



2019

SOCIETE GENERALE BANK & TRUST S.A.

RISK REPORT

PILLAR 3 2018



SOCIETE
GENERALE

Societe Generale Bank & Trust

11 Avenue Emile Reuter
L-2420 Luxembourg

Pillar 3 on 31 December 2018 positions

R.C.S. Luxembourg: B 006.061

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1. KEY FIGURES

The risk report provides in-depth information on the approach and strategy for managing its equity capital and risks of Societe Generale Bank & Trust Group.

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

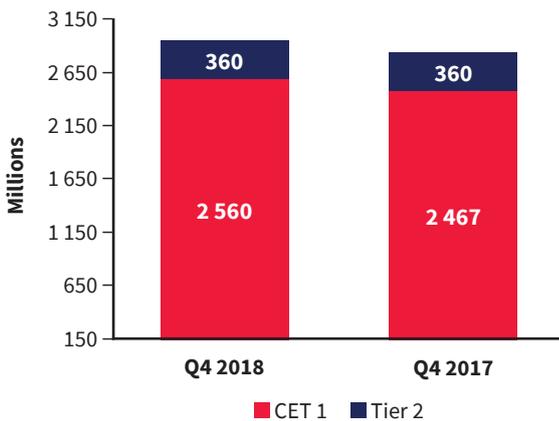
SUMMARY PROFIT AND LOSS¹

(in EUR thousand)	31 December 2018	31 December 2017
Net banking income	767 659	792 300
Cost of risk in basis point²	2 bp	-4 bp
Net income for the period	296 557	274 488
Net income for the period / total assets	0.29%	0.27%

SUMMARY BALANCE SHEET¹

(in EUR thousand)	31 December 2018	31 December 2017
Total Assets	101 277 209	96 126 412
Total Liabilities	98 114 888	92 904 069
Total Equity	3 162 321	3 222 343

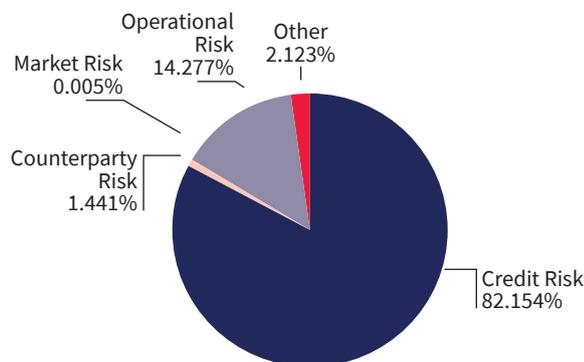
OWN FUNDS



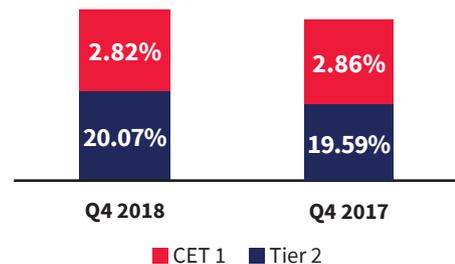
LCR RATIO



RWA BY RISK TYPE (2018)



SOLVENCY RATIOS



(1) As per consolidated financial statements

(2) A negative cost of risk implies a positive impact on the PnL of the cost of risk. In 2017 this was due to reversals of provisions and a compensation received for from an insurance contract on a litigation.

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 the Senior Management of Societe Generale Bank & Trust Group (SGBT Group), sets out the quantitative and qualitative information required on own funds and risk management within SGBT 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 SGBT Group Risk Appetite Framework and SGBT Group Risk Appetite Statement.

SGBT Group discloses this document on an annual basis.

SGBT Group is part of Societe Generale Group (SG Group) and as such SGBT's 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 79% 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 SGBT Group are built around four values: teamwork, innovation, commitment and responsibility. The SGBT 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

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

- **Credit and counterparty risk (including concentration effects)** is the risk of losses arising from the inability of customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and securitisation activities. In addition, credit risk may be further amplified by individual, country and sector concentration risk.
- **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.
- **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. Operational risk covers among of the following risks:
 - Non-compliance risk (including legal and tax risks) is

2. GOVERNANCE AND RISK MANAGEMENT ORGANIZATION

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.

2.3 RISK APPETITE

Risk appetite is the level of risk that SGBT 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.

SGBT'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 with 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 SGBT 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 SGBT 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 tracking 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 SGBT Group's capital adequacy with regard to risks. Accordingly, they are an important indicator of the resilience of SGBT Group and its activities and portfolios, and a core component in the definition of its risk appetite. SGBT Group's stress

test framework covers credit risk, market risk, operational risk, liquidity risk and structural interest rate and exchange rate risks. Stress tests are based on extreme but plausible hypothetical economic scenarios defined by SG Group's economists. These scenarios are translated into impacts on SGBT Group's activities, taking into account potential countermeasures and systematically combining quantitative methods with an expert assessment (risk, finance or business lines). As such, the stress test framework in place includes an annual global stress test, which is integrated into the budget process as part of preparing SGBT Group's Risk Appetite and Internal Capital Adequacy Assessment Process (ICAAP). It is used in particular to check SGBT's compliance with prudential ratios. It covers all of SGBT 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.

2.5 RISK PLAYERS AND MANAGERMENTS

As of 31 December 2018, the following committees of the Board of Directors existed:

Board of directors

Risk and Compliance Committee

The Risk and Compliance Committee is responsible for examining the consistency of the internal risk monitoring framework and compliance with it and with applicable laws and regulations. This Committee advises the Board on the overall strategy and appetite regarding risks, both current and future, and assists the Board when it verifies the implementation of this strategy. In particular, it is responsible for the respect of risk appetite limits defined by the Board. It also defines the main compliance objectives and presents significant recent events, an update on the compliance system, the regulatory developments, and the state of progress on projects. The Risk and Compliance Committee meets on a quarterly basis, in 2018 there were 4 meetings.

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

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 SGBT 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 Strategic Architecture Committee which defines SGBT Group's architecture in terms of data, reference systems, operational processes and information systems. It also ensures consistency with SG Group projects and the defined SG Group architecture.

Audit and Accounts Committee

Remuneration Committee

Appointments and Internal Governance Committee

The main Divisions in charge of risk managements are:

The Risk Division whom main responsibilities are to contribute to the development of SGBT'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;

2. GOVERNANCE AND RISK MANAGEMENT ORGANIZATION

- 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.

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;
- adherence to rules of conduct and investor protection (professional ethics and personal ethics);
- financial market ethics;
- reputation risks (cross-border activities, complaints, tax compliance, etc.)

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 SGBT 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 monitoring is carried out jointly by the Finance Division and Risk Division of SGBT Group and the SG Group.
- Interest rate risk and foreign exchange risk: interest rates and foreign exchange risk influence assets and profitability, as markets exhibit fluctuations. In the SGBT Group, the monitoring of interest rate risk and foreign exchange risk is centrally delegated to two different teams based on whether the transactions are categorised as structural or market.

The Internal Audit Division which is the third line of defence periodically evaluates the effectiveness of the risk appetite implementation mechanism, and when it does, it assesses:

- the effectiveness of risk measurement and risk profile oversight in connection with risk appetite;
- the alignment of the risk appetite to the budget process and the strategic and financial plan;
- whether the risk appetite is taken into account in decisions, compensation policies, culture and expected behaviours;
- Whether limit breaches have been correctly identified and reported.

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.

Within SGBT Group these principles are applied through directives, procedures and instructions defined at SGBT Group level to comply with all regulatory requirements, internal risk appetite and culture. 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 SGBT 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 behaviour 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 organisation 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 comprises 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 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 carries out internal audits that are strictly independent of the business lines and the permanent control function.

3. CAPITAL MANAGEMENT AND ADEQUACY

3.1 THE REGULATORY FRAMEWORK

In response to the financial crisis of recent years, the Basel Committee, mandated by the G20, has defined the new rules governing capital and liquidity aimed at making the banking sector more resilient. The new 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.

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.

Throughout 2018, SGBT Group complied with the minimum ratio requirements applicable to its activities.

3.2 SCOPE OF APPLICATION – PRUDENTIAL SCOPE

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

TABLE 1: DIFFERENCES IN THE SCOPES OF CONSOLIDATION (LI3)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
SG Life Insurance Broker	Full consolidation	Neither consolidated nor deducted	Insurance entity
SG Ré	Full consolidation	Neither consolidated nor deducted	Insurance entity
Sogelife Luxembourg	Equity Method	Neither consolidated nor deducted	Insurance entity

The above table covers all entities where the accounting and prudential consolidation are different.

TABLE 2: DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION (LII)

<i>(in 'EUR 1000')</i>	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation ^(*)	Prudential restatements linked to consolidation methods	Prudential restatements linked to accounting principles
Assets				
Cash and balances with central banks	5 173 455	5 173 455	0	
Financial assets at fair value through profit or loss	49 809 890	49 809 889	1	
Hedging derivatives	4 161	4 161	0	
Financial assets at fair value through other comprehensive income	3 338 542	3 338 542	0	
Held-to-maturity financial assets	41 464 173	41 464 173	0	
Investments of insurance activities	479 659	0	479 659	
Tax assets	19 338	19 338	0	
Other assets	847 236	847 236	0	
Investments accounted for using the equity method	71 486	0	71 486	
Property and equipment and other intangible assets	69 269	69 269	0	
Total assets	101 277 209	100 726 063	551 146	
Liabilities				
Financial liabilities at fair value through profit or loss	49 661 210	49 661 210	0	
Hedging derivatives	225 004	225 004	0	
Financial liabilities measured at amortized cost	46 054 839	46 106 650	(51 811)	
Tax liabilities	156 606	47 424	109 182	
Other liabilities	1 283 698	1 281 261	2 437	
Insurance contracts related liabilities	246 124	0	246 124	
Underwriting reserves of insurance companies	0	0	-	
Provisions	87 158	85 413	-	1 745
Subordinated debt	400 249	400 249	-	
Total liabilities	98 114 888	97 807 210	305 933	1 745
Issued Capital	1 389 043	1 389 043	0	
Reserves and retained earnings	1 439 410	1 212 357	228 798	(1 745)
Net income for the year	296 545	276 571	19 974	
Sub-total	3 124 998	2 877 971	248 772	(1 745)
Gains and losses not recognized in consolidated statement of income	37 182	40 741	(3 559)	
Sub-total equity, Group share	3 162 180	2 918 712	245 213	(1 745)
Sub-total equity non-controlling interest	141	141	0	
Total equity	3 162 321	2 918 853	245 213	(1 745)
Total liabilities and equity	101 277 209	100 726 063	551 146	0

(*) Insurance companies are excluded under scope of regulatory consolidation that explains differences on total of carrying values comparing with published financial statements.

3.3 REGULATORY CAPITAL

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

COMMON EQUITY TIER 1 CAPITAL

According to CRR/CRD4 regulations, Common Equity Tier 1 capital is made up primarily of the following:

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

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;

ADDITIONAL TIER 1 CAPITAL

SGBT Group has no additional Tier 1 capital.

TIER 2 CAPITAL

Tier 2 capital includes:

- dated subordinated notes;

Deductions of Tier 2 capital essentially apply to the following:

- holding of Tier 2 hybrid shares issued by financial sector entities;

SOLVENCY RATIO

The solvency ratio is set by comparing the group's equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risks and operational risks.

Since 1st January 2014, the new regulatory framework sets minimum requirements to be met for the Common Equity Tier 1 (CET1) ratio and the Tier 1 ratio.

At 1st January 2018, the Common Equity Tier 1 (CET1) requirement applicable to the SGBT Group was set to 8.75% (including Pillar 2 requirement, conservation buffer and specific systemic buffer).

As part of Other Systemically Important Institution (O-SII), a discretionary specific systemic buffer is applicable to SGBT Group (art.59-9 LSF). For 2018, this specific systemic buffer was equal to 0.75% and will ultimately reach 1% in 2019.

From 1st January 2018, the common Equity Tier 1 requirement is therefore 8.75% and will reach the target level of 9% in 2019.

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, with a transitional period where the rate is capped (1.875% in 2018).

The countercyclical buffer requirement for SGBT Group on 31/12/2018 is EUR 255 305 which is an add-on of 0% and therefore not material and not further disclosed.

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 3: OVERVIEW OF RWAS (OV1)

<i>(in 'EUR 1000')</i>		RWAs T	RWAs T-1	Minimum capital requirements T
1	Credit risk (excluding CCR)	8 596 251	8 145 912	687 700
2	<i>Of which the standardised approach</i>	1 053 399	979 122	84 272
4	<i>Of which the advanced IRB (AIRB) approach</i>	7 536 424	7 157 333	602 914
5	<i>Of which equity IRB under the simple risk-weighted approach or the IMA</i>	6 429	9 457	514
6	CCR	454 592	448 113	36 367
7	<i>Of which mark to market</i>	183 888	178 159	14 711
12	<i>Of which CVA</i>	270 704	269 954	21 656
13	Settlement risk	81	76	6
14	Securitisation exposures in the banking book (after the cap)	1 747 478	1 625 000	139 798
18	<i>Of which standardised approach</i>	1 747 478	1 625 000	139 798
19	Market risk	581	162 872	46
20	<i>Of which the standardised approach</i>	581	162 872	46
22	Large exposures	0	0	0
23	Operational risk	1 821 493	1 985 137	145 719
24	<i>Of which basic indicator approach</i>	83 698	78 394	6 696
26	<i>Of which advanced measurement approach</i>	1 737 795	1 906 743	139 024
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	137 346	229 020	10 988
29	Total	12 757 821	12 596 130	1 020 626

3.5 CAPITAL MANAGEMENT

As part of managing its capital, SGBT 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;

SGBT Group maintains an additional steering buffer in accordance with these objectives and regulatory thresholds.

At 31st December 2018, the SGBT Group's Common Equity Tier 1 ratio was 20.07% and the total capital ratio was 22.89% (see chapter 3.8 for more details).

3.6 LEVERAGE RATIO MANAGEMENT

The leverage ratio is in an observation phase in order to set the minimum requirements.

For the time being, SGBT Group produces its leverage ratio according to the CRR leverage ratio rules, as amended by the delegated act of 10th October 2014.

In order to meet the regulatory constraint as soon as it comes into force, SGBT Group will develop in due course an action plan ensuring the level of exposure is aligned to the level of Tier 1 capital.

TABLE 4: LEVERAGE RATIO

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		<i>(in 'EUR 1000')</i>
1	Total assets	100 711 028
4	Adjustments for derivative financial instruments	7 120 467
5	Adjustment for securities financing transactions (SFTs)	512 243
6	Adjustment for off-balance sheet items	7 592 801
7	Other adjustments	(48 071)
8	Leverage ratio total exposure measure	115 888 468
Table LRSum: Leverage ratio common disclosure		<i>(in 'EUR 1000')</i>
Part 1: On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	94 240 988
2	Asset amounts deducted in determining Tier 1 capital	(36 790 681)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	94 204 198
Part 2: Derivative exposures		
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark- to-market method)	13 579 226
11	Total derivatives exposures	13 579 226
Part 3: SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 780 003
13	Netted amounts of cash payables and cash receivables of gross SFT assets	(1 267 760)
16	Total securities financing transaction exposures	512 243
Part 4: Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	7 611 561
18	Adjustments for conversion to credit equivalent amounts	(18 759)
19	Other off-balance sheet exposures	7 592 801
Part 5: Capital and total exposure measure		
20	Tier 1 capital	2 601 240
21	Leverage ratio total exposure measure	115 888 468
Part 6: Leverage ratio		
22	Leverage ratio	2.24%
Part 7: Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Table LR Spl: Split-up of on balance sheet exposures*(in 'EUR 1000')*

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	94 240 988
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	94 240 988
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	7 975 715
EU-6	Exposures to regional governments, MDB, international organisations and PSE <u>not</u> treated as sovereigns	1
EU-7	Institutions	57 518 038
EU-8	Secured by mortgages of immovable properties	927 416
EU-9	Retail exposures	1 948 467
EU-10	Corporate	24 183 366
EU-11	Exposures in default	11
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1 687 976

3.7 RATIO OF LARGE EXPOSURES

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

The final rules of the Basel Committee on large exposures will be transposed in Europe via CRR2. The main change compared with the current CRR is the calculation of the regulatory limit (25%), henceforth expressed as a proportion of Tier 1 (instead of total capital), as well as the introduction of a cross-specific limit on systemic institutions (15%).

On 31/12/2018 SGBT had no additional RWA requirements due to the large exposures framework.

3.8 APPENDIX: INFORMATION ON REGULATORY OWN FUNDS AND SOLVENCY RATIOS

TABLE 5: OWN FUNDS DISCLOSURE

Common Equity Tier 1 capital: instruments and reserves (in 'EUR 1000')		31/12/2018
1	Capital instruments and the related share premium accounts	1 391 860
2	Retained earnings	1 182 583
	Accumulated other comprehensive income	66 681
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2 641 123
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(4 537)
8	Intangible assets (net of related tax liability) (negative amount)	(38 748)
11	Fair value reserves related to gains or losses on cash flow hedges	22 342
12	Negative amounts resulting from the calculation of expected loss amounts	(15 847)
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(40 827)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(77 618)
29	Common Equity Tier 1 (CET1) capital	2 560 413
Additional Tier 1 (AT1) capital: regulatory adjustments		
44	Additional Tier 1 (AT1) capital	0
45	Tier 1 capital (T1 = CET1 + AT1)	2 560 413
Tier 2 (T2) capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	400 000
51	Tier 2 (T2) capital before regulatory adjustments	400 000
Tier 2 (T2) capital: regulatory adjustments		
55	Direct and indirect 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)	(40 000)
57	Total regulatory adjustments to Tier 2 (T2) capital	(40 000)
58	Tier 2 (T2) capital	360 000
59	Total capital (TC = T1 + T2)	2 920 413
60	Total risk weighted assets	12 757 821
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.1%
62	Tier 1 (as a percentage of risk exposure amount)	20.1%
63	Total capital (as a percentage of risk exposure amount)	22.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.8%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0
67	of which: systemic risk buffer requirement	0
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.7%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	18.6%

Capital ratios and buffers		
72	Direct and indirect holdings of the capital 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)	0
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	54 938
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) 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 standardized approach (prior to the application of the cap)	0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	35 055
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	47 164

4. CREDIT RISKS

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

4.1 CREDIT RISK MANAGEMENT: ORGANIZATION AND STRUCTURE

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

The Risk Division is responsible for:

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

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

Project steering.

The amount of exposure for each client group is assessed relative to the amount of SGBT Group's own capital under the Large Exposure approach. In addition, the SGBT 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 the CEO of SGBT.

4.2 CREDIT POLICY

SGBT 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 SGBT 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.

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 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 SGBT 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 5 or 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 surety based on its quality, liquidity, volatility, and diversity of assets. SGBT 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 SGBT Group also offers centralized cash management services to Private banking clients which generates 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 SG Group. Beyond the unit credit limits for each client, counterparty, or group of clients and counterparties, SGBT 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.

SGBT Group regularly measures industry concentrations. Sensitive industries are identified by risk rating; by a net exposure after deducting guarantees, insurance and cash collateral above €200 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 SGBT 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 SGBT 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, 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

4. CREDIT RISKS

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 SGBT 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 SGBT 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.

Specific monitoring of hedge funds

SGBT Group has developed specialized and collateralized financings in favour of Hedge funds. Whether they are regulated or not, and regardless of the end investor, hedge funds pose specific risks: they are able to use significant leverage as well as investment strategies that involve illiquid financial instruments, which leads to a strong correlation between credit risk and market risk.

A dedicated framework has been put in place for the acceptance (amount, loan to value, diversification) and the monitoring of exposures (supported by SG Group dedicated department).

4.4 IFRS9 ORGANISATION

IFRS9 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 CATEGORY	STAGE 1 PERFORMING LOANS	STAGE 2 SIGNIFICANT INCREASE IN CREDIT RISK	STAGE 3 DOUBTFUL DEBT/ CREDIT IMPAIRED
TRANSFER CRITERIA	Initial classification in Stage 1 <i>> Maintained as long as there is no significant increase in credit risk</i>	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 new IFRS 9 as of January 2018.

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.

Principles of IFRS9 implementation

PRINCIPLES OF PROVISIONING METHODOLOGY

The IFRS approach is based on the Basel framework, particularly on the past rating, default and loss data used. For all portfolios measured according to the advanced approach (IRBA and IRBF), the IFRS 9 calculation method uses the probability of default and the loss rate.

For entities applying the standardised approach, historical loss and default data were calculated where possible, but the historical depth requirements were simplified.

These choices were overseen by the Risk division and approved by General Management.

CALCULATION METHODOLOGY

SG Group portfolios are segmented to give consistent portfolios of similar assets in terms of risk characteristics and better correlation with global and local macroeconomic data. This segmentation model covers all of the Group's specificities.

The new segmentation is consistent with or equal to the segmentation defined by the Basel framework to guarantee a unique default and loss history.

The rules for assessing a deterioration in credit risk:

In order to transfer provisions for exposures from 12-month to lifetime loss provisioning, and for transferring exposures to default are as follows:

- The credit rating principle in force is the cornerstone of the transfer criterion. If there is a significant deterioration in the credit rating since inception, the agreement is transferred to lifetime ECL provisioning. A significant deterioration is assessed on a portfolio-by-portfolio basis according to the probability of default curves defined to calculate IFRS 9 provisions;

- In addition, if on the reporting date the counterparty is assessed as being headed towards default, a lifetime credit loss allowance is provisioned for all contracts with this counterparty;
- As was previously the case, in the event of a counterparty default (see Registration Document, Chapter 4), the Group applies the default contagion principle to all the counterparty's contracts.

Forward-looking approach:

The forward-looking approach to ECL (12 months/lifetime) is based primarily on building in forecasts on economic growth into the probability of default. The main economic variables used are growth in the French economy, growth in the US economy, and growth in emerging and developed economies. For international Group entities, the growth rate in the host country is the factor that is applied for the most part.

Under IFRS 9, the ECL is calculated according to the probability-weighted outcomes of three macroeconomic scenarios drawn up by the Group's economists for all SG entities (the current baseline and stress scenarios are supplemented by an optimistic scenario). Probabilities are derived from observation over a 25-year time horizon of differences (upside and downside) between actual outcomes and the main scenario. This is not an expert valuation method, but rather a model that is intended for long-term use, updated every quarter.

For some portfolios (at least GBIS's and RBDF's large corporates at this stage), this approach is supplemented by a sector adjustment of the ECL up or down to improve forecasts of the default or recovery cycles in some cyclical sectors (de facto retention of the concept of sector-based provisioning). This concerns three sectors at the outset, oil & gas and mining, the steel industry and shipping.

Finally and to a marginal extent, an overlay approach based on expert appraisal, applied to reduce or increase the expected credit loss, has also been retained to take account of future risks that cannot be modelled (primarily legislative or regulatory changes).

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 SGBT 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

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

The credit profile of counterparties is reviewed on a regular basis and limits are set both according to the type and maturity of the 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, SGBT 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 SGBT 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. SGBT 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

SGBT 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 SGBT 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.

SGBT Group relies on on-balance sheet netting only in one subsidiary, SGIS, where in accordance with the accounting standards, IAS 32, it nets assets and liabilities where the counterparty is an entity of SG Group.

Mitigation of counterparty risk linked to market transactions

SGBT 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.

4.7 RISK MEASUREMENT AND INTERNAL RATINGS

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

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

Credit risk measurement for wholesale clients

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

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

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

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 SGBT 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

SGBT 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, SGBT 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 draw downs to observed draw downs on the undrawn part.

TABLE 6: INTERNAL RATING SCALE² 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 SGBT Group correspond to the scales used by SG Group.

4.8 QUANTITATIVE INFORMATION

TABLE 7: IRB SPECIALIZED EQUITIES – EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH (CR 10)

<i>(in 'EUR 1000')</i>	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
Exchange-traded equity exposures	2 026	0	290%	2 026	5 874	470
Other equity exposures	150	0	370%	150	554	44
Total	2 175	0		2 175	6 429	514

Note that SGBT Group does not have any specialized lending exposures treated under the slotting approach.

4.9 ADDITIONAL QUANTITATIVE INFORMATION ON GLOBAL CREDIT RISK (CREDIT AND COUNTERPARTY RISK)

TABLE 8: TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES (CRB-B)

(in 'EUR 1000')	a		b
	Net value of exposures at the end of the period		Average net exposures over the period
1 Central governments or central banks	7 962 037		8 817 009
2 Institutions	71 707 387		73 634 977
3 Corporates	20 960 363		21 139 665
4 <i>Of which: Specialised lending</i>	1 217 336		1 036 945
5 <i>Of which: SMEs</i>	5 303 158		5 513 080
6 Retail	3 315 899		3 034 584
7 <i>Of which: Secured by real estate property</i>	952 443		901 620
8 <i>SMEs</i>	0		3 469
9 <i>Non-SMEs</i>	952 443		898 150
11 <i>Of which: Other retail</i>	2 363 456		2 132 602
12 <i>SMEs</i>	0		908
13 <i>Non-SMEs</i>	2 363 456		2 131 694
14 Equity	2 175		3 441
15 Covered bonds	295 859		0
16 Total IRB approach	104 243 722		106 629 677
17 Central governments or central banks	13 660		2 732
18 Regional governments or local authorities	0		9 818
22 Institutions	5 755 683		6 922 727
23 Corporates	8 464 933		6 924 596
24 <i>Of which: SMEs</i>	114 535		86 692
25 Retail	0		4 742
27 Secured by mortgages on immovable property	0		1 684
28 <i>Of which: SMEs</i>	0		1 684
29 Exposures in default	11		2
31 Covered bonds	0		316 389
35 Other exposures	723 876		1 014 166
36 Total standardised approach	14 958 162		15 196 857
37 Total	119 201 883		121 826 533

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TABLE 9: GEOGRAPHICAL BREAKDOWN OF EXPOSURES (CRB-C)

<i>(Net exposure in 'EUR 1000')</i>		Total Western Europe and European Union members	France	Luxembourg
1	Central governments or central banks	7 962 037	1 349 296	4 425 462
2	Institutions	71 544 312	70 804 367	105 702
3	Corporates	17 086 600	2 750 341	10 606 584
4	Retail	2 518 431	380 978	137 789
5	Equity	2 175	2 175	
6	Covered bonds	295 859	295 859	0
7	Total IRB approach	99 409 415	75 583 016	15 275 538
8	Central governments or central banks	13 660	0	13 660
9	Institutions	2 293 455	1 684 759	997
10	Corporates	7 202 945	4 753 793	17 251
11	Exposures in default	11	0	11
12	Covered bonds			
13	Other exposures	723 876	0	723 876
14	Total standardised approach	10 233 946	6 438 552	755 794
15	Total	109 643 361	82 021 568	16 031 499

Spain	Other Western Europe and European Union members	Africa & Middle East	Eastern Europe excluding EU members	Latin America & Caribbean	North America & Asia Pacific	Total
51 526	2 135 754	0	0	0	0	7 962 037
0	634 243	77 200	1 378	56 951	27 547	71 707 387
746 034	2 983 641	662 323	672 992	728 266	1 810 183	20 960 363
25 290	1 974 374	619 706	67 280	30 727	79 755	3 315 899
						2 175
0	0	0	0	0	0	295 859
822 850	7 728 012	1 359 228	741 651	815 943	1 917 485	104 243 722
0	0	0	0	0	0	13 660
0	607 700	0	0	0	3 462 228	5 755 683
0	2 431 900	4	0	9 458	1 252 525	8 464 933
0	0	0	0	0	0	11
0	0	0	0	0	0	723 876
0	3 039 600	4	0	9 458	4 714 753	14 958 162
822 850	10 767 612	1 359 232	741 651	825 401	6 632 238	119 201 883

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TABLE 10 : CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES (CRB-D)

<i>(in 'EUR 1000')</i>		Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply
1	Central governments or central banks	0	0	0	0
2	Institutions	0	0	0	0
3	Corporates	438 565	662 357	22 273	109 745
4	Retail	0	0	0	0
5	Covered bonds	0	0	0	0
6	Equity	0	0	0	0
7	Total IRB approach	438 565	662 357	22 273	109 745
8	Central governments or central banks	0	0	0	0
9	Institutions	0	0	0	0
10	Corporates	1	37 916	0	0
11	Exposures in default	0	0	0	0
12	Other exposures	0	0	0	0
13	Total standardised approach	1	37 916	0	0
14	Total	438 566	700 273	22 273	109 745

<i>(in 'EUR 1000')</i>		Financial activities	Real estate activities	Professional, scientific and technical activities
1	Central governments or central banks	5 126 386	0	0
2	Institutions	71 596 599	0	0
3	Corporates	3 856 198	218 183	220 942
4	Retail	0	0	0
5	Covered bonds	295 859	0	0
6	Equity	0	0	0
7	Total IRB approach	80 875 043	218 183	220 942
8	Central governments or central banks	0	0	0
9	Institutions	5 753 874	0	0
10	Corporates	5 659 423	291	391
11	Exposures in default	0	0	0
11	Other exposures	0	0	0
12	Total standardised approach	11 413 297	291	391
13	Total	92 288 341	218 474	221 333

Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication		Total
0	0	0	0	0		7 962 037
0	0	0	0	0		71 707 386
498 508	877 826	469 944	260 406	254 647		20 960 363
0	0	0	0	0		3 315 899
0	0	0	0	0		295 859
0	0	0	0	0		2 175
498 508	877 826	469 944	260 406	254 647	See next table for the other categories	104 243 722
0	0	0	0	0		13 660
0	0	0	0	0		5 755 683
151 069	1 895 767	0	6 230	60 195		8 464 933
0	0	0	0	0		11
0	0	0	0	0		723 876
151 069	1 895 767	0	6 230	60 195		14 958 162
649 577	2 773 593	469 944	266 636	314 842		119 201 883

Administrative and support service activities	Public administration and defence, compulsory social security	Human health services and social work activities	Arts, entertainment and recreation	Retail	Other	Total
0	2 816 114	19 537	0	0	0	7 962 037
0	110 787	0	0	0	0	71 707 386
8 206 906	0	0	749	1 466 103	3 397 014	20 960 363
0	0	0	0	1 639 652	1 676 247	3 315 899
0	0	0	0	0	0	295 859
0	0	0	0	0	2 175	2 175
8 206 906	2 926 902	19 537	749	3 105 755	5 075 437	104 243 722
13 660	0	0	0	0	0	13 660
0	0	0	0	0	1 809	5 755 683
246 842	0	250 223	0	93 265	63 318	8 464 933
0	0	0	0	0	11	11
0	0	0	0	0	723 876	723 876
260 501	0	250 223	0	93 265	789 013	14 958 162
8 467 407	2 926 902	269 760	749	3 199 020	5 864 449	119 201 883

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TABLE 11: MATURITY OF EXPOSURES (CRB-E)

	a	b
	Net exposure value	
<i>(in 'EUR 1000')</i>	On demand	<= 1 year
1 Central governments or central banks	4 227 720	209 212
2 Institutions	50 621	51 926 392
3 Corporates	44 684	14 284 808
4 Retail	0	2 872 056
6 Covered bonds	0	10 000
7 Total IRB approach	4 323 025	69 302 468
13 Institutions	0	1 495 430
14 Corporates	2 652	6 421 695
23 Other exposures	0	15 261
24 Total standardised approach	2 652	7 932 386
25 Total	4 325 677	77 234 854

Off balance sheet and derivatives exposure are excluded of this table.

c	d	e	f
> 1 year <= 5 years	> 5 years	No stated maturity	Total
1 998 437	847 052	679 616	7 962 037
2 758 221	905 313	274 898	55 915 444
3 904 359	273 886	81	18 507 818
0	0	0	2 872 056
285 859	0	0	295 859
8 946 876	2 026 251	954 594	85 553 215
872 734	0	21	2 368 185
737 222	0	0	7 161 569
0	0	0	15 261
1 609 956	0	21	9 545 015
10 556 832	2 026 251	954 615	95 098 229

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TABLE 12: CREDIT QUALITY OF EXPOSURE BY EXPOSURE CLASS AND INSTRUMENT (CRI-A)

		a	b	c
		Gross carrying values of		
(in 'EUR 1000')		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment
1	Central governments or central banks	0	7 962 055	18
2	Institutions	0	71 707 614	227
3	Corporates	242 321	20 736 888	18 846
4	<i>Of which: Specialised lending</i>	53 305	1 177 409	13 379
5	<i>Of which: SMEs</i>	231 089	5 075 166	3 098
6	Retail	63 144	3 254 568	1 814
7	<i>Secured by real estate property</i>	58 604	895 532	1 693
9	<i>Non-SMEs</i>	17 377	936 758	1 693
11	<i>Other retail</i>	22 794	2 340 783	121
12	<i>Non-SMEs</i>	22 794	2 340 783	121
13	<i>Equity</i>	0	2 175	0
14	<i>Covered bonds</i>	0	295 859	0
15	Total IRB approach	305 466	103 959 160	20 904
16	Central governments or central banks	0	13 660	0
17	Institutions	0	5 755 683	0
18	Corporates	11	8 464 928	6
19	<i>Of which: SMEs</i>	0	114 538	3
20	Other exposures	0	723 876	0
21	Total standardised approach	11	14 958 157	6
22	Total	305 476	118 917 317	20 910
23	<i>Of which: Loans</i>	305 476	97 244 119	20 910
24	<i>Of which: Debt securities</i>	0	10 169 913	0
25	<i>Of which: Off-balance-sheet exposures</i>	0	11 503 284	0

d	e	f	g
General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
0	0	(18)	7 962 037
0	0	(227)	71 707 387
0	0	17 095	20 960 363
0	0	(13 379)	1 217 336
0	0	32 842	5 303 158
0	0	(1 801)	3 315 899
0	0	(1 693)	952 443
0	0	(1 693)	952 443
0	0	(108)	2 363 456
0	0	(108)	2 363 456
0	0	0	2 175
0	0	0	295 859
0	0	15 050	104 243 722
0	0	0	13 660
0	0	0	5 755 683
0	0	(6)	8 464 933
0	0	(3)	114 535
0	0	0	723 876
0	0	(6)	14 958 162
0	0	15 044	119 201 883
0	0	15 044	97 528 686
0	0	0	10 169 913
0	0	0	11 503 284

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TABLE 13: CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES (CRI-B)

		a	b	c
		Gross carrying values of		
<i>(in 'EUR 1000')</i>		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment
2	Mining and quarrying	0	439 483	918
3	Manufacturing	0	700 569	296
4	Electricity, gas, steam and air conditioning supply	0	22 277	4
5	Water supply	0	109 820	75
6	Construction	0	649 636	59
7	Wholesale and retail trade	0	2 773 832	239
8	Transport and storage	0	470 118	173
9	Accommodation and food service activities	0	267 021	386
10	Information and communication	0	314 880	37
11	Real estate activities	706	218 534	61
12	Professional, scientific and technical activities	53 305	180 440	12 412
13	Administrative and support service activities	0	8 467 445	38
14	Public administration and defence, compulsory social security	0	2 926 915	13
16	Human health services and social work activities	0	269 765	5
17	Arts, entertainment and recreation	0	840	91
18	Other services	252 161	101 105 789	6 140
19	Total	305 467	118 917 365	20 948

d	e	f	g
General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
0	0	0	438 566
0	0	0	700 273
0	0	0	22 273
0	0	0	109 745
0	0	0	649 577
0	0	0	2 773 593
0	0	0	469 944
0	0	0	266 636
0	0	0	314 842
0	0	0	218 474
0	0	0	221 333
0	0	0	8 467 407
0	0	0	2 926 902
0	0	0	269 760
0	0	0	749
0	0	0	101 351 810
0	0	0	119 201 883

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TABLE 14: CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY (CRI-C)

	a	b	c
	Gross carrying values of		
(in 'EUR 1000')	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment
Western europe	249 032	109 401 774	7 174
France	26 593	82 025 666	360
Luxembourg	30 308	15 974 070	3 108
Spain	0	823 724	875
Other countries	192 130	10 578 314	2 832
Africa & Midle East	3 135	1 355 872	46
Eastern Europe excluding EU members	53 309	701 529	13 188
Latin America & Caribbean areas	0	825 440	39
North America & Asia Pacific	0	6 632 701	463
Total	305 477	118 917 316	20 910

TABLE 15: AGEING OF PAST-DUE EXPOSURES (CRI-D)

	a	b	c
	Gross carrying values		
(in 'EUR 1000')	≤ 30 days	> 30 days ≤ 90 days	> 90 days
1 Loans	287 252	84 116	200 059
2 Debt securities	0	0	0
3 Total exposures	287 252	84 116	200 059

TABLE 16 ON NON-PERFORMING AND FORBORNE EXPOSURES (CRI-E)

	a	b	c	d	e	f	g
	Gross carrying values of performing and non-performing exposures						
(in 'EUR 1000')		Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			
				Of which defaulted	Of which impaired	Of which forborne	
010 Debt securities	8 976 260	0	8 976 260	0	0	0	0
020 Loans and advances	86 136 479	109 482	85 831 002	305 477	305 477	305 477	7 650
030 Off-balance-sheet exposures	10 153 131	0	10 153 131	0	0	0	0

d	e	f	g
General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a+ b -c-d) ²²
0	0	25 984	109 643 632
0	0	1 364	82 051 899
0	0	26 344	16 001 271
0	0	(846)	822 850
0	0	(877)	10 767 612
0	0	108	1 358 962
0	0	(10 561)	741 651
0	0	(24)	825 401
0	0	(463)	6 632 238
0	0	15 044	119 201 883

h	i	j	k	l	m
Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
On performing exposures		On non-performing exposures		On non- performing exposures	Of which forborne exposures
	Of which forborne		Of which forborne		
(13)	0	0	0	0	0
(36 809)	0	(25 620)	0	215 448	11 718
1 105	0	0	0	0	0

4.10 CREDIT RISK DETAIL

TABLE 17: CRM TECHNIQUES (CR2-A)

<i>(in 'EUR 1000')</i>	Accumulated specific credit risk adjustment with IFRS9 impact
Opening balance	60 527
Increases due to amounts set aside for estimated loan losses during the period	27 759
Decreases due to amounts reversed for estimated loan losses during the period	30 031
Decreases due to amounts taken against accumulated credit risk adjustments	21 410
Transfers between credit risk adjustments	1 230
Other adjustments	-102
Closing balance	35 718

TABLE 18: CRM TECHNIQUES (CR2-B)

<i>(in 'EUR 1000')</i>	Gross carrying value defaulted exposures
Opening balance	130 403
Loans and debt securities that have defaulted or impaired since the last reporting period	185 243
Returned to non-defaulted status	0
Amounts written off	-30 031
Other changes	19 862
Closing balance	305 477

TABLE 19: CRM TECHNIQUES (CR3)

<i>(in 'EUR 1000')</i>	a	b	c	d
	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1 Total loans	66 695 922	14 276 653	13 933 181	343 472
2 Total debt securities	8 976 247	0	0	0
3 Total exposures	75 672 168	14 276 653	13 933 181	343 472
4 Of which defaulted	211 558	93 919	93 919	0

For the definitions of “Total loans” and “Total debt securities”, see table CR1-D.

TABLE 20: CREDIT RISK EXPOSURE AND CRM EFFECTS (STANDARDIZED APPROACH) (CR4)

(in 'EUR 1000')		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	13 659 576	0	13 659 576	0	0	0%
2	Institutions	1 819 042	3 936 641	1 819 042	237 207	51 140	1%
3	Corporates	7 222 982	1 240 329	7 222 982	620 625	438 749	3%
4	Exposures on default	11	0	11	0	16	75%
5	Other items	451 459	224 070	451 459	112 035	563 494	45%
6	Total	9 507 153	5 401 039	9 507 153	969 867	1 053 399	4%

TABLE 21: EXPOSURES UNDER STANDARDIZED APPROACH (CR5)

(in 'EUR 1000')		Risk weight						Total
		0%	20%	50%	100%	150%	Others	
1	Central governments or central banks	13 660	0	0	0	0	0	13 660
2	Institutions	1 814 935	237 207	817	3 291	0	0	2 056 249
3	Corporates	6 988 253	526 277	20	321 826	8 852	0	7 845 229
4	Exposures in default	0	0	0	0	11	0	11
5	Other items	0	0	0	563 494	0	48 347	611 841
6	Total	8 816 847	763 484	837	888 611	8 863	48 347	10 526 989

SGBT does not rely on external ratings for the computation of RWAs therefore it did not disclose the "of which unrated" within this table as this information is not relevant. The exposures in table 19 include Counterparty Credit Risk exposures treated under the standardised approach.

TABLE 22: CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE FOR IRB MODELS (CR6)

(in 'EUR 1000')	PD scale	a	b	c	d
		Original on- balance-sheet gross exposures	Off- balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF
Central governments or central banks	0.00 to <0.15	7 910 512	0	1.00	7 910 512
	0.25 to <0.50	19 542	0	1.00	19 542
	0.50 to <0.75	32 001	0	1.00	32 001
	Subtotal	7 962 055	0	1.00	7 962 055
Institutions	0.00 to <0.15	55 801 721	2 107 028	0.98	57 912 909
	0.25 to <0.50	72 870	0	1.00	72 870
	0.50 to <0.75	337	0	1.00	337
	0.75 to <2.50	336 560	137 000	0.93	473 560
	10.00 to <100.00	31	0	1.00	31
Subtotal	56 211 518	2 244 028	0.98	58 459 706	
Corporates	0.00 to <0.15	11 524 800	1 375 209	0.95	12 900 009
	0.25 to <0.50	1 014 812	384 336	0.88	1 399 147
	0.50 to <0.75	1 278 403	138 440	0.97	1 416 843
	0.75 to <2.50	4 417 029	615 535	0.95	5 032 564
	10.00 to <100.00	443	92	0.91	536
	100.00 (Default)	290 580	6	1.00	290 586
Subtotal	18 526 068	2 513 618	0.95	21 039 686	
Retail	0.00 to <0.15	1 477 524	245 631	0.97	1 723 155
	0.25 to <0.50	57 324	5 493	1.00	62 816
	0.50 to <0.75	436 944	2 179	1.00	439 123
	0.75 to <2.50	828 103	20 764	1.00	848 867
	100.00 (Default)	73 975	0	1.00	0
Subtotal	2 873 870	274 067	0.98	3 147 936	
Total (all portfolios)		85 573 511	5 031 712	0.98	90 609 383

e	f	g	h	i	j	k
Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL
0	19	0	3.9178	0	0.00%	0%
0.0026	1	0.2000	6.0000	4 723	24.17%	0.051%
0.0050	1	0.2000	2.0000	9 450	29.53%	0.10%
0.0000265	21	0.0013	4.0000	14 172	0.18%	0.000%
0.0003	47	0.05	0.1109	1 511 752	2.61%	0.002%
0.0026	4	0.34	1.4000	20 450	28.06%	0.086%
0.0050	7	0.40	1.0000	170	50.58%	0.201%
0.0111	9	0.10	2.6000	34 712	9.35%	0.108%
0.2725	2	0.35	1.0000	58	187.02%	9.536%
0.0004	69	0.0506	0.1132	1 567 143	2.68%	0.002%
0.0008	66	0.09	0.5751	278 833	2.16%	0.007%
0.0026	22	0.31	2.7548	441 961	31.59%	0.081%
0.0050	22	0.22	1.3854	600 166	42.36%	0.110%
0.0168	120	0.28	3.1148	3 027 548	60.16%	0.463%
0.1435	8	0.35	2.5556	731	136.42%	5.021%
1.0000	1	0.30	0.1400	918 485	316.08%	29.825%
0.0186	231	0.1601	0.9917	5 267 724	25.04%	0.298%
0.0016	0	0.09	0	0	0	0.015%
0.0026	0	0.31	0	15 768	25.10%	0.082%
0.0050	0	0.17	0	77 278	17.60%	0.084%
0.0116	0	0.17	0	250 906	29.56%	0.200%
1.0000	0	0.40	0	328 577	444.17%	40.125%
0.0269	0	0.1315	0	687 385	21.84%	0.354%
0.0049	321	0.0717	0	7 536 424	8.32%	0.035%

4. CREDIT RISKS

TABLE 23 ON CCR EXPOSURES BY PORTFOLIO AND PD SCALE FOR IRB MODELS – VALUES ARE IN ‘EUR 1000’ (CC)

Exposure class	a		b
	PD scale	EAD post CRM	Average PD
Institutions	0.00 to <0.15	13 546 410	0.0004
	0.25 to <0.50	1 517 287	0.0026
	Subtotal	13 547 927	0.0004
Corporates	0.00 to <0.15	222 847	0.0009
	0.25 to <0.50	549	0.0026
	0.75 to <2.50	102 413	0.0288
	Subtotal	325 810	0.0097
Retail	0.00 to <0.15	167 763	0.0015
	Subtotal	167 763	0.0015
Total (all portfolios)		14 041 500	0.0006

TABLE 24 ON RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE IRB APPROACH – VALUES ARE IN ‘EUR 1000’ (EU-CR8)

	a	b
	RWA amounts	Capital requirements
1 RWAs as at the end of the previous reporting period	7 221 066	589 475
2 Asset size	224 846	18 355
3 Asset quality		
4 Model updates	1 809	148
5 Methodology and policy		
6 Acquisitions and disposals		
7 Foreign exchange movements		
8 Other		
9 RWAs as at the end of the reporting period	7 447 722	607 977

(24)

c	d	e	f	g
Number of obligors	Average LGD	Average maturity	RWAs	RWA density
13	0.0524	0.193	52 464	0.39%
1	0.0000	1.769	270 449	17.82%
14	0.0524	0.194	52 734	0.39%
54	0.2305	0.989	19 922	8.94%
1	0.3500	1.000	160	29.06%
8	0.2669	1.117	103 004	100.58%
63	0.2422	0.995	123 086	37.78%
	0.0762		4 577	2.73%
	0.0762		4 577	2.73%
77	0.05707	0.316	180 397	1.28%

4.11 COUNTERPARTY RISK DETAIL

TABLE 25: EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

	a	b	c	d	e	f	g
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1 Mark to market		8 658 290	5 384 433			14 042 723	183 888
2 Original exposure							
3 Standardised approach							
4 IMM (for derivatives and SFTs)							
5 <i>Of which securities financing transactions</i>						436 127	20 635
6 <i>Of which derivatives and long settlement transactions</i>						13 606 596	163 253
7 <i>Of which from contractual cross-product netting</i>							
8 Financial collateral simple method (for SFTs)							
9 Financial collateral comprehensive method (for SFTs)							
10 VaR for SFTs							
11 Total							183 888

TABLE 26: CVA CAPITAL CHARGE (CCR2)

	a	b
(in EUR 1000)	Exposure value	RWAs
4 All portfolios subject to the standardised method	290 450	270 704
5 Total subject to the CVA capital charge	290 450	270 704

TABLE 27: EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

	a	b	c	d	e
	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	8 658 290	542 309	8 115 981	7 920 356	195 625
2 SFTs	1 780 003	62 047	1 589 281	1 589 281	0
3 Cross-product netting	-	-	-	-	-
4 Total	10 438 293	604 355	9 705 262	9 509 638	195 625

TABLE 28 ON COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR – VALUES ARE IN ‘EUR 1000’ (CCR5-B)

	a		b		c		d		e		f	
	Collateral used in derivative transactions				Collateral used in SFTs							
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral					
(in EUR 1000)	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated				
Cash	-	8 420	-	301 233	-	-	-	-	-	-	-	-
Sovereign debt	7467	-	15 324	-	-	-	-	-	-	-	-	-
Total	7 467	8 420	15 324	301 233	-	-	-	-	-	-	-	-

The value of collateral posted is significantly larger than the value of collateral received because, as of 31/12/2018, SGBT Group had posted slightly over EUR 250 million of collateral to SG Group.

This collateral is linked to the market value of the derivatives used by SGBT Group to transfer risk to SG Group.

5. SECURITIZATION

5.1 SECURITIZATIONS

This chapter presents information on SGBT Group's securitization activities. SGBT Group does not carry out any securitizations as an originator or a sponsor, however SGCMF (a subsidiary of SGBT) has provided a first loss guarantee which if triggered could result in a maximum loss of EUR 139 800 KEUR (at 31 December 2018)

In accordance with Regulation (EU) 575/2013, this investment falls under Securitization framework (Part 3, Title II, Chapter 5 of the Regulation). It should be noted that there is no

expectation that SGBT or any of its subsidiaries 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 guarantee is written against a pool of assets mostly corresponding to wholesale leases and receivables and risk-weighted at 1250%. This generates total risk-weighted assets of 1 747 477 KEUR.

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 IFRS9 upon conclusion of the commitment

5.3 MONITORING OF SECURITIZATION RISKS

Securitization risks are monitored through a quarterly portfolio review according to the rules established by SG Group based on the pool of underlying assets.

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 ORGANISATION

Although primary responsibility for managing risk exposure lies with the front office managers, the supervision system is based on independent structures.

In accordance with SG Group's directives, SGBT Group applies the risk control obligations to market transactions in an organisation based on each entity's Risk Department which ensures risk monitoring, independently from the business lines, and, in the case of SGBT, on the Finance Department which produces, analyses and reports the indicators required for this monitoring. Concerning the measurement models applied to the risk management for market transactions, SGBT entities rely on the expertise maintained centrally in SG market risk department. Accordingly, concerning audits of models and tools, the SG Risk Department may be requested to provide an opinion. The approval of market risks is subject to a framework and limits proposed by the SGBT entity Risk department and approved by the Authorised Management and the Board of Directors.

The control mainly covers:

- Daily calculation of market risks based on formal and secure procedures,
- Daily monitoring of the limits,
- Preparation of a daily report on the use of the limits submitted to the Management of the business lines, the front office and the risk department of SGBT Luxembourg.

A daily report on how the limits were used is sent to the senior management of each of the relevant entities, to the front office and market risk department of the SG Group. Consolidation is performed within the risk division of SGBT Luxembourg.

Regarding SGBT, Risk metrics are produced and analyzed by the Finance Division of SGBT (MACC). The Risk Division of SGBT uses these results in order to track and judge SGBT's market risks (second level of control). The Chief Risk Officer of SGBT has a functional authority on MACC's responsible.

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 Finance Division (MACC) comparing them to prices produced by internal models. Each internal model is independently validated by the Market Risk Department of SG Group, including the validity of the market data sources used.

6.3 METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS

The SGBT Group policy is to strictly limit market risk taking, in particular through the implementation of very low limits with regard to the SGBT 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 SGBT Luxembourg). For others (SGBT Luxembourg and SGPB Switzerland), very low limits are set up and are strictly monitored (see below).

SGBT 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.

The 99% Value-at-Risk (VaR) method: in accordance with the regulatory internal model, this composite indicator is used for the day-to-day monitoring of the market risks incurred by the SGBT Group in its trading activities. The method used is the "historic simulation" method, which takes into account the shocks and correlations between all markets through 1-day horizon scenarios calculated for the current year.

A series of multifactor stress tests, both historical (three scenarios observed during Q4 2008 during the high-fluctuation

post-Lehman Brothers period) and hypothetical (15 scenarios created with the bank's economists, inspired by historical scenarios (terrorist attack in the US/eurozone crisis/dollar crisis) in order to take into account exceptional market disruptions that occur once a decade. These indicators estimate the loss resulting from a severe change in market parameters over a duration that corresponds to the time needed to unwind or hedge the relevant positions. The Stress Test limit relates to the worst 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 metrics are supplemented by tracking "sensitivity" (10bp fluctuation in rates) and "nominal" indicators (foreign exchange and precious metal positions) that make it possible to manage the size of the positions. Additionally, structured product campaigns are bounded by a Stressed VaR limit, i.e. a Value at Risk calculated over an unfavourable historical period.

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. There are mainly two types of activities generating market risk exposure for SGBT Group and classified in the trading book:

- Residual FX positions, 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 SGBT.
- Underwriting of structured products expecting to be sold to clients. These products are kept (by SGBT Luxembourg only) during the commercialization phase (2 – 3 months in average). According to the desk's hedging strategies, in case of unsold residual position, the correspondent risk should be mitigated within five days, whatever the potential loss. A specific portfolio has been set up in order to receive the hedging instruments in case of need.

On the other side, in order to avoid unsold residual positions, limits are set up in accordance with the client appetite for the product

6.5 MARKET RISK CAPITAL REQUIREMENTS

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

TABLE 29 ON MARKET RISK UNDER THE STANDARDIZED APPROACH (MR1) (AT 31 DECEMBER 2018)

		a	b
		RWAs	Capital requirements
<i>(in EUR 1000)</i>			
1	Interest rate risk (general and specific)	359	29
2	Equity risk (general and specific)	0	0
3	Foreign exchange risk ³	0	0
4	Commodity risk	222	18
9	Total	581	46

³ SGBT 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 GOVERNANCE⁴

SGBT strives to strictly limit its operational risks and participates in the approach of strengthening the management and oversight of operational risks that the Societe Generale 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 Societe Generale Group, and is relayed by the various operational risk tracking teams that are tasked with applying the Group's policies and guidelines and with controlling and overseeing operational risks.

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 SGBT's Risk Division works in close cooperation with operational risk staff in the core businesses and Corporate Divisions.

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

- organizing the Operational Risk function (policy and standard);
- managing schemes for first-level permanent control of SGBT and organizing 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;
- contribution on new product committee (NPC) and outsourced externalized supervision (OES) . Process, which are under corporate secretary supervision.

The Control Department

Performing second level of permanent control following an annual plan based on a risk approach.

Their objectives are the verification of the definition and the effective performance of Level 1 permanent controls and the quantitative and qualitative review of their results and the review of the performance quality of controls and the correction of anomalies.

The department is now on corporate secretary supervision as NPC and OES.

The Business Continuity function (preparing the overall Group business continuity and crisis management policy, managing the policy and coordinating its implementation) and **the department in charge of Information System Security** (access management, prevention of information leaks, anonymization rules, conducting intrusion tests, monitoring the bank's websites, prevention and awareness-building, particularly with respect to cybercrime) are both conduct their activities under SGBT Risk Division.

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 under generally 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 its 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 CNP process for approving the operational risk of new activities or new products and a process for validating the subcontracting and outsourcing of activities and services under the responsibility of a dedicated team attached to the Corporate Secretary.

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

7.2 OPERATIONAL RISK MEASUREMENT

SGBT uses the internal models developed by SG Group. Since 2007, SGBT 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 SGBT Group's total net banking income.

TABLE 30: OVERVIEW OF OPERATION RISK RWA (AT 31 DECEMBER 2018)

(in EUR 1000)

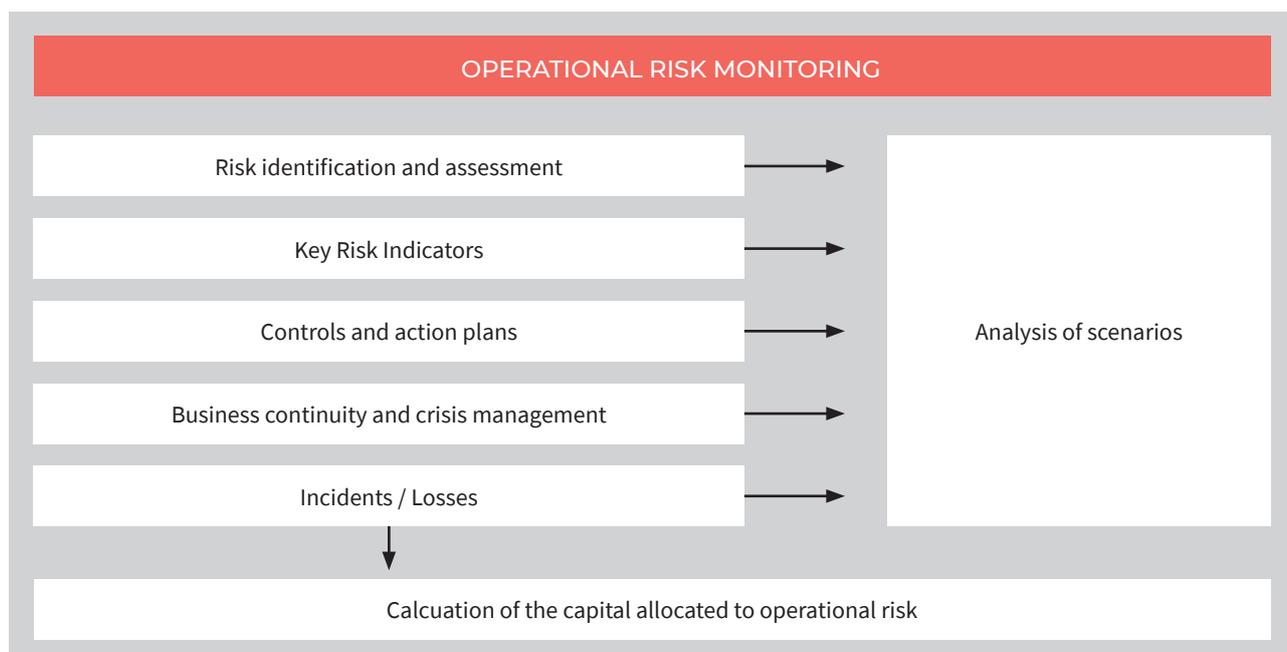
	RWA
Operational risk	1 821 493
Of which basic indicator approach	83 698
Of which standardised approach	-
Of which advanced measurement approach	1 737 795

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 periodic 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, running 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 naming 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.

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 SGBT 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, anonymisation rules, 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).

Furthermore, 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

SGBT use the same methodology that 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.

At SGBT Group level, the amount allocated amounts in AMA to 139 KEUR (against 154 MEUR in 2017).

The 15 MEUR decrease can be explained by the Global Markets Investor Services (Fund administrator services in particular) and the private banking business lines. SGBT group budget contribution to the Private banking business NBI decreased in 2018 as well as the level of losses recorded during the 5 last year.

The amount allocated on standard method is limited at 6, 6 MEUR and concerned SGCMF and SGFD (banking subsidiaries of SGBT)

VENTILATION ON AMA MODEL FOR SGBT (GROUP LEVEL) (AT 31 DECEMBER 2018)

Business Line	Capital Allocation (KEUR)	
	Q4 2017	Q4 2018
Private banking	72 136	58 238
Corporate Center	15 342	10 386
Financing Solution	10 404	9 396
Global Markets Investor Services	56 438	60 167
Retail Banking	91	837
Total	154 411	139 024

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 exposure to interest rate and exchange rate risks results from commercial transactions and their associated hedging transactions, as well as from corporate centre transactions.

The interest rate and exchange rate risks linked to trading activities are excluded from the structural risk measurement scope, as they belong to the category of market risks. Structural and market exposures constitute the SGBT Group's total interest rate and exchange rate exposure.

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 the SGBT Group's Finance Division supplements the control framework.

The SG Group Finance Committee, a General Management body

The SG Group Finance Committee:

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

The ALM Department within the Finance Division

The ALM Department is responsible for:

- defining the structural risk policies for SG Group and formalising risk appetite for structural risks;
- defining the 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 the 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, validated together 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) the 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 backtests 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 SGBT Group, 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

Structural interest rate risk mainly arises from the residual gaps (surplus or deficit of cash flows by rate change and timing) in each entity's forecasted positions. 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 relating to certain balance sheet items (shareholders' equity and equity holdings in consolidated entities).

The framework used to identify, monitor, measure and control structural interest rate risk has evolved to collectively use the interest rate gap, NPV sensitivity, and NIM sensitivity. The IRRBB steering framework is defined at the Group level and then transposed to each entity. The risks are therefore monitored at each entity level within dedicated thresholds and limits.

Objective of the Framework

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

To this end, each entity and the SG Group as a whole are subject to sensitivity limits validated each year by the Finance Committee, business unit and local management. The NPV sensitivity is defined as the change in the present value of assets minus liabilities resulting from interest rate movements. The NPV sensitivity is computed based on a parallel shift of the whole yield curve of +/-10bp, a short-term rates up shock, and a short-term rates down shock. Limits apply to all four shocks used to compute the NPV sensitivity. These internal limits complement the regulatory limit on the Economic Value of Equity sensitivity on a parallel shift of the whole yield curve of +/-200bp.

TABLE 31 ON THE MAIN NPV SENSITIVITY LIMIT-VALUES ARE IN 'EUR MILLION'

<i>(in MEUR as of 31/12/2018)</i>	+10bp	-10bp
Early warning indicator for the scenario	8,2	8,2
Limit for the scenario	10,25	10,25
Impact of the scenario	-0,88	+0,77

Measurement and monitoring of structural interest rate risk

SGBT Group uses the interest rate gap, NPV sensitivity, and NIM sensitivity to measure the its overall interest rate risk. The two most important indicators are:

- interest rate gap analysis (the difference between outstanding fixed-rate assets and liabilities by maturity): the schedule of fixed rate positions is the main indicator for assessing the characteristics of the necessary hedging operations. It is calculated on a static basis;
- net present value sensitivity: an additional summary indicator used to set limits for the entities. It is calculated as the sensitivity of the net present value of the balance sheet to variations in interest rates. This measurement is calculated for all currencies to which the SGBT Group is exposed;
- net interest margin sensitivity: an additional summary indicator used to assess the profit and loss impact of interest rate movements. It is calculated as the sensitivity of the net interest rate revenue, i.e. the differences between interest rate income and expenses.

Assets and liabilities are analysed separately, without any a priori matching. The maturities of outstanding assets and liabilities are determined on the basis of the contractual terms of transactions, conventional assumptions and models based on customers' historic behaviour patterns (particularly for sight deposits, regulated savings accounts, early loan repayments, and shareholders' equity).

TABLE 32 ON NET INTEREST MARGIN IMPACT OF PARALLEL SHOCKS IN THE YIELD CURVE (BY MAIN CURRENCY) (AT 31 DECEMBER 2018)

<i>(in MEUR)</i>	Base scenario	-2%	-1%	+1%	+2%	Steepening	Flattening
Net interest margin (NIM)	116	88	102	191	259	77	279
Change in NIM	n.a.	-28	-14	75	143	-39	163

8.3 STRUCTURAL EXCHANGE RATE RISK

Structural exchange rate risk is mainly caused by:

- foreign currency denominated capital contributions and equity investments financed through the purchase of foreign currencies;
- retained earnings in foreign subsidiaries;
- Investments made by certain foreign subsidiaries in a currency other than that used for their equity funding, for regulatory reasons.

Objective of the Framework

SGBT Group's policy consists in calibrating the hedging of its net investments in foreign entities in such a way as to reduce the sensitivity of its Common Equity Tier 1 ratio to fluctuations in exchange rates as far as possible. To this end, it enters into hedging transactions to maintain a currency exposure reducing such sensitivity to within limits validated by the Finance Committee.

Measurement and monitoring of structural foreign exchange rate risks

SGBT Group quantifies its exposure to structural foreign exchange rate risks by analyzing all assets and liabilities denominated in foreign currencies arising from commercial transactions and the corporate centre, and manage it within very tight limits (7.5 MEUR of Asset and Liability mismatch for the main currencies).

The foreign exchange position is therefore hedged on a daily basis with marginal overnight open positions and no structural FX position remaining at SGBT Group level.

9. LIQUIDITY RISK

Liquidity risk corresponds to the risk of not being able to meet cash flow or collateral requirements when they fall due and at a reasonable price.

9.1 GOVERNANCE AND ORGANIZATION

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

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

Additional liquidity indicators are monitored during the monthly ALM Committee of the bank, which gathers local management (CEO, CRO, CFO) and SG Group the representatives.

9.2 THE APPROACH TO LIQUIDITY RISK MANAGEMENT

SGBT 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 adhering to 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 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 and the ability of the Group to sustainably raise financial resources on the markets, in accordance with its risk appetite.

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

1. The businesses must maintain low to nil static liquidity gaps within the operating limits of their activities, by using the Group's Central 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 systemic, specific or combined scenarios, are controlled at Group level. They are used to ensure compliance with the survival horizon established by the Board of Directors and to calibrate liquidity reserves. They are accompanied by a Contingency Funding Plan that sets out measures to be taken in the event of a liquidity crisis.
3. The businesses' funding needs (short-term and long-term) are determined on the basis of the development objectives for the franchises and in line with the 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. It takes into account the Group's investment capabilities and aims to optimise the cost of fund-raising while complying with limits in terms of market concentration. Diversification in terms of issuers and investor pools is also sought and managed.
5. The Group's short-term resources are adapted to the financing of the businesses' short-term needs over periods appropriate to their management and in line with market concentration limits. 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 Group's LCR target (Liquidity Coverage Ratio, see Regulatory Ratios section).

9. LIQUIDITY RISK

6. The Group's liquidity steering takes into account compliance with the target regulatory ratios (LCR, NSFR, leverage), the pillars'/businesses' contributions to these ratios being subject to supervision.

Finally, liquidity is governed in terms of cost via the 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 the 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 and USD).

9.3 REFINANCING STRATEGY

To manage its liquidity position and refinancing needs, SGBT 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.

The commercial loan to commercial deposit ratio is a key indicator managed by the ALM/treasury department of the bank, ensuring that, despite its access to SG Group liquidity, SGBT Group does not hold a loan portfolio not in line with its natural funding.

In case of exceptional financing needs, SGBT Group could rely on the SG Group treasury.

9.4 DISCLOSURE ON 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.

Total SGBT Group encumbrance amounts to less than 10% in 2018, measured according to EBA definition. Encumbrance at SGBT Group level mainly arises from regular liquidity buffer monetization (through repo operations), TLTRO collateralization and SGCMF 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 SGBT Group level are either temporary (TLTRO funding), 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 SGBT Group level for asset encumbrance at larger scale than it is being used today.

TABLE 33: ASSET ENCUMBRANCE

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA	
	010	030	040	050	060	080	090	100
<i>(in 1000 EUR)</i>								
010 Assets of the reporting institution	10 892 155	10 892 155	0	0	89 818 873	1 445 058	0	0
030 Equity instruments	0	0	0	0	83 426	0	0	0
040 Debt securities	7 049 484	7 049 484	7 049 484	1 689 992	1 926 763	1 445 058	1 926 763	1 445 058
050 <i>of which: covered bonds</i>	285 872	285 872	285 872	285 872	0	0	0	0
060 <i>of which: asset-backed securities</i>	0	0	0	0	0	0	0	0
070 <i>of which: issued by general governments</i>	1 404 119	1 404 119	1 404 119	1 404 119	1 445 058	1 445 058	1 445 058	1 445 058
080 <i>of which: issued by financial corporations</i>	4 115 952	4 115 952	4 115 952	285 872	0	0	0	0
090 <i>of which: issued by non-financial corporations</i>	2 007 544	2 007 544	2 007 544	0	0	0	0	0
120 Other assets	3 842 672	3 842 672	0	0	87 808 683	0	0	0

TABLE 34: COLLATERAL RECEIVED

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
(in 1000 EUR)	010	030	040	060
130 Collateral received by the reporting institution	0	0	0	0
140 Loans on demand	0	0	0	0
150 Equity instruments	0	0	0	0
160 Debt securities	0	0	0	0
220 Loans and advances other than loans on demand	0	0	0	0
230 Other collateral received	0	0	0	0
240 Own debt securities issued other than own covered bonds or asset- backed securities	0	0	0	0
241 Own covered bonds and asset-backed securities issued and not yet pledged	0	0	0	0
250 TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	10 892 155	10 892 155		

TABLE 35: SOURCES OF ENCUMBRANCE

	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
	Matching liabilities, contingent liabilities or securities lent	
	010	030
(in 1000 EUR)		
010 Carrying amount of selected financial liabilities	7 365 935	7 365 935
020 Derivatives	316 451	316 451
030 of which: Over-The-Counter	316 451	316 451
040 Deposits	7 049 484	7 049 484
050 Repurchase agreements	1 689 992	1 689 992
070 Collateralised deposits other than repurchase agreements	5 359 492	5 359 492
090 Debt securities issued	0	0
120 Other sources of encumbrance	3 526 221	3 526 221
130 Nominal of loan commitments received	0	0
140 Nominal of financial guarantees received	0	0
150 Fair value of securities borrowed with non cash-collateral	0	0
160 Other	3 526 221	3 526 221

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.

The LCR definition was finalized, on the basis of technical standards issued by the EBA, through a Delegated Act of the European Commission on 10th October 2014. The LCR entered into force at European level on 1st October 2015. The corresponding minimum requirement was set at 70% for 2016, and will increase gradually until reaching 100% as from 1st January 2018.

For the NSFR, the European Commission presented a proposal in November 2016 for transposition of the Basel regulations, which will be discussed at a triologue meeting (Parliament, Commission, Council). The entry in force of the European NSFR will depend on the duration of the legislative process and is not expected to take place before 2019.

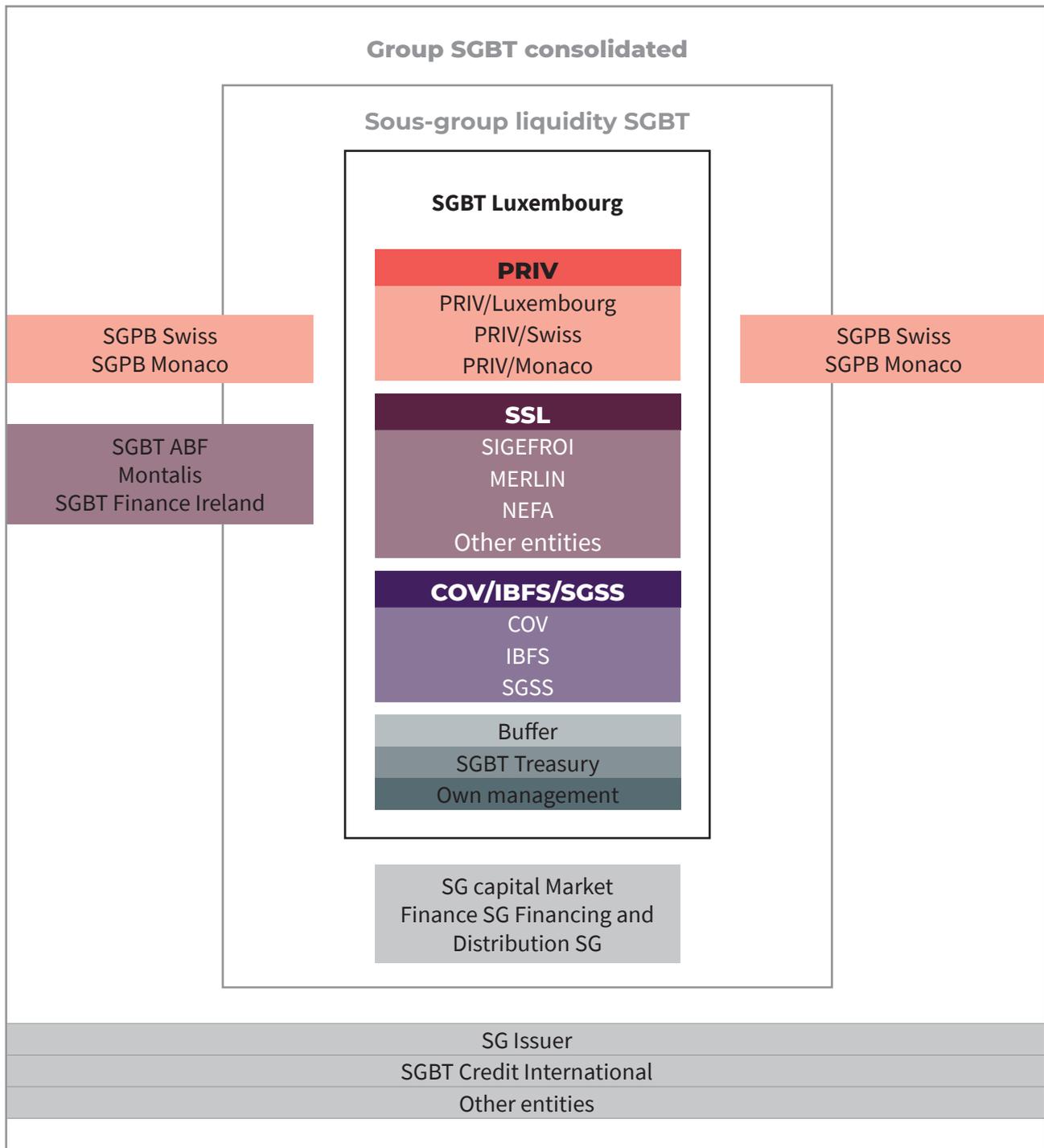
The LCR is followed at 2 levels by SGBT. First level is the liquidity sub-group gathering SGBT as the mother company, as well as SG CMF, SG FD and SG LDG, all of which are banking subsidiaries established in Luxembourg. Second level is the consolidated prudential perimeter of SGBT, adding mainly to the previous perimeter: SGIS, SGPB Switzerland and SGPB Monaco. Both LCR was monitored during the year 2017 at a level of 10% above the regulatory constraint of 80%. Starting 1st January 2018, the regulatory level will be raised to 100% and the SGBT steering level will then become 110%.

TABLE 36: LCR

<i>(Amounts in MEUR after weighting)</i>	SGBT Liquidity subgroup*	Delta Q-1	SGBT consolidated perimeter	Delta Q-1
Part of central bank reserves that can be drawn in times of stress	4 305	(552)	4 959	(547)
Securities with 0% risk weight issued by sovereigns	1 695	(6)	1 722	(6)
Total stock of HQLA	6 000	(558)	6 681	(553)
Toral Cash outflows	11 165	1 232	19 030	(594)
<i>Retail deposits</i>	175	13	595	(43)
<i>Non financial corporate deposits</i>	3 989	439	4 351	624
<i>Banks and other financil institutions</i>	6 396	668	10 169	(271)
<i>Off-balance sheet operations</i>	552	85	2 971	(502)
<i>Derivatives</i>	53	27	944	(402)
Toral Cash intflows	7 111	2 807	14 974	1 264
<i>Retail & Corporates</i>	120	(321)	660	(354)
<i>Banks and other financil institutions</i>	6 939	3 131	13 368	2 007
<i>Derivates</i>	52	(3)	946	(389)
Net cash outflows	4 054	(1 574)	4 055	(1 860)
LCR	148%	31%	140%	18%
RAS	100%		100%	
RAS	110%		110%	

*SGBT Lux / SG FD / SG CMF

TABLE 37: NSFR



Consolidated amounts

86.20%

RSF	ASF	Net
68.4	59	-9.4

PRIV

1.7	2.2	0.5
1.7	2.5	0.8
2.4	1.4	-1

SSL

1.7	1.8	0.5
0.6	-	-0.6
0.6	0.6	0.1
0.5	0.5	-

COV/IBFS/SGSS

0.3	3.5	3.3
6.4	-	-6.4
0	0.2	0.1

0.2	-	-0.2
5.1	6.6	1.5
0.4	2.9	2.4

4.3	1.1	-3.2
-	-	-
-	-	-

42	34.9	-7.1
0.6	0.8	0.2
-	-	-

Sub-Group amounts

86.20%

RSF	ASF	Net
26.5	21.8	-4.7

PRIV

1.7	2.2	0.5
1.2	1.3	0.2
2.2	0.1	-2.1

SSL

2.4	2.4	-
0.6	-	-0.6
0.7	0.6	-0.1
0.5	0.5	-

COV/IBFS/SGSS

0.3	3.5	3.3
6.4	-	-6.4
0	0.2	0.1

0.2	-	-0.2
5.2	6.6	1.4
1	3.3	2.3

4.3	1.1	-3.2
-	-	-
-	-	-

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 that these rules are observed, SGBT Group works to protect its customers and, in general, all of its counterparties and employees. Protecting the company's image is one of the SGBT 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 compliance with local laws and regulations, rules of good professional conduct, and internal rules into their daily work (compliant SG Group).

The Compliance function has two main duties: (i) advising and assisting the operational teams so that they may complete their tasks in compliance with their professional and regulatory obligations, and in keeping with 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 General Secretary of SGBT Group.

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

The General Secretary 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 SGBT 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 five sections:

- Governance, Risk Assessment and follow-up of Regulatory frameworks
- Financial crime,
- AML Monitoring and Embargo screening,
- Market integrity and Client protection,
- Supervision of SGSS's activities.

End of 2018, this department counted thirty compliance officers and will be extended with 5 new recruitments within 2019. The strengthening of the compliance department meets the increase of regulatory requirements and the growing complexity of regulation.

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 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;

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.

The bank has performed in 2018 the annual risk assessment initiated by SG Group, "COMPASS", on the following topics: Financial Crime, Client Protection, Market Integrity, Anti-Bribery & Corruption, Ethics and Behavior, Tax transparency and Data & Digital.

Composed of 18 questionnaires, this risk assessment allows to construct a detailed map of areas of risk and to draft specific synthesis based on both inherent risk and mitigant analysis. In addition, findings issued from this risk assessment conducts to action plans to reinforce framework related to the identified risks.

Implementation of compliance policies

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

Measures aimed at increasing the efficiency of the AML/CTF system and the vigilance of SGBT Group employees were continued in 2018.

In particular, we can mention:

- the strengthening of the transactions monitoring through the deployment of a new tool (including new scenarios, alignment with SG Group requirements...). This solution already implemented at PRIV level will be deployed progressively within the others entities (COV in 2019 and SGSS in 2020),
- External Certification (ACAMs) of compliance officers in charge of AML and Sanctions & Embargoes framework
- the take into account of the entry into force of the Fourth European Anti- Money Laundering Directive within the AML framework.
- The integration of the 2017 tax regulation in the on boarding process and reviews of client files

KNOW YOUR CUSTOMER (KYC)

As part of the Know your Customer framework, the Bank processes on customer knowledge obligations in terms of financial security were strengthened in 2018, through the AML risk scoring of the client portfolio and the periodical review.

EMBARGOES AND FINANCIAL SANCTIONS

In terms of embargoes, the international environment in 2018 remained very challenging, with a high level of complexity.

The year 2018 is characterised in particular by:

- the continued strengthening of the workforce dedicated to embargoes within the Compliance function;
- the project phase of the centralization of SWIFT/SEPA transactions within the Paris Group Platform;
- the strengthening of the alert processing.

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 Group Anti-Bribery and Corruption project (ABC) launched at the end of Q3 2017 is still on going. Based on eight streams, this project aims to cover the French law Sapin 2 main provisions. In 2018, the ABC framework has been improved with procedure updates (Code of Conduct, Whistleblowing) and the review/enhancement of certain processes (Know your Employee checklist, purchase procedures review, prototyping of a "Gift & Events" monitoring tool, specific trainings...). The strengthening of the mechanism will be completed with the deployment of new Group framework procedures (ABC, Gift & Events policy, KYS, ABC clauses...), the implementation of a local monitoring tool (Gifts, events and business meals) and controls in 2019.

EMPLOYEE ETHICS

Compliance with ethical policies is a key obligation under SG Group's rules of conduct. Procedures and their proper application are closely examined.

CONFLICTS OF INTEREST

The SGBT Group has a guideline on the prevention and management of conflicts of interest, which specifies the principles and mechanisms implemented.

It covers the two categories of potential conflicts of interest:

Firstly, those that could occur between the SGBT Group and its customers, or between the SGBT Group's customers; and secondly, those that could occur between the SGBT Group and its employees (in particular in relation to activities involving an employee's personal interest and/or professional obligations). It sets out the obligations for identifying potential conflicts of interest.

MARKET ABUSE

As part of the entry into force of the reform of the market abuse system as of 3rd July 2016 ("Market Abuse" regulation of 12th June 2014 and "MAD II/MAR" Directive), the Compliance Department has implemented a tool to monitor the Market abuse risk. The detection tool, approved by the CSSF and ECB, is operational since July 2018 for Luxembourg transactions.

SUPERVISING CUSTOMER PROTECTION

The supervision of customer protection is a field enjoying increasing attention from banking supervisors and regulators. Penalties are likely to increase even further. The SGBT Group has made significant progress in its customer protection approach (better knowledge of incidents, implementation of remediation plans, normative documentation, and management of regulatory projects) in the scope of MiFID 2 regulation coming into force in January 2018. Furthermore, as part of the stream "Knowledge and competences" (local project MiFID) exposed employees have been identified and included in a specific certification process.

CLAIMS AND MEDIATION

A claim is treated foremost as a commercial action which contributes to customer satisfaction.

The SGBT Group has implemented and harmonized processes and procedures to address customer claims. Quarterly Committees are organized to present the client claims received by the bank and action taken to close them.

OTHER REGULATORY MATTERS

In 2018, in cooperation with the business lines, the Compliance function continued development and compliance workshops covering numerous important regulations, in particular: MiFID2, the General Data Protection Regulation ("GDPR"), French law Sapin 2, the Luxemburg Tax Reform

NORMATIVE DOCUMENTATION AND INFORMATION SHARING

To complete its assignments, the SGBT Group Compliance function relies on normative documents (directives, guidelines and procedures) which are regularly updated.

THE PERMANENT CONTROL SYSTEM

The Compliance function is one of the three control functions of the SGBT 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), remediation program on the Internal Control framework of Société Générale Group, has reviewed SGBT's control framework in order to meet regulatory and Group requirements.

Compliance and the Code of Conduct

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

Numerous culture and conduct workshops have been conducted in 2018. The SGBT Group has a set of strict good conduct doctrines and rules. The SG Group's Code of Conduct, updated in April 2017, is covered by an internal instruction which has been enriched by a Code dedicated to Anti-Bribery and Corruption thematic. These instructions apply to all employees, regardless of their responsibility level, as well as to SGBT Group managers, and also specifies alert procedures when a special situation so requires.

The Compliance function's transformation programme

SG Group and SGBT Group have launched a programme covering the 2015-2020 transformation period of the Compliance function, aimed at (i) strengthening compliance risk control through heightened vigilance and awareness-raising applicable to all players, including the business divisions, their support staff and the Corporate Divisions, (ii) increasing the operational efficiency of all related processes, and (iii) meeting the requirements of supervisory and regulatory authorities in the long term.

This programme provides for updated governance and greater resources allocated to the Compliance function, whether in terms of recruitment, training, or modernisation of dedicated information systems.

10.2 RISKS AND LITIGATION

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

11. RISKS RELATING TO INSURANCE ACTIVITIES

SGBT owns 100% of Societe Generale Ré (SG Ré), whose business is the reinsurance of certain insurance risks of the SG Group. The company has 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.
- 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 is 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 updated annually.

SGBT is also the 100% owner of an insurance broker, SGLIB (Societe Generale Life Insurance Broker).

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

SGBT 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. APPENDIX

12.1 CAPITAL INSTRUMENTS

Capital instruments main features template	Tier one instrument	Tier Two instrument
1 Issuer	Societe Generale Bank & Trust	Societe Generale Bank & Trust
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	Not applicable
3 Governing law(s) of the instrument	French law	French law
<i>Regulatory treatment</i>		
4 Transitional CRR rules	CET1	Tier 2
5 Post-transitional CRR rules	CET1	Tier 2
6 Eligible at solo/(sub-)consolidate/dsolo & (sub-)consolidated	Consolidated	Consolidated
7 Instrument type (types to be specified by each jurisdiction)	Ordinary share	Subordinated Loan - CRR art.63
8 Amount recognised in regulatory capital (in EUR million)	1389	400
9 Nominal amount of instrument	EUR 126	EUR 400 M
9a Issue price	NA	100%
9b Redemption price	NA	100%
10 Accounting classification	Capital	Capital
11 Original date of issuance	NA	24/12/2014
12 Perpetual or dated	Perpetual	Dated
13 Original maturity date	No maturity	24/12/2024
14 Issuer call subject to prior supervisory approval	NA	Yes
15 Optional call date, contingent call dates and redemption amount	NA	24/12/2019
16 Subsequent call dates, if applicable	NA	NA
<i>Coupons / dividends</i>		
17 Fixed or floating dividend/coupon	Floating	Floating
18 Coupon rate and any related index	NA	Euribor 3 months + 3,098%
19 Existence of a dividend stopper	NA	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretion	Partially discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion	Partially discretionary
21 Existence of step up or other incentive to redeem	NA	No
22 Noncumulative or cumulative	NA	Non cumulative
23 Convertible or non-convertible	NA	Non convertible
24 If convertible, conversion trigger(s)	NA	NA
25 If convertible, fully or partially	NA	NA
26 If convertible, conversion rate	NA	NA
27 If convertible, mandatory or optional conversion	NA	NA

Capital instruments main features template		Tier one instrument	Tier Two instrument
28	If convertible, specify instrument type convertible into	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA
30	Write-down features	NA	NA
31	If write-down, write-down trigger(s)	NA	NA
32	If write-down, full or partial	NA	NA
33	If write-down, permanent or temporary	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to deeply subordinated notes	Subordinated to unsubordinated notes
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	NA	NA

12.2 PILLAR 3 CROSS REFERENCE TABLE

CRR Article	Theme	Pillar 3 report reference	Page in Pillar 3 Report
435	Risk management objectives and policies	Chapter 2 and 3.1	Page 5 / Page 10
436 (a) (b)	Scope of application	Chapter 3, appendix 12.1	Page 10 / Page 70
436 (c)(d)(e)	Consolidation perimeter	Scope	n.a.
437	Own funds	Chapter 3	Page 10
438	Capital requirements	Chapter 3	Page 10
439	Exposure to counterparty credit risk	Chapter 4, Chapter 3	Page 18 / Page 10
440	Capital buffers	Chapter 3	Page 10
441	Indicators of global systemic importance	Not applicable as SGBT is not an G-SII	n.a.
442	Credit Risk adjustments	Chapter 4	Page 18
443	Unencumbered assets	Chapter 9	Page 59
444	Use of ECAI	Not applicable as SGBT does not make use of ECAI	n.a.
445	Exposure to Market Risk	Chapter 6	Page 49
446	Operational Risk	Chapter 7	Page 52
447	Exposures in equities not included in the trading book	Chapter 3, Chapter 4	Page 10 / Page 18
448	Exposure to interest rate risk on positions not included in the trading book	Chapter 8	Page 56
449	Exposure to securitisation positions	Chapter 5	Page 48
450	Remuneration policy	This is covered in the Consolidated Financial Statements	n.a.
451	Leverage	Chapter 3	Page 10
452	Use of the IRB approach to credit risk	Chapter 4	Page 18
453	Use of credit risk mitigation techniques	Chapter 4	Page 18
454	Use of the Advanced Measurement Approaches to operational Risk	Chapter 7	Page 52
455	Use of Internal Market Risk Models	Not applicable	n.a.

12.3 INDEX OF THE TABLES NOT DISCLOSED IN THE RISK REPORT

Several templates from the EBA Guidelines 2016/11 were not disclosed as they either do not apply or are not material. A number of templates from the EBA Guidelines are not disclosed

Not disclosed templates	EBA template reference
No material differences exist in exposure amounts	EU CRA
Insurance undertakings are not subjected to the treatment of CRR article 49	INS1
Evolutions and previous year values were not disclosed as this is the first Pillar 3 published by SGBT Group.	CR2-A, CR2-B and CR8
SGBT does not use credit derivatives	CRB-B and CCR6
Credit risk back-testing is done centrally by SG Group	CR9
SGBT Group does not have RWAs for Counterparty Credit Risk towards CCPs	CCR8
Counterparty credit risk exposures under the Standardised approach are not material (RWA of EUR 7 million)	CCR3
SGBT does not use the Internal Model Method (Counterparty Credit Risk) nor the Internal Model Approach (Market Risk)	CCR7, MRA-2, MR2-B, MR3 and MR4

12.4 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
GSIB	Global Systemically Important Banks
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
SG	Societe generale Head Office
SG Group	Societe generale Head Office and all its subsidiaries
SGBT	Societe Generale Bank & Trust without its subsidiaries
SGBT Group	Societe Generale Bank & Trust with its subsidiaries
SVaR	Stressed Value-at-Risk
VaR	Value-at-Risk

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