and mitigation measures);
  - assess the quality of the prevention and mitigation measures in place for reducing those risks;
  - measure the risk exposure of each Group business that remains once the risk prevention and mitigation measures are taken into account (the "residual exposure"), while disregarding insurance coverage;
  - implement, if warranted, corrective action plans.
- **Internal collection of operational risk incidents** with an exhaustive, timely declaration of any gains or losses from the very first euro, providing all the information needed to analyze them while issuing corrective actions that include the degree of criticality, a deadline, and the designation of a person responsible.
- **Analyses of scenarios** are initiated and overseen within the Risk Division of the SG Group, targeting functions and processes that are particularly sensitive within the Bank. These analyses are particularly aimed at assessing potential low-frequency but high-severity losses and contribute to the calculation of capital requirements on SGL Group level.
- **The permanent control system** with leadership and coordination, over the entire scope of a set of first-and second-level controls.

First-level permanent control is defined as all of the measures taken on a permanent basis to ensure the compliance, security and validity of transactions performed at the operational level. Operational managers must exercise managerial oversight over all of their respective processes, focusing as a priority on the most significant risks and sensitive procedures, with reference to the library of SG Group standard controls. The measures of controls are formalized in a unique tool MyAPRC.

Second-level control (Control department) aims to verify that the first level of control was properly carried out and that risks are being appropriately covered.

This system is accompanied by producing and tracking key risk indicators, some of which will have goals to achieve or tolerance thresholds set for them.

Furthermore, SGL Group has defined **an information security policy and ensures its enforcement**. This policy covers the management of computer access and rights, the prevention of information leaks, rules of anonymity, the conducting of intrusion tests, and the monitoring of the bank's websites. Prevention and employee awareness-raising campaigns are conducted regularly in conjunction with the implementation of a Clean Desk policy.

These processes are supplemented by a cris**is management mechanism and a business continuity plan**, the purpose of which is to develop the inherent capacity of the Bank's activities to withstand crises. This is done by combining the organisations' own capacities (robust systems) and special resources (business continuity plans).

On another note, SGL Group's constant innovations in terms of the products and services proposed to its clients must be approved by a New Products Committee, which determines the necessary conditions, in terms of both operations and acceptable risks, including an analysis of compliance risks.

7.4 OPERATIONAL RISK MODELLING, INSURANCE AND CAPITAL REQUIREMENTS

For SGL Group, the AMA methodology is used for all entities excepted for SGCMF, SGFD and SIA which use a basic indicator approach (15% of 3 last year NBI).

Amount of capital allocated: the SG Group was authorized by the French Regulator in 2007 to use the Advanced Measurement Approach (AMA). A Loss Distribution Approach was built up to assess the amount of required capital for all businesses and risk categories combined.

The loss distribution that implies the largest capital charge is retained for the calculation of the Operational Risk Capital requirement. These data are aggregated at SG Group level and are then allocated to business units / entities.

In terms of allocation: The first allocation is carried out at the business level based on their Stand Alone Capital Charge adjusted for their contribution to risk diversification (Shapley Method).

The second allocation is performed at the entity level based on a 50/50 internal losses and budgeted NBI contribution key.

Criterion No. 1: internal losses. The internal losses are retained for their net amount after recovery of insurances on a five years time period. The most significant losses are capped to avoid over-representation of the entities having recorded large losses and a shortage of capital allocated for those without losses history.

Criterion No. 2: revenue.

This is measured through the budgeted NBI.

TABLE 29: VENTILATION ON AMA MODEL FOR SGL GROUP

	Capital Allocation (KEUR)		
Business Line	**Methode**	**Q4 2021**	**Q4 2022**
Private banking	AMA	33 303	37 367
Corporate Center	AMA	14 507	9 914
	BIA	6 885	8 180
Financing Solution	AMA	7 320	9 057
Global Markets Investor Services	AMA	22 884	28 741
Retail Banking	AMA	118	8
Total		**85 017**	**93 267**

At SGL Group level, the allocated amount increased to EUR 93 million (against EUR 85 million in 2021) for both methodologies, mainly explained by a consolidated perimeter extension (two new entities) and a NBI increase.

8. STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

Structural interest rate (also referred to as Interest Rate Risk in the Banking Book – IRRBB) and foreign exchange rate risks result from commercial activities and their hedging transactions, as well as from own account transactions performed by SGL Group consolidated entities. SGL 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.

The general principle is to reduce structural interest rate and foreign exchange risks to the greatest extent possible within the consolidated entities. Wherever possible, commercial transactions and corporate centre operations within entities are hedged against interest rate and exchange rate risks, either through micro-hedging (individual hedging of each commercial transaction) or macro-hedging techniques (hedging of portfolios of similar commercial transactions within a treasury department).

8.1 ORGANISATION OF THE MANAGEMENT OF STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

The principles and standards for managing these risks are defined at the SG Group level. The entities are first and foremost responsible for managing these risks. The ALM (Asset and Liability Management) Department within SGL Group's Finance Division supplements the control framework.

The SG Group Finance Committee, a General Management body

The SG Group Finance Committee:

- validates and oversees the structural risk monitoring, management and supervision system;
- reviews changes in the SG Group's structural risks through consolidated reporting;
- examines and validates the measures proposed by the SG Group's Finance Division.

The ALM Department within the Finance Division

The ALM Department is responsible for:

- defining structural risk policies for SG Group and formalising risk appetite for structural risks;
- defining steering indicators and overall stress test scenarios for the different types of structural risk and setting the main limits for the business divisions and the entities;
- analysing SG Group's structural risk exposure and defining hedging strategies;
- monitoring the regulatory environment pertaining to structural risk;
- defining ALM principles for SG Group;
- defining the normative environment of structural risk metrics, modelling methods and framework;
- validating the models used by SG Group with regard to structural risks, in co-ordination with the Risk Division and the business lines;
- inventorying, consolidating and reporting on SG Group structural risks;
- monitoring compliance with structural risk limits.

The ALM Risk Control Department within the Risk Division

The second-level supervision covering both (1) ALM models used within SG Group and (2) associated frameworks is provided by a dedicated service within the Risk Department. Accordingly,

this department provides an opinion on the methodological principles, parameters and back tests of ALM models. It analyses proposals from the ALM Department regarding the risk indicators, stress test scenarios and structural risk frameworks. It also conducts second-level controls on the compliance with the risk limits comprising such frameworks. The Risk Department organises and chairs the Model Validation Committee.

The second-level supervision at SGL level is in charge of the overall follow-up of the activity, including the second level monitoring of liquidity metrics, participation on all asset and liabilities management committees, participation in the model and limit definition process. The local risk department is organising regularly dedicated meetings in order to share information and status on the main risks and problematics.

The entities are responsible for structural risk management

In this respect, entities apply the standards defined at SG Group level, develop their own models, propose their limits (for approval by local management and SG Group committees), measure their risk exposure and implement the required hedges.

Each entity has its own structural risk manager, who reports to the entity's Finance Division and is responsible for conducting first-level controls and for reporting to SG Group Finance Division via a shared IT system. For SGL, this role is played by the head of ALM/Treasury department. The ALM committee is then responsible for monitoring the indicators and implementing the hedging programme.

8.2 STRUCTURAL INTEREST RATE RISK (INTEREST RATE RISK IN THE BANKING BOOK – IRRBB)

The Banking Book covers the banking activities (lending and borrowing money, holding and issuing securities and gathering deposits) aimed primarily at generating profits through excess earning from assets over the cost of liabilities. Within SGL Group, the Banking Book covers on-balance sheet operations resulting from client activities (e.g. loans and deposits), operations (on and off-balance sheet) originated by SGL treasury department in order to hedge the risks resulting from these client activities as well as proprietary transactions to manage regulatory requirements (e.g. sovereign bond portfolio).

Objective of the Framework

When steering structural interest rate risk, the main aim is to ensure the risk is managed by reducing SGL Group exposure to structural interest rate risk as far as possible.

IRRBB steering framework is defined at SG Group level and then transposed to each entity. The risks are monitored at each entity level within dedicated thresholds and limits. On an annual basis, the SG Group Finance Committee updates the limits applicable to each entity.

Measurement and monitoring of structural interest rate risk

In 2022, SGL Group structural interest rate risk management relied on a set of metrics of which are framed by limits and thresholds (80% of the limit for each scenario). All the metrics are monitored monthly for the entities integrated in SGL Group global ALM tool (SGL and the private banking entities in Monaco and Switzerland), and quarterly for the other entities.

- **Value sensitivity**
  - NPV sensitivity – Net Present Value sensitivity of fixed rate residual positions to interest rate changes according to several interest rate scenarios. – *covered by internal limits.*
  - EVE sensitivity – Economic Value of Equity sensitivity represent the NPV after exclusion of own funds, investments in subsidiaries and intangible assets as well as some deposits as defined in EBA guidelines dated July 19, 2018. – *covered by regulatory limits*.
- **Revenue sensitivity**
  - NIM sensitivity – Based on a dynamic budget related to business units' assumptions, this new NIM includes forward interest rates, a split of the Net Interest Income into different components and a revamp of the client rate considering optionality on the client remuneration. Further improvements are still expected during H1 23 to comply with the latest EBA guideline on IRRBB dated October, 20 2022 which requires, among other things, the calculation of a SOT NII.

Assets and liabilities are analysed independently, without any a priori matching. The amortization profiles of assets and liabilities are determined on the basis of the contractual terms of transactions, models based on historical behaviour patterns (e.g. regulated savings accounts and early loan repayments), and to a lesser extent conventional assumptions related to certain balance sheet items (shareholders' equity and equity holdings in consolidated entities).

All the limits and thresholds described in this section are presented at each ALM Committee against the current risk levels and variations of the risk levels are detailed such that management can monitor the evolution of the risk profile.

The NPV sensitivity is computed based on a parallel shift of the whole yield curve of +/-10bps and on a parallel shift of the whole yield curve of +/-100bps.

TABLE 30: SG LUXEMBOURG NPV POSITION AS OF 12/31/2022

		+10 bps	-10 bps	+100 bps	-100 bps
SG Luxembourg	**Limit**	(14.60)	(20.60)	(146)	(206)
	Threshold	(11.08)	(17.08)	(110.8)	(170.8)
	12/31/2022	(0.15)	(7.4)	(1.3)	(74.8)

EVE sensitivity is computed on a parallel shift of the whole yield curve of +/-200bps and on the 6 EBA scenarios. SGL ALCO and Board of Directors are notified on each interim balance sheet date of the results of the "Supervisory Outlier Test" ("SOT") as defined in articles 113 and 114 of the IRRBB EBA guidelines. These tests are based on EVE sensitivity:

- According to article 113, the EVE decrease to +/- 200bps interest rates shocks shall remain below 20% of the entity's regulatory capital Tier 1 and Tier 2 ("SOT 113").
- According to article 114, the EVE decrease to interest rates shocks corresponding to the 6 scenarios detailed in Appendix III of the EBA guidelines shall remain below 15% of the entity's Tier 1 capital ("SOT 114").

NIM sensitivity is computed based on a parallel shift of the whole yield curve of +/-10bps, a parallel shift of the whole yield curve of +/-200bps as well as based on the 6 EBA scenarios. The limit framework has been enhanced with the introduction of a set of limits for the NIM sensitivity over 1 and 2 years (+/- 10 bps scenarios) for SGL Group with a monthly monitoring.

TABLE 31: SG LUXEMBOURG NIM POSITION AS OF 12/31/2022

		Year 1				Year 2			
		+10 bps	-10 bps	+200 bps	-200 bps	+10 bps	-10 bps	+200 bps	-200 bps
SG Luxembourg	**Limit**	0.25	(7.75)	5	(155)	3	(9)	60	(180)
	Threshold	1	(7)	20	(140)	3.6	(8.4)	72	(168)
	12/31/2022	5.5	(5.5)	108.4	(111.3)	8.1	(8.1)	161.2	(164.5)

8.3 STRUCTURAL FOREIGN EXCHANGE RATE RISK

Fluctuations in inter-currency exchange rates may result in a change in the value of some assets, liabilities, and off-balance sheet items and may lead to volatility in the income statement or other gains and losses recognized in equity. Structural foreign exchange risk is primarily attributable to residual positions on and off the balance sheet (difference per currency in assets and liabilities).

Objective of the Framework

SGL Group policy consists of hedging its exposure to currency fluctuations by endorsing all on and off-balance sheet positions and controlling residual exposure by setting low limits.

Measurement and monitoring of structural foreign exchange rate risks

SGL Group quantifies its exposure to structural foreign exchange rate risks by analysing all assets and liabilities denominated in foreign currencies arising from commercial transactions and the corporate center and manage it with tight limits.

TABLE 32: SGL GROUP FOREIGN EXCHANGE POSITION AS OF 12/31/2022

Indicators	Threshold	12/31/2022 in MEUR
Structural exchange rate risk	≤ 9.5 MEUR	13.15

The structural exchange rate position showed a breach compared to SGL Group RAS threshold as of December 31, 2022. This threshold breach is due to SGPB Suisse and SGL structural exchange rate positions.

All other 2022 periods were below the SGL Group RAS threshold. Root causes of this Q4 2022 breach have been addressed and corrected for Q1 2023.

9. LIQUIDITY RISK

Liquidity risk is defined as SGL Group's inability to meet its financial obligations at a reasonable cost: debt repayments, collateral supply. SGL Group assesses this risk over various time horizons, including intraday, considering market access restriction risk (generalized or specific to SGL Group).

9.1 GOVERNANCE AND ORGANISATION

Liquidity indicators have been defined and specific limits approved by the Board of Directors. These indicators are presented to the Board of Directors on a monthly basis.

The department in charge of managing and steering the liquidity position of SGL Group is the ALM/Treasury team, within the local Finance division, and which has functional links to both SG Group ALM and SG Group Treasury departments.

Additional liquidity indicators are monitored during the SGL ALM Committees which gather local management (CEO, CRO, CFO), Business Units Heads and SG Group representatives.

9.2 THE APPROACH TO LIQUIDITY RISK MANAGEMENT

SGL Group's primary objective is to ensure the funding of its activities in the most secure and cost-effective way by managing liquidity risk and complying with regulatory constraints. The liquidity steering system provides a balance sheet framework based on assets and liabilities target structure that is consistent with the risk appetite defined by the Board of Directors:

- The assets' structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure. This development must comply with the liquidity gaps defined at SGL Group level (under static and stress scenarios) as well as regulatory requirements.
- The liabilities' structure is based on the ability of the businesses to collect financial resources from customers.

This steering system is based on measurement and supervision of the businesses liquidity gaps under reference and stress scenarios, their funding needs, the eligible assets and the businesses contribution to regulatory ratios. Accordingly, the principles of liquidity management are as follows:

1. The businesses maintain low to nil static liquidity gaps of their activities, by using SGL Group's Treasury, which can, if needed, run a transformation position and manage it within the framework of the established risk limits.
2. Internal liquidity stress tests, established on the basis of combined (systemic and idiosyncratic) scenarios, are controlled at SGL Group level. They are used to ensure compliance with the survival horizon to calibrate liquidity reserves. They are accompanied by a Contingency Funding Plan that sets out measures to be taken in the event of a liquidity crisis.
3. The businesses' funding needs (short-term and long-term) are determined on the basis of the development objectives and in line with SGL Group's fund-raising targets and capabilities.
4. A plan for long-term funding, which complements the resources raised by the businesses, is designed to cover upcoming repayments and finance the growth of the businesses.
5. SGL Group's short-term resources are adapted to the financing of the businesses' short-term. As outlined above, they are adjusted in light of the liquidity reserve on the assets side, based on the established stress survival horizon as well as the SGL Group's LCR target (Liquidity Coverage Ratio, see Regulatory Ratios section).
6. SGL Group's liquidity steering takes into account compliance with the target regulatory ratios (LCR, NSFR) and internal ratios (Liquidity Gap in a business-as-usual situation and in a stress situation).

Finally, liquidity is governed in terms of cost via the SGL Group's internal transfer pricing scheme. Funding allocated to the businesses is charged to the latter on the basis of scales that must reflect the liquidity cost for SGL Group. This system is designed to optimise the use of external financing sources by businesses and is used to monitor the equilibrium of balance sheet funding. The liquidity gap is managed on an overall basis (across all currencies), by main currency (which currently are EUR, USD, GBP and CHF) as well as a framework for each currency (every currency not framed otherwise).

9.3 REFINANCING STRATEGY

To manage its liquidity position and refinancing needs, SGL Group mainly relies on:

- its private banking business (Luxembourg, Monaco, Switzerland), structurally providing long term liquidity, with more deposits than loans originated, and
- its cash management business for international and large corporate, and
- SG Group central Treasury.

9.4 ASSET ENCUMBRANCE

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn.

Encumbrance at SGL Group level mainly arises from regular liquidity buffer monetization (through repo operations) and SG CMF assets securitization.

A few points are noteworthy:

- Apart from SG CMF whose encumbrance is structural to its core activity of securitization, the other sources of encumbrance at SGL Group level are required by the regulation (buffer monetization, Central Bank reserves, EMIR) or absolutely marginal to the total balance-sheet of the entity (margining).
- As such, there is no appetite at SGL Group level for asset encumbrance at larger scale above on what is being used today.

9.5 REGULATORY LIQUIDITY RATIOS

The Basel Committee recommends the international implementation of two standard ratios with harmonized parameters, to regulate bank liquidity risk profiles:

- the Liquidity Coverage Ratio (LCR) aims to ensure that banks hold sufficient liquid assets or cash to survive a significant stress scenario combining a market crisis and a specific crisis for one month.
- the Net Stable Funding Ratio (NSFR) is a transformation ratio and compares funding needs with stable resources over a one-year period.

During all the year, both regulatory Liquidity ratios remained above the targets and limits defined in the Risk Appetite of SGL Group.

TABLE 33: SGL GROUP LCR AND NSFR

Indicators	12/31/2022
Liquidity Coverage Ratio - LCR	159.39%
Net Stable Funding Ratio - NSFR	115.71%

For the LCR, the main drivers are operational deposits coming from GTPS and SGSS business unit.

As of 31st December 2022, the liquidity buffer is composed of 12.5 BEUR cash held at the BCL and a bonds portfolio of around 1.8 BEUR.

TABLE 34: SGL GROUP LCR AND NSFR EVOLUTION

	RAS Limit	RAS Threshold	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
LCR	≥105%	≥110%	167.38%	185.24%	155.07%	157.73%	159.39%
NSFR	≥102%	≥104%	115.81%	114.81%	119.87%	114.69%	115.71%

TABLE 35: EU LIQ1 - QUANTITATIVE INFORMATION OF LCR

		a	b
			Total unweighted valu
EU 1a	Quarter ending on (DD Month YYY)	T	T-1
EU 1b	Number of data points used in the calculation of averages*	1	1
HIGH-QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**		
CASH - OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	4 451 389	4 477 279
3	*Stable deposits*	*0*	*0*
4	*Less stable deposits*	*4 451 389*	*4 477 279*
5	Unsecured wholesale funding	24 674 958	29 437 367
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*6 185 822*	*6 162 294*
7	*Non-operational deposits (all counterparties)*	*18 489 136*	*23 275 072*
8	*Unsecured debt*	*0*	*0*
9	*Secured wholesale funding*		
10	Additional requirements	8 753 641	6 655 003
11	*Outflows related to derivative exposures and other collateral requirements*	*5 233 101*	*3 265 407*
12	*Outflows related to loss of funding on debt products*	*0*	*0*
13	*Credit and liquidity facilities*	*3 520 539*	*3 389 595*
14	Other contractual funding obligations	43 773	44 127
15	Other contingent funding obligations	1 091 910	1 164 536
16	**TOTAL CASH OUTFLOWS**		
CASH - INFLOWS			
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	12 319 155	16 513 375
19	Other cash inflows	4 905 985	2 962 559
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		
EU-19b	(Excess inflows from a related specialised credit institution)		
20	**TOTAL CASH INFLOWS**	**17 225 141**	**19 475 935**
EU-20a	*Fully exempt inflows*	*0*	*0*
EU-20b	*Inflows subject to 90% cap*	*0*	*0*
EU-20c	*Inflows subject to 75% cap*	*17 225 141*	*19 475 935*
TOTAL ADJUSTED VALUE			
EU-21	**LIQUIDITY BUFFER**		
22	**TOTAL NET CASH OUTFLOWS**		
23	**LIQUIDITY COVERAGE RATIO**		

*End of each quarter have been disclosed for this year.

c	d	e	f	g	h
e (average)		**Total weighted value (average)**			
T-2	T-3	T	T-1	T-2	T-3
1	1	1	1	1	1
		13 834 165	**14 044 685**	**14 375 866**	**12 363 072**
4 598 977	4 431 049	819 046	822 035	846 768	803 264
0	*0*	*0*	*0*	*0*	*0*
4 598 977	*4 431 049*	*819 046*	*822 035*	*846 768*	*803 264*
27 914 632	28 877 709	17 765 425	22 378 594	21 102 552	22 539 850
6 266 075	*5 786 090*	*1 546 456*	*1 540 574*	*1 566 519*	*1 446 522*
21 648 557	*23 036 304*	*16 218 969*	*20 838 020*	*19 536 033*	*21 038 013*
0	*55 315*	*0*	*0*	*0*	*55 315*
		0	*0*	*0*	*0*
2 856 416	2 721 603	6 564 051	4 461 180	1 383 355	1 123 090
750 984	*543 029*	*5 233 101*	*3 265 407*	*750 984*	*543 029*
0	*0*	*0*	*0*	*0*	*0*
2 105 432	*2 178 574*	*1 330 950*	*1 195 773*	*632 371*	*580 061*
43 874	43 625	3 773	4 127	3 874	3 625
1 361 580	1 354 748	0	0	0	0
		25 152 295	**27 665 937**	**23 336 549**	**24 469 829**
0	0	0	0	0	0
14 288 594	18 140 018	11 566 690	15 798 855	13 563 295	17 449 831
502 744	345 939	4 905 985	2 962 559	502 744	345 939
		0	0	0	0
		0	0	0	0
14 791 338	**18 485 957**	**16 472 676**	**18 761 414**	**14 066 038**	**17 795 769**
0	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*
14 791 338	*18 485 957*	*16 472 676*	*18 761 414*	*14 066 038*	*17 795 769*
		13 834 165	**14 044 685**	**14 375 866**	**12 363 072**
		8 679 619	**8 904 523**	**9 270 510**	**6 674 060**
		159.39%	**157.73%**	**155.07%**	**185.24%**

TABLE 36: EU LIQ2 - NET STABLE FUNDING RATIO

		a	b	c	d	e
(in EUR 1000)		**Unweighted value by residual maturity**				**Weighted value**
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	3 106 274	0	0	0	3 106 274
2	*Own funds*	*3 106 274*	*0*	*0*	*0*	*3 106 274*
3	*Other capital instruments*		*0*	*0*	*0*	*0*
4	Retail deposits		5 084 167	229 661	9 290	4 791 735
5	*Stable deposits*		*0*	*0*	*0*	*0*
6	*Less stable deposits*		*5 084 167*	*229 661*	*9 290*	*4 791 735*
7	Wholesale funding:		28 983 454	12 065 828	16 476 657	27 771 647
8	*Operational deposits*		*6 185 822*	*0*	*0*	*3 092 911*
9	*Other wholesale funding*		*22 797 631*	*12 065 828*	*16 476 657*	*24 678 736*
10	Interdependent liabilities		0	0	0	0
11	Other liabilities:	0	1 175 517	0	104 210	104 210
12	*NSFR derivative liabilities*	*0*				
13	*All other liabilities and capital instruments not included in the above categories*		*1 175 517*	*0*	*104 210*	*104 210*
14	**Total available stable funding (ASF)**					**35 773 866**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					22 261
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		0	0	0	0
16	Deposits held at other financial institutions for operational purposes		0	0	0	0
17	Performing loans and securities:		24 937 220	3 731 501	22 439 757	29 144 757
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		*0*	*0*	*0*	*0*
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*12 354 796*	*1 488 233*	*9 467 386*	*11 446 982*
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*10 904 065*	*1 991 746*	*10 635 638*	*15 268 646*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*6 379 955*	*602 620*	*1 097 759*	*4 204 831*
22	*Performing residential mortgages, of which:*		*117 697*	*217 791*	*2 151 315*	*1 996 362*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*0*	*0*	*0*	*0*

24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		*1 560 662*	*33 730*	*185 418*	*432 767*
25	Interdependent assets		0	0	0	0
26	**Other assets:**		**1 253 398**	**0**	**1 182 207**	**1 518 240**
27	*Physical traded commodities*				*0*	*0*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		*0*	*0*	*0*	*0*
29	*NSFR derivative assets*		*218 606*			*218 606*
30	*NSFR derivative liabilities before deduction of variation margin posted*		*474 687*			*23 734*
31	*All other assets not included in the above categories*		*560 104*	*0*	*1 182 207*	*1 275 899*
32	Off-balance sheet items		4 650 032	0	0	232 502
33	**Total RSF**					**30 917 759**
34	**Net Stable Funding Ratio (%)**					**115.71%**

10. COMPLIANCE, REPUTATIONAL AND LEGAL RISKS

10.1 COMPLIANCE

Acting in compliance means understanding and observing the external and internal rules that govern our banking and financial activities. These rules aim to ensure a transparent and balanced relationship between the Bank and all of its stakeholders. Compliance is the cornerstone of trust between the Bank, its customers, its supervisors and its staff.

Compliance with rules is the responsibility of all Group employees, who must demonstrate compliance and integrity on a daily basis. The rules must be clearly expressed, and staff have been informed and/or trained to understand them properly.

The compliance risk prevention system is based on shared responsibility between the operational business and support units and the Compliance Department:

- the Business and Supports Units (BU/SUs) must incorporate into their daily activities' compliance with laws and regulations, the rules of professional best practice and the Bank's internal rules;
- the Compliance Department manages the Bank's compliance risk prevention system. It ensures the system's consistency and efficiency, while also developing appropriate relationships – alongside the Authorized Directors – with bank supervisors and regulators. This independent department reports directly to the Authorized Director in charge of Risks, Compliance and General Secretary.

The Compliance Department is organised into two main compliance risk categories:

- **Financial security:** know your client (KYC) processes; the observance of international sanctions and embargo rules, and anti-money laundering and counter-terrorism financing rules, including issuing declarations of suspicion to the relevant authorities;
- **Regulatory risks,** which cover in particular: customer protection, anti-bribery and corruption, ethics and conduct, compliance with tax transparency regulations (based on knowledge of the customers' tax profile), compliance with corporate social responsibility regulations and SG Group commitments, market integrity, joint coordination with HR Department of the Group's Culture & Conduct issues (Conduct in particular); data protection, including personal data, in particular those of customers.

Compliance has set up an extensive compulsory training programme for each of these risk categories, designed to raise awareness of compliance risks among all or some employees.

Financial security

ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING (AML/CFT)

SGL Group has transposed all measures linked to November 12th, 2004 Law as modified on May 20th, 2021 as well as all CSSF Circulars related to anti-money laundering and counter-terrorism financing.

The AML/CFT risk appetite have been formalized for SGCMF and SGFD and updated for Private Banking, Corporate Banking and Securities Services Businesses.

The system for detection of adverse news continued to be strengthened in 2022 with the roll-out on continuous monitoring on Private Banking Customers.

Also, a significant effort has been done for improving the Customer Periodical Review processes within all Business Units.

FINANCIAL EMBARGOES AND SANCTIONS

Year 2022 was marked by the Russian Crisis and the complexity of the sanction regimes defined by various jurisdictions (European Union, United States, United Kingdom, etc..)

- A dedicated action plan was set-up with Compliance and Risk Departments, under the oversight of the Authorized

Management to identify and monitor the concerned natural and legal persons and take any necessary measures.

- Quarterly Sanctions & Embargoes committee with SG Group Embargoes/Sanctions Teams was implemented to monitor the local framework and address any issues.

Despite the significant increase in workload, SGL Group did not face any severe compliance incidents in 2022.

Regulatory compliance risk

CUSTOMER PROTECTION

SGL Group is committed to respecting and protecting the interests of its customers.

The Bank continues to strengthen processes and tools to cover regulatory requirements (i.e Customer and Product classification, suitability and appropriateness tests, information and reporting, obligation of best execution, processing orders, inducements, transparency, sustainable investment, records keeping and product governance)

- **Customer Claims**

Processing a claim is a commercial act that impacts customer satisfaction. The Bank has a governance, an organization, formalized procedures and qualitative and quantitative indicators for claim processing and monitoring.

- **Conflicts of interest**

The Bank has a clear normative framework to prevent and manage conflicts of interest. This framework covers three categories of potential conflicts of interest: those that may arise between the Bank and its customers or between the Bank's customers; those occurring between the Bank and its employees (particularly in relation to activities involving an employee's personal interest and/or their professional obligations); and lastly, those arising between the Bank and its suppliers. The framework has been supplemented by the annual reporting of conflicts of interest (Déclaration des Conflits d'Intérêts – DACI) regarding people most exposed to the risks of corruption.

MARKET INTEGRITY

The rules of conduct, the organizational principles, the oversight, and control measures are in place and regularly assessed to covers market integrity laws and regulations.

Moreover, extensive training and awareness-raising programmes are provided to employees.

The framework was strengthened in 2022, in particular

- On EMIR[5] with implementation of a reinforced generic control plan and the effective implementation of the indirect clearing operational set-up with respect to all Exchange-Traded Derivatives transactions entered between the Bank and its clients
- On regulatory transaction reporting to improve the quality controls and update IT tools.

TAX TRANSPARENCY

SG Group's principles on combating tax evasion are governed by the Tax Code of Conduct. The Code is updated periodically.

The five main principles of the Tax Code of Conduct are as follows :

- SG Group ensures compliance with the tax rules applicable to its business in accordance with international conventions and national laws;
- In its customer relationships, SG Group ensures that customers are informed of their tax obligations relating to transactions carried out with the SG Group, and the SG Group complies with the reporting obligations that apply to it as bookkeeper or in any other way;
- In its relations with the tax authorities, SG Group is committed to strictly respecting tax procedures and ensures that it maintains open and transparent relations to uphold its reputation;
- SG Group does not encourage or promote tax evasion for itself or its customers;
- SG Group has a tax policy in line with its strategy of sustainable profitability and refrains from any operation, whether for its own account or for its customers, whose main purpose or effect is tax motivated, unless this is consistent with the intention of the legislation

SGL Group strictly applies those Tax Code of Conduct's principles.

SGL Group complies with client tax transparency standards. The Common Reporting Standard (CRS) enables tax authorities to be systematically informed of income received abroad by their tax residents. SGL Group also complies with the requirements of the United States FATCA (Foreign Account Tax Compliance Act) which aims to combat tax evasion involving foreign accounts or entities held by US taxpayers. SGL Group has implemented the European Directive DAC6, which requires the reporting of cross-border tax arrangements.

In accordance with regulatory requirements, the Bank also includes tax fraud in its anti-money laundering procedures.

ANTI-CORRUPTION MEASURES

SGL Group is fully committed to fighting corruption. Its anti-corruption program is built around the following themes : Code of Conduct, Risk Mapping, Appropriate training at all levels (senior management, exposed persons, all employees), Control systems, Accounting procedures, Evaluation of third parties, Disciplinary system, Right to whistleblowing

---

[5] European Market Infrastructure regulation n°648/2012

The framework is monitored by a dedicated set of controls and key risk indicators. The Bank also has several tools such as tools for declaring gifts and invitations (GEMS), the tools for whistleblowing management (WhistleB), the annual conflict of interest declaration tool (DACI).

In 2022, this framework has been strengthened by isolating Corruption and Bribery Risk within Know Your Customer (KYC) processes. When required, Corruption and Bribery Risk is assessed by dedicated and trained staff.

SUSTAINABILITY RISK

European financial regulations have seen significant changes from a social and environmental perspective. Over and above the regulations, the SG Group is making voluntary, public commitments in this area.

The Group's Compliance Department is developing the normative framework relative the European Union regulations on sustainable investment, and implementing the environmental and social risk management system to ensure the Group's commitments are upheld. SGL Group is implementing this framework locally.

PERSONAL DATA PROTECTION

SGL Group is especially sensitive to personal data protection.

The Bank has a set of internal instructions and procedures to guarantee the protection and security of data subjects (customers, staff and third parties) data. In particular, measures to inform data subject and process their demands are in place so that such persons can exercice their rights. A personal data security policy has been implemented, which fits in with the Group's overall security strategy. Moreover, specific effort has been done to increase staff awareness.

The Bank has appointed a Data Protection Officer (DPO) in accordance with the applicable regulation. Reporting to the Compliance Officer, the DPO is the main contact person for the Commission Nationale pour la Protection des Données (CNPD) and is also responsible for ensuring sound compliance for personal data protection.

10.2 RISKS AND LITIGATION

The information pertaining to risks and litigation is included in Note 8 and 9 from the consolidated financial statements.

11. RISKS RELATING TO INSURANCE ACTIVITIES

SGL Group owns 100% of three insurance entities: Société Générale Ré (SG Ré) and Société Générale Luxembourg Ré (SGL Ré), whose business is the reinsurance of certain insurance risks of the SG Group and SG LuCI whose business is the credit insurance. These companies have implemented a system of governance and risk management aimed at protecting the shareholder's interests, which relies on:

- A governance framework, aligned with the strategic goals assigned to SG Ré, SGL Ré and SG LuCI.
- A risk management system that adapts the policies for, among other things, solvency, subscription/provisioning, investment, ALM, liquidity/concentration, operational, and on-lending risks, whose indicators are tracked in a risk appetite grid.
- An internal control system based on architecture of processes and a full set of associated controls.
- A log of the risks to which SG Ré, SGL Ré and SG LuCI are exposed, detailing the risks that might prevent the achievement of the defined strategic objectives, as well as the risk-mitigating actions that particularly result from the risk management system and from the effectiveness of the internal control.

This governance system is detailed in a governance manual approved by the SG Ré Board of Directors and respectively by the SGL Ré Board of Directors, SG LuCI Board of Directors and updated annually.

SGL Group is also the 100% owner of an insurance broker, SGLIB (Société Générale Life Insurance Broker).

Given the nature of its activities, the company is primarily exposed to operational risk, which is defined and monitored under the supervision of the SGL teams.

SGL Group also has a participation in Sogelife Luxembourg, a life insurance company. Sogelife's primary shareholder is Sogécap (an insurance subsidiary of SG Group) and as such primarily follows the risk management processes of Sogécap.

12. REMUNERATION

12.1 SGL GROUP'S REMUNERATION POLICY

The remuneration policy of SGL Group is in line with the remuneration policy of the SG Group. It is reviewed, on a proposal from the Human Resources Direction, by the Authorised Management and then validated by the Board of Directors, on prior notice of the Compensation Committee.

This policy is established in compliance with applicable regulations; it aims to ensure appropriate risk management, based on common values and principles within SG Group while considering the context of the local markets in which SGL Group employees operate; it is based on the principle of gender neutrality, in line with SGL Group's diversity policy.

SGL Group's remuneration policy, particularly for categories of staff whose activities have a significant impact on the risk profile, applies to SGL SA as well as to its subsidiaries it controls, subject to possible adaptations to the extent required by local regulations.

SGL Group's remuneration policy is available here:
https://www.societegenerale.lu/fr/societe-generale-luxembourg/informations-publications/informations-financieres-reglementaires-conformite/

12.2 ADDITIONAL INFORMATION ABOUT REGULATED STAFF

The quantitative information detailed below refers to the remuneration of regulated staff for 2022 (the reference date is December 31, 2022).

TABLE 37: EU REM1 - REMUNERATION AWARDED FOR THE FINANCIAL YEAR

(in EUR 1000)			a	b	d
			MB Supervisory function	**MB Management function**	**Other identified staff**
1	Fixed remuneration	Number of identified staff	11	15	38
2		Total fixed remuneration	277	3 408	5 535
3		*Of which: cash-based*	*277*	*3 408*	*5 535*
9	Variable remuneration	Number of identified staff	11	15	38
10		Total variable remuneration	0	2 503	3 286
11		*Of which: cash-based*	*0*	*1 261*	*1 945*
12		*Of which: deferred*	*0*	*478*	*534*
EU-13a		*Of which: shares or equivalent ownership interests*	*0*	*0*	*7*
EU-13b		*Of which: share-linked instruments or equivalent non-cash instruments*	*0*	*1 242*	*1 334*
EU-14b		*Of which: deferred*	*0*	*524*	*534*
17	**Total remuneration (2 + 10)**		**277**	**5 911**	**8 821**

TABLE 38: EU REM3 - DEFERRED REMUNERATION

(in EUR 1000)		a	b	c	f	EU – g
Deferred and retained remuneration*		**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**
7	**MB Management function**	**1 647**	**731**	**916**	**16**	**715**
8	Cash-based	362	189	173	0	189
10	Share-linked instruments or equivalent non-cash instruments	1 285	542	743	16	526
19	**Other identified staff**	**1 501**	**767**	**734**	**17**	**750**
20	Cash-based	384	192	192	0	192
22	Share-linked instruments or equivalent non-cash instruments	1 117	575	542	17	558
25	**Total amount**	**3 148**	**1 499**	**1 650**	**33**	**1 465**

*Fidelity plans awarded for 2022, 2021 and 2020 performance years. Deferred variable remuneration is subject to possible explicit reductions (non-achievement of performance conditions and/or conditions related to risk management and respect to compliance) and/or implicit adjustments (indexation on the value of the share). Remuneration expressed in thousands of euros.

13. APPENDIX

13.1 PILLAR 3 CROSS REFERENCE TABLE

CRR Article	Theme	Pillar 3 report reference
435	Risk management objectives and policies	Chapter 2 and 3
436	Scope of application	Chapter 3.2
437	Own funds	Chapter 3.3
437a	Own funds and eligible liabilities	Chapter 3.3 and 3.8
438	Capital requirements	Chapter 3.4
439	Exposure to counterparty credit risk	Chapter 4
440	Countercyclical capital buffers	Chapter 3.3 and 3.8
441	Indicators of global systemic importance	Not applicable as SG Luxembourg is not a G-SII
442	Exposures to credit risk and dilution adjustments	Chapter 4
443	Encumbered and unencumbered assets	Chapter 9.4
444	The use of the Standardised Approach	Not disclosed as not required by the CRR
445	Exposure to market risk	Chapter 6
446	operational risk management	Chapter 7
447	Key metrics	Chapter 3.5
448	Exposures to interest rate risk on positions not held in the trading book	Chapter 8
449	Exposure to securitisation positions	Chapter 5
449a	Environmental, social and governance risks (ESG risks)	Chapter 1.1
450	Remuneration policy	Chapter 12
451	Leverage ratio	Chapter 3.6
451a	Liquidity requirements	Chapter 9
452	Use of the IRB Approach to credit risk	Chapter 4
453	Use of credit risk mitigation techniques	Chapter 4.6
454	Use of the Advanced Measurement Approaches to operational risk	Chapter 7
455	Use of Internal Market Risk Models	Not applicable as SG Luxembourg does not use Internal Market Risk models

13.2 INDEX OF THE TEMPLATES DISCLOSED IN THE PILLAR 3

Legal reference	Title	CRR articles	Applicable to SG Luxembourg	Chapter in Pillar 3
EU OV1	Overview of risk weighted exposure amounts	Point (d) of Article 438	Yes	3.4
EU KM1	Key metrics template	Points (a) to (g) of Article 447 and point (b) of Article 438	Yes	3.5
EU INS1	Insurance participations	Point (f) of Article 438	Not applicable - SG Luxembourg uses article 48 and is not subject to article 49 (1) from CRR	
EU INS2	Financial conglomerates information on own funds and capital adequacy ratio	Points (g) of Article 438	Not applicable - SG Luxembourg is not a financial conglomerate	
EU OVC	ICAAP information	Points (a) and (c) of Article 438	Yes	2.4 and 3.5
EU OVA	Institution risk management approach	Article 435 (1)	Not applicable	
EU OVB	Disclosure on governance arrangements	Article 435 (2)	Not applicable	
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Point (c) of Article 436	Not applicable	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Point (d) of Article 436	Not applicable	
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Point (b) of Article 436	Yes on a voluntary basis	3.3
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Point (b) of Article 436	Not applicable	
EU LIB	Other qualitative information on the scope of application	Points (f), (g) and (h) of Article 436	Not applicable	
EU PV1	Prudent valuation adjustments (PVA)	Point (e) of Article 436	Not applicable	
EU CC1	Composition of regulatory own funds	Points (a), (d), (e) and (f) of Article 437	Yes	3.8
EU CC2	reconciliation of regulatory own funds to balance sheet in the audited financial statements	Point (a) of Article 437	Yes	3.8
EU CCA	Main features of regulatory own funds instruments and eligible liabilities instruments	Points (b) and (c) of Article 437	Yes	3.8
EU CCyB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer	Point (a) of Article 440	Yes	3.8
EU CCyB2	Amount of institution-specific countercyclical capital buffer	Point (b) of Article 440	Yes	3.8
EU LR1	Summary reconciliation of accounting assets and leverage ratio exposures	Point (b) of Article 451(1)	Yes	3.6
EU LR2	Leverage ratio common disclosure	Article 451(3) - Rows 28 to 31a Points (a), (b) and (c) of Article 451(1) and Article 451(2) - Rows up to row 28	Yes	3.6
EU LR3	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Point (b) of Article 451(1)	Yes	3.6
EU LRA	Free format text boxes for disclosure on qualitative items	Points (d) and (e) of Article 451(1)	Yes	3.6
EU LIQA	Liquidity risk management	Articles 435(1) and 451a(4)	Yes	9.1 -9.3
EU LIQ1	Quantitative information of LCR	Article 451a(2)	Yes	9.5
EU LIQB	on qualitative information on LCR, which complements template EU LIQ1	Article 451a(2)	Yes	9.5
EU LIQ2	Net Stable Funding Ratio	Article 451a(3)	Yes	9.5
EU CRA	General qualitative information about credit risk	Points (a), (b), (d) and (f) of Article 435(1)	Not applicable	

EU CRB	Additional disclosure related to the credit quality of assets	Points (a) and (b) of Article 442	Yes	4.8
EU CR1	Performing and non-performing exposures and related provisions	Points (c) and (f) of Article 442	Yes	4.8
EU CR1-A	Maturity of exposures	Point (g) of Article 442	Yes	4.8
EU CR2	Changes in the stock of non-performing loans and advances	Point (f) of Article 442	Yes	4.8
EU CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Points (c) and (f) of Article 442	Not applicable - the gross NPL ratio is less than 5%	
EU CQ1	Credit quality of forborne exposures	Point (c) of Article 442	Yes	4.8
EU CQ2	Quality of forbearance	Point (c) of Article 442	Not applicable - the gross NPL ratio is less than 5%	
EU CQ3	Credit quality of performing and non-performing exposures by past due days	Points (c) and (d) of Article 442	Yes	4.8
EU CQ4	Quality of non-performing exposures by geography	Points (c) and (e) of Article 442	Yes - only columns a, c, e, f, g (rest of columns is N/A as the gross NPL ratio is less than 5%	4.8
EU CQ5	Credit quality of loans and advances by industry	Points (c) and (e) of Article 442	Yes - only columns a, c, e, f, g (rest of columns is N/A as the gross NPL ratio is less than 5%	4.8
EU CQ6	Collateral valuation - loans and advances	Point (c) of Article 442	Not applicable - the gross NPL ratio is less than 5%	
EU CQ7	Collateral obtained by taking possession and execution processes	Point (c) of Article 442	Yes	4.8
EU CQ8	Collateral obtained by taking possession and execution processes - vintage breakdown	Point (c) of Article 442	Not applicable - the gross NPL ratio is less than 5%	
EU CRC	Qualitative disclosure requirements related to CRM techniques	Points (a) to (e) of Article 453	Yes	4.6
EU CR3	CRM techniques overview: Disclosure of the use of credit risk mitigation techniques	Point (f) of Article 453	Yes	4.6
EU CRD	Qualitative disclosure requirements related to standardised model	Points (a) to (d) of Article 444	Not applicable	
EU CR4	Standardised approach -Credit risk exposure and CRM effects	Points (g), (h) and (i) of Article 453 CRR and point (e) of Article 444	Yes	4.6
EU CR5	Standardised approach	Point (e) of Article 444	Not applicable	
EU CRE	Qualitative disclosure requirements related to IRB approach	Points (a) to (f) of Article 452	Not applicable	
EU CR6	IRB approach - Credit risk exposures by exposure class and PD range	Point (g) of Article 452	Not applicable	
EU CR6-A	Scope of the use of IRB and SA approaches	Point (b) of Article 452	Not applicable	
EU CR7	IRB approach - Effect on the RWEAs of credit derivatives used as CRM techniques	Point (j) of Article 453	Not applicable - SG Luxembourg does not have any credit derivatives	
EU CR7-A	IRB approach - Disclosure of the extent of the use of CRM techniques	Point (g) of Article 453	Yes	4.6
EU CR8	RWEA flow statements of credit risk exposures under the IRB approach	Point (h) of Article 438	Yes	4.8
EU CR9	IRB approach - Back-testing of PD per exposure class (fixed PD scale)	Point (h) of Article 452	Not applicable	
EU CR9.1	Back-testing of PD per exposure class (only for PD estimates according to Article 180(1)(f))	Point (h) of Article 452 and point (f) of Article 180(1)	Not applicable	
EU CR10	Specialised lending and equity exposures under the simple riskweighted approach	Point (e) of Article 438	Yes - only equity as we do not have Specialised lending exposures under slotting approach	4.8
EU CCRA	Qualitative disclosure related to CCR	Points (a) to (d) and last paragraph of Article 439	Not applicable	
EU CCR1	Analysis of CCR exposure by approach	Points (f), (g), (k) and (m) of Article 439	Not applicable	

EU CCR2	Transactions subject to own funds requirements for CVA risk	Point (h) of Article 439	Not applicable	
EU CCR3	Standardised approach - CCR exposures by regulatory exposure class and risk weights	Point (l) of Article 439 referring to point (e) of Article 444	Not applicable	
EU CCR4	IRB approach - CCR exposures by exposure class and PD scale	Point (l) of Article 439 referring to point (g) of Article 452	Not applicable	
EU CCR5	Composition of collateral for CCR exposures	Point (e) of Article 439	Not applicable	
EU CCR6	Credit derivatives exposures	Point (j) of Article 439	Not applicable	
EU CCR7	RWEA flow statements of CCR exposures under the IMM	Point (h) of Article 438	Not applicable - SG Luxembourg does not use the IMM approach	
EU CCR8	Exposures to CCPs	Point (i) of Article 439	Not applicable	
EU SECA	Qualitative disclosure requirements related to securitisation exposures	Points (a) to (i) of Article 449	Not applicable	
EU SEC1	Securitisation exposures in the non-trading book	Point (j) of Article 449	Not applicable	
EU SEC2	Securitisation exposures in the trading book	Point (j) of Article 449	Not applicable	
EU SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	Point (k)(i) of Article 449	Not applicable	
EU SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	Point (k)(ii) of Article 449	Not applicable	
EU SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	Point (l) of Article 449	Not applicable	
EU MRA	Qualitative disclosure requirements related to market risk	Points (a) to (d) of Article 435 (1)	Not applicable	
EU MR1	Market risk under the standardised approach	Article 445	Not applicable	
EU MRB	Qualitative disclosure requirements for institutions using the internal Market Risk Models	Points (a), (b), (c), (f) of Article 455	Not applicable	
EU MR2-A	Market risk under the internal Model Approach (IMA)	Point (e) of Article 455	Not applicable	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	Point (h) of Article 438	Not applicable - SG Luxembourg does not use IMA for Market Risk	
EU MR3	IMA values for trading portfolios	Point (d) of Article 455	Not applicable	
EU MR4	Comparison of VaR estimates with gains/losses	Point (g) of Article 455	Not applicable	
EU ORA	Qualitative information on operational risk	Articles 435(1), 438, 446 and 454	Yes	7.1-7.4
EU OR1	Operational risk own funds requirements and risk-weighted exposure amounts	Articles 438, 446 and 454	Yes	7.2
EU REMA	Remuneration policy	Points (a), (b), (c), (d), (e), (f), (j) and (k) of Article 450(1) and Article 450(2)	Yes	12
EU REM1	Remuneration awarded for the financial year	Point (h)(i)-(ii) of Article 450(1)	Yes	12.2
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (h)(v) to (vii) of Article 450(1)	Not applicable – SG Luxembourg does not have special payments	
EU REM3	Deferred remuneration	Point (h)(iii) and (iv) of Article 450(1)	Yes	12.2
EU REM4	Remuneration of 1 million EUR or more per year	Point (i) of Article 450(1)	Not applicable – SG Luxembourg does not have remuneration higher than 1 million EUR	
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (g) of Article 450(1)	Not disclosed	
EU AE1	Encumbered and unencumbered assets	Article 443	Not applicable	
EU AE2	Collateral received and own debt securities issued	Article 443	Not applicable	
EU AE3	Sources of encumbrance	Article 443	Not applicable	
EU AE4	Accompanying narrative information	Article 443	Not applicable	

13.3 GLOSSARY

Acronym	Definition
CCF	Credit Conversion Factor
CRD	Capital Requirement Direction
CRM	Credit Risk Mitigation
CRR	Capital Requirement Regulation
CVaR	Credit Value-at-Risk
EAD	Exposure at Default
EL	Expected Loss
IMM	Internal Model Method
IRBA	Internal ratings-based approach- Advanced
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
NSFR	Net Stable Funding Ratio
PD	Probability of Default
RW	Risk Weighted
RWA	Risk Weighted Assets
SFT	Securities Financing Transactions
SG	Société Générale Head Office
SG Group	Société Générale Head Office and all its subsidiaries
SG Luxembourg or SGL	Société Générale Luxembourg without its subsidiaries
SGL Group	Société Générale Luxembourg with its subsidiaries
VaR	Value-at-Risk
SGCMF	SG Capital Market Finance S.A.
SGFD	SG Financing and Distribution S.A.
SG LuCI	Société Générale Luxembourg Credit Insurance

Societe Generale Luxembourg
Société Anonyme
11, avenue Emile Reuter
L-2420 Luxembourg

R.C.S. Luxembourg: B 006.061

SOCIETE GENERALE

Photo credits: Olivier Minaire Photography
Studio Société Générale – Réf.: (A) 720875 – 05/2023.

Societe Generale participates in the financing of paper recycling. This document was printed on paper from sustainably managed forests.