

2020

SOCIETE GENERALE LUXEMBOURG S.A.

CONSOLIDATED FINANCIAL STATEMENTS



SOCIETE
GENERALE

Societe Generale Luxembourg S.A.

11 Avenue Emile Reuter
L-2420 Luxembourg

**Consolidated Financial
Statements, Consolidated
management report and
Report of the Independent
auditor as at 31 December 2020**

R.C.S. Luxembourg; B 006.061



TABLE OF CONTENTS

I. GENERAL INFORMATION	4
II. CONSOLIDATED MANAGEMENT REPORT	6
1. CHIEF EXECUTIVE OFFICER STATEMENT	6
2. CORPORATE GOVERNANCE	7
2.1. Corporate Governance Structure and Main Bodies	7
2.2. Corporate governance	8
2.3. Remuneration policy	8
3. CONSOLIDATED MANAGEMENT REPORT	8
3.1. Group main activities	8
3.2. Group results	10
3.3. Group's Own funds	14
3.4. Post closing events	14
4. RISKS AND CAPITAL ADEQUACY	15
4.1. Key figures	15
4.2. Risk management	17
4.3. Risks	17
4.4. Risk Appetite	17
5. CORPORATE SOCIAL RESPONSIBILITY	18
5.1. Our engagement as a Corporate	18
5.2. Our engagement as a bank	19
6. OUTLOOK	20
III. INDEPENDENT AUDITOR'S REPORT	24
IV. CONSOLIDATED FINANCIAL STATEMENTS	28
1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION	28
2. CONSOLIDATED INCOME STATEMENT	30
3. CONSOLIDATED STATEMENT OF NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES	31

4.	CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	32
5.	CONSOLIDATED STATEMENT OF CASH FLOW	34
V.	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	35
NOTE 1	CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING PRINCIPLES	35
NOTE 2	CONSOLIDATION	44
Note 2.1.	Consolidation scope	46
Note 2.2.	Material changes in consolidation scope	48
Note 2.3.	Additional disclosure for consolidated entities and investments accounted for using the equity method	49
Note 2.4.	Restrictions	50
Note 2.5.	Unconsolidated Structured Entities	50
NOTE 3	FINANCIAL INSTRUMENTS	52
Note 3.1.	Cash, due from central banks	56
Note 3.2.	Financial assets and liabilities at fair value through profit or loss	56
Note 3.3.	Financial derivatives	60
Note 3.4.	Financial assets at fair value through other comprehensive income 72	
Note 3.5.	Fair value of financial instruments	74
Note 3.6.	Loans, receivables and securities at amortised cost	87
Note 3.7.	Debts	90
Note 3.8.	Interest income and expense	91
Note 3.9.	Impairment and provisions	92
Note 3.10.	Assets under management, commitments and assets pledged and received as securities	98
Note 3.11.	Transferred financial assets	101
Note 3.12.	Offsetting financial assets and financial liabilities	102
NOTE 4	OTHER ACTIVITIES	103
Note 4.1.	Fee income and expense	103
Note 4.2.	Income and expenses from other activities	105
Note 4.3.	Insurance activities	105
Note 4.4.	Other Assets And Liabilities	115

NOTE 5	PERSONNEL EXPENSES AND EMPLOYEE BENEFITS	116
Note 5.1.	Personnel expenses and related party transactions	116
Note 5.2.	Employee benefits	117
NOTE 6	INCOME TAX	126
NOTE 7	SHAREHOLDERS' EQUITY	129
Note 7.1.	Shareholders' equity	129
Note 7.2.	Gains and losses recognised in other comprehensive income	132
NOTE 8	ADDITIONAL DISCLOSURES	134
Note 8.1.	Segment reporting	134
Note 8.2.	Other operating expenses	137
Note 8.3.	Provisions	138
Note 8.4.	Tangible and intangible fixed assets	139
Note 8.5.	Foreign exchange transactions	144
Note 8.6.	Fees paid to statutory auditors	145
Note 8.7.	Transactions with related parties	146
Note 8.8.	Dividends paid and proposed	148
NOTE 9	NOTE ON RISK EXPOSURES	149
Note 9.1.	Credit risk	149
Note 9.2.	Market risk	160
Note 9.3.	Liquidity Risk	166
Note 9.4.	Operational risk	170
NOTE 10	CAPITAL	170
Note 10.1.	Capital management	170
Note 10.2.	Regulatory capital	171
NOTE 11	EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE	171
Note 3.12.	Offsetting financial assets and financial liabilities	102

I. GENERAL INFORMATION



BOARD OF DIRECTORS

CHAIRMAN

Patrick Suet

Secretary of the Board of Directors of Societe Generale Group

MANAGING DIRECTOR

Arnaud Jacquemin

Chief Executive Officer of Societe Generale Luxembourg

DIRECTORS

David Abitbol

Head of Societe Generale Securities Services, Societe Generale Group

Cécile Bartenieff

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

Patrick Folléa

Head of Societe Generale Group Private Banking, Societe Generale Group

Fabienne Gatti

Director representing employees

Virginie Lagrange

Independent Director

Virgil Magri

Director representing employees

Didier Mouget

Independent Director

Abdillah Msahazi

Staff representative Director

Bruno Prigent

External Director

Frédéric Roveda

Director representing employees

Frédéric Surdon

Head of Asset Finance, Societe Generale Group



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

AUTHORIZED MANAGEMENT

Arnaud Jacquemin

Chief Executive Officer

Olivier Blanc

Chief Operating Officer

Hélène Crinquant

General Secretary

REGISTERED OFFICE

**Societe Generale
Luxembourg S.A.**

11, Avenue Emile Reuter

L-2420 Luxembourg

AUDITORS

Ernst & Young

Société Anonyme

35E, Avenue John F. Kennedy

L-1855 Luxembourg

II. CONSOLIDATED MANAGEMENT REPORT

1. CHIEF EXECUTIVE OFFICER STATEMENT



Societe Generale Luxembourg S.A. (the “Bank” or the “Group”) is one of Luxembourg’s largest banking groups by its financial position (net income of EUR 230 million in 2020, assets of EUR 56 billion at end 2020) and number of staff (close to 1 800 employees in average over 2020), and the oldest foreign bank in the Grand Duchy.

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

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

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

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

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

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

2. CORPORATE GOVERNANCE

2.1. CORPORATE GOVERNANCE STRUCTURE AND MAIN BODIES

2.1.1. Board Committees

The Board of Directors is assisted by four Committees:

- the Audit and Accounts Committee;
- the Risk and Compliance Committee;
- the Remuneration Committee;
- the Nomination and Internal Governance Committee.

Each Committee comprises at least three members. One Director representing employees sits on the Remuneration Committee. The missions of the Board of Directors' four committees are set out in their respective charters.

As of 31 December 2020, the specialized committees of the Board were:

- **Audit and Accounts Committee:** At 31 December 2020, the Audit and Accounts Committee comprised two Independent Directors and one external Director: Didier MOUGET, Virginie LAGRANGE and Bruno PRIGENT. The Committee is chaired by Didier MOUGET. This committee's mission is to monitor and control the preparation of accounting and financial information, the independence of the statutory auditors, and the effectiveness of the internal control, risk management and internal audit systems, with regard to the procedures for the preparation and processing of the accounting and financial information. It gives recommendations and advices on such matters to the Board of Directors;
- **Risk and Compliance Committee:** At 31 December 2020, the Risk and Compliance Committee comprised four Directors, including two Independent Directors: Patrick SUET, Frédéric SURDON, Didier MOUGET and Virginie LAGRANGE. The Committee is co-chaired by Patrick SUET and Frédéric SURDON. This committee advises the Board of Directors on the risk profile of the Group, the quality and effectiveness of the risk monitoring framework, the appetite regarding all types of risks derived from the Group's strategy and the evolution of regulations and its impact on the risk profile and Group's strategy;
- **Remuneration Committee:** At 31 December 2020, the Remuneration Committee comprised three Directors, one Group representative, one external Director and one Director representing employees: Patrick SUET, Bruno PRIGENT and Fabienne GATTI. The Committee is chaired by Mr. SUET Patrick. This committee prepares the decisions of the Board of Directors concerning compensation, especially those related to directors, executive officers and other having a significant impact on the Group's risk profile and risk management;
- **Nomination and Internal Governance Committee:** At 31 December 2020, the Nomination and Internal Governance Committee comprised two Directors and one external Director: Patrick SUET, Patrick FOLLEA and Bruno. PRIGENT.

The Committee is chaired by Patrick SUET. This committee identifies and recommends future company's officers (directors and executive officers) to the Board of Directors. It periodically examines (1) the Board of Directors' policies regarding selection and appointment of Key Functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Officer) and (2) the structure, size, composition and effectiveness of the Board of Directors' work. It proposes a target in respect of the balanced representation of women and men at the Board. Moreover, it aims at implementing and supervising key internal governance principles within the Bank and its subsidiaries.

2.1.2. Executive Committees

The main executive committees are as follows:

- **Management committees:**
 - **Authorized Management Committee:** the mission of this committee is to oversee strategic and business development matters of the Group and make necessary related decisions;
 - **Executive Committee:** this committee's mission is to address matters such as strategic orientations definition and implementation, business development and other transversal topics. It is composed of Authorized Management and of each Business Units and Support Units heads;
 - **Business Committee:** the mission of this committee is to elaborate the commercial strategy of Societe Generale Luxembourg and coordinate the commercial initiatives of the various businesses;
 - **Responsible Commitments Committee:** this committee deals with topics related to the Group's commitments and normative framework in CSR matters (including CSR sectoral policies), culture and conduct, or other topics that have an impact on the Group's liability or reputation and not already covered by an existing Committee;
 - **Senior Management Team Committee (SMT):** this committee is a privileged forum of exchanges, reflections and works on general interest questions related to the Group taking advantages on the professional experience of its members.
- **Steering committees:**
 - **Finance Committee (COFI):** this committee is responsible for setting out the Group's financial strategy and for managing scarce resources (capital, liquidity, statement of financial position) in the context of the allocation and the management of structural risks; it also addresses tax-related matters. The ALM Committee, a sub-committee of the COFI, validates the structural risk upon proposal from DFIN and RISQ;

II. CONSOLIDATED MANAGEMENT REPORT (CONTINUED)

- Human Resources Committee (HR Committee): this committee elaborates the human resources policy, addressing in particular attractiveness, compensation, retention and HR regulatory-related subjects.
- Enterprise Risk Management Committees:
 - Risk Committee (CORISQ): the mission of this committee is to define the Group’s key priorities in terms of risk (credit, country, market, structural and operational risks), within the framework of the risk appetite and the financial targets set by the Board of Directors of the Group, and to monitor compliance in such respect; and to maintain a sound, effective and sustainable risk management framework, taking appropriate measures in case of gaps;
 - Compliance Committee (COMCO): the mission of this committee is to define the Group’s main guidelines and principles in terms of compliance, to ensure a sound, effective and sustainable adherence to all regulations to be applied by the Group based on an appropriate framework, and to take appropriate measures in case of gaps;
 - Internal Control Coordination Committee (ICCC): this committee is responsible for the overall architecture of the Group’s internal control system, for evaluating its efficiency, consistency and comprehensiveness, for taking corrective actions and for monitoring their implementation;

- IS Security Committee: this committee is responsible for the Group’s IS security policy and governance, compliance with IT regulations as well as IT risk assessments.

2.2. CORPORATE GOVERNANCE

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

2.3. REMUNERATION POLICY

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

3. CONSOLIDATED MANAGEMENT REPORT

3.1. GROUP MAIN ACTIVITIES

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

3.1.1. Private Banking

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

The expertise of Societe Generale European Private Banking’s teams contributes to the strong recognition of Societe Generale Group in the private banking industry: in 2020, Societe Generale Private Banking was elected “Best Private Bank” for its digital advisory service proposal in Europe at the PWM Wealth Tech Awards, “Best Ultra High Net Worth Team and Best Credit Provider” by Wealth Briefing, “Best Private Bank” for its “Customer

Relationship, Servicing and Engagement” and for “Philanthropy Proposition” offer by Private Banker International, and “Best Private Bank for Entrepreneurs in Western Europe” by Global Finance.

3.1.2. Securities Services

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

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

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

In 2020 SGSS won the Best local custodian bank in Western Europe de Global Finance Awards 2020, Best local custodian bank in France, Ivory Coast, Morocco, Romania and Russia de Global Finance Sub-Custody Awards 2020 and Best Relationship Management and Client Service bank in Russia de Global Custodian survey 2020.

3.1.3. Corporate Banking and Cash Management

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

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

3.1.4. Global Banking & Advisory

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

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

Societe Generale was named "International Corporate & Investment Bank" by the "Trophées Leaders de la Finance 2020" and "ECM Bank of the Year for Green Equity deals" at the Global Capital ECM Awards 2020. The Bank was also awarded

"Energy & Commodity Finance House of the Year" at the Energy Risk Awards 2020, "CEE Best Bank for Financing" at the Euromoney Awards for Excellence 2020 and "TMT Financing Bank of the Year - EMEA" at the TMT M&A Awards 2020.

The Group SG was ranked #2 by IJ Global for "Project Finance MLA Renewables Worldwide" for the full-year 2020 and #3 by Dealogic for "Green, Social and Sustainability Bonds in Europe" for the full-year 2020 in Debt Capital Markets.

3.1.5. Global Markets

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

As of December 31 2020, SGIS is no longer fully consolidated under IFRS 10 in SG Luxembourg Balance Sheet. Until November 30th, 2020, SGIS was a 100% owned subsidiary of SG Luxembourg; on this date, SG Luxembourg sold a fraction of its SGIS shares to Societe Generale S.A and renounced to its voting rights on its remaining shares, requiring deconsolidation of SGIS from SG Luxembourg as per IFRS 10 and consolidation under the equity method. In parallel, as of December 1st, 2020, SGIS is directly fully consolidated by Societe Generale S.A.

3.1.6. Corporate Center

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

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

3.2. GROUP RESULTS

3.2.1. Group results – Consolidated income statement

ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019	Change in %	Change in value
Net interest margin	305 439	272 872	12%	32 567
Net fee margin	289 635	292 352	-1%	(2 717)
Net gains and losses on financial transactions	40 374	127 729	-68%	(87 355)
Net income from other activities	51 123	52 039	-2%	(916)
Net banking income	686 571	744 992	-8%	(58 421)
Operating expenses	(396 338)	(439 187)	-10%	42 849
Gross operating income	290 233	305 805	-5%	(15 572)
Cost of risk	(63 934)	7 497	-953%	(71 431)
Operating income	226 299	313 302	-28%	(87 003)
Net income from investments accounted for using the equity method	16 101	10 564	52%	5 537
Net income/expense from other assets	(2 369)	5 110	-146%	(7 479)
Earnings before tax	240 031	328 976	-27%	(88 945)
Income tax	(10 230)	(45 509)	-78%	35 279
Consolidated Net Income	229 801	283 467	-19%	(53 666)
Non-controlling interests	27	22	23%	5
Net income Group share	229 774	283 445	-19%	(53 671)

In a Covid-19 crisis environment marked by a heavy market turmoil in H1-2020 and the weakening of some counterparties, as well as the further decrease of interest rates, the 2020 consolidated net income stood at EUR 230 million, decreasing by 19% compared to 2019:

- The net banking income amounted to EUR 687 million, down by 8% compared to 2019, mainly due to Covid-19 and interest rate related impacts, as well as by the full year effect of the planned reduction of activity with a key client of SGSS following its own internal reorganization.
- Operating expenses stood at EUR 396 million, down by 10% compared to 2019, thanks to strict cost steering and first visible results of the accelerated, holistic transformation launched end 2018.
- Net cost of risk amounted to EUR 64 million, compared to a net provision reversal of EUR 7 million in 2019. Globally, the Covid-19 crisis had therefore limited a limited impact on SG Luxembourg's credit portfolio (less than 15 pbs), thus confirming the quality of the GLBA as well as of the private banking portfolios. ¾ of the total relates to Stage 3 provisions and ¼ to forward looking provisions.

The 8% decrease in **revenues** from 2019 to 2020 results from a contrasted evolution of the various Group's businesses.

The financial performance of **Private Banking** activities was impacted negatively by still decreasing interest rates, but positively by a sustained transactional activity on structures products, brokerage and derivatives. Despite a significant

decrease in H1-2020 linked to the drop of asset market values, asset under management (AuMs) managed by the European Private Banking activities recorded an overall increase of 3% in 2020, reaching EUR 17,8 billion at end of 2020 (vs EUR 17,3 billion at end 2019).

In 2020, **Securities Services** activities recorded a sustained commercial activity with multiple new mandates won, although certain sub-segments were impacted by the full year effect of the planned reduction of activity mid 2019 with a key client following its own internal reorganization, as well as by the sale of a non-strategic servicing activity mid 2020. Overall, Assets under Administration (AuA) reached EUR 222 billion at end 2020, up by EUR 3 billion compared to 2019, while Assets under Custody (AuC) reached EUR 324 billion at end 2020, decreasing by EUR 7 billion compared to 2019.

Despite the unfavourable evolution of interest rates impacting interest margins, the **Corporate Banking and Cash Management** activity maintained its financial performance, leveraging on the quality of its franchise and on a dynamic commercial activity, especially with private equity and real estate clients.

Despite Covid-19 negative impacts for specific sectors (aircraft, tourist accommodation...), **Global banking & Advisory** activities resolutely contributed to the financing of the economy and confirmed their commercial momentum in financing and leasing activities.

Global Markets activities were mainly marked by significantly lower levels of structured product issuance activity overall due to market turmoils.

Finally, the **Corporate Center** 2020 financial performance was mainly explained by the unfavorable evolution of interest rates.

In terms of costs, while maintaining a strict cost discipline, Societe Generale Luxembourg Group continued to vigorously implement in 2020 the transformation of its operating model aiming at more efficiency and security. Overall, costs decreased by 10% compared to 2019 at - EUR 396 million.

3.2.2. Group results – Statement of financial position

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019	Change in %	Change in value
Cash, due from central banks	9 871 682	9 262 134	7%	609 548
Financial assets at fair value through profit or loss	1 057 591	59 558 317	-98%	(58 500 726)
Hedging derivatives	–	447	-100%	(447)
Financial assets at fair value through other comprehensive income	3 205 031	3 263 281	-2%	(58 250)
Securities at amortised cost	7 086 422	7 180 331	-1%	(93 909)
Due from banks at amortised cost	10 498 243	11 423 275	-8%	(925 032)
Customer loans at amortised cost	22 980 536	24 661 720	-7%	(1 681 184)
Investments of insurance activities	442 651	527 812	-16%	(85 161)
Tax assets	4 781	11 719	-59%	(6 938)
Other assets	648 839	901 776	-28%	(252 937)
Investments accounted for using the equity method	99 419	73 531	35%	25 888
Tangible and intangible fixed assets and right-of-use assets	154 457	176 257	-12%	(21 800)
Total Assets	56 049 652	117 040 600	-52%	(60 990 948)

As of December 31, 2020, the Group's statement of financial position amounted EUR 56 049 million. The decrease of EUR 61 billion compared to December 31, 2019 is mainly explained by the change of consolidation method of SGIS, from a full consolidation to the equity method.

Cash, due from central banks increased by EUR 609 million (+7%) compared to December 31, 2019, and **Financial assets at fair value through profit or loss** decreasing by EUR 58 501 million (-98%) over the period.

Due from banks at amortized cost decreased by of EUR 925 million (-8%) compared to December 31, 2019.

Customers loans at amortized cost decreased by EUR 1 681 million (-7 %) compared to December 31, 2019.

Other assets decreased by EUR 253 million (-28%) compared to December, 31 2019.

Tangible and intangible fixed assets decrease by EUR 22 million (-12%) compared to December 31, 2019.

II. CONSOLIDATED MANAGEMENT REPORT (CONTINUED)

LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019	Change in %	Change in value
Financial liabilities at fair value through profit or loss	534 905	59 071 898	-99%	(58 536 993)
Hedging derivatives	193 687	218 245	-11%	(24 558)
Debt securities issued	64 609	224 141	-71%	(159 532)
Due to banks	25 326 267	24 837 739	2%	488 528
Customer deposits	24 995 893	27 852 704	-10%	(2 856 811)
Tax liabilities	156 068	174 747	-11%	(18 679)
Other liabilities	1 292 389	1 296 919	0.5%	(4 530)
Insurance contracts related liabilities	91 623	207 893	-56%	(116 270)
Provisions	81 680	77 532	5%	4 148
Total liabilities	52 737 121	113 961 818	-54%	(61 224 697)
Shareholders' equity				
Shareholders' equity, Group share				
Issued capital	1 389 043	1 389 043	0%	-
Reserves and retained earnings	1 658 308	1 381 520	20%	276 788
Net income	229 774	283 445	-19%	(53 671)
Sub-total	3 277 125	3 054 008	7%	223 117
Unrealised or deferred gains and losses	35 314	24 672	43%	10 642
Sub-total equity, Group share	3 312 439	3 078 680	8%	233 759
Non-controlling interests	92	102	-10%	(10)
Total equity	3 312 531	3 078 782	8%	233 749
TOTAL LIABILITIES AND EQUITY	56 049 652	117 040 600	-52%	(60 990 948)

Financial liabilities at fair value through profit and loss decreased by EUR 58 537 million (-99%) compared to December 31, 2019, due change of consolidation method of SGIS from full consolidation to equity method.

Due to banks increased by EUR 488 million (+2%) compared to December 31, 2019.

Customer deposits decreased by EUR 2 857 million (-10%) compared to December 31, 2019.

Debt securities issued decreased by EUR 160 million (-71%) compared to December 31, 2019.

Other Liabilities decreased by EUR 4,5 million (-0,5%)

Provisions increased by EUR 4 million (+5%) compared to December 31, 2019.

Group shareholders' equity amounted to EUR 3 312 million as of December 31, 2020, slight increase of 8% compared to December 31, 2019. Details related to shareholders' equity are disclosed in Note 7 of the Consolidated Financial Statements.

3.2.3. Group results – SGIS change in consolidation methodology

ASSETS

<i>(in EUR thousand)</i>	30.11.2020
Financial assets at fair value through profit or loss	47 534 191
Due from banks at amortised cost	27 676
Other assets	327 887
Loans & receivables at amortised cost	50 142
Total assets	47 939 896

LIABILITIES

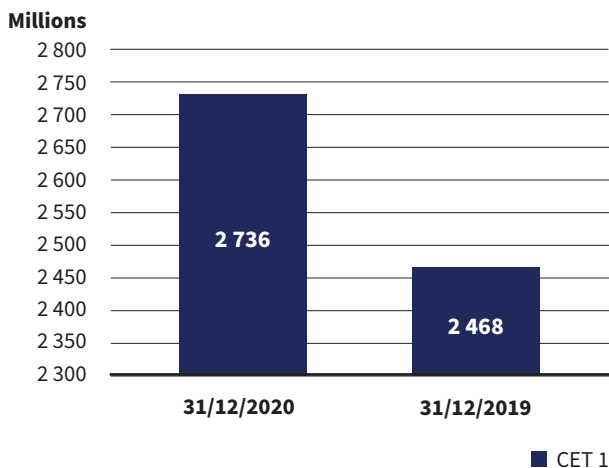
<i>(in EUR thousand)</i>	30.11.2020
Financial liabilities at fair value through profit or loss	47 746 139
Due to banks	–
Financial liabilities at amortised cost	48 000
Payables related to bonds	18 506
Other liabilities	124 888
Total liabilities	47 937 533

Shareholders' equity	
Issued capital	2 215
Net income	148
Total equity	2 363
TOTAL LIABILITIES AND EQUITY	47 939 896

Main impacts of the change in consolidation method of SGIS within SG Luxembourg consolidated accounts as of November 30th, 2020 were the following:

- A decrease in financial assets at fair value through profit and loss for an amount of EUR 47 534 million, in parallel to a decrease of EUR 47 746 million in financial liabilities at fair through profit or loss;
- From December 1st onwards, the profit participating debt instrument issued by SGIS and owned by SG Luxembourg amounted to EUR 48 million and relating interest accruals amounted to EUR 11 Million.

3.3. GROUP'S OWN FUNDS



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

As of December, 31 2020, the Group's sole shareholder holds 11 024 148 shares representing 100% of the share capital of the Societe Generale Luxembourg S.A.

In 2020, the Group did not proceed with the buyback of its own shares, nor did it pay any dividend to its shareholder in line with Supervisors' requests to European banks.

As of December 31st, 2020, the Group's capital, on a consolidated basis, is made of:

- Core Tier I capital: EUR 2 736 million (2019: EUR 2 468 million);
- No additional eligible capital at end 2019 and end 2020.

3.4. POST CLOSING EVENTS

After the end of the reporting period, a SG Luxembourg subsidiary alongside Societe Generale and other financial intermediaries has received a claim from end investors in specific structured notes. The potential negative impact of this litigation is fully covered by Societe Generale.



Photo credit: Olivier Minaire

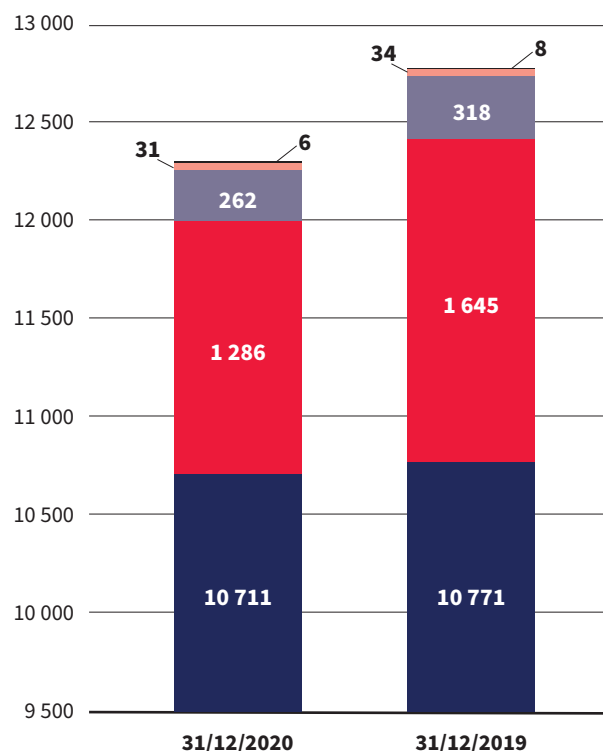
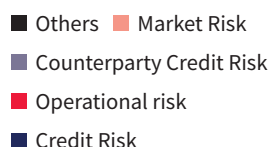
4. RISKS AND CAPITAL ADEQUACY

4.1. KEY FIGURES

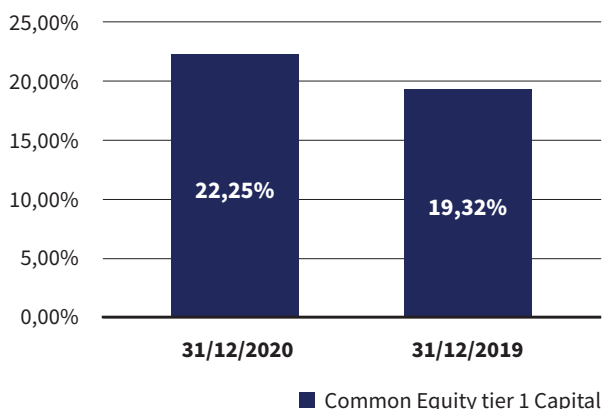
4.1.1. Risk-Weighted Assets

As at December, 31 2020, total Risk-Weighted Assets of the Group amounted to EUR 12 296 million (2019: EUR 12 776 million), composed of:

- EUR 10 973 million related to credit and counterparty credit risk (2019: EUR 11 089 million);
- EUR 1 286 million related to operational risk (2019: EUR 1 645 million);
- EUR 31 million related to market risk (2019: EUR 34 million);
- EUR 6 million related to others, including Credit Valuation Adjustment and Settlement risk (2019: EUR 8 million).



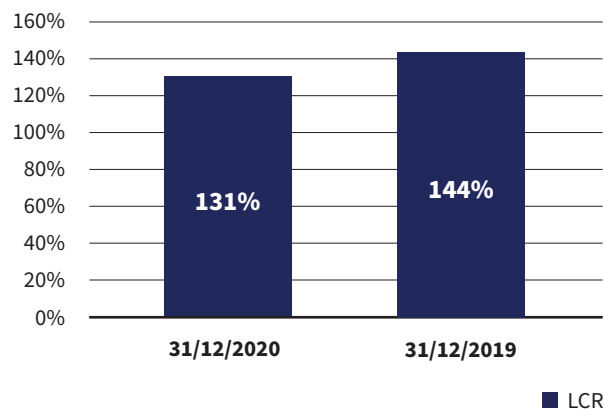
4.1.2. Capital ratios



As of December 31, 2020, the Group Common Equity Tier 1 ratio stood at 22.25% (2019: 19.32%). So did the Group Total Capital ratio.

As of December 31, 2020, the Group capital ratios are significantly above minimum regulatory requirements.

4.1.3. Liquidity Coverage Ratio



As of December 31, 2020, the Group one-month Liquidity Coverage Ratio (LCR) stood at 131% (2019: 144%) well above the regulatory requirement of 100%.



Photo credit: Olivier Minaire

4.2. RISK MANAGEMENT

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

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

4.3. RISKS

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

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

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

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

Exchange Rate Risk: the structural exchange rate risk is the risk that a loss occurs due to an unfavourable movement of the

4.4. RISK APPETITE

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

The Group has defined a Risk Appetite Framework which includes:

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

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

The main risk appetite principles are summarised below.

4.4.1. Structural interest rate and exchange risks

The Group assesses and controls structural risks. The mechanism to control interest rate risk, foreign exchange risk and the risk on

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

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

exchange rate affecting the Group due to existing open positions in foreign currencies.

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

Operational Risk: the operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures, human error or external events, including IT risk and management risk. Particular attention is paid to **Compliance risk**, i.e. the risk of not being compliant with applicable regulations in areas, among others, of sanctions & embargoes, anti-money laundering and terrorism financing, client protection, market abuse, data protection and conduct.

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

employee benefits is based on sensitivity or stress limits adapted to each of the various businesses (entities and business lines).

4.4.2. Liquidity risk

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

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

4.4.3. Credit and counterparty risks

When taking credit risk, the Group focuses on medium and long-term client relationships, targeting clients with which the Group has an established relationship of trust and prospects offering the potential for profitable business development over the medium-

term. In a credit or market transaction, credit (or counterparty) risk acceptability is based, first and foremost, on the borrower's (or counterparty's) ability to meet its commitments.

4.4.4. Market risks

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

4.4.5. Operational risks (excluding compliance risk)

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

4.4.6. Compliance risk

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

5. CORPORATE SOCIAL RESPONSIBILITY

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

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

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

This strategy was updated in March 2021 with ambitions revised upwards.

5.1. OUR ENGAGEMENT AS A CORPORATE

BE A RESPONSIBLE EMPLOYER

- Responsibly manage the Bank through the Covid-19 crisis: Mid March 2020, the Group launched a Crisis Unit in order to apply sanitary recommendations of the Ministry of Health, preserve the health of our employees in particular by allowing virtually 100% of employees by end March to work from home with all appropriate digital means.
- Foster diversity: launch of a Diversity Committee with two main objectives: increase the percentage of women in managerial positions and better take into account the international dimension of SG Luxembourg. Gender equality is a top objective of the Group. The Group signed the Luxembourg Diversity Charter in 2013, and is a longstanding participant to the Diversity Day Lëtzebuerg.
- Promote Talent: Launch of a Career and Development Committee and update of succession plans of key managers.
- Promote responsible corporate culture and ethics principles: with a new corporate purpose ("Building together, with our clients, a better and sustainable future through responsible and innovative financial solutions") and by supporting employee involvement in solidarity initiatives.

CONTRIBUTE TO CLIMATE AND ENVIRONMENT PRESERVATION

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

- Responsible purchase policy: implementation of a CSR questionnaire for suppliers to assess their social and environmental policy, CSR note included in the bid evaluation grids.
- Optimize environmental impact of our premises: Continually enhancing the energy performance of its buildings to optimize carbon emissions, with new, strong ambitions on our future two buildings to be occupied in 2023: our future headquarters downtown will benefit from the HQE certification (excellent) and BREEAM certification (very good), and our future building in Belval from the BREEAM certification (excellent).
- Foster responsible consumption mode: Zero Plastic Charter signed in 2019, waste responsible policy with SuperDrecks-Kësch label, promote soft mobility with green vehicle and cycle promotion, reducing our paper consumption with the "FollowMe" printing initiative (since 2016, SG Luxembourg has reduced its paper consumption from EUR 4,2 million sheets of paper, which represent more than 500 trees saved).
- Helping the Institut pour le Mouvement Sociétal (IMS) by participating to their initiatives as "knowledge sharing", Diversity day (as a Gold Sponsor) or Luxembourg Sustainability Forum.

5.2. OUR ENGAGEMENT AS A BANK

INTENSIFY SOCIALLY RESPONSIBLE INVESTMENTS

SG Luxembourg Group is convinced that a strong CSR ESG policy will be synonymous of a sustainable superior financial performance.

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

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

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

Global market activities, through their Luxembourg-based issuing vehicles, continue to support the Societe Generale Group's effort in structuring and distributing CSR structured investment solutions.

FOSTER SUSTAINABLE AND POSITIVE IMPACT FINANCING

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

Main objectives of the Group as part of its GLBA activities include:

- Promoting SG Luxembourg as SG Group's main European positive impact financing hub: EUR 600 million of asset already booked as of end 2020 in sustainability linked loans and renewable energy finance with an ambition to grow to EUR 2 trillion by end 2023;
- Special focus on green/circular economy assets using current dedicated tax enhancement scheme and its possible future amendments for PIF linked assets;
- Promoting securitization and leasing schemes, particularly adapted to financing circular economy.

ENRICH OUR ENVIRONMENTAL AND SOCIAL RISK FRAMEWORK

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

- Enrich existing risks maps with environmental and social risk dimension;
- Update risk assessment and reporting tools and procedures;
- Educating our stakeholders on this dimension;
- Update its governance to foster and control the adequate integration of this dimension into our risk management framework.
- Train the stakeholders on this CSR dimension by capitalizing on the Group's E-learning (big picture) and more specialized learning programs made by SEGL/RSE on E&S risk management, by GLBA on sustainable finance, and by SGPB on ISR investments.

6. OUTLOOK

Although a significant economic rebound can be expected this year, 2021 will continue to be marked by uncertainties related to the lasting Covid-19 pandemic disease.

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

Our first strategic priority will be to pursue the development and adaptation of our businesses to more comprehensively and adequately serve our clients in private banking, securities services, commercial banking and cash management services, but also in structured financings and capital market services. We will further work on putting our clients' needs at the heart of our way of collectively working. 2021 will also mark the pursuit of structural initiatives to optimize our efficiency and security, through IT investments, review of target operating models and optimization of processes, as well as further digitalization.

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

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

CONCLUSION

In a highly uncertain environment, SG Luxembourg Group showed in 2020 an remarkable agility and its ability to continue to efficiently support its clients while fully protecting its employees. The Group was able to pursue its high-pace transformation focused on three priorities – customer centricity, corporate social responsibility and operational efficiency based on digital technologies – and will continue to do so in 2021.

GLOBAL STATEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

To the best of our knowledge, the Consolidated Financial Statements give a true and fair view of the financial position and profit and losses of Societe Generale Luxembourg and its consolidated subsidiaries as at 31 December 2020, and its financial performance and cash flows for the period then ended in accordance with with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, and the Consolidated Management Report includes a true and fair presentation of the evolution and performance of Societe Generale Luxembourg and its consolidated subsidiaries, together with a description of the main risks and uncertainties that Societe Generale Luxembourg and its consolidated subsidiaries face.



Arnaud Jacquemin
Societe Generale Luxembourg Chief Executive Officer

Luxembourg, 22 April 2021





Photo credit: Olivier Minaire

III. INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Societe Generale Luxembourg S.A. (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of net income and unrealised or deferred gains and losses, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other

ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Impairments on customer loans and provisions on financing commitments

DESCRIPTION

As at 31 December 2020, the gross amount of customer loans is EUR 23 065 million, and related impairments amount to EUR 85 million (see Note 3.6).

As at 31 December 2020, provisions relating to financing commitments amount to EUR 4 million (see Note 3.9).

Customer loans and financing commitments carry a credit risk which exposes the Group to a potential loss if its client or counterparty is unable to meet its financial obligations. The Group recognizes expected credit losses ("ECL") to cover this risk. Such ECL are calculated in accordance with IFRS 9 "Financial instruments".

The assessment of ECL for customer loans and financing commitments requires the exercise of judgment notably to:

- determine the exposure classification criteria under stage 1, stage 2 or stage 3;

- estimate the amount of ECL depending on the different stages;
- prepare macro-economic projections which are embedded in the deterioration criteria and in the ECL measurement.

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

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

- the significance of customer loans in the Group's balance sheet;
- the use of various parameters and assumptions in the models to determine the probability of default and the loss given default;
- the importance of judgment in determining the criteria of significant increase in credit risk and the way macro-economic forecasts are taken into account;
- the assessment of individual ECL on defaulted loans and financing commitments (stage 3);
- the heightened difficulty to determine ECL during an unprecedented health and economic crisis combined with an unprecedented level of government support measures.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

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

With the support of internal specialists in risk management and modelling included in the audit team, we focused our work on the most significant loans and/or portfolios of loans to customers, as well as on the financing granted to companies operating in economic sectors and geographical areas most impacted by the current health and economic crisis.

Concerning ECL, our audit work notably consisted in:

- examining the compliance of policies and methodologies implemented by the Group with IFRS 9 "Financial instruments" requirements;
- analyzing the main parameters used by the Group to classify outstanding exposures and assess stages 1 and 2 ECL calculation as at 31 December 2020, including the integration of macro-economic projections;
- testing a sample of customer loans and financing commitments consisting of key items and items selected on the basis of our professional judgment to form our own assessment as to whether they are classified in the appropriate stage;
- performing tests on impairment models implemented in the information systems which are used to prepare financial information;
- performing a counter-calculation of the ECL as at 31 December 2020;

- examining the analyses prepared by the Group regarding variations of customer loans and financing commitments between stages and the related ECL during the year;
- testing based on a sample of exposures selected using our professional judgment, as at 31 December 2020, the main assumptions used to classify loans in stage 3, as well as the estimation of the related individual ECL. We examined in a critical manner the conclusions of the specialized committee monitoring such exposures and the assumptions used to determine expected cash flows and estimated recovery from any underlying collateral.

Deconsolidation of SG Issuer S.A.

DESCRIPTION

On 30 November 2020, the Group reduced its stake in SG Issuer S.A. ("SGIS") and renounced to its voting rights. This led to the loss of control and deconsolidation of SG Issuer S.A.. The deconsolidation resulted in a gain after tax amounting to EUR 350. As at 31 December 2020, the remaining investment is accounted for using the equity method. See Note 2.2 where details on these specific transactions are disclosed.

Such deconsolidation has a significant impact on the Group's financial statements as at 31 December 2020. In particular, the consolidated statement of financial position significantly decreased by EUR 60 991 million, from EUR 117 041 million as at 31 December 2019 to EUR 56 050 million as at 31 December 2020.

We considered the deconsolidation of SGIS to be a key audit matter in light of its significant impact on the Group's consolidated financial statements and the judgment involved in determining the consequences of the above described transactions on the consolidation scope and method as at 31 December 2020.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

We inspected the documentation related to the shares' disposal and voting rights' renunciation including a legal opinion regarding the effect of such transactions and the approval of the regulators.

We assessed and verified the accounting treatment of the transactions and the determination of the revised consolidation scope and method.

We assessed the appropriateness of the disclosures in the consolidated financial statements related to these significant transactions.

Mirroring of financial assets and financial liabilities related to issuance activity at SG Issuer S.A.

DESCRIPTION

As at 31 December 2020, SG Issuer S.A. is accounted for using the equity method (see Notes 2.1 and 2.2).

The activity of SGIS consists in issuing Notes and Warrants, which are subscribed by investors. These financial instruments are economically fully hedged with mirror transactions concluded with Societe Generale S.A. replicating the financial instruments issued by SGIS.

We considered the mirroring of financial instruments issued to be a key audit matter in light of the financial risk to the Group which would result from the inadequate mirroring of the financial instruments issued by SGIS.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

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

We verified the intercompany reconciliation process between SGIS and Societe Generale S.A., and the intercompany reconciliations performed as at 31 December 2020.

We tested whether SGIS has contracted the mirror financial instruments with Societe Generale S.A. for a sample of financial instruments issued by the Group as at 31 December 2020.

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

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

III. INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements

regarding independence and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS


We have been appointed as "Réviseur d'Entreprises Agréé" for the audit of the consolidated financial statements by the Board of Directors on 20 April 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

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

The corporate governance statement is included in the consolidated management report. The information required by article 70bis paragraph 1 of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

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

Ernst & Young
Société anonyme
Cabinet de révision agréé



Jean-Michel Pacaud

Luxembourg, 30 April 2021

IV. CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

ASSETS

<i>(in EUR thousand)</i>	<i>Notes</i>	31.12.2020	31.12.2019*
Cash, due from central banks	3.1	9 871 682	9 262 134
Financial assets at fair value through profit or loss	3.2, 3.3 and 3.5	1 057 591	59 558 317
Hedging derivatives	3.3 and 3.5	–	447
Financial assets at fair value through other comprehensive income	3.4 and 3.5	3 205 031	3 263 281
Securities at amortised cost	3.6 and 9.1	7 086 422	7 180 331
Due from banks at amortised cost	3.6 and 9.1	10 498 243	11 423 275
Customer loans at amortised cost	3.6 and 9.1	22 980 536	24 661 720
Investments of insurance activities	4.3	442 651	527 812
Tax assets	6	4 781	11 719
Other assets	4.4	648 839	901 776
Investments accounted for using the equity method		99 419	73 531
Tangible and intangible fixed assets and right-of-use assets	8.4	154 457	176 257
Total assets		56 049 652	117 040 600

*Restated figures, please refer to Note 3.6.1

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

LIABILITIES

<i>(in EUR thousand)</i>	<i>Notes</i>	31.12.2020	31.12.2019
Financial liabilities at fair value through profit or loss	3.2, 3.3 and 3.5	534 905	59 071 898
Hedging derivatives	3.3 and 3.5	193 687	218 245
Debt securities issued	3.7	64 609	224 141
Due to banks	3.7	25 326 267	24 837 739
Customer deposits	3.7	24 995 893	27 852 704
Tax liabilities	6	156 068	174 747
Other liabilities	4.4	1 292 389	1 296 919
Insurance contracts related liabilities	4.3	91 623	207 893
Provisions	8.3	81 680	77 532
Total liabilities		52 737 121	113 961 818
Shareholders' equity			
Shareholders' equity, Group share			
Issued capital	7.1	1 389 043	1 389 043
Reserves, share premium and retained earnings	7.1	1 658 308	1 381 520
Net income	7.1	229 774	283 445
Sub-total		3 277 125	3 054 008
Unrealised or deferred gains and losses	7.2	35 314	24 672
Sub-total equity, Group share		3 312 439	3 078 680
Non-controlling interests	2.3	92	102
Total equity		3 312 531	3 078 782
Total liabilities and equity		56 049 652	117 040 600

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

2. CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDING 31 DECEMBER 2020

<i>(in EUR thousand)</i>	Notes	2020	2019*
Interest and similar income	3.8	617 300	766 358
Interest and similar expense	3.8	(311 861)	(493 486)
Fee income	4.1	444 440	427 311
Fee expense	4.1	(154 805)	(134 959)
Net gains and losses on financial transactions		40 374	127 729
<i>o/w net gains and losses on financial instruments at fair value through profit or loss</i>	3.2 and 3.3	40 374	127 729
<i>o/w net gains and losses on financial instruments at fair value through other comprehensive income</i>	3.4	–	–
<i>o/w net gains and losses from the derecognition of financial assets at amortised cost</i>		–	–
Net income of insurance activities	4.3	23 637	35 624
Income from other activities	4.2	37 070	26 936
Expenses from other activities	4.2	(9 584)	(10 521)
Net banking income		686 571	744 992
Personnel expenses	5.1	(203 429)	(226 166)
Other operating expenses	8.2	(149 330)	(173 239)
Amortisation, depreciation and impairment of tangible and intangible fixed assets and right-of-use assets	8.4	(43 579)	(39 782)
Gross operating income		290 233	305 805
Cost of risk	3.9	(63 934)	7 497
Operating income		226 299	313 302
Net income from investments accounted for using the equity method	2.3	16 101	10 564
Net income/expense from other assets		(2 369)	5 110
Earnings before tax		240 031	328 976
Income tax	6	(10 230)	(45 509)
Consolidated net income		229 801	283 467
Non-controlling interests	2.3	27	22
Net income, Group share		229 774	283 445

*Restated figures, please refer to Note 4.1

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

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

FOR THE PERIOD ENDING 31 DECEMBER 2020

<i>(in EUR thousand)</i>		2020	2019
Consolidated net income		229 801	283 467
Unrealised or deferred gains and losses that will be reclassified sub-sequently into income		6 468	(1 125)
Translation differences	7.2	77	(958)
Revaluation of debt instruments at fair value through other comprehensive income	7.2	(3 802)	(16 400)
<i>Revaluation differences of the year</i>		5 317	(14 877)
<i>Reclassified into income</i>		(9 119)	(1 523)
Revaluation of available-for-sale financial assets ⁽¹⁾	4.3 and 7.2	224	13 717
<i>Revaluation differences of the year</i>		5 066	15 714
<i>Reclassified into income</i>		(4 842)	(1 997)
Revaluation of hedging derivatives	7.2	10 604	(147)
<i>Revaluation differences of the year</i>		10 604	(147)
<i>Reclassified into income</i>		-	-
Unrealised gains and losses of entities accounted for using the equity method	7.2	1 568	1 935
Tax related	7.2	(2 203)	728
Unrealised or deferred gains and losses that will not be reclassified subsequently into income		(2 426)	(6 600)
Actuarial gains and losses on defined benefits plans	7.1 and 7.2	(2 889)	(8 836)
Unrealised gains and losses of entities accounted for using the equity method	7.1 and 7.2	77	(105)
Related tax	7.1 and 7.2	386	2 341
Total unrealised or deferred gains and losses		4 042	(7 725)
Net income and unrealised or deferred gains and losses		233 843	275 742
<i>o/w Group share</i>		233 816	275 720
<i>o/w non-controlling interests</i>	2.3	27	22

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities.

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

4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD ENDING 31 DECEMBER 2020

<i>(in EUR thousand)</i>	Capital and associated reserves		Total
	Issued common stocks	Issuing premium and capital reserves	
Shareholders' equity at 01 January 2019	1 389 043	2 817	1 391 860
Appropriation of net income	-	-	-
2019 dividends paid (see Note 8.8)	-	-	-
Effect of changes of the consolidation scope	-	-	-
Sub-total of changes linked to relations with shareholders	-	-	-
Change in unrealised or deferred gains and losses	-	-	-
2019 Net income	-	-	-
Change in accounting policy	-	-	-
Other changes	-	-	-
Sub-total	-	-	-
Shareholders' equity at 31 December 2019	1 389 043	2 817	1 391 860
Allocation to retained earnings	-	-	-
Shareholders' equity as at 01 January 2020	1 389 043	2 817	1 391 860
Appropriation of net income	-	-	-
2020 dividends paid (see Note 8.8)	-	-	-
Effect of changes of the consolidation scope	-	-	-
Sub-total of changes linked to relations with shareholders	-	-	-
Change in unrealised or deferred gains and losses	-	-	-
2020 Net income	-	-	-
Change in accounting policy	-	-	-
Other changes	-	-	-
Sub-total	-	-	-
Shareholders' equity at 31 December 2020	1 389 043	2 817	1 391 860

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

		Unrealised gains and losses						
Retained earnings	Net income, Group share	that will be reclassified subsequently into income	that will not be reclassified subsequently into income	Total	Shareholders' equity, Group share	Non-controlling interests	Total consolidated shareholders equity	
1 436 593	296 545	32 397	4 785	37 182	3 162 180	141	3 162 321	
296 545	(296 545)	-	-	-	-	-	-	
(359 000)	-	-	-	-	(359 000)	(61)	(359 061)	
-	-	-	-	-	-	-	-	
(62 455)	(296 545)	-	-	-	(359 000)	(61)	(359 061)	
-	-	(1 124)	(6 600)	(7 724)	(7 724)	-	(7 724)	
-	283 445	-	-	-	283 445	22	283 467	
4 787	-	-	(4 787)	(4 787)	-	-	-	
(221)	-	-	-	-	(221)	-	(221)	
4 566	283 445	(1 124)	(11 387)	(12 511)	275 500	22	275 522	
1 378 703	283 445	31 273	(6 602)	24 671	3 078 680	102	3 078 782	
276 843	(283 445)	-	6 602	6 602	-	-	-	
1 655 546	-	31 273	-	31 273	3 078 680	102	3 078 782	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	(38)	(38)	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	(38)	(38)	
-	-	6 468	(2 426)	4 042	4 042	-	4 042	
-	229 774	-	-	-	229 774	27	229 801	
-	-	-	-	-	-	-	-	
(55)	-	-	-	-	(55)	1	(54)	
(55)	229 774	6 468	(2 426)	4 042	233 761	27	233 788	
1 655 491	229 774	37 740	(2 426)	35 314	3 312 439	92	3 312 531	

5. CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE PERIOD ENDING 31 DECEMBER 2020

<i>(in EUR thousand)</i>	<i>Notes</i>	2020	2019
Consolidated net income (I)		229 801	283 467
Amortisation expense on tangible and intangible fixed assets (including operational leasing)	8.4	43 579	39 782
Depreciation and net allocation to provisions		66 035	(4 890)
Net income/loss from investments accounted for using the equity method		(16 101)	(10 564)
Change in deferred taxes	6.1	(19 534)	25 141
Net income from the sale of long-term assets and subsidiaries		–	–
Change in deferred income		2 429	6 877
Change in prepaid income		1 199	6 304
Change in accrued income		17 074	18 289
Change in accrued expense		408 490	(465 106)
Other changes		111 634	224 669
Income tax paid		(23 785)	(30 971)
Non-cash items included in net income and others adjustments excluding income on financial instruments at fair value through profit or loss (II)		591 020	(190 469)
Income on financial instruments at fair value through profit or loss		235	48 609
Interbank transactions		(632 828)	6 937 006
Customers transactions		1 760 126	(1 308 957)
Transactions related to other financial assets and liabilities		(376 980)	(55 765)
Transactions related to other non financial assets and liabilities		(81 447)	(303 230)
Net increase/decrease in cash related to operating assets and liabilities (III)		669 106	5 317 663
NET CASH INFLOW (OUTFLOW) RELATED TO OPERATING ACTIVITIES (A) = (I) + (II) + (III)		1 489 927	5 410 661
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long term investments		81 976	241 107
Net cash inflow (outflow) related to tangible and intangible fixed assets		(25 277)	(14 314)
NET CASH INFLOW (OUTFLOW) RELATED TO INVESTMENT ACTIVITIES (B)		56 699	226 793
Dividend paid to equity holders of the parent	8.8	–	(359 000)
Repayment of subordinated loan		–	(400 000)
Other net cash flows arising from financing activities		–	–
NET CASH INFLOW (OUTFLOW) RELATED TO FINANCING ACTIVITIES (C)		–	(759 000)
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS (A) + (B) + (C)		1 546 626	4 878 455
Cash due from central banks	3.1	9 262 134	5 173 455
Demand deposits and current accounts with banks	3.6 and 3.7.1	688 584	(101 192)
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		9 950 718	5 072 263
Cash due from central banks	3.1	9 871 682	9 262 134
Demand deposits and current accounts with banks	3.6 and 3.7.1	1 625 662	688 584
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		11 497 344	9 950 718
NET INFLOW (OUTFLOW) IN CASH AND CASH EQUIVALENTS		1 546 626	4 878 455
Additional information on operational cash flows from interest:			
Interests paid	3.8	(328 773)	(388 167)
Interests received	3.8	628 498	741 298
Dividend received		73 866	75 695

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

1. INTRODUCTION

CORPORATE INFORMATION

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

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

As at 31 December 2020, the Bank’s capital is wholly-owned by Sogeparticipations, a limited company (“Société Anonyme”), incorporated under French law.

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

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

The Bank holds a representation office in Germany (launched in 2018) and a branch in Italy from January 2021 (former representation office opened in 2018 and transformed into a branch as of 1 January 2021). These consolidated financial statements were approved by the Board of Directors of the Bank on 22 April 2021.

ACCOUNTING STANDARDS

In accordance with European Regulation 1606/2002 of 19 July 2002 on the application of International Accounting Standards, Societe Generale Luxembourg Group prepared its consolidated financial statements for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in force at that date and with the going concern principle. These standards are available on the European Commission website at:

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

The most significant change performed to the accounting principles in 2020 is the application of amendments to IFRS 9, IAS 39 and IFRS 7 related to the reform of IBOR rates.

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

FINANCIAL STATEMENTS PRESENTATION

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

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

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

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

PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is the euro (EUR).

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

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

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

The main spot exchange rates used as at 31 December 2020 are as follows:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
EUR1 =	USD 1.2271	USD 1.1234
EUR1 =	GBP 0.8990	GBP 0.8508
EUR1 =	CHF 1.0802	CHF 1.0854
EUR1 =	DKK 7.4409	DKK 7.4715
EUR1 =	NOK 10.470	NOK 9.8638
EUR1 =	JPY 126.49	JPY 121.94

2. NEW ACCOUNTING STANDARDS APPLIED BY THE GROUP IN 2020

AMENDMENTS TO IFRS 3 “BUSINESS COMBINATIONS”

Issued by the IASB on 22 October 2018 and adopted by the European Union on 29 November 2019.

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

The Group integrates this new guidance in its accounting policy. No impact was observed as at 1 January 2020.

AMENDMENTS TO IAS 1 AND IAS 8 “DEFINITION OF MATERIALITY”

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

These amendments are intended to clarify the definition of “materiality” in order to facilitate the judgment in the context of the preparation of financial statements and consolidated financial information, particularly when selecting the information to be presented in the Notes.

The Group has assessed the potential impact of this clarification. No impact was observed as at 1 January 2020.

AMENDMENTS TO IFRS 7, IAS 39 AND IFRS 9 IN THE CONTEXT OF THE INTEREST RATE BENCHMARK REFORM (“IBOR REFORM”)

Issued by the IASB on 27 August 2020 and adopted by the European Union on 14 January 2021

In the context of the interest rate reform – or IBOR reform – currently being implemented, the accounting standards applicable have been amended by the IASB. The project structure is set-up at the level of SG Group, with application of changes organized by business line at the level of the Bank. Business lines considered are Private Banking, Global Banking & Advisory, Securities Services and Global Transactions and Payment Services. Major changes impact Private Banking with integration of the new reference rates in the systems.

The objective of the first amendments, implemented by the Group since 31 December 2019, is to enable the continued application of hedge accounting treatments despite uncertainties regarding the timetable and specificities regarding the transition from current interest rate benchmarks to new ones; and to do so despite any possible changes to financial instruments indexed on the current interest rate benchmarks. These amendments have introduced exemptions relating mainly to compliance with the following requirements:

- the hedged cash flows must be highly probable,
- the hedges must be highly effective,
- the hedged risk has to be identifiable.

These amendments will remain applicable until the uncertainties have been resolved. Specific information on the hedging financial instruments concerned are disclosed in the following tables.

The notional amounts of the hedging instruments affected by the amendments to IAS 39 introduced in the context of the rate reform and aimed at not taking into account the uncertainties associated with the reform in order to meet certain criteria required in terms of hedge accounting, amounted to the following:

31.12.2020				
(in EUR thousand)	Fair value hedge	Average maturity fair value hedge (years)	Cash flow hedge	Average maturity cash flow hedge (years)
Eonia	-	-	1 975	1 year
Euribor	2 652	5 years	193	3 years
Libor	-	-	-	-
<i>of which: Libor USD</i>	-	-	-	-
<i>of which: Libor GBP</i>	-	-	-	-
Total	2 652	-	2 168	-

Supplementary amendments have been introduced by the IASB regarding the treatment of the changes in financial instruments contracts in the framework of the IBOR reform. Adopted by the European Union on 14 January 2021, they were early-applied by the Group in its financial statements as at 31 December 2020.

These supplementary amendments provide for the application of the following treatments:

- changes brought about by the IBOR reform in the determination of the contractual cash flows, when performed on an economically equivalent basis, should be booked as a revision of the variable interest rate when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income and lease liabilities (see Note 3 “Financial instruments” and Note 3.8 Interest income and expense);
- continuation of the hedging relationship when changes are made, in the framework of the IBOR reform, on the hedged item and/or the hedging instrument and leading to a new documentation of the hedge (see Note 3.3.2 Financial instruments – Hedging derivatives).

During 2020, the implementation of the IBOR reform triggered changes in the assessment of some derivative financial instrument contracts cleared through Clearing Houses (LCH, CME) as well as in the remuneration of the collateral deposits associated.

The implementation of the IBOR reform project is ongoing, on liquidity management perimeter as well as on the loan book of the bank, although modifications of contracts from the old rates to the new reference rates did not start in 2020.

FIRST APPLICATION OF THE REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING (THE REVISED “CONCEPTUAL FRAMEWORK”)

Issued by IASB on 29 March 2018 and adopted by the European Union on 6 December 2019

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The changes to the Conceptual Framework affects the application of IFRS in situations where no standard applies to a particular transaction or event.

The revised Conceptual Framework is effective for the Bank as it develops accounting policies based on the Conceptual Framework, it is effective in the consolidated financial statements as at 31 December 2020.

To date, the Group has not identified any impact on the application of IFRS due to the revised Conceptual Framework.

AMENDMENTS TO IFRS 16 “LEASE CONTRACT” DUE TO THE COVID-19 CRISIS

Issued by the IASB on 28 May 2020

These amendments are to allow, as an option, tenants benefiting from rent relief in the context of the Covid-19 pandemic, not to analyze whether the concessions granted to them should be accounted for as modifications to rental contracts. This would imply spreading out the effects of the advantage granted over the term of the contract in profit or loss, they can recognized these reductions as negative variable rents (generating an immediate gain in profit or loss). The amendment specifies that the lessees electing to apply the exemption should apply it retrospectively in accordance with IAS 8 but are not required to restate prior period figures. The amendments provide no additional requirement, nor exemption for lessors.

During the year 2020, the Group did not benefit from any rent relief following the Covid-19 crisis.

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

IASB published accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 31 December 2020. They are required to be applied from annual periods beginning on 1 January 2021 at the earliest or on the date of their adoption by the European

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Union. They were therefore not applied by the Group as at 31 December 2020.

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

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

2022	<ul style="list-style-type: none">- Amendments to IFRS 3 (Reference to the Conceptual Framework)- Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" – Onerous contracts – contract execution costs- Annual IFRS Improvement (2018-2020 Cycle)- Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before intended use
2023	<ul style="list-style-type: none">- Amendments to IAS 1 «Classification of liabilities as current or non-current»- IFRS 17 «Insurance Contracts»

AMENDMENTS TO IFRS 3 (REFERENCE TO THE CONCEPTUAL FRAMEWORK)

Issued by the IASB on 14 May 2020

After its meeting on 30 January 2020, the IASB finalised the amendments to IFRS 3 and decided to require an entity to apply the amendments to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022.

The IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) with amendments to IFRS 3, Business Combinations that update an outdated reference in IFRS 3 without significantly changing its requirements.

At this stage, the Group does not expect any significant impact from these amendments.

AMENDMENTS TO IAS 37 "PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS "ONEROUS CONTRACTS - CONTRACT EXECUTION COSTS "

Issued by the IASB in May 2020

These amendments specify the costs to be used in determining the costs of performing a contract when analyzing onerous contracts.

At this stage, the Group does not expect any significant impact from these amendments.

ANNUAL IFRS IMPROVEMENTS (2018-2020 CYCLE)

Issued by the IASB on 14 May 2020

As part of the annual procedure for improving IFRS, the IASB published minor changes to IFRS 9 "Financial instruments" and IFRS 16 "Leases". The IASB also published minor changes to IFRS 1 "First time adoption of International Financial Reporting Standards" and IAS 41 "Agriculture", which is not applicable to the Group.

The amendment on IFRS 9 "Financial instruments" clarifies which fees an entity includes when performing the "10 per cent" test to assess whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment to IFRS 16 clarifies the treatment of lease incentives related to reimbursement of leasehold improvements by the lessor. The amendment only relates to an illustrative example.

The Group will integrate this new guidances in its accounting policy. At this stage, the Group does not expect any significant impact from these amendments.

AMENDMENTS TO IAS 16 "PROPERTY, PLANT AND EQUIPMENT" – PROCEEDS BEFORE INTENDED USE

Issued by the IASB on 14 May 2020

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Such sales proceeds or related costs realised during the preparation of the asset for its intended use should be recognised in profit or loss.

At this stage, the Group does not expect any impact from these amendments.

AMENDMENTS TO IAS 1 "CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT"

Issued by the IASB on 23 January 2020

On 23 January 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant.
- The amendments clarify the situations that are considered settlement of a liability.

The new guidance will be effective for annual periods starting on or after 1 January 2022.

On 15 July 2020, the IASB issued Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendment to IAS 1) deferring the effective date of the January 2020 amendments to IAS 1 for annual reporting periods beginning on or after 1 January 2023.

At this stage, the Group does not expect any significant impact from these amendments.

IFRS 17 “INSURANCE CONTRACTS”

Issued by the IASB on 18 May 2017, amended on 25 June 2020

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

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

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

On 26 June 2019, the IASB issued an exposure draft including a number of amendments to IFRS 17 “Insurance contracts.” The purpose of the modifications is to facilitate the implementation of the standard. On 25 June 2020, the IASB published the final amendments to IFRS 17 and Extension of the Temporary Exemption from Applying IFRS 9. Main applicable changes resulting from these amendments are:

- Deferral of its first application date, which would be postponed to the annual periods beginning on 1 January 2023;
- Additional scope exclusion for credit card contracts and similar contracts;
- Recognition of insurance acquisition cash flows relating to expected contract renewals;
- Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements;
- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives;
- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held;
- Simplified presentation of insurance contracts in the statement of financial position.

The Group has already been working on the effect of the application of IFRS 17 : a project structure was set up under the joint governance of Société Générale Group’s Finance Divisions and the Insurance business line of SG Group.

4. USE OF ESTIMATES AND JUDGMENTS

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

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

The assumptions and estimates performed for the preparation of these consolidated financial statements have changed since the previous annual closing to reflect the current uncertainties about the consequences, duration and magnitude of the economic crisis generated by the Covid-19 pandemic. The effects of this crisis on the assumptions and estimates used are specified in the 5th part of this note.

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

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

- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost, or at fair-value through other comprehensive income, loan commitments granted and guarantee commitments granted measured with models or internal assumptions based on historical, current and prospective data (see Notes 3.9 and 8.3);
- The entities excluded from the consolidation scope (see Note 2);
- The assessment of control of the Group over an entity when updating the consolidation scope, mainly when structured entities are concerned (see Note 2);

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Provisions (in particular, provisions for disputes in a complex legal environment), including underwriting reserves of insurance companies (see Note 4.3);
- Fair value of financial instruments not quoted in an active market which are classified as Financial assets and liabilities at fair value through profit or loss, Hedging derivatives or Financial assets at fair value through other comprehensive income (see Notes 3.2, 3.3, 3.4 and 3.5);
- Classification of financial instruments, in particular the analysis of the contractual cash flow characteristics of financial assets (see Notes 3.4 and 3.6);
- The assumptions used for the supplemental defined benefit retirement plan (see Note 5.2).

BREXIT

The United Kingdom organised on 23 June 2016 a referendum at which a majority of British people voted to leave the European Union (Brexit).

After having been postponed several times, the United Kingdom withdrawal agreement entered into force on 31 January 2020 with transition period which ended on 31 December 2020. The law of European union has also ceased to apply to the United Kingdom since 1 January 2021.

Despite the unfavourable health and political context, the negotiations conducted between the United Kingdom and the European Union resulted on 24 December 2020 in a Trade and cooperation agreement excluding financial services. To date, there is merely a European equivalence for the use of Clearing Houses for an 18-month period from 1 January 2021.

The impacts on the Group's operations have been analysed, and they mainly relate to transactions in GBP or with British counterparts, as a result the Group had very limited impacts due to Brexit. The Group continues to follow the ongoing negotiations and has taken into account the short-/mid-/long-term consequences of the Brexit in the assumptions and estimates selected to prepare the consolidated accounts.

5. COVID-19 CRISIS IMPACT

The Covid-19 pandemic is causing a health crisis and an economic shock of historic proportions. The containment measures imposed by many governments to stop the spread of virus have led to a collapse of global activity during 2020: the crisis is affecting both the supply of goods and services through containment measures and demand through declining corporate and household incomes.

Governments and central banks have massively intervened to mitigate the effects of this shock by providing significant support in term of liquidity and credit guarantees to the economy.

High uncertainties remain about the consequences, magnitude and duration of the crisis.

In this context, SG Group has decided during the 2020 second quarter to take a multi-scenario approach. These scenarios have been updated at the end of 2020 for the preparation of the consolidated financial statements.

SG Luxembourg Group policy relies on SG Group's modelizations for macroeconomic scenarios and analysis of activities. The simplified approach for Private Banking activities has been also adapted to take into account an additional forward-looking consideration.

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

There was no impact on levelling nor fair value calculation methods (see Note 3.5) due to Covid-19 crisis.

DEFINING OF NEW MACROECONOMIC SCENARIOS

For the preparation of the consolidated financial statements, SG Group used macroeconomic scenarios in the expected credit losses measurement models that include forward-looking data (see Note 3.9).

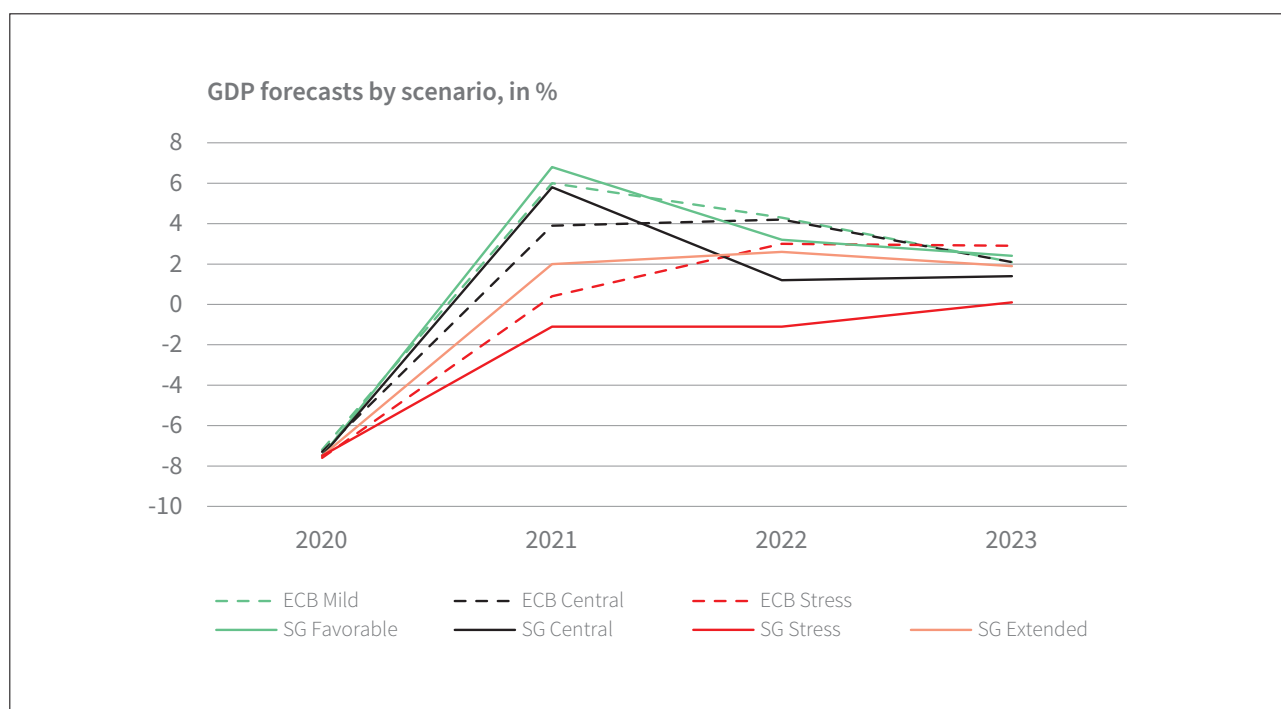
GDP (GROSS DOMESTIC PRODUCT) ADJUSTMENT

These scenarios are developed by the Societe Generale Department of Economic and Sector Studies for all the SG Group entities. A weighting ratio is attributed to each scenario and the outputs from the models correspond to a weighted average of these scenarios.

In the second quarter 2020, SG Group has developed four new macro-economic scenarios to better reflect the impacts and uncertainties generated by the Covid-19 crisis.

On 31 December 2020, SG Group maintained the coexistence of four scenarios owing to a still high level of uncertainty, and adjusted them to reflect the perspectives at that date:

- the central scenario (SG Central) expects, after a significant fall in GDP in the countries where the Group has been operating in 2020, a gradual rebound from 2021, considering that the travel restrictions measures will be lifted by the beginning of 2022;
- a scenario of prolonged health crisis (SG Extended) expects that the travel restrictions measures will be lifted by the beginning of 2023;
- lastly, two scenarios, one favorable and one stress supplement these two scenarios.



The illustration below compares the GDP previsions in the Euro area used by SG Group for each scenario with the forecasts provided by the ECB in December 2020.

The main variables used for each scenario for the markets in which SG Luxembourg Group is exposed, are detailed below:

(in percentage %)

Net banking income	2021	2022	2023	2024	2025
France GDP	7.5	3.0	2.5	2.8	1.9
Euro area GDP	6.8	3.2	2.4	2.7	1.8
SG Central scenario	2021	2022	2023	2024	2025
France GDP	6.5	1.0	1.5	1.8	1.9
Euro area GDP	5.8	1.2	1.4	1.7	1.8
SG Extended scenario	2021	2022	2023	2024	2025
France GDP	2.0	3.0	2.5	1.8	1.9
Euro area GDP	2.0	2.6	1.9	1.7	1.8
SG Stress scenario	2021	2022	2023	2024	2025
France GDP	(0.8)	(1.0)	0.5	1.3	1.9
Euro area GDP	(1.1)	(1.1)	0.1	1.2	1.8

WEIGHTINGS AS AT 31 DECEMBER 2020

On 31 December 2020, the SG Central scenario has been updated. The analysis of the consequences of the first lockdown and the proposed governmental support measures has enabled SG Group, as part of the annual budget process, to review the SG Central scenario. Thus, the SG Central scenario takes into account more precisely the uncertainties related to COVID-19 crisis and its future consequences.

Presentation of the changes in weighting:

	31.12.2019	30.06.2020	31.12.2020
SG Central	74%	65%	65%
SG Extended	-	25%	10%
SG Stress	16%	5%	15%
SG Favourable	10%	5%	10%

CALCULATION OF EXPECTED CREDIT LOSSES

The main evolutions of the year concerned are as follows:

- the expected credit losses model update to take into account the impact of the new macroeconomic scenarios described above;
- adjustments performed on case by case basis to better reflect the impact on SG Luxembourg Group expected credit losses;
- the sector adjustments update and adjustments on the scope of Private Banking entities that use the simplified approach;
- the classification in default on (i) Private Banking entities (Luxembourg EUR 2.7 million, SGPB Monaco EUR 9.6 million, SGPB Switzerland EUR 7.3 million) (ii) Global Banking & Advisory (2 counterparties for respectively a NCR amount of EUR 26.1 million and EUR 1.5 million).

Based on the scenarios and weightings mentioned above, and after taking into account the methodological adjustments, the calculation of expected credit losses led the SG Luxembourg Group to record a Cost of risk of EUR 64 million on 31 December 2020.

SG Luxembourg Group cost of risk as of 31 December 2020 split by business lines:

<i>(in EUR Million)</i>	2020 NCR		
Business line	Stage 1 & Stage 2	Stage 3	Global
Private Banking	4	20	24
Securities services	-	-	-
Corporate and Investment Banking	11	28	39
Corporate center	1	-	1
SG Luxembourg Group	16	48	64

SECTOR ADJUSTMENTS

The different models used to estimate the expected credit losses may be supplemented by sector adjustments that increase or decrease the amount of expected credit losses. These adjustments allow to better anticipate defaults or recoveries in certain cyclical sectors. During 2020, these adjustments have been reviewed and supplemented to take into account the specific risk on sectors particularly affected by the Covid-19 crisis.

Moreover, since the last quarter of 2020, some sectors are considered as having significantly deteriorated due to the crisis. For those sectors, SG Group management has validated the full transfer to stage 2 of all exposures from those sectors in Non Retail, except the exposures granted after April 1st 2020 as SG Group has considered that after that date and even though the pandemic situation may have evolved, its potential impact was known. As such, it cannot be considered that all contracts in one sector have significantly deteriorated since origination. For these contracts granted after April 2020, the usual criteria apply.

The table below summarized the sectors impacted:

C – Automotive
D1 – Shipbuilding, Railway and Aeronautical construction
F – Oil and Gas
I22 – Non Food Retail
J11 – Airlines
J12 – Shipping/ Cruise
N1 – Hotel / Restaurant/ Leisure

These reclassifications on sensitive sectors generated an additional cost of risk of EUR 5 Million in Q4 2020 for SG Luxembourg Group.

ADJUSTMENTS ON THE OUTSTANDING LOANS UNDER THE SIMPLIFIED APPROACH

For the Private Banking portfolio, adjustments have also been performed during 2020 to reflect the deterioration of credit risk on some portfolios, in case of the correlations between the macroeconomic variables and the probability of default could not be established for the developed models.

Compared to an usual situation, where stage 1 probability of default are made up of the averages over the last 4 quarters of the default rates observed at one year, for second quarter of 2020, an additional «Forward Looking» overlay has been defined.

This additional coefficient has been maintained until the end of the year.

In addition to credit already defaulted in connection with the volatility of financial markets in the context of Covid-19-19, it is anticipated that defaults will increase further over the next year. This anticipation emerged from the SG Group's reference scenarios, which included a second financial markets shock in 2020 and a deterioration in the real estate market in particular.

Thus, the impact of the recalibration of Private Banking portfolio PDs compared to the last 4 quarters is estimated at + 60%.

As such, the anticipated default levels are close to those observed during the 2008 crisis.

COVID-19 SUPPORT MEASURES

To support the customers weakened by the crisis, two main measures have been decided in connection with the public authorities:

MORATORIUMS

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

As of 31 December 2020, the approved moratoriums amounts a total commitment of EUR 49 million (1 in Luxembourg, 4 in Switzerland and 5 in Monaco).

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

In Luxembourg, the moratoriums took the form of a 6 months payment deferment (except the remaining case as of 31 December 2020, 10 months) on loans granted to corporates and private banking customers (principal and interests), with interests on the deferral charged only on the principal. At the end of 2020, these moratoriums represent about EUR 1 million of credit outstanding.

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). The relevant credit outstandings amount to approximately EUR 18 million at the end of 2020.

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 did not result in the derecognition 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 SG Luxembourg Group.

As recommended by the prudential and supervisory authorities, and repeated over by the IASB in a press release of 27 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 outstandings 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 antecrisis Basel scoring.

WAIVER/AMENDMENT REQUESTS

As the end of December 2020, SG Luxembourg Group has received such requests on 18 transactions, all related to wholesale clients.

Out of these, 8 related to the activity of financing structured transactions initiated by SG Group (SGCMF) on automotive (4) and construction (4) sectors and aimed at waiving prospective or actual breaches of contractual triggers that could have entail acceleration of the transaction. It is worth noting that these breaches were mainly due to a basis effect (i.e. calculation methodology) following the strong decrease of the activity during the lockdown period and do not emphasize an increasing credit risk.

As for the rest of the requests, relating to financings, they are mostly covenant holiday/reset and/or additional permitted financial indebtedness oriented.

NOTE 2 – CONSOLIDATION

MAKING IT SIMPLE

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

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

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

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

ACCOUNTING PRINCIPLES

The consolidated financial statements of Societe Generale Luxembourg include the financial statements of the parent company and the main Luxembourg and foreign companies over which the Group exercises control or significant influence. There was no entity jointly controlled as at 31 December 2020 and 31 December 2019.

CONSOLIDATED ENTITIES

SUBSIDIARIES

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

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

POWER

When determining voting rights for the purpose of establishing the Group's degree of control over an entity and the appropriate consolidation methods, potential voting rights are taken into

account where they can be freely exercised at the time the assessment is made or at the latest when decisions about the direction of the relevant activities need to be made. Potential voting rights are instruments such as call options on ordinary shares outstanding on the market or rights to convert bonds into new ordinary shares.

When voting rights are not relevant to determine whether or not the Group controls an entity, the assessment of this control shall consider all the facts and circumstances, including the existence of one or more contractual arrangements. Power over an investee exists only if the investor has substantive rights that give it the current ability to direct relevant activities without barriers. Some rights are designed to protect the interests of their holder (protective rights) without giving that party power over the investee to which those rights relate.

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

EXPOSURE TO VARIABLE RETURNS

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

LINK BETWEEN POWER AND VARIABLE RETURNS

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

SPECIAL CASE OF STRUCTURED ENTITIES

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

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

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

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

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

JOINT ARRANGEMENTS

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

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

In the case of a joint venture, the parties have rights to the net assets of the entity. As of 31 December 2019 and 2020, the Group holds no interest in joint arrangements.

ASSOCIATES

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

CONSOLIDATION RULES AND METHODS

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

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

CONSOLIDATION METHODS

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

In the consolidated statement of financial position, full consolidation consists in replacing the value of the subsidiary's equity securities held by the Group with each of the subsidiary's

assets and liabilities, in addition to the goodwill recognised when the Group assumed control over the entity.

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

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

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

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

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

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

TRANSLATION OF FOREIGN ENTITY FINANCIAL STATEMENTS

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

On disposal of a foreign entity, such foreign exchange differences are recognized in the consolidated income statement as part of the gain or loss upon disposal. Initial consolidation differences

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

Note 2.1. – Consolidation scope

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

1. FULLY CONSOLIDATED SUBSIDIARIES

Country	Company	Activity
Ireland	SGBT Finance Ireland DAC.	Corporate Financing
Ireland	Societe Generale Hedging DAC	Corporate Financing
Luxembourg	IVEFI S.A.	Other Financing Company
Luxembourg	SGBT Asset Based Funding S.A.	Investments & management
Luxembourg	SGBT CI S.A.	Corporate Financing
Luxembourg	Société Immobilière de l'Arsenal S.à r.l.	Non Financial Corporation
Luxembourg	Societe Generale Capital Market Finance S.A.	Financial services
Luxembourg	Societe Generale Financing and Distribution S.A.	Financial services
Luxembourg	Societe Generale Life Insurance Broker S.A.	Brokerage
Luxembourg	Societe Generale Private Wealth Management S.A.	Wealth management
Luxembourg	Societe Generale Ré S.A.	Reinsurance
Luxembourg	Societe Generale Luxembourg Leasing S.A. ⁽¹⁾	Financial services
Luxembourg	Surya Investments S.A. ⁽¹⁾	Financial services
Luxembourg	SG Issuer S.A. ⁽¹⁾	Security issuance
Monaco	Societe Generale Private Banking (Monaco) S.A.	Private Banking
Netherlands	Montalis Investment B.V.	Corporate Financing
Netherlands	Coparer Holding B.V.	Non Financial Corporation
Switzerland	Societe Generale Private Banking (Suisse) S.A.	Private Banking

2. ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Country	Company	Activity
Luxembourg	Sogelife S.A.	Insurance
Luxembourg	SG Issuer S.A.	Security issuance

(1) Please refer to Note 2.2.

Consolidation method		Group ownership interest		Group voting interest		
	2020	2019	2020	2019	2020	2019
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.0%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Out of scope	100.00%	Out of scope	100.00%	Out of scope
	Full	Out of scope	100.00%	Out of scope	100.00%	Out of scope
	Equity	Full	99.80%	100.00%	0.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	95.00%	95.00%	95.00%	95.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%
	Full	Full	100.00%	100.00%	100.00%	100.00%

Consolidation method		Group ownership interest		Group voting interest		
	2020	2019	2020	2019	2020	2019
	Equity	Equity	39.86%	39.86%	39.86%	39.86%
	Equity	Full	99.80%	100.00%	0.00%	100.00%

3. NON-CONSOLIDATED SUBSIDIARIES AND PARTICIPATIONS

Country	Company	Activity	2020		2019	
			Capital held	Reason for exclusion	Capital held	Reason for exclusion
Luxembourg	Alamea Investment S.A.	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Arise S.A.	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Nethuns S.à r.l.	Financial services	97.22%	No control(*)	97.22%	No control(*)
Luxembourg	Regional Financing Company	Financial services	99.00%	No control(*)	99.00%	No control(*)
Luxembourg	SGL Asia SCSp	Financial services	5.00%	No control(*)	-	-
Luxembourg	SFGD S.A.	Financial services	0.00%	Liquidated	100.00%	Insignificant
Luxembourg	Fondation Capital I S.C.A., SICAR	Investment Funds	0.00%	Liquidated	23.21%	Insignificant
Luxembourg	Surya Investments S.A.	Financial services	100.00%	Full consolidation	100.00%	Insignificant
Luxembourg	Societe Generale Luxembourg Leasing S.A.	Financial services	100.00%	Full consolidation	100.00%	Insignificant
Luxembourg	Société de la Bourse de Luxembourg	Stock exchange	0.01%	No control(*)	0.01%	No control(*)
Luxembourg	Société Immobilière du Golf S.A.	Real Estate	0.20%	No control(*)	0.20%	No control(*)
Luxembourg	Cercle Munster	Non Financial Corporation	0.00%	No control (*)	0.00%	No control(*)

(*) Entities which are not controlled by the Group are either held in minority of capital (Société de la Bourse de Luxembourg, Société Immobilière du Golf and Cercle Munster and SGL Asia SCSp), either controlled by external entities through other equity instruments granting them rights over the capital held (Nethuns, Regional Financing Company).

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

Note 2.2. – Material changes in consolidation scope

The Group amended the consolidation perimeter as follows:

- companies consolidated for the first time in 2020:
 - Société Générale Luxembourg Leasing S.A. (formerly “Nocaria investment S.A.”);
 - Surya Investments S.A. (“Surya”).
- consolidation method change from full consolidation to equity method:
 - SG Issuer S.A. (“SGIS”) partial sale of actions and renouncement to voting rights).

1. COMPANIES CONSOLIDATED FOR THE FIRST TIME IN 2020

Societe Generale Leasing Luxembourg S.A. (“SGLL”) is a 100% SG Luxembourg subsidiary that aims to hold the leasing activities developed by the Bank in 2020. SG Luxembourg has full power over SGLL as well as exposure to variable returns from its involvement with SGLL and the ability to use its power over SGLL to affect the amount of its returns.

Surya Investments S.A. is a 100% SGLL subsidiary that aims to acquire the assets related to such activity and to raise fund. SGLL holds 100% of the voting rights. Exposure to returns as well as the power over Surya are satisfied.

Leasing activity has started from August 2020. Therefore, SGLL and Surya have become significant and are not excluded from the consolidation perimeter anymore.

2. CHANGE IN CONSOLIDATION METHOD OF SG ISSUER S.A.

SG Issuer S.A. was a 100% owned subsidiary of SG Luxembourg until 30 November 2020. At this date, Societe Generale Luxembourg S.A. sold 100 of its shares to Societe Generale S.A. (“SG S.A.”) and renounced to its voting rights on its remaining shares. As SG S.A. is the remaining shareholder with voting rights, it inherits the power and control over SGIS. Consequently, Societe Generale Luxembourg S.A. has lost power and control on SGIS in accordance with IFRS 10.

Even if Societe Generale Luxembourg S.A. does not fully consolidate SGIS, Societe Generale Luxembourg S.A. keeps a significant influence on SGIS. Indeed, based on the existing significant economic relationships, the Group’s supervision in Luxembourg and common workforce, SG Luxembourg exercises significant influence in accordance with IAS 28.

Therefore, SG Luxembourg accounts its interest in SGIS (99.8%) using the equity method as at 31 December 2020 SGIS still contributed to the consolidated profit and loss of SG Luxembourg Group from 1 January 2020 to 30 November 2020 and to the Net income from investment accounted for using the equity method for the month of December 2020.

As for the consolidated financial statements of SG Luxembourg, the consequences and impacts of the change in consolidation method and the accounting of its interest using the equity method are the following:

- Decrease of *Financial assets at fair value through profit and loss* (Notes 3.2, 3.3 and 3.5) corresponding to the change in consolidation method. The contribution of SG Issuer S.A. amounted to EUR 58 679 million as at 31 December 2019, of which EUR 5 786 million on Trading portfolio and EUR 52 893 million on *Financial instruments mandatorily at fair value through profit or loss* (nil as at 31 December 2020);
- Recognition of *Financial assets at fair value through profit and loss* (Notes 3.2 and 3.5) for an amount of EUR 48 million corresponding to a profit participating debt instrument issued by SGIS and owned by SG Luxembourg;
- Decrease of *Financial liabilities at fair value through profit and loss* (Notes 3.2, 3.3 and 3.5) corresponding to the change in consolidation method. The contribution of SG Issuer S.A. to this caption amounted to EUR 58 769 million as at 31 December 2019, of which EUR 5 789 million on Trading portfolio and EUR 52 980 million on *Financial instruments at fair value through profit and loss* using the fair value option (nil as at 31 December 2020);
- Recognition of the contribution of SGIS to the consolidated income statement until 30 November 2020, mainly *Fee income and expense* for a net amount of EUR 12 million (Note 4.1);
- Net contribution of SGIS for the month of December 2020 is recorded under *Net income from investments accounted for using the equity method* (Note 2.3);
- Increase of *Investments accounted for using the equity method* (Note 2.3) for an amount of EUR 19 million;
- Offsetting of the non-sold amounts of issued notes or warrants and the corresponding assets is no longer applied by the Group as such assets and liabilities are not consolidated anymore as at 31 December 2020 (Note 3.12);

- Decrease of the assets pledged by SGIS for secured issuance for an amount of EUR 4 468 million (Note 3.10).

Had SGIS been fully consolidated as at 31 December 2020, there would have been no material impact to the consolidated Net income and to the Shareholders' equity. Please find in Note 2.3 in the section related to Investment accounted for using the equity method the main accounting aggregates of SG Issuer S.A. as at 31 December 2019 and 2020.

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

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

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

1. NON-CONTROLLING INTERESTS

Non-controlling interests refer to equity holdings in one of fully consolidated subsidiary that are neither directly nor indirectly attributable to the Group. They include equity instruments issued by this subsidiary and not held by the Group, as well as the share of income and accumulated reserves, and of unrecognised or deferred gains and losses attributable to the holders of these instruments. Non-controlling interests amounted to EUR 92 thousand at 31 December 2020 and EUR 102 thousand at 31 December 2019.

31 December 2020

(in EUR thousand)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to the holders of non-controlling interest
Montalis Investment B.V.	95.00%	95.00%	27	92	38
Total			27	92	38

31 December 2019

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

2. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Group share	–	–
Net income	16 101	10 564
Unrealized or deferred gains and losses (net of tax)	1 214	1 434
Net income and unrealized or deferred gains and losses	17 315	11 998

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

There were no guarantee, nor commitment provided to associates as of 31 December 2020 and 2019.

Societe Generale Luxembourg S.A. has a 99.8% interest in SG Issuer S.A., which the activity is to issue both secured and unsecured notes through private placements or public offering. SG Issuer S.A. is a public limited company.

Societe Generale Luxembourg S.A.'s interest in SG Issuer S.A is accounted for using the equity method in December 2020 consolidated financial statements. The following table illustrates the summarised financial information of SG Luxembourg's investment in SGIS:

<i>(in EUR thousand)</i>	31.12.2020
Financial assets at fair value	43 761 900
Other assets	1 200 688
Total assets	44 962 588
Financial liabilities at fair value	44 224 009
Other liabilities	719 200
Total liabilities	44 943 209
Equity	19 379
Group's share in equity – 99.80%	19 340
Group's carrying amount of the investment	19 340

The associate had no contingent liabilities or capital commitments as at 31 December 2020.

Note 2.4. – Restrictions

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

The ability of consolidated entities to distribute dividends or to grant or repay loans and advances to entities within the Group depends on, among other things, local regulatory requirements, European Central Bank recommendations, statutory reserves and financial and operating performance. Local regulatory requirements may concern regulatory capital, exchange controls or non-convertibility of the local currency, liquidity ratios or large exposures ratios that aim to cap the entity's exposure in relation to the Group. The Group was not exposed to significant limitations as of 31 December 2020 and 2019.

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

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

Note 2.5. – Unconsolidated Structured Entities

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

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

7. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

BREAKDOWN OF INTERESTS OF THE GROUP IN UNCONSOLIDATED STRUCTURED ENTITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Entities consolidated statement of financial position total	1 013 014	1 025 652
Net carrying amount of Group interests in unconsolidated structured entities:	–	–
Assets:	166 453	120 000
Financial assets at fair value through profit or loss	10 423	–
Financial assets at fair value through other comprehensive income	–	–
Due from banks at amortised cost and customer loans at amortised cost	156 030	120 000
Liabilities:	6 501	2 578
Financial liabilities at fair value through profit or loss	–	–
Due to banks and customer deposits	6 501	2 578
Other liabilities	–	–

The variation of the consolidated statement of financial position for non-consolidated structured entities is mostly due to a decrease in fundings as at 31 December 2020.

The Group did not provide any financial support to these entities nor any binding contractual arrangement and, as of 31 December 2020 and did not have any intention to provide such support.

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

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

<i>(in EUR thousand)</i>	Other interests	
	31.12.2020	31.12.2019
Amortized cost or fair value⁽¹⁾ (according to the measurement of the financial instrument) of non-derivative financial assets entered into with the structured entity	166 453	120 000
Fair value of derivative financial assets recognized in the consolidated statement of financial position ⁽¹⁾	–	–
Notional amount of loan or guarantee commitments granted	–	–
Maximum exposure to loss	166 453	120 000

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

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

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

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

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

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

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

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

At 31 December 2020, the total amount of the balance sheet of these unconsolidated structured entities, sponsored by the Group, and in which the Group does not have any interest, was EUR 3 178 million (including EUR 1 013 million for Other structures).

In 2020, no significant revenue has been recognised for these structured entities.

(in EUR thousand)	Asset financing		Asset management		Others	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Entity consolidated statement of financial position total ⁽¹⁾	-	-	1 930 879	1 930 879	234 323	234 003
Income from those entities during the year	-	-	-	-	-	-
Carrying amounts of all assets transferred to those structured entities during the year	-	-	-	-	-	-

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

NOTE 3 – FINANCIAL INSTRUMENTS

MAKING IT SIMPLE

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

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

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

ACCOUNTING PRINCIPLES

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

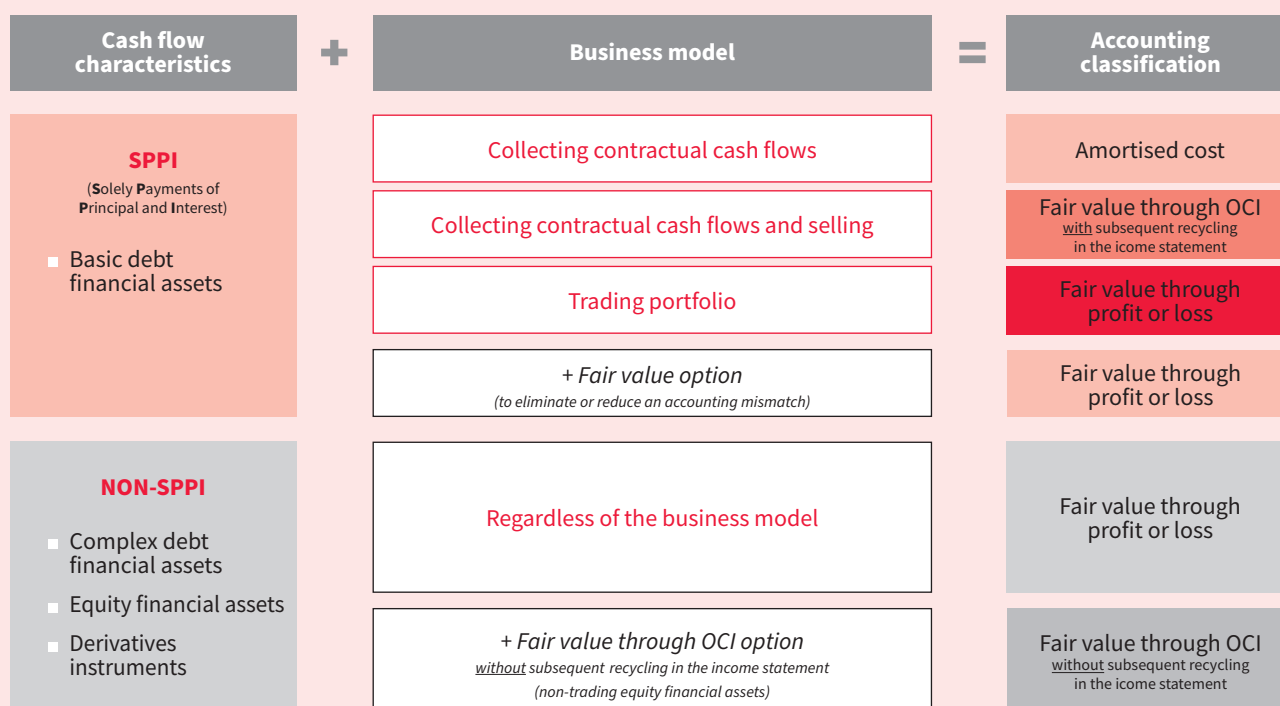
CASH DUE FROM CENTRAL BANKS

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

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

CLASSIFICATION OF FINANCIAL ASSETS

At initial recognition, financial instruments are classified in the Group statement of financial position in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income) that determines their accounting treatment and subsequent measurement method. Classification is based on their contractual cash flow characteristics and the entity's business model for managing the assets.



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

ANALYSIS OF CONTRACTUAL CASH FLOW CHARACTERISTICS

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

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

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

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

The Group can make the irrevocable decision, on a security-by-security basis, to classify and measure an investment in

an equity instrument (shares and other equity securities) that is not held for trading purposes at fair value through other comprehensive income. Subsequently, the profit or loss accumulated in other comprehensive income will never be reclassified into profit or loss (only dividends from those investments will be recognised as income).

ANALYSIS OF THE BUSINESS MODEL

The business model represents how the financial instruments are managed in order to generate cash flows and income. The Group uses several business models in the course of exercising its different business lines. Business models are assessed on how groups of financial instruments are managed together to achieve a particular business objective. The business model is not assessed on an instrument-by-instrument basis, but at a portfolio level, considering relevant evidence such as:

- how the performance of the portfolio is evaluated and reported to the Group's management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- sales of assets realised or expected (value, frequency, purpose).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows ("Collect" business model);

- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (“Collect and Sell” business model);
- and a separate business model for other financial assets, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

FAIR VALUE OPTION

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

CLASSIFICATION OF FINANCIAL LIABILITIES

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

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

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

RECLASSIFICATION OF FINANCIAL ASSETS

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

FAIR VALUE

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

INITIAL RECOGNITION

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The Group derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows on the asset expire or when the Group has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to ownership of the asset.

The Group also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party (“pass-through agreement”) and for which it has transferred substantially all the risks and rewards. Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the statement of financial position to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the income statement for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the income statement on the prepayment date among *Interest and similar income*.

The Group derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

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

TREATMENTS OF THE CHANGES IN THE BASIS FOR DETERMINING THE CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES – IBOR REFORM

The basis for determining the contractual cash flows of a financial asset or liability may be modified:

- either by amending the contractual terms and conditions set during the initial recognition of the financial instrument (example: when the agreement is renegotiated, the contractual terms and conditions are amended to replace the initial reference interest rate by an alternative one),
- or by applying the appropriate external dispositions without requiring a change in contractual terms (example: the method for determining the reference interest rate is modified without any change in the contractual terms and conditions, i.e., the EONIA has been quoted by reference to the €ster + 8.5bp since October 2019),
- or as a result of the activation of an existing contractual term or condition (example: application of the contractual rate replacement provision, or “Fallback”).

If, in the context of the reference interest rates reform (IBOR reform), there is a change in the basis for determining the contractual cash flows of a financial asset or liability at amortised cost or of a financial asset at fair value through other comprehensive income, the reassessment of the contractual cash flows is regarded as a modification of the effective interest rate applied to determine the future interest income or expense and does not generate a gain or loss in the income statement.

This treatment depends on compliance with the following conditions:

- a change in the basis for determining the contractual cash flows is required and results directly from the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the former basis used before the change.

The cases giving rise to a new basis for determining the contractual cash flows considered economically equivalent to the former basis are, for example:

- the replacement of an existing reference interest rate used to determine the contractual cash flows of a financial asset or liability by:
 - an alternative reference interest rate (or by changing the method used to determine the reference interest rate in question), with
 - the addition of a fixed spread necessary to compensate for the difference in basis between the existing reference interest rate and the alternative one;
- changes in the determination of the amount of interest resulting from the use of a new reference interest rate (rate revision procedure, number of days between interest payment dates ...); and
- the addition of a Fallback provision to the contractual terms and conditions of a financial asset or liability to allow for the implementation of the changes described above (replacement of the rate; changes in the determination of the interest).

Changes to a financial asset or liability, in addition to those deriving directly from the application of the IBOR reform, are

treated as changes to instruments with an income statement impact whenever they are substantial.

METHOD OF ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

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

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

The prepayment compensation is considered as reasonable especially when:

- the amount is calculated as a percentage of the outstanding amount of the loan and is capped by regulations, or is limited by competitive market practices;
- the amount is equal to the difference between contractual interest that should have been received until the maturity of the loan and the interest that would be obtained by the reinvestment of the prepaid amount at a rate that reflects the relevant benchmark interest rate.

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

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

Contractual terms that would introduce exposure to risks or volatility in the contractual cash flows, unrelated to a basic lending arrangement (such as exposure to changes in equity prices or stock indexes for instance, or leverage features), could not be considered as being SPPI, except if their effect on the contractual cash flows remains minimum.

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

- derivative instruments,
- shares and other equity instruments held by the entity,
- debt financial assets that can be converted or redeemed into a fixed number of shares (convertible bonds, equity-linked securities, etc.).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

When the time value component of interest can be modified according to the contractual term of the instrument, it may be necessary to compare the contractual cash flow with the cash flow that would arise from a benchmark instrument. For instance, that is the case when an interest rate is periodically reset, but the frequency of that reset does not match the tenor of the interest rate (such as an interest rate reset every month to a one-year rate), or when the interest rate is periodically reset to an average of short- and long-term interest rates.

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

Depending on the contractual terms, the comparison with benchmark cash flow may be performed through a qualitative assessment; but in other cases, a quantitative test is required. The difference between contractual and benchmark cash flows has to be considered in each reporting period and cumulatively

over the life of the instrument. When performing this benchmark test, the entity considers factors that could affect future undiscounted contractual cash flows: using the yield curve at the date of the initial assessment is not enough, and the entity also has to consider whether the curve could change over the life of the instrument according to reasonably possible scenarios.

Furthermore, a specific analysis of contractual cash flow is required when financial assets are instruments issued by a securitisation vehicle or a similar entity that prioritises payments to holders using multiple contractually-linked instruments that create concentrations of credit risk (tranches). When assessing whether contractual cash flows are SPPI or not, the entity must analyse the contractual terms, as well as the credit risk of each tranche and the exposure to credit risk in the underlying pool of financial instruments. To that end, the entity must apply a “look-through approach” to identify the underlying instruments that are creating the cash flows.

Note 3.1. – Cash, due from central banks

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Cash	1 122	1 551
Balances with central banks	9 870 560	9 260 583
Total	9 871 682	9 262 134
<i>Mandatory reserve</i>	289 732	305 182

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

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

<i>(in EUR thousand)</i>	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Trading portfolio	609 498	534 905	6 210 338	6 176 304
Financial instruments mandatorily at fair value through profit or loss	448 093	–	53 347 979	–
Financial instruments at fair value through profit or loss using the fair value option	–	–	–	52 895 594
Total	1 057 591	534 905	59 558 317	59 071 898

The significant variation in financial instruments at fair value through profit or loss, compared to 2019, is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

In 2019, these assets and liabilities mainly included:

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

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

As at 31 December 2019, the impact of the offsetting of financial assets and financial liabilities was EUR 30 038 519 thousand for the non-sold Notes and the corresponding Fully Funded Swaps and EUR 6 692 028 thousand for the non-sold warrants and the corresponding Options.

In 2020, in relation to the consolidation method change of SG Issuer S.A., these assets and liabilities mainly include financial derivatives.

Also, there is no implication of IAS 32, SG Issuer S.A. is not fully consolidated anymore (see Note 2.2.2), therefore there is no impact due to offsetting of financial assets and liabilities in the Group's balance sheet anymore.

In 2019, the financial instruments issued by the Group were subscribed by the investors through Societe Generale as a lead manager during the issuance period and as a market maker for a secondary market. The instruments which were unsold were held by Societe Generale.

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

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

2. TRADING PORTFOLIO

ACCOUNTING PRINCIPLES

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

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

The financial instruments recorded in the trading portfolio are measured at fair value at the statement of financial position date and recognised in the statement of financial position under *Financial assets or liabilities at fair value through profit or loss*. Changes in their fair value and revenues from derecognition associated to those instruments are recorded in the income statement as *Net gains and losses on financial instruments at fair value through profit or loss*. Interest income and expense is recorded in the income statement as *Interest income and expense*.

As at 31 December 2019, the Financial assets held for trading were composed of:

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

As at 31 December 2020, after the consolidation method change of SG Issuer, the Financial assets held for trading are mainly composed of:

- financial derivatives, of which back-to-back operations (see Note 3.3 Financial derivatives).

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

ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Bonds and other debt securities	–	–
Shares and other equity securities	3 885	9 092
Loans and receivables and securities purchased under resale agreements	63 922	76
Trading derivatives	541 691	6 201 170
Total	609 498	6 210 338
<i>o/w securities lent</i>	–	–

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Amounts payable on borrowed securities	–	–
Bonds and other debt instruments sold short	–	–
Shares and other equity instruments sold short	–	–
Borrowings and securities sold under repurchase agreements	–	–
Trading derivatives	534 905	6 175 992
Other trading liabilities	–	312
Total	534 905	6 176 304

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

3. FINANCIAL INSTRUMENTS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING PRINCIPLES

Financial assets measured mandatorily at fair value through profit or loss include:

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

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

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

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

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

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Bonds and other debt securities	48 003	–
Shares and other equity securities	69 526	71 299
Loans and receivables	330 564	53 276 680
Total	448 093	53 347 979

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

As at 31 December 2019, the loans and receivables recorded in the statement of financial position under *Financial assets at fair value through profit or loss* were mainly:

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

The Fully Funded Swaps (hereafter “FFS”) were economically assimilated to loans with embedded derivatives (the swap embedded in the FFS). This type of financial assets complied with

the IFRS definition of debt instruments (fixed maturity, coupon calculated as a rate, no right nor interest/control in an entity). As these financial assets of SGIS contained embedded derivatives that modify the cash flows of the entire contract, the contract did not pass the SPPI test and these financial assets were mandatorily measured at Fair Value through Profit and Loss (“FVTPL”).

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

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

ACCOUNTING PRINCIPLES

In addition to financial assets and liabilities held for trading, and financial assets measured mandatorily at fair value through profit or loss, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in the fair value of these instruments (including interest) are recorded in the income statement under Net gains or losses on financial instruments at fair value through profit or loss. Interest income is recorded in the income statement as Interest and similar income.

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

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

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

Furthermore, in order to simplify their accounting treatment by avoiding the separate recognition of embedded derivatives, the Group applies the fair value option to convertible bonds that are not held for trading purposes.

ASSETS

As at 31 December 2020, as well as at 31 December 2019, the Group does not hold any asset recorded under *Assets at fair value through profit and loss using fair value option*.

LIABILITIES

As at 31 December 2019, Financial liabilities measured at fair value through profit or loss in accordance with the fair value option exclusively consisted of structured bonds issued by the Group.

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

As at 31 December 2020, due to the consolidation method change of SG Issuer S.A., the Group does not hold any liability recorded under *Liabilities at fair value through profit and loss using fair value option*.

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

<i>(in EUR thousand)</i>	2020	2019
Net gain/loss on trading portfolio (excluding derivatives)	814	1 829
Net gain/loss on financial instruments mandatorily at fair value through profit or loss	(4 595 416)	13 331 243
<i>o/w dividend income</i>	5 378	27 091
Net gain/loss on financial instruments measured using fair value option	4 605 186	(13 275 937)
Net gain/loss on derivative instruments	(851)	(215)
Net gain/loss on hedging transactions	494	(4 116)
Net gain/loss on foreign exchange transactions	30 147	74 925
Total of net gains and losses on financial instruments at fair value through profit or loss	40 374	127 729

The change in consolidation method was carried out on 30 November 2020, therefore SG Issuer S.A. is fully included in the income statement over 11 months.

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

Note 3.3. – Financial derivatives

MAKING IT SIMPLE

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

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

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

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

ACCOUNTING PRINCIPLES

Derivatives are financial instruments meeting the following three criteria:

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

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

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host instrument.

Where the host contract is a financial asset, the entire hybrid contract is measured at fair value through profit or loss because its contractual cash flows do not pass the SPPI test.

Where the host contract is a financial liability and is not measured at fair value through profit or loss, the embedded derivative is separated from the host contract if: at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; and it would meet the definition of a derivative. As at 31 December 2020 and 2019, the Group did not have these instruments.

1. TRADING DERIVATIVES**ACCOUNTING PRINCIPLES**

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

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

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

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

BREAKDOWN OF TRADING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interest rate instruments	6 667 578	6 894 000
Firm instruments	6 211 584	6 288 706
<i>Swaps</i>	6 211 584	6 287 816
<i>FRA</i> s	–	890
Options	455 994	605 294
Foreign exchange instruments	17 483 252	42 361 275
Firm instruments	10 483 712	15 276 878
Options	6 999 540	27 084 397
Equity and index instruments	4 911 872	238 232 578
Firm instruments	64 390	132 272
Options	4 847 482	238 100 306
Commodities instruments	772	4 335 591
Firm instruments	772	4 758
Options	–	4 330 833
Other forward financial instruments	252 472	461 994
Total	29 315 946	292 285 438

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

BREAKDOWN OF ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interest rate instruments	85 911	104 212
Foreign exchange instruments	25 449	36 141
Equity and index instruments	423 339	3 698 444
Commodities instruments	–	102
Other forward financial instruments	–	2 360 686
Other trading instruments ⁽¹⁾	6 992	1 585
Total	541 691	6 201 170

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

BREAKDOWN OF LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interest rate instruments	76 784	90 588
Foreign exchange instruments	27 184	22 999
Equity and index instruments	423 933	3 695 372
Commodities instruments	–	1 553
Other forward financial instruments	–	2 365 298
Other trading instruments ⁽¹⁾	7 004	182
Total	534 905	6 175 992

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

2. HEDGING DERIVATIVES

According to the transitional provisions of IFRS 9, the Group made the choice to maintain the IAS 39 provisions related to hedge accounting. Consequently, equity instruments held (equities and similar securities) are not eligible for hedge accounting regardless of their accounting classification.

In the context of the Covid-19 crisis, the Group has not observed any ineffectiveness or disappearance of hedged items that could lead to the termination of its hedging relationships.

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

ACCOUNTING PRINCIPLES

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

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

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

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

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

FAIR VALUE HEDGES

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

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

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

In the contemplated hedging structures of the Group, the main source of ineffectiveness comes from the credit risk component of the hedging instrument counterparty and the hedged instrument counterparty.

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

CASH FLOW HEDGES

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

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

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

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

The source of ineffectiveness of the hedge is mainly due to the difference in the timing of cash flows, the difference on the yield curve applied and the effect of the change in credit risk.

TREATMENT OF THE CHANGES IN THE BASIS USED FOR DETERMINING THE CONTRACTUAL CASH FLOWS OF THE COMPONENTS OF A HEDGING RELATIONSHIP – IBOR REFORM

NON-DISCONTINUATION OF HEDGING RELATIONSHIPS

The documentation of the existing hedging relationships shall be updated to reflect the changes brought about by the reform of the reference interest rate (IBOR reform) on the basis for determining the contractual cash flows of the hedging components.

These updates resulting from the IBOR reform do not cause the discontinuation of the hedging relationship nor the designation of a new accounting hedge if the aim of such updates is only to:

- designate the alternative reference interest rate (contractually or non-contractually specified) as a hedged risk;
- update the description of the hedged item, including a description of the hedged portion of cash flows or of the fair value;
- update the description of the hedging instrument;
- update the description of the method used to assess the effectiveness of the hedge.

These updates are performed as and when changes are made to the hedged items or the hedging instruments; an accounting hedge may be updated several successive times. Changes not directly resulting from the application of the IBOR reform and impacting the basis used for determining the contractual cash

flows of the hedging relationship components or the hedging documentation are analysed beforehand in order to confirm compliance with the qualifying criteria for hedge accounting.

SPECIFIC ACCOUNTING TREATMENTS

Regarding fair value hedges and cash flow hedges, the applicable accounting requirements remain unchanged for the recognition of gains and losses resulting from the reassessment of the hedged component and the hedging instrument taking into account the changes described above.

For the purpose of the retrospective effectiveness assessment, the cumulative fair value changes may be reset to zero on a case by case basis for each hedging relationship modified.

The amounts of gains or losses recognised in equity (as unrealised or deferred gains and losses), for the cash flow hedges that have been discontinued prospectively after a change in the reference interest rate used as a basis for the future cash flows hedged are kept in equity until the hedged cash flows are recorded on the income statement.

An alternative reference interest rate used as a risk component not specified by an agreement (example, a 3-month alternative reference interest rate used to determine the fixed rate of a loan and for which the Group intends to hedge the changes in value) may be used, provided it is, as reasonably expected, separately identifiable (i.e., quoted on a sufficiently liquid market) in the 24 months after its first use.

BREAKDOWN OF HEDGING DERIVATIVES

(in EUR thousand)

	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Interest rate instruments				
Swaps	–	166 902	410	179 639
Equity and index instruments				
Equity and stock index options	–	–	–	–
Cash Flow Hedge				
Interest rate instruments				
Swaps	–	26 394	11	38 432
Other instruments				
Other forward financial instruments	–	391	26	174
Total	–	193 687	447	218 245

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

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

BREAKDOWN OF HEDGING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

DERIVATIVE ASSETS (NOTIONAL AMOUNT)

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interest rate instruments	4 820 000	5 737 000
Foreign exchange instruments	-	-
Equity and index instruments	-	-
Commodity instruments	-	-
Credit derivatives	-	-
Other forward financial instruments	1 845	1 919
Total	4 821 845	5 738 919

DERIVATIVE LIABILITIES (NOTIONAL AMOUNT)

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interest rate instruments	4 820 000	5 737 000
Foreign exchange instruments	-	-
Equity and index instruments	-	-
Commodity instruments	-	-
Credit derivatives	-	-
Other forward financial instruments	-	-
Total	4 820 000	5 737 000

BREAKDOWN OF NET GAINS/LOSSES ON HEDGING TRANSACTIONS

<i>(in EUR thousand)</i>	2020	2019
Net gain/loss on hedging transactions		
<i>Net gain/loss on fair value hedging derivatives</i>	9 757	2 188
<i>Revaluation of hedged items attributable to hedged risks</i>	(9 256)	(6 319)
<i>Ineffective portion of cash flow hedge</i>	(7)	15
Total of net gains and losses on financial instruments at fair value through profit or loss from hedging transactions	494	(4 116)

MATURITIES OF HEDGING FINANCIAL DERIVATIVES (NOTIONAL AMOUNTS)

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

<i>(in EUR thousand)</i>	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2020
Interest rate instruments	185 000	1 068 000	2 662 500	904 500	4 820 000
Foreign exchange instruments	-	-	-	-	-
Equity and index instruments	-	-	-	-	-
Other forward financial instruments	-	-	1 845	-	1 845
Total	185 000	1 068 000	2 664 345	904 500	4 821 845

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

FAIR VALUE HEDGE : BREAKDOWN OF HEDGED ITEMS

<i>(in EUR thousand)</i>	31.12.2020		
	Carrying amount	Cumulative change in the fair value	Change in the fair value booked during the year
Hedge of interest rate risk	2 562 502	179 578	(12 921)
Hedged assets	2 562 502	179 578	(12 921)
<i>Due from banks, at amortised cost</i>	-	-	-
<i>Customer loans, at amortised cost</i>	3 000	94	(135)
<i>Securities at amortised cost</i>	-	-	-
<i>Financial assets at fair value through other comprehensive income</i>	2 559 502	179 484	(12 786)
Hedged liabilities	-	-	-
<i>Debt securities issued</i>	-	-	-
<i>Due to banks</i>	-	-	-
<i>Customer deposits</i>	-	-	-
<i>Subordinated debts</i>	-	-	-
Hedge of currency risk	-	-	-
Hedged assets	-	-	-
<i>Customer loans, at amortised cost</i>	-	-	-
Hedged liabilities	-	-	-
<i>Debt securities issued</i>	-	-	-
<i>Due to banks</i>	-	-	-
<i>Customer deposits</i>	-	-	-
Hedge of equity risk	-	-	-
Hedged liabilities	-	-	-
<i>Other liabilities</i>	-	-	-
Total	2 562 502	179 578	(12 921)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	31.12.2019		
(in EUR thousand)	Carrying amount	Cumulative change in the fair value	Change in the fair value booked during the year
Hedge of interest rate risk	2 762 633	192 501	(17 577)
Hedged assets	2 762 633	192 501	(17 577)
<i>Due from banks, at amortised cost</i>	-	-	-
<i>Customer loans, at amortised cost</i>	3 000	231	(125)
<i>Securities at amortised cost</i>	-	-	-
<i>Financial assets at fair value through other comprehensive income</i>	2 759 633	192 270	(17 452)
Hedged liabilities	-	-	-
<i>Debt securities issued</i>	-	-	-
<i>Due to banks</i>	-	-	-
<i>Customer deposits</i>	-	-	-
<i>Subordinated debts</i>	-	-	-
Hedge of currency risk	-	-	-
Hedged assets	-	-	-
<i>Customer loans, at amortised cost</i>	-	-	-
Hedged liabilities	-	-	-
<i>Debt securities issued</i>	-	-	-
<i>Due to banks</i>	-	-	-
<i>Customer deposits</i>	-	-	-
Hedge of equity risk	-	-	-
Hedged liabilities	-	-	-
<i>Other liabilities</i>	-	-	-
Total	2 762 633	192 501	(17 577)

FAIR VALUE HEDGE : BREAKDOWN OF HEDGING INSTRUMENTS

(in EUR thousand)	31.12.2020				
	Commitments (notional amounts)	Fair value ⁽¹⁾		Change in fair value booked during the year	Ineffectiveness recognised during the year
		Assets	Liabilities		
Hedge of interest rate risk	2 652 000	–	166 902	10 193	4
Firm instruments – Swaps	2 652 000	–	166 902	10 193	4
<i>For hedged assets</i>	2 652 000	–	166 902	10 193	4
<i>For hedged liabilities</i>	–	–	–	–	–
Options	–	–	–	–	–
Hedge of currency risk	–	–	–	–	–
Firm instruments	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–
Non-derivative financial instruments	–	–	–	–	–
<i>For hedged assets</i>	–	–	–	–	–
Hedge of equity risk	–	–	–	–	–
Options	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–
Total	2 652 000	–	166 902	10 193	4

(in EUR thousand)	31.12.2019				
	Commitments (notional amounts)	Fair value ⁽¹⁾		Change in fair value booked during the year	Ineffectiveness recognised during the year
		Assets	Liabilities		
Hedge of interest rate risk	2 659 000	410	179 639	1 641	(7)
Firm instruments – Swaps	2 659 000	410	179 639	1 641	(7)
<i>For hedged assets</i>	2 659 000	410	179 639	1 641	(7)
<i>For hedged liabilities</i>	–	–	–	–	–
Options	–	–	–	–	–
Hedge of currency risk	–	–	–	–	–
Firm instruments	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–
Non-derivative financial instruments	–	–	–	–	–
<i>For hedged assets</i>	–	–	–	–	–
Hedge of equity risk	–	–	–	–	–
Options	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–
Total	2 659 000	410	179 639	1 641	(7)

(1) The fair value of interest rate hedging derivatives includes accrued interests.

CASH FLOW HEDGE : BREAKDOWN OF HEDGING INSTRUMENTS

31.12.2020						
<i>(in EUR thousand)</i>	Commitments (notional amounts)	Fair value		Changes in fair value recorded during the year		Cumulative change in fair value recorded in unrealised or deferred gains and losses
		Assets	Liabilities	Portion booked in unrealised or deferred gains and losses	Ineffectiveness recorded in the profit or loss	
Hedge of interest rate risk	2 168 000	–	26 394	10 676	(7)	(19 656)
Firm instruments – Swaps	2 168 000	–	26 394	10 676	(7)	(19 656)
<i>For hedged assets</i>	–	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–	–
Firm instruments – FRAs	–	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–	–
Hedge of currency risk	–	–	–	–	–	–
Firm instruments	–	–	–	–	–	–
<i>For hedged assets</i>	–	–	–	–	–	–
<i>For hedged liabilities</i>	–	–	–	–	–	–
<i>For hedged future transactions</i>	–	–	–	–	–	–
Non-derivative financial instruments	–	–	–	–	–	–
<i>For hedged future transactions</i>	–	–	–	–	–	–
Hedge of equity risk	1 845	–	391	(72)	–	(81)
Options	1 845	–	391	(72)	–	(81)
<i>For hedged future transactions</i>	1 845	–	391	(72)	–	(81)
Total	2 169 845	–	26 785	10 604	(7)	(19 737)

31.12.2019

	Commitments (notional amounts)	Fair value		Changes in fair value recorded during the year		Cumulative change in fair value recorded in unrealised or deferred gains and losses
		Assets	Liabilities	Portion booked in unrealised or deferred gains and losses	Ineffectiveness recorded in the profit or loss	
<i>(in EUR thousand)</i>						
Hedge of interest rate risk	3 078 000	11	38 431	(200)	15	(30 332)
Firm instruments – Swaps	3 078 000	11	38 431	(200)	15	(30 332)
<i>For hedged assets</i>	<i>3 078 000</i>	<i>11</i>	<i>38 431</i>	<i>(200)</i>	<i>15</i>	<i>(30 332)</i>
<i>For hedged liabilities</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Firm instruments – FRAs	-	-	-	-	-	-
<i>For hedged liabilities</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Hedge of currency risk	-	-	-	-	-	-
Firm instruments	-	-	-	-	-	-
<i>For hedged assets</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>For hedged liabilities</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>For hedged future transactions</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Non-derivative financial instruments	-	-	-	-	-	-
<i>For hedged future transactions</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Hedge of equity risk	1 919	26	175	53	-	(9)
Options	1 919	26	175	53	-	(9)
<i>For hedged future transactions</i>	<i>1 919</i>	<i>26</i>	<i>175</i>	<i>53</i>	<i>-</i>	<i>(9)</i>
Total	3 079 919	37	38 606	(147)	15	(30 341)

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

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Bonds and other debt securities	3 205 031	3 263 281
Shares and other equity securities	–	–
Total	3 205 031	3 263 281
<i>o/w unrealized gain/loss through OCI, excluding deferred taxes and allowances for impairment losses</i>	34 640	38 405
<i>o/w Allowances for impairment losses</i>	7	44

1. DEBT INSTRUMENTS

ACCOUNTING PRINCIPLES

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

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

At the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under *Unrealised or deferred gains and losses*, except for foreign exchange differences, which are recorded in profit

or loss. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Cost of risk* with a corresponding entry to *Unrealised or deferred gains and losses*. The applicable impairment rules are described in Note 3.9. The impairment does not impact the carrying amount of the assets.

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

BUSINESS MODEL “HOLD TO COLLECT AND SELL”

The objective of this business model is to realise cash flows by both collecting contractual payments and selling financial assets. In this type of business model, the sales of financial assets are not incidental or exceptional, but they are integral to achieving the business’ objectives.

Cash management

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

CHANGES OF THE CARRYING AMOUNT

<i>(in EUR thousand)</i>	2020
Balance as at 1 January	3 263 281
Acquisitions / disbursements	633 434
Disposals / redemptions	(673 434)
Change in scope and others	(2 200)
Changes in fair value during the year	(12 786)
Changes in related receivables	(3 264)
Translation differences	–
Balance on 31 December	3 205 031

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

<i>(in EUR thousand)</i>	31.12.2020		
	Cumulated unrealized gains and losses	“o.w. without adjustments for credit risk”	“o.w. adjustments for credit risk”
Unrealised gains	37 337	37 330	7
Unrealised losses	(2 690)	(2 690)	–
Total	34 647	34 640	7

<i>(in EUR thousand)</i>	31.12.2019		
	Cumulated unrealized gains and losses	“o.w. without adjustments for credit risk”	“o.w. adjustments for credit risk”
Unrealised gains	43 040	42 980	60
Unrealised losses	(4 591)	(4 575)	(16)
Total	38 449	38 405	44

The amounts as at 31 December 2020 and 31 December 2019 that were reclassified into income from financial instruments at fair value through other comprehensive income are presented in paragraph 3 below.

2. EQUITY INSTRUMENTS

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

As at 31 December 2020 and 2019, the Group did not apply the fair value through other comprehensive income option to any equity instruments.

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

<i>(in EUR thousand)</i>	2020	2019
Realised gains and losses on sale of debt instruments	–	–
Dividends incomes on financial assets at fair value through other comprehensive income	–	–
Total	–	–

Note 3.5. – Fair value of financial instruments

MAKING IT SIMPLE

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

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

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

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

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

ACCOUNTING PRINCIPLES

DEFINITION OF FAIR VALUE

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

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

FAIR VALUE HIERARCHY

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

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

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

Level 1 instruments carried at fair value on the statement of financial position include in particular shares listed in an active market, government or corporate bonds priced directly by external brokers/dealers, derivatives traded on organised markets (futures, options), and units of funds (including UCITS) whose net asset value is available on the statement of financial position date.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and if they reflect actual and regular market transactions on an arm's length basis.

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

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

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

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

These are instruments measured using a financial model based on observable market inputs. The inputs used shall be observable in active markets; using some unobservable inputs is possible only if those last have a less decisive influence on the fair value of the instrument. Prices published by an external source derived from the valuation of similar instruments are considered as data derived from prices.

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

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

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

Level 3 instruments carried at fair value on the balance sheet are valued using financial models based on market inputs among which those which are unobservable or observable on insufficiently active markets, have a significant impact on the fair value of the financial instrument as a whole.

Accordingly, Level 3 financial instruments include derivatives and repo transactions with longer maturities than those

usually traded and/or with specifically-tailored return profiles, structured debts including embedded derivatives valued based on a method using unobservable inputs or long-term equity investments valued based on a corporate valuation method, which is the case for unlisted companies or companies listed on an insufficiently liquid market.

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE

As at 31 December 2020, the fair value hierarchy of financial assets by instrument type is as follows:

<i>(in EUR thousand)</i>	31.12.2020			
	(L1)	(L2)	(L3)	Total
Trading portfolio	3 885	605 613	–	609 498
Bonds and other debt securities	–	–	–	–
Shares and other equity instruments	3 885	–	–	3 885
Loans, receivables and repurchase agreements	–	63 922	–	63 922
Trading derivatives	–	541 691	–	541 691
<i>o/w Interest rate instruments</i>	–	85 911	–	85 911
<i>o/w Foreign exchange instruments</i>	–	25 449	–	25 449
<i>o/w Equity and index instruments</i>	–	423 339	–	423 339
<i>o/w Commodity instruments</i>	–	–	–	–
<i>o/w other forward financial instruments</i>	–	–	–	–
<i>o/w other trading instruments</i>	–	6 992	–	6 992
Financial assets measured mandatorily at fair value through profit or loss	11 697	4 539	431 857	448 093
Bond and other debt securities	–	–	48 003	48 003
Shares and other equity instruments	11 697	4 539	53 290	69 526
Loans and receivables	–	–	330 564	330 564
<i>o/w loans indexed on commodities instruments</i>	–	–	–	–
<i>o/w loans indexed on credit derivatives/securities</i>	–	–	–	–
<i>o/w loans indexed on equity and index securities</i>	–	–	–	–
<i>o/w loans indexed on foreign exchange instruments/securities</i>	–	–	–	–
<i>o/w loans indexed on interest rate instruments/securities</i>	–	–	–	–
<i>o/w other financial instruments</i>	–	–	330 564	330 564
Financial assets measured using fair value option through profit or loss	–	–	–	–
Hedging derivatives	–	–	–	–
Interest rate instruments	–	–	–	–
Equity and index instruments	–	–	–	–
Other financial assets	–	–	–	–
Financial assets at fair value through other comprehensive income	3 205 031	–	–	3 205 031
Debt instruments	3 205 031	–	–	3 205 031
Total financial assets at fair value	3 220 613	610 152	431 857	4 262 622

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	31.12.2019			
<i>(in EUR thousand)</i>	(L1)	(L2)	(L3)	Total
Trading portfolio	9 092	5 644 666	556 580	6 210 338
Bonds and other debt securities	–	–	–	–
Shares and other equity instruments	9 092	–	–	9 092
Loans, receivables and repurchase agreements	–	76	–	76
Trading derivatives	–	5 644 590	556 580	6 201 170
<i>o/w Interest rate instruments</i>	–	104 212	–	104 212
<i>o/w Foreign exchange instruments</i>	–	36 141	–	36 141
<i>o/w Equity and index instruments</i>	–	3 476 421	222 023	3 698 444
<i>o/w Commodity instruments</i>	–	102	–	102
<i>o/w Other forward financial instruments</i>	–	2 026 129	334 557	2 360 686
<i>o/w Other trading instruments</i>	–	1 585	–	1 585
Financial assets measured mandatorily at fair value through profit or loss	22 846	21 603 504	31 721 629	53 347 979
Bonds and other debt securities	–	–	–	–
Shares and other equity instruments	22 846	48 378	–	71 224
Loans and receivables	–	21 555 126	31 721 629	53 276 755
<i>o/w Loans indexed on commodities instruments</i>	–	736 757	6 113	742 870
<i>o/w Loans indexed on credit derivatives/securities</i>	–	1 378 833	4 856 266	6 235 099
<i>o/w Loans indexed on equity and index securities</i>	–	15 198 731	20 867 313	36 066 044
<i>o/w Loans indexed on foreign exchange instruments/securities</i>	–	1 777 010	847 690	2 624 700
<i>o/w Loans indexed on interest rate instruments/securities</i>	–	1 921 912	3 961 009	5 882 921
<i>o/w Other financial instruments</i>	–	541 883	1 183 238	1 725 121
Financial assets measured using fair value option through profit or loss	–	–	–	–
Hedging derivatives	–	447	–	447
Interest rate instruments	–	421	–	421
Equity and index instruments	–	–	–	–
Other financial assets	–	26	–	26
Financial assets at fair value through other comprehensive income	3 263 281	–	–	3 263 281
Debt instruments	3 263 281	–	–	3 263 281
Total financial assets at fair value	3 295 219	27 248 617	32 278 209	62 822 045

2. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

As at 31 December 2020, the fair value hierarchy of financial liabilities by instrument type is as follows:

<i>(in EUR thousand)</i>	31.12.2020			Total
	(L1)	(L2)	(L3)	
Trading portfolio	-	534 905	-	534 905
Other trading liabilities	-	-	-	-
Transaction derivatives	-	534 905	-	534 905
<i>o/w interest rate instruments</i>	-	76 784	-	76 784
<i>o/w foreign exchange instruments</i>	-	27 184	-	27 184
<i>o/w equity and index instruments</i>	-	423 933	-	423 933
<i>o/w commodity instruments</i>	-	-	-	-
<i>o/w other financial instruments</i>	-	7 004	-	7 004
Financial liabilities at fair value through profit or loss	-	-	-	-
<i>o/w commodities instruments</i>	-	-	-	-
<i>o/w credit derivatives/securities</i>	-	-	-	-
<i>o/w equity and index securities</i>	-	-	-	-
<i>o/w foreign exchange instruments/securities</i>	-	-	-	-
<i>o/w interest rate instruments/securities</i>	-	-	-	-
<i>o/w other financial instruments</i>	-	-	-	-
Hedging derivatives	-	193 687	-	193 687
Interest rate instruments	-	193 296	-	193 296
Other financial instruments	-	391	-	391
Total financial liabilities at fair value	-	728 592	-	728 592

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

<i>(in EUR thousand)</i>	31.12.2019			Total
	(L1)	(L2)	(L3)	
Trading portfolio	–	5 616 719	559 585	6 176 304
Other trading liabilities	–	313	–	313
Transaction derivatives	–	5 616 406	559 585	6 175 991
<i>o/w Interest rate instruments</i>	–	90 588	–	90 588
<i>o/w Foreign exchange instruments</i>	–	22 999	–	22 999
<i>o/w Equity and index instruments</i>	–	3 473 384	221 988	3 695 372
<i>o/w Commodity instruments</i>	–	1 553	–	1 553
<i>o/w Other financial instruments</i>	–	2 027 882	337 597	2 365 479
Financial liabilities at fair value through profit or loss	–	21 175 281	31 720 314	52 895 595
<i>o/w commodities instruments</i>	–	736 757	6 113	742 870
<i>o/w credit derivatives/securities</i>	–	1 379 219	4 855 992	6 235 211
<i>o/w equity and index securities</i>	–	15 197 980	20 866 396	36 064 376
<i>o/w foreign exchange instruments/securities</i>	–	1 775 900	847 573	2 623 473
<i>o/w interest rate instruments/securities</i>	–	1 921 464	3 961 009	5 882 473
<i>o/w other financial instruments</i>	–	163 960	1 183 231	1 347 191
Hedging derivatives	–	218 245	–	218 245
Interest rate instruments	–	218 071	–	218 071
Other financial instruments	–	174	–	174
Total financial liabilities at fair value	–	27 010 245	32 279 899	59 290 144

There have been no transfer of financial assets or liabilities measured at fair value from Level 2 to Level 1 in 2020, as well as in 2019.

3. FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

ACCOUNTING PRINCIPLES

For financial instruments that are not recognised at fair value on the balance sheet, the figures disclosed in this note and broken down according to the fair value hierarchy as described above should not be taken as an estimate of the amount that would be realised if all such financial instruments were to be settled immediately.

The fair value of financial instruments includes accrued interest if applicable.

Please refer to Note 3.5.5 for additional details on the valuation methods for loans and debt securities at amortised cost.

FINANCIAL ASSETS MEASURED AT AMORTISED COST

The Group considers that the fair value of the financial instruments measured at amortized cost approximates the carrying amounts as at 31 December 2020 and 31 December 2019.

4. VARIATION IN LEVEL 3 FINANCIAL INSTRUMENTS

The main variation in Level 3 financial instruments is due to the change in consolidation method of SGIS (see note 2.2.), which led to a decrease as at 31 December 2020 of the level 3 financial instruments in trading portfolio (assets & liabilities), financial assets mandatorily measured at fair value through P&L, liabilities measured using fair value option through P&L.

Moreover, two instruments were transferred from level 2 to level 3 during 2020 :

- equity share, for an amount of EUR 53 million;
- a credit linked loan, for an amount of EUR 331 million.

During 2020, the Group changed its methodology for determining the observability of market input used in the calculation of the fair value of financial instruments. Observability is now determined on one hand at a more granular level, and on other hand takes more parameters into account in the analysis, whereas it was until 31 December 2019 assessed by family of inputs with homogeneous characteristics. These changes, aiming at extending and improving the levelling by measuring observability at a more granular level, have led to the reclassification of some financial instruments at fair value from level 2 to level 3.

Finally, new transactions were reported under Level 3 financial instruments, under debt securities and equity shares.

The following tables show a reconciliation of the opening and closing amounts of Level 3 which are recorded at fair value. Transfers from Level 3 to Level 2 occur when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. There were no such transfer in 2020 and 2019.

FINANCIAL ASSETS

<i>(in EUR thousand)</i>	Balance at 01.01.2020	Issuances	Redemptions
Trading portfolio	556 580	-	-
Bonds and other debt securities	-	-	-
Shares and other equity instruments	-	-	-
Loans, receivables and repurchase agreements	-	-	-
Trading derivatives	556 580	-	-
<i>o/w Interest rate instruments</i>	-	-	-
<i>o/w Foreign exchange instruments</i>	-	-	-
<i>o/w Equity and index instruments</i>	222 023	-	-
<i>o/w Commodity instruments</i>	-	-	-
<i>o/w other forward financial instruments</i>	-	-	-
<i>o/w other trading instruments</i>	334 557	-	-
Financial assets measured mandatorily at fair value through profit or loss	31 721 629	-	-
Bonds and other debt securities	-	-	-
Shares and other equity instruments	-	-	-
Loans and receivables	31 721 629	-	-
<i>o/w loans indexed on commodities instruments</i>	6 113	-	-
<i>o/w loans indexed on credit derivatives/securities</i>	4 856 266	-	-
<i>o/w loans indexed on equity and index securities</i>	20 867 313	-	-
<i>o/w loans indexed on foreign exchange instruments/securities</i>	847 690	-	-
<i>o/w loans indexed on interest rate instruments/securities</i>	3 961 009	-	-
<i>o/w other financial instruments</i>	1 183 238	-	-
Financial assets measured using fair value option through profit or loss	-	-	-
Hedging derivatives	-	-	-
Interest rate instruments	-	-	-
Total financial assets at fair value	32 278 209	-	-

Issuances and redemptions related to SG Issuer S.A. have not been reported, please refer to Note 2.2.2.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Transfer to Level 2	Transfer from Level 2	Gains and losses due to changes in fair value	Translation differences	Perimeter changes	Balance at 31.12.2020
-	-	-	-	(556 580)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(556 580)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(222 023)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(334 557)	-
-	383 854	-	-	(31 673 626)	431 857
-	-	-	-	48 003	48 003
-	53 290	-	-	-	53 290
-	330 564	-	-	(31 721 629)	330 564
-	-	-	-	(6 113)	-
-	-	-	-	(4 856 266)	-
-	-	-	-	(20 867 313)	-
-	-	-	-	(847 690)	-
-	-	-	-	(3 961 009)	-
-	330 564	-	-	(1 183 238)	330 564
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	383 854	-	-	(32 230 206)	431 857

FINANCIAL LIABILITIES

<i>(in EUR thousand)</i>	Balance at 01.01.2020	Issuances	Redemptions
Trading portfolio	559 585	-	-
Debt securities issued	-	-	-
Amounts payable on borrowed securities	-	-	-
Bonds and other debt instruments sold short	-	-	-
Shares and other equity instruments sold short	-	-	-
Borrowings and securities sold under repurchase agreements	-	-	-
Other trading liabilities	-	-	-
Trading derivatives	559 585	-	-
Interest rate instruments	-	-	-
Foreign exchange instruments	-	-	-
Equity and index instruments	221 988	-	-
Commodity instruments	-	-	-
Credit derivatives	-	-	-
Other forward financial instruments	337 597	-	-
Financial liabilities measured using fair value option through profit or loss	31 720 314	-	-
Hedging derivatives	-	-	-
Interest rate instruments	-	-	-
Foreign exchange instruments	-	-	-
Equity and index instruments	-	-	-
Total financial assets at fair value	32 279 899	-	-

Issuances and redemptions related to SG Issuer S.A. have not been reported, please refer to Note 2.2.2.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Transfer to Level 2	Transfer from Level 2	Gains and losses due to changes in fair value	Translation differences	Perimeter changes	Balance at 31.12.2020
-	-	-	-	(559 585)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(559 585)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(221 988)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(337 597)	-
-	-	-	-	(31 720 314)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(32 279 899)	-

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

Derivatives are subject to a Credit Valuation Adjustment (CVA) or Debt Valuation Adjustment (DVA).

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

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

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

In the event of unusual tensions on the markets, leading to a lack of the usual reference data used to measure a financial instrument, the Risk Division may implement a new model in

accordance with pertinent available data, similar to methods used by other market players.

BONDS & OTHER DEBT SECURITIES

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

SHARES AND OTHER EQUITY INSTRUMENTS

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

- Discounted Cash Flows method based on business plans
- Discounted Dividend Method based on business plans

LOANS AND RECEIVABLES

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

FINANCIAL DERIVATIVES

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

OTHER DEBTS

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

DUE FROM BANKS & CUSTOMER LOANS

The fair value of loans and receivables is calculated, in the absence of an actively traded market for these loans, by discounting the expected cash flows to present value at a discount rate based on interest rates prevailing on the market at the reporting date for loans with broadly similar terms and maturities.

6. ESTIMATES OF MAIN UNOBSERVABLE INPUTS

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

The following table provides the valuation of level 3 instruments on the balance sheet as at 31 December 2020 and the range of values of the most significant unobservable inputs by main product type.

Type of underlyings	Assets In EUR thousand	Liabilities In EUR thousand	Main products	Valuation techniques used	Significant unobservable inputs	Range of unobservable inputs Min & Max
Equities/funds	53 290	-	Equity shares	Discounted cash flows or dividend distribution models	Equity dividends	0%; 35.8%
					Correlations	-99.6%; 100%
					Illiquidity discount	0%; 20%
Credit	378 567	-	Loans with embedded derivatives, convertible bonds	Recovery and base correlation projection models	Time to default correlations	0%; 100%
					Recovery rate variance for single name underlyings	0%; 100%
					Credit spreads	0 bps; 1 000 bps
Total	431 857	-				

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

However, by the nature of its activities (mainly private banking, securities services, corporate credit) the Group has very limited market risk exposure. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit of the Group.

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

1. OVERVIEW OF FINANCIAL ASSETS AT AMORTISED COST

ACCOUNTING PRINCIPLES

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

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

Loans issued by the Group may be subject to renegotiations for commercial reasons, where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which the Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans in the balance sheet at this same date. The new loans are subject to the SPPI test to determine how they are classified in the balance sheet. If a loan qualifies as SPPI, renegotiation fees received are included in the effective interest rate of the new instrument. The applicable renegotiation on loans rules are described in Note 3.9.

(in EUR thousand)	31.12.2020		31.12.2019*	
	Carrying amount	o/w impairment	Carrying amount	o/w impairment
Due from banks	10 498 243	(575)	11 423 275	(405)
Customer loans	22 980 536	(84 701)	24 661 720	(24 864)
Securities	7 086 422	(471)	7 180 331	(590)
Total	40 565 201	(85 747)	43 265 326	(25 859)

*Restated figures, please refer to change in classification explained below.

CHANGE IN CLASSIFICATION OF VARIABLE FUNDING NOTES FOR MONTALIS B.V.

During Q2 2020, Montalis B.V., a consolidated subsidiary of SG Luxembourg, identified that, in 2020 as well as in prior years, the classification of variable funding notes owned was not accurate. The notes on the assets side were indeed classified under *Customer loans at amortised cost* instead of *Securities at amortised cost*. A change in classification has been performed in June 2020 and the variable funding notes are now presented under *Securities at amortized cost*.

Figures from 31 December 2019 have also been restated for an amount of EUR 1 767 million on the assets side and from EUR 28 million on the profit and loss side.

CHANGE IN CLASSIFICATION OF LOANS FOR SG CMF

The Bank performed the reclassification of two counterparts from *Customer loans* to *Due from banks*.

Figures from 31 December 2019 have been restated for an amount of EUR 1 928 million.

IMPACT COVID-19 ON EXEMPTION PERIODS & ACCOUNTING TREATMENT

Due to the Covid-19 crisis, the Group implemented changes in accounting estimates related to the determination of expected credit losses on loans, receivables and securities at amortised cost during the year 2020. Details of the main changes during the year and of the financial impacts are presented in Note 3.9.

2. BUSINESS MODEL “HOLD TO COLLECT”

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

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

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

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

DUE FROM BANKS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019*
Deposits and loans		
Demand and overnights		
Current accounts	373 673	817 909
Overnight deposits and loans and others	1 311 738	19
Term		
Term deposits and loans	8 791 515	10 590 015
Subordinated and participating loans	–	–
Loans secured by notes and securities	21 572	15 518
Gross amount	10 498 498	11 423 461
Impairment		
Allowances for impairment losses	(575)	(405)
Revaluation of hedged items		
Net amount	10 497 923	11 423 056
Securities purchased under resale agreements	320	219
Total	10 498 243	11 423 275

*Restated figures, please refer to Note 3.6.1, change in classification.

A part of the variation compared to 2019, is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

CUSTOMER LOANS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019*
Customer loans at amortized cost		
Corporate loans	7 903 096	11 466 192
Treasury loans	8 588 488	8 595 393
Other loans	2 172 104	2 527 207
Housing loans	2 895 310	1 265 804
Overdrafts	828 957	641 994
Doubtful loans	533 857	156 234
Lease financing agreements	107 809	–
Related receivables	35 522	33 529
Gross amount	23 065 143	24 686 353
Allowances for impairment losses	(84 701)	(24 864)
Revaluation of hedged items	94	231
Total	22 980 536	24 661 720

*Restated figures, please refer to Note 3.6.1, change in classification.

SECURITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019*
Negotiable certificates, bonds and other debt securities	7 081 143	7 166 647
Related receivables	5 750	14 274
Securities before impairment	7 086 893	7 180 921
Impairment	(471)	(590)
Securities	7 086 422	7 180 331

*Restated figures, please refer to Note 3.6.1, change in classification.

Note 3.7. – Debts

ACCOUNTING PRINCIPLES

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

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

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

1. DUE TO BANKS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Demand deposits and current accounts	59 749	129 325
Overnight deposits and borrowings and others	2 612	6 301
Term deposits	24 568 074	23 774 173
Related payables	10 946	9 617
Securities sold under repurchase agreements	684 886	918 323
Total	25 326 267	24 837 739

2. CUSTOMER DEPOSITS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Demand deposits	13 484 313	13 482 119
Term deposits	11 509 594	14 358 447
Related payables	1 986	12 138
Total customer deposits	24 995 893	27 852 704
Securities sold to customers under repurchase agreements	–	–
Total	24 995 893	27 852 704

BREAKDOWN OF OTHER DEMAND DEPOSITS BY CUSTOMER TYPE

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019*
Non financial corporations	1 779 289	2 625 274
Individual customers	3 038 748	2 739 975
Financial customers	8 663 574	8 115 196
Others ⁽¹⁾	2 702	1 674
Total	13 484 313	13 482 119

3. DEBT SECURITIES ISSUED

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Interbank certificates and negotiable debt instruments	64 550	223 535
Related payables	59	606
Total	64 609	224 141

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

*Restated figures, please refer to Note 3.6.1, change in classification.

Note 3.8. – Interest income and expense**MAKING IT SIMPLE**

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

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

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

ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in EUR thousand)	2020			2019		
	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	559 974	(241 189)	318 785	703 124	(413 336)	289 788
<i>Central banks</i>	1	(34 607)	(34 606)	4	(21 888)	(21 884)
<i>Bonds and other debt securities</i>	104 940	(12 429)	92 511	128 945	(21 485)	107 460
<i>Due from/to banks</i>	127 959	(119 867)	8 092	180 520	(184 593)	(4 073)
<i>Customer loans and deposits</i>	315 431	(74 266)	241 165	371 025	(173 659)	197 366
<i>Subordinated debt</i>	-	-	-	-	(11 195)	(11 195)
<i>Securities lending/borrowing</i>	3 292	(20)	3 272	3 587	-	3 587
<i>Securities purchased/sold under resale/purchase agreements and borrowings secured by notes and securities</i>	8 351	-	8 351	19 043	(516)	18 527
Hedging derivatives	4 296	(70 212)	(65 916)	8 233	(79 622)	(71 389)
Financial instruments at fair value through other comprehensive income	49 438	-	49 438	54 541	-	54 541
Lease agreement ⁽¹⁾	37	(460)	(423)	-	(528)	(528)
<i>Real estate lease agreements</i>	-	(457)	(457)	-	(522)	(522)
<i>Non-real estate lease agreements</i>	37	(3)	34	-	(6)	(6)
Subtotal interest income/expense on financial instruments using the effective interest method	613 745	(311 861)	301 884	765 898	(493 486)	272 412
Financial instruments at fair value through profit or loss	3 555	-	3 555	460	-	460
Total Interest income and expense	617 300	(311 861)	305 439	766 358	(493 486)	272 872
<i>o/w interest income from impaired financial assets</i>	2 717	-	2 717	3 272	-	3 272

The consolidation method change of SG Issuer S.A was carried out on 30 November 2020, therefore the profit and loss of the entity is fully included in the consolidated income statement over 11 months.

*Restated figures, please refer to Note 3.6.1 and 4.1.

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

Note 3.9. – Impairment and provisions

MAKING IT SIMPLE

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

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

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

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

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

ACCOUNTING PRINCIPLES

RECOGNITION OF EXPECTED CREDIT LOSSES

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

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

OBSERVED DETERIORATION IN CREDIT RISK SINCE INITIAL RECOGNITION OF THE FINANCIAL ASSET			
CREDIT RISK CATEGORY	STAGE 1 PERFORMING ASSETS	STAGE 2 UNDER-PERFORMING OR DOWNGRATED ASSETS	STAGE 3 CREDIT-IMPAIRED OR DEFAULTED ASSETS
Transfer criteria	Initial recognition of the instrument in stage 1 ▶ <i>Maintained if the credit risk has not increased significantly</i>	Credit risk on the instrument has increased significantly since initial recognition / 30 days past due	Evidence that the instrument has become credit-impaired / 90 days past due
Measurement of credit risk	12-months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income recognition basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

EXPOSURES CLASSIFIED IN STAGE 1

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

EXPOSURES CLASSIFIED IN STAGE 2

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

- The counterparty's credit rating

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

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

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

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

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the balance sheet date is significant enough to prompt a change in the impairment Stage, thresholds are set once a year by the Risk Division. These transfer thresholds between Stage 1 and Stage 2 are determined for each homogenous portfolio of contracts (notion of risk segment) and are calculated based on the probability-of-default curves for each (thus, the threshold

is different depending on whether it is a Sovereign portfolio or a Large Corporates portfolio, for instance). The thresholds are therefore differentiated based on the one-year probability of default curves; this assumes there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

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

- The existence of payments more than 30 days past due

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

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

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

EXPOSURES CLASSIFIED IN STAGE 3

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

- a significant deterioration in the counterparty's financial situation creates a strong probability that it will not be able to meet all of its commitments and thus represents a risk of loss for the Group;
- concessions are granted to the clauses of the loan agreement, in light of the borrower's financial difficulties, that would not have been granted in other circumstances;
- payments more than 90 days past due (with the exception of restructured loans during the probation period, which are deemed subject to impairment as of the first missed payment), whether or not a collection procedure is instigated; or, even in the absence of missed payments, the existence of probable credit risk or litigious proceedings (bankruptcy, court-ordered settlement or compulsory liquidation).

The Group applies the impairment contagion principle to all of the defaulting counterparty's exposures. When a debtor belongs to a group, the impairment contagion principle may also be applied to all of the group's exposures.

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

MEASUREMENT OF DEPRECIATION AND PROVISION

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

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

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

ESTIMATION OF EXPECTED CREDIT LOSSES

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

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

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

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

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

IFRS 9 expected credit losses are calculated using the probabilised average of 4 macroeconomic scenarios, established by SG Group

economists for all entities of SG Group (base scenarios and current stress scenarios, plus an optimistic scenario).

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

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

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

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

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

These inputs are updated at each reporting date.

RESTRUCTURED LOANS

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

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

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

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

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

OVERVIEW OF IMPAIRMENT AND PROVISIONS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Impairment of financial assets at fair value through other comprehensive income	7	44
Impairment of financial assets at amortised cost	85 916	26 025
<i>Loans and receivables at amortized cost, including debt securities</i>	<i>85 747</i>	<i>25 859</i>
<i>Other assets at amortized cost</i>	<i>169</i>	<i>166</i>
Total impairment of financial assets	85 923	26 069
Provisions on Financing commitments	3 596	821
Provisions on Guarantee commitments	415	316
Total credit risk provisions	4 011	1 137

1. IMPAIRMENT OF FINANCIAL ASSETS

BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

<i>(in EUR thousand)</i>	Amounts at 01.01.2020	Allocations	Reversals available*	Net allocations	Reversals used**	Currency and scope effects	Amounts at 31.12.2020
Financial assets at fair value through other comprehensive income	44	39	(76)	(37)	–	–	7
Impairment on performing outstandings (Stage 1)	44	39	(76)	(37)	–	–	7
Impairment on under-performing outstandings (Stage 2)	–	–	–	–	–	–	–
Impairment on doubtful outstandings (Stage 3)	–	–	–	–	–	–	–
Financial assets at amortised cost	26 025	72 529	(11 675)	60 855	(114)	(849)	85 916
Impairment on performing outstandings (Stage 1)	12 135	12 869	(7 429)	5 440	–	(352)	17 223
Impairment on under-performing outstandings (Stage 2)	738	10 513	(2 508)	7 946	–	4	8 747
Impairment on doubtful outstandings (Stage 3)	13 152	49 147	(1 738)	47 469	(114)	(501)	59 946
Total	26 069	72 568	(11 751)	60 818	(114)	(849)	85 923

* Reversals available correspond to reversal of impairment

** Reversals used correspond to impairment utilisation previously recorded

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

<i>(in EUR thousand)</i>	Amounts at 01.01.2020	Production, Acquisition & Change in model	Derecognition (among which write-offs) and repayments	Transfer between stages of impairment	Other variations	Amounts at 31.12.2020
Financial assets at fair value through other comprehensive income						
Impairment on performing outstandings (Stage 1)	44	39	(76)	–	–	7
Impairment on under-performing outstandings (Stage 2)	–	–	–	–	–	–
Impairment on doubtful outstandings (Stage 3)	–	–	–	–	–	–
Sub-Total	44	39	(76)	–	–	7
Financial assets at amortised cost						
Impairment on performing outstandings (Stage 1)	12 135	5 964	(2 872)	1 996	–	17 223
Impairment of under-performing outstandings (Stage 2)	738	135	(87)	7 961	–	8 747
Impairment on doubtful outstandings (Stage 3)	13 152	–	(1 360)	48 154	–	59 946
Sub-Total	26 025	6 099	(4 319)	58 111	–	85 916
Total	26 069	6 138	(4 395)	58 111	–	85 923

The contractual amount outstanding on financial assets that have been written off by the Bank as at 31 December 2020 and that were still subject to enforcement activity amounts was nil (2019: nil).

2. CREDIT RISK PROVISIONS

BREAKDOWN OF PROVISIONS

<i>(in EUR thousand)</i>	Amounts at 01.01.2020	Allocations	Reversals available	Net impairment losses	Currency and scope effects	Amounts at 31.12.2020
Financing commitments	821	3 455	(607)	2 848	(73)	3 596
Provisions on performing outstandings (Stage 1)	821	624	(607)	17	(73)	765
Provisions on under-performing outstandings (Stage 2)	-	2 831	-	2 831	-	2 831
Provisions on doubtful outstandings (Stage 3)	-	-	-	-	-	-
Guarantee commitments	316	1 079	(979)	100	(1)	415
Provisions on performing outstandings (Stage 1)	244	407	(251)	156	-	400
Provisions on under-performing outstandings (Stage 2)	12	672	(668)	4	(1)	15
Provisions on doubtful outstandings (Stage 3)	60	-	(60)	(60)	-	-
Total	1 137	4 534	(1 586)	2 948	(74)	4 011

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

<i>(in EUR thousand)</i>	Amounts at 01.01.2020	Production, Acquisition & Change in model	Derecognition (among which write- offs) and repayments	Transfer between stages of impairment	Other variations	Amounts at 31.12.2020
Financing and Guarantee commitments						
Provisions on performing outstandings (Stage 1)	1 065	460	(108)	(252)	-	1 165
Provisions on under-performing outstandings (Stage 2)	12	9	(3)	2 828	-	2 846
Provisions on doubtful outstandings (Stage 3)	60	-	-	(60)	-	-
Total	1 137	469	(111)	2 516	-	4 011

3. COST OF RISK

ACCOUNTING PRINCIPLES

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

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

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

<i>(in EUR thousand)</i>	2020	2019
Cost of risk		
Net allocation to impairment losses	(60 817)	7 614
<i>On financial assets at fair value through other comprehensive income</i>	37	(31)
<i>On financial assets at amortised cost</i>	(60 854)	7 645
Net allocations to provisions	(2 948)	(38)
<i>On financing commitments</i>	(2 848)	(23)
<i>On guarantee commitments</i>	(100)	(15)
Losses not covered on irrecoverable loans	(169)	(501)
Amounts recovered on irrecoverable loans	–	61
Income from guarantee not taken into account for the calculation of impairment	–	361
Other risks	–	–
Total	(63 934)	7 497

The 2020 net cost of risk amounted EUR 63 934 thousands is mainly due to :

- the models and parameters update for expected credit losses calculation on Stage 1 exposures (EUR 5.5 million);
- the transfer in Stage 2 of some corporate loans and exposures to sectors considered sensitive given the deteriorated economic context (EUR 11.1 million);
- an increase in doubtful credit outstandings (Stage 3) on Private Banking portfolio (EUR 19.6 million) and on Corporate and Investment Banking portfolio (EUR 27.7 million).

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

ACCOUNTING PRINCIPLES

LOAN COMMITMENTS

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

GUARANTEE COMMITMENTS

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

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

SECURITIES COMMITMENTS

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

FIDUCIARY ASSETS

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

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

1. COMMITMENTS

COMMITMENTS GRANTED

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

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

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Loan commitments	3 290 339	5 787 561
To banks	282 322	2 200 409
To customers	3 008 017	3 587 152
<i>Issuance facilities</i>	-	-
<i>Confirmed credit lines</i>	3 008 017	3 587 152
<i>Others</i>	-	-
Guarantee commitments	1 118 609	1 235 462
<i>On behalf of banks</i>	231 769	363 299
<i>On behalf of customers</i>	886 840	872 163
Securities commitments	387 127	3 709 129
<i>Securities to be delivered</i>	387 127	3 709 129

Part of the variation compared to 2019, is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

COMMITMENTS RECEIVED

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Loan commitments	1 670 547	1 862 374
<i>From banks</i>	1 670 547	1 862 374
Guarantee commitments	13 961 881	14 412 982
<i>From banks</i>	12 259 873	12 630 141
<i>Other guarantee commitments</i>	1 702 008	1 782 841
Securities commitments	21 661	7 212
<i>Securities to be received</i>	21 661	7 212

2. FINANCIAL ASSETS PLEDGED AND RECEIVED AS SECURITY

FINANCIAL ASSETS PLEDGED

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Book value of assets pledged as cash for transactions in financial instruments ⁽¹⁾	953 454	5 533 092
Book value of assets pledged as deposit for off-balance sheet commitments	172 766	172 766
Total	1 126 220	5 705 858

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

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

As at 31 December 2020, the Group has pledged:

- No collateral asset for secured issuances in amount (31 December 2019: EUR 4 468 186 thousand related to SG Issuer);
- collateral for derivative transactions for EUR 331 290 thousand (31 December 2019: EUR 234 515 thousand) and;
- collateral for repurchase agreements for EUR 622 164 thousand (31 December 2019: EUR 830 391 thousand).

FINANCIAL LIABILITIES RECEIVED AS PLEDGE

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Book value of liabilities received as pledged security for transactions in financial instruments	12 727 691	13 095 097
Book value of liabilities received as pledged security for off-balance sheet commitments	1 144 597	1 325 536
Total	13 872 288	14 420 633

3. ASSETS UNDER MANAGEMENT

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Custody assets	278 274 647	338 254 181
Fiduciary transactions	8 506 908	6 708 803
Asset management	17 840 993	17 300 598
Total	304 622 548	362 263 582

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

A fiduciary issuance program has been launched by Societe Generale Luxembourg in 2017, according to the Luxembourg Law of the 27th March 2003 on fiduciary operations.

As at 31 December 2020, the Group had 69 outstanding notes, listed on the Luxembourg Stock Exchange, amounting to EUR 6.7 billion:

- 21 notes in JPY (nominal amount of JPY 509.5 billion);
- 48 notes in EUR (nominal amount of EUR 2.64 billion).

The Group fiduciary issuance with the Parent Company Societe Generale represents EUR 622 million as of 31 December 2020 (please refer to Note 8.7).

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

Note 3.11. – Transferred financial assets

ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

1. TRANSFERRED FINANCIAL ASSETS NOT DERECOGNISED

(in EUR thousand)	31.12.2020	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
Financial assets at fair value through profit or loss	591 685	684 886
Financial assets at fair value through other comprehensive income	–	–
Total	591 685	684 886

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

2. TRANSFERRED FINANCIAL ASSETS PARTIALLY OR FULLY DERECOGNISED

At 31 December 2020 and 2019, the Group carried out no material transactions resulting in the partial or full derecognition of financial assets leaving the Group with a continuous involvement in said assets.

Note 3.12. – Offsetting financial assets and financial liabilities

ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

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

As at 31 December 2019, the impact of the offsetting of financial assets and financial liabilities was KEUR 30 038 519 for the non-sold Notes and the corresponding Fully Funded Swaps and KEUR 6 692 028 for the non-sold Warrants and the corresponding Options.

As at 31 December 2020, SGIS is not fully consolidated anymore (see Note 2.2.2). Therefore there is no impact due to offsetting of financial assets and liabilities in the Group's balance sheet anymore.

1. IMPACT OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

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

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

NOTE 4 – OTHER ACTIVITIES

Note 4.1. – Fee income and expense

ACCOUNTING PRINCIPLES

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

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

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

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

(in EUR thousand)	2020			2019*		
	Income	Expense	Net	Income	Expense	Net
Transactions with banks	667	(4 444)	(3 777)	369	(4 261)	(3 892)
Transactions with customers	88 766	-	88 766	60 666	-	60 666
Financial instruments operations	167 768	(78 586)	89 182	145 671	(45 311)	100 360
Securities transactions	101 388	(77 494)	23 894	78 377	(45 235)	33 142
Primary market transactions	51 028	-	51 028	57 938	-	57 938
Foreign exchange transactions and financial derivatives	15 352	(1 092)	14 260	9 356	(76)	9 280
Loan and guarantee commitments	48 036	(41 484)	6 552	43 656	(38 857)	4 799
Sundry service	119 829	-	119 829	119 707	-	119 707
<i>Fund administration fees and custody fees</i>	58 677	-	58 677	57 369	-	57 369
<i>Asset management fees</i>	52 859	-	52 859	3 230	-	3 230
<i>Means of payment fees</i>	3 288	-	3 288	2 402	-	2 402
<i>Insurance products fees</i>	2 227	-	2 227	4 213	-	4 213
<i>Underwriting fees of UCITS</i>	2 778	-	2 778	52 493	-	52 493
Others	19 374	(30 291)	(10 917)	57 242	(46 530)	10 712
Total	444 440	(154 805)	289 635	427 311	(134 959)	292 352

* New subline item has been integrated and restated figures.

The change in consolidation method of SG Issuer S.A. was carried out on 30 November 2020, therefore the profit and loss of the entity is fully included in the consolidated income statement over 11 months.

CHANGE IN CLASSIFICATION FROM COMMISSION TO INTEREST FOR SG CMF

The Bank performed the reclassification from Fee expense to Interest and similar expense.

Figures from 31 December 2019 have been restated for an amount of EUR 24 144 million.

Note 4.2. – Income and expenses from other activities

ACCOUNTING PRINCIPLES

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

The income and expense from other activities mainly relate to:

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

(in EUR thousand)	2020	2019
Income from other activities ⁽¹⁾	37 070	26 936
Expenses from other activities	(9 584)	(10 521)
Total	27 486	16 415

(1) In 2019, income was related mainly to revenues from SGIS (EUR 14 384 thousand, EUR 0 as at 2020). For 2020 income is mainly related to non-recurring insurance reimbursement (EUR 28 500 thousand).

The change in consolidation method of SG Issuer S.A. was carried out on 30 November 2020, therefore the profit and loss of the entity is fully included in the consolidated income statement over 11 months.

Note 4.3. – Insurance activities

MAKING IT SIMPLE

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

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

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

DEFERRED APPLICATION OF IFRS 9 BY INSURANCE SUBSIDIARIES

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

The insurance subsidiaries of the Group, SG Ré, Sogelife and SG LIB respect the criteria laid out in IFRS 4 §20B, namely:

- the subsidiaries do not apply IFRS 9 yet;
- the subsidiaries’ activities are predominantly (over 90%) connected with insurance, as described in IFRS 4 §20D, taking into account the liabilities linked to the (re)insurance contracts.

The European Commission also extended the deferral option to allow financial conglomerates falling within the scope of

Directive 2002/87/EC to elect that all their entities operating in the insurance sector within the meaning of that Directive will defer the effective date of IFRS 9 until 1 January 2023.

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

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

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

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

1. INSURANCE CONTRACTS RELATED LIABILITIES

ACCOUNTING PRINCIPLES

UNDERWRITING RESERVES OF INSURANCE COMPANIES

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

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

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

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

In life insurance products:

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

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

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

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

CLASSIFICATION OF FINANCIAL LIABILITIES

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

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

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

BREAKDOWN OF INSURANCE CONTRACTS RELATED LIABILITIES

(in EUR thousand)

	31.12.2020	31.12.2019
Underwriting reserves of insurance companies	91 623	207 893
Total	91 623	207 893

UNDERWRITING RESERVES OF INSURANCE COMPANIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Life insurance underwriting reserves	14 759	135 470
Other than life insurance underwriting reserves	76 864	72 423
Total	91 623	207 893
Attributable to reinsurers	(185)	(3 484)
Underwriting reserves of insurance net of the share attributable to reinsurers	91 438	204 409

STATEMENT OF CHANGES IN UNDERWRITING RESERVES

<i>(in EUR thousand)</i>	Underwriting reserves for unit- linked policies	Life insurance underwriting reserves	Non-life insurance underwriting reserves
Reserves at 1 January 2020 (except provisions for deferred profit-sharing)	–	135 470	72 423
Allocation to insurance reserves	–	–	4 441
Revaluation of unit-linked policies	–	–	–
Charges deducted from unit-linked policies	–	–	–
Transfers and allocation adjustments	–	–	–
New customers	–	–	–
Profit-sharing	–	–	–
Others	–	(120 711)	–
Reserves at 31 December 2020 (except provisions for de-ferred profit-sharing)	–	14 759	76 864

UNDERWRITING OF INSURANCE COMPANIES BY REMAINING MATURITY

<i>(in EUR thousand)</i>	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31.12.2020
Underwriting reserves of insurance companies	–	7 635	30 540	53 448	91 623

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On 16 November 2020, the Bank entered into two commutation agreements with two related insurance companies, retroactive to 1 October 2020. The insurance commitments contracts and the corresponding representative assets were transferred to two related insurance undertakings. The main accounting effects of this transaction are as follows:

(in EUR thousand)	31.12.2020
Assets	
Investments from reinsurance activities	(33 577)
Cash due from banks	(102 390)
Liabilities	
Provisions for unearned premiums	10 881
Life insurance provision	121 931
Provision for claims	1 483
Reinsurance contracts related liabilities	1 671
Income Statement	
Change in the provision for unearned premiums	(10 881)
Claims incurred, net of reinsurance	134 296
Change in provision for claims	(1 483)
Change in other technical provisions, net of reinsurance	(121 931)

2.2. INSURANCE ACTIVITIES INVESTMENTS

As at 31 December 2020, derivative and non-derivative financial assets and investment property held by insurance entities are isolated on the balance sheet under *Investments of insurance companies*.

ACCOUNTING PRINCIPLES

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

- *Financial assets at fair value through profit or loss*: these are financial assets held for trading purposes, which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- *Loans and receivables*: these include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired, and not designated upon initial recognition to be carried at fair value through profit or loss (in accordance with the fair value option). They are measured at amortised cost, and impairment, determined on an individual or a collective basis, may be recorded if appropriate;
- *Held-to-maturity financial assets*: these are non-derivative financial assets with fixed or determinable payments and a fixed maturity, that are quoted in an active market and which

the Group has the intention and ability to hold to maturity. They are measured at their amortised cost and may be subject to impairment as appropriate. Amortised cost includes premiums and discounts as well as transaction costs;

- *Available-for-sale financial assets*: these are non-derivative financial assets held for an indeterminate period, which the Group may sell at any time. By default, they are any assets that do not fall into one of the above three categories. These instruments are measured at fair value against Unrealised or deferred gains and losses. Interest accrued or paid on debt securities is recognised in the income statement using the effective interest rate method while dividend income earned on equity securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

RECLASSIFICATION OF FINANCIAL ASSETS

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

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

IMPAIRMENT

Impairment of financial assets measured at amortised cost

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

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

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

The allocations and reversals of impairments are recorded in the income statement under net income from investments in the Net income from insurance activities. The impaired loans or receivables are remunerated for accounting purposes by the reversal over time of the discounting to present value, which is recorded under interest income in the Net income from insurance activities. Where there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, be it significant or not, insurance entity includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment. In a homogeneous portfolio, as soon as a credit risk is incurred on a group of financial instruments, impairment is recognised without waiting for the risk to individually affect one or more receivables.

Impairment of available-for-sale financial assets

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

For listed equity instruments, a significant or prolonged decline in their price below their acquisition cost constitutes objective evidence of impairment. For this purpose, insurance entities consider as impaired listed shares showing an unrealised loss greater than 50% of their acquisition price on the balance sheet

date, as well as listed shares for which the quoted prices have been below their acquisition price on every trading day for at least the last 24 months before the balance sheet date. Further factors, such as the financial situation of the issuer or its development outlook, can lead the insurance entities to consider that the cost of its investment may not be recovered even if the abovementioned criteria are not met. An impairment loss is then recorded through net income equal to the difference between the last quoted price of the security on the balance sheet date and its acquisition price.

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

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

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

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

OTHER ACCOUNTING PRINCIPLES

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

OVERVIEW OF INVESTMENTS OF INSURANCE ACTIVITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Available-for-sale financial assets	442 651	527 812
<i>Debt instruments</i>	440 643	373 027
<i>Equity instruments</i>	2 008	154 785
Due from banks	31 325	27 436
Customer loans	–	–
Real estate investments	–	–
Total investments of insurance activities before elimination of intercompany transactions	473 976	555 248
Elimination of intercompany transactions	(31 325)	(27 436)
Total investments of insurance activities after elimination of intercompany transactions⁽¹⁾	442 651	527 812

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

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

ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

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

<i>(in EUR thousand)</i>	31.12.2020			
	Basic debt instruments	Equity instruments	Total carrying amount	Fair value
Financial assets at fair value through profit or loss	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	440 643	2 008	442 651	442 651
Due from banks	–	–	–	–
Customer loans	–	–	–	–
Total financial investments	440 643	2 008	442 651	442 651

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

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

<i>(in EUR thousand)</i>	31.12.2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (trading portfolio)	–	–	–	–
Financial assets at fair value through profit or loss using the fair value option	–	–	–	–
Hedging derivatives	–	–	–	–
Available-for-sale financial assets	440 643	–	2 008	442 651
Total	440 643	–	2 008	442 651

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

CHANGES IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

<i>(in EUR thousand)</i>	2020	2019
Balance as of 1 January	527 812	479 659
Acquisitions	170 838	151 389
Disposals / redemptions	(253 731)	(113 665)
Transfers to held-to-maturity financial assets	–	–
Change in scope and others	(3 386)	(3 230)
Gains and losses on changes in fair value recognised directly in equity during the year	224	13 717
Impairment losses on equity instruments recognised in profit and loss	894	(58)
Translation differences	–	–
Balance as of 31 December	442 651	527 812

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

	31.12.2020		
<i>(in EUR thousand)</i>	Capital gains	Capital losses	Net revaluation
Unrealised gains and losses of insurance companies	31 059	(554)	30 505
<i>On equity instruments available-for-sale</i>	-	(319)	(319)
<i>On debt instruments available-for-sale</i>	31 059	(235)	30 824
<i>Deferred profit-sharing</i>	-	-	-

	31.12.2019		
<i>(in EUR thousand)</i>	Capital gains	Capital losses	Net revaluation
Unrealised gains and losses of insurance companies	31 165	(884)	30 281
<i>On equity instruments available-for-sale</i>	19 449	(319)	19 130
<i>On debt instruments available-for-sale</i>	11 716	(565)	11 151
<i>Deferred profit-sharing</i>	-	-	-

3. NET INCOME FROM INSURANCE ACTIVITIES

ACCOUNTING PRINCIPLES**INCOME AND EXPENSE RELATED TO INSURANCE CONTRACTS**

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

Other income and expense are recorded under the appropriate headings.

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

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

<i>(in EUR thousand)</i>	2020	2019
Net premiums	88 046	122 090
Net income from investments	11 451	7 679
Cost of benefits (including changes in reserves)	(71 933)	(89 747)
Other net technical income (expense)	(3 927)	(4 398)
Net income of insurance activities	23 637	35 624
Funding cost	(2 882)	(2 802)
Net banking income of insurance companies	20 755	32 822

NET INCOME FROM INVESTMENTS

<i>(in EUR thousand)</i>	2020	2019
Dividend income on equity instruments	162	435
Interest income		
<i>On available-for-sale financial assets</i>	6 320	7 050
<i>On loans and receivables</i>	-	-
<i>Other net interest income</i>	127	-
Net gains or losses on financial instruments at fair value through profit or loss	-	(1 745)
Net gains or losses on available-for-sale financial instruments		
<i>Capital gain or loss on sale of debt instruments</i>	4 944	1 997
<i>Capital gain or loss on sale of equity instruments</i>	(996)	-
<i>Impairment losses on equity instruments</i>	894	(58)
Net gains or losses on real estate investments	-	-
Total net income from investments	11 451	7 679

4. MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risks:

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

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

Risk Management techniques are based on the following:

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

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimization of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analyzed by the Finance and Risk Department of the insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behaviour (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per issuer rating and assets class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA report (Own Risk and Solvency Assessment), transferred to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

BREAKDOWN BY RATING OF BASIC FINANCIAL INSTRUMENTS

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

<i>(in EUR thousand)</i>	31.12.2020		
	Available-for-sale financial assets	Due from banks	Total
AAA	35 218	–	35 218
AA+ / AA / AA-	163 606	–	163 606
A+ / A / A-	81 412	31 325	112 737
BBB+ / BBB / BBB-	141 003	–	141 003
BB+ / BB / BB-	–	–	–
B+ / B / B-	–	–	–
CCC+ / CCC / CCC-	–	–	–
CC+ / CC / CC-	–	–	–
Lower than CC-	–	–	–
Without rating	21 412	–	21 412
Total before intercompany elimination	442 651	31 325	473 976
Intercompany amounts	–	(31 325)	(31 325)
Carrying amount	442 651	–	442 651

The rating scale is the scale used for Solvency 2 purposes, which calls for the second highest rating determined by the rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings) to be used. The ratings in question apply to issues or, where these are not available, to issuers.

<i>(in EUR thousand)</i>	31.12.2019		
	Available-for-sale financial assets	Due from banks	Total
AAA	34 296	–	34 296
AA+ / AA / AA-	191 332	–	191 332
A+ / A / A-	115 290	27 436	142 726
BBB+ / BBB / BBB-	164 321	–	164 321
BB+ / BB / BB-	–	–	–
B+ / B / B-	–	–	–
CCC+ / CCC / CCC-	–	–	–
CC+ / CC / CC-	–	–	–
Lower than CC-	–	–	–
Without rating	22 573	–	22 573
Total before intercompany elimination	527 812	27 436	555 248
Intercompany amounts	–	(27 436)	(27 436)
Carrying amount	527 812	–	527 812

Note 4.4. – Other Assets And Liabilities

1. OTHER ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Guarantee deposits paid ⁽¹⁾	343 559	252 020
Settlement accounts on securities transactions	87 358	334 603
Prepaid expenses	7 751	8 950
Miscellaneous receivables	210 340	306 369
<i>Amounts receivable and prepayments</i>	<i>166 175</i>	<i>161 330</i>
<i>Accrued income</i>	<i>15 094</i>	<i>16 975</i>
<i>Other</i>	<i>29 071</i>	<i>128 064</i>
Gross amount	649 008	901 942
Impairment	(169)	(166)
Net amount	648 839	901 776

2. OTHER LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Guarantee deposits received	9 345	22 040
Settlement accounts on securities transactions	71 537	430 237
Expenses payable on employee benefits	21 405	25 953
Lease liability	93 252	106 962
Deferred income	18 826	16 397
Miscellaneous payables ⁽²⁾	1 078 024	695 330
<i>Other securities transactions</i>	<i>12</i>	<i>14</i>
<i>Amounts payables and sundry creditors</i>	<i>1 078 012</i>	<i>695 316</i>
Total	1 292 389	1 296 919

(1) Mainly relates to guarantee deposits paid on financial instruments.

(2) Miscellaneous payables primarily include other securities transactions, amounts payable and sundry creditors

NOTE 5 – PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

MAKING IT SIMPLE

Employee benefits correspond to the compensation granted by the Group to its employees in exchange for work carried out during the annual reporting period.

All forms of compensation for work rendered are recorded in the expenses:

- whether it be paid to employees or to outside social security agencies,
- whether it be paid during the annual reporting period or to be paid by the Group in the future as entitlements to employees (pension plans, retirement benefits...).
- whether it be paid in cash or in shares of Societe Generale S.A.

ACCOUNTING PRINCIPLES

Employee benefits are divided into four categories:

- Short-term employee benefits which are employee benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, such as fixed and variable compensation, annual leave, taxes and social security contributions, mandatory employer contributions and profit-sharing;
- Post-employment benefits, including defined contributions plans and defined benefit plans such as pension plans and retirement benefits;
- Long-term employee benefits which are employee benefits not expected to be settled wholly before twelve months, such as defined variable compensation paid in cash and not indexed to the Group share, long service awards and time saving accounts;
- Termination benefits.

Note 5.1. – Personnel expenses and related party transactions

ACCOUNTING PRINCIPLES

Personnel expenses include all expenses related to personnel, including employee benefits and expenses related to payments based on the Group shares.

Short-term employee benefits are recorded under *Personnel expenses* during the period according to the services provided by the employee.

The accounting principles relating to post-employment benefits and long-term benefits are described in Note 5.2.

PERSONNEL EXPENSES

(in EUR thousand)

	2020	2019
Employee compensation	(171 418)	(191 773)
Social security charges and payroll taxes	(17 264)	(18 326)
Net pension expenses - defined contribution plans	(6 123)	(6 740)
Net pension expenses - defined benefit plans	(8 624)	(9 327)
Total	(203 429)	(226 166)

Over the course of 2020, the Group employed an average of 1 789 employees (2019: 1 993 employees), including representative offices abroad.

Staff may be broken down as follows:

<i>Average full time-equivalent employees over the year</i>	31.12.2020	31.12.2019
General Management	30	31
Senior managers	414	479
Other employees	1 345	1 483
Total	1 789	1 993

Note 5.2. – Employee benefits

Group entities in Luxembourg and abroad, may award their employees:

- post-employment benefits, such as pension plans or retirement benefits;
- termination benefits.

DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS

<i>(in EUR thousand)</i>	Provisions at 01.01.2020	Allocations⁽¹⁾	Reversals/ utilization	Net allocation	Actuarial gains and losses	Other	Provisions at 31.12.2020
Provisions for employee benefits	70 666	6 906	(7 345)	(439)	2 889	(1 510)	71 606
<i>Provisions for retirement plans</i>	58 854	5 595	(6 802)	(1 207)	2 889	(11)	60 525
<i>Provisions for other long-term benefits</i>	10 444	1 222	(252)	970	-	(1 499)	9 915
<i>Other provisions for employee benefits</i>	1 368	89	(291)	(202)	-	-	1 166

1. POST-EMPLOYMENT BENEFITS

ACCOUNTING PRINCIPLES

Post-employment benefits can be broken down into two categories: defined contribution pension plans or defined benefit pension plans.

DEFINED CONTRIBUTION PLANS

Defined contribution plans limit the Group's liability to the subscriptions paid into the plan but do not commit the Group to a specific level of future benefits. Contributions paid are recorded as an expense for the current year.

DEFINED BENEFIT PLANS

Defined benefit plans commit the Group, either formally or constructively, to pay a certain amount or level of future benefits and therefore bear the associated medium or long-term risk.

Provisions are recognised on the liabilities side of the balance sheet under *Provisions*, to cover the whole of these retirement obligations. These provisions are assessed regularly by independent actuaries using the projected unit credit method. This valuation technique incorporates assumptions about demographics, early retirement, salary rises and discount and inflation rates.

The Group previously chose to finance defined benefit plans through assets held by a long-term employee benefit fund or by

qualifying insurance policies. Since then, the Group transferred employees to a defined contributions plan on voluntary basis.

Funding assets, made by funds are classified as plan assets if assets are held by a fund that is legally separate from the reporting entity and are available to be used only to pay employee benefits.

When these plans are financed from external funds classified as plan assets, the fair value of these funds is subtracted from the provision to cover obligations.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognised as actuarial gains and losses. Actuarial gains and losses, as well as the return on plan assets excluding amounts expensed as net interest on the net defined benefit liability (or asset) and any change in the effect of the asset ceiling are components used to re-measure the net defined benefit liability (or asset). These components are immediately and fully recognised in shareholder's equity among Unrealised or deferred gains and losses and they cannot be subsequently reclassified as income.

In the Group consolidated financial statements, since 1 January 2019, these items that cannot be subsequently reclassified as income are displayed separately in the Statement of net income and unrealised or deferred gain and losses, but are transferred immediately to retained earnings in the Statement of changes in shareholder's equity so that they are presented directly under Retained earnings on the liabilities side of the balance sheet (IAS 19R).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Where a new or amended plan comes into force, past service cost is immediately recognised in profit or loss.

An annual charge is recorded under Personnel expenses for defined benefit plans consisting of:

- the additional entitlements vested by each employee (current service cost);

- past service cost resulting from a plan amendment or a curtailment;
- the financial expense resulting from the discount rate and the interest income on plan assets (net interest on the net defined benefit liability or asset);
- plan settlements.

POST-EMPLOYMENT DEFINED BENEFIT PLANS

PLANS' PROVISIONS AND ASSUMPTIONS

The defined contribution plans provided to employees of the Group are located in Luxembourg, Monaco and Switzerland. The following disclosures are provided only for the main retirement plans of the Group: the Luxembourg plan in place at Societe Generale Luxembourg S.A. and the Swiss plan in place at Société Générale Private Banking (Suisse) S.A. ("SGPBS").

THE LUXEMBOURG RETIREMENT PLAN PROVISIONS

The Group offers a supplemental defined benefit retirement plan to all eligible employees at its headquarters in Luxembourg.

Under the defined benefit retirement plan, payment of a supplementary pension to the Luxembourg government pension starting

from age 65 is planned. The goal of the business pension plan is to grant, for 35 years of service, benefits equal to approximately 60% of salary at retirement, including Luxembourg Social Security.

More specifically, for 35 years of service in the company, the retirement benefit will be equal to 8.33% of the portion of the final pensionable salary, limited to the pension ceiling plus 62.5% of the final pensionable salary that surpasses this ceiling. The salary used for calculation purposes is the annual base salary. The pension benefit is a planned joint and survivor annuity of 60% to the survivor after retirement.

The plan allows for payment of capital instead of the planned supplemental retirement annuity. By its nature, this defined benefit retirement plan exposes SG Luxembourg to certain associated actuarial risks*, such as investment risk, interest rate risk, longevity, inflation and the effect of an increase in payroll.

The risks defined below are applicable for all plans defined among the Group:

Investment risk	The present value of the defined benefit commitment is calculated using a discount rate determined by reference to the interest rates of the highest-quality corporate bonds. If the return on plan assets is below this rate, this will create a plan deficit. The plan assets are limited to those of a reduced insurance group that benefits from a guaranteed return from an insurer.
Interest rate risk	A decline in interest rates for bonds will increase the plan's commitments.
Longevity risk	The present value of the pension commitment is calculated taking into account the estimated mortality tables. The objective being to best reflect the mortality of the pension plan's participants. However, an increase in the life expectancy of participants will increase the plan's commitments.
Risk of payroll growth	The present value of the pension commitment is calculated under the assumption that the pension plan's participants' salaries will increase. Any future increase that is greater than the estimate will increase the plan's commitments.
Inflation risk	The inflation rate directly affects the changes in payrolls and the pension ceiling. An increase in the inflation rate will cause an increase in the current value of the pension commitments.

Risks related to benefits paid to beneficiaries in the event of the death of a plan participant before retirement age is insured by an insurance company.

* Those risks are applicable to all pension plan of the Group.

THE SWISS RETIREMENT PLAN PROVISIONS

The plan provisions detailed were effective from 1 January 2011.

All employees aged at least 18 with an indefinite working contract beyond 3 months are eligible.

For death and disability benefits, participation starts at hire date, but not before 1st of January following 17th birthday. For retirement and termination benefits, participation starts at hire date, but not before 1st of January following 22nd birthday.

The participant has the option of electing to take all the benefit as a pension payable monthly or electing to take part or all of the benefit as a lump sum.

Annual pension is payable monthly (if married or have a registered partner, 60% J&S annuity and if single, life annuity): Accrued Retirement Savings Capital converted to annuity using conversion rates, varying by portion of benefit associated with BVG (Survivors', disability and pension plan) minimum benefit and portion of benefit in excess of BVG minimum benefit.

The principal assumptions used for measuring pension fund obligations are summarized below:

	31.12.2020		31.12.2019	
Luxembourg				
SG Luxembourg				
Discount rate	0.30%		0.82%	
Inflation rate	1.19%		1.30%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate	Age	Rate	Age	Rate
	<35 years	1.9%-2.00%	<35 years	1.9%-2.00%
	35 years <= age < 45 years	1%-1.3%	35 years <= age < 45 years	1%-1.3%
	45 years <= age < 55 years	0.3%-0.65%	45 years <= age < 55 years	0.3%-0.65%
	55 years <= age < 65 years	0%-0.7%	55 years <= age < 65 years	0%-0.7%
Switzerland				
SGPBS				
Discount rate	0.09%			0.13%
Inflation rate	1.00%			1.00%
Expected rate of return on assets	n/a			n/a
Compensation increase rate (excluding indexation)	0.20%			0.20%

The discount rate used as at 31 December of the year in question is based on the yield curve for corporate bonds rated AA.

This curve is observed in October 2020 via the Merrill Lynch Index.

IAS19 requires taking the same rate for the expected return. The inflation rates used are in line with the long-term objectives of the central banks of the Euro zone.

Lump sum: Accrued Retirement Savings Capital.

The plan must be financed.

The components of the overall contribution include the cost of:

- retirement benefits;
- risk benefits (death, disability), including cost-of-living adjustments;
- payments to the Guarantee Fund;
- administrative costs.

The Group has measured the obligations of the retirement plan as at 31 December 2020 and as at 31 December 2019 in accordance with IAS19 Revised.

The present value of the defined benefit pension obligation as well as the pension cost related to one year of service were measured using the actuarial method called the "projected unit credit method".

The cost of services rendered and the net interest on net liabilities (assets) are reported under "Personnel expenses" in profit or loss.

Following the adoption of IAS 19R, the "corridor" method is no longer used: net actuarial gains are now reported at their total amount on the liability side of the consolidated statement of financial position.

Revaluations of net liabilities (assets) are reported in the other items of comprehensive income.

PENSION PLAN LIABILITIES

The pension plan's liabilities according to IAS 19R breaks down as follows:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Defined benefit obligation	216 508	217 981
Fair value of plan assets	(155 983)	(159 127)
Net defined benefit asset/ (liability)	60 525	58 854

BREAKDOWN OF FAIR VALUE OF PLAN ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Insurance contract	7 911	7 863
Equity	48 346	47 807
Bonds	61 062	62 316
Real Estate	22 251	22 130
Others	16 413	19 011
Total	155 983	159 127

ACTUARIAL GAINS AND LOSSES

Total actuarial gains and losses increases or decreases provision booked by the bank.

Actuarial gains and losses for the year are booked against Other Comprehensive Income.

Each January 1st, actuarial gains and losses for the year are reclassified towards reserves with no impact on provision calculation

As at 31 December 2020, total actuarial gains and losses recorded in OCI and retained earnings, gross from deferred taxes, were as follows:

<i>(in EUR thousand)</i>	
Total at 1 January 2019	(8 994)
Net 2019 change ⁽¹⁾	8 836
Total at 31 December 2019	(158)
Net 2020 change ⁽²⁾	2 889
Total at 31 December 2020	2 731

RECONCILIATION OF ASSETS AND LIABILITIES RECORDED IN THE BALANCE SHEET

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
A - Present value of funded defined benefit obligations	216 508	217 981
B - Fair value of plan assets and separate assets	(155 983)	(159 127)
C = A + B Deficit (surplus)	60 525	58 854
D - Present value of unfunded defined benefit obligations	-	-
E - Change in asset ceiling	-	-
C + D + E = Net balance recorded in the balance sheet	60 525	58 854

(1) See note 7.2 Actuarial gains and losses on defined benefits plans gross value 01.01.2020

(2) See note 7.2 Actuarial gains and losses on defined benefits plans gross value 31.12.2020

COMPONENTS OF THE COST OF DEFINED BENEFITS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Current service cost including social security contributions	5 250	6 219
Employee contributions	–	–
Past service cost/curtailments	–	–
Settlements	–	–
Net interest	345	632
A - Components recognised in income statement	5 595	6 851
Actuarial gains and losses on assets	–	–
Actuarial gains and losses due to changes in demographic assumptions	–	–
Actuarial gains and losses due to changes in economic and financial assumptions	1 256	15 814
Actuarial gains and losses due to experience	352	54
Return on assets excluding amounts included in interest income	1 281	(7 032)
B - Components recognised in unrealised or deferred gains and losses	2 889	8 836
C = A + B Total components of the cost of defined benefits	8 484	15 687

CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Balance at 1 January	217 981	192 119
Current service cost including social security contributions	11 703	10 703
Past service cost / curtailments	(3 735)	(1 733)
Settlements	–	–
Net interest	552	1 633
Actuarial gains and losses due to changes in demographic assumptions	–	–
Actuarial gains and losses due to changes in economic and financial assumptions	–	–
Actuarial gains and losses due to experience	–	–
Revaluation – actuarial gains and losses	1 477	16 288
Foreign exchange adjustment	814	5 970
Benefit payments	(1 451)	(1 669)
Change in consolidation scope	–	–
Payment from plan assets	(10 863)	(5 308)
Transfers and others	30	(22)
Balance at 31 December	216 508	217 981

CHANGES IN THE FAIR VALUE OF PLAN ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Balance at 1 January	159 127	142 374
Interest income	208	1 001
Expected return on plan assets	–	–
Expected return on separate assets	–	–
Actuarial gains and losses due to assets	(1 309)	7 009
Foreign exchange adjustment	764	5 426
Employee contributions	2 771	2 963
Employer contributions to plan assets	5 285	5 662
Benefit payments	(10 863)	(5 308)
Change in consolidation scope	–	–
Return on assets excluding amounts included in interest income	–	–
Transfers and others	–	–
Balance at 31 December	155 983	159 127

SENSITIVITY ANALYSIS

Actuarial assumptions which are significant in determining pension commitments are: discount rates, inflation and future payroll growth.

The calculation's sensitivity to these individual key assumptions was analyzed on the date of the calculation, i.e. 31 December 2020, using the same projection method (projected unit credit method).

The impact of each individual assumption is not representative of the potential impact of a sensitivity analysis based on combined variations of assumptions.

DBO sensitivity to a change of assumptions by +0.5%, -0.5% would have the following effect as at 31 December 2020:

2020

Luxembourg

SG Luxembourg

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	6.7%	6.0%	(4.0)%
Discount rate +0,5%:	(6.1)%	(5.5)%	3.2%
Inflation rate -0,5%:	(4.8)%	(5.8)%	(5.7)%
Inflation rate +0,5%:	5.1%	6.2%	6.1%
Salary increase +0,5%:	9.7%	12.0%	11.9%

Switzerland

Sensitivity	Defined benefit obligation	Service cost	Expected expenses N+1
Discount rate -0,5%:	7.0%	7.8%	7.7%
Discount rate +0,5%:	(6.3)%	(7.5)%	(9.4)%
Inflation rate -0,5%:	(1.0)%	0.3%	0.4%
Inflation rate +0,5%:	1.0%	(0.4)%	(0.5)%
Salary increase +0,5%:	1.1%	(0.4)%	(0.5)%

LUXEMBOURG'S PLAN FINANCING

Luxembourg law does not require companies to outsource pension obligations to a pension fund or an insurance group.

The Group's retirement plan is funded directly by the payment of benefits when they become due. In order to provide the benefits expected, the Group recognizes accounting reserves in consolidated statement of financial position liabilities. The retirement plan can be considered as an internally-funded retirement plan. Pension plan liabilities are recognized in the consolidated balance sheet of the company while pension

Plan duration:

<i>In years</i>		31.12.2020	31.12.2019
Luxembourg	SG Luxembourg	13.0	14.2
Switzerland	SGPBS	13.0	13.6

Expected future benefit payments are as follows:

Year	Luxembourg	Switzerland
	31.12.2020	31.12.2020
	<i>(in EUR thousand)</i>	
2022	1 112	9 046
2023	1 589	9 183
2024	1 405	9 572
2025	2 264	8 749
2026–2030	15 053	43 059

plan assets are included in the assets used in the company's business activities. Should the company become insolvent, a mechanism to protect pension rights is provided through insolvency insurance with the German pension security fund ("Pensionssicherungsverein" - PSV).

Finally, for staff hired before 1997, a small part of the retirement obligation is funded in a former insurance group that no longer receives additional inflows of contributions. There is also a reduced hedging insurance reserve.

Year	Luxembourg	Switzerland
	31.12.2019	31.12.2019
	<i>(in EUR thousand)</i>	
2021	963	11 069
2022	856	9 385
2023	1 321	9 462
2024	1 194	9 970
2025–2028	13 561	44 063

TREATMENT OF ENTITIES THAT PARTICIPATE IN THE PLAN BUT ARE NOT PART OF SG LUXEMBOURG GROUP

For entities that participate in the plan but are not part of SG Luxembourg Group, paragraphs 32 to 39 of IAS 19 apply, and the plan is treated as a multiemployer plan.

There are two possible scenarios, depending on whether the entity does or does not have sufficient data to categorize the plan in its books as a defined benefit or defined contribution plan.

The number of employees (active or retired) benefiting from the plan in each entity must be considered as a major feature. In fact, the use of projection techniques (IAS 19R's projected unit credit method) and all demographic parameters based on a small number of people cannot give truly pertinent results and generates significant statistical volatility each time there is a change in personnel. In such cases the results could be considered insufficiently reliable.

Furthermore, some of these entities have an employee policy based on the use of employees that stay with the entity for a short period (four to five years) and come from/return to SG Luxembourg, effectively resulting in high employee turnover. Similarly, in this context, projecting these employees' compensation over the long term does not make much sense as, by design, they do not remain with the company although they stay with the Group.

Within this framework, and in order to prevent administrative work that does not take into account financial challenges at the SG Luxembourg Group level, these entities treat this plan as a defined benefit plan (paragraph 36) and pay SG Luxembourg their share of the total annual cost of financing the plan, proportional to the percentage of total eligible employees represented by the entities' employees, through a contractual agreement.

The materiality threshold has been set at 20 people (i.e., 3% of the total number of employees benefiting from the plan) as defined with the actuary in charge of the work.

TREATMENT OF ENTITIES THAT DO NOT PARTICIPATE IN THE PENSION PLAN AND EMPLOY STAFF FROM AN AFFILIATED ENTITY

This occurs when SG Luxembourg assigns its personnel to other Societe Generale Group entities. In such cases, employee entitlements in the pension plan are maintained during their assignment period.

The obligation remains with the original affiliation entity. The unaffiliated entity, to which an employee is assigned, has no obligation, not even an implicit one, to the defined benefit plan.

The original entity therefore invoices the expense of maintaining the employee's entitlements under the supplementary pension plan to the entity to which the employee is assigned, as it does for other employee benefits. Societe Generale has implemented a standard re-invoicing contract that the assigning entity must use, filling out the appendices with the various benefits due to the employee in question.

Accordingly, the accounting treatment used is the one used for intra-Group billing of payroll expenses in the entity to which an employee is assigned and for defined benefits in the original entity. Income received from each entity contributes to the financing of the plan at the original entity.

For simplicity's sake, the invoicing principle is based on a fixed amount, defined annually in proportion to the length of time that employees are assigned to an entity and based on the annual cost of the plan and the percentage represented by assigned employees in the total number of eligible employees in the plan.

DEFINED CONTRIBUTION PLAN

Starting in 2015, all new incoming SG Luxembourg employees enroll in a defined contribution pension plan.

RETIREMENT CAPITAL

Retirement capital, or Early Retirement capital, is paid to Plan Members when they retire at normal retirement age or when they take early retirement, respectively.

Plan Members have the option of taking all of the benefit as a pension payable monthly or taking part or all of the benefit as a lump sum.

DEATH BENEFIT

If a Plan Member dies before retirement age, the retirement savings at the time of death are paid in the form of capital to the Beneficiaries designated in the event of death.

EMPLOYER CONTRIBUTIONS

Employer contributions are calculated as follows: 2.5% S1 + 9% S2
Where:

- S1 represents the portion of S below the annual cap on contributions to Social Security in force as of the calculation date;
- S2 represents the portion of S which exceeds this cap;
- S represents January's monthly salary x 13.

The employer contribution is multiplied by the percentage of employee time as of the calculation date.

The employer contribution for the year of enrolment in the plan may be paid, in accordance with the plan's administrative provisions, in the year of enrolment or in the following year.

PERSONAL CONTRIBUTIONS

The Plan Member may elect to contribute to the Plan and can choose the monthly or annual contribution amount at the time of enrolment.

FUNDING VEHICLE

The Plan Member may choose from among three financial management and investment formulas for investing the investment of employer contributions, and for the transfer of any entitlements resulting from employer contributions.

However, according to current legal provisions, personal contributions may only be invested in a fund with a guaranteed rate of return at least equal to the rate set by the Commissariat aux Assurances (Luxembourg Insurance Commission).

FINANCE

The company guarantees the payment of benefits and contributions provided for by the supplementary pension plan.

To accomplish this, the Company signed a group insurance contract with the AXA insurance company.

2. LONG-TERM BENEFITS

ACCOUNTING PRINCIPLES

Long-term employee benefits are benefits other than post-employment and termination benefits that are paid to employees more than twelve months after the end of the annual period in which they provided the related services.

Long-term benefits are measured and recognised in the same way as post-employment benefits, with the exception of actuarial gains and losses, which are immediately recognised in the consolidated statement of comprehensive income.

EMPLOYEE BENEFITS - JUBILEE AWARDS

PLANS' PROVISIONS AND ASSUMPTIONS

Disclosures are provided only for the two main jubilee plans in the Group: the Luxembourg plan in place at Societe Generale Luxembourg S.A., and the Swiss plan in place at Societe Generale Private Banking (Suisse) S.A.

SG Luxembourg Group employees are entitled to a plan that provides for a jubilee award which is a function of their seniority in the Group.

The defined benefit obligation corresponding to this plan was estimated according to the standard IAS19. For this plan, the actuarial gains and losses are immediately recognized in the consolidated income statement account.

The principal assumptions used for measuring the jubilee plan obligations are summarized below:

	31.12.2020		31.12.2019	
SG Luxembourg				
Discount rate	0.39%		0.64%	
Inflation rate	0.96%		1.07%	
Expected rate of return on assets	N/A		N/A	
	Age	Rate	Age	Rate
	<35 years	1.9% - 2%	<35 years	1.90% - 2.00%
Compensation increase rate	35 years <= age < 45 years	1% - 1.3%	35 years <= age < 45 years	1.00% - 1.30%
	45 years <= age < 55 years	0.3% - 0.65%	45 years <= age < 55 years	0.30% - 0.65%
	55 years <= age < 65 years	0% - 0.7%	55 years <= age < 65 years	0% - 0.7%
Switzerland				
Discount rate	(0.04)%		0.00%	
Inflation rate	1.00%		0.00%	
Expected rate of return on assets	N/A		N/A	
Compensation increase rate (excluding indexation)	0.20%		0.00%	

PLAN RESULTS

The cost associated with jubilee awards is reported under "Personel expenses" in Profit or Loss and breaks down as follows:

(in EUR thousand)	31.12.2020	31.12.2019
Service cost	746	957
Financial cost	32	58
Actuarial gains and losses	-	-
Total	778	1 015

CHANGE IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS DURING THE YEAR

The reconciliation of opening and closing obligation balances related to defined benefits for the current year is as follows:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Obligation in relation to defined benefits – Opening	6 658	5 786
Total (expense)/ revenue recognized in the income statement	779	1 015
Paid benefits	(254)	(159)
Other	–	(23)
Translation effect	7	39
Obligation in relation to defined benefits – Closing	7 190	6 658

NOTE 6 – INCOME TAX

MAKING IT SIMPLE

Income tax expenses are presented separately from other taxes which are classified among *Other operating expenses*. They are calculated according to the rates and tax regulations applicable in the countries where each consolidated entity is located.

Income tax presented in the income statement includes current taxes and deferred taxes:

- current taxes correspond to the amount of taxes due (or refundable) as calculated according to the taxable profit base for the reporting period.
- deferred taxes correspond to the amount of taxes resulting from past transactions and that will be payable (or refundable) in a future reporting period.

ACCOUNTING PRINCIPLES

CURRENT TAXES

Current tax is based on the taxable profits of each consolidated taxable entity and determined in accordance with the rules established by the local taxation authorities, upon which income taxes are payable. This tax expense also includes net allowances for tax adjustments pertaining to income tax.

Tax credits arising in respect of interest from loans and income from securities are recorded in the relevant interest account as they are applied in settlement of income taxes for the year. The related tax charge is included *under Income Tax* in the consolidated income statement.

DEFERRED TAXES

Deferred taxes are recognised whenever the Group identifies a temporary difference between the book value and tax value of balance sheet assets and liabilities that will affect future tax payments. Deferred tax assets and liabilities are measured in each consolidated taxable entity considering rules established by the local taxation authorities.

The amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realized or the liability settled. These deferred taxes are adjusted in the event of changes to tax rates. This amount is not discounted to present value.

Deferred tax assets can result from deductible temporary differences or from tax loss carry forwards. These deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set time. Temporary differences or tax loss carry forwards can also be used against future taxable profit. Tax loss carry forward review taking into account the tax system applicable to each relevant tax entity and a realistic projection of their tax income or expense, based on their business development outlook: any previously unrecognized deferred tax assets are recorded in the consolidated statement of financial position to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered; however, the carrying value of deferred tax assets already recognized in the consolidated statement of financial position is reduced where a risk of total or partial non-recovery occurs.

Current and deferred taxes are recognized in the consolidated income statement *under Income Tax*. However, deferred taxes related to gains and losses recorded under “Unrealized or deferred gains and losses” are also recognized under the same heading in the consolidated statement of comprehensive income.

TAX INTEGRATION

Since financial year 2005, SG Luxembourg has elected to be considered as an integrated group for tax purposes (intégration fiscale or tax integration).

As at 31 December 2020, 13 subsidiaries were included in the group filing a consolidated return (2019: 17 subsidiaries). In accordance with a tax integration agreement entered into with

SG Luxembourg, some affiliates recognize in their financial statements the tax which they would have paid had they not been included in SG Luxembourg's Group tax scope.

Tax integration implies that the Head of the tax group, Societe Generale Luxembourg, should be in charge of income tax payment for the whole Group.

SG Luxembourg establishes its income tax provisions ("Impôt sur le revenu des collectivités" or "IRC", and the "Impôt commercial communal" or "ICC") based on the taxable income of the entire consolidated group, including its own revenue.

Tax prepayments due by SG Luxembourg are also calculated on this basis and paid by SG Luxembourg as the lead company of the integrated group. Tax are prepaid and then, when the right amount is known, the prepayment is netted with the definitive amount.

There is no tax filing integration for wealth tax. However, in compliance with existing tax law, SG Luxembourg sets up, on behalf of some affiliates, a special reserve for the purpose of charging each of these affiliates for the wealth tax. The reserve thus constituted for each affiliate is equal to five times the wealth tax due in principle by each of the members of the integrated group and is unavailable for a period of five years.

The reserve for the wealth tax charged to affiliates is separate from the tax expense reserve set up for SG Luxembourg's own needs. The reserve is set up each year and maintained for the specified legal time limit i.e. five years. The maximum amount

of wealth tax that can be charged by affiliates and by SG Luxembourg is determined by reference to the IRC payable by the integrated group before the allocation of tax credits.

PROVISIONS FOR TAX ADJUSTMENTS

Provisions for tax adjustments represent liabilities whose timing or amount cannot be precisely determined and that are adjusted throughout time. The expected outflows are then discounted to present value to determine the amount of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax adjustments are booked to the consolidated income statement under "Income tax".

TAX PROVISIONS

Provisions may be recorded:

- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;
- and when the amount of probable outflow of resources can be reliably estimated.

Information on the nature and the amount of the associated risks is not disclosed when the Group considers that such disclosure could seriously undermine its position in a dispute with other parties on the object of the provision.

1. INCOME TAX

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Current taxes	(29 764)	(20 368)
Deferred taxes	19 534	(25 141)
Total taxes	(10 230)	(45 509)

Reconciliation of the difference between the Group's standard tax rate and its effective tax rate:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Income before tax excluding net income from companies accounted for using the equity method	223 930	318 412
Tax rate applicable at the end of the year	24.94%	24.94%
Theoretical income tax	(55 848)	(79 412)
Tax effect of non-taxable income	32 187	32 402
Tax effect of non-deductible expenses	(4 643)	(2 896)
Tax without basis *	20 058	(4 309)
Provisions for tax adjustments	-	-
Sub-consolidated results taxed at other rates	(1 205)	5 810
Previous year corrections	(565)	(365)
Other items	(214)	3 261
Total income tax	(10 230)	(45 509)

*mainly refers to tax expenses of fiscally integrated entities.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Tax credits resulting on income from receivables and trading portfolios, when used to settle the tax on income due in the same period, are booked in the same accounts as the income they are linked to. The corresponding tax charge is maintained in the account "Tax expense", explaining the transfer in the net banking result.

Tax impact on non-taxable income is mainly explained through various income received from fully taxable resident or non-resident participations held by the Group. As all conditions for participation exemption regime are met (EU parent directive and article 166 LITL), the Group avoids double taxation by using these provisions.

2. TAX ASSETS AND LIABILITIES

TAX ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Current tax assets	4 781	5 124
Deferred tax assets	–	6 595
<i>o/w deferred tax assets on tax loss carryforward</i>	–	6 595
<i>o/w deferred tax assets on temporary differences</i>	–	–
Total	4 781	11 719

TAX LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Current tax liabilities	16 783	10 804
Deferred tax liabilities and provision from income tax adjustments ⁽¹⁾	139 285	163 943
Total	156 068	174 747

Each year, the Group performs a review of tax loss carryforward, according to the tax system applicable for each relevant tax entity and a realistic forecast of its tax results. For this purpose, tax results are de-termined based on the forecast of the performance of each business line entering in the Group budgetary path.

In addition, they include accounting and tax adjustments (of which the reversal of deferred tax assets and liabilities bases on temporary differences) applicable to concerned entities and jurisdictions. These adjustments are determined based on historical tax results and on the Group's tax expertise. Beyond the Group budgetary path and/or the strategic review, extrapolations

are performed particularly from macro-economic assumptions (for example, the evolution of interest rates).

By nature, the appreciation of macro-economic factors chosen and the internal estimations used to de-termined the tax results contain risks and uncertainties on their realisation over the estimated horizon of the losses absorption. These risks and uncertainties concern the possibilities of change of tax rules applicable (tax result computation as well as rules of imputation of tax losses carried forward) or the achievement of the strategic assumptions.

3. CHANGE IN DEFERRED TAX

The change in deferred taxes is analysed as follows:

ASSETS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Net opening balance	6 595	13 579
Items taken directly to net profit or loss	(6 595)	(6 984)
Items taken directly to equity	–	–
Impact change in accounting policy	–	–
Closing balance	–	6 595

LIABILITIES

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Net opening balance	163 943	130 925
Items taken directly to net profit or loss	(26 129)	18 157
Items taken directly to equity	1 386	(3 068)
Others movements	85	(1 071)
Closing balance	139 285	144 943

4. DEFERRED TAX ASSETS RECOGNIZED ON TAX LOSS CARRY FORWARD

As at 31 December 2020, the Group has no more Deferred Tax Asset recognized on tax loss carry forward:

<i>(in EUR thousand)</i>	Amount	Statutory time limit on carry forwards	Expected recovery period
SG Luxembourg S.A.			
31 December 2020	–	–	–
31 December 2019	6 595	Illimited	Within 5 years

NOTE 7 – SHAREHOLDERS' EQUITY**MAKING IT SIMPLE**

Equity are the resources contributed to the Group by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings). It also includes resources received when financial instruments are issued and for which the issuer has no contractual obligation to deliver cash to the holders of these instruments (such as certain perpetual subordinated notes).

Equity has no contractual maturity, and when compensation is awarded to shareholders or holders of other equity instruments, it does not affect the income statement but directly reduces the retained earnings in the equity.

The statement "Changes in Shareholders' Equity" presents the various changes that affect the components of equity over the reporting period.

Note 7.1. – Shareholders' equity

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Share capital	1 389 043	1 389 043
Share premium	2 817	2 817
Consolidation reserve	513 239	468 827
Revaluation reserve	35 314	24 672
Legal reserve	138 905	138 905
Special reserve for Net Wealth Tax reduction	247 708	207 569
Retained earnings	755 639	563 402
Net income for the year	229 774	283 445
Total	3 312 439	3 078 680

1. SHARE CAPITAL

As at 31 December 2020 and 2019, the fully subscribed share capital amounted to EUR 1 389 042 648 divided into 11 024 148 registered shares with a nominal value of EUR 126 each.

2. CONSOLIDATION RESERVE

Consolidation reserves represent the contribution of the subsidiaries to the reserves of the Group.

3. REVALUATION RESERVE

Revaluation reserve is composed of translation reserves, change in fair value of assets available-for-sale, change in fair value of hedging derivatives, change in fair-value of debt instruments at fair value through other comprehensive income, change in gains and losses on entities accounted for using the equity method and actuarial gains and losses on post-employment defined benefits plans. Please refer to the note 7.2. If the instruments are sold, the associated unrealised or deferred gains and losses are reclassified to Retained earnings at the opening of the next financial year.

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Translation reserve	(2 160)	(2 237)
Revaluation of debt instruments at fair value through other comprehensive income	34 647	38 449
Revaluation reserve of available-for-sale financial assets	30 505	30 281
Revaluation of hedging derivatives	(19 737)	(30 341)
Unrealized gains and losses of entities accounted for using the equity method	7 412	5 844
Tax related	(12 927)	(10 724)
Unrealized or deferred gains (losses) that may be reclassified subsequently to profit or loss	37 740	31 272
Actuarial gains (losses) on defined benefits plans	(2 889)	(8 836)
Unrealised gains and losses of entities accounted for using the equity method	77	(105)
Revaluation of equity instruments at fair value through other comprehensive income	-	-
Tax related	386	2 341
Unrealized or deferred gains (losses) that will not be reclassified subsequently to profit or loss	(2 426)	(6 600)
Total Revaluation reserve	35 314	24 672

4. LEGAL RESERVE

In accordance with legal requirements, 5% of the net income for the year must be allocated to a legal reserve. This allocation is no longer required once this reserve reaches 10% of the subscribed and paid-up share capital. The legal reserve cannot be used for dividend payments.

As at 31 December 2020 and 2019, the legal reserve reached 10% of the capital and amounted to EUR thousand 138 905.

5. SPECIAL RESERVE FOR NET WEALTH TAX REDUCTION

For the reporting periods ended 31 December 2014 to 2020, the Group reduced its Net Wealth Tax charge in accordance with the tax legislation; i.e. by setting up an unavailable reserve in an amount equal to five times the amount of the Net Wealth Tax reduction. The lock-in period on this reserve is five years starting on 1 January of the year following the year in which the Net Wealth Tax has been reduced.

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
2014	49 939	49 939
2015	1 485	1 485
2016	30 981	30 981
2017	41 356	41 356
2018	42 525	42 525
2019	41 283	41 283
2020	40 139	-
Total	247 708	207 569

Note 7.2. – Gains and losses recognised in other comprehensive income

BREAKDOWN OF CHANGES OF UNREALISED OR DEFERRED GAINS AND LOSSES

	01.01.2020		
<i>(in EUR thousand)</i>	Gross value	Tax	Net value
Translation differences	(2 237)	–	(2 237)
Revaluation of debt instruments at fair value through other comprehensive income	38 449	(9 341)	29 108
Revaluation of available-for-sale financial assets ⁽¹⁾	30 281	(7 552)	22 729
Revaluation of hedging derivatives	(30 341)	7 568	(22 773)
Unrealised gains and losses of entities accounted for using the equity method	5 844	(1 399)	4 445
Subtotal of unrealised gains and losses with subsequent recycling in the income statement	41 996	(10 724)	31 272
Actuarial gains and losses on defined benefit plans	(8 836)	2 313	(6 523)
Unrealised gains and losses of entities accounted for using the equity method	(105)	28	(77)
Subtotal of unrealised gains and losses without subsequent recycling in the income statement	(8 941)	2 341	(6 600)
Total of unrealised gains and losses	33 055	(8 383)	24 672

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities.

	01.01.2019		
<i>(in EUR thousand)</i>	Gross value	Tax	Net value
Translation differences	(1 279)	–	(1 279)
Revaluation of debt instruments at fair value through other comprehensive income	54 849	(14 022)	40 827
Revaluation of available-for-sale financial assets ⁽¹⁾	16 564	(4 308)	12 256
Revaluation of hedging derivatives	(30 194)	7 853	(22 341)
Unrealised gains and losses of entities accounted for using the equity method	3 909	(975)	2 934
Subtotal of unrealised gains and losses with subsequent recycling in the income statement	43 849	(11 452)	32 397
Actuarial gains and losses on defined benefit plans ⁽²⁾	8 994	(4 218)	4 776
Unrealised gains and losses of entities accounted for using the equity method ⁽²⁾	13	(4)	9
Subtotal of unrealised gains and losses without subsequent recycling in the income statement	9 007	(4 222)	4 785
Total of unrealised gains and losses	52 853	(15 674)	37 182

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.

(2) Gains and losses presented in these items are transferred into Retained earnings at the opening of the next financial year since 01.01.2019. "Variation of the period" is cumulated variation for reclassification to Reserves (EUR 4 785 thousands as of 01.01.19) and the actuarial gains and losses of the period net for deferred taxes (EUR (6 600) thousands as of 31.12.19)

Net Group share	Variation				31.12.2020			
	Gross value	Tax	Net value	Net Group share	Gross value	Tax	Net value	Net Group share
-	77	-	77	-	(2 160)	-	(2 160)	-
-	(3 802)	939	(2 863)	-	34 647	(8 402)	26 245	-
-	224	(56)	168	-	30 505	(7 608)	22 897	-
-	10 604	(2 655)	7 949	-	(19 737)	4 913	(14 824)	-
-	1 568	(431)	1 137	-	7 412	(1 830)	5 582	-
-	8 671	(2 203)	6 468	-	50 667	(12 927)	37 740	-
-	5 947	(1 927)	4 020	-	(2 889)	386	(2 503)	-
-	182	(28)	154	-	77	-	77	-
-	6 129	(1 955)	4 174	-	(2 812)	386	(2 426)	-
-	14 800	(4 158)	10 642	-	47 855	(12 541)	35 314	-

Net Group share	Variation				31.12.2019			
	Gross value	Tax	Net value	Net Group share	Gross value	Tax	Net value	Net Group share
-	(958)	-	(958)	-	(2 237)	-	(2 237)	-
-	(16 400)	4 681	(11 719)	-	38 449	(9 341)	29 108	-
-	13 717	(3 244)	10 473	-	30 281	(7 552)	22 729	-
-	(147)	(285)	(432)	-	(30 341)	7 568	(22 773)	-
-	1 935	(424)	1 511	-	5 844	(1 399)	4 445	-
-	(1 853)	728	(1 125)	-	41 996	(10 724)	31 272	-
-	(17 830)	6 531	(11 299)	-	(8 836)	2 313	(6 523)	-
-	(118)	32	(86)	-	(105)	28	(77)	-
-	(17 948)	6 563	(11 385)	-	(8 941)	2 341	(6 600)	-
-	(19 801)	7 291	(12 510)	-	33 055	(8 383)	24 672	-

NOTE 8 – ADDITIONAL DISCLOSURES

Note 8.1. – Segment reporting

1. DEFINITION OF SEGMENT REPORTING

The Group includes in the results of each segment all operating income and expenses directly related to its activity. Income for each segment, except for the Corporate Center, also includes the return on equity allocated to it, based on the estimated rate of return on Group equity. Transactions between segments are carried out under the same terms and conditions as those applying to non-Group customers, while these transactions are eliminated from segment assets and liabilities.

For the purpose of segment reporting by geographical region, segment profit or loss and assets and liabilities are presented based on the location of the booking entities.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

In 2020 and 2019, the Group's core businesses are managed through the following strategic segments of activity that are regrouped into five segments:

1. PRIVATE BANKING

Societe Generale Luxembourg Private Banking has a foothold in Luxembourg, Switzerland and Monaco. It offers global financial engineering and wealth management solutions, in addition to global expertise in structured products, hedge funds, mutual funds, private equity funds, life insurance and real estate investment solutions. It also offers customer access to the capital markets.

2. SECURITIES SERVICES

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

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

3. CORPORATE AND INVESTMENT BANKING THAT INCLUDES;

The Corporate Banking and Cash Management teams in Luxembourg are geared to economic and financial operators

and sparticularly domestic and international financial institutions, medium and large companies with international and multinational activities that require flow management assistance for their banking, commercial, corporate flows and/or payment flow assistance. The business line offers a full and integrated range of solutions and services, leveraging the expertise of the Transaction Banking business lines. It houses five banking activities:

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

The Global Banking & Advisory (GLBA) platform in Luxembourg contributes to Group worldwide platform composed by expert teams located in Europe, the CEEMEA region, the Americas and in Asia region, whose knowledge of customers and local regulations are key to conducting domestic, international and cross-border activities due to the international dimension of customers. Leveraging this global expertise and sectoral knowledge, the Financing Banking teams provide issuer clients with a full range of products and integrated solutions, products and advisory, and are housed in three divisions:

- The Asset Finance division, which consists of five businesses: export finance, aircraft finance, shipping finance, real estate finance, and structured solutions and leasing. Through a wide range of products, experienced professionals design tailor-made solutions for customers, financial companies and public institutions, combining financial knowledge and industry expertise;
- The Natural Resources and Infrastructures division is tasked with developing a global activity in the natural resources, energy and infrastructure sector by providing clients with financing solutions, as well as advisory services. The customers of this division are producers, operators, refinery groups, traders, commodity service providers, commodity and distributor logistics companies, as well as public and private institutions;
- The Asset Backed Product division, which combines GLBA's expertise in the primary markets, blends sectoral skills, securitisation and structuring with know-how in secondary market trading, distribution channels and debt security refinancing, making it possible to capitalise on credit capacities and act as the single entry point for ABS-type products and structured loans, and assist the development of our issuer clients and investors.

Within the Global Markets Business Unit, the Issuing activity is performed through the "SOGEIS" frame-work based on Luxembourg's fiduciary legal framework and provides investors with access to the entire range of financial engineering services (Asset and Liability Management – portfolio management, securitisation, risk policy management and Capital Management – strategic management of shareholdings, equity-linked products, and employee savings plans). SOGEIS issues secured notes. The

securities issued by SG Luxembourg via SOGEIS are also backed by a guarantee from the Societe Generale Group.

4. INSURANCES ACTIVITIES

The Insurance activities develop the Group's Insurance business through the integrated bank-insurance model.

5. CORPORATE CENTER

It includes Treasury and Assets Liabilities Management functions which are responsible for monitoring, managing and hedging structural risks (liquidity, interest rate and forex) arising from all the active business units within SG Luxembourg namely Securities Services, Private Banking, Corporate Banking and

Cash Management. This team is also in charge of the oversight of similar activities in Monaco and Switzerland SG Luxembourg's affiliates devoted to the Private Banking area, and operates under the functional oversight of the Group central departments.

It recognises too the carrying cost of equity investments in subsidiaries and related dividend payments, as well as income and expenses stemming from the Group's Asset and Liability Management (ALM) and income from the Group's management of its assets (management of its industrial and bank equity portfolio and of its real estate assets). Income or expenses that do not relate directly to the activity of the core businesses are also allocated to the Corporate Center.

2. SEGMENT REPORTING BY OPERATING SEGMENTS

Amounts by division incorporate the organizational structure of Group activities.

	31.12.2020					
(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Interest margin	129 147	26 081	154 935	(2 882)	(1 842)	305 439
Net fees income	119 337	99 724	74 267	(1 148)	(2 545)	289 635
Net income from other activity	596	(1 439)	(132)	-	28 461	27 486
Total income on financial instruments	9 033	942	3 755	-	26 644	40 374
Net income of insurance activities	-	-	-	23 637	-	23 637
Internal remuneration	2 926	1 087	6 164	-	(10 177)	-
Net banking income	261 039	126 395	238 989	19 607	40 541	686 571
Operating expenses	(206 280)	(116 864)	(50 920)	(584)	(21 690)	(396 338)
Gross operating income	54 759	9 531	188 069	19 023	18 851	290 233
Cost of risk	(24 321)	280	(39 098)	-	(795)	(63 934)
Operating income	30 438	9 811	148 971	19 023	18 056	226 299
Net income from investments accounted for using the equity method	-	-	5 592	10 509	-	16 101
Net income/expense from other assets	(2 381)	-	12	-	-	(2 369)
Consolidated Net Income before tax	28 057	9 811	154 575	29 532	18 056	240 031

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Total assets	39 042 324	38 460	16 146 307	483 646	338 915	56 049 652
Total liabilities and equity	32 599 388	1 337 247	15 960 406	483 646	5 668 965	56 049 652

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31.12.2019*

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Interest margin	145 665	33 750	156 367	77	(62 987)	272 872
Net fees income	114 801	127 550	51 443	2 688	(4 130)	292 352
Net income from other activity	(70)	398	17 728	9	(1 650)	16 415
Total income on financial instruments	41 760	1 447	573	-	83 949	127 729
Net income of insurance activities	-	-	-	35 624	-	35 624
Internal remuneration	3 855	1 418	9 202	-	(14 475)	-
Net banking income	306 011	164 563	235 314	38 398	707	744 992
Operating expenses	(229 651)	(127 532)	(48 004)	(2 162)	(31 838)	(439 187)
Gross operating income	72 505	35 613	178 108	36 235	(16 656)	305 805
Cost of risk	(3 663)	(231)	11 440	-	(49)	7 497
Operating income	68 841	35 381	189 548	36 235	(16 705)	313 302
Net income from investments accounted for using the equity method	-	-	-	10 564	-	10 564
Net income/expense from other assets	1 010	1 025	1 025	1 025	1 025	5 110
Consolidated Net Income before tax	69 851	36 406	190 573	47 824	(15 680)	328 976

*Restated figures, please refer to Note 4.1.

(in EUR thousand)	Private Banking	Securities Services	Corporate and Investment Banking	Insurance activities	Corporate center	Total
Total assets	38 758 265	27 693	76 304 653	582 234	1 367 755	117 040 600
Total liabilities and equity	34 723 708	1 064 645	78 056 699	582 234	2 613 314	117 040 600

3. SEGMENT REPORTING BY GEOGRAPHICAL REGION

(in EUR thousand)	31.12.2020				
	Luxembourg	Monaco	Switzerland	Other	Total
Net banking income	479 487	44 204	84 586	78 294	686 571
Total assets	47 676 433	3 026 245	3 082 789	2 264 185	56 049 652
Total liabilities	47 676 433	3 026 245	3 082 789	2 264 185	56 049 652

(in EUR thousand)	31.12.2019				
	Luxembourg	Monaco	Switzerland	Other	Total
Net banking income	495 615	50 127	122 928	76 322	744 992
Total assets	107 442 196	3 282 522	3 717 769	2 598 113	117 040 600
Total liabilities	107 442 196	3 282 522	3 717 769	2 598 113	117 040 600

Note 8.2. – Other operating expenses

ACCOUNTING PRINCIPLES

The Group records operating expenses under expenses, according to the type of services to which they refer and the rate of use of said services.

Other mainly includes building maintenance and other costs, travel and business expenses, and advertising expenses.

Other operating expenses mainly include lease payments, building maintenance and other costs, travel and business expenses, outsourcing and advisory fees and marketing and advertising expenses.

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
IT expenses	(28 859)	(34 179)
Telecommunication expenses	(3 738)	(3 718)
Marketing, advertising and public relations	(2 032)	(5 979)
Professional fees	(20 679)	(34 006)
Premises and equipment leases	(1 635)	(6)
Service and maintenance	(10 059)	(10 964)
Administrative expenses	(1 150)	(1 139)
VAT and other taxes	(21 931)	(19 426)
Training	(196)	(1 275)
Insurance fees	(993)	(899)
Data provider fees	(6 543)	(7 538)
Re-charge fees ⁽¹⁾	(48 740)	(53 332)
Other operating expenses	(2 775)	(778)
Total	(149 330)	(173 239)

(1) Mainly reinvoiced personal fees from SG Group and allocated share of headquarter expenses.

CONTRIBUTION TO BANK RESOLUTION MECHANISMS

The European regulatory framework designed to enhance financial stability was updated by the Directive 2014/59/UE of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive).

The European Regulation UE n°806/2014 of 15 July 2014 then determined the financing means of resolution mechanisms within the European Banking Union through the establishment of a Single Resolution Fund (SRF), represented in Luxembourg by the “Fonds de Résolution Luxembourgeois” (Luxembourg Resolution Fund). In addition to this instrument, the “Fonds Nationaux de Résolution” (National Resolution Funds) exists for institutions subject to this resolution mechanisms, but that have no SRF.

The Single Resolution Fund, established in January 2016, shall receive annual contributions from the participating European financial institutions. By the end of 2023, the available financial means of the Fund shall reach at least 1% of the amount of covered deposits of all these participating financial institutions. A share of the annual contributions can be provided through irrevocable payment commitments (IPC).

Please find below the detailed amount paid by the Bank for the Single Resolution Fund contribution:

<i>(in EUR thousand)</i>	2020	2019
Net contribution paid	18 613	14 208
IPC deposit (15% of net contribution)	(2 792)	(2 131)
Total	15 821	12 077

Note 8.3. – Provisions

ACCOUNTING PRINCIPLES

Under statement of financial liabilities, Provisions are comprised of provisions for financial instruments, disputes, employee benefits and income tax adjustments (only for 2018).

Provisions, other than those for credit risk or employee benefits, are recognized when the Group has a present obligation (legal, contractual or implicit) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined based on the best estimate of the expenditure required to settle the obligation, in application of certain assumptions. Provisions are discounted when the effect of the time value of money is material, using a discount rate that reflects current market assessments of the time value of money. Provisions are booked in profit and loss accounts according to the nature of the expenses.

Provisions include provisions for credit risk related to guarantee commitments granted to third parties by the Group and to contingent liabilities whose timing or amount cannot be precisely determined (primarily legal disputes and restructuring).

Probable losses incurred by the Group in identifying objective evidence of credit risk related to loan and guarantee commitments are recorded in the consolidated income statement of under Cost of risk against a liability booked under Provision in the consolidated statement of financial position.

Provisions are presented in Note 5.7. Information relating to the nature and the amount of the relevant risks is not disclosed if the Group considers that it could cause the Group serious harm in a dispute with third parties on the matter covered by the provision.

1. BREAKDOWN OF PROVISIONS

(in EUR thousand)	Provisions at 31.12.2019	Allocations	Reversals available	Net allocation	Actuarial Gain and Losses	Currency and others	Provisions at 31.12.2020
Provisions for credit of risk on off statement of financial commitments (see Note 3.9)	1 137	4 534	(1 586)	2 948	–	(74)	4 011
Provisions for employee benefits (see Note 5.2)	70 666	6 906	(7 345)	(439)	2 889	(1 510)	71 606
Other provisions ⁽¹⁾	5 729	2 238	(2 180)	58	–	275	6 063
Total	77 532	13 678	(11 111)	2 567	2 889	(1 309)	81 680

(in EUR thousand)	Provisions at 01.01.2019	IFRIC 23 impacts	Allocations	Reversals available	Net allocation	Actuarial gains and losses	Currency and others	Provisions at 31.12.2019
Provisions for credit of risk on off statement of financial statements commitments (see Note 3.9)	1 104	–	987	(949)	38	–	(6)	1 136
Provisions for employee benefits (see Note 5.2)	58 813	–	8 447	(7 796)	651	8 836	2 366	70 666
Other provisions ⁽¹⁾	27 241	(19 000)	412	(4 822)	(4 410)	–	1 899	5 730
Total	87 158	(19 000)	9 846	(13 567)	(3 721)	8 836	(4 259)	77 532

2. OTHER PROVISIONS

Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

The Group operates in a regulatory and legal environment that, by nature, has an element of litigation risk inherent in its operations. As a result, the Group is involved in various

litigations, both in Luxembourg and in other jurisdictions in the ordinary course of its business. The Group has implemented formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in Note 2.

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the

(1) Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange. These provisions for litigations are classified among the Other provisions included in the Provisions item in the liabilities of the balance-sheet.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

In August 2009, Société Générale Private Banking (Switzerland), along with several other financial institutions, was named as a defendant in a putative class action that was ultimately transferred to the US District Court for the Northern District of Texas. The plaintiffs sought to represent a class of individuals who were customers of Stanford International Bank Ltd. (SIBL), with money on deposit at SIBL and/or holding Certificates of Deposit issued by SIBL as of 16 February 2009. The plaintiffs alleged that they suffered losses as a result of fraudulent activity at SIBL and the Stanford Financial Group or related entities, and that the defendants were responsible for those alleged losses. The plaintiffs further sought to recoup payments made through or to the defendants on behalf of SIBL or related entities on the basis that they were alleged to have been fraudulent transfers. The Official Stanford Investors Committee (OSIC) was permitted to intervene and filed a complaint against Société Générale Private Banking (Switzerland) and the other defendants seeking similar relief.

The motion by Société Générale Private Banking (Switzerland) to dismiss these claims on grounds of lack of jurisdiction was denied by the court by order filed 5 June 2014. Société Générale Private Banking (Switzerland) sought reconsideration of the Court's jurisdictional ruling, which the Court ultimately denied. On 21 April 2015, the Court permitted the substantial majority of the claims brought by the plaintiffs and the OSIC to proceed.

On 7 November 2017, the District Court denied the plaintiffs' motion for class certification. The plaintiffs sought leave to appeal this decision, which the court of appeal denied on 20 April 2018. On 3 May 2019, several hundred individual plaintiffs

filed motions to intervene in the pending OSIC action seeking recovery in their individual capacities for losses on their Stanford investments. The defendant financial institutions, including Société Générale Private Banking (Switzerland), opposed these motions. By order of 18 September 2019 the court denied the motions to intervene. One group of plaintiffs appealed the denial, and another initiated a separate action in Texas state court in Houston in November 2019. The state court action was removed to federal court and is now pending in the Southern District of Texas.

On 22 December 2015, the OSIC filed a motion for partial summary judgment seeking return of a transfer of USD 95 million to Société Générale Private Banking (Switzerland) made in December 2008 (prior to the Stanford insolvency) on the grounds that it is voidable under Texas state law as a fraudulent transfer. Société Générale Private Banking (Switzerland) has opposed this motion. By order dated 30 March 2020, the court denied OSIC's motion.

Société Générale and certain of its subsidiaries are defendants in an action pending in the US Bankruptcy Court in Manhattan brought by the Trustee appointed for the liquidation of Bernard L. Madoff Investment Securities LLC (BLMIS). The action is similar to those brought by the BLMIS Trustee against numerous institutions and seeks recovery of amounts allegedly received by the SG entities indirectly from BLMIS through so-called "feeder funds" that were invested in BLMIS and from which the SG entities received redemptions. The suit alleges that the amounts that the SG entities received are avoidable and recoverable under the US Bankruptcy Code and New York state law. The BLMIS Trustee seeks to recover, in the aggregate, approximately USD 150 million from the SG entities. The SG entities are defending the action. In decisions dated 22 November 2016 and 3 October 2018, the Court rejected most of the claims brought by the BLMIS Trustee. The Trustee appealed to the US Court of Appeals for the Second Circuit. By order dated 25 February 2019, the Second Circuit vacated the judgements and remanded for further proceedings. On 1 June 2020, the United States Supreme Court denied Defendant-Appellees' petition for a writ of certiorari. The case will now be returned to the District Court for further proceedings.

Note 8.4. – Tangible and intangible fixed assets

ACCOUNTING PRINCIPLES

Tangible and intangible fixed assets include operating and investment fixed assets.

Tangible and intangible fixed assets are carried at their purchase price on the asset side of the statement of financial position, less depreciation, amortisation and impairment.

Software developed internally is recorded under fixed asset, on the asset side of the statement of financial position in the amount of the direct cost of development.

Depreciation and amortization expenses are recognized in consolidated income statement under "Amortization, depreciation and impairment of property, plant and equipment and other intangible assets".

The range of the useful life of assets used by the Group is as follows:

Intangible assets are amortized using the straight-line method based on their estimated useful lives; the amortization rates used range from 20% to 33.33%.

Property, plant and equipment are depreciated using the straight-line method based on their estimated useful lives; the depreciation rates used are:

- other facilities, office furniture and equipment: 10 - 33.33%
- computer hardware: 20 - 33.33%

Land with an indefinite life is not depreciated.

Any residual value of the asset is deducted from its depreciable amount. If there is a subsequent decrease or increase in this initial residual value, the depreciable amount of the asset is adjusted, leading to a prospective modification of the depreciation schedule.

Depreciation and amortisation are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Fixed assets grouped into Cash Generating Units are tested for impairment whenever there is any indication that their value may have diminished. Allocations and reversals of provisions for impairment are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Realised capital gains and losses on operating fixed assets are recognised under *Net income from other assets*.

RIGHTS-OF-USE FOR ASSETS LEASED BY THE GROUP

LEASE

DEFINITION OF THE LEASE

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

- Control is conveyed when the customer has both the right to direct the identified asset's use, and to obtain substantially all the economic benefits from that use throughout the lease period.
- The existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset; this condition is measured with regard to the facts and circumstances existing at the commencement of the contract. If the lessor has the option of freely substituting the leased asset, the contract can not be qualified as a lease, since its purpose is the provision of a capacity and not an asset.
- A capacity portion of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). Conversely, a portion of the capacity or of an asset that is not physically distinct does not constitute an identified asset (e.g. the lease of co-working area within a unit with no pre-defined location inside that unit).

SEPARATION OF LEASE AND NON-LEASE COMPONENTS

A contract may cover the lease of an asset by the lessor as well as the supply of additional services by that lessor. In this scenario, the lessee can separate the lease components from the non-lease components of the contract and treat them separately. The rental payments stipulated in the contract must be separated between the lease components and the non-lease components based on their individual prices (as directly indicated in the contract or estimated on the basis on all of the observable information). If the lessee cannot separate the lease components from the non-lease components (or services), the entire contract is treated as a lease.

LEASE TERM

DEFINITION OF THE LEASE TERM

The lease period to be applied in determining the rental payments to be discounted matches the non-cancellable period of the lease adjusted for:

- options to extend the contract that the lessee is reasonably certain to exercise,
- and early termination options that the lessee is reasonably certain not to exercise.

Following the decision of IFRIC consultation in November 2019, the measurement of the reasonable certainty of exercising or not exercising the extension or early termination options shall take into account all the facts and circumstances that may create an economic incentive to exercise or not these options, specifically:

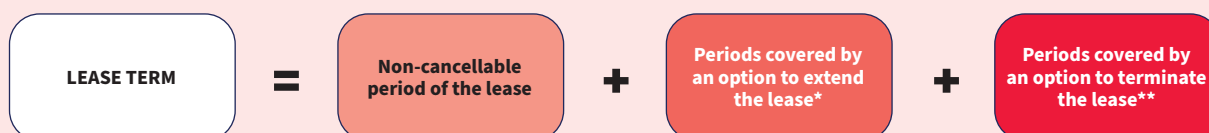
- the conditions for exercising these options (including measurement of the amount of the rental payments in case of an extension, or of the amount of penalties that may be imposed for early termination),
- substantial changes made to the leased premises (specific layouts, such as a bank vault),
- the costs associated with terminating the contract (negotiation costs, moving costs, research costs for a new asset that meets the lessee's requirements, etc.),
- the importance of the leased asset for the lessee, in view of its specific nature, its location, or the availability of substitute assets (specifically for branches located in commercially strategic sites, given their accessibility, expected traffic, or the prestige of the location),
- the history of renewals of similar contracts, as well as the strategy for the future use of the assets (based on the prospect of redeployment or rearrangement of a commercial branch network, for example).

CHANGING THE LEASE TERM

In the event of a change of circumstances of the lessee which has an impact on the certainty of exercise of an option that the lessee has or has not included in its calculation of the lease term, the term must be re-estimated.

The entity must also revise the term of the lease contract in any one of the following situations:

- the lessee exercises an option that had not been included when calculating the term of the lease;
- the lessee does not exercise an option that had been included when calculating the term of the lease;
- the lessee is contractually obliged, due to an event, to exercise an option that had not been included when calculating the term of the lease;
- the lessee is contractually prevented, due to an event, from exercising an option that had been included when calculating the term of the lease.



* if the lessee is reasonably certain to exercise that option. ** if the lessee is reasonably certain not to exercise that option.

Following a change in the lease term (re-estimate or revision), the lease obligation must be reassessed to reflect those changes. The revised rate is the interest rate implicit in the lease for the remaining term of the contract if it is possible to calculate this rate, otherwise the lessee must use its incremental borrowing rate on the date of modification of the lease term.

ACCOUNTING TREATMENT BY THE GROUP AS A LESSEE

On the commencement date (on which the leased asset is made available for use), the lessee must record a lease liability on the liabilities side of the statement of financial position and a right-of-use asset on the assets side of the statement of financial position except for the exemptions described below.

In the income statement, the lessee must recognise an interest expense (see Note 3.8) calculated on the lease liability under *Net banking income* and a depreciation of the right-of-use under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

The rental payments will partly reduce the lease liability and partly remunerate this liability in the form of interest expense.

EXEMPTIONS AND EXCLUSIONS

Lessee may choose not to apply the new lease treatment to contracts on low-value items by applying the exemption threshold of EUR 5,000 determined by the Group (the threshold should be measured against the replacement cost per unit of the leased asset). This last simplification applies specifically to small equipment such as personal computers, tablets, telephones, and small items of office furniture.

The Group has chosen to apply this exemption permitted. Related expenses are disclosed in the table below, and classified under other operating expenses (Note 8.2).

RENTAL PAYMENT AMOUNTS

The payments to be considered for the measurement of the lease liability include fixed and variable rental payments based on an index (e.g. consumer price index or construction cost index) or a benchmark interest rate (Euribor), plus, where applicable, the funds that the lessee expects to pay the lessor for residual value guarantees, purchase options, or early termination penalties.

However, variable lease payments that are indexed on the use of the leased asset (indexed on revenue or mileage, for example) are excluded from the measurement of lease liability. This variable portion of the rental payments is recorded in the net income over time according to fluctuations in contractual indexes fluctuations.

SG Luxembourg does not have variable rental payments.

Rental payments have to be considered based on their amount net of value-added tax. In addition, for building leases, occupancy taxes and property taxes passed on by lessors will be excluded from lease liabilities because their amount, as set by the competent public authorities, is variable. The liability initial amount is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the statement of financial position.

After the commencement date, the amount of the lease liability may be adjusted if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

As applicable, the lessee must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

RECOGNITION OF A LEASE LIABILITY

The initial amount of the liability is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the statement of financial position.

The lease liability is recorded under *Other liabilities* (see Note 4.4).

After the commencement date, the amount of the lease liability may be adjusted if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

The Group, as a lessee, must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

RECOGNITION OF A RIGHT-OF-USE

On the availability date of the leased asset, the lessee must enter a right-of-use to the leased asset, on the assets side of the statement of financial position, for an amount equal to the initial value of the lease liability, plus, as applicable, initial direct costs, advance payments, and restoration costs.

This asset is then depreciated on a straight-line basis over the lease period that is applied for measuring the lease liability.

After the commencement date, the asset's value may be adjusted if the lease is amended, as it is the case for the lease liability.

Rights-of-use is presented on the lessee's statement of financial position under the items of fixed assets where properties of the same type that are held in full ownership are entered. If the lease stipulates the initial payment of a leasehold right to the former tenant of the premises, the amount of that right is stated as a separate component of the right of use and presented under the same heading as the latter.

LEASE DISCOUNT RATES

The implicit contract rates are not generally known nor easily determined, specifically for building leases. Therefore, the Group has decided to use the lessees' incremental borrowing rate to discount the rental payments as well as the amount of lease liabilities.

The incremental borrowing rate is determined through a function of three factors specific to each contract:

- the duration of the contract and the currency of the lessee entity, which together define the risk-free rate;
- the country of the lessee, which defines the liquidity spread.

The liquidity spread by country is defined centrally by the Group on basis of macroeconomic observations.

CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS

31 December 2020

<i>(in EUR thousand)</i>	Gross book value as at 1 January 2020	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	42 141	1 017	–	15
Internally generated assets	30 692	–	(124)	8 380
Assets under development	14 029	9 861	–	(8 386)
Others	1 500	–	–	–
Sub-total	88 362	10 878	(124)	9
Property and Equipment				
Land and buildings	22 240	–	(12 748)	–
Assets under development	5 816	2 395	(2 398)	33
Others	66 815	622	(1 186)	76
Sub-total	94 871	3 017	(16 332)	109
Real estate	122 896	13 201	(4 847)	(200)
IT	5 394	–	–	–
Others	1 082	307	–	–
Right-of-use	129 372	13 508	(4 847)	(200)
Property and equipment, other intangible and right-of-use assets	312 605	27 403	(21 303)	(82)

31 December 2019

<i>(in EUR thousand)</i>	Gross book value as at 1 January 2019	Acquisitions	Disposals	Changes in translation, consolidation scope and reclassifications
Intangible assets				
Software, EDP development costs	30 923	5 263	(376)	6 331
Internally generated assets	24 269	–	–	6 423
Assets under development	21 257	6 994	–	(14 222)
Others	1 500	–	–	–
Sub-total	77 949	12 257	(376)	(1 468)
Property and Equipment				
Land and buildings	24 849	–	(2 609)	–
Assets under development	767	5 702	(714)	61
Others	63 141	3 803	(1 080)	951
Sub-total	88 757	9 505	(4 403)	1 012
Right-of-use	129 441	812	(34)	(847)
Property and equipment, other intangible and right-of-use assets	296 147	22 574	(4 813)	(1 303)

Gross value as at 31 December 2020	Accumulated depreciation and amortisation of assets at 1 January	Allocations to amortisation and depreciation in the year	Impairment of assets in the year	Reversals from amortisation and depreciation in the year	Other	Net book value as at 31 December 2020
43 173	(27 426)	(6 700)	-	-	(37)	9 010
38 948	(21 046)	(5 635)	-	-	(500)	11 767
15 504	-	(2 126)	-	-	-	13 378
1 500	(1 500)	-	-	-	-	-
99 125	(49 972)	(14 461)	-	-	(537)	34 155
9 492	(18 321)	(683)	-	12 748	-	3 236
5 846	-	-	-	-	-	5 846
66 327	(45 362)	(6 407)	-	-	1 744	16 302
81 665	(63 683)	(7 090)	-	12 748	1 744	25 384
131 050	(19 984)	(19 394)	-	-	1 804	93 476
5 394	(2 311)	(2 212)	-	-	(1)	870
1 389	(393)	(422)	-	-	(1)	573
137 833	(22 688)	(22 028)	-	-	1 802	94 919
318 623	(136 343)	(43 579)	-	12 748	3 009	154 457

Gross value as at 31 December 2019	Accumulated depreciation and amortisation of assets at 1 January	Allocations to amortisation and depreciation in the year	Impairment of assets in the year	Reversals from amortisation and depreciation in the year	Other	Net book value as at 31 December 2019
42 141	(20 742)	(6 713)	-	188	(159)	14 715
30 692	(16 460)	(4 036)	-	-	(550)	9 646
14 029	-	-	-	-	-	14 029
1 500	(1 406)	(94)	-	-	-	-
88 362	(38 608)	(10 843)	-	188	(709)	38 390
22 240	(18 636)	(637)	-	952	-	3 919
5 816	-	-	-	-	-	5 816
66 815	(40 193)	(5 729)	-	901	(341)	21 453
94 871	(58 829)	(6 366)	-	1 853	(341)	31 188
129 372	-	(22 573)	-	-	(120)	106 679
312 605	(97 437)	(39 782)	-	2 041	(1 170)	176 257

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Group's tangible assets are classified as follows:

Property Leases

Most of the leases (>90%) involve building leases contracted for the lease of commercial and office space:

The concerned buildings consist in office buildings leased to the Group and its subsidiaries at Luxembourg level or the local head offices of foreign representation desks.

Equipment Leases

Other leases (<10%) are mainly related to the lease of vehicles.

DETAILS OF THE EXPENSES ON LEASES

	31.12.2020			
<i>(in EUR thousand)</i>	Real estate	Computer equipment	Others	Total
Lease	(22 539)	(2 376)	(423)	(25 338)
Interest expenses on lease liabilities	(456)	(3)	(1)	(460)
Depreciation charge for right-of-use assets	(19 958)	(2 212)	(422)	(22 592)
Expense relating to short-term leases	(2 125)	(161)	-	(2 286)
Expense relating to leases of low-value assets	-	-	-	-
Expense relating to variable lease payments	-	-	-	-

	31.12.2019			
<i>(in EUR thousand)</i>	Real estate	Computer equipment	Others	Total
Lease	(21 997)	(2 516)	(445)	(24 956)
Interest expenses on lease liabilities	(521)	(7)	(1)	(528)
Depreciation charge for right-of-use assets	(19 863)	(2 311)	(399)	(22 573)
Expense relating to short-term leases	(1 607)	(197)	(29)	(1 833)
Expense relating to leases of low-value assets	(6)	(1)	(16)	(22)
Expense relating to variable lease payments	-	-	-	-

Note 8.5. – Foreign exchange transactions

ACCOUNTING PRINCIPLES

At the consolidated statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Euro at the prevailing spot exchange rate. Realized or unrealized foreign exchange losses or gains are recognized in the consolidated income statement.

Forward foreign exchange transactions are recognized at fair value based on the forward exchange rate for the remaining maturity. Spot foreign exchange positions are valued using the official spot rates prevailing at the end of the period. Unrealized gains and losses are recognized in the consolidated income statement under Net gains and losses on financial instruments at fair value through profit or loss (see Note 7.3), except when hedge accounting is applied to a cash-flow hedge transaction or to a hedge of a net investment in a foreign currency operation (see Note 3.5).

Non-monetary financial assets denominated in foreign currencies, including shares and other variable income securities that are not part of the trading portfolio, are converted into the entity's functional currency at the spot exchange rate prevailing at the end of the period.

Foreign exchanges losses or gains are recognised either in the income statement under Net gains and losses on financial instruments at fair value through profit or loss, or under other comprehensive income (Unrealised and deferred gains and losses), depending on the accounting of the gains or losses relative to these assets/liabilities.

The main spot exchange rates used 31 December 2020 are described in the Note 1.

BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

The table presents the split of assets and liabilities by currency, countervalued in Euros as at 31 December 2020 and 31 December 2019.

<i>(in EUR thousand)</i>	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
EUR	40 835 284	40 502 646	60 006 756	82 160 112
USD	8 303 164	11 222 886	31 328 133	20 609 313
GBP	2 090 611	2 643 419	5 671 812	2 774 459
JPY	43 459	67 390	4 898 821	1 911 007
AUD	117 948	82 662	4 663 897	3 066 790
CZK	2 499	5 479	2 068 014	1 403 005
RUB	3 710	6 336	955 565	467 885
RON	5	2	880 076	506 927
CHF	3 303 010	627 869	325 722	18 836
SEK	411 629	103 529	72 284	48 373
DKK	363 327	118 962	28 287	14 298
Other currencies	575 006	668 472	6 141 233	4 059 595
Total	56 049 652	56 049 652	117 040 600	117 040 600

Note 8.6. – Fees paid to statutory auditors

In accordance with the requirements of article 107 (15) of the banking law dated 17 June 1992, as amended, and of article 10 (2) g) of the EU Regulation 537-2014, the fees paid to the Bank's independent auditors, Ernst & Young, during the 2020 and 2019 fiscal years in relation with Société Générale Luxembourg Group of were as follows:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Statutory audit of the consolidated financial statements	(1 175)	(1 307)
Other assurance services	(362)	(331)
Tax consulting services	–	–
Other services	–	–
Total	(1 537)	(1 638)

Note 8.7. – Transactions with related parties

In addition to transactions with key management, the Group enters into transactions with non-consolidated entities on which the Societe Generale Group controls exclusively or jointly or has significant influence over. Other related parties refer

to entities other than headquarter and subsidiaries (Sogelife and SG Issuer on a equity method) that are part of the Societe Generale Luxembourg Group. The following table shows the outstanding balance at year end:

OUTSTANDING ASSETS AND LIABILITIES WITH RELATED PARTIES

ASSETS <i>(in EUR thousand)</i>	As at 31.12.2020			
	Headquarter	Subsidiaries	Other related parties	Total
Financial assets at fair value through profit or loss	105 579	48 000	345 841	499 420
Hedging derivatives	–	–	–	–
Financial assets at fair value through other comprehensive income	–	–	–	–
Financial assets at amortised cost	8 130 023	40 407	10 087 963	18 258 393
Others	372 749	447	4 576	377 772
Total	8 608 351	88 854	10 438 380	19 135 585
LIABILITIES				
Financial liabilities at fair value through profit or loss	119 854	–	–	119 854
Hedging derivatives	193 296	–	391	193 687
Customer deposits	104 243	153 595	6 988 555	7 246 393
Financial liabilities at amortised cost	25 041 049	–	14 115	25 055 164
Others	76 216	–	4 771	80 987
Total	25 534 658	153 595	7 007 832	32 696 085
Financial assets at fair value through profit or loss	58 790 593	–	383 662	59 174 255
Hedging derivatives	421	–	–	421
Financial assets at fair value through other comprehensive income	–	–	–	–
Financial assets at amortised cost	9 173 607	43 217	10 378 290	19 595 114
Others	253 641	434	24 205	278 280
Total	68 218 262	43 651	10 786 157	79 048 070
LIABILITIES				
Financial liabilities at fair value through profit or loss	7 059 005	–	2 627 657	9 686 662
Hedging derivatives	218 071	–	–	–
Customer deposits	1	84 016	7 745 659	7 829 676
Financial liabilities at amortised cost	24 523 906	–	31 481	24 555 387
Others	143 435	–	6 365	149 800
Total	31 944 418	84 016	10 411 162	42 221 525

NET BANKING INCOME FROM RELATED PARTIES

2020

<i>(in EUR thousand)</i>	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Interest and similar income	(67 405)	1 022	56 190	(10 193)
Fees	(15 054)	20 658	(28 642)	(23 038)
Net gains and losses from financial transactions	27 571	–	71 517	99 088
Income from other activities	5 259	–	(47)	5 212
Net banking income	(49 629)	21 680	99 018	71 069
General Administrative expense	(42 686)	2 174	(7 553)	(48 065)
Gross operating income	(92 315)	23 854	91 465	23 004
Cost of risk	–	–	–	–
Operating income	(92 315)	23 854	91 465	23 004
Net income from investments accounted for using the equity method	–	16 101	–	16 101
Consolidated Net Income before tax	(92 315)	39 955	91 465	39 105
Tax expenses	–	–	–	–
Consolidated Net Income	(92 315)	39 955	91 465	39 105

2019

<i>(in EUR thousand)</i>	Headquarter	Subsidiaries from SG Group	Other related parties	Total
Interest and similar income	(81 381)	1 103	66 870	(13 408)
Fees	(29 131)	4 449	(48 575)	(73 257)
Net gains and losses from financial transactions	12 856	–	42 874	55 730
Income from other activities	16 911	–	–	16 911
Net banking income	(80 745)	5 552	61 169	(14 024)
General Administrative expense	54 664	(1 772)	3 504	56 396
Gross operating income	(135 409)	7 324	57 665	(70 420)
Cost of risk	–	–	–	–
Operating income	(135 409)	7 324	57 665	(70 420)
Consolidated Net Income before tax	(135 409)	7 324	57 665	(70 420)
Tax expenses	–	–	–	–
Consolidated Net Income	(135 409)	7 324	57 665	(70 420)

COMMITMENTS TO RELATED PARTIES

	31.12.2020			
(in EUR thousand)	Headquarter ⁽¹⁾	Subsidiaries	Other related parties	Total
Commitments granted	8 077 102	–	965 928	9 043 030
Commitments received	13 810 576	–	1 247 105	15 057 681
Derivative financial assets commitments	12 264 513	–	1 095	12 265 608
Derivative financial liabilities commitments	12 183 757	–	376	12 184 133
Total	46 335 948	–	2 214 504	48 550 452

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

(1) The commitments towards Headquarters include the fiduciary notes issued by the Bank and disclosed in Note 3.10.

	31.12.2019			
(in EUR thousand)	Headquarter ⁽¹⁾	Subsidiaries	Other related parties	Total
Commitments granted	6 369 498	–	882 945	7 252 443
Commitments received	12 783 220	–	1 590 517	14 373 737
Derivative financial assets commitments	141 956 041	–	13 231 189	155 187 230
Derivative financial liabilities commitments	129 190 370	–	12 759 535	141 949 905
Total	290 299 129	–	28 464 186	318 763 315

(1) The commitments towards Headquarters include the fiduciary notes issued by the Bank and disclosed in Note 3.10.

EMPLOYEE BENEFITS FOR KEY MANAGEMENT PERSONNEL

Key management personnel include the authorized management of the Group, their respective spouses and any children residing in the family home, subsidiaries which are controlled either exclusively or jointly by the Group, and companies over which the Group exercises significant influence.

(in EUR thousand)	31.12.2020	31.12.2019
Short-term benefits	1 067	1 068
Post-employment benefits	32	33
Long-term benefits	47	36
Share-based payments	83	132
Total	1 229	1 269

Share-based payments are deferred payments in actions from Societe Generale Group.

Note 8.8. – Dividends paid and proposed

(in EUR thousand)	31.12.2020	31.12.2019
Declared and paid during the year		
Dividends on ordinary shares	–	359 000
Dividends per share (in EUR)	–	33
Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)		
Dividends on ordinary shares	279 000	–
Dividends per share (in EUR)	25	–

In accordance with ECB and CSSF recommendations, no dividend was paid by SG Luxembourg during the year 2020.

For the year 2020, a dividend of EUR 279 million has been proposed for approval at Annual General Meeting.

NOTE 9 – NOTE ON RISK EXPOSURES

The understanding, identification, mitigation and management of risk are essential elements for the successful management of the Group. The Group deployed a strategy to ensure the implementation of robust and efficient risk management and monitoring organization where the main objective is:

- to contribute to the development of the Group's business lines by optimizing the overall profitability in consideration of assumed risks;
- to ensure the Group's sustainability by rolling out a high-performance organization for the analysis, valuation and monitoring of risks: global risk policies and procedures define the framework for controlling all types of risks by describing the methods used, defining limits, as well as setting escalation procedures;
- to provide the Management Board and the Board of Directors with a comprehensive, objective and relevant overview of the risks;
- to design dedicated risk monitoring reports sent and presented to the Chief Risk Officer (CRO) on a regular basis;
- to ensure that the risk limits are compatible with the Group's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Group is willing to take in order to achieve its strategic and financial goals;
- to ensure compliance with banking regulation requirements by submitting regular reports to the regulators (CSSF, ECB, EBA and BCL), taking part in regulatory discussions and analyzing all new requirements related to risk management that could affect the regulatory monitoring of the Group's activities.

The governance of risk management relies on an active involvement from all the company's managers, a clearly defined internal rules and procedures, and monitoring performed by independent operational management teams to structure the underwriting of new risks in order to ensure regular monitoring and proper implementation of rules and procedures.

SG Luxembourg's Risk Committee, chaired by the Chief Executive Officer, meets quarterly to review risk management and, if necessary, to determine whether to accept or manage risks. It aims to:

- inform Executive Management about the nature and magnitude of the risks to which the Group is exposed and, accordingly, to provide analyses of the credit portfolio on a periodic basis;
- identify possible remedial measures for identified risks;
- examine provisions from a prudential perspective;
- report on the progress of any initiatives initiated by the Risk Department in terms of managing counterparty, market, credit and operational risk.

To reflect a sound management of risk and develop an integrated risk culture, the Group has set up an effective Risk Management organization, in adequacy with its activities, encompassing the relevant risks resulting from the activities:

At the Management Board level, the overall Risk Management framework remains under the CRO's responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the Group's overall risk profile to be defined and managed.

The CRO delegates the day-to-day supervision of the department to the Head of the Group's Risk Management.

Note 9.1. – Credit risk

Credit risk is defined by the Group as the risk of loss resulting from the inability of the Group's customers, sovereign issuers or other counterparties to honor their financial commitments. It also includes the counterparty risk relating to the market activities conducted by the Group entities.

In 2013, the Group adopted a Group-wide credit risk policy covering all of its activities that specified the risk tolerance of the various business lines and established a number of common principles relating to the acceptance and monitoring of risk. This policy has been validated by the Group's Board of Directors.

The approval of risks complies with rules common to all business lines:

- all transactions resulting in a counterparty risk are subject to a prior analysis by a unit monitoring credit risk and to an authorization process;
- the Group's internal organization makes appropriate arrangements to monitor clients' creditworthiness. This approach primarily concerns large exposures to "corporations" or financial institutions and limits concentration risk;
- with support from their associated risk departments, the business lines are responsible for analyzing and approving risk insofar as their delegations of authority permit;
- the comparison of the commercial interest, driven by a profitability/risk pairing on the one hand, and the independent opinion of the risk departments on the other hand, supports the decision-making. In the event of a disagreement between the parties, an arbitration process for the decision exists, with limits on the amount;
- all decisions in respect of the granting of credit must automatically take into account the risk ratings attributed internally to the counterparties, such as were communicated by the business lines and approved by the SG Luxembourg Group's risk management team.

Loans extended by the Private Banking division are offered only to clients with assets on the Group's books. Credit policy is based, in particular, on the nature of the collateral. This policy is underpinned by a market "stress test" approach with application of the appropriate discounts to the value of the collateral based on its quality, liquidity, volatility and degree of asset diversification. Exposures and collateral are monitored daily for risk.

For corporate and institutional credit risks, the Group has a strong governance system covering its credit approval process, which relies on case-by-case analysis of exposure and the financial soundness of the counterparties. This analysis is geared towards assessing the ability of the counterparty to meet its obligations.

The credit policy focuses on the quality of the counterparty, as assessed by an internal rating, and the financing structure, which enables the Group to calculate the loss in the event of default.

With regard to financial engineering, any risk-taking sought by the business line is reviewed on a case-by-case basis for structural, contractual and counterparty quality. The review may lead to the conducting of "stress tests" to validate the counterparty's ability to pay back loans under deteriorated conditions or the profitability of the assets financed.

A Credit Committee, chaired by an approved member from SG Luxembourg's General Management, approves the Group's main exposures within the limits of the Committee's delegated responsibilities. The Risk Department is responsible for monitoring exposure, compiling reports and issuing alerts accordingly as well as for the regular updating of analyses. Regarding counterparty banks and brokers, the Group's Risk Department relies on the analytical capabilities of the SG Luxembourg Group, which validates the internal counterparty credit rating. The level of outstanding loans is assessed locally allowing to the special needs of the Treasury. The Group strives to establish master netting agreements and collateralization contracts with most of the Group counterparties with which it trades on the markets.

1. CREDIT RISK CONSIDERATIONS UNDER IFRS 9

ESTIMATING EXPECTED CREDIT LOSSES

The Group is exposed to counterparty and concentration risks, which may have a material adverse effect on the Group's business, results of operations and financial position. The Group is exposed to credit risk with respect to numerous counterparties in the ordinary course of its trading, lending, issuing and deposit-taking, clearing, settlement and other activities. These counterparties include, among others, institutional clients, brokers and dealers, commercial and investment banks, corporates, clearing houses, hedge funds, and sovereign states. The Group may realise losses if a counterparty defaults on its obligations, if the Group encounters legal or other difficulties in enforcing its collateral or/and if the value of the collateral is not sufficient to fully recover the exposure.

Many of the Group's hedging and other risk management strategies also involve transactions with financial services counterparties. Any default or insolvency on the part of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies.

Following the financial crisis, regulators have encouraged or imposed the mandatory netting of certain financial instruments formerly traded over-the-counter, which has increased the exposure of the Group and other financial market participants

to the clearing houses: the default of any one of them or of one of their members could affect the financial markets and could have negative consequences for the Group.

Consequently, the default of one or more significant counterparties of the Group could have a material adverse effect on the Group's cost of risk, results of operations and financial position.

This risk is increased if exposures are concentrated on a particular counterparty, borrower or issuer (including sovereign issuers), or on a particular country or industry. The devices and methods the Group uses to ensure the diversification of its credit and counterparty risks may prove insufficient or defective in preventing the concentration of credit risk. Such a concentration of risk could result in losses for the Group, even when economic and market conditions are generally favourable for its competitors, and may have a material adverse impact on the Group's business, results of operations and financial position.

The Group's results of operations and financial position could be adversely affected by a late or insufficient provisioning of credit exposures.

The Group regularly records provisions for loan losses in connection with its lending activities in order to anticipate the occurrence of losses and moderate the volatility of its results. The amount of loan loss provisions is based on the most accurate assessment to date of the recoverability of the debts in question. This assessment relies on an analysis of the current and prospective situation of the borrower as well as an analysis of the value and recoverability of the debt, taking into account any security interests. In some cases (loans to individual customers), the provisioning method may call for the use of statistical models based on the analysis of loss and recovery historical data.

The Group could be required to substantially increase its provisions for loan losses, following an increase in defaults or a re-evaluation of recovery prospects. A significant increase in loan loss provisions, or the occurrence of loan losses in excess of its provisions, could have a material adverse effect on Group's cost of risk, results of operations and financial position.

Since 1 January 2018, the Group has been recording provisions on performing loans under the IFRS 9 accounting standard. This assessment is based on statistical models for assessing probabilities of default and potential losses in the event of default, which take into account a prospective analysis based on macroeconomic scenarios. The Group's cost of risk could be negatively impacted by a proven or anticipated deterioration in the quality of the outstanding loan portfolios or macroeconomic prospects. In addition, IFRS 9 accounting standard principles and provisioning models could be pro-cyclical in the event of a sharp and sudden deterioration in the environment or result in enhanced volatility in the event of fluctuations in the economic prospects. This could lead to a significant and/or not fully anticipated change in the cost of risk and therefore in the Group's results.

Accounting policies having to do with determining the outstandings to be provisioned as well as the principles for classification in stages of provisioning are described in Note 3.9.

2. RISK MEASUREMENT AND INTERNAL RATINGS

To calculate its capital requirements under the IRB method, The Group estimates its Risk-Weighted Assets (RWA) and the Expected Loss (EL) that may be incurred in light of the nature of the transaction, the quality of the counterparty and all measures taken to mitigate risk;

To calculate its RWA, the Group uses its own Basel parameters, which are estimated using its internal risk measurement system:

- the Exposure at Default (EAD) value is defined as the Group's exposure in the event that the counterparty should default. The EAD includes exposures recorded on the statement of financial position (loans, receivables, accrued income, market transactions, etc.), and a proportion of off-balance sheet exposures calculated using internal or regulatory Credit Conversion Factors (CCF);
- the Probability of Default (PD): the probability that a counterparty of the Group will default within one year;
- the Loss Given Default (LGD): the ratio between the loss incurred on an exposure in the event a counterparty defaults and the amount of the exposure at the time of the default.

The Group also takes into account:

- the impact of guarantees and credit derivatives, by substituting the PD, the LGD and the risk-weighting calculation of the guarantor for that of the obligor (the exposure is considered to be a direct exposure to the guarantor) in the event that the guarantor's risk weighting is more favourable than that of the obligor;
- collateral used as guarantees (physical or financial). This impact is factored in either at the level of the LGD models for the pools concerned or on a line-by-line basis.

ANALYSIS OF GROSS OUTSTANDINGS AND PROVISIONS FOR CREDIT RISK

The following tables detail the provisioned outstandings (balance sheet and off-balance sheet) subject to impairment and provisions in accordance with the model for estimating expected credit losses introduced by IFRS 9 and the impairment and provisions by stage.

The scope of these tables includes:

- securities (excluding securities received under repurchase agreements), customer loans and due from banks measured at amortised cost;
- financing and guarantee commitments.

TABLE 1: BASEL PORTFOLIO BREAKDOWN OF PROVISIONED OUTSTANDINGS

Sovereign	12 034	–	–	12 034	17 075	–	–	17 075
Institutions	11 275 930	–	–	11 275 930	15 067 320	–	–	15 067 320
Corporates	29 082 234	1 064 057	404 410	30 550 701	31 154 516	83 181	66 785	31 304 482
Retail	3 064 241	22 765	134 224	3 221 230	3 765 323	70 259	89 749	3 925 331
Total	43 434 439	1 086 822	538 634	45 059 895	50 004 234	153 440	156 534	50 314 208

Institutions are credit institutions (such as banks) or an investment firms (professional entities of financial sector)

Sovereign means nations and governments as well as agencies and entities owned by governments and central banks.

Corporates are companies and entities with legal personality and a defined purpose among various activity sectors, and different from institutions

Retail are single persons, group of persons or small or medium size entreprise acting for their own.

TABLE 2: GEOGRAPHICAL BREAKDOWN OF PROVISIONED OUTSTANDINGS

<i>(in EUR thousand)</i>	31.12.2020				31.12.2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Luxembourg	12 035 414	74 270	248 688	12 358 372	25 751 810	4 217	7 337	25 763 364
Africa and Middle East	1 495 558	203 502	14 962	1 714 022	2 913 194	4 891	11 208	2 929 292
Asia Pacific	403 550	–	–	403 550	817 499	–	1 118	818 617
Eastern Europe (excluding EU)	865 892	–	–	865 892	550 930	–	–	550 930
Eastern Europe EU	110 826	65	–	110 891	46 577	–	–	46 577
Latin America and Caribbean	1 029 824	90 218	32 952	1 152 994	1 615 281	–	1 049	1 616 330
North America	2 379 249	–	–	2 379 249	1 844 849	–	–	1 844 849
Western Europe (excluding Luxembourg)	25 114 126	718 767	242 032	26 074 925	16 464 094	144 332	135 822	16 744 248
Total	43 434 439	1 086 822	538 634	45 059 895	50 004 234	153 440	156 534	50 314 208

TABLE 3: BASEL PORTFOLIO BREAKDOWN OF PROVISIONS AND IMPAIRMENT FOR CREDIT RISK

<i>(in EUR thousand)</i>	31.12.2020				31.12.2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	1	–	–	1	–	–	–	–
Institutions	731	–	–	731	584	–	–	584
Corporates	13 580	11 272	49 131	73 983	10 189	71	11 875	22 136
Retail	4 076	256	10 711	15 043	2 426	513	1 337	4 275
Total	18 388	11 528	59 842	89 758	13 200	584	13 212	26 995

TABLE 4: GEOGRAPHICAL BREAKDOWN OF PROVISIONS AND IMPAIRMENT FOR CREDIT RISK

<i>(in EUR thousand)</i>	31.12.2020				31.12.2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Luxembourg	2 006	1 391	28 016	31 413	2 631	11	–	2 642
Africa and Middle East	1 118	709	6 606	8 432	337	13	1 472	1 822
Asia Pacific	223	–	–	223	110	–	–	110
Eastern Europe (excluding EU)	1 050	–	–	1 050	490	5	–	495
Eastern Europe EU	102	–	–	102	8	–	–	8
Latin America and Caribbean	1 109	152	–	1 260	538	–	–	538
North America	240	–	–	240	506	–	–	506
Western Europe (excluding Luxembourg)	12 540	9 276	25 220	47 038	8 579	555	11 740	20 874
Total	18 388	11 528	59 842	89 758	13 199	584	13 212	26 995

TABLE 5: PROVISIONED OUTSTANDINGS, PROVISIONS AND IMPAIRMENT FOR CREDIT RISK BY RATING OF COUNTERPARTY

31.12.2020								
(in EUR thousand)	Provisioned outstandings				Impairment and Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1	-	-	-	-	-	-	-	-
2	511 028	-	-	511 028	7	-	-	7
3	17 964 492	124 932	-	18 089 424	1 341	275	-	1 616
4	4 043 235	117 994	-	4 161 229	2 208	351	-	2 559
5	2 404 130	347 145	-	2 751 275	2 900	5 391	-	8 291
6	141 437	199 185	-	340 622	435	2 891	-	3 326
7	201	22 073	-	22 274	-	2 165	-	2 165
Default (8,9,10)	-	-	538 635	538 635	-	-	59 842	59 842
Other method ⁽¹⁾	18 369 916	275 492	-	18 645 408	11 496	455	-	11 951
Total	43 434 439	1 086 821	538 635	45 059 895	18 388	11 528	59 842	89 758

31.12.2019								
(in EUR thousand)	Provisioned outstandings				Impairment and Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1	961	-	-	961	261	-	-	261
2	580 314	-	-	580 314	2	-	-	2
3	21 537 358	48 757	-	21 586 115	802	36	-	838
4	3 545 001	-	-	3 545 001	901	419	-	1 320
5	4 586 022	-	-	4 586 022	3 313	-	-	3 313
6	193 051	1 211	-	194 262	513	-	-	513
7	110	64	-	174	6	-	-	6
Default (8,9,10)	-	-	156 534	156 534	-	-	13 212	13 212
Other method ⁽¹⁾	19 561 417	103 408	-	19 664 825	7 401	129	-	7 530
Total	50 004 234	153 440	156 534	50 314 208	13 199	584	13 212	26 995

(1) Other method corresponds to the retail methodology described in Note 9.1 and the rest is non retail methodology.

TABLE 6: PROVISIONED OUTSTANDINGS, PROVISIONS AND IMPAIRMENT FOR CREDIT RISK BY SECTOR

	31.12.2020							
	Provisioned outstandings				Impairment and Provisions			
<i>(in EUR thousand)</i>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central administrations	12 034	–	–	12 034	2	–	–	2
Credit institutions	11 435 573	–	–	11 435 573	730	–	–	730
Other financial corporations	10 518 903	198 307	20 628	10 737 838	1 653	231	280	2 164
Non-financial corporations ⁽¹⁾	18 403 688	865 750	383 782	19 653 220	11 927	11 041	48 851	71 819
Retail customers	3 064 241	22 765	134 224	3 221 230	4 076	256	10 711	15 043
Total	43 434 439	1 086 822	538 634	45 059 895	18 388	11 528	59 842	89 758

(1) Detail of non-financial corporations:

<i>(in EUR thousand)</i>	31.12.2020
Mining and quarrying	372 492
Manufacturing	2 835 031
Electricity, gas, steam and air conditioning supply	309 857
Water supply	13 346
Construction	219 261
Wholesale and retail trade	605 640
Transport and storage	838 277
Accommodation and food service activities	282 082
Information and communication	87 231
Real estate activities	703 277
Professional, scientific and technical activities	376 113
Administrative and support service activities	8 772 716
Others services	4 237 897
Total	19 653 220

31.12.2019

<i>(in EUR thousand)</i>	Provisioned outstandings				Impairment and Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central administrations	17 075	–	–	17 075	–	–	–	–
Credit institutions	15 067 320	–	–	15 067 320	584	–	–	584
Other financial corporations	8 392 237	–	–	8 392 237	428	–	–	428
Non-financial corporations ⁽¹⁾	22 762 278	83 181	66 785	22 912 245	9 762	71	11 875	21 708
Retail customers	3 765 324	70 259	89 749	3 925 331	2 426	513	1 337	4 275
Total	50 004 234	153 440	156 534	50 314 208	13 200	584	13 212	26 995

(1) Detail of non-financial corporations:

<i>(in EUR thousand)</i>	31.12.2019
Mining and quarrying	395 564
Manufacturing	2 579 407
Electricity, gas, steam and air conditioning supply	22 311
Water supply	35 003
Construction	488 945
Wholesale and retail trade	301 176
Transport and storage	685 836
Accommodation and food service activities	435 610
Information and communication	66 318
Real estate activities	330 287
Professional, scientific and technical activities	691 591
Administrative and support service activities	9 504 638
Others services	7 375 559
Total	22 912 245

TABLE 7: PROVISIONING OF DOUBTFUL LOANS

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Gross book outstandings	45 059 895	50 214 208
Doubtful loans	538 634	156 534
GROSS DOUBTFUL LOANS RATIO	1.2%	0.3%
Stage 1 provisions	18 388	13 199
Stage 2 provisions	11 424	584
Stage 3 provisions	59 946	13 212
GROUP GROSS DOUBTFUL LOANS COVERAGE RATIO (STAGE 3 PROVISIONS / DOUBTFUL LOANS)	11%	8%

Scope: customer loans, amounts due from banks, operating leases, lease financing and similar agreements.

3. ANALYSIS OF MAXIMUM CREDIT RISK EXPOSURE

The following table shows the maximum exposure to credit risk by class of financial asset and commitment. It also shows the total fair value of collateral.

Any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates) is not presented.

(in EUR thousand)	31.12.2020		31.12.2019	
	Credit risk exposures	Collateral	Credit risk exposures	Collateral
Financial assets at fair value through profit or loss	–	–	–	–
Hedging derivatives	–	–	447	–
Financial assets at fair value through other comprehensive income	3 205 031	169 597	3 263 281	168 269
Securities at amortized cost	7 086 422	5 816 043	5 412 725	5 126 491
Due from banks at amortised cost ⁽¹⁾	10 498 243	–	9 495 045	219 911
Customer loans at amortised cost	22 980 536	21 139 454	28 357 556	22 671 108
Other assets	158 891	–	302 386	–
Total	43 929 123	27 125 094	46 831 440	28 185 779
Loan commitments	3 290 339	952 672	5 787 561	1 087 633
Financial guarantees	1 118 609	451 312	1 235 462	35 485
Other commitments	387 127	–	3 709 129	–
Total	4 796 075	1 403 984	10 732 152	35 485

(1) Below is detailed as at 31 December the financial effect of the collateral related to due from banks at amortised cost

(in EUR thousand)	31.12.2020	31.12.2019
Due from banks at amortised cost	–	–
Other collateralized loans	–	219 911
Cash	–	52 478
Rest	–	167 433
Financial guarantees received	–	–

Below are detailed as at 31 December the financial effects of the collateral related to loans and advances to customers.

Customers loans at amortised cost		
Mortgage loans	3 270 121	3 280 873
Residential	2 908 053	3 108 779
Commercial	362 068	172 094
Other collateralized loans	8 678 740	10 059 821
Cash	4 432 394	5 221 465
Others	4 246 346	4 838 356
Financial guarantees received	9 190 593	9 330 414
Total	21 139 454	22 671 108

COLLATERAL AND OTHER CREDIT ENHANCEMENT

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables;
- for retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

For securities collateral, a loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets.

The Risk department monitors the market value and the loanable value of collateral and will request additional collateral in accordance with the underlying agreement.

For real estate, the Group obtains a detailed real estate expert appraisal with a study of the market by an independent company for all financing of more than 2.5 M€. A loan to value is also determined, generally between 50 and 65% depending the type of credit. The location of the assets is limited to the following countries: France, Belgium, Luxembourg, Italy, Monaco, Switzerland and the UK.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds generally at auctions to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential

properties under legal repossession processes are not recorded on the consolidated statement of financial position and treated as non-current held for sale.

CREDIT QUALITY OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR INDIVIDUALLY IMPAIRED

The Group records Expected Credit Losses on financial assets, financial guarantees and other financial commitments on basis of Group calculation rules defined in Note 3.9. The Group determines that “individually impaired” financial assets refer mainly to financial assets classified in Stage 3 under IFRS 9.

ANALYSIS OF RISK EXPOSURE BY RATING

The Group manages the credit quality of financial assets using internal risk ratings. It is the Group’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group’s rating policy.

Internal rating is based on a detailed analysis of qualitative and financial information of the counterparty, the economic, sector or juridical background, etc.

The internal ratings are regularly assessed and reviewed by the Risk Division, at least once a year.

The rating determines the level of probability of default of the counterparty and is directly influenced by the level of risk weight. There’s a correspondence between internal and external ratings (see table hereafter).

Counterparty internal rating	Indicative equivalent FitchRatings	Indicative equivalent Moody’s	Indicative equivalent S&P	Probability of Default (one year)
1	AAA	AAA	AAA	0.01%
2	AA+ à AA-	AA1 à AA3	AA+ à AA-	[0.01% -0.03%]
3	A+ à A-	A1 à A3	A+ à A-	[0.03% -0.06%]
4	BBB+ à BBB-	BAA1 à BAA3	BBB+ à BBB-	[0.13% -0.50%]
5	BB+ à BB-	BA1 à BA3	BB+ à BB-	[1.10% -3.26%]
6	B+ à B-	B1 à B3	B+ à B-	[4.61% -11.42%]
7	CCC+ à CCC-	CAA1 à CAA3	CCC+ à CCC-	[14.33% -27.25%]
8, 9 and 10	CC and below	CA and below	D and below	100%

For private banking, the approach is based on the collateral and the Group’s operational capacity to track changes in each loan’s collateral. Loan to Value is determined by applying discounts to the value of the surety based on its quality, liquidity, volatility, and the diversity of its assets. The Group implemented a monitoring mechanism for detecting collateral downgrading and defining, with its clients, measures for making up insufficient margins.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020 and 2019, the breakdown of EAD by the Basel method is as follows

	31.12.2020	31.12.2019
IRBA	82%	92%
Standard	18%	8%
Total	100%	100%

4. QUALITY OF FINANCIAL ASSETS

PAST DUE AND IMPAIRED LOANS AND ADVANCES

31.12.2020

<i>(in EUR thousand)</i>	Past due but not impaired assets		
	≤ 30 days	> 30 days ≤ 90 days	Unlikely to pay or ≤ 90 days
Credit Institutions	-	-	-
Other financial corporations	1 438	-	19 653
Non financial Corporations	39 381	8 054	268 789
Households	10 328	21 253	9 699
Total	51 147	29 307	298 141

31.12.2019

<i>(in EUR thousand)</i>	Past due but not impaired assets		
	≤ 30 days	> 30 days ≤ 90 days	Unlikely to pay or ≤ 90 days
Credit Institutions	-	-	-
Other financial corporations	-	-	-
Non financial Corporations	118 932	37 753	14 230
Households	55 689	10 554	8 825
Total	174 621	48 307	23 055

GUARANTEES HELD FOR PAST DUE OR INDIVIDUALLY IMPAIRED ASSETS AND DEBT INSTRUMENTS

	31.12.2020	31.12.2019
<i>(in EUR thousand)</i>		
Past due	80 454	222 928
Impaired	533 857	156 234
Total	614 312	379 162

Credit impaired assets				Total Past Due but not impaired and Credit Impaired Assets	Gross carrying amount of individually impaired financial assets	Guarantees held for past due or individually impaired assets and debt instruments
> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years			
-	-	-	-	-	-	-
-	-	975	-	22 066	20 629	8 252
45 106	15 398	37 675	16 813	431 216	383 781	174 302
22 048	20 860	75 415	1 426	161 029	129 447	149 762
67 154	36 258	114 065	18 239	614 311	533 857	332 316

Credit impaired assets				Total Past Due but not impaired and Credit Impaired Assets	Gross carrying amount of individually impaired financial assets	Guarantees held for past due or individually impaired assets and debt instruments
> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years			
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	8 219	44 336	-	223 470	66 785	204 234
3 498	51 969	25 156	-	155 691	89 449	132 803
3 498	60 188	69 492	-	379 161	156 234	337 037

5. COLLATERAL OR OTHER CREDIT ENHANCEMENTS OBTAINED BY TAKING POSSESSION OF THE GUARANTEE HELD

The carrying value of assets obtained during the period by taking possession of the guarantees held is:

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Cash	–	–
Securities	–	–
Mortgage	–	395
Total	–	395

6. RESTRUCTURED DEBT

For the Group “restructured” debt refers to loans whose amount term or financial conditions have been contractually modified due to the borrower’s insolvency (whether insolvency has already occurred or will definitely occur unless the debt is restructured). The Group aligned its definition of restructured loans with the EBA definition.

Restructured debt does not include commercial renegotiations involving customers for which the Group has agreed to renegotiate the debt in order to retain or develop a business

relationship in accordance with credit approval rules in force and without giving up any of the principal or accrued interest.

Any situation leading to debt restructuring entails placing the customers in question in the Basel default category and classifying the loans themselves as impaired.

The customers whose loans have been restructured are kept in the default category for as long as the Group remains uncertain of their ability to meet their future commitments and for a minimum of one year.

<i>(in EUR thousand)</i>	31.12.2020	31.12.2019
Non-performing restructured debt	12 604	2 702
Performing restructured debt	127 421	3 981
Total	140 025	6 683

Note 9.2. – Market risk

1. GENERAL

Market risk is defined as the risk of loss due to unfavorable movements in market factors such as interest rates share prices or currency exchange rates impacting the value of the Group’s proprietary positions.

Although the primary responsibility of the monitoring of risks lies down with the managers of the trading rooms (Front Office) the organization of the supervision relies on the independent structures which in particular are in charge of:

- the calculation on a daily basis of market risks based on a formal and secure procedure;
- the daily monitoring of compliance with the limits notified for each activity;
- the preparation of a daily report on the use of the limits sent to the general management of the entities concerned to the front office and to the SG Luxembourg Group’s market risk department.

The Group’s market risk assessment is based on daily indicators which are used to define exposure limits:

- **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 SG Luxembourg 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 stress testing** based on ten-year risk indicators. Stress testing makes it possible to limit exposure to systemic risks and to cases of exceptional market shock. A stress test estimates the loss resulting from an extreme shift in market prices over a period corresponding to the time required to unwind or hedge the positions affected (5 to 20 days for most trading positions). This estimate uses historical scenarios as well as theoretical scenarios that are regularly reviewed and updated by the SG Luxembourg Group Risk Division. At the end of the most recent review the stress test used 11 scenarios (4 historical and 7 theoretical);
- **additional indicators** (in sensitivity nominal holding or modify duration etc.) enable to ensure consistency between the overall risk limits and the operational thresholds used by the Front Office. These limits also allow mitigating the risks which would only partially be caught by the “VaR” or stress testing.

MEASUREMENT OF MARKET RISK AND DEFINITION OF LIMITS

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

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

From an organizational viewpoint responsibility for managing market risk within SG Luxembourg Group is distributed as follows:

- Societe Generale Group's Market Risk Department establishes the risk measurement methods and control procedures centrally, handles Societe Generale Group's market risk reporting, examines and validates the limits requests from the various activities.
- The entities of SG Luxembourg Group bearing market risk (SG Luxembourg and SGPB Switzerland) have a dedicated risk team independent from the business lines in charge of managing risks resulting from market activities. Within SG Luxembourg in order to come into alignment with the organisational model adopted by SG Group an organisation change has been initiated. From November 2018 the daily market risk calculation and monitoring and the limits and methodologies validation are under the accountability of the Risk department.

The supervision of market risk primarily covers:

- The daily calculation of market risks based on a formal and secured procedure;
- The daily monitoring of compliance with the limits notified for each activity;
- The preparation of a daily report on the use of the limits sent to the general management of the entities concerned to the front office and to Societe Generale Group's market risk department.

Market risk management is based on a combination of several types of indicators:

- 99% Value at Risk (VaR) in accordance with the internal regulatory model used to calculate capital: synthetic indicator for day-to-day monitoring of market risks incurred by SG Luxembourg as part of its trading activities. The method used is the "historical simulation" method which implicitly takes into account the correlation between the various markets and is based on the following principles:
 - storage in a database of the risk factors that are representative of the Bank's positions (i.e. interest rates share prices;
 - exchange rates commodity prices volatility credit spreads etc.);
 - definition of 260 scenarios corresponding to one-day variations in these market parameters over a rolling one-year period;
 - application of these 260 scenarios to the market parameters of the day;
 - revaluation of daily positions on the basis of the 260 sets of adjusted market parameters.

Within the framework described above the one-day 99% Value-at-Risk corresponds to the average of the second and third largest losses computed. The relevance of the model is checked through ongoing backtesting in order to verify whether the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval.

- The Market Stress Test which consists of a series of historical (scenarios already observed in the past) and hypothetical (scenarios defined with bank economists) multi-factor stress tests allows to take into account extraordinary market disruptions with a 10-year occurrence. These indicators estimate the loss resulting from a severe change in market parameters over a time horizon corresponding to the time needed to unwind or cover the positions in question. The Market Stress Test limit covers the most impaired of these scenarios.
 - historical stress tests: this method consists of an analysis of the major economic crises that have affected the financial markets since 1995 (date from which the financial markets have become global and subject to increased regulatory requirements): the changes in the prices of financial assets (equities interest rates exchange rates credit spreads etc.) during each of these crises have been analysed in order to define scenarios for potential variations in these risk factors which when applied to the Group's trading positions could generate significant losses;
 - the hypothetical scenarios are defined with the Group's economists and are designed to identify possible sequences of events that could lead to a major crisis in the financial markets (e.g. a major terrorist attack political instability in the main oil-producing countries etc.). The Group's aim is to select extreme but plausible events which would have major repercussions on all international markets;
 - risks are calculated daily for each market activity of the Group all products included. A limit in "stress-test" is set for the global activity of the Group;
 - different Stress test scenarios are subject to regular review and improvements from teams of economists of the Societe Generale Group.
- An "Emerging Countries" stress test combining shocks calibrated to the history of fluctuations observed in the past. The calibration is created from the 99% quantile of the shock distribution by risk factor for each country. An aggregation by country region and worldwide is used to quantify the risk by geographical area. The Stress Test limit relates to the most sensitive area.
- These scenarios are supplemented by a set of adverse stress tests calculated by activity or risk factor to take extreme risks on a specific market into account (dislocation liquidity concentration etc.).
- "Sensitivity" and "nominal" indicators control position size: sensibilities are calculated using the major valuation risk factors (e.g. sensitivity of an option to changes in underlying asset prices); nominal values are used for significant positions in terms of risk.

2020 METRICS

SG Luxembourg	Limit (€k)	Average use (€k)	Number of overruns observed	Maximum use (€k)	Maximum period of overrun
VaR	250	5.51	–	77.10	N/A
SVaR *	400	15.84	–	173.49	N/A
Stress Test	500	49.98	–	497.60	N/A
Emerging Stress Test	500	3.65	–	120.29	N/A
10bp sensitivity	15	-0.07	–	0.20	N/A
Nominal FX Position	2 000	0.00	–	0.01	N/A
Precious metal position	500	0.00	–	0.00	N/A

* this limit has been set up in 2020

2019 METRICS

SG Luxembourg	Limit (€k)	Average use (€k)	Number of overruns observed	Maximum use (€k)	Maximum period of overrun
VaR	250	0.47	–	6.93	N/A
Stress Test	500	10.62	–	53.46	N/A
Emerging Stress Test	500	0.53	–	3.49	N/A
10bp sensitivity	15	–	–	0.10	N/A
Nominal FX Position	2 000	0.31	–	51.39	N/A
Precious metal position	500	4.91	–	47.37	N/A

Over 2020, the principal metrics levels, VaR, SVaR and Stress Test, remained low overall way under the limits validated by the head office. These indicators never reached their limit over 2020, even if it was close for stress test (maximum EUR 497 600) due to some pricing issues with Fx options.

2. INTEREST RATE RISK

Structural interest rate risk (also referred to as Interest Rate Risk in the Banking Book – “IRRBB”) refers to the risk – whether current or prospective – to the SG Luxembourg Group’s equity and earnings (hence for the Net Present Value and the Net Interest Margin) posed by adverse movements in interest rates affecting the items comprising its banking book.

There are four main types of risk:

- rates level risk;
- curve risk, related to the term structure of the instruments in the banking book;
- optional risk arises from automatic options (typically caps and floors on the floating rate of a loan) and behavioral options (typically the right for a customer to prepay a fixed rate loan with no or fixed penalty);
- basis risk, related to the impact of relative changes in interest rates indices in statement of financial position and off-balance sheet items.

All four types of IRRBB may potentially affect the value or yield of interest-rate sensitive assets, liabilities and off-balance sheet items. Assets, liabilities and off-balance sheet items are analyzed

without prior allocation of the liabilities to the assets. Instalments on the outstanding are calculated considering the contractual characteristics of the transactions and the results of modelling of client behavior (in particular for sight accounts, special savings plans and loan prepayments), as well as assumptions based on conventional scenarios for certain aggregates).

Main internal amortization standards are:

- For the SG Luxembourg Group’s own funds, the retained internal standard for amortization is based on the assumption that such items constitute long term fixed rate resources. The standard has been built on the assumption of a reinvestment every year of one tenth of the amount, on 10 year fixed rate instruments. The expected average replacement rate will then converge to the moving average over 10 years of 10 year rates.
- In connection with the above, this standard also applies to the subsidiaries’ own funds and the corresponding investment in such subsidiaries, as well as to provisions, intangible assets and goodwill. For intangible assets, the retained maturity is nevertheless capped to the remaining IFRS amortization schedule.

SG Luxembourg Group structural interest rate risk management primarily relies on the sensitivity of Net Present Value (“NPV”) of

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

fixed-rate residual positions (excesses or shortfalls) to interest rate changes according to several interest rate scenarios.

Such NPV sensitivity captures the rates level risk, the curve risk and the optional risk:

- when automatic options are identified, their NPV is calculated with standard pricing tools;
- when behavioral options are modeled, the risk metrics include either their intrinsic values calculated as the NPV of the expected amortization modeled profile or the marked to market value calculated with specific pricing tools, thus including also the time value of the option.

The NPV is calculated by discounting actual principal cash flows as well as either actual or estimated coupons flows. When estimated, the coupons proxy is based on the interest rates levels as of the NPV calculation date. In any case, the coupons do not include any sales margin.

Thresholds/limits are declined on:

- Global (all currencies)
- Four Group steering scenarios (2 business-as-usual and 2 under stress):
 - an immediate and parallel 10 bps rise in the yield curve;

- an immediate and parallel 10 bps fall in the yield curve;
- an immediate non-parallel yield curve shock to the upside corresponding to stressed values defined currency by currency ("NIRUP" scenario);
- an immediate non-parallel yield curve shock to the downside corresponding to stressed values defined currency by currency ("NIRDW" scenario).

Societe Generale Group Finance Committee sets and approves, on a yearly basis, the NPV sensitivity thresholds/limits applicable for SG Luxembourg on a solo basis (as a main entity of the Group). For the others entities within the consolidated perimeter of SG Luxembourg Group, the NPV sensitivity threshold and limits are set and approved by their respective BU ALCOs.

IRRBB risks being concentrated at SG Luxembourg standalone entity, the risk appetite at the consolidated level is identical to the NPV thresholds/limits notified at solo level and focus on the global (all currencies) NPV sensitivity. The sensitivity on a currency basis is however monitored on a monthly basis and discussed during SG Luxembourg ALM Committee.

The current limits applicable to SG Luxembourg and the entities of its consolidated perimeter are presented in the table below (including limits as of Q4-20 and new limits starting Q1-21):

BU	Entity name	Currency	Q4-20			
			+10 bps [0-end]	-10 bps [0-end]	NIRUP [0-end]	NIRDW [0-end]
SG LUX	SG Luxembourg <i>including Société Immobilière de l'Arsenal including Coparer Holding</i>	EUR	-8.63	-8.63	-70.10	-41.00
		USD	-1.13	-1.13	-9.10	-6.50
		CHF	-1.25	-1.25	-10.20	-7.20
		Aggregate	-6.47	-6.47	-52.60	-30.70
		Global	-17.48	-17.48	-142.00	-85.40
WAAM	SG Private Banking Switzerland	EUR	-0.45	-0.45	-3.66	-2.14
		USD	-0.45	-0.45	-3.66	-2.59
		CHF	-0.45	-0.45	-3.66	-2.59
		Aggregate	-0.34	-0.34	-2.74	-1.94
	SG Private Banking Monaco	EUR	-0.14	-0.14	-1.12	-0.65
		USD	-0.14	-0.14	-1.12	-0.79
	SG Life Insurance Broker	-	Not monitored			
SG Private Wealth Management	-	Not monitored				
GLBA	SG Capital Market Finance	EUR	0.15	-0.30	0.46	-1.24
		USD	-0.08	-0.08	-0.62	-0.44
	SG Financing and Distribution	-	Not monitored			
	SGBT Credit International	EUR	-0.07	-0.07	-0.52	-0.30
		USD	-0.07	-0.07	-0.52	-0.37
	SGBT Asset Based Funding	EUR	-0.04	-0.04	-0.31	-0.18
		USD	-0.04	-0.04	-0.31	-0.22
	SGBT Finance Ireland	EUR	-0.04	-0.04	-0.31	-0.18
	SG Hedging Limited	EUR	-0.04	-0.04	-0.31	-0.18
	IVEFI	EUR	-0.04	-0.04	-0.30	-0.18
MARK	SG Issuer	EUR	-0.13	-0.13	-1.02	-0.59
		USD	-0.13	-0.13	-1.02	-0.72
	Montalis Investment	GBP	-0.13	-0.13	-1.02	-0.72
		EUR	-0.04	-0.04	-0.31	-0.18
SEGL	SG Ré	EUR	-0.53	-0.53	-4.30	-2.50
ASSU	Sogelife	EUR	-0.34	-0.34	-2.74	-1.60

SG Luxembourg Finance Committee and the Board of Directors are notified on each statement of financial position date of the results of the “Supervisory Outlier Test” (“SOT”) as defined in articles 113 and 114 of the EBA guidelines dated 19 July 2018. These tests are based on EVE sensibility (the EVE being the NPV after exclusion of own funds, investments in subsidiaries and intangible assets):

- According to article 113, the EVE sensitivity to +/- 200bp interest rates shocks shall remain below 20% of the SG Luxembourg regulatory capital Tier 1 and Tier 2.
- According to article 114, the EVE sensitivity to interest rates shocks corresponding to the 6 scenarios detailed in Appendix III of the EBA Guidelines shall remain below 15% of the SG Luxembourg Tier 1 capital.

3. CURRENCY RISK

Structural exchange risk is the risk that a loss occurs due to an unfavourable movement of the exchange rate that would affect the Group due to existing opened positions in foreign currencies.

Structural exchange rate risk is mainly caused by:

- foreign currency denominated capital contributions and equity investments financed through the purchase of foreign currencies;
- retained earnings in foreign subsidiaries;
- investments made by certain foreign subsidiaries in a currency other than that used for their equity funding for regulatory reasons.

OBJECTIVE OF THE GROUP

The Group’s policy consists in calibrating the hedging of its net investments in foreign entities in such a way as to reduce the sensitivity of its Common Equity Tier 1 ratio to fluctuations in exchange rates as far as possible. To this end, it enters into hedging transactions to maintain a currency exposure reducing such sensitivity to within limits. The Group quantifies its exposure to structural foreign exchange rate risks by analyzing all assets and liabilities denominated in foreign currencies.

4. MEASUREMENT AND MONITORING OF STRUCTURAL FOREIGN EXCHANGE RATE RISKS

The Group settles many forward foreign exchange transactions that are systematically backed by spot transactions. The residual position on those operations corresponds to interests of the currency in which the forward operation has been concluded and therefore represents an interest rate position monitored by the treasury desk.

The structural currency risk is monitored through monitoring process of the market currency risk. Those monitoring processes cover both natures of currency risks. Please refer to Note 9.2 for more details on those risk monitoring processes.

5. SENSITIVITY OF THE PROFIT OF THE GROUP TO A 10% CURRENCY CHANGE

The table below presents the impact on the Group profit of a 10% currency depreciation or appreciation as at 31 December 2019 and 2020:

<i>(in EUR thousand)</i>	31.12.2020		31.12.2019	
	Effect on the profit of a 10% currency appreciation	Effect on the profit of a 10% currency depreciation	Effect on the profit of a 10% currency appreciation	Effect on the profit of a 10% currency depreciation
EUR	–	–	–	–
USD	45	(55)	(126)	28
GBP	5	(6)	(101)	22
JPY	2	(3)	–	–
AUD	–	–	(1)	–
CZK	2	(2)	10	(2)
RUB	–	1	(4)	1
RON	–	–	–	–
Others	9	(12)	4	(1)
Total	63	(77)	(218)	48

MONITORING OF FOREIGN CURRENCY RISK EXPOSURE

The Group sets an overnight global limit to EUR 2 million that breaks down as follows: the global limit and all specific limits have been globally maintained compared to 2019. Currencies have been allocated by zones.

Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR	Currency	MEUR
AUD	± 1.0	SEK	± 0.5	RMB	± 0.5	MYR	± 0.2	AED	± 0.2
CHF	± 1.0	SGD	± 0.5	RUB	± 0.5	OMR	± 0.2	ARS	± 0.2
GBP	± 1.0	BRL	± 0.5	TRY	± 0.5	PEN	± 0.2	BGN	± 0.2
JPY	± 1.0	CNY	± 0.5	COP	± 0.2	PHP	± 0.2	BHD	± 0.2
USD	± 1.0	CZK	± 0.5	EGP	± 0.2	RON	± 0.2	ISK	± 0.2
CAD	± 0.5	HKD	± 0.5	HUF	± 0.2	RSD	± 0.2	QAR	± 0.2
DKK	± 0.5	KRW	± 0.5	IDR	± 0.2	THB	± 0.2	SAR	± 0.2
NOK	± 0.5	MXN	± 0.5	ILS	± 0.2	TWD	± 0.2		
NZD	± 0.5	PLN	± 0.5	INR	± 0.2	ZAR	± 0.2		

As at 31 December 2020 the opened positions of SG Luxembourg Group are as follows: since November 2015 the FX position is monitored on a daily basis on the Trading Book perimeter only which explains why the FX levels are close to 0.

IMPACT OF CURRENCY RATE DEPRECIATION ON EQUITY TIER 1 RATIO AND PROFIT

The foreign exchange position is hedged on a daily basis with marginal overnight open positions and no structural FX position remaining at SG LUXEMBOURG level. Considering this no additional capital charge is deemed necessary to cover this risk and no significant impact is to be considered on profit.

OTHER ENTITIES SIGNIFICANTLY EXPOSED TO MARKET RISK**SOCIETE GENERALE PRIVATE BANKING (SUISSE) S.A.**

Societe Generale Private banking Suisse S.A. manages all of its positions through a system based on limits. Those limits are mainly set in terms of positions. On an accounting level the evaluation of the trading portfolio positions is performed daily at the market price.

- Risk management

Monitoring of market risk of Societe Generale Private banking Suisse S.A. is the responsibility of the Risk management the control of the forex activity and of the bonds positions is managed daily in relation to the overnight limits. Such control is performed by the department responsible for market and counterparties risk who then reports daily to the Chief Executive Officer the Chief Operating Officer and the Chief Risk Officer. The Societe Generale Group is informed on those exposures on a weekly basis. Such report contains the market value of the bond positions the forex positions and the commodities positions the utilization the limits applied and the result.

- Risk monitoring and management

Positions for own account are limited to:

- some forex operations and on forex derivatives (spot swap forwards) and on commodities. Daily limits are as follows: Forex: EUR 5 million Commodities: EUR 1 million;
- long positions towards head office (Paris) or other credit institutions allowed by Group policy;
- overnight placings;
- positions from client portfolios following execution errors or commercial gestures from Societe Generale Private Banking Suisse S.A.

Maximum amount of funds / hedge funds that can be held in trading book is of EUR 9 million. Such position should be explained in detail by the Back Office to the Risk Management department validated by the Chief Commercial Officer the Chief Risk Officer the Chief Financial Officer and the Chief Compliance Officer.

Follow-up of client bonds positions in the trading portfolio is performed jointly by the investment and risk teams.

When shares or shares of funds are taken in the trading portfolio Management is informed.

Limits definition is evaluated following a risk appetite estimate from the business line and validated by the Management.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Exposure towards those limits as at 31 December 2020 and 2019 are as follows:

	2020			2019		
	Limit (€k)	Average use (€k)	% use	Limit (€k)	Average use (€k)	% use
SGPB Switzerland						
Stress Test	9 000	–	–	9 000	1 631.54	18.13%
10bp sensitivity	35	0.53	1.52%	35	0.81	2.31%
Nominal FX Postion	5 000	262	5.23%	5 000	1 539.67	30.79%
Precious metal position	1 000	1.29	0.13%	1 000	45.65	4.57%

There is no stress test consumption in 2020 due to the revision of the Bank regarding the market risk limits framework for “Out of Global Tools” entities at the beginning of 2020. Those entities, including SGPBS, are not able to produce Hypo/Histo stress test. Therefore, they are no longer obliged to produce Stress test metrics.

SOCIETE GENERALE PRIVATE BANKING (MONACO) S.A.M.

Societe Generale Private Banking Monaco S.A.M. does not have any management and monitoring capability in relation to market risk. It backs systematically each operation with its head office SG Luxembourg. It therefore does not manage any open position on derivatives. Clients of Societe Generale Private Banking Monaco S.A.M. perform operations on derivatives. Even though the market risk does not exist the counterparty risk exists on such operation.

For those operations clients systematically sign a derivative product convention. If the maturity of the positions is short the potential risk is collateralized by the client investment portfolio. Otherwise a cash collateral is systematically required to cover the position. Such position is accounted for 25 to 30% of the position representing the extreme volatility risk of the position.

Note 9.3. – Liquidity Risk

The Group measures and oversees liquidity risk using gaps (static and stressed) based on “assetliability” scenarios and using regulatory liquidity ratios (LCR). As of December 31,2020, SG Luxembourg Group is not subject to NSFR requirement.

Liquidity risks reflect a mismatch between statement of financial position’s assets and liabilities over the short medium or long term.

Funding requirements or surpluses are measured by the liquidity gap governed by thresholds and limits defined by the Societe Generale Group Finance Committee.

Threshold breaches are subject to action plans aimed at resolving and preventing the recurrence of the breach.

The Group oversees its cash management within this framework. Changes in the structure of the statement of financial position and its run-off are managed by the ALM (Asset and Liability Management) unit and monitored by the ALM Committee which in turn determines the refinancing requirements of the Group’s entities.

SG Luxembourg Group is required to report the liquidity ratios defined by the CRD4. The Finance Division is responsible for producing and analysing the CRD4 liquidity ratios (LCR and NSFR) of SG Luxembourg Group and subgroup via a process coordinated with Societe Generale Group.

It submits the LCR monthly and the NSFR quarterly to the CSSF and BCL. The Finance Division unit is also in charge of oversight and projections of the short-term LCR.

The ALM Committee chaired by SG Luxembourg CEO, meets once a month and supervise and validate the Group’s liquidity position based on the associated metrics produced.

1. BREAKDOWN OF FINANCIAL ASSETS BY RESIDUAL MATURITY

(in EUR thousand)	31.12.2020				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Cash, due from central banks	9 871 682	–	–	–	9 871 682
Financial assets at fair value through profit or loss	1 017 414	–	–	40 177	1 057 591
Hedging derivatives	–	–	–	–	–
Financial assets at fair value through other comprehensive income	–	353 082	1 916 837	935 112	3 205 031
Securities at amortized cost	7 046 173	1 560	34 495	4 194	7 086 422
Due from banks at amortised cost	5 403 763	998 861	2 608 035	1 487 584	10 498 243
Customer loans at amortised cost	4 962 736	4 240 819	10 690 291	3 086 690	22 980 536
Investments of insurance activities	39 466	14 486	198 763	189 936	442 651
Total	28 341 234	5 608 808	15 448 421	5 743 693	55 142 156

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

(in EUR thousand)	31.12.2019				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Cash, due from central banks	9 262 134	–	–	–	9 262 134
Financial assets at fair value through profit or loss	4 502 852	12 266 294	20 943 221	21 845 950	59 558 317
Hedging derivatives	447	–	–	–	447
Financial assets at fair value through other comprehensive income	–	277 225	2 116 459	869 597	3 263 281
Securities at amortized cost	5 249 680	14 788	122 804	25 453	5 412 725
Due from banks at amortised cost	4 022 338	1 429 043	2 602 943	1 440 721	9 495 045
Customer loans at amortised cost	9 871 862	4 156 865	11 344 855	2 983 974	28 357 556
Investments of insurance activities	41 268	46 017	201 777	238 750	527 812
Total	32 950 581	18 190 232	37 332 059	27 404 445	115 877 317

2. BREAKDOWN OF FINANCIAL LIABILITIES BY RESIDUAL MATURITY

<i>(in EUR thousand)</i>	31.12.2020				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Financial liabilities at fair value through profit or loss	493 761	–	–	41 144	534 905
Hedging derivatives	193 687	–	–	–	193 687
Due to banks	5 476 306	7 600 066	8 618 702	3 631 193	25 326 267
Customer deposits	16 499 740	2 340 492	3 958 760	2 196 901	24 995 893
Debt securities issued	63 867	742	–	–	64 609
Subordinated debts	–	–	–	–	–
Insurance contracts related liabilities	–	7 635	30 540	53 448	91 623
Total	22 727 361	9 948 935	12 608 002	5 922 686	51 206 984

The significant variation compared to 2019 is related to the consolidation method change of SG Issuer S.A., please refer to Note 2.2.2.

<i>(in EUR thousand)</i>	31.12.2019				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Financial liabilities at fair value through profit or loss	3 928 884	12 287 777	20 972 412	21 882 825	59 071 898
Hedging derivatives	218 245	–	–	–	218 245
Due to banks	7 814 186	7 123 370	7 608 364	2 291 819	24 837 739
Customer deposits	17 306 154	3 356 905	4 651 808	2 537 837	27 852 704
Debt securities issued	224 139	–	2	–	224 141
Subordinated debts	–	–	–	–	–
Insurance contracts related liabilities	35	17 682	69 155	121 021	207 893
Total	29 491 643	22 785 734	33 301 741	26 833 502	112 412 620

3. BREAKDOWN OF COMMITMENTS BY RESIDUAL MATURITY

COMMITMENTS GRANTED

	31.12.2020				
(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loan commitments	1 980 359	–	1 169 606	140 374	3 290 339
Guarantee commitments	1 044 631	49 127	14 771	10 080	1 118 609
Securities commitments	387 127	–	–	–	387 127
Total	3 412 117	49 127	1 184 377	150 454	4 796 075

	31.12.2019				
(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loan commitments	3 254 803	52 062	684 404	1 796 292	5 787 561
Guarantee commitments	1 161 148	48 694	15 439	10 180	1 235 461
Securities commitments	877 593	152 091	679 308	2 000 137	3 709 129
Total	5 293 544	252 847	1 379 151	3 806 609	10 732 151

COMMITMENTS RECEIVED

	31.12.2020				
(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	1 527 703	16 425	110 089	16 330	1 670 547
Guarantee commitments	1 656 850	137 695	481 070	11 686 266	13 961 881
<i>From banks</i>	514 088	133 960	2 301	11 609 524	12 259 873
<i>Other guarantee commitments</i>	1 142 762	3 735	478 769	76 742	1 702 008
Securities commitments	21 661	–	–	–	21 661
Other commitments	3 847 502	12 575	1 611 941	258 379	5 730 397
Total	7 053 716	166 695	2 203 100	11 960 975	21 384 486

	31.12.2019				
(in EUR thousand)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Financing commitments	1 692 687	–	169 687	–	1 862 374
Guarantee commitments	1 782 841	–	–	12 630 141	14 412 982
<i>From banks</i>	–	–	–	12 630 141	12 630 141
<i>Other guarantee commitments</i>	1 782 841	–	–	–	1 782 841
Securities commitments	7 212	–	–	–	7 212
Other commitments	6 605 134	–	680 850	–	7 285 984
Total	10 087 874	–	850 537	12 630 141	23 568 552

Note 9.4. – Operational risk

Operational risk is defined as the risk of loss or fraud as a result of defects in or failure of internal systems and procedures human error or external events including IT risk and management risk. Particular attention is paid to the risk of compliance which is the subject of enhanced structural organization.

The Group is engaged in the process of strengthening the control and steering the operational risks implemented. This approach is steered by the operational risks department attached to the Group's risk management division and is relayed by the different units monitoring operational risks responsible for implementing the Group's policies and directives and for monitoring and steering the operational risks.

The valuation of operational risk is based on the advanced assessment approaches deployed under the Basel II reforms. The AMA (Advanced Measurement Approach) method is used to calculate the regulatory capital requirement for operational risk.

Although the primary responsibility for controlling operational risks lays down with all department managers within the business lines and support functions who must promote the culture of operational risks within their teams on a daily basis the follow-up organization relies mainly on 3 processes supervised by the operational risk departments and consolidated within the SG Luxembourg Group:

- i. the periodic self-assessment of the risks and controls (Risk and Control Self-Assessment- RCSA) which aims to:
 - identify and measure the operational risks inherent in each activities and department of all entities of SG Luxembourg Group;
 - assess the quality of prevention and control systems in place to reduce these risks and thereby measure exposure to the latent risks with which each activities/department must contend;
 - implement corrective action plans.
- ii. the gathering of internal data relating to losses associated with operational risks with a comprehensive declaration and on a specific tool providing all the information necessary for analysis and monitoring this data being relayed to the senior management. The approach closely follows the formulation and follow-up of corrective actions that have to be subject to a degree of criticality a deadline and the appointment of a manager;
- iii. analyses of scenarios targeting particularly sensitive functions and processes within the Group. These are assessments of severe operational risks which the Group may face under certain conditions. These analyses aim to assess rarely occurring but extremely severe potential losses.

NOTE 10 – CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor. The adequacy of the Group's capital is monitored using among other measures the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios).

SG Luxembourg Group has fully complied with all its externally imposed capital requirements over the reported period.

Note 10.1. – Capital management

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

- maintaining its financial solidity and respecting the Risk Appetite targets;
- preserving its financial flexibility to finance organic growth and growth through acquisitions;
- adequate allocation of capital to the various business lines according to the Group's strategic objectives;
- maintaining the Group's resilience in the event of stress scenarios;

- meeting the expectations of its various stakeholders: supervisors debt and equity investors rating agencies and shareholders.

The Group determines its internal solvency targets in accordance with these objectives and regulatory thresholds.

The Group has an internal process for assessing the adequacy of its capital that measures the adequacy of the Group's capital ratios in light of regulatory constraints.

The Group has fully complied with all its externally imposed over the reported period.

1. LEVERAGE RATIO MANAGEMENT

The Group steers its leverage effect according to the CRR leverage ratio rules as amended by the delegated act of 10 October 2014.

Steering the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Group's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Group sets for itself. To this end the "leverage" exposure of the different business lines is contained under the Finance Division's control.

The group fully complied with all its externally imposed capital requirements over the reported period.

Return on assets (i.e. Net Income divided by the total consolidated statement of financial position per consolidated financial statements) for the Group stood at 0.41% as at 31 December 2020 (2019: 0.24%).

2. LARGE EXPOSURES

The CRR (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such the SG Luxembourg Group must not have any exposure where the total amount of net risks incurred on a single beneficiary exceeds 25% of the Group's capital.

The eligible capital used to calculate the large exposure ratio is the total regulatory capital with a limit on the amount of Tier 2 capital. Tier 2 capital cannot exceed one-third of Tier 1 capital.

The final rules of the Basel Committee on large exposures will be transposed in Europe via CRR2. The main change compared with the current CRR is the calculation of the regulatory limit (25%) henceforth expressed as a proportion of Tier 1 (instead of total capital) as well as the introduction of a cross-specific limit on systemic institutions (15%).

Note 10.2. – Regulatory capital

Reported according to international financial reporting standards (IFRS) Societe Generale's regulatory capital consists of the following components.

1. COMMON EQUITY TIER 1 CAPITAL

TIER 1 CAPITAL

According to CRR/CRD4 regulations Common Equity Tier 1 capital is made up primarily of the following:

- ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts;

- retained earnings;
- components of other comprehensive income;
- other reserves.

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

- estimated dividend payment;
- goodwill and intangible assets net of associated deferred tax liabilities;
- unrealized capital gains and losses on cash flow hedging;
- 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.

ADDITIONAL TIER 1 CAPITAL

SG Luxembourg has no Additional Tier 1 capital.

2. TIER 2 CAPITAL

SG Luxembourg Group has no Tier 2 capital as the excess of deduction is reported in CET1 capital:

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

SG Luxembourg is benefiting from a favorable assessment by the rating agency Standard & Poor's with regard to the Group's financial stability: A-1 in the short term A in the long term (confirmed in December 2020).

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

- core Tier I capital: EUR 2 736 million (2019: EUR 2 468 million).

The Group has not issued any hybrid securities or subordinated borrowings not eligible for prudential capital.

NOTE 11 – EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

After the end of the reporting period, SG Issuer – a subsidiary of SG Luxembourg – as the Issuer of Notes linked to the credit risk of a French corporate, and Societe Generale, as the Guarantor, were brought before the courts of Paris alongside other financial institutions by end investors to obtain compensation for the financial loss they suffered on their investment in these securities (16MEUR).

For this litigation (and any other litigation relating to securities issued by SG Issuer) SG Issuer is entitled to an indemnification by Societe Generale in respect of any sum due by SG Issuer in the context of this litigation regarding potential damages or attorneys' fees.

Societe Generale Luxembourg

Société Anonyme

11, avenue Emile Reuter

L-2420 Luxembourg

R.C.S. Luxembourg: B 006.061

