SOCIETE GENERALE

SOCIETE GENERALE LUXEMBOURG

PILLAR 3 2021

RISK REPORT

Societe Generale Luxembourg
11 Avenue Emile Reuter
L-2420 Luxembourg

Pillar 3 on 31 December 2021 positions

R.C.S. Luxembourg: B 006.061

CONTENTS

FOREWORD

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

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

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

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

The information presented in this document aims at providing a comprehensive description of Société Générale Luxembourg’s Risk Management organisation, along with a quantitative and qualitative overview of Société Générale Luxembourg’s risk exposure as of December 31, 2021.

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

1. KEY FIGURES

This risk report provides in-depth information on the SG Luxembourg approach and strategy for managing its equity capital and risks.

The report also aims to meet the requirements of various stakeholders, including regulators (in compliance with Part 8 of the CRR), investors and analysts.

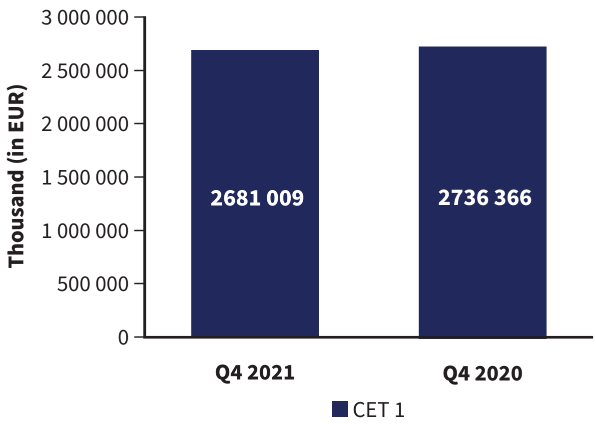
SUMMARY CONSOLIDATED PROFIT AND LOSS[1]

(in EUR thousand)	31 December 2021	31 December 2020
Net banking income	703 680	686 671
Cost of risk	(2 110)	(63 934)
Net income for the period	303 907	229 774
Net income for the period/ total assets	0.45%	0,41%

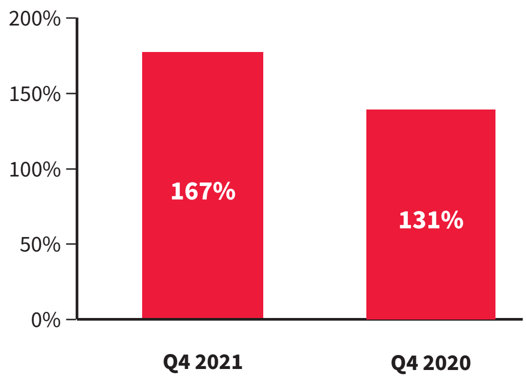
SUMMARY CONSOLIDATED BALANCE SHEET[1]

(in EUR thousand)	31 December 2021	31 December 2020
Total Assets	66 841 783	56 049 652
Total Liabilities	63 495 231	52 737 121
Total Equity	3 346 552	3 312 531

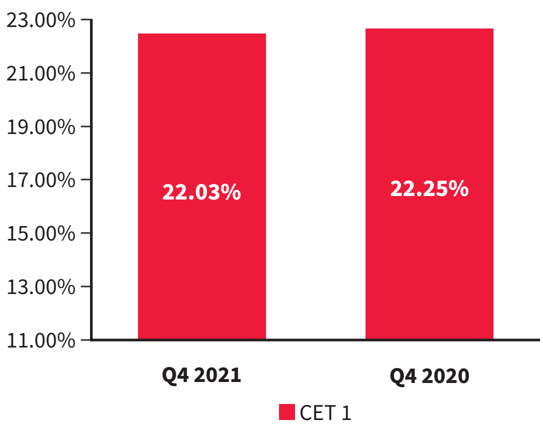
OWN FUNDS



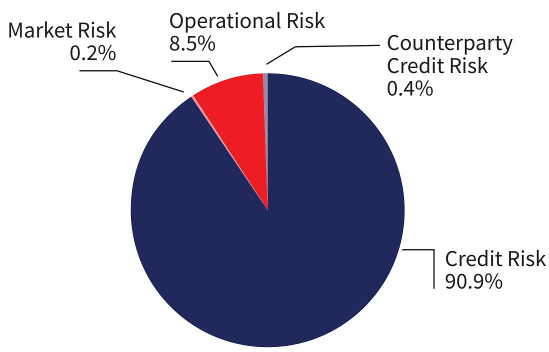
LIQUIDITY COVERAGE RATIO



SOLVENCY RATIO

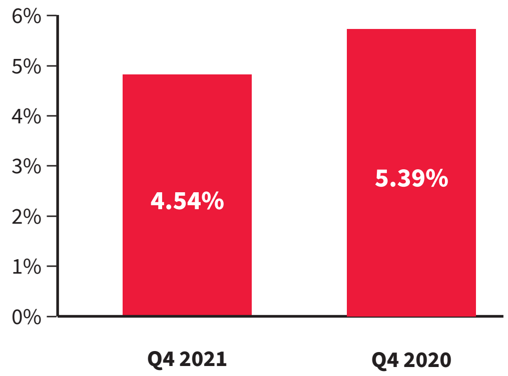


RWA BY RISK TYPE

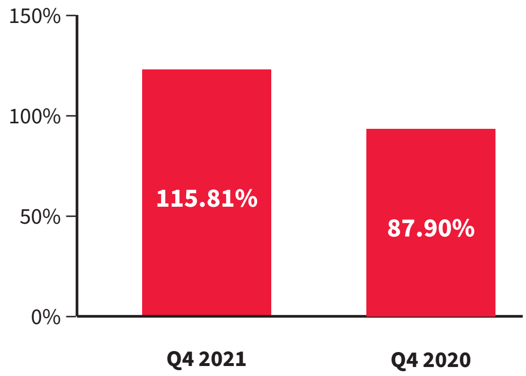


1 As per consolidated financial statements.

LEVERAGE RATIO



NET STABLE FUNDING RATIO



1.1 ENVIRONMENTAL AND SOCIAL RISK STRATEGY

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.

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

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

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

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

The Group is focusing on:

- Enriching existing risks maps with the environmental and social risk dimension:
  - A first E&S Risk factors identification was realized within 2021 ICAAP exercise, following the publication in November 2020 of the ECB guide on climate related and environmental risks
  - Participation in the Pacta Luxembourg initiative was the first evaluation of SG Luxembourg corporate credit portfolio alignment
- Updating risk assessment and reporting tools and procedures:
  - Integration and subsequent monitoring of a renewable limit in SGL Risk Appetite Statement since 2021
  - ESG risk analysis was introduced within Corporate credit granting process when relevant (counterparties belonging to sensitive sectors)
  - On Private Banking activities, the appropriate approach in terms of credit granting process is currently under evaluation
- Updating its governance to foster and control the adequate integration of this dimension into our risk management framework:
  - Appointment of a CSR Coordinator in charge of coordinating and implementing the CSR strategy defined by the BUs/SUs and monitoring the E&S risk framework
  - Launch of a quarterly CSR Committee at SG Luxembourg level in 2019 in charge of monitoring the strategy and coordinating our various CSR initiatives
  - Launch in January 2021 of a monthly CSR Risk Management Committee (in charge of ensuring compliance with the transposition of E&S instructions and regulations in our regulatory framework)
  - Launch of a CSR Community in 2019 with more than 250 members as today
- Educating our stakeholders on this environmental and social dimension.

1.2 UKRAINE AND RUSSIAN CRISIS IMPACT ON RISK MANAGEMENT

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

Based on the sanctions published on 27 February 2022, the SG Luxembourg Group is exposed to Russian risk either through compliance and reputation risk or through credit risk (namely in the corporate financing activity and the private banking activity). To be able to measure the exposure to this geopolitical risk and to perform a proper follow up of the situation, SG Luxembourg set up a crisis framework including a crisis committee which is held every two weeks, and which includes the members of the executive committee of the Bank.

Within this framework, a very close monitoring of the relations with Russian or Belarus clients is performed:

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

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

2. GOVERNANCE AND RISK MANAGEMENT ORGANIZATION

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

SG Luxembourg Group is part of Société Générale Group (SG Group) and as such SG Luxembourg risk profile is integrated into the monitoring performed by SG Group. The risk profile and governance of SG Group is detailed in a separate Pillar 3 report published on the website of SG Group. On a consolidated basis, exposures towards SG Group represent about 36% of total exposures which in the various tables of Chapter 4 Credit Risk primarily relate to exposures to “Institutions”.

2.1 INTRODUCTION

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

2.2 TYPES OF RISKS

SG Luxembourg Group’s business model involves the following main risk categories:

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

- **Reputational risk** is the risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the ability to maintain or engage in business relationships and to sustain access to sources of financing.
- **Risks related to insurance activities:** through its reinsurance subsidiary (SG Re), SG Luxembourg is exposed to risks related to this business, mainly balance sheet management risks (interest rate, valuation, counterparty and foreign exchange risk).

2.3 RISK APPETITE

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

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

2.4 RISK MAPPING FRAMEWORK AND STRESS TESTS

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

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

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

In the 2021 budget year, Société Générale Group used models of projected income to estimate, under stress, the commissions and income from investment banking customers. These models had already been tested during the 2019 EBA stress test exercise and have continued to be improved since then taking account of the feedback from business experts.

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

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

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

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

The stress scenario take effect starting in 2021 and assumes an extended health crisis coupled with a generic shock including global financial crisis. GDP deviates from the trajectory of the central scenario during four consecutive years (with all countries facing the same intensity of the GDP shock).

Those scenarios do not take into account the potential direct and indirect coming effects of the Russian/Ukrainian crisis.

The cumulative loss partly matches the GDP losses observed during the Global Financial Crisis of 2008/2009. It has been further adjusted to take account of the Covid-19 shock episode based on present knowledge.

The stress scenario illustrates the materialization of threats to stability present in the current global economic environment and models a persistent crisis. The global economic downturn reflects the combined influences of higher unemployment, lower investment and growing debt ratios. The fall in global demand also leads to lower international trade, aggravated by protectionist policies, and a new downturn in commodity prices, placing stress on producer nations. Contrary to the 2008-2009 crisis, the political environment will make it difficult for the G20 and international organisations to deliver a coordinated response to the crisis.

The fall in activity is exacerbated by a global financial shock, thus translating into further scarring and a slower recovery. The highly uncertain environment would send yields of safe assets to unprecedented low levels and the repricing risk would be heightened as underlying fundamentals are particularly weak.

Higher uncertainty and flight to quality would supported the dollar in short term. The Japanese yen would also be a bit stronger. As a result of the negative impact of Brexit on UK fundamentals, Sterling Pound would be depreciated. It would plunge below parity against the euro on the back of a disorderly divorce with the EU.

2.5 RISK PLAYERS AND MANAGEMENT

As of 31 December 2021, the specialized committees of the Board were:

Board of directors

Risk & Compliance Committee | Audit & Account Committee | Remuneration Committee | Nomination & Internal Governance Committee

- **Audit and Accounts Committee:** At 31 December 2021, the Audit and Accounts Committee comprised four members including two Independent Directors and one external Director: Didier MOUGET, Isabelle GOUBIN, Marie DOUCET and Patrick SUET. The Committee is chaired by Didier MOUGET.

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

In particular, it is responsible for:

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

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

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

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

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

- **Risk and Compliance Committee:** At 31 December 2021, the Risk and Compliance Committee comprised three Directors, including two Independent Directors: Isabelle GOUBIN, Didier MOUGET and Frédéric SURDON. The Committee is chaired by Isabelle GOUBIN.

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

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

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

In terms of Compliance, it is responsible for:

- presenting the regulatory changes and their impact on processes and procedures regarding the fight against money laundering and terrorist financing, professional and personal ethics
- presenting the result of the work, checks and findings carried out in terms of: KYC/AML/FT, interests' clients and investors protection, markets' integrity, personal ethics, compliance issues related to new products and services, cross-border activities, data protection or tax transparency issues
- reviewing the quality of the processes and the progress of implementation of new tools/methodologies' projects
- reviewing suspicious transaction reports and information/ investigation's requests from authorities
- reviewing complaints related to Compliance issues
- monitoring the observations and reports of regulatory authorities;

- **Remuneration Committee:** At 31 December 2021, the Remuneration Committee comprised four Directors, two Group representative, one external Director and one Director representing employees: Marie DOUCET, Patrick FOLLEA, Cécile BARTENIEFF and Frédéric ROVEDA. The Committee is chaired by Marie DOUCET.

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

It conducts an annual review of:

- the principles of the Company's compensation policy;
- the compensation policy for regulated employees within the meaning of the banking regulations;

- **Nomination and Internal Governance Committee:** At 31 December 2021, the Nomination and Internal Governance Committee comprised two Directors and one external Director: Patrick SUET, Cécile BARTENIEFF and Marie DOUCET. The Committee is chaired by Patrick SUET.

The Nomination and Internal Governance Committee:

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

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

- The Finance Committee which defines SG Luxembourg Group's financial strategy and ensures the steering of scarce resources (capital, liquidity, balance sheet and fiscal capacity), their allocation, and the monitoring of structural risks.
- The Internal Control Coordination Committee which manages the consistency and effectiveness of the internal control mechanism as a whole.
- The IS Security Committee which defines and follows SG Luxembourg Group's: security policy strategy and governance, data leakage, security and security incidents reporting, prioritization of actions based on risk assessments, optimization of capital allocated to Information Security and all other areas essential to the management of security policy. It also ensures consistency with SG Group projects and the defined SG Group strategy.

The main Divisions in charge of risk managements are:

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

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

The Risk Division manages:

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

in order to ensure exposures remain within limit levels approved by the bank's Board.

- Supervision of ALM Risk (IRRBB Risk and Liquidity Risk) as second line of defense (cf. below)

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

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

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

The Finance Division is in charge of:

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

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

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

The governance and organisational principles of the Internal Audit Department are formalised through the Directive DI. 10380 dated March, 15th, 2021 regarding the organisation of internal governance of the SG Luxembourg Group and the Directive no. DI-10020 dated March 9th, 2021 regarding the organisation of the internal control system within the SG Luxembourg Group. The Audit Charter sets out the rules of the General Inspection and Internal Audit activity in terms of objectives, obligations and powers.

The Board of Directors approved the updated Audit Charter on March 23rd 2022.

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

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

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

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

2.6 INTERNAL CONTROL

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

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

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

Control is based on a body of standards and procedures.

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

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

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

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

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

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

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

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

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

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

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

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

In order to coordinate the three lines of defence, two kinds of Internal Control Coordination Committee are in place formed under the Authorised Management of SG Luxembourg. These committees are decision-making body that eventually makes recommendations, initiates and follows action plans, and observations of inadequacy or dysfunction.

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

These two types of Committees are:

1. **ICCCG (Internal Control Coordination Committee Group)** with a global focus on SG Luxembourg/subsidiaries.

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

As such, the ICCCG :

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

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

This involves in particular:

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

2. **ICCC (Internal Control Coordination Committee)** with a Business Unit/ Support Unit's focus

The ICCC contribute to steering the internal control system at BU/SU level and aim to :

- present a holistic view of the risks to the authorized management
- assess the quality of the control system
- issue points of attention;

ICCC objectives are to :

- Ensure consistency between the development of the activity and the control of risks
- To have an overall view of
  - the risk profile of the BU/SU
    - the coverage of activities by permanent and periodic control systems
    - the effectiveness of level 1 permanent controls
    - the quantitative/qualitative adequacy of the human and material resources dedicated to permanent controls
- Understand any weaknesses in the system (malfunctions, losses)
- Monitor the action plans decided upon in the context of internal control and the implementation of the recommendations of the various control bodies
- Decide on the measures to be implemented to remedy shortcomings
- Monitor major projects related to internal control (upgrade of level 1 control)
- Prepare the general review of the risks of the BU/SU's control system

3. CAPITAL MANAGEMENT AND ADEQUACY

3.1 THE REGULATORY FRAMEWORK

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

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

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

SG Luxembourg Group complied with the minimum ratio requirements applicable to its activities for the year 2021.

* Insurance companies are excluded from regulatory consolidation which explains differences on total of carrying values comparing with published financial statements.

3.2 SCOPE OF APPLICATION – PRUDENTIAL SCOPE

SG Luxembourg amended the prudential consolidation perimeter as follows:

- Consolidated entities that were liquidated in 2021:
  - Coparer Holding B.V.

Please refer to Note 2.2. from the 2021 consolidated financial statements for more information on the significant variation compared to the year of 2020.

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

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

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

3.3 REGULATORY CAPITAL

Reported according to international financial reporting standards (IFRS), SG Luxembourg Group's regulatory capital consists of the following components.

COMMON EQUITY TIER 1 CAPITAL

According to CRR2/CRD5 regulations, Common Equity Tier 1 capital is made up primarily of the following:

- ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts;
- retained earnings;
- components of other comprehensive income;
- other reserves;

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

- estimated dividend payment;
- goodwill and intangible assets, net of associated deferred tax liabilities;
- unrealised capital gains and losses on cash flow hedging;
- any positive difference between expected losses on customer loans and receivables, risk-weighted using the Internal Ratings Based (IRB) approach, and the sum of related value adjustments and collective impairment losses;
- value adjustments resulting from the requirements of prudent valuation;
- excess of deduction from T2 items in CET1 capital;
- insufficient coverage for non-performing exposures.

ADDITIONAL TIER 1 CAPITAL

SG Luxembourg Group has no Additional Tier 1 capital.

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

- Common Equity Tier 1 capital: EUR 2 681 million (2020: EUR 2 736 million).

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 2021).

The Group has not issued any hybrid securities or subordinated borrowings not eligible for prudential capital.

SOLVENCY RATIOS

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

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

As of 31st December 2021, the Overall Capital requirements (OCR) to be made up of Common Equity Tier 1 capital (CET1) applicable to the SG Luxembourg Group was set to 8.67%. The breakdown of OCR to be made up of CET1 is the following:

- Minimum capital requirements for CET1 capital: 4.5%
- Pillar 2 requirements (P2R) for CET1 capital: 0.56%
- Capital conservation buffer: 2.5%
- Institution Specific Countercyclical capital buffer: 0.10%
- Other Systemically Important Institution buffer (O-SII): 1%

As part of Other Systemically Important Institution (O-SII), a discretionary specific systemic buffer is applicable to SG Luxembourg Group (art.59-9 LSF). For 2021, this specific capital buffer reaches it fully loaded level of 1%.

The countercyclical buffer plays a role in determining the overall buffer requirement. The countercyclical buffer rate is set by country. Each establishment calculates its countercyclical buffer requirement by measuring the average countercyclical buffer rate for each country, adjusted to take into account the relevant credit risk exposures in these countries. The countercyclical buffer rate, in force as of 1st January 2016, generally lies between 0% and 2.5% by country. The countercyclical buffer requirement for SG Luxembourg Group as of 31st December 2021 represents an add-on of 0.10%.

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

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

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

3.4 CAPITAL REQUIREMENTS

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

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

		Total risk exposure amounts (TREA		Total own funds requirements
		a	b	c
(in EUR 1000)		T	T - 1	T
1	Credit risk (excluding CCR)	8 415 318	8 551 451	673 225
2	*Of which the standardised approach*	*1 219 737*	*541 277*	*97 579*
3	*Of which the Foundation IRB (F-IRB) approach*	*47 849*	*42 060*	*3 828*
EU 4a	*Of which equities under the simple riskweighted approach*	*125 306*	*89 698*	*10 025*
5	*Of which the Advanced IRB (A-IRB) approach*	*6 695 969*	*7 702 827*	*535 678*
6	Counterparty credit risk – CCR	45 717	267 507	3 657
7	*Of which the standardised approach*	*40 747*	*0**	*3 260*
EU 8b	*Of which credit valuation adjustment – CVA*	*3 418*	*5 638*	*273*
9	*Of which other CCR*	*1 552*	*261 869*	*124*
15	Settlement risk	74	781	6
16	Securitisation exposures in the non-trading book (after the cap)	2 622 073	2 159 573	209 766
EU 19a	*Of which 1250% / deduction*	*2 622 073*	*2 159 573*	*209 766*
20	Position, foreign exchange and commodities risks (Market risk)	22 793	31 012	1 823
21	*Of which the standardised approach*	*22 793*	*31 012*	*1 823*
23	Operational risk	1 062 725	1 285 905	85 018
EU 23a	*Of which basic indicator approach*	*86 067*	*82 469*	*6 885*
EU 23c	*Of which advanced measurement approach*	*976 658*	*1 203 436*	*78 133*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	326 456	175 589	26 116
29	**Total**	**12 168 700**	**12 296 228**	**973 496**

*For Pillar 3 2021, SG Luxembourg was using the Mark-to-Market method (article 274 from the CRR applicable as this period) to determine the exposure value of derivatives.

3.5 CAPITAL MANAGEMENT

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

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

SG Luxembourg Group determines its internal capital risk appetite thresholds and limits in accordance with these objectives and regulatory requirements.

SG Luxembourg Group has an internal process (Internal Adequacy Assessment Process "ICAAP") for assessing the adequacy of its capital that measures the adequacy of the Group's capital ratios in light of regulatory constraints. This process also takes into account, in addition to future regulatory changes, any future changes in scope (asset disposals and acquisitions). The assessment of this adequacy is based on a selection of key metrics that are relevant to the Group in terms of risk and capital measurement, such as CET1, Tier 1 and Total Capital ratios. These regulatory indicators are supplemented by an assessment of the coverage of internal capital needs by available CET1 capital, thus confirming the relevance of the targets set in the risk appetite. Besides, this assessment takes into account the constraints arising from the other metrics of the risk appetite, such as MREL or leverage ratio.

As of 31st December 2021, the SG Luxembourg Group's Common Equity Tier 1 ratio and the total capital ratio were at 22.03% (please refer to chapter 3.8 for more details).

TABLE 3: EU KM1 – KEY METRICS TEMPLATE

(in EUR 1000)		a T	b T-1
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	2 681 009	2 736 366
2	Tier 1 capital	2 681 009	2 736 366
3	Total capital	2 681 009	2 736 366
	Risk-weighted exposure amounts		
4	Total risk exposure amount	12 168 700	12 296 228
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	22,03%	22,25%
6	Tier 1 ratio (%)	22,03%	22,25%
7	Total capital ratio (%)	22,03%	22,25%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1,00%	1,00%
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*0,56%*	*0,56%*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*0,75%*	*0,75%*
EU 7d	Total SREP own funds requirements (%)	9,00%	9,00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2,50%	2,50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0,00%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,10%	0,05%
EU 9a	Systemic risk buffer (%)	0,00%	0,00%
10	Global Systemically Important Institution buffer (%)	0,00%	0,00%
EU 10a	Other Systemically Important Institution buffer (%)	1,00%	1,00%
11	Combined buffer requirement (%)	3,60%	3,55%
EU 11a	Overall capital requirements (%)	12,60%	12,55%
12	CET1 available after meeting the total SREP own funds requirements (%)	16,97%	17,19%
	Leverage ratio		
13	Total exposure measure	59 023 526	50 745 322
14	Leverage ratio (%)	4,54%	5,39%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0,00%	N/A*
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	*0,00%*	*N/A**
EU 14c	Total SREP leverage ratio requirements (%)	3,12%	N/A*
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0%	0%
EU 14e	Overall leverage ratio requirement (%)	3,12%	N/A*
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	12 384 863	12 026 366
EU 16a	Cash outflows – Total weighted value	19 578 178	12 862 627
EU 16b	Cash inflows – Total weighted value	12 178 758	3 680 803
16	Total net cash outflows (adjusted value)	7 399 420	9 181 824
17	Liquidity coverage ratio (%)	167,38%	130,98%
	Net Stable Funding Ratio		
18	Total available stable funding	34 733 232	24 304 624
19	Total required stable funding	29 990 317	28 756 414
20	NSFR ratio (%)	115,81%	84,52%

*The leverage ratio requirements become binding starting June 28, 202

3.6 LEVERAGE RATIO MANAGEMENT

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

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

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

On 18 June 2021, the ECB has extended the period to exclude central bank exposures from the leverage ratio until 31 March 2022, as exceptional macroeconomic circumstances due to the coronavirus (COVID-19) pandemic continue.

As of 31st December 2021, SG Luxembourg Group excluded EUR 9.991 million related to exposures with the Banque Centrale du Luxembourg (BCL) and thus recalibrated its 3% leverage ratio requirement by 3.12% in accordance with article 429a (7) of the CRR. As of 31st December 2021, SG Luxembourg Group's leverage ratio was at 4.54%.

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

		a
(in EUR 1000)		**Applicable amount**
1	Total assets as per published financial statements	66 841 783
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(320 304)
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	(9 991 116)
8	Adjustment for derivative financial instruments	(84 320)
9	Adjustment for securities financing transactions (SFTs)	0
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2 635 519
12	Other adjustments	(58 036)
13	**Total exposure measure**	**59 023 526**

TABLE 5: EU LR2 – LEVERAGE RATIO COMMON DISCLOSURE

		CRR leverage ratio exposures	
		a	b
	(in EUR 1000)	T	T-1
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	56 088 081	45 918 175
6	(Asset amounts deducted in determining Tier 1 capital)	(58 036)	(19 330)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**56 030 045**	**45 898 845**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	120 620	541 690*
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	237 342	0*
13	**Total derivatives exposures**	**357 962**	**541 690**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	0	1 694 336
18	**Total securities financing transaction exposures**	**0**	**1 694 336**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	3 851 827	3 263 322
20	(Adjustments for conversion to credit equivalent amounts)	(1 216 308)	(652 872)
22	**Off-balance sheet exposures**	**2 635 519**	**2 610 450**
	Excluded exposures		
EU-22k	**(Total exempted exposures)**	**0**	**0**
	Capital and total exposure measure		
23	Tier 1 capital	2 681 009	2 736 366
24	**Total exposure measure**	**59 023 526**	**50 745 322**
	Leverage ratio		
25	Leverage ratio (%)	4,54%	5,39%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	4,54%	5,39%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	3,88%	4,51%
26	Regulatory minimum leverage ratio requirement (%)	3,12%	N/A**
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0,00%	N/A**
EU-26b	*of which: to be made up of CET1 capital*	*0,00%*	*N/A***
27	Leverage ratio buffer requirement (%)	0,00%	N/A**
EU-27a	Overall leverage ratio requirement (%)	3,12%	N/A**
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	N/A***	Fully phased in
	Disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	710 717	N/A**
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	0	1 694 336
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	59 734 243	N/A**
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	69 725 359	59 802 322

31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	0,04	N/A**
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	0,04	0,05

* For Pillar 3 2021, SG Luxembourg was using the Mark-to-Market method (article 274 from the CRR applicable as this period) to determine the exposure value of derivatives.

** The leverage ratio requirements become binding starting June 28, 2021 and this row was not applicable for Pillar 3 2020

*** This transitional provision measure was applicable until December 31, 2021.

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

		a
(in EUR 1000)		**CRR leverage ratio exposures**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**56 088 081**
EU-2	Trading book exposures	394 441
EU-3	Banking book exposures, of which:	55 693 641
EU-5	Exposures treated as sovereigns	3 558 089
EU-7	Institutions	20 784 076
EU-8	Secured by mortgages of immovable properties	961 574
EU-9	Retail exposures	2 385 490
EU-10	Corporates	25 636 527
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2 367 884

3.7 RATIO OF LARGE EXPOSURES

The CRR 2 (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 SG Luxembourg Group's Tier 1 capital. The eligible capital used to calculate the large exposure ratio is the Tier 1 regulatory capital.

On 31 December 2021, SG Luxembourg Group had no additional RWA requirements due to the large exposures framework.

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

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

		a	b
		Qualitative or quantitative information – Free format	**Qualitative or quantitative information – Free format**
1	Issuer	SG Luxembourg S.A.	SG Luxembourg S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
2a	Public or private placement	Private	Private
3	Governing law(s) of the instrument	Luxembourg law	Luxembourg law
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	Yes
	Regulatory treatment		
4	*Current treatment taking into account, where applicable, transitional CRR rules*	*Common Equity Tier 1*	*Ineligible*
5	*Post-transitional CRR rules*	*Common Equity Tier 1*	*Eligible liabilitites*
6	*Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated*	*Solo and (Sub-) Consolidated*	*Solo and (Sub-) Consolidated*
7	*Instrument type (types to be specified by each jurisdiction)*	*Ordinary share*	*Borrowing*
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	1389	400
9	Nominal amount of instrument	EUR 126	400
EU-9a	Issue price	N/A	N/A
EU-9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholder's equity	Liability at amortised cost
11	Original date of issuance	11/04/1956	24/01/2020
12	Perpetual or dated	Perpetual	dated
13	*Original maturity date*	*N/A*	*24/01/2024*
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	*Optional call date, contingent call dates and redemption amount*	*N/A*	*24/01/2023*
16	*Subsequent call dates, if applicable*	*N/A*	*N/A*

	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	EURIBOR 3M
19	Existence of a dividend stopper	N/A	N/A
EU-20a	*Fully discretionary, partially discretionary or mandatory (in terms of timing)*	*Fully discretionary*	*Mandatory*
EU-20b	*Fully discretionary, partially discretionary or mandatory (in terms of amount)*	*Fully discretionary*	*Mandatory*
21	*Existence of step up or other incentive to redeem*	*N/A*	*No*
22	*Noncumulative or cumulative*	*N/A*	*Non cumulative*
23	*Convertible or non-convertible*	*N/A*	*Non convertible*
24	*If convertible, conversion trigger(s)*	*N/A*	*N/A*
25	*If convertible, fully or partially*	*N/A*	*N/A*
26	*If convertible, conversion rate*	*N/A*	*N/A*
27	*If convertible, mandatory or optional conversion*	*N/A*	*N/A*
28	*If convertible, specify instrument type convertible into*	*N/A*	*N/A*
29	*If convertible, specify issuer of instrument it converts into*	*N/A*	*N/A*
30	Write-down features	N/A	Yes
31	If write-down, write-down trigger(s)	N/A	On supervisory request
32	*If write-down, full or partial*	*N/A*	*full*
33	*If write-down, permanent or temporary*	*N/A*	*Permanent*
34	*If temporary write-down, description of write-up mechanism*	*N/A*	*N/A*
34a	Type of subordination (only for eligible liabilities)	N/A	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	1	5
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to deeply subordnated notes	Unsecured senior debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A	N/A

TABLE 8: EU CC1 – COMPOSITION OF REGULATORY OWN FUNDS

		a	b
(in EUR 1000)		**Amounts**	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1 391 860	
	of which: Fully paid up capital instruments	1 389 043	a
	of which: Share premium	2 817	b
2	Retained earnings	1 261 416	b
3	Accumulated other comprehensive income (and other reserves)	97 573	b and c
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2 750 849**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(3)	N/A
8	Intangible assets (net of related tax liability) (negative amount)	(25 374)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	4 426	c
12	Negative amounts resulting from the calculation of expected loss amounts	(85)	N/A
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	(37 000)	
27a	Other regulatory adjustments	(11 804)	e (deposit guarantee scheme reserve deduction
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(69 840)**	
29	**Common Equity Tier 1 (CET1) capital**	**2 681 009**	
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	(37 000)	f (subordinated loans to an insurance subsidiary)
42a	Other regulatory adjustments to AT1 capital	37 000	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2 681 009**	
Tier 2 (T2) capital: instruments			
51	**Tier 2 (T2) capital before regulatory adjustments**	**0**	
Tier 2 (T2) capital: regulatory adjustments			
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(37 000)	
EU-56b	Other regulatory adjustments to T2 capital	37 000	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	
58	**Tier 2 (T2) capital**	**0**	
59	**Total capital (TC = T1 + T2)**	**2 681 009**	
60	**Total Risk exposure amount**	**12 168 700**	

Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	22,03%	
62	Tier 1 capital	22,03%	
63	Total capital	22,03%	
64	Institution CET1 overall capital requirements	8,66%	
65	of which: capital conservation buffer requirement	2,50%	
66	of which: countercyclical capital buffer requirement	0,10%	
67	of which: systemic risk buffer requirement	0,00%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	1,00%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0,56%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	16,97%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	67 479	g
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	130 582	g
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	0	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	15 314	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	40 397	

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

		a	b	c
		Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
(in EUR 1000)		As at period end	As at period end	
Assets – Breakdown by asset clases according to the balance sheet in the published financial statements				
1	Cash, due from central banks	10 966 851	17 967 391	
2	Financial assets at fair value through profit or loss	1 240 582	1 340 133	g
3	Hedging derivatives	5 625	5 625	
4	Financial assets at fair value through other comprehensive income	2 815 004	2 815 004	
5	Securities at amortized cost	8 051 597	8 051 597	
6	Due from banks at amortised cost	19 840 378	12 839 838	
7	Customer loans at amortised cost	22 817 851	22 817 846	f
8	Investments of insurance activities	371 871	0	
9	Tax assets	1 560	1 543	
10	Other assets	481 959	512 465	e
11	Investments accounted for using the equity method	108 560	30 091	
12	Tangible and intangible fixed assets and right of use assets	139 945	139 945	d
13	**Total assets**	**66 841 783**	**66 521 479**	
Liabilities – Breakdown by liability clases according to the balance sheet in the published financial statements				
1	Financial liabilities at fair value through profit or loss	450 051	450 051	
2	Hedging derivatives	98 483	98 483	
3	Debt securities issued	45 084	45 084	
4	Due to banks	24 147 288	23 665 338	
5	Customer deposits	38 006 508	38 567 469	
6	Tax liabilities	120 757	35 283	
7	Other liabilities	481 724	481 422	
8	Insurance contracts related liabilities	79 326	0	
9	Provisions	66 010	83 435	
10	**Total liabilities**	**63 495 231**	**63 426 565**	
Shareholders' Equity				
1	Issued Capital	1 389 043	1 389 043	a
2	Reserves and retained earnings	1 606 797	1 313 068	b
3	Net income	303 907	343 956	
4	Unrealised or deferred capital gains and losses	46 695	48 738	c
5	Non-controlling interests	110	109	
6	**Total shareholders' equity**	**3 346 552**	**3 094 914**	

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

(in EUR 1000)		**a**
1	Total risk exposure amount	12 168 700
2	Institution specific countercyclical capital buffer rate	0,10%
3	Institution specific countercyclical capital buffer requirement	12 668

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

		a	b	e	f
		General credit exposures			
(in EUR 1000)		Exposure value under the standardised approach	Exposure value under the IRB approach	Securitisation exposures Exposure value for non-trading book	Total exposure value
010	**Breakdown by country:**				
011	United Arab Emirates	0	1 594 465	0	1 594 465
012	Bulgaria	0	8	0	8
013	Switzerland	37 655	1 067 756	0	1 105 411
014	Czech Republic	0	22 191	0	22 191
015	Spain	0	564 233	0	564 233
016	France	570 987	2 935 722	209 766	3 716 475
017	Hong Kong	0	41 724	0	41 724
018	Luxembourg	272 907	9 974 923	0	10 247 830
019	Monaco	20 374	1 451 784	0	1 472 158
020	Norway	0	2 156	0	2 156
021	Russian Federation	381 071	475 108	0	856 180
022	Slovakia	0	461	0	461
023	United States	0	969 910	0	969 910
024	Other countries*	135 168	4 680 317	0	4 815 485
020	**Total**	**1 418 162**	**23 780 758**	**209 766**	**25 408 686**

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

g	i	j	k	l	m
Own funds requirements					
Relevant credit isk exposures – Credit risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
21 030	0	21 030	262 878	2,74%	0,00%
0	0	0	0	0,00%	0,50%
37 816	0	37 816	472 699	4,93%	0,00%
252	0	252	3 146	0,03%	0,50%
28 197	0	28 197	352 456	3,68%	0,00%
119 766	209 766	329 532	4 119 146	42,95%	0,00%
489	0	489	6 117	0,06%	1,00%
158 462	0	158 462	1 980 775	20,65%	0,50%
41 125	0	41 125	514 068	5,36%	0,00%
21	0	21	257	0,00%	1,00%
40 839	0	40 839	510 494	5,32%	0,00%
2	0	2	23	0,00%	1,00%
28 387	0	28 387	354 834	3,70%	0,00%
81 037	0	81 037	1 012 959	10,56%	0,00%
557 422	**209 766**	**767 188**	**9 589 852**	**100,00%**	**–**

4. CREDIT RISKS

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

4.1 CREDIT RISK MANAGEMENT: ORGANIZATION AND STRUCTURE

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

The Risk Division is responsible for:

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

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

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

4.2 CREDIT POLICY

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

The risk approval process is based on four core principles:

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

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

4.3 RISK SUPERVISION AND MONITORING SYSTEM

Private bank activities

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

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

The minimisation of risk of loss and the optimisation of the profitability/capital ratio allocated to the risks is a major goal. Loan approval is primarily offered to clients who hold assets with SG Luxembourg Group, or prospects that have a real development potential for its target business. In principle, any credit exposure granted must receive a guarantee (pledge/surety/collateral), preferably drawing on financial assets and meeting criteria such that the potential risk of loss is minimal. Private banking aims for a net cost of risk goal no greater than 10 bps of exposures. The credit approach is based on the bank's operational capacity to track changes in each loan's collateral.

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

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

Corporate loans

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

SG Luxembourg Group regularly measures industry concentrations. Sensitive industries are identified by risk rating; by a net exposure after deducting guarantees, insurance and cash collateral above €400 million; or by a decision of the Risk Committee. Industries identified as posing a concentration risk are covered by special guidance through an industry-based limit approved in the Risk Committee. The calibration of the thresholds primarily relies on measuring risk in stress tests, particularly by measuring the estimated loss to the SG Luxembourg Group equity in a stress scenario.

Monitoring of Country Risk

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

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

Credit stress tests

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

Like global stress tests, specific stress tests draw on a core scenario and a stressed scenario, which are defined by the SG Group's sector experts and economists. The core scenario draws on an in-depth analysis of the situation surrounding the activity or the country concerned. The stressed scenario describes triggering events and assumptions regarding the development of a crisis, both in quantitative terms (changes in a country's GDP, the unemployment rate, deterioration in a sector) and qualitative terms.

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

Impairment

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

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

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

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

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

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

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

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

Restructured loan

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

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

Post-restructuring, these financial assets are systematically classified in Stage 3 for impairment (credit-impaired exposures), as the borrowers are deemed to be in default. Stage 3 classification is maintained for at least one year, or longer if The SG Luxembourg 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 SG Luxembourg Group has agreed to renegotiate the debt with the aim of maintaining or developing a commercial relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

4.4 IFRS9 ORGANIZATION

IFRS 9 Debt instruments provisioning: general concepts

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

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

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

CREDIT RISK IDENTIFIED FROM INITIAL RECOGNITION ON THE FINANCIAL ASSET

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

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

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

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

The calculation of lifetime expected credit losses will take into account historical data, the current situation, and reasonable forward-looking information on possible changes in general economic conditions, as well as relevant macroeconomic factors until contract maturity.

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

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

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

IFRS 9 implementation principles

Since 1 January 2018, the SG Luxembourg Group has been recording provisions on performing loans under the IFRS9 accounting standard. This assessment is based on statistical models for assessing probabilities of default and potential losses in the event of default, which take into account a prospective analysis based on macroeconomic scenarios. 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.

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

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

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

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

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

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

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

4.4.1 Covid-19 crisis impact on methodology

Covid-19 crisis impact on IFRS 9

Two years after the outbreak of the Covid-19 pandemic, the year 2021 was marked by an economic upturn in several major economies, in particular as a result of the deployment of vaccines.

However, these dynamics are affected by persistent frictions in the global supply chains and labour markets, and by longer delivery times in the manufacturing sector and a reduced capacity of supply in the service sector, which have led to rising costs. Uncertainties remain regarding new developments in the sanitary crisis (emergence of the Omicron variant and slow deployment of vaccines in some countries).

Against this background, the multi-scenario approach selected in 2020 has been maintained for preparing the consolidated accounts as of 31 December 2021. The Société Générale Group thus presents a central scenario and an alternate protracted crisis scenario.

To apply the principles underlying the assessment of expected credit losses, SG Luxembourg Group has maintained the use of methodological adjustments to take account the specifics of the current period.

SG Luxembourg Group policy relies on Société Générale Group's modelizations for macroeconomic scenarios and analysis of activities.

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

Maroeconomic scenarios

As of 31 December 2021, Société Générale Group has maintained the coexistence of four scenarios:

- the central scenario (SG Central), including the assumption that the GDP in the euro area will be back to a 2019 level in 2022, expects no new widespread closures, and assumes that the remaining social distancing measures, such as masks, will enable most sectors to operate almost as usual;
- a scenario of prolonged health crisis (SG Extended), including the assumption that the GDP in the euro area will be back to a 2019 level in 2023, expects a new sanitary shock from the end of 2021, reproducing the lockdown pattern with increased social distancing measures as observed at the end of 2020 and in Spring 2021;
- lastly, two additional scenarios, one favourable (SG Favourable) and one stressed (SG Stress), supplement these two scenarios. The favourable scenario envisages a stronger GDP growth than the central scenario owing to unexpected productivity gains leading to a potentially higher GDP. The stress scenario, including the assumption that the GDP in the euro area will be back to a 2019 level after 2026, corresponds to a crisis situation leading to a negative deviation in GDP compared to the central scenario. This scenario may result from a financial crisis (2008 crisis, Euro area crisis), an exogenous crisis (Covid) or a combination of both.

The Société Générale Department of Economic and Sector Studies develop these scenarios for all the Société Générale Group entities. A weighting ratio is attributed to each scenario and the outputs from the models correspond to a weighted average of these scenarios.

Forecasts from institutions (IMF, Global Bank, ECB, OECD…) and the consensus among market economists serve as a reference to ensure the consistency of the scenarios thus constructed.The scenarios provided by the Société Générale Group's economists are integrated into the models over a 3-year horizon, followed by a 2-year period to return in year 5 to the average probability of default observed during the calibration period. The assumptions made by the Société Générale Group with a view to developing these macro-economic scenarios are updated to account for the remaining uncertainties regarding the Covid-19 pandemic as well as for the economic recovery prospects.

Weightings of the macroeconomic scenarios

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

In order to better account for a possible reversal of the cycle, the Société Générale Group supplemented the methodology it uses for weighing scenarios as of 31 December 2021 and assigned a higher weight to the central scenario when the economy is depressed. Conversely, the methodology provides for a higher weight to be assigned to the Stress scenario when the economy moves towards the peak of the cycle. This methodology will be applied and assessed throughout next year to be confirmed by 31 December 2022.

Presentation of the changes in weights:

	31 December 2020	30 June 2021	31 December 2021
SG Central	65%	65%	50%
SG Extended	10%	10%	10%
SG Stress	15%	15%	30%
SG Favourable	10%	10%	10%

Calculation of expected credit losses

The main evolutions over half the year concerned are as follows:

- the expected credit losses model update to take into account the impact of the macroeconomic scenarios described above;
- the sector adjustments update and adjustments on the scope of Private Banking entities that use the simplified approach, both are described below;
- the provisioning relating to the application of a minimum provisioning rate of 5% on files in default. Indeed, during its review of the application of IFRS 9 at the end of 2019, the ECB noted that certain files very well covered by real estate collateral or guaranteed by a third party were not provisioned.

As of 31 December, to account for uncertainties related to the continuing sanitary crisis, the Société Générale Group has updated the model and post-model adjustments in keeping with 2020. It will be recalled that in 2020, in response to the Covid-19 crisis, the models and parameters used to estimate the expected credit losses had been reviewed and updated based on new economic scenarios. Sectoral and other adjustments had been updated to supplement the application of these models. A new criterion had also been established for reclassifying loans as underperforming loans in Stage 2. These adjustments are taken into account to estimate the expected credit losses (Stages 1 and 2), except for the additional criterion for transfer to Stage 2 which concerns the classification of loans outstanding.

SECTOR ADJUSTMENTS

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

Estimate of the expected credit losses

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

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

The main sectors concerned are the hotel / restaurant / leisure sectors, as well as the oil and gas, commercial real-estate, cruise operators and airline sectors.

At the time when these adjustments are reviewed and where consistent with the provisioning horizon, the possible impact of climate risks on the determination of expected credit losses has been integrated.

Additional criteria of transfer to stage 2

Since 2020 and the beginning of the Covid-19 crisis, some sectors are considered as having significantly deteriorated due to the crisis. For those sectors and although not initially included in IFRS 9 framework, SG management has validated the full transfer to stage 2 of all exposures from those sectors in GBIS Non Retail except:

- Exposures granted after April 1st 2020 as we have considered that after that date and even though the pandemic situation may have evolved, its potential impact were known and we cannot consider that all contracts in one sector have significantly deteriorated since origination. For these contracts granted after April, the usual criteria apply.
- Exposures in stage 3

The table below summarized the sectors impacted:

D1 – Railroad, Aersopace, Ship Manufacturing
J11 – Airlines and Space Transport
N1 – Lodging, Leisures and Gaming

ADJUSTMENTS ON THE OUTSTANDING LOANS UNDER THE SIMPLIFIED APPROACH

For the Private Banking portfolio, PDs have also been recalibrated during the beginning of 2021 to better reflect the deterioration of credit risk on some portfolios.

Simultaneously, the additional coefficient “Forward Looking” has been maintained. 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, an additional “Forward Looking” overlay has been defined.

4.5 REPLACEMENT RISK

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

Management of counterparty risk linked to market transactions

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

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

Setting individual counterparty limits

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

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

Wrong-way risk

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

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

4.6 HEDGING OF CREDIT RISK

Guarantees and collateral

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

There are two main categories:

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

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

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

Mitigation of counterparty risk linked to market transactions

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

A financial asset and a financial liability are offset and the net amount presented on the balance sheet when the SG Luxembourg 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 SG Luxembourg Group recognises in its balance sheet the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

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

		Unsecured carrying amount	Secured carrying amount	*Of which* secured by collateral	*Of which* secured by financial guarantees	*Of which* secured by credit derivatives
(in EUR 1000)		a	b	c	d	e
1	Loans and advances	31 275 611	22 709 564	12 437 573	10 271 991	0
2	Debt securities	3 520 649	7 395 550	7 284 004	111 546	
3	**Total**	**34 796 260**	**30 105 114**	**19 721 577**	**10 383 537**	**0**
4	*Of which non-performing exposures*	*69 185*	*357 243*	*163 180*	*194 063*	*0*
EU-5	*Of which defaulted*	*69 185*	*357 243*			

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

		Total exposures*	Part of exposures covered by **Financial Collaterals (%)**	Part of exposures covered by **Other eligible collaterals (%)**
A-IRB (in EUR'000)		a	b	c
1	Central governments and central banks	14 098 027	0,00%	2,11%
2	Institutions	25 475 721	3,92%	0,00%
3	Corporates	12 098 407	0,11%	25,41%
3,1	*Of which Corporates – SMEs*	*4 912 625*	*0,01%*	*42,77%*
3,2	*Of which Corporates – Specialised lending*	*1 814 907*	*0,00%*	*38,09%*
3,3	*Of which Corporates – Other*	*5 370 876*	*0,23%*	*5,25%*
4	Retail	3 614 594	0,00%	30,51%
4,2	*Of which Retail – Immovable property non-SMEs*	*974 584*	*0,00%*	*98,40%*
4,5	*Of which Retail – Other non-SMEs*	*2 640 010*	*0,00%*	*5,45%*
5	**Total**	**55 286 749**	**1,83%**	**8,09%**

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

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

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**RWAs**	**RWAs density (%)**
	(in EUR 1000)	**a**	**b**	**c**	**d**	**e**	**f**
1	Central governments or central banks	22 089	0	22 089	0	0	0,00%
6	Institutions	2 606 139	411 775	297 970	544 646	126 570	15,02%
7	Corporates	9 081 234	710 327	766 935	16 550	802 193	102,39%
14	Collective investment undertakings	35	0	35	0	438	1250,00%
16	Other items	289 725	1 620	289 725	810	290 535	100,00%
	Total	**11 999 223**	**1 123 722**	**1 376 754**	**562 007**	**1 219 737**	**62,91%**

Credit risk Mitigation techniques			Credit risk Mitigation methods in the calculation of RWEAs	
Funded credit Protection (FCP)				
Part of exposures covered by **Immovable property Collaterals (%)**	Part of exposures covered by **Receivables (%)**	Part of exposures covered by **Other physical collateral (%)**	**RWEA without substitution effects** (reduction effects only)	**RWEA with substitution effects** (both reduction and substitution effects)
d	**e**	**f**	**m**	**n**
0,00%	0,00%	2,11%	2 018	22 541
0,00%	0,00%	0,00%	1 357 591	2 050 171
18,24%	0,94%	6,24%	4 667 915	3 954 813
42,77%	*0,00%*	*0,00%*	*1 631 218*	*1 631 218*
5,67%	*0,00%*	*32,42%*	*442 384*	*424 133*
0,04%	*2,11%*	*3,10%*	*2 594 313*	*1 899 461*
30,51%	0,00%	0,00%	668 445	668 445
98,40%	*0,00%*	*0,00%*	*409 727*	*409 727*
5,45%	*0,00%*	*0,00%*	*258 718*	*258 718*
5,99%	**0,20%**	**1,90%**	**6 695 969**	**6 695 969**

4.7 RISK MEASUREMENT AND INTERNAL RATINGS

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

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

Credit risk measurement for wholesale clients

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

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

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

RATING SYSTEM

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

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

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

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

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

LGD MODELS

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

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

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

CCF MODELS (CREDIT CONVERSION FACTOR)

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

BACKTESTS

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

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

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

Credit risk measurements of retail clients

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

PROBABILITY OF DEFAULT MODELS

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

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

LGD MODELS

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

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

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

CCF MODELS (CREDIT CONVERSION FACTOR)

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

BACKTESTS

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

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

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

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

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

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

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

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

4.8 QUANTITATIVE INFORMATION ON CREDIT RISK AND COUNTERPARTY CREDIT RISK

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

		Risk weighted exposure amount
	(in EUR 1000)	**a**
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**7 702 827**
2	Asset size (+/-)	(1 041 238)
3	Asset quality (+/-)	(60 707)
4	Model updates (+/-)	0
5	Methodology and policy (+/-)	(45 136)
6	Acquisitions and disposals (+/-)	93
7	Foreign exchange movements (+/-)	184 026
8	Other (+/-)	(43 895)
9	**Risk weighted exposure amount as at the end of the reporting period**	**6 695 969**

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

Equity exposures under the simple risk-weighted approach						
Categories	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
(in EUR 1000)	**a**	**b**	**c**	**d**	**e**	**f**
Private equity exposures	0	0	190%	0	0	0
Exchange-traded equity exposures	10 819	0	290%	10 819	31 374	87
Other equity exposures	25 387	0	370%	25 387	93 932	609
Total	**36 206**	**0**		**36 206**	**125 306**	**696**

TABLE 18: EU CR1-A – MATURITY OF EXPOSURES

		a	b	c	d	e	f
		Net exposure value					
(in EUR 1000)		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	**Total**
1	Central governments or central banks	5 869 636	17 135 891	9 848 406	2 868 151	210 714	**35 932 798**
2	Retail	0	7 397 655	2 190 084	1 048 982	279 278	**10 915 999**
3	**Total**	**5 869 636**	**24 533 546**	**12 038 489**	**3 917 133**	**489 992**	**46 848 797**

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

		a
(in EUR 1000)		**Gross carrying amount**
010	**Initial stock of non-performing loans and advances**	**533 856**
020	Inflows to non-performing portfolios	69 520
030	Outflows from non-performing portfolios	(176 948)
040	Outflows due to write-offs	0
050	Outflow due to other situations	(176 948)
060	**Final stock of non-performing loans and advances**	**426 429**

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

		a	b	c	d	f
		Gross carrying amount/nominal amount				
		Performing exposures			**Non-performing exposures**	
(in EUR 1000)			Of which stage 1	Of which stage 2		Of which stage 3
005	Cash balances at central banks and other demand deposits	17 966 697	17 966 697	0	0	0
010	Loans and advances	35 592 050	34 851 281	465 655	426 429	
030	*General governments*	*8 188*	*8 188*	*0*	*0*	*0*
040	*Credit institutions*	*13 142 233*	*13 142 233*	*0*	*0*	*0*
050	*Other financial corporations*	*3 259 138*	*2 982 468*	*0*	*11 793*	*11 793*
060	*Non-financial corporations*	*15 897 158*	*15 463 565*	*433 592*	*347 039*	*347 039*
070	*Of which SMEs*	*3 527 422*	*3 400 280*	*127 142*	*131 574*	*131 574*
080	*Households*	*3 285 333*	*3 254 826*	*30 507*	*67 596*	*67 596*
090	Debt securities	10 916 199	10 866 801	0	0	0
110	*General governments*	*2 552 496*	*2 552 496*	*0*	*0*	*0*
120	*Credit institutions*	*262 508*	*262 508*	*0*	*0*	*0*
130	*Other financial corporations*	*8 101 195*	*8 051 797*	*0*	*0*	*0*
150	Off-balance-sheet exposures	4 061 689	3 963 260	98 429	549	549
180	*Credit institutions*	*759 104*	*759 104*	*0*	*0*	*0*
190	*Other financial corporations*	*1 454 769*	*1 454 632*	*136*	*0*	*0*
200	*Non-financial corporations*	*1 564 066*	*1 481 573*	*82 493*	*249*	*249*
210	*Households*	*283 751*	*267 951*	*15 800*	*300*	*300*
	Total	**68 536 635**	**67 648 039**	**564 084**	**426 978**	**549**

g	h	i	j	l	n	o
Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					**Collateral and financial guarantees received**	
Performing exposures – accumulated impairment and provisions			**Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**On performing exposures**	**On non-performing exposures**
	Of which stage 1	Of which stage 2		Of which stage 3		
0	0	0	0	0	0	0
(19 959)	(17 215)	(2 744)	(65 721)	(65 721)	22 352 321	357 243
(1)	(1)	0	0	0	0	0
(1 491)	(1 491)	0	0	0	3 184 143	0
(1 170)	(1 140)	(30)	(589)	(589)	1 961 601	11 099
(12 943)	(10 361)	(2 582)	(51 176)	(51 176)	13 997 791	295 064
(6 730)	(6 421)	(309)	(25 282)	(25 282)	3 412 316	105 476
(4 354)	(4 222)	(132)	(13 956)	(13 956)	3 208 785	51 080
(200)	(200)	0	0	0	7 395 550	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
(200)	(200)	0	0	0	7 395 550	0
2 199	1 481	718	314	314	1 130 703	219
72	72	0	0	0	133 476	0
203	202	0	0	0	180 923	0
1 666	955	711	14	14	518 062	219
258	251	7	300	300	273 442	0
(17 961)	**(15 935)**	**(2 026)**	**(65 407)**	**(65 407)**	**30 878 574**	**357 462**

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

		a	b	c	d	e
		Gross carrying amount/nominal amount				
		Performing exposures				
	(in EUR 1000)		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days
005	Cash balances at central banks and other demand deposits	17 966 697	17 966 697	0	0	0
010	Loans and advances	*35 592 050*	*35 558 180*	*33 870*	*426 429*	*281 689*
030	*General governments*	*8 188*	*8 188*	*0*	*0*	*0*
040	*Credit institutions*	*13 142 233*	*13 142 233*	*0*	*0*	*0*
050	*Other financial corporations*	*3 259 138*	*3 259 089*	*49*	*11 793*	*10 041*
060	*Non-financial corporations*	*15 897 158*	*15 872 777*	*24 381*	*347 039*	*238 020*
070	*Of which SMEs*	*3 527 422*	*3 503 041*	*24 381*	*131 574*	*22 555*
080	*Households*	*3 285 333*	*3 275 893*	*9 439*	*67 596*	*33 628*
090	Debt securities	10 916 199	10 916 199	0	0	0
110	*General governments*	*2 552 496*	*2 552 496*	*0*	*0*	*0*
120	*Credit institutions*	*262 508*	*262 508*	*0*	*0*	*0*
130	*Other financial corporations*	*8 101 195*	*8 101 195*	*0*	*0*	*0*
150	Off-balance-sheet exposures	*4 061 689*			*549*	
180	*Credit institutions*	*759 104*			*0*	
190	*Other financial corporations*	1 454 769			0	
200	*Non-financial corporations*	*1 564 066*			*249*	
210	*Households*	*283 751*			*300*	
	Total	**50 569 938**	**46 474 379**	**33 870**	**426 978**	**281 689**

f	g	h	i	j	k	l
Gross carrying amount/nominal amount						
Non-performing forborne						
Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
0	0	0	0	0	0	0
10 578	*15 581*	*64 469*	*26 830*	*23 330*	*3 952*	*426 429*
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*0*
1 752	*0*	*0*	*0*	*0*	*0*	*11 793*
1 502	*9 284*	*57 621*	*23 936*	*12 723*	*3 952*	*347 039*
1 502	*9 284*	*57 621*	*23 936*	*12 723*	*3 952*	*131 574*
7 323	*6 296*	*6 848*	*2 894*	*10 607*	*0*	*67 596*
0	0	0	0	0	0	0
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*0*
0	*0*	*0*	*0*	*0*	*0*	*0*
						549
						0
						0
						249
						300
10 578	**15 581**	**64 469**	**26 830**	**23 330**	**3 952**	**426 978**

TABLE 22: EU CQ1 – CREDIT QUALITY OF FORBORNE EXPOSURES

		a	b	c	d
		Gross carrying amount/nominal amount of exposures with forbearance measures			
		Performing forborne	**Non-performing forborne**		
(in EUR 1000)				Of which defaulted	Of which impaired
010	Loans and advances	96 699	231 772	231 772	231 772
050	*Other financial corporations*	*8 231*	*0*	*0*	*0*
060	*Non-financial corporations*	*88 079*	*223 718*	*223 718*	*223 718*
070	*Households*	*389*	*8 053*	*8 053*	*8 053*
090	Loan commitments given	0	249	249	249
100	**Total**	**96 699**	**232 021**	**232 021**	**232 021**

		e	f	g	h
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		**Collateral received and financial guarantees received on forborne exposures**	
(in EUR 1000)		**On performing forborne exposures**	**On non-performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
010	Loans and advances	(287)	(27 067)	299 495	204 560
050	*Other financial corporations*	*(41)*	*0*	*6 714*	*0*
060	*Non-financial corporations*	*(246)*	*(26 406)*	*285 001*	*197 168*
070	*Households*	*0*	*(662)*	*7 781*	*7 392*
090	Loan commitments given	0	14	219	219
100	**Total**	**(287)**	**(27 053)**	**299 714**	**204 779**

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

		a	c	e	f	g
		Gross carrying values of				
(in EUR 1000)			Of which defaulted	**Accumulated impairment**	**Provisions on off-balance-sheet commitments and financial guarantees given**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
010	**On-balance-sheet exposures**	**46 934 677**	**426 429**	**(85 880)**		**0**
020	*France*	*20 174 564*	*105 687*	*(29 320)*		*0*
030	*Luxembourg*	*10 287 192*	*238 207*	*(31 317)*		*0*
040	*Other countries**	*16 472 921*	*82 535*	*(25 244)*		*0*
050	**Off-balance-sheet exposures**	**4 062 238**	**549**		**2 513**	
060	*France*	*1 341 737*	*0*		*193*	
070	*Luxembourg*	*794 130*	*249*		*442*	
080	*Other countries**	*1 926 371*	*300*		*1 877*	
	Total	**50 996 916**	**426 978**	**(85 880)**	**2 513**	**0**

*Materiality threshold of 10% for each exposure class.

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

		a	c	e	f
		Gross carrying values of			
(in EUR 1000)			Of which defaulted	**Accumulated impairment**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
010	Agriculture, forestry and fishing	0	0	0	0
020	Mining and quarrying	575 478	0	(215)	0
030	Manufacturing	1 580 873	0	(1 129)	0
040	Electricity, gas, steam and air conditioning supply	297 604	0	(185)	0
050	Water supply	2	0	0	0
060	Construction	33 488	0	(43)	0
070	Wholesale and retail trade	281 642	0	(96)	0
080	Transport and storage	1 218 174	0	(1 931)	0
090	Accommodation and food service activities	262 555	243 626	(32 708)	0
100	Information and communication	47 415	0	(86)	0
110	Financial and insurance activities	741 856	0	(906)	0
120	Real estate activities	489 336	13 036	(1 712)	0
130	Professional, scientific and technical activities	164 664	0	(872)	0
140	Administrative and support service activities	7 479 862	0	(827)	0
150	Public administration and defense, compulsory social security	0	0	0	0
160	Education	0	0	0	0
170	Human health services and social work activities	0	0	0	0
180	Arts, entertainment and recreation	0	0	0	0
190	Other services	3 071 246	90 378	(23 410)	0
200	**Total**	**16 244 197**	**347 039**	**(64 118)**	**0**

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

		a	b
		Collateral obtained by taking possession	
(in EUR 1000)		**Value at initial recognition**	**Accumulated negative changes**
010	Property, plant and equipment (PP&E)	0	0
020	*Other than PP&E*	*861*	*(108)*
030	*Residential immovable property*	*861*	*(108)*
040	*Commercial Immovable property*	*0*	*0*
050	*Movable property (auto, shipping, etc.)*	*0*	*0*
060	*Equity and debt instruments*	*0*	*0*
070	*Other collateral*	*0*	*0*
080	**Total**	**861**	**(108)**

5. SECURITIZATION

5.1 SECURITIZATION

This chapter presents information on SG Luxembourg Group's securitization activities. SG Luxembourg Group does not carry out any securitizations as a sponsor. However SGCMF (a subsidiary of SG Luxembourg) invested in securitization assets ("Assets") fully financed by deposits with a limited recourse feature. The deposits are thus reimbursed only to the extent SGCMF receives repayment under the Assets. In 2017, SGCMF has issued a first loss guarantee in favour of SGPM which covers the first loss of a portfolio of assets selected by SGCMF among those which have been purchased by SGCMF in the normal course of its business. The first loss guarantee is collateralized by a cash deposit pledged for the benefit of SGPM. If triggered the first loss guarantee could result in a maximum loss of EUR 209 766 KEUR (at 31 December 2021).

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

For prudential purposes, this first loss guarantee is considered as a banking book exposure, where the bank invests in a synthetic securitization. This first loss is risk-weighted at 1250%. This thus generates total risk-weighted assets of 2 622 073 KEUR (at 31 December 2021).

5.2 ACCOUNTING METHODS

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

5.3 MONITORING OF SECURITIZATION RISKS

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

I. at inception, Assets may be selected when SGCMF invests for the first time in a given Asset: SGCMF analyses the risks associated to the new Asset based on a traditional credit analysis and then decides that the exposure is eligible to the first loss guarantee.

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

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

6. MARKET RISKS

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

6.1 ORGANIZATION

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 onto front office managers, the oversight mechanism also relies on independent structures.

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

- Société Générale Group's Market Risk Department establishes the risk measurement methods and control procedures, centrally handles Société Générale 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. From November 2018, this function is under the accountability of the Risk department.

The supervision of market risk primarily covers:

- The daily calculation of market risks, based on a formal and secured procedure;
- The daily monitoring of compliance with the limits notified for each activity;
- The preparation of a daily report on the use of the limits, sent to the general management of the entities concerned, to the front office and to Société Générale Group's market risk department.

6.2 INDEPENDENT PRICING VERIFICATION

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

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

6.3 METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS

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

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

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

- 99% Value at Risk (VaR) and Stressed Value-at-Risk (SVaR) in accordance with the internal regulatory model used to calculate capital: synthetic indicator for day-to-day monitoring of market risks incurred by 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 Market Stress Test, which consists of a series of historical (scenarios already observed in the past) and hypothetical (scenarios defined with bank economists) multi-factor stress tests allows to take into account extraordinary market disruptions with a 10-year occurrence. These indicators estimate the loss resulting from a severe change in market parameters over a time horizon corresponding to the time needed to unwind or cover the positions in question. The Market Stress Test limit covers the most impaired of these scenarios.
- An "Emerging Countries" stress test combining shocks calibrated to the history of fluctuations observed in the past. The calibration is created from the 99% quantile of the shock distribution by risk factor for each country. An aggregation by country, region, and worldwide is used to quantify the risk by geographical area. The Stress Test limit relates to the most sensitive area.

These scenarios are supplemented by a set of adverse stress tests calculated by activity or risk factor to take extreme risks on a specific market into account (dislocation, liquidity, concentration, etc.).

"Sensitivity" and "nominal" indicators control position size: sensibilities are calculated using the major valuation risk factors (e.g. sensitivity of an option to changes in underlying asset prices); nominal values are used for significant positions in terms of risk.

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

6.4 RISK-MITIGATION AND HEDGING

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

6.5 MARKET RISK CAPITAL REQUIREMENTS

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

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

(in EUR 1000)	**Capital requirements**
Interest rate risk (general and specific)	724
Equity risk (general and specific)	0
Foreign exchange risk [3]	0
Commodity risk	22 069
Total	**22 793**

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

7. OPERATIONAL RISKS

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

7.1 OPERATIONAL RISK MANAGEMENT: ORGANIZATION AND GOVERNANCE[4]

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

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

The Operational Risk Department

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

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

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

The Control Department

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

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

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

(ii) their effectiveness,

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

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

The Business Continuity function (preparing the overall SG Luxembourg business continuity and crisis management policy, managing the policy and coordinating its implementation) and **the department in charge of Information System CyberSecurity** (information cybersecurity policy definition and governance, access management, prevention of information leaks, anonymization rules, application security definition and governance, prevention and awareness-building, particularly with respect to cybercrime) are both conduct their activities under **SG Luxembourg COO**.

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

The Operational Risk function

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

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

The governance is completed by:

- a NPC (New Product Committee) for approving the risk (including operational risk) of new activities or new products;
- a COVADAES (Comité de Validation des Deals SSL) for approving the risk (including operational risk) of new activities or new products dedicated to the business line SSL (Structured Solution and Leasing);
- a process for validating the subcontracting and outsourcing of activities and services.

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

The decisions and conditions issued by these committees are recorded in Group tools (Impact for NPC and RAMOS for outsourcing).

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

7.2 OPERATIONAL RISK MEASUREMENT

SG Luxembourg uses the internal models developed by SG Group. Since 2007, SG Luxembourg has used the Advanced Measurement Approach (AMA), as proposed by the Capital Requirements Directive, to measure operational risk and calculated capital needed.

Today the AMA covers more than 90% of the SG Luxembourg Group's total net banking income.

TABLE 27: OVERVIEW OF RWAS ON OPERATIONAL RISK

(in EUR 1000)	**RWA**
Basic indicator approach (BIA)	86 067
Standardised approach (TSA/ASA)	0
Advanced Measurement Approach (AMA)	976 658
Total	**1 062 725**

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

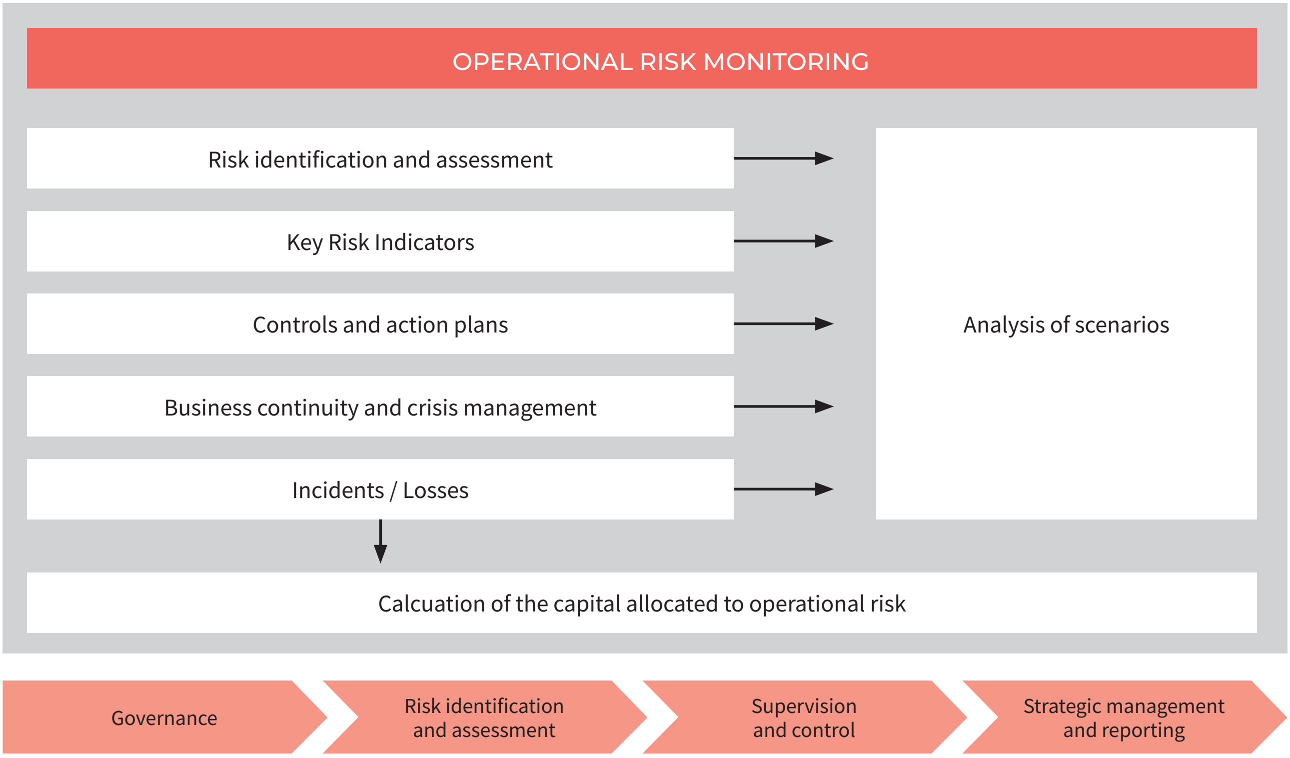
		a	b	c	d	e
		Relevant indicator			**Own funds requirements**	**Risk exposure amount**
	(in EUR 1000)	Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	42 722	47 347	47 637	6 885	86 067
5	Banking activities subject to advanced measurement approaches AMA	1 014 905	1 021 003	668 150	78 133	976 658

7.3 OPERATIONAL RISK MONITORING PROCESS

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

They notably include:

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



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

The annual Risk and Control Self-Assessment (RCSA) which aims to:

- identify and assess the intrinsic operational risks to which each activity of the Group is exposed (disregarding prevention and mitigation measures);
- assess the quality of the prevention and mitigation measures in place for reducing those risks;
- measure the risk exposure of each Group business that remains once the risk prevention and mitigation measures are taken into account (the "residual exposure"), while disregarding insurance coverage;
- implement, if warranted, corrective action plans.

Internal collection of operational risk incidents with an exhaustive, timely declaration of any gains or losses from the very first euro, providing all the information needed to analyze them while issuing corrective actions that include the degree of criticality, a deadline, and the designation of a person responsible.

Analyses of scenarios are initiated and overseen within the Risk Division of the SG Group, targeting functions and processes that are particularly sensitive within the Bank. These analyses are particularly aimed at assessing potential low-frequency but high-severity losses and contribute to the calculation of capital requirements on the Group level.

The permanent control system with leadership and coordination, over the entire scope of a set of first-and second-level controls.

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

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

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

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

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

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

7.4 OPERATIONAL RISK MODELLING, INSURANCE AND CAPITAL REQUIREMENTS

SG Luxembourg uses the same methodology as SG Group for operational risk modeling. This methodology is based on the loss distribution approach (lda).

Under this approach, operational risks are modeled using segments, each segment representing a type of risk and a Group core business. The frequency and severity of operational risks, based on past internal losses, external losses or scenario analyses, are estimated and the distribution of annual losses is calculated for each segment. This approach is supplemented by cross-business scenario analyses that measure cross-business risks for core businesses, such as, for example, property destruction and pandemic risks.

Aside from the individual risks associated with each segment or cross-business scenario analysis, the model takes into account the diversification between various types of risks and core businesses, as well as the effect of insurance policies underwritten by the Group.

The Group's regulatory capital requirements for operational risks within the scope eligible for the AMA (Advanced Measurement Approach) internal model are then defined as the 99.9% quantile of the Group's annual loss distribution.

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

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

Criterion No. 1: internal losses

The internal losses are retained for their net amount after recovery of insurances on a five years time laps. The most significant losses are capped to avoid over-representation of the entities having recorded large losses and a shortage of capital allocated for those without losses history.

Criterion No. 2: revenue.

This is measured through the budgeted NBI.

TABLE 29: VENTILATION ON AMA MODEL FOR SG LUXEMBOURG (AT GROUP LEVEL)

	Capital Allocation (KEUR)	
Business Line	**Q4 2020**	**Q4 2021**
Private banking	43 624	33 303
Corporate Center	20 359	14 507
Financing Solution	5 570	7 320
Global Markets Investor Services	26 519	22 884
Retail Banking	203	118
Total	**96 275**	**78 132**

At SG Luxembourg Group level, the allocated amount in AMA is EUR 78 million (against EUR 96 million in 2020).

This decrease can be explained:

- First by the global construction of the SG Group envelope which fell by EUR 2.4 billion
- Secondly the specific effects at SG Luxembourg's BU/SU level:
  - The combined decline in NBI at the level of the Group's envelope and SGL's business lines on GLBA Global Finance Advisory side (EUR 43million), SGSS side (EUR 12million) and SGBT ABF (EUR 4,5 million) et SGBT Ireland (EUR 3 million);
  - Decrease of historical operating losses at Group level – EUR 4 million globally (shift in the reference period – last 4 year) especially on Global Market investor (SGSS side for EUR 1 million), Private banking (SGPB Suisse side for EUR 2 million).

The increase of internal capital on Financing Solution is mainly explained by the increase in NBI on SG Luxembourg.

Insurance cover in risk modelling

The insurance policies cover part of the Group's major risks, i.e. civil liability, fraud, fire and theft, as well as systems interruptions and operating losses due to a loss of operating resources.

8. STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

Structural interest rate (also referred to as Interest Rate Risk in the Banking Book – IRRBB) and foreign exchange rate risks result from commercial activities and their hedging transactions, as well as from own account transactions performed by SG Luxembourg consolidated entities. SG Luxembourg Group measures and strictly controls structural risks. Interest rate and foreign exchange risks related to the trading portfolio do not fall within the scope of structural risk measurement. They fall under market risks.

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

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

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

The SG Group Finance Committee, a General Management body

The SG Group Finance Committee:

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

The ALM Department within the Finance Division

The ALM Department is responsible for:

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

The ALM Risk Control Department within the Risk Division

The second-level supervision covering both (1) ALM models used within SG Group and (2) the associated frameworks is provided by a dedicated service within the Risk Department. Accordingly, this department provides an opinion on the methodological principles, parameters and back tests of ALM models. It analyses proposals from the ALM Department regarding the risk indicators, stress test scenarios and structural risk frameworks. It also conducts second-level controls of the risk limits comprising such frameworks. The Risk Department organises and chairs the Model Validation Committee.

The entities are responsible for structural risk management

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

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

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

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

Objective of the Framework

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

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

Measurement and monitoring of structural interest rate risk

In 2021, SG Luxembourg structural interest rate risk management relied on a set of metrics of which are framed by limits and thresholds (80% of the limit for each scenario). All the metrics are monitored monthly.

Value sensitivity

- NPV sensitivity – Net Present Value sensitivity of fixed rate residual positions to interest rate changes according to several interest rate scenarios. – *covered by internal limits*.
- EVE sensitivity – Economic Value of Equity sensitivity represent the NPV after exclusion of own funds, investments in subsidiaries and intangible assets. – *covered by regulatory limits*.

Revenue sensitivity

- NIM sensitivity – Starting November 21, we introduced a new "Dynamic NIM". This new NIM includes forward interest rates, a split of the Net Interest Income into different components and a revamp of the client rate taking into account optionality on the client remuneration. New NIM thresholds and limits were validated during January 2022 COFI. Further improvements are still expected during H1 22 with a metric calculation based on dynamic balance sheet related to business units' assumptions.

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

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

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

TABLE 30: SG LUXEMBOURG NPV POSITION AS OF 12/31/2021

		+10 bps	-10 bps	+100 bps	-100 bps
SG Luxembourg	**Limit**	(17.60)	(17.60)	(176.00)	(176.00)
	Threshold	(14.08)	(14.08)	(140.8)	(140.8)
	31/12/2021	(0.13)	(5.21)	(0.98)	(64.73)

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

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

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

TABLE 31: SG LUXEMBOURG NIM POSITION AS OF 12/31/2021

		Year 1 +10 bps	Year 1 -10 bps	Year 2 +10 bps	Year 2 -10 bps
SG Luxembourg	**Limit**	(11.25)	(11.25)	(15)	(15)
	Threshold	5	(8.4)	7.5	(11.1)
	31/12/2021	(4.6)	4.5	(1)	1.8

8.3 STRUCTURAL FOREIGN EXCHANGE RATE RISK

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

Objective of the Framework

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

Measurement and monitoring of structural foreign exchange rate risks

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

TABLE 32: SG LUXEMBOURG GROUP FOREIGN EXCHANGE POSITION AS OF 12/31/2021

Indicators	Targets and limits	31/12/2021 in MEUR
Structural exchange rate risk	**≤ 7.1 MEUR (target)** **≤ 9.5 MEUR (limit)**	1.77

9. LIQUIDITY RISK

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

9.1 GOVERNANCE AND ORGANIZATION

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

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

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

9.2 9.2 THE APPROACH TO LIQUIDITY RISK MANAGEMENT

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

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

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

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

Finally, liquidity is governed in terms of cost via the SG Luxembourg Group's internal transfer pricing scheme. Funding allocated to the businesses is charged to the latter on the basis of scales that must reflect the liquidity cost for SG Luxembourg Group. This system is designed to optimise the use of external financing sources by businesses, and is used to monitor the equilibrium of balance sheet funding. The liquidity gap is managed on an overall basis (across all currencies) and by main currency (which currently are EUR, USD, GBP and CHF).

9.3 REFINANCING STRATEGY

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

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

9.4 ASSET ENCUMBRANCE

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

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

A few points are noteworthy:

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

9.5 REGULATORY LIQUIDITY RATIOS

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

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

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

TABLE 33: SG LUXEMBOURG GROUP LCR AND NSFR

Indicators	Targets and limits	31/12/2021
Liquidity Coverage Ratio – LCR	≥ 110% (target) ≥ 100% (limit)	167.38%
Net Stable Funding Ratio – NSFR	≥ 104% (target) ≥ 100% (limit starting Q2 2021)	115.81%

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

As of 31st December 2021, the liquidity buffer is composed of 9.9 BEUR cash held at the BCL and a bonds portfolio of around 2.81 BEUR.

TABLE 34: SG LUXEMBOURG GROUP LCR AND NSFR EVOLUTION

	RAS Threshold	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
LCR	≥110%	130.98%	131.08%	143.38%	154.78%	167.38%
NSFR	≥85% (Basel 3)	87.90%	94.29%			
	≥104% (CRR2)			115.37%	114.40%	115.81%

The LCR level increased throughout 2021 with the arrival of SGSS deposits in Q3 worth 6 BEUR which comprise a part of operational deposits.Table 21: EU CQ3 – Credit quality of performing and non-performing exposures by past due days

TABLE 35: EU LIQ1 – QUANTITATIVE INFORMATION OF LCR

		a	b
			Total unweighted value
EU 1a	Quarter ending on (DD Month YYY)	T	T-1
EU 1b	Number of data points used in the calculation of averages*	1	1
High-quality liquid assets			
1	**Total high-quality liquid assets (HQLA)**		
Cash – Outflows			
2	Retail deposits and deposits from small business customers, of which:	4 336 469	3 931 046
3	*Stable deposits*	*0*	*0*
4	*Less stable deposits*	*4 336 469*	*3 931 046*
5	Unsecured wholesale funding	23 601 987	16 769 383
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*4 913 540*	*2 122 803*
7	*Non-operational deposits (all counterparties)*	*18 688 447*	*14 646 580*
8	*Unsecured debt*	*0*	*0*
9	*Secured wholesale funding*		
10	Additional requirements	2 632 035	3 114 931
11	*Outflows related to derivative exposures and other collateral requirements*	*417 334*	*631 481*
12	*Outflows related to loss of funding on debt products*	*0*	*0*
13	*Credit and liquidity facilities*	*2 214 700*	*2 483 450*
14	Other contractual funding obligations	40 001	40 001
15	Other contingent funding obligations	1 326 275	1 590 647
16	**Total Cash Outflows**		
Cash-Inflows			
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	12 388 288	7 686 042
19	Other cash inflows	292 689	567 411
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		
EU-19b	(Excess inflows from a related specialised credit institution)		
20	**Total Cash Inflows**	**12 680 977**	**8 253 453**
EU-20a	*Fully exempt inflows*	*0*	*706*
EU-20b	*Inflows subject to 90% cap*	*0*	*0*
EU-20c	*Inflows subject to 75% cap*	*12 680 977*	*8 252 747*
Total Adjusted Value			
EU-21	**Liquidity Buffer**		
22	**Total Net Cash Outflows**		
23	**Liquidity Coverage Ratio**		

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

c	d	e	f	g	h
(average)		**Total weighted value (average)**			
T-2	T-3	T	T-1	T-2	T-3
1	1	1	1	1	1
		12 384 863	**12 251 927**	**12 587 049**	**11 778 137**
3 867 361	3 772 021	789 817	711 665	700 062	678 841
0	*0*	*0*	*0*	*0*	*0*
3 867 361	*3 772 021*	*789 817*	*711 665*	*700 062*	*678 841*
16 579 827	14 981 063	17 809 603	13 327 833	13 292 832	12 006 992
1 943 533	*1 836 660*	*1 228 385*	*530 701*	*485 883*	*459 165*
14 636 294	*13 144 403*	*16 581 218*	*12 797 132*	*12 806 948*	*11 547 827*
0	*0*	*0*	*0*	*0*	*0*
		0	*0*	*0*	*0*
3 520 571	3 887 720	978 757	1 421 444	1 407 539	1 774 374
407 670	*628 324*	*417 334*	*631 481*	*407 670*	*628 324*
0	*0*	*0*	*0*	*0*	*0*
3 112 901	*3 259 396*	*561 422*	*789 963*	*999 870*	*1 146 051*
451 442	92 899	1	1	411 442	52 899
1 730 995	1 462 366	0	8 625	0	37 500
		19 578 178	**15 469 567**	**15 811 876**	**14 550 607**
0	0	0	0	0	0
7 270 477	5 597 531	11 886 069	6 986 646	6 678 820	4 960 204
353 973	604 630	292 689	567 411	353 973	604 630
		0	0	0	0
		0	0	0	0
7 624 449	**6 202 160**	**12 178 758**	**7 554 057**	**7 032 793**	**5 564 834**
0	*1 180*	*0*	*706*	*0*	*1 180*
0	*0*	*0*	*0*	*0*	*0*
7 624 449	*6 200 981*	*12 178 758*	*7 553 351*	*7 032 792*	*5 563 654*
		12 384 863	**12 251 927**	**12 587 049**	**11 778 137**
		7 399 420	**7 915 511**	**8 779 083**	**8 985 773**
		167,38%	**154,78%**	**143,38%**	**131,08%**

TABLE 36: EU LIQ2 – NET STABLE FUNDING RATIO

		a	b	c	d	e
		Total unweighted value (average)				**Weighted value**
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	2 750 849	0	0	0	2 750 849
2	*Own funds*	*2 750 849*	*0*	*0*	*0*	*2 750 849*
3	*Other capital instruments*		*0*	*0*	*0*	*0*
4	Retail deposits		4 742 479	160 231	12 084	4 424 523
5	*Stable deposits*		*0*	*0*	*0*	*0*
6	*Less stable deposits*		*4 742 479*	*160 231*	*12 084*	*4 424 523*
7	Wholesale funding:		28 221 615	12 539 786	16 847 088	27 557 860
8	*Operational deposits*		*4 913 540*	*0*	*0*	*2 456 770*
9	*Other wholesale funding*		*23 308 075*	*12 539 786*	*16 847 088*	*25 101 090*
10	Interdependent liabilities		0	0	0	0
11	Other liabilities:	581 644	0	0	0	0
12	*NSFR derivative liabilities*	*581 644*				
13	*All other liabilities and capital instruments not included in the above categories*		*970 909*	*0*	*0*	*0*
14	**Total available stable funding (ASF)**					**34 733 232**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					47 011
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		0	0	0	0
16	Deposits held at other financial institutions for operational purposes		0	0	0	0
17	Performing loans and securities:		26 035 755	4 576 983	20 417 264	27 734 377
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		*0*	*0*	*0*	*0*
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*12 681 189*	*1 780 648*	*6 763 746*	*8 922 189*
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*11 456 548*	*2 676 195*	*10 848 540*	*16 106 535*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*6 089 091*	*325 218*	*905 479*	*3 795 716*
22	*Performing residential mortgages, of which:*		*176 676*	*120 141*	*2 025 898*	*1 870 422*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*0*	*0*	*0*	*0*

		a	b	c	d	e
		Total unweighted value (average)				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		*1 721 342*	*0*	*779 078*	*835 231*
25	Interdependent assets		0	0	0	0
26	**Other assets:**		**1 064 792**	**0**	**1 519 309**	**2 031 540**
27	*Physical traded commodities*				*0*	*0*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		*0*	*0*		*167,38%*
29	*NSFR derivative assets*		*478 479*	*478 479*		
30	*NSFR derivative liabilities before deduction of variation margin posted*		*581 644*	*29 082*		
31	*All other assets not included in the above categories*		*4 669*	*0*	*1 519 309*	*1 523 978*
32	Off-balance sheet items		3 547 786	0	0	177 389
33	**Total RSF**					**29 990 317**
34	**Net Stable Funding Ratio (%)**					**115,81%**

10. COMPLIANCE, REPUTATIONAL AND LEGAL RISK

10.1 COMPLIANCE

Compliance means acting in accordance with applicable banking and financial rules, ranging from laws and regulations to professional, ethical or internal standards and principles.

By ensuring these rules are observed, SG Luxembourg Group works to protect its customers and, in general, all of its counterparties and employees. Protecting the company's image is one of the SG Luxembourg Group's strategic objectives.

The compliance framework

The system for prevention of compliance risks is based on a shared responsibility binding all core businesses, support functions and compliance function employees by ensuring the integration of compliance with local laws and regulations, rules of good professional conduct, and internal rules into their daily work.

The Compliance function has two main duties: (i) advising and assisting the operational teams so that they can carry-out their tasks to comply with their professional and regulatory obligations, as well as the SG Group commitments; and (ii) monitoring and assessing the relevance and efficiency of the system for monitoring and controlling compliance risks.

The Compliance team, reports to the Deputy CEO of SG Luxembourg Group in charge of the General Secretary, Risk and Compliance.

The Compliance function works in close coordination with the "Direction du Contrôle permanent" (CTL), which was created in 2018 and is dedicated to the assessment of the efficiency of the permanent supervision framework and standard controls defined at Group level

The Legal, Human Resources, Tax, and Corporate Resources support the Compliance function within the scope of their respective fields of expertise.

The Deputy CEO in charge of the General Secretary, Risk and Compliance, is responsible for the overall coordination of the Compliance function and of relations with the authorities in this regard. She is assisted in her duties by the Head of Compliance. The efficiency of the compliance system is continuously monitored and strengthened at the highest level: Board of Directors and the Risk and Compliance Committee.

THE COMPLIANCE DEPARTMENT

The Compliance Department manages the compliance control and monitoring system and monitors reputational risk. It ensures the consistency of the SG Luxembourg Group system for prevention of compliance risks, its efficiency, and the development of appropriate relationships with banking supervisors and regulators.

COMPLIANCE DEPARTMENT ORGANIZATION

The Chief Compliance Officer relies on a team organized in six sections:

- A unit responsible for the regulatory aspects of Market integrity and client's protection, including a Market abuse monitoring and control team supervised by a deputy CCO (8 people);
- A unit responsible for the SG Private Banking Europe ("SGPBE") and compliance Transformation supervised by a deputy CCO and composed of the Tax transparency advisor and the Data Protection Officer (3 people);
- A unit responsible for anti-money laundering / fight against terrorism financing (AML/FT) including Sanctions & Embargos (S&E) issues. The team is covering private banking (PRIV/LUX), corporate banking (GTPS) and Securities Services (SGSS) activities, and performing transversal controls, monitoring and filtering. The Manager is also holding the function of deputy AMLO (17 people);
- A unit responsible for supervising subsidiaries, conducting risk assessments and reporting, as well as cross-divisional subjects (4 employees);
- A compliance officer dedicated to GLBA structures and Luxembourg banking subsidiaries.
- A team of 2 advisors dedicated to the compliance-related aspects of SGSS Depository Banking and Transfer Agent activities.

In order to meet with requirements arising from the complexity of the regulatory framework and the implementation of SG Group's remediation plans, compliance function's capacity remained unchanged in 2021 compared to 2020. The Department was impacted by a significant staff turnover even if all vacancies have globally been filled along the year. Like other departments, CPLE has implemented measures to face the COVID 19 health crisis alternating on-site presence and home working. End of 2021, the Department counted thirty-six compliance officers directly reporting to either the Chief Compliance Officer or the two deputy CCOs.

Regarding Compliance's missions, the scope extension continued in 2021, mainly driven by SG Group's La Fayette Program (set of Anti-Bribery, Sanction & Embargo and Index & Market Manipulation projects and controls), the Optima program and various key projects impacting the business lines (Deployment of the new 'Financial crime client rating', implementation of a new transaction monitoring system 'GATS', roll-on of PEP, Adverse News and referential filtering system, extension of the 'Tierce introduction' regime for GLBA/SSL counterparties, KYC for banks, the Permanent Control Transformation and the KYC Transformation Programs,…).

APPLICATIONS DEDICATED TO COMPLIANCE ENFORCEMENT AND TO THE DEVELOPMENT OF A PROCESS-BASED APPROACH

Two types of IT applications ensure compliance with regulations and detection of situations requiring special attention:

- profiling/scenario management tools that trigger alerts when unusual account flows or transactions are detected. More specifically, they are used to prevent money laundering and terrorism financing, and to detect market abuse, price manipulation and insider trading;
- tools used to filter data and transactions based on pre-defined lists (internal lists, external databases, etc.) that trigger alerts upon detecting certain people, countries or activities targeted by national or international sanctions and embargoes, or people with convictions or having PEP (politically exposed person) status.

Moreover, the group has deployed 3 additional other tools with the aim to reinforce the process-based approach

- A WhistleB tool to strengthen the prevention and detection of any breach of corruption or fraud regulations.
- A tool deployed in view of promoting the ethical and integrity principles that must govern the conduct of the Bank's employees, particularly in the fight against corruption and influence peddling. Each employee must declare in G.E.M.S any gift, business meal and external event offered or received, as soon as it falls into one of the risk situations described in the Group standard.
- A tool for the notification and pre-approval of transactions made by exposed staff (PAD).

The Compliance function reports on specific key compliance risk areas and performs mapping and assessment of regulatory risks.

These processes are regularly updated, and their features enhanced to incorporate regulatory and technological changes and improve their operational efficiency.

Moreover SG Luxembourg drawn-up an instruction dedicated to compliance incidents.

The bank has performed in 2021 the annual risk assessment initiated by SG Group, "COMPASS", on 5 compliance topics, including Sanctions & Embargo, Conflict of interest, Market abuse, IMM, and Data protection.

This Group exercise allows to construct a detailed risk cartography and to draft specific synthesis based on both inherent risk and mitigant analysis. In addition, findings issued from this risk assessment lead to action plans.

The results of this risk assessment were shared with the Board of directors and the Authorized management during the Compliance & Risk Committee (09/27/2021). Action plans issued from this exercise are followed on a half-yearly basis during these committees

2022 Campaign will cover the full perimeter including 18 questionnaires related to 5 main risk categories (Financial Crime, Ethics and Behaviors, Client protection, Market integrity, Tax transparency and Data & Digital).

Implementation of compliance policies

ANTI-MONEY LAUNDERING AND COUNTERING TERRORIST FINANCING (AML/CTF)

Initiatives aiming at increasing the efficiency of the AML/CTF system and the vigilance of SG Luxembourg Group employees were continued in 2021.

In particular, we can mention:

- AML/FT framework instruction N° 10022, which sets out the professional obligations in the area AML/FT obligations in detail, was updated to reflect the latest local regulatory and procedural developments within the Group. A V13 instruction is available
- Definition and formal approval of the risk appetite for financial crime and corruption for SGSS and GTPS (PRIV went through this exercise in 2020);
- Implementation of the GATS/NOMOS transaction monitoring system on the SGSS area;
- Deployment of the automatic filtering of repositories against PEP lists on all business lines (PRIV, SGSS et GTPS) and deployment of a new Adverse news filtering solution, rolled out in priority on the PRIV scope
- Study of a level 1 alert management centralization project linked with the referential filtering (Sanctions & Embargo, PEP, Adverse news).

KNOW YOUR CUSTOMER (KYC)

The Bank continued its targeted approach with respect to customer risk for all activities, both for on boarding and during regular KYC revisions of existing customers.

On the onboarding side, the "Procédure d'entrée en relation" of the PRIV business line has been updated in June 2021.

This procedure describes the process for validating or refusing a new relationship that must be followed for every new relationship, existing client (PP, PM or UBO) or potential partner by the PRIV business. A new KYC instruction governing the activities of the GTPS business line was published by the Compliance function on 24 May 2021.

As far as SGSS perimeter is concerned, the AML/KYC procedures PR20321 (for Direct clients) and PR20593 (for TA activities) have been updated to take account of latest updates in line with fifth EU AML Directive and CSSF Regulation 20-05. A new procedure on Second level controls for SGSS activities has also been issued (PR20333)

Along side the business relationship :

- Implementation study of the new 'Financial crime client rating' (FCCR V3 project);
- The periodic committees set-up to rule on KYC / AML issues (including close follow-up PCR/KYC campaign) in the PRIV, GTPS and SGSS business lines met throughout the year and have been rescheduled to meet again, on a monthly basis in 2022
- Extension of the 'Tierce introduction' regime and amendment of the onboarding & periodic reviews process for GLBA/SSL counterparties.
- Group's project launched in Q2 2020 to move banks KYC from several Business Units to the GBSU/CLD/KYC processes and tools.

EMBARGOES AND FINANCIAL SANCTIONS

The international environment in 2021 remained very challenging, with a high level of complexity.

The year 2021 is characterised in particular by:

- The reinforcement of the procedural framework with 3 new procedures: (1) PR-21498 regarding Distribution's lists, that defines inclusion criteria, roles and responsibilities of employees from BU/SU and entities having Exposure to Sanctions and Embargoes risks; (2) PR-21499 concerning Sanctions-related restrictions on assets and accounts; (3) PR 21656 that describes the obligations of SG Group employees to ensure strict compliance with applicable sanctions regulations laid down by international stakeholders (the French Treasury, the European Union, the United Nations, the OFAC).
- A study of a level 1 alert management centralization project linked with the referential filtering
- In the framework of the La Fayette program, many actions were conducted and among them: (1) a regulatory watch template was set-up to enable the Group analyzing specific local changes in S&E regulatory environment, (2) governance was strengthened, (3) S&E checklists enabling any new entity to be mapped within the MySnRMap tool, (4) follow-up of action plans through the MyActions tool. (5) files sent by FCC/EMB are delivered on a dedicated SharePoint, (6) a robust annual risk assessment of OFAC compliance risk arising from BU/SU is in place; (7) A global case management tool for incident / investigation has been implemented. (8) a S&E ComCo was held on a quarterly bases, (9) specific high-risk training sessions tailor made for employees identified as being exposed to S&E risks.

ANTI-CORRUPTION MEASURES

The fight against corruption is a global struggle that is intensifying. Many countries have anti-corruption laws and increasingly severe sanctions are regularly imposed on individuals and legal entities.

The La Fayette Program resulting from the agreements signed with the Parquet National Financier (PNF) and the American Department of Justice continued in 2021. Hence, 18 Policies & procedures created/updated (KYS, FSP, HR Sanctions, HR Recruitment, Whistleblowing, Sponsoring & Patronage and Conflict of interest, Advocacy, Gifts and Events) during the last 3 years. A dedicated Governance mechanism has been implemented with clear roles & responsibilities (ABC Officer, ABC Manager) and an ad-hoc Committee put in place (ABC operational committee).

The oversight on this thematic is followed up via ABC Key Risk Indicators (KRIs), ABC dashboards (within COMCO and CRC) and a new set of dedicated controls.

EMPLOYEE ETHICS

CPL continued to monitor ethics rules for employees. Following the decommissioning of the PT reporting tool (end of 2021), the new Personal Account Dealing tool for monitoring transactions of exposed employees was deployed in October. The reporting procedures have been reminded and a new charter has been distributed. Training sessions were deployed in October with the support of the Group. the scope of "exposed" services based on Group criteria was redefined.

A new instruction has been deployed for employees considered to be exposed (i.e. whose hierarchical position, assignment or function requires them to take part in activities that could result in conflicts of interest or to have access to confidential or privileged information relative to clients or their transactions) and notably to their obligations in terms of declarations of their personal transactions using financial instruments.

In line with regulatory and/or Group requirements, the Compliance Department issued a report for the attention of the Authorized management covering all transactions on financial instruments of agents declared as exposed personnel within the Bank, as well as any conflicts of interest and practices in terms of gifts, donations, advantages, and external events organized by SG Luxembourg.

At last, a new version of the instruction Whistleblowing was published in November 2021. It specifies the mechanism for handling alerts, the status of the whistle-blower, it clarifies roles and responsibilities of departments involved (HR, CPLE, ...) and introduces the obligation to hold a register of alerts. In the course of 2021, an employee used for the first time the WhistlB tool (context: data leak).

CONFLICTS OF INTEREST

The Bank must take all appropriate measures so as to detect, avoid and/or manage conflicts of interest arising between itself (including its senior executives, employees and when needed its tied agents or any person linked by a control relationship) and its clients or between two clients, including conflicts resulting from the collection of incentives from third parties or from the remuneration structure and other incentive structures specific to the Bank.

To meet its obligations, the Bank has a policy for the management of conflicts of interests and it maintains and updates a log of the types of investment or ancillary services or investment activities carried out by the company or in its name, and for which a conflict of interests that includes any risk of harm to the interests of one or more clients could arise. The log is updated with the new types of conflicts of interest annually or when necessary.

The Bank publishes the summary of its conflicts of interest's policy on its Internet site to meet the communication requirements imposed by the regulation. The general terms also mention the publication of a summary of the policy on the Bank's Internet site. The complete conflicts of interest policy is made available to clients on request, and is distributed to all personnel members.

MARKET ABUSE

Following the entry into force of the new regulation on market abuse (Regulation N° 596/2014 and Directive 2014/57 of the European Parliament and of the Council of the 16/04/2014 and the resulting Luxembourg law of 27 December 2016), a framework procedure describing the general context of the offences of insider trading and price manipulation and the embedding the corpus of common rules applicable to the entire SG Group was updated on 5 January 2017 and amended on 13 November 2019.

The regulation requires notably from every credit institution or professionals of the financial sector to implement a detection framework (i.e. IT system and procedures) appropriate to its activity in order to be in the capacity to inform the CSSF without undue delay of any suspected transaction. Heads of Business Units involved, supported by CPLE/LUX, ensure the implementation of the adequate framework.

The activities of the team also consist in (1) ensuring the proper enforcement of internal rules regarding the protection of inside information, (2) monitoring the threshold of ownership in force in Luxembourg and (3) declaring any crossing on any listed company incorporated in Luxembourg

In 2021, the Compliance Department settled a Market Abuse Committee which met for the first time in July.

EMIR

Since 2020, the monitoring is conducted in run mode by the Head of Operations Department. The oversight of the SG Luxembourg EMIR framework has been insured through a semi-annual frequency meeting since Q3/2020. In 2021, 2 meetings took place in presence of the Senior Executive management. Main 2021 achievements are (1) the end of the remediation plan, launched in 2019 following the CSSF on-site inspection; (2) strengthening of the existing generic EMIR control plan; (3) the effective transition from the Schedule to the SIMM method regarding the calculation of the initial margins exchanged between SG Luxembourg and its counterparties.

SFTR

Since the entry into force of the SFTR reporting obligation (July 13th, 2020), all SG Luxembourg in-scope securities financing transactions have been dully reported. As identified during the implementation phasis and following the ESMA clarifications early 2021, SG Luxembourg has decided to set up and launch a dedicated project starting in January 2022 to analyze the SG Group guidelines on the classification of Lombards and private banking loans under SFTR

REGULATORY TRANSACTION REPORTINGS (MIFIR, EMIR AND SFTR)

In 2021, SG Luxembourg continued to strengthen its regulatory transaction reporting framework. A global project named Lux2Target, led by the GBSU\DIR and SG Luxembourg COO to improve the overall production of transactional reporting (IT architecture, data quality, review of the TOM) has been launched with the concours of Paris-based experts. his program has the objective to reassess the overall target supervision and operation model for the SG Luxembourg regulatory operations team (GBSU\REG).

SUPERVISING CUSTOMER PROTECTION

The year continued to see local work aimed at integrating obligations from the entry into effect of MiFID 2 to cover regulatory requirements in terms of client protection (i.e. Customer and product classification, suitability and appropriateness tests, information and reporting, obligation of best execution, processing orders, inducements, conflict of interests, transparency, records and product governance).

CLAIMS AND MEDIATION

MiFID2 strengthens the requirements for the handling of complaints. The Bank has a transparent policy for managing complaints for the purposes of their quick handling. Clients are informed of the existing mechanism, including the possibility of transferring their complaint to an out-of-court dispute settlement entity, via the general terms and the Bank's Internet site.

The Bank also maintains a log of complaints received and of the measures taken to resolve them.

OTHER REGULATORY MATTERS

The 2021 training plan was presented and validated at the Risk and Compliance Committee meeting on 23 March 2021. Training and awareness-raising measures continued to be organized on a regular basis on subjects such as professional ethics, anti-money laundering and fight against terrorism financing, for both new and existing employees, in particular employees that have contact with customers (for AML/FT aspects).

Following the measures taken regarding the COVID 19 pandemic crisis, a few face-to-face trainings have taken place in 2021. The training program was built in 2021 in cooperation with business lines around many axes like Tax transparency (QI, CRS), BCBS 239, Volker, “871 M”, “GDPR”, “MiFID II”, “EMIR”, Market Abuse, Code of conduct, Embargo and Sanctions, Know Your Customers, Personal Accounts Dealing tool, conflict of Interest, code of conduct, risk appetite, Cross border,…

NORMATIVE DOCUMENTATION AND INFORMATION SHARING

To complete its assignments, the SG Luxembourg Group Compliance function relies on normative documents (directives, guidelines, instructions and procedures) which are regularly updated. New instructions were updated, drafted and published in 2021 regarding the topics Embargo and Sanctions, KYC, QI, FATCA, Code of Conduct, Insider List Management Operational Guide, Market Abuse, Fight against Corruption, Prevention and Management of Conflicts of interest, SFTR, GDPR, EMIR, MiFID, Whistleblowing.

THE PERMANENT CONTROL SYSTEM

The Compliance function is one of the three control functions of the SG Luxembourg Group (together with the risk and internal audit), in charge of second-level control to review the quality of the checks performed by the businesses.

The roll-out of the Permanent Control Transformation Program (PCT) continued in 2020 and new GPS controls dedicated to various CPLE topics were rolled-out. The APRC delivery schedule was respected and a roadmap focused on the qualitative review of the control needs mapping was validated.

Compliance and the Code of Conduct

Compliance with ethical rules that meet the highest professional standards is part of the SG Group’s commitments.

SG LUXEMBOURG has adopted the most recent version of the SG Group’s Code of Conduct via Directive n°10260.V4 dated 04/03/2021. This Code is supplemented by two codes of conduct, the “Tax Code of Conduct” dedicated to the major principles of tax compliance (July 2017) and the “ABC Code of conduct” (Anti Bribery and Corruption) related to combating corruption and insider influence (updated in March 2021).

These instructions apply to all employees, regardless of their responsibility level, as well as to SG Luxembourg Group managers, and also specifies alert procedures when a special situation so requires. In 2021, all employees have followed an e-learning’s training session dedicated to the code of conduct.

10.2 RISKS AND LITIGATION

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

11. RISKS RELATING TO INSURANCE ACTIVITIES

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

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

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

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

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

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

12. REMUNERATION

12.1 SG LUXEMBOURG'S REMUNERATION POLICY

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

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

SG Luxembourg's remuneration policy, particularly for categories of staff whose activities have a significant impact on the risk profile, applies to Société Générale Luxembourg SA as well as to the entities it controls, subject to possible adaptations if required by local regulations.

SG Luxembourg's remuneration policy is available here:

https://www.societegenerale.lu/fileadmin/user_upload/SGLUX/DOCUMENTS/compensation_policy_for_website.pdf

12.2 ADDITIONAL INFORMATION ABOUT REGULATED STAFF

The quantitative information detailed below refers to the remuneration of regulated staff for 2021 (the reference date is December 31, 2021). Regulated staff in 2021 did not benefit from a guaranteed variable remuneration or severance payments. No remuneration for regulated staff exceeds more than 1 million euros in 2021.

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

			a	b	d
(in EUR 1000)			**MB Supervisory function**	**MB Management function**	**Other identified staff**
1	Fixed remuneration	Number of identified staff	11	15	32
2		Total fixed remuneration	248	3,414	3,233
3		Of which: cash-based	248	3,414	3,233
9	Variable remuneration	Number of identified staff	11	15	32
10		Total variable remuneration	0	2,508	1,218
11		Of which: cash-based	0	1,278	777
12		Of which: deferred	0	500	176
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	0	1 230	441
EU-14b		Of which: deferred	0	500	176
17	**Total remuneration (2 + 10)**		**248**	**5 922**	**4 451**

TABLE 38: EU REM3 – DEFERRED REMUNERATION

		a	b	c	f	EU – g
Deferred and retained remuneration*		**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**
7	MB Management function	882	357	525	38	920
8	Cash-based	205		205	(18)	187
10	Share-linked instruments or equivalent non-cash instruments	677	357	320	+56	733
19	Other identified staff	366	175	191	40	406
20	Cash-based	111		111	(10)	101
21	Shares or equivalent ownership interests	255	175	80	+50	305
25	**Total amount**	**1 248**	**532**	**716**	**78**	**1 326**

*Fidelity plans awarded for 2020, 2019 and 2018 and 2017 performance years. Deferred variable remuneration is subject to possible explicit reductions (non-achievement of performance conditions and/or conditions related to risk management and respect to compliance) and/or implicit adjustments (indexation on the value of the share).

13. APPENDIX

13.1 PILLAR 3 CROSS REFERENCE TABLE

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

13.2 INDEX OF THE TEMPLATES DISCLOSED IN THE PILLAR 3

Legal Reference	Title	CRR articles	Format	Chapter
EU OV1	Overview of risk weighted exposure amounts	Point (d) of Article 438	Yes	3.4
EU KM1	Key metrics template	Points (a) to (g) of Article 447 and point (b) of Article 438	Yes	3.5
EU INS1	Insurance participations	Point (f) of Article 438	Not applicable – SG Luxembourg uses article 48 and is not subject to article 49 (1) from CRR	
EU INS2	Financial conglomerates information on own funds and capital adequacy ratio	Points (g) of Article 438	Not applicable – SG Luxembourg is not a financial conglomerate	
EU OVC	ICAAP information	Points (a) and (c) of Article 438	Yes	2.4 and 3.5
EU OVA	Institution risk management approach	Article 435 (1)	Not applicable	
EU OVB	Disclosure on governance arrangements	Article 435 (2)	Not applicable	
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Point (c) of Article 436	Not applicable	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Point (d) of Article 436	Not applicable	
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Point (b) of Article 436	Yes on a voluntary basis	3.3
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Point (b) of Article 436	Not applicable	
EU LIB	Other qualitative information on the scope of application	Points (f), (g) and (h) of Article 436	Not applicable	
EU PV1	Prudent valuation adjustments (PVA)	Point (e) of Article 436	Not applicable	
EU CC1	Composition of regulatory own funds	Points (a), (d), (e) and (f) of Article 437	Yes	3.8
EU CC2	reconciliation of regulatory own funds to balance sheet in the audited financial statements	Point (a) of Article 437	Yes	3.8
EU CCA	Main features of regulatory own funds instruments and eligible liabilities instruments	Points (b) and (c) of Article 437	Yes	3.8
EU CCyB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer	Point (a) of Article 440	Yes	3.8
EU CCyB2	Amount of institution-specific countercyclical capital buffer	Point (b) of Article 440	Yes	3.8
EU LR1	Summary reconciliation of accounting assets and leverage ratio exposures	Point (b) of Article 451(1)	Yes	3.6
EU LR2	Leverage ratio common disclosure	Article 451(3) – Rows 28 to 31a Points (a), (b) and (c) of Article 451(1) and Article 451(2) – Rows up to row 28	Yes	3.6
EU LR3	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Point (b) of Article 451(1)	Yes	3.6
EU LRA	Free format text boxes for disclosure on qualitative items	Points (d) and (e) of Article 451(1)	Yes	3.6
EU LIQA	Liquidity risk management	Articles 435(1) and 451a(4)	Yes	9.1 -9.3
EU LIQ1	Quantitative information of LCR	Article 451a(2)	Yes	9.5
EU LIQB	on qualitative information on LCR, which complements template EU LIQ1	Article 451a(2)	Yes	9.5
EU LIQ2	Net Stable Funding Ratio	Article 451a(3)	Yes	9.5
EU CRA	General qualitative information about credit risk	Points (a), (b), (d) and (f) of Article 435(1)	Not applicable	
EU CRB	Additional disclosure related to the credit quality of assets	Points (a) and (b) of Article 442	Yes	4.8

Legal Reference	Title	CRR articles	Format	Chapter
EU CR1	Performing and non-performing exposures and related provisions	Points (c) and (f) of Article 442	Yes	4.8
EU CR1-A	Maturity of exposures	Point (g) of Article 442	Yes	4.8
EU CR2	Changes in the stock of non-performing loans and advances	Point (f) of Article 442	Yes	4.8
EU CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Points (c) and (f) of Article 442	Not applicable – the gross NPL ratio is less than 5%	
EU CQ1	Credit quality of forborne exposures	Point (c) of Article 442	Yes	4.8
EU CQ2	Quality of forbearance	Point (c) of Article 442	Not applicable – the gross NPL ratio is less than 5%	
EU CQ3	Credit quality of performing and non-performing exposures by past due days	Points (c) and (d) of Article 442	Yes	4.8
EU CQ4	Quality of non-performing exposures by geography	Points (c) and (e) of Article 442	Yes – only columns a, c, e, f, g (rest of columns is N/A as the gross NPL ratio is less than 5%	4.8
EU CQ5	Credit quality of loans and advances by industry	Points (c) and (e) of Article 442	Yes – only columns a, c, e, f, g (rest of columns is N/A as the gross NPL ratio is less than 5%	4.8
EU CQ6	Collateral valuation – loans and advances	Point (c) of Article 442	Not applicable – the gross NPL ratio is less than 5%	
EU CQ7	Collateral obtained by taking possession and execution processes	Point (c) of Article 442	Yes	4.8
EU CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Point (c) of Article 442	Not applicable – the gross NPL ratio is less than 5%	
EU CRC	Qualitative disclosure requirements related to CRM techniques	Points (a) to (e) of Article 453	Yes	4.6
EU CR3	CRM techniques overview: Disclosure of the use of credit risk mitigation techniques	Point (f) of Article 453	Yes	4.6
EU CRD	Qualitative disclosure requirements related to standardised model	Points (a) to (d) of Article 444	Not applicable	
EU CR4	Standardised approach -Credit risk exposure and CRM effects	Points (g), (h) and (i) of Article 453 CRR and point (e) of Article 444	Yes	4.6
EU CR5	Standardised approach	Point (e) of Article 444	Not applicable	
EU CRE	Qualitative disclosure requirements related to IRB approach	Points (a) to (f) of Article 452	Not applicable	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Point (g) of Article 452	Not applicable	
EU CR6-A	Scope of the use of IRB and SA approaches	Point (b) of Article 452	Not applicable	
EU CR7	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	Point (j) of Article 453	Not applicable – SG Luxembourg does not have any credit derivatives	
EU CR7-A	IRB approach – Disclosure of the extent of the use of CRM techniques	Point (g) of Article 453	Yes	4.6
EU CR8	RWEA flow statements of credit risk exposures under the IRB approach	Point (h) of Article 438	Yes	4.8
EU CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Point (h) of Article 452	Not applicable	
EU CR9.1	Back-testing of PD per exposure class (only for PD estimates according to Article 180(1)(f))	Point (h) of Article 452 and point (f) of Article 180(1)	Not applicable	
EU CR10	Specialised lending and equity exposures under the simple riskweighted approach	Point (e) of Article 438	Yes – only equity as we do not have Specialised lending exposures under slotting approach	4.8
EU CCRA	Qualitative disclosure related to CCR	Points (a) to (d) and last paragraph of Article 439	Not applicable	
EU CCR1	Analysis of CCR exposure by approach	Points (f), (g), (k) and (m) of Article 439	Not applicable	
EU CCR2	Transactions subject to own funds requirements for CVA risk	Point (h) of Article 439	Not applicable	
EU CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Point (l) of Article 439 referring to point (e) of Article 444	Not applicable	

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

13.3 GLOSSARY

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

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