SG FINANS AS

CAPITAL AND RISK REPORT 2019

SOCIETE GENERALE
Equipment Finance

CONTENTS

TABLES

1. INTRODUCTION

This report contains information about risk management, risk measurement and capital adequacy based on the requirements stated in the capital adequacy regulations ("*Kapitalforskriften*"), implementing parts of the Capital Requirements Regulation (CRR), part Eight. This report is published annually, with the exception of information about capital regulations and minimum requirements and the capital position, which are also reported on a quarterly basis to Finanstilsynet in the form of the common reporting. It is made available on the company's website and a printed copy will be delivered on request.

1.1. ABOUT SG FINANS

SG Finans AS is Norway's leading finance company within equipment leasing and factoring. The company's products are marketed under the trade marks Société Générale Equipment Finance and Société Générale Factoring. SG Finans AS is represented in Norway, Sweden and Denmark and is part of Société Générale Equipment Finance in the Société Générale Group. The purpose of the company is to cover the needs of Nordic trade and industry for high-capital equipment, liquidity and administrative services through flexible financial solutions.

1.2. HIGHLIGHTS OF 2019

A key milestone was reached early 2014, when the French and the Norwegian regulators confirmed their validation on the use of internal models for calculation of regulatory capital requirements for our main portfolios. The approved portfolios are, for equipment loan and leasing, Large Corporates and SMEs in Sweden and Norway, representing approximately 60 per cent of the total portfolio. The regulators validated models for rating of clients and assessment of financed assets, thus giving SG Finans the right to use internal models to assess risk, exposures, losses and capital requirements according to the advanced method. For SG Finans, this is a recognition of the robustness and maturity of our strategies, policies, organisation and procedures to assess and manage the risks we take.

SG Finans has during 2016 sent applications for permission to use the advanced IRB approach on the Danish portfolio consisting of leasing contracts and the Norwegian factoring portfolio (i.e. financing of receivables). In addition SG Finans has requested validation from the regulator for the use of revised PD models for the Norwegian and Swedish leasing portfolios in the calculation of capital requirements.

With the new law on financial companies entering into force in Norway from 1 January 2016, SG Finans has aligned its governance structure with the new legal requirements. This has led to changes to the company Articles of Association ("vedtekter"), with among others the removal of the Committee of Representatives and the Control Committee further to the Shareholders' meeting in March 2016. Pt. 3 below is updated in accordance with these changes.

2. GOVERNANCE AND INTERNAL CONTROL

This section of the report addresses SG Finans' internal governance model and the governing bodies.

2.1. INTERNAL GOVERNANCE, SUPERVISORY AND CONTROL FUNCTIONS

SG Finans monitors aggregated risks via dedicated committees and through reporting and supervision at Group level. Below is an illustration of governing bodies in SG Finans.

<table>
<tr><th colspan="4">SUPERVISORY FUNCTIONS</th></tr>
<tr><td colspan="4">SHAREHOLDERS' MEETING
BOARD OF DIRECTORS
COMMITTEES OF THE BOARD
- AUDIT COMMITTEE
- RISK COMMITTEE
- COMPENSATION COMMITTEE</td></tr>
<tr><th colspan="4">MANAGEMENT COMMITTEE</th></tr>
<tr><td>OPERATIONAL RISK</td><td>CREDIT RISK</td><td>FINANCIAL / STRUCTURAL RISK</td><td>HUMAN RESOURCES</td></tr>
<tr><td>- OPERATIONAL RISK AND COMPLIANCE COMMITTEE (ORCC)
- ANTI MONEY LAUNDERING COMMITTEE (AML)
- NEW PRODUCT COMMITTEE</td><td>- RISK MANAGEMENT COMMITTEE (RMC)
- CREDIT COMMITTEE (DSK)</td><td>- ASSET AND LIABILITY COMMITTEE (ALCO)</td><td>- REMUNERATION AND RECRUITMENT COMMITTEE (LAR)</td></tr>
<tr><th colspan="4">RISK CONTROL</th></tr>
<tr><th colspan="4">INTERNAL AUDIT</th></tr>
<tr><th colspan="4">EXTERNAL AUDIT</th></tr>
</table>

SG Finans' control and management model is intended to ensure independence in relation to decisions and reporting. Below we present briefly the main governing bodies in SG Finans.

Board of Directors

The Board of Directors has the ultimate responsibility for monitoring the risk exposure as well as for deciding the risk appetite for SG Finans. The Board of Directors also approves the company's strategy, business plans, budgets and monitors development of the company's activities. The role and functions of the Board of Directors are defined in the Financial Institutions Act and the Limited Liability Companies Act. The Board meets regularly and at least quarterly.

Committees of the Board

The Board has established three different sub-committees to support the Board with advice regarding all aspects of the company; Audit-, Risk- and the Compensation Committee.

The purpose of the Audit Committee is to be an advisory committee for the Board in all matters related to the oversight and monitoring of financial reporting, control activities performed by external (statutory) and internal audit functions, the relationship between the Board and the company's auditors, in particular internal audit, and in the assessment of internal control in the company.

The purpose of the Risk Committee is to be an advisory committee to the Board in all matters relating to the company's overall current and future risk appetite and strategy. It shall assist the Board in overseeing the implementation of such a strategy by senior management and it shall also review the appropriateness of pricing of products in relation to the company's business model and risk strategy.

The Compensation Committee is responsible for the preparation and implementation of a compensation policy in compliance with the CRDIV directive and the Norwegian statutory provisions on remuneration schemes in financial institutions.

Management Committee

The Management Committee is composed of the relevant managers of SG Finans AS, and monitors development of the company's operations against agreed strategy, business plan and targets.

Credit Committee (DSK)

DSK is the central credit committee. DSK, or staff in the central credit department, reviews and decides on credit cases above locally delegated credit authorisations, within credit authorisations delegated to the committee. DSK also decides on credit cases of principal nature. The members are the Managing Director, Credit Director and Deputy Director Credit.

Risk Management Committee (RMC)

RMC monitors development in the economy / market, the portfolio, main credit risks, including main clients, watch list, defaults, provisions and repossessed assets. The members are Managing Director, Deputy Managing Director / CFO, Risk Director, Head of Risk Management, Head of Internal Audit and business managers.

Asset & Liability Management Committee (ALCO)

ALCO is responsible for monitoring the entity's financial risks (interest rate, currency and liquidity risk), balance sheet management and stress-testing and monitoring of the capital situation of the company. Members are Managing Director, Deputy Managing Director / CFO, Risk Director, Head of Treasury, Head of Risk Management, Financial Risk Controller and business managers Equipment and Factoring.

Operational Risk and Compliance Committee (ORCC)

ORCC is responsible for the monitoring of the entity's operational risk situation, including compliance to Group operational risk management principles and methodology and monitor compliance to internal and external requirements. Members are Managing Director, Deputy Managing Director / CFO, Risk Director, Head of Compliance, Head of Internal Audit and Head of Risk Management.

Anti-Money Laundering Committee (AML):

AML committee is responsible for the monitoring of controls and procedures related to prevention and detection of anti-money laundering acts and/or transactions. Members include representatives from management, Head of Compliance, AMLO (Deputy Managing Directory), risk organisation and the business.

7 GOVERNANCE AND INTERNAL CONTROL

3. RISK MANAGEMENT AND CONTROL

Risk management is governed by principles and guidelines stated in policies, guidelines and instructions in effect throughout the organisation.

3.1. BASIS FOR RISK MANAGEMENT AND CONTROL

The key principle for the management of risks in SG Finans is the three lines of defence.

- **The first line of defence** is represented by the Business Area functions responsible for their own daily risk management, in accordance with the respective policies, and for operating their business within applicable limits and in accordance with the framework for internal control.
- **The second line of the defence** is independent control functions responsible for activities such as independently monitoring, controlling and reporting of issues related to key risks, including compliance with internal and external regulations. The second line of defence is also responsible for the coordination across units and setting the premises for risk management.
- Internal Audit, representing **the third line of defence**, performs audits and provides assurance on governance, risk management and internal control.

As part of the Société Générale Group, SG Finans has continued the development of its principles and framework for internal control and risk management to the standards of the group. The primary purpose of risk management is to optimize the balance between the risk of losses and the potential earnings, thereby securing that the firm is not undertaking unintentional risks.

3.2. RISK MANAGEMENT PRINCIPLES

The company's principles for risk management are presented in more detail in the notes to the financial statements, cf in particular the note 24 on Risk Management. SG Finans has a policy of prudent risk taking, where the fundamental principle is that the company shall earn money on credit and / or object risk, while other risks are managed, hedged or limited within defined limits, or in case no limits are defined, to the extent practicable. In the business of financing assets (equipment leasing) and receivables (factoring) credit risk is the most important risk for the company. Effectively managing credit risk is fundamental. The company has implemented credit policies, organising procedures and regulations as well as models which address this need. SG Finans has developed classification models for risk assessment and management of credits, which provide a good view of the risk profile of the portfolio. The classification builds on debtor solidity and market value assessments of the assets.

3.3. COLLATERAL POLICY

As an asset financing company, the main collateral for SG Finans is the financed asset, where SG Finans typically has ownership (leasing) or pledge in the asset (loan, hire purchase). There are however one significant difference related to realization regarding type of product. For a leasing contract, SG Finans has ownership over the financed asset, and can end with realising a gain further to repossession and sale of an asset from a defaulted contract if the realisation of the financed object exceeds the outstanding exposure. This is not the case for a loan exposure where the counterpart will receive any potential profit.

To ensure sufficient collateral SG Finans may require additional collateral security than the financed object(s) in order to reduce credit risk. Accepted forms of collateral include vendor buyback guarantees, third party guarantees and bank guarantees. Furthermore, SG Finans may take collateral in equities, machinery and plant, real estate, factoring claims etc.

Other collateral as mentioned above is indirectly inherent in the LGD (Loss given default) model, due to the fact that recovery estimates total recovery including recovery beyond the realization of the financed object(s). Estimated PD (Probability of default) does not depend on the financed collateral or other collateral.

For credit risk, only eligible providers of guarantees and credit derivatives can be recognised under the standard and IRB approach. SG Finans currently does not take into account providers of guarantees and this will therefore not have an impact on risk-weighted asset (RWA) calculation.

9 RISK MANAGEMENT AND CONTROL

4. CAPITAL MANAGEMENT

The company's policy for capital management defines the applicable principles and guidelines for capital planning and management. Moreover, the company is subject to the group's guidelines for capital management. The internal guidelines compel the company always to comply with the internal requirements which are stricter than the local regulatory minimum requirements.

4.1. CAPITAL ADEQUACY ASSESSMENT

All financial institutions subject to regulation of capital ("*Kapitalkravsforskriften*") must at all times keep a sufficient capital based on the extent of the company's activities and the risk related to these activities. SG Finans therefore strive to improve the monitoring of relevant business and risk aspects in order to be efficient in its use of capital. SG Finans' strategic vision and policy for capital management are approved by the Board of Directors and well incorporated in the business strategy. The policy is reviewed at least annually and aims to secure that the internal targets for capital adequacy is well above local regulatory requirements.

Each year, the Internal Capital Adequacy Assessment Process (ICAAP) is conducted to assess and stress test all relevant risks and capital requirements under stressed scenarios for the entity. The ICAAP report is prepared in accordance with the capital adequacy regulations. With effect from 2016, the stress testing of liquidity risk and measurement of capital requirements to cover liquidity risk, is analysed and presented in a separate report, Internal Liquidity Assessment Process (ILAAP). Both ICAAP and ILAAP reports are presented to ALCO and to the Board for validation. Internal audit performs an independent review of the ICAAP and ILAAP processes, stress testing and reporting. Finanstilsynet receives a copy of the validated reports. The reports are reviewed and updated whenever required, and at least annually, to take into account the evolution of external and internal parameters.

4.2. STRESS TESTING

Stress testing is an important management tool in SG Finans for assessing the risk of losses on credit exposures in connection with severe changes in macroeconomic conditions. The stress tests are also used to quantify changes in capital adequacy ratios as a result of these effects. SG Finans' portfolios are stress tested annually in line with Finanstilsynet's regulations in order to identify factors that may impact developments in credit risk and capital adequacy. The stress tests are incorporated in the ICAAP and the capital planning process in order to determine how severe changes in the macro-environment may affect the need for capital. The outcome of the tests will depend on scenarios published by the Norwegian Central Bank, internal assessment of probable scenarios in which SG Finans may experience increased risk and the quality and the composition of the current portfolio.

The turbulence in international capital markets since end of 2008, the financial crisis, as well as the subsequent changes in pricing of capital and risk, are fully taken into consideration in the stress testing of risks, and in particular in the assessment of liquidity risk in the ILAAP report, risk of access to further capital and mid-/long-term effects on credit risk.

The results of the stress tests confirm SG Finans' strong position, as the performance stood well above the set thresholds, showing that SG Finans' internal capital buffer target for the company is sufficient to cover the aggregate stress test for the ICAAP and ILAAP, where all scenarios occur at the same time.

4.3. REGULATORY REQUIREMENTS

The Basel Committee proposed a new international regulatory framework for capital and liquidity for banks in 2010 (Basel III). The EU has implemented the regulations in its new capital requirements directive, CRD IV, and capital requirements regulation, CRR. The new regulations entered into force as from 1 January 2014. Finanstilsynet has adjusted the capital adequacy regulations in line with the new parts of the CRD IV. The new regulation was approved in August 2014 and entered into force 30th of September 2014. The capital adequacy figures presented in this report follow the CRD definitions.

The company should hold minimum common equity capital of 4.5% of the calculation basis. The minimum level of core capital (so-called "tier 1" capital) should be 6% of the calculation basis. The total capital, including tier 2 capital, should be kept at minimum 8% of calculation basis. In addition to these minimum requirements, the company should hold capital buffers in the form of core capital, with at least 2.5% conservation buffer and 3.0% system risk buffer and a countercyclical capital buffer of 2.5%. The countercyclical capital buffer requirement was decreased in March 2020 from 2.5% to 1.0% due to Covid-19. Finanstilsynet accepts that the institution applies the countercyclical capital buffer requirement for portfolios of exposures in other EU countries. For SG Finans, having a part of our business in the branches in Denmark and Sweden, the effective countercyclical capital buffer requirement therefore differs from the Norwegian 2.5% requirement to 2.1% per 31.12.2019. The combination of minimum capital requirements and capital buffer requirements leads to total core capital requirement of 14.0% of calculation basis and total capital adequacy requirement of 16.0% at yearend 2019.

The leverage ratio intends to be a simple ratio that aims to limit the size of banks' balance sheets. The leverage ratio compares the Tier 1 prudential capital with the accounting balance sheet/off-balance sheet, after restatements of certain items. At the end of 2019 SG Finans' leverage ratio was 12.9 % - well above the regulatory requirement of 3.0 % applied from 30 June 2017.

The overall large exposure limit for SG Finans to a single counterparty or to a group of connected counterparties is 25% of the total capital at all times.

At the end of 2016, Finanstilsynet informed SG Finans AS about the results of the supervisory review process for SG Finans (so-called "pillar 2" requirement). Further to Finanstilsynet's assessment, the regulator has issued prudential requirements which require that SG Finans "maintain … a TSCR of 9,5% … [which] … includes the minimum own funds requirement of 8% …[and]… an own funds requirement of 1.5% required to be held in excess of the minimum own funds requirement…consisting of 100% of Common Equity Tier 1 Capital" from 1 January 2017. The requirement has been confirmed at the same level for the following years including 2020.

4.4. CORE CAPITAL AND MINIMUM CAPITAL REQUIREMENT

At year-end 2019, SG Finans had a common equity Tier 1 capital ratio of 19.2% and a total capital adequacy ratio of 21.2%, compared with 17.2% and 18.9%, respectively, a year earlier. These calculations are based on the Basel II transitional rules. SG Finans' capital position continues to improve and SG Finans is well prepared to meet the uncertain economic developments and stricter capitalisation requirements from the market and the local authority.

Table 1 - Overview of own funds and capital adequacy

(in NOK thousand)	**2019**	**2018**
Common Equity Tier 1 capital		
Share capital	945 436	945 436
Share premium account	240 639	240 639
Other equity	4 889 843	4 254 405
Independently reviewed interim profits net of any foreseeable charge and dividend	0	0
Common Equity Tier 1 capital before regulatory adjustment	**6 075 918**	**5 440 480**
Common equity Tier 1 capital: Regulatory adjustment		
Intangible assets (net of related tax liability)	-4 115	-4 468
Value adjustments due to the requirements for prudent valuation	-38	-119
Negative amounts resulting from the calculation of expected loss	-76 521	-68 558
Total regulatory adjustments to Common Equity Tier 1	-80 674	-73 145
Common Equity Tier 1 capital	5 995 244	5 367 334
Additional Tier 1 capital	0	0
Tier 1 capital	**5 995 244**	**5 367 334**
Tier 2 capital: instrument and provision		
Subordinated debt	550 000	550 000
Tier 2 capital before regulatory adjustment	550 000	550 000
Tier 2 capital: regulatory adjustment	0	0
Total regulatory adjustment to Tier 2 capital	0	0
Tier 2 capital	**550 000**	**550 000**
Total capital	**6 545 244**	**5 917 334**
Calculation basis		
Standardised method		
Local and regional authorities (including muncipalities)	178 445	220 695
Institutions	84 620	61 076
Corporate	8 534 604	10 040 895
Other	173 629	63 662
Engagements in default	154 053	186 840
Total Credit risk, standardised method	9 125 354	10 573 168
IRB method		
Corporate - small and medium sized businesses	10 898 797	11 592 444
Corporate - other	5 007 943	4 501 339
Total Credit risk, IRB method	15 906 740	16 093 783
Credit risk weighted assets	25 032 094	26 666 951
Operational risk, basic indicator approach	2 809 063	2 596 490
Additional requirement according to Basel II floor	0	1 983 912
Total calculation basis	**27 841 156**	**31 247 353**

	2019	2018
Capital ratios and buffers		
Common Equity Tier 1	21,53 %	17,18 %
Tier 1	21,53 %	17,18 %
Total capital	23,51 %	18,94 %
Capital requirement including institution specific buffers	12,14 %	11,51 %
…of which: capital conservation buffer	2,50 %	2,50 %
…of which: countercyclical buffer	2,14 %	1,51 %
…of which: systemic risk buffer	3,00 %	3,00 %
...of which: systemically important institution buffer	0,00 %	0,00 %
Common Equity Tier 1 above minimum capital requirements and capital buffers	9,39 %	5,67 %
Tier 1 capital above minimum capital requirements and capital buffers	7,89 %	4,17 %
Total capital above minimum capital requirements and capital buffers	7,87 %	3,93 %
Capital ratios and buffers, nominal amounts		
Institution specific buffer requirement	3 380 390	3 596 195
…of which: capital conservation buffer	696 029	781 184
…of which: countercyclical buffer	596 274	471 460
…of which: systemic risk buffer	835 235	937 421
...of which: systemically important institution buffer	0	0
Common Equity Tier 1 above minimum capital requirements and capital buffers	2 614 855	1 771 139
Tier 1 capital above minimum capital requirements and capital buffers	2 197 237	1 302 429
Total capital above minimum capital requirements and capital buffers	2 190 414	1 227 482
Amount below the thresholds for deductions		
Deferred tax assets arising from temporary differences	0	16 559
Pilar 2 requirement		
Additional core capital buffer requirement ratio	1,5 %	1,5 %
Additional core capital buffer requirement	417 617	468 710
Leverage ratio		
Total Leverage Ratio exposure	41 228 585	39 660 096
Leverage Ratio	14,5 %	13,5 %

4.5. RISK-WEIGHTED VOLUME (RWA)

SG Finans is approved by the financial supervisory authority in Norway and France for the use of the advanced IRB approach when calculating the capital requirements for the main part of the portfolio. The share of A-IRB approved portfolios represented approximately, as of 31 December 2019, 70.8% of EAD.

The table below shows the different reporting methods for credit risk used for capital adequacy calculations divided by portfolio.

Table 2 - Reporting methods for credit risk in capital adequacy calculations

Portfolios	**31.12.2019**
Central governments and central banks	Standardised
Regional governments and local authorities	Standardised
Institutions	Standardised
Corporates	
Loan/Leasing	
Norway	Advanced IRB
Sweden	Advanced IRB
Denmark	Standardised
Factoring	
Norway	Standardised

SG Finans uses the advanced IRB approach to calculate capital adequacy for approximately all loan/leasing exposures in the corporate and SME portfolio. The use of this approach implies that the bank's models for expected default rate, loss given default, exposure and maturity are used for both internal management purposes and capital calculations.

The table below shows exposure at default (EAD), average risk weight, risk weight assets (RWA) and the capital requirements, distributed by exposure class as of 31 December 2019.

Table 3 - Capital requirements and RWA

(in NOK thousand)	**EAD 31.12.2019**	**Risk weight 31.12.2019**	**Risk weighted assets 31.12.2019**	**Capital requirement 31.12.2019**
IRBA-method				
Corporates	29 552 844	53,8 %	15 906 740	1 272 539
- of which large corporates	7 869 609	63,6 %	5 007 943	400 635
- of which SME	21 683 236	50,3 %	10 898 797	871 904
Sum credit risk, IRBA-method	29 552 844	53,8 %	15 906 740	1 272 539
Standard method				
Central governments and central banks	72 303	0,0 %	-	-
Regional governments and local authorities	1 162 390	15,4 %	178 445	14 276
Institutions	423 403	20,0 %	84 620	6 770
Corporates	10 524 671	84,2 %	8 862 289	708 983
- of which large corporates	*3 144 070*	95,7 %	*3 007 486*	*240 599*
- of which SME	*7 380 601*	79,3 %	*5 854 803*	*468 384*
Sum credit risk, Standard method	12 182 768	74,9 %	9 125 354	730 028
Sum credit risk	41 735 612	60,0 %	25 032 094	2 002 567
Operational risk			2 809 063	224 725
Sub total			**27 841 156**	**2 227 292**
Additional capital requirement according to transition rule				-
Total			**27 841 156**	**2 227 292**

Table 4 - Mapping of own funds

Disclosure date	31.12.19		(in NOK thousand)
Assets	Balance sheet, as in published annual report	Additional specification	Reference to row in Transitional own funds disclosure
Cash and deposits with central banks	9		
Hedging derivative assets	97 253		
Due from banks	400 085		
Customer loans	39 199 392		
Revaluation differences	18 178		
Repossessed assets	25 485		
Deferred tax assets	0		75
Shares and primary capital certificates	0		
Tangible and intangible fixed assets	122 136		8
Other assets	139 217		
Total assets	40 001 754		
Liabilities			
Financial liabilities at fair value through profit and loss	0		
Hedging derivative liabilities	84 648		
Due to banks	31 946 015		
Customer deposits	248 927		
Other liabilities	780 103		
Pension liabilities	94 490		
Current tax liabilities	213 361		
Subordinated debt	550 126		46
Total liabilities	33 925 836		
Equity			
Share capital	945 436		1
Share premium account	240 639		1
Other equity including profit for the year	4 889 843		2
Total equity	6 075 918		
Total liabilities and equity	40 001 754		

Table 5 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

31.12.19 (in NOK thousand)	General credit exposures		Trading book exposure		Own funds requirements				Own funds requirement weights	Counter-cyclical capital buffer rate (%)
	Exposure value for standardised approach	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by country										
Denmark	6 263 177	1 125 963			529 087			529 087	0,24	1,00 %
Finland	7 542	1 013			637			637	0,00	0,00 %
Germany	355	0			28			28	0,00	0,00 %
Norway	5 061 447	22 936 064			1 387 719			1 387 719	0,62	2,50 %
Sweden	833 250	5 489 804			304 612			304 612	0,14	2,50 %
United Kingdom	8 811	0			430			430	0,00	1,00 %
Faroe Islands	1 289	0			103			103	0,00	0,00 %
Island	6 897	0			552			552	0,00	1,75 %
	12 182 768	**29 552 844**	**0**	**0**	**2 223 168**	**0**	**0**	**2 223 168**		

Table 6 - Amount of institution-specific countercyclical capital buffer

Total risk exposure amount	27 841 156
Institution-specific countercyclical buffer rate	2,14 %
Institution-specific countercyclical buffer requirement	596 274

Table 7 - Transitional own funds

	Disclosure date	31.12.19		Amounts in NOK thousand
	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date (A)	Regulation (EU) No 575/2013 article reference (B)	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 (C)
1	Capital instruments and the related share premium accounts	1 186 075	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Instrument type 1	1 186 075	EBA list 26 (3)	
	of which: Instrument type 2		EBA list 26 (3)	
	of which: Instrument type 3		EBA list 26 (3)	
2	Retained earnings	4 889 843	26 (1) (c)	
3	Accumulated other comprehensive income and any other reserves		26 (1)	
3a	Funds for general banking risk		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
	Public sector capital injections grandfathered until 1 January 2018		483 (2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	6 075 918		
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-38	34, 105	

8	Intangible assets (net of related tax liability) (negative amount)	-4 115	36 (1) (b), 37, 472 (4)	
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-76 521	36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b) (c)	
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty set in the EU			
20 a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20 b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	
20 c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	
20 d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22	Amount exceeding the 17,65 % threshold (negative amount)		48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25 a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	

25 b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26 a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468		467	
	Of which: filter for unrealised loss 1		467	
	Of which: filter for unrealised loss 2		467	
	Of which: filter for unrealised gain 1		468	
	Of which: filter for unrealised gain 2		468	
26 b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR		481	
	Of which:		481	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-80 674		
29	Common Equity Tier 1 (CET1) capital	5 995 244		
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		51, 52	
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
	Public sector capital injections grandfathered until 1 January 2018		483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36	Additional Tier 1 (AT1) capital before regulatory adjustments			
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	

41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
41 a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 473(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
	Of which: items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			
41 b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)	
	Of which: items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc			
41 c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR		467, 468, 481	
	Of which: possible filter for unrealised losses		467	
	Of which: possible filter for unrealised gains		468	
	Of which: …		481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital			
44	Additional Tier 1 (AT1) capital			
45	Tier 1 capital (T1 = CET1 + AT1)	5 995 244		
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	550 000	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
	Public sector capital injections grandfathered until 1 January 2018		483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49	of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50	Credit risk adjustments		62 (c) & (d)	
51	Tier 2 (T2) capital before regulatory adjustments	550 000		
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	

54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
54 a	Of which: new holdings not subject to transitional arrangements			
54 b	Of which: holdings existing before 1 January 2013 and subject to transitional arrangements			
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
56 a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			
56 b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)	
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc			
56 c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR		467, 468, 481	
	Of which: possible filter for unrealised losses			
	Of which: possible filter for unrealised gains			
	Of which: …			
57	Total regulatory adjustments to Tier 2 (T2) capital			
58	Tier 2 (T2) capital	550 000		
59	Total capital (TC = T1 + T2)	6 545 244		
59 a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)			
	Of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	
	Of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) ©, 475 (4) (b)	

	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	
60	Total risk-weighted assets	27 841 156		
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21,53 %	92 (2) (a), 465	
62	Tier 1 (as a percentage of total risk exposure amount)	21,53 %	92 (2) (b), 465	
63	Total capital (as a percentage of total risk exposure amount)	23,51 %	92 (2) (c)	
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 expressed as a percentage of total risk exposure amount)	7,64 %	CRD 128, 129, 140	
65	of which: capital conservation buffer requirement	2,50 %		
66	of which: countercyclical buffer requirement	2,14 %		
67	of which: systemic risk buffer requirement	3,00 %		
67 a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,00 %	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	15,53 %	CRD 128	
69	non-relevant in EU regulation			
70	non-relevant in EU regulation			
71	non-relevant in EU regulation			
	Amounts below the thresholds for deduction (before risk-weighting)			
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)		36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73	Direct and indirect holdings of the CET1 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)		36 (1) (i), 45, 48, 470, 472 (11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48, 470, 472 (5)	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	

79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82	Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84	Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	
	'N/A' if the question is not applicable			

Table 8 - Capital instruments main features

	Disclosure date: 31.12.19	Common Equity Tier 1	Additional Tier 2 capital
1	Issuer	SG Finans AS	SG Finans AS
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	Norwegian	Norwegian
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Additional Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	MNOK 1.186	MNOK 550
9	Nominal amount of instrument	NOK 945.435.750	NOK 550.000.000
9a	Issue price	N/A	NOK 550.000.000
9b	Redemption price	N/A	NOK 550.000.000
10	Accounting classification	Share capital	Liability – amortised cost
11	Original date of issuance	N/A	28 June 2018
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	28 June 2028
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	28 June 2023, if changes in criteria for Tier 2 capital, 100 %
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A	Floating
18	Coupon rate and any related index	N/A	NIBOR 3 months plus 2.26 % p.a.
19	Existence of a dividend stopper	N/A	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory

20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Non-cumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Senior debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
	'N/A' if the question is not applicable		

5. CREDIT RISK

Credit risk is defined as the risk of losses due to customers which fail to fulfil their agreed obligations towards SG Finans and the pledged collateral does not cover existing claims. It includes counterparty risk, transfer risk, country risk and settlement risk. The credit portfolio includes leasing, loan and factoring.

5.1. MANAGEMENT OF CREDIT RISK

Credit risk constitutes SG Finans' largest risk exposure, has the highest loss potential, and is the risk demanding the largest loss absorbing capital buffer. SG Finans has outlined the fundamental principles in the credit risk strategy, ensuring that credit approvals are based on the same strategic principles.

SG Finans shall exercise careful consideration and have a limited exposure towards customers who are considerably exposed to particularly cyclical industries or industries subject to substantial structural change. In addition, the counterparty shall have an acceptable debt-servicing ability as a first-line defence, i.e. the customer shall have the relevant competencies, experience and a management that we trust, and document financial results underlining a sufficient profitability, solidity and liquidity.

SG Finans is assessing the risk profile of the leasing, loan and factoring portfolios, through the Risk Management Committee (RMC). The RMC reviews the risk profile of the portfolio through a combination of standard indicators such as concentration risk, exposure by product, credit quality, open residual values and close monitoring of default rates.

5.2. CREDIT RISK APPROACH AND THE IRB SYSTEM

SG Finans is approved by the financial supervisory authority in Norway and France to use the advanced IRB approach when calculating the capital requirements for the main part of the loan/leasing portfolio.

The IRB system is a comprehensive framework which makes considerable demands on risk models, decision-making processes, management and reporting and control mechanisms. It aims to ensure that all capital adequacy requirements are fulfilled and that quality and transparency are secured throughout the entire organization. Validation is a major part in securing a satisfactory quality in the IRB system, where an assessment has to be made to ensure that all internal and external requirements are met. The introduction of the IRB system in SG Finans has taken several years, a period contributed to a better understanding of internal processes and a better credit management through improved and new follow-up-systems. Following the A-IRB approval, both a quantitative and qualitative analysis of the system must be conducted annually.

5.3. VALIDATION AND DEFINITIONS ACCORDING TO THE IRB SYSTEM

SG Finans uses specific credit risk models based on the characteristics of the counterpart and later, with the A-IRB application for factoring, also conditioned on product type. The models are subject to continuous improvements and testing, ensuring the best basis for credit decisions. The classification system provides a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. The risk parameters estimated by models are:

- Probability of default (PD) is used to measure the counterparts' ability to meet its obligation towards SG Finans. Counterparts are ranked based on the probability of default.
- Loss given default (LGD) indicates how much SG Finans expects to lose if the counterpart fails to meet its obligations, taking the value of the financial asset provided by the customer and other relevant factors into consideration.
- Exposure at default (EAD) includes amounts drawn under credit limits or loans in addition to committed, undrawn lines. SG Finans has set the credit conversion factor, the percentage share of committed, undrawn credit lines to be equal to 100 per cent for equipment financing.

The definition of default set by the financial supervisory authority in Norway has been adapted by SG Finans. A credit should be defined as non-performing if the claim is more than 90 days overdue or has a provision, given the overdue amount exceeds NOK/SEK/DKK 1000 (NOK/SEK/DKK 4000 for factoring agreements with recourse) and that the overdue is not caused by the credit management of SG Finans. A weakening of the counterparts' ability to meet its obligation resulting in a not insignificant loss should also lead to a default classification, e.g. a restructuring of a contract or bankruptcy of client.

SG Finans' models are calibrated to reflect a full business cycle, taking into account the Norwegian banking crisis in 1988-1993.

Validation is, as mentioned, a key element in ensuring the quality of the IRB system. The qualitative validation assesses the design of the IRB system and the underlying processes. Data quality, classification methods, internal and external reporting, stability of the systems and the use of IRB parameters are all important elements in this validation.

The quantitative validation includes tests of the models' ranking power/discriminatory power, ability to determine the correct level (calibration) of risk parameters and the stability of the risk parameters.

The model validation is centrally coordinated by RISQ/MRM/MIR at Société Générale, which is in charge of the quantitative audit and the secretary of the Expert Committee (validation committee). RISQ/MRM/MIR is independent from the local department of Risk Modelling. The validation report follows the same governance i.e. reviewed by RISQ/MRM/MIR and validated by the Expert Committee. The Expert Committee is composed by members from both the central and local Risk and Business side.

5.4. RISK CLASSIFICATION

The company uses a risk classification system for customers and exposures. The classification is based on objective criteria and consists of two parameters, the customer's creditworthiness and the object's security coverage. The combination of these parameters determines how the exposure is classified. Exposures are classified in categories in accordance with capital adequacy regulations for banks and finance houses. Based on the combination of counterparty classification (probability of default (1-10)) and object classification (loss given default (A-E)) the exposure is classified in a credit matrix based on debtor class and asset classes. The financed assets are classified according to value curves, expressing expected evolution of the market value of the financed asset, based on historical observations.

Below is the relationship between risk class and probability of default used for credit granting in SG Finans. This is compared to risk classification used in a selection of rating bureaus.

SG internal obligor rating scale

SG Obligorrating	Moody's rating	"S & P rating"	Fitch IBCA rating	Capital Intelligence rating	1-year probability of default	
					Interval	Mean
1	Aaa	AAA	AAA	AAA	[0,0000%;0,0112%]	0,01%
2+	Aa1	AA+	AA+	AA+	[0,0112%;0,0165%]	0,01%
2	Aa2	AA	AA	AA	[0,0165%;0,0225%]	0,02%
2-	Aa3	AA-	AA-	AA-	[0,0225%;0,0287%]	0,03%
3+	A1	A+	A+	A+	[0,0287%;0,0339%]	0,03%
3	A2	A	A	A	[0,0339%;0,0472%]	0,04%
3-	A3	A-	A-	A-	[0,0472%;0,0894%]	0,06%
4+	Baa1	BBB+	BBB+	BBB+	[0,0894%;0,1827%]	0,13%
4	Baa2	BBB	BBB	BBB	[0,1827%;0,3589%]	0,26%
4-	Baa3	BBB-	BBB-	BBB-	[0,3589%;0,7427%]	0,50%
5+	Ba1	BB+	BB+	BB+	[0,7427%;1,5288%]	1,10%
5	Ba2	BB	BB	BB	[1,5288%;2,6317%]	2,12%
5-	Ba3	BB-	BB-	BB-	[2,6317%;3,8774%]	3,26%
6+	B1	B+	B+	B+	[3,8774%;5,9829%]	4,61%
6	B2	B	B	B	[5,9829%;9,4143%]	7,76%
6-	B3	B-	B-	B-	[9,4143%;12,7916%]	11,42%
7+	Caa1	CCC+	CCC+	C+	[12,7916%;17,1134%]	14,33%
7	Caa2	CCC	CCC	C	[17,1134%;23,5996%]	20,44%
7-	Caa3	CCC-	CCC-	C-	[23,5996%, ---]	27,25%
8-10	Defaulted					

Table 9 - Relationship between risk class and probability of default

5.5. IRB QUANTITATIVE VALIDATION RESULTS

The most important feature of the models estimating risk parameters used for capital adequacy calculations is the ability to predict the outcome of each parameter. The first table below shows the predicted default rate versus the observed default rate for each of the four PD models for all healthy counterparts at the start of the year.

The estimated loss for defaulted counterparts is plotted against the actual loss in the second table. The predicted values are based on the non-performing portfolio and the observed loss is the actual LGD for defaults occurring in the course of the year. The LGD estimate is downturn calibrated with respect to the Norwegian banking crisis of 1988-1993.

The third table shows the conversion factor versus the actual outcome. The EAD is calculated based on the outstanding amount and the committed, undrawn credit lines. The CCF is calibrated to a level assuming that 100 per cent of the undrawn credit lines are drawn up until the time of default, resulting in a predicted estimate equal to 1. The actual drawn amount is plotted against the predicted estimate for the previous 5 years.

Table 10 - Validation results, PD models, LGD model and EAD model

PD Models	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
(per cent)										
Application Limited										
- Predicted	16,8	15,9	14,5	15,0	15,9	13,4	12,7	11,8	11,8	15,1
- Observed	7,3	5,7	7,4	4,4	4,0	3,7	3,9	3,6	2,8	3,6
Application Unlimited										
- Predicted	23,3	21,8	23,5	19,9	21,1	19,0	16,5	15,8	16,7	14,2
- Observed	10,5	9,0	16,7	8,0	8,8	6,6	4,3	4,5	5,3	3,4
Behaviour Limited										
- Predicted	12,7	13,3	12,5	11,6	11,6	10,9	9,9	9,2	8,7	9,6
- Observed	8,4	6,6	5,6	4,5	5,2	4,0	3,5	3,5	3,1	2,8
Behaviour Unlimited										
- Predicted	14,2	15,6	14,9	14,5	15,8	14,9	13,1	8,8	10,9	10,8
- Observed	8,8	7,6	7,4	6,5	7,1	5,9	5,7	5,1	4,9	4,2

LGD model	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
(per cent)										
Loss Given Default										
- Predicted	25,5	24,2	22,7	23,1	21,9	22,8	19,8	18,6	19,6	21,6
- Observed	15,3	13,3	7,8	1,3	-1,1	-3,6	-1,7	-1,5	-1,1	1,8

PD Models	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
(per cent)										
CCF										
- Predicted	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
- Observed	98,9	99,3	99,5	99,5	99,8	99,8	99,8	99,7	99,1	98,8

The validated risk parameters above are used for estimating the loss occurring during the year. It is calculated as PD times LGD, multiplied with the EAD. The table below shows a comparison between expected losses in the healthy portfolio at the beginning of the year and new impairment losses recorded for the approved IRB portfolio during the year. Note that the predicted loss is a best-estimate calculation and thus not calibrated.

Table 11 - Validation results, Expected loss

Expected and actual value adjustments according to risk parameters	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Expected loss(EL), healthy portfolio, year-start (per cent)										
- Predicted	1,11 %	1,28 %	1,07 %	0,97 %	0,91 %	0,64 %	0,60 %	0,54 %	0,52 %	0,60 %
- Observed	0,93 %	0,81 %	0,39 %	0,21 %	0,32 %	0,12 %	0,09 %	-0,02 %	0,01 %	0,12 %
Expected loss(EL), healthy portfolio, year-start (MNOK)										
- Predicted	171	200	163	150	134	88	82	79	83	100
- Observed	70	46	17	7	11	8	4	2	5	4

5.6. EXPOSURES FOR THE IRBA PORTFOLIO

The first table below shows the exposure for the IRBA-approved portfolio split by industry. In addition, RWA, risk weight and the average calibrated PD and LGD are included in the overview. The breakdown is based on standardised sector and industry categories defined by Statistics Norway. The counterpart defines the industry code for its activities at the time of registration/establishment in the company register of Norway. The second table below gives same overview of the portfolio split by risk class.

Table 12 - Exposure for the IRBA-approved portfolio split by industry

(in NOK thousand)	EAD 31.12.2019	Risk weight (%) 31.12.2019	Risk weighted assets 31.12.2019	PD (%) 31.12.2019	LGD (%) 31.12.2019
Accommodation and food service activities	271 775	69,8 %	189 794	14,6 %	28,3 %
Administrative and support service activities	2 786 303	53,3 %	1 484 172	12,2 %	19,7 %
Agriculture, forestry and fishing	3 730 352	40,8 %	1 521 366	17,0 %	10,8 %
Arts, entertainment and recreation	179 438	78,2 %	140 309	10,4 %	25,5 %
Construction	8 624 667	48,7 %	4 198 931	14,9 %	17,6 %
Education	51 543	76,8 %	39 607	11,9 %	27,2 %
Electricity, gas, steam and air conditioning supply	42 933	78,5 %	33 712	6,9 %	27,9 %
Financial and insurance activities	42 413	121,0 %	51 311	7,9 %	28,7 %
Human health and social work activities	462 708	46,3 %	214 354	8,0 %	30,0 %
Information and communication	676 540	73,1 %	494 317	9,1 %	27,4 %
Manufacturing	2 508 194	73,9 %	1 853 325	9,4 %	24,4 %
Mining and quarrying	1 032 202	42,4 %	437 507	12,1 %	18,0 %
Other service activities	60 219	90,0 %	54 169	11,4 %	29,7 %
Professional, scientific and technical activities	563 656	86,2 %	485 894	9,0 %	27,1 %
Public administration and defence; compulsory social security	239	138,8 %	331	11,5 %	25,6 %
Real estate activities	501 941	60,3 %	302 690	13,2 %	22,5 %
Transportation and storage	5 228 613	53,1 %	2 774 721	11,1 %	18,9 %
Unknown	9 462	79,0 %	7 474	21,2 %	24,3 %
Water supply; sewerage, waste management and remediation activities	461 350	49,5 %	228 199	9,8 %	21,8 %
Wholesale and retail trade; repair of motor vehicles and motorcycles	2 318 297	60,2 %	1 394 557	9,8 %	25,2 %
Grand Total	**29 552 844**	**53,8 %**	**15 906 740**	**12,4 %**	**20,6 %**

Table 13 - Exposure for the IRBA-approved portfolio split by risk class

(in NOK thousand)	EAD 31.12.2019	Risk weight (%) 31.12.2019	Risk weighted assets 31.12.2019	PD (%) 31.12.2019	LGD (%) 31.12.2019
3+	7 651	12,8 %	976	0,0 %	26,3 %
3	54	5,8 %	3	0,0 %	28,4 %
3-	40 517	5,6 %	2 282	0,1 %	21,9 %
4+	495 303	16,1 %	79 629	0,1 %	26,2 %
4	563 109	27,9 %	157 153	0,3 %	24,3 %
4-	1 110 843	38,7 %	430 322	0,5 %	23,2 %
5+	1 594 407	50,7 %	808 698	1,1 %	21,2 %
5	2 861 038	50,3 %	1 438 588	2,0 %	19,5 %
5-	2 196 835	52,3 %	1 149 683	3,3 %	22,9 %
6+	10 315 626	45,3 %	4 675 505	4,4 %	19,2 %
6	2 531 987	59,8 %	1 514 555	7,5 %	20,6 %
6-	2 215 292	68,7 %	1 520 969	10,9 %	21,7 %
7+	1 391 687	75,7 %	1 052 858	14,3 %	19,5 %
7	1 240 309	86,1 %	1 067 710	19,7 %	20,0 %
7-	2 423 771	65,8 %	1 595 615	51,6 %	18,3 %
9	564 415	73,0 %	412 194	100,0 %	24,4 %
Grand total	**29 552 844**	**53,8 %**	**15 906 740**	**12,4 %**	**20,6 %**

5.7. CREDIT RISK APPROACH – STANDARD METHOD

Estimated risk-weighted volume and capital requirements for the portfolios reported according to the standard approach are shown in chapter 4.2. SG Finans is approved for the advanced IRB-approach for parts of the loan/leasing portfolio. The rest is reported according to the standard approach. This also includes credits which originally are approved for IRBA, but due to missing data are calculated according to the standard approach. The loan and leasing portfolio of Denmark and the Factoring portfolio is on the roll out plan and will be included in the IRBA portfolio when validated by the regulators. Central banks, governments, regional authorities and institutions are granted permanent exception of the IRBA approach and will be reported under the standard approach.

6. FINANCIAL RISK

The company has implemented the group's guidelines for financial risk management (defined as interest rate, currency, liquidity and funding) as well as guidelines from the Board incorporated into the company's finance policy and liquidity policy.

6.1. FINANCIAL RISK MANAGEMENT

Management and control of financial risk are carried out centrally in the Risk Management department, the Treasury and asset-liability management function at the company's headquarters. Treasury attends to the needs for financing, financial risk management, balance-sheet management, operations in all three countries. Treasury is organised as a service centre whose main purpose is to ensure financing and manage financial risk within defined limits. The limits for financial risk are relatively limited and adjusted to the size and needs of the operation.

6.2. INTEREST RATE RISK

Treasury services are restricted to funding and coverage of financial risks, including structural risks and liquidity. SG Finans has no trading activity. We have continued the company policy to macro hedge fixed interest rate contracts, with the objective of ensuring that the economic and accounting effects of changes in interest rate markets are held at a limited level. Our economic risk at the end of the year was almost fully hedged against changes in interest rates and loans outstanding matches the funding. The efficiency of new hedges is tested prospectively prior to entering new hedging contracts and thereafter on a quarterly basis for existing hedging relationships. The efficiency is measured based on accumulated changes in the market value for hedging instruments and hedged contracts using the "dollar-offset" method. Please refer to the notes for a closer description of accounting effects and interest rate sensitivity.

6.3. CURRENCY RISK

Currency risk is managed by borrowing in the same currency and with the same maturity as assets in the foreign currency. The net result from contracts in foreign currencies is exchanged into NOK or other local currency on realisation. Moreover, the result from the branches in Sweden and Denmark is exchanged into Norwegian Kroner. To some extent the company borrow in a different currency and then use cross currency swap. Such swaps allow SG Finans to switch its loan and interest repayments in e.g. EUR into local currencies as NOK, DKK and SEK. The efficiency of new hedges is tested prospectively prior to entering new hedging contracts and thereafter on a quarterly basis for existing hedging relationships. The efficiency is measured based on accumulated changes in the market value for hedging instruments and hedged contracts using the "dollar-offset" method.

6.4. LIQUIDITY RISK

The company's funding is mainly provided by the Société Générale group. Funding from the group is based on a bilateral agreement for funding as well as funding limits according to our funding needs over time, based on budgeted and expected growth. Planning and managing liquidity and funding thus occur in close collaboration with the group unit for financing of subsidiaries and operating businesses. SG Finans has been working on diversifying its sources of funding, and to attract new lenders to finance the activities. This initiative is linked to the Société Générale Group strategy to diversify funding sources for its operating entities. As per end 2019, SG Finans received funding from Nordic Investment Bank (NIB) and European Investment Bank (EIB).

7. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes risks related to events with a low probability of occurrence but a high impact, the risks of internal and external fraud and the risks related to the model.

7.1. DEVELOPMENTS IN OPERATIONAL RISK

SG Finans calculates the regulatory capital requirement for operational risk according to Pillar I (Basic Indicator Approach) which was MNOK 207.7 for 2018 and 213.8 for 2019. The regulatory capital requirement for operational risk in 2020 is MNOK 227.7. The capital reserved for operational risk in 2019 is 19 times the sum of operational risk losses occurred during the previous year.

7.2. OPERATIONAL RISK MANAGEMENT

SG Finans has implemented Société Générale Group's procedure for identification, assessment and reporting of losses caused by operational risk events. Reported events are used in calculating and allocating capital requirements by the Group. The illustration below gives an overall perspective of SG Finans' management of operational risk.

Independent risk control is ensured by dedicated risk control officers. The Operational Risk and Compliance Committee (ORCC) is held twice a year or more frequently if necessary, to monitor operational risk, permanent supervision (internal control monitoring and certification) and compliance in the company. In addition, the Board Risk Committee (BRC) / Committee of Coordination of Internal Control (CCCI) also meets twice a year. From 2020 the BRC will no longer take place, following the confirmation from Finanstilsynet that this is not a requirement for SG Finans. The risk control function for operational risk in SG Finans AS is responsible for the reporting of operational risk losses as well as other standardised reports to both the local management, ORCC, CCCI, BRC and to the Group. The reports are the following:

- Key Risk Indicators (KRI)
- Event/Loss Reporting
- Risk Control and Self-Assessment (RCSA)
- Scenario Analysis

In 2019 the KRI report measured 6 indicators, which are updated and reported to Société Générale on a quarterly basis.

Event/Loss reporting is an on-going internal procedure evaluating whether a loss linked to operational risk has been identified. To ensure consistent reporting, there is a quarterly exhaustiveness report with reconciliation of information from operational risk correspondents in each major location / department, whose task it is to monitor and report operational loss incidents. The consistency is also ensured through reconciliation with accounting. In the event/loss reporting routine, it is stated that severe losses (losses larger than or expected larger than EUR 200 000) are reported immediately to Management, as well as to Société Générale's centralised operational risk department. The Group has a goal that operational risk losses should not exceed 1% of total NBI. This goal is transferred to all entities. SG Finans AS also monitors the amount of staff dedicated to permanent control.

Through the RSCA we assess the risk exposure, risk control and the residual risk in the main processes of the organisation. This is reviewed annually, and action plans are made based on the internal evaluation, in the areas identified as needing improvement and/or follow-up.

The fourth element of analysis regarding operational risk is the Scenario Analysis. The purpose of the Scenario Analysis is to assess the effect of an extreme scenario impacting SG Finans AS. The assessment covers the impact in terms of business activity, staff and costs. Our Business Continuity Plan (BCP) is a central document that becomes operative in such situations. The scenario can also involve other events where the BCP does not become operative, such as internal fraud.

Having implemented the above-mentioned methodology, procedures and reports, SG Finans AS is in line with Société Générale Group's internal requirements for AMA (Advanced Measurement Approach) entities. Finanstilsynet rejected the company's application to use the AMA method for calculation of operational risk in May 2013. The calculation of the capital requirement in this document, and in all other reporting, is therefore based on BIA (Basic Indicator Approach).