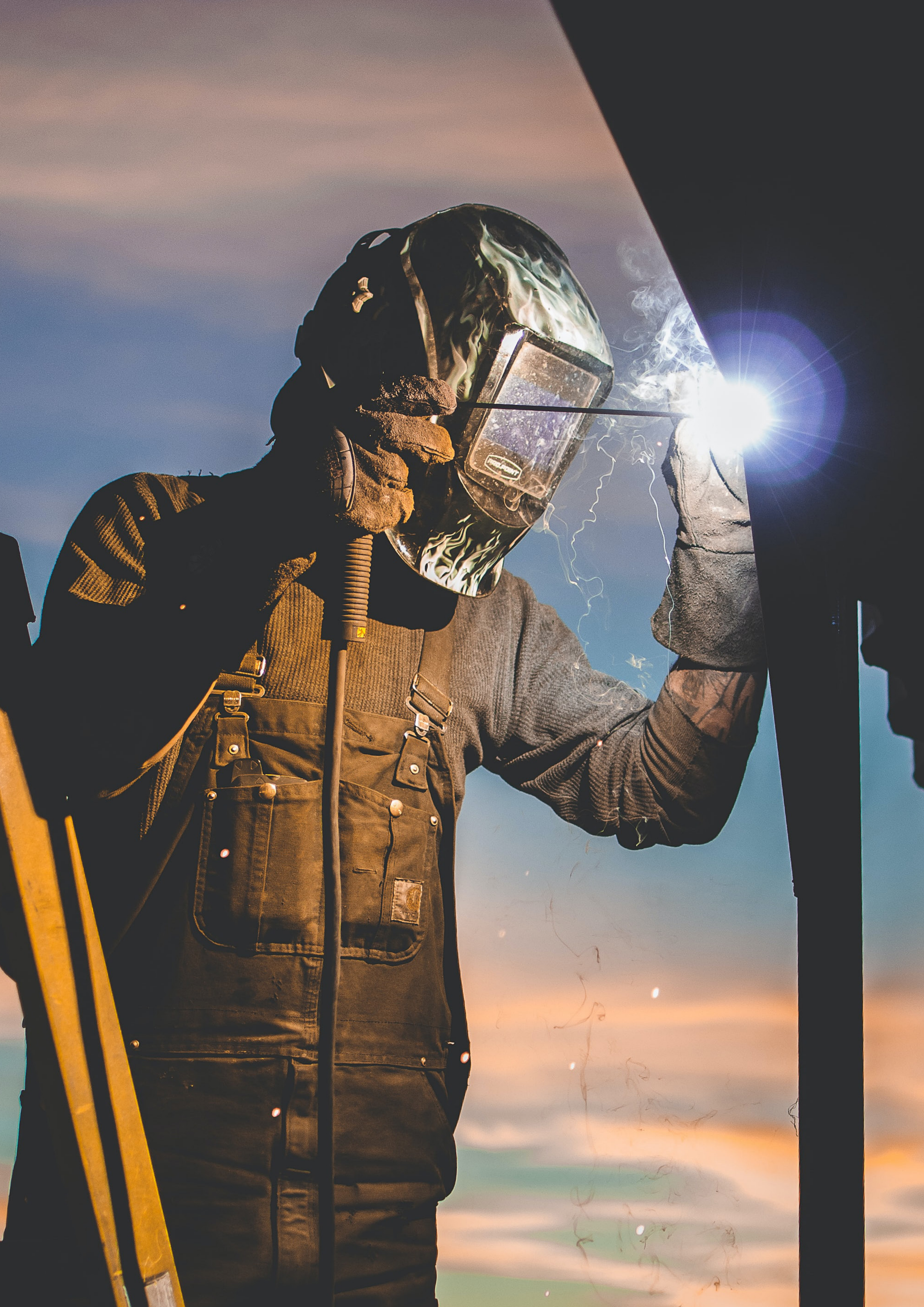
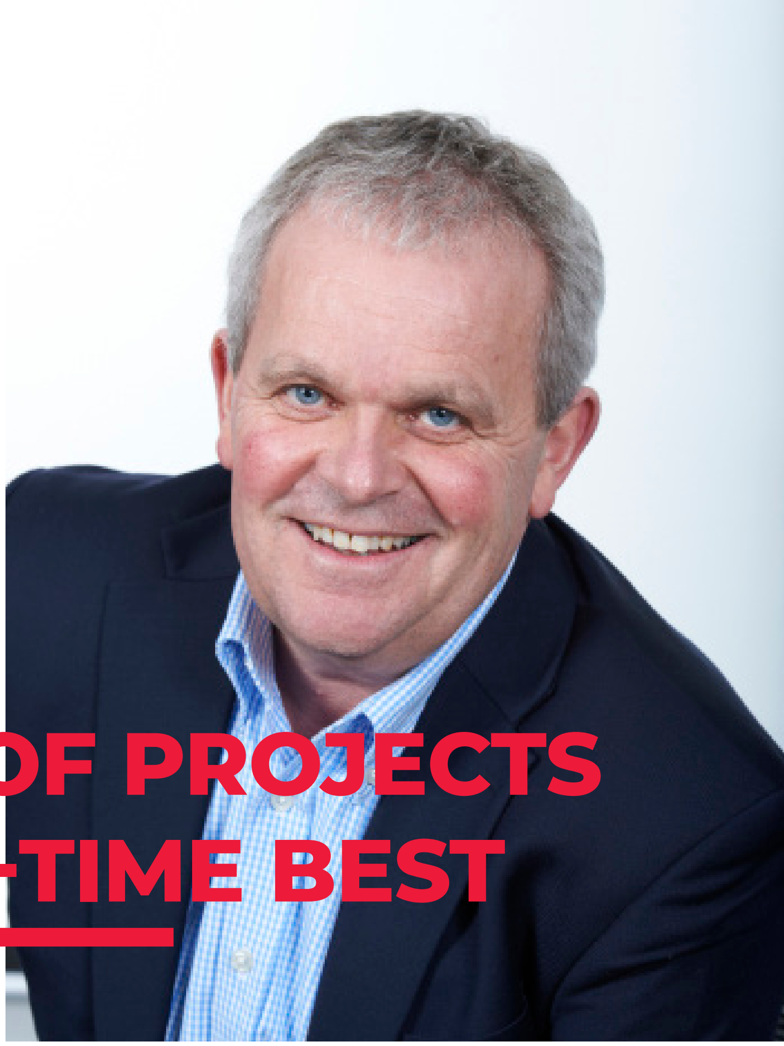
SG FINANS AS

Annual report 2019

SOCIETE GENERALE
Equipment Finance



CONTENTS



2019: A YEAR OF PROJECTS AND OUR ALL-TIME BEST

Our investment in people, culture, technology and systems has paid off, and for 2019 we can present a record-high result in a year characterised by high activity - and numerous successful projects.

In 2019, we saw the results of our long-term investment in infrastructure, digital solutions and business development. Due to a more efficient organisational model and smoother work processes, a significantly larger number of transactions and contracts are handled by the same number of employees.

HIGHLIGHTS AND ACTIVITIES IN 2019

Continued growth in the volume and number of contracts, a strong focus on NBI and other income sources, tight cost control and, not least, the impressive performance of our employees in all three countries, contributed to a record-high result of MNOK 900.5 before tax in 2019.

In 2019, we proved our ability to drive projects to build a more profitable future, while also achieving record-high sales and results. The scope, complexity and number of projects were extensive, and we accomplished more in 2019 than in any other year.

We strengthened our organisation with updated competences and improved our work processes throughout the value chain, within both equipment finance and factoring.

In addition, we combined our business and IT development functions into "lean teams" that contribute to more efficient project management and the more rapid achievement of new digital solutions. This model also ensures that the development of new IT solutions and our business development are closely interrelated, for the benefit of our clients and partners.

On the organisational side, we restructured our sales regions by geographically extending our regions, with a reduction from four to two sales regions. This has contributed to smoother decision-making processes, and a more team-oriented sales model – based on the team's success rather than individual results.

The Factoring client service function was centralised in order to streamline all processes and establish specialist teams handling different client segments more efficiently.

We regard these two restructuring processes as a means to achieve more competence sharing and to empower all our sales channels, thereby promoting greater efficiency throughout the business.

By continuously improving our work processes and modernising our IT systems, we increase our efficiency. With the same number of employees as in 2008, we have delivered a 300% higher operating profit.

Yet these results would not be possible without our highly skilled, hard-working and dedicated staff. This is also why focusing on our employees and our corporate culture is so important to us.

SG FINANS - A GREAT PLACE TO WORK

We see a clear trend for employer branding and fostering a sound corporate culture, which are increasingly important for attracting, retaining and developing talents.

In 2019, we initiated cooperation with Great Place To Work, and performed an internal Trust Survey. This gave us internationally recognised external certification of our culture, trust and employee satisfaction. For the statement “All in all, I think this is a great place to work”, we got a score of 91%.

I see this as solid proof of what we call a sound and supportive winning culture based on our values: Relations, Engagement, Team Spirit, Innovation and Responsibility. This also helps us to stay focused on what makes us stand out from our competitors: **Our staff.**

CLIMATE RISK AND SOCIAL RESPONSIBILITY

In 2019, SG Finans was the first financial institution in Norway to be granted Eco-Lighthouse certification in accordance with the new standards for the financial sector. The new criteria address the environmental consequences of financial institutions’ core business.
Eco-Lighthouse certification is Norway’s most widely used certification standard for enterprises seeking to document their environmental efforts and demonstrate social responsibility. It is also the first national certification standard recognised and approved by the EU.

Our work to develop and facilitate the financing of climate investments and the transition to a greener economy was recognised by Capital Finance International Awards as the Most Innovative Climate Impact SME Finance Scandinavia 2019.

There is no doubt that integrating climate concerns and sustainability issues into business decisions makes sound economic sense. This also applies to us as a company, and climate risk will weigh more heavily in all our business decisions going forward. All our employees, customers, partners and stakeholders should be confident that we are committed to focusing on sustainability in everything we do.

BECOMING PART OF THE NORDEA FAMILY

At the end of 2019, Société Générale signed an agreement with Nordea expressing its commitment to acquire SG Finans. The current status is that the competition authorities in Norway, Sweden and Denmark have approved the transaction. The transfer of the shareholding is expected in the second half of 2020.

What will this mean for SG Finans?

Nordea has a strong brand name, which is naturally beneficial from both a market and an employer branding perspective. Becoming part of Nordea as a leading financial services group in the Nordics offers a wider product range for our clients and partners.

SG Finans and Nordea Finance are a good match – supplementing each other in both geographical markets and distribution channels, and offering opportunities for a more diverse presence in our target markets.

In short, becoming part of Nordea and merging with Nordea Finance will strengthen our market position, and provide new opportunities for us as a company, and for our employees and our clients and partners.

COVID-19 AND 2020

At this moment, a global pandemic stemming from a new coronavirus is affecting us all. Countries are locked down, global trade is decreasing significantly, and millions have contracted Covid-19 globally. For SG Finans, however, our business strength, highly experienced staff and a robust client and vendor base will enable us to get through these troubled times.

While SG Finans seem to be steering clear of the worst following the Covid-19 outbreak so far, we have customers that are affected. Our teams have done a great job in supporting our customers in these trying times – doing what we can to help them manage their commitments and stay afloat at a time when activity and demand are falling dramatically for many business operators.

We can expect this to be reflected in our 2020 results, despite satisfactory activity in all our three markets so far. We cannot assume that an economic crisis of this magnitude will leave us unaffected. That being said, a lean operation and our experienced and hard-working staff ensure that we still have reason to be optimistic.

Our employees deserve a special mention at this point. Dramatic government measures to prevent the spread of the disease, our own company measures, social distancing and a radically changed working day are affecting us all. I wish to extend a warm thank you to all of our dedicated employees, who have shown an incredible willingness to adapt to this situation – working from home, some with young children to take care of, while others are burdened by solitude and a lack of human interaction.

GOING FORWARD

For SG Finans, there is nothing new about adapting to changing circumstances, new market demands, intense competition and technological change. This is what we do, and this is what has brought us to the strong position we hold today. This will also be our prime asset going forward:
a highly skilled team of dedicated employees, trusted partners and a solid client base.

2020 will bring changes, and opportunities as well as challenges. We will use the year to become ready to enter a new and exciting era for our company, as part of the Nordea family.

Carsten Thorne
CEO

KEY FIGURES

Amounts in NOK thousand	2019	2018
Profit & Loss		
Net banking income	1 575 492	1 404 699
Operating expenses	-613 288	-608 177
Operating profit before losses	**962 204**	**796 521**
Losses on loans	-61 661	-57 995
Net profit before tax	**900 543**	**738 526**
Loans outstanding		
Equipment Norway	24 516 528	23 349 957
Factoring	2 160 528	2 406 142
Equipment Denmark	6 992 946	6 717 579
Equipment Sweden	5 953 728	5 587 644
Total loans	**39 623 730**	**38 061 322**
Capital adequacy		
Risk weighted assets	27 841 156	31 247 353
Total regulatory capital	6 545 244	5 917 334
Capital adequacy ratio	23,51 %	18,94 %

REPORT OF THE BOARD OF DIRECTORS

We are again looking back to a year of many achievements, new developments and change for SG Finans AS. In 2019, we were one of the first financial institutions to be certified EcoLighthouse ("Miljøfyrtårn") according to the new standards for banks and financial companies in Norway. Our work to develop and facilitate financing of climate investments and transition to a greener economy was recognised with the Most Innovative Climate Impact SME Finance Scandinavia 2019 by Capital Finance International Awards. Our working environment, culture and organisation received the acknowledgement as Great Place to Work based on among other evaluation from our own staff and other qualification criteria. Finally, Societe Generale announced in December the signing of an agreement to sell SG Finans AS, the equipment finance and factoring activities in Norway, Sweden and Denmark to Nordea Finance, the asset based finance & factoring arm of Nordea Bank.

ABOUT THE COMPANY

SG Finans AS is a wholly owned company of the Société Générale Group. The company is part of the Société Générale Equipment Finance business line, Europe's leading player for equipment leasing. Factoring is an integrated part of our services and an important solution for our clients' liquidity and ability to maintain growth.

In December 2019 Société Générale entered into an agreement to sell SG Finans AS to Nordea Bank Abp. The sale will require approval from Competition Surveillance Authorities and Financial Supervision Authorities. The transfer of the shareholding will happen when, and if, the approval is given by the authorities, which is expected in the second half of 2020.

Societe Generale is one of the leading European financial services groups. Based on a diversified and integrated banking model, the Group combines financial strength and proven expertise in innovation with a strategy of sustainable growth, aiming to be the trusted partner for its clients, committed to the positive transformations of the world.

Active in the real economy for over 150 years, with a solid position in Europe and connected to the rest of the world, Societe Generale employs over 149,000 members of staff in 67 countries and supports on a daily basis 31 million individual clients, businesses and institutional investors around the world. The Group offers a wide range of advisory services and tailored financial solutions to secure transactions, protect and manage assets and savings, and help its clients finance their projects. Societe Generale seeks to protect them in both their day-to-day life and their professional activities, offering the innovative services and solutions they require. The Group's mission is to empower each and everyone who wants to have a positive impact on the future.

Société Générale's head office is located in Paris, France.

OUR ACTIVITIES

With a local presence and a European network, SG Finans AS aims to satisfy the requirements of Scandinavian businesses for capital-intensive equipment, liquidity and administrative services.

The company is a Scandinavian finance company, and the business is carried out through a broad, Scandinavian distribution network with 15 regional and sales offices in Norway, 4 offices in Sweden and 2 in Denmark. The company's head office is located in Lysaker, Bærum, Norway. At the end of the year, the company had 359 employees. This represents a net increase of 1 employees during the year.

The activities of SG Finans do not pollute the external environment; however, some leasing objects may cause pollution when they are used. SG Finans is reporting a number of indicators for the company's environmental impact, which are part of Société Générale Group's sustainability reporting. The indicators include among others measurement of energy consumption, waste, paper and CO2 footprint. The report is available on the Société Générale Group's web pages. Société Générale is currently included in the main sustainability indices: DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (World, Europe and Eurozone), Ethibel Sustainability Index (ESI) Excellence Europe, 4 of the STOXX ESG Leaders indices, MSCI Low Carbon Leaders Index.

MAIN COMPANY DEVELOPMENT

This year we have seen the strong dynamism of a dedicated sales organisation, the innovation and entrepreneurial spirit of our teams to deliver new solutions to our clients and partners, contributing to the profitable growth of our business. We set ambitious targets for our organisation in order to ensure the continued support to Scandinavian businesses by financing capital-intensive equipment and providing liquidity and administration of receivables. In 2019 we have reinforced our position in the markets, developed our solutions and organisation, delivered solid financial results and thus further strengthened our ability to support the development of our clients and partners.

In September 2019, we attained Eco-Lighthouse certification, the most widely used Norwegian standard to document and demonstrate corporate sustainability efforts. SG Finans submitted to a sustainability audit for the certification and will repeat the process regularly to maintain it. The process also includes sustainability training to ensure that best practices are anchored throughout the staff, from executives to newly recruited staff joining the organisation. The certification is EU-approved and aligns with international environmental standards like EMAS and ISO 14001.

SUSTAINABLE POSITIVE IMPACT FINANCE

Small and medium-sized enterprises (SMEs) are key drivers of growth, innovation and employment in Europe. SMEs represent 99% of businesses in the EU and employ two thirds of the active working population. SG Finans actively supports the development of our more than 50.000 thousand corporate clients in Scandinavia by offering financing solutions that support their ability to both maintain a sustainable growth via factoring and cover their investment needs via equipment finance. We recognize our role in financing the real economy and have a track record of intermediating funding to SMEs across Scandinavia in partnership with International Financing Institutions. Our partnership with International Financing Institutions goes back to 2013, and as of December 2019 we have allocated social SME financing to more than fourteen thousand unique clients.

On the environmental front, we launched our initiative to support clients in the green transition in 2018. Over the next years we have as objective that a substantial part of new financing shall be related to climate action projects, including replacement of technology with newer, cleaner technologies, taking steps to reduce emissions or consumption of energy and adapting to new requirements for greener equipment to support our clients' economic activities. SG Finans` ambition is to be a partner and adviser to our clients in the transition to greener technology.

As of December 2019, our portfolio includes a large range of green projects such as electric and bio-fuel powered buses for public transport, electric bicycles leasing programs for smart cities mobility initiatives, electric heavy-duty excavators, light-duty zero-emissions commercial vehicles and construction equipment, specialized equipment for the construction and maintenance of rail infrastructure as well as our first hybrid (diesel-electric) work boat to serve the aquaculture industry in Norway and our first biogas upgrade plant in Denmark. In addition, we have developed green concepts in partnership with the European Investment Bank to support qualified SME agricultural and forestry entrepreneurs in Sweden and Denmark in their efforts to reduce their carbon footprint.

Our focus on green funding demanded not only the implementation of new internal processes to guarantee the outmost highest standard for the use and allocation of funds, the duly evaluation and selection of green projects and the implementation of new reporting tools, but also a paradigm shift within the organization to fully embrace SG Finans' leading role in the energy transition of Scandinavia.

SG Finans AS is also actively participating in green initiatives such as Finance Norway's Sustainability Group and Hordaland County Council's pilot project to establish the first heavy-duty hydrogen fleet in Norway, as well as collaborating with ENOVA to push the adoption of new green technologies in Norway.

Companies have a responsibility for their employees as well as their impact on the societies in which they operate – for instance in terms of working conditions, labor rights and diversity. These topics are covered in our Code of Conduct, and they are also important measures in both Eco-Lighthouse and Great Place To Work. By this, we have in 2019 broadened further our efforts on corporate responsibility and governance.

MOST INNOVATIVE CLIMATE IMPACT SME FINANCE SCANDINAVIA 2019

SG Finans was awarded Most Innovative Climate Impact SME Finance Scandinavia 2019 by the Capital Finance International (CFI.co) Awards. The award recognizes SG Finans' role as a key financer of Nordic small and medium-sized enterprises (SMEs) to accelerate regional business growth and climate change action.

CFI.co is a London-based publication reporting on business, economics and finance. Each year, CFI.co seeks out individuals and organizations that contribute significantly to the convergence of economies and add value for all stakeholders. The CFI.co awards process is comprehensive, with initial nominations based on input from readers, subscribers and contributors, followed by thorough assessment by a senior judging panel. Short-listed nominees are invited for an interview to furnish the judges with extra information as the process continues.

SG Finans maintains a healthy capitalization level with good coverage of capital buffer requirements. We manage funding profiles and liquidity positions to limit transformation risk in line with regulatory requirements on net stable funding. The company is well prepared for continued support in financing Scandinavian businesses. During 2019, our financing activities to clients increased by 4,2%, reaching MNOK 39.199,4 at the end of the year. This is a growth of MNOK 1.588,4 from the end of 2018. The growth was particularly strong within financing of equipment in Sweden where the volume of outstanding financing to clients increased by 10,0% in local currency. At the end of 2019, financing in Denmark and Sweden represented 32,7% of total financing of equipment to clients. We expect to maintain higher growth rate mainly in Sweden, while keeping our leading position within both equipment finance and factoring in the Norwegian market.

As an important part of the company's focus on relationship-strengthening activities, a number of market initiatives and events have been carried out. The primary objective of these activities is strengthening relations with the company's most important customers and partners. A goal for the future is to continue to develope the company's Scandinavian corporate culture.

EVOLUTION OF MARKET AND MARKET CONDITIONS

SG Finans established new financing of assets in Equipment Finance of MNOK 17.668,6 in 2019. This is an increase of MNOK 1.400,5 or 8,6% compared to MNOK 16.268,2 in 2018. Total new financing thus reached the highest level since establishment of SG Finans. The growth in volume compared to previous year is most significant in financing of equipment within transportation and IT/Office Equipment which increase by MNOK 581,9 or 16,2% and MNOK 513,3 or 27,6% respectively. The volume of financing of industrial equipment increases with 4,3% compared to 2018. The number of new contracts financed in 2019 is 36.068, which represents a growth of 1,7% compared to 2018. We manage to achieve an increase in average margins on new financing in mostly all segments compared to 2018. The average margin increases by 0,04%-points to 2,08%. With the intense competition in the markets, we note considerable pressure on margins for new financing in several segments and in particular in financing of transport and agriculture equipment, we observe a decrease in average margins. The mix of new financing is fairly stable compared to previous years, with 14% of new financing in High-tech segment, 41% in Transport and Agriculture equipment and 45% in Industrial Equipment.

SG Finans maintains its strong position in the Norwegian market, being the number one provider in equipment finance, as also in factoring. Based on figures from the Association of Norwegian Finance Houses as of end 2019, the company's market shares in Norway were respectively:

- Equipment leasing 25 %
- Factoring (ordinary) 26 %

SG Finans AS achieved a slightly lower growth in equipment finance in Norway compared to the general market, and the market share dropped from 27% to 25%. In Norway, new financing increased by 5,8% to MNOK 10.504,2. The growth is most pronounced in financing of transport equipment, which increased by MNOK 642,8 or 26,7%. Margins on new financing in Norway were broadly at same level compared to 2018, while the number of new financing contracts increased by 2,9% to reach 20.384 in 2018.

Within Factoring, our market share dropped from 34% to 26% in ordinary factoring. It should be noted that the reporting in the market segments was changed in 2019, and the market share figures are therefore not necessarily directly comparable. We established contracts with new clients representing MNOK 864,6 in financing volume and 78 thousand invoices for administration. The new financing volume is 11,7% lower than the new volume achieved in 2018, while the number of new invoices is down by 4,5% compared to last year. The market share in ordinary factoring, our core segment, drops from 34% at the end of 2018 to 26% at the end of 2019.

In equipment finance in Denmark, the volume of new financing increases by 3,1% in local currency through 2019. This corresponds to a growth of 5,4% in NOK, and we have financed equipment for a total of MNOK 3.428,6 during the year. Despite fierce competition and good availability of financing to corporates, the margins on new financing are in improving somewhat in most segments; with the exception of financing equipment to the agriculture sector. With a total of 5.837 new contracts, we see the number of new financing contracts is down by 3,8%.

In Sweden, the strong growth in new financing volumes continues and we observe an increase by 21,8% in local currency compared to 2018. We have established new financing of MNOK 3.735,8 which represents an increase of 21,0% in NOK. Margins on new financing are generally lower in 2019 in Sweden compared to the year before, except for financing high-tech equipment. With a total of 9.338 new financing contracts, the number of new contracts is up by 2,8%.

SG Finans retains its position as a market leader in Norway within both product areas. The company maintains the strong market position in Denmark, while the market share in Sweden continues to grow in 2019. Based on the strong positioning in the Scandinavian markets, SG Finans maintains its role as one of Scandinavia's leading finance companies.

FINANCIAL RESULTS
(all figures for SG Finans AS)

SG Finans produces an operating result of MNOK 900,5 in 2019. This is an increase of 22% from the operating result of MNOK 738,5 in 2018. Total comprehensive income, after tax and OCI, is MNOK 635,4, compared to MNOK 549,9 for 2018.

In 2019, the Net Banking Income amounts to MNOK 1.575,5. This is an increase of MNOK 170,7 from 2018 when the Net Banking Income amounted to MNOK 1.404,7. The increase in Net Banking Income comes mainly from the growth in funded assets, higher interest margin on funded assets and growth in other income.

Net Interest Income amounts to MNOK 1.229,4 compared to MNOK 1.086,4 in 2018, which is an increase of MNOK 143,0 or 13,2% during the year. The increase in Net Interest Income stems partly from higher average volume of financing to clients (+ 7,0%) and partly from improved average Net Interest Margin (+ 5,8%). The average volume of financing to clients increases by MNOK 2.495,0 or 7,0% from MNOK 35.616,3 in 2018 to MNOK 38.111,3 in 2019.

The growth in average volume of financing is strongest in Sweden with a growth in average volume of financing of 13,5%. Net Interest Margin is higher in 2019 within Factoring as well as financing of equipment in Denmark and Norway, while the Net Interest Margin for financing of equipment in Sweden is slightly lower compared to last year. Also in 2019, the historical low level of interest rates, with negative interest rates in both DKK and SEK through the year, demonstrates the challenges in stimulating the Scandinavian economies to new growth.

Other Income represents MNOK 346,1 in 2019 compared to MNOK 318,3 in 2018. This is an increase of MNOK 27,8 or 8,7%. The largest source of Other Income is gains on sale of assets and repossessed equipment, which includes residual income from prolongation of leasing contracts after ordinary contract term and early termination of contracts. These gains on sales represent more than half of Other Income with MNOK 203,8 in 2019, compared to MNOK 177,0 in 2018. Net income from Commissions and fees represent MNOK 140,1 in 2019 compared to MNOK 134,3 in 2018.

Operating Expenses amount to MNOK 613,3 in 2019 compared to MNOK 608,2 in 2018. This is an increase of MNOK 5,1 or 0,8% during the year. The increase in operational expenses comes mainly from increased payroll expenses. The implementation of IFRS 16: Leases has led to a shift in other operating expenses, rent and other office costs are reduced with MNOK 28,7, while depreciation costs has increased with MNOK 29,2 compared to 2018-figures.

Staff expenses amount to MNOK 404,0 and represent thus 65,9% of total Operating Expenses which is close to same level as last year (2018: 63,9%). Payroll increases by 7,4% compared to previous year, while pension expenses and retirement benefits end 24,2% lower. The Board has decided to pay an extraordinary bonus to all staff for the excellent results produced in 2019.

Other Expenses amount to MNOK 209,3 in 2019 compared to MNOK 219,8 in 2018. This is a decrease by MNOK 10,6 or 4,8%. The decrease in Other Expenses is mainly due to lower costs of intragroup services in 2019.

The Cost of Risk ends slightly higher in 2019 compared to previous year. Total cost of risk amounts to MNOK 61,7. This is an increase of 6,3% or MNOK 3,7 from the MNOK 57,8 cost of risk in 2018. The cost of risk represents 0,16% of average funded assets in 2019 which is the same level as in 2018.

The cost of risk is in 2019 below the company's long-term expected average cost of risk. We note a reduction in cost of risk in Factoring and in equipment finance in Denmark, slightly higher cost of risk in equipment finance in Norway whereas cost of risk remains at the same level as last year for equipment finance in Sweden.

Net loans outstanding have increased from NOK 37,7 billion to NOK 39,2 billion. This is an increase of 4,2% during the year. The branches in Sweden and Denmark represented 32,7% of net loans to customers at the end of the year. This is a slight decrease in relative share compared to end of 2018.

In line with the increase in total loans outstanding, our funding, i.e. loans and deposits from financial institutions with agreed maturity, is up with 2,5% and reaches at the end of 2018 NOK 31,9 billion, up from NOK 31,2 billion end of 2018. Net loans to customer represent thus 122,7% of loans and deposits from financial institutions with agreed maturity as at 31.12.2019. This is at the same level as at the end of 2018. The majority of our funding is raised from the parent, Société Génerale Group.

Total write-downs for credit risk was at year end MNOK 424,4 corresponding to 1,07% of total outstanding loans to customers. This is a decrease of MNOK 30,3 during the year. In comparison, at the end of 2018, total write-downs for credit risk represented MNOK 454,6 or 1,19% of total outstanding loans to customers. Gross doubtful loans were MNOK 745,7, which is a decrease of MNOK 88,6 or 10,6% compared to MNOK 834,3 at the end of the previous year. This represented 1,9% of total loans to customers, down from 2,2% at the end of 2018. We observe generally relatively low cost of risk in historic terms and stable level of defaulted engagements. With the measures taken early 2020 by Scandinavian countries to limit the spreading of the Covid-19 virus ("Corona virus"), uncertainty about the mid to long term impact is higher than usual even with the governmental anti-crisis measures and packages. Some of the measures will stop or reduce economic activity for some of our clients and partners and may eventually lead to reduced liquidity and potentially reduced ability to serve debt financing. We therefore need to observe the situation and evolution closely in the coming weeks and months. Write-downs for credit losses are done based on individual engagements, and the company has not made write-downs for groups of assets. The Board assesses that the write-downs for credit losses represent a satisfactory estimate of expected losses in the portfolio by year-end 2019.

Assets that are repossessed as a result of defaulted leasing and loan contracts amounted at year end to MNOK 25,5 from total 218 contracts. This is an increase of MNOK 3,2 during the year compared to MNOK 22,3 from total 207 contracts at the end of 2018. Turnover during the year from the sale of repossessed assets amounted to MNOK 318,3 which is higher than in 2018 when the turnover was MNOK 256,4. The company has achieved acceptable prices on sale of repossessed assets in 2019, and the market for second-hand equipment has generally been good. A substantial part of the sale of repossessed assets is handled through SG Finans' web-based auction portal. We experience that this solution is well received and appreciated in the market.

The company's common equity at the end of the year was MNOK 6.075,9 including net result of the year. Total regulatory capital for the calculation of the capital coverage amounted to MNOK 6.545,2 as at 31.12.19. Regulatory core capital represented MNOK 5.995,2.

The total capital coverage by year end 2019 was 23,5%, which is higher than the level at the end of previous year. The regulatory minimum requirement, including capital buffer requirements, is 15,64% at the end of 2019. The effective institution specific countercyclical capital buffer requirement for SG Finans, as defined by the country specific requirements for the portfolio, is 2,14% at the end of 2019. At the end of the year, SG Finans' total capital ratio is well above regulatory minimum requirements and internal targets, with 7,9% or MNOK 2.197,2 total capital above regulatory minimum pilar one capital requirements. The core capital ("tier 1") ratio was 21,5% at the end of 2019, which is well above the regulatory minimum requirement for the core capital ratio at 13,64% at year-end. SG Finans had at end of 2019 core capital of MNOK 2.190,4 above minimum regulatory requirements. Finanstilsynet issued in December 2016, individual prudential requirements for SG Finans which require the entity to maintain 1,5% common equity capital above minimum own funds requirements, with effect from 1 January 2017. Furthermore, the regulator recommended that SG Finans maintains common equity tier one capital above 15,5%. Finanstilsynet confirmed again the prudential requirements and recommendation as part of the supervisory risk evaluation process in 2019. The Board takes into consideration this additional requirement and recommendation from the regulator in the proposal for allocation of total comprehensive income, assessments of dividends and capital planning going forward.

SG Finans calculates the capital requirement and capital coverage based on the advanced internal ratings based method ("A-IRB") for credit risk for the main portfolios and standard method for other portfolios, while using the basic indicator approach for operational risk. The calculation basis for calculation of capital adequacy was MNOK 27.841,2 at the end of 2019. Of this, risk-weighted assets for credit risk represented MNOK 25.032,1. This is a decrease in risk-weighted assets (credit risk) of 6,1% compared to last year. The regulatory pillar one capital requirement for operational risk was MNOK 224,7. The company does not take market risk and the regulatory capital requirement for market risk was zero.

The minimum regulatory requirement for total capital (8%) was MNOK 2.227,3. In addition, the Norwegian regulator has implemented minimum capital buffer requirements at end 2019 of total 7,64% as follows:

- Capital conservation buffer requirement of 2,5% which represents MNOK 696,0
- Systemic risk buffer requirement of 3,0% which represents MNOK 835,2
- Countercyclical buffer requirement of 2,14% which represents MNOK 596,3

The capital buffer requirements shall be covered in addition to the core capital (tier 1) requirement of minimum 6,0%, meaning that core capital ratio (tier 1 ratio) shall be at least 13,64%. The total capital requirement including buffers is therefore 15,64%. In addition the company shall hold a pillar 2 capital buffer of 1,5%.

The Board closely monitors development in prudential capital requirements in order to early plan and initiate measures to manage capital levels and capital buffers in relation to expected growth, unexpected credit losses as well as established market practice.

As part of the company's capital management procedures, stress testing of all relevant risks is performed and the change in the capital requirement under various stress scenarios is evaluated. The results of the stress testing of the individual risk areas show that in the aggregate, i.e. if all main risks occur at the same time, the potential impact on earnings / capital is well covered by the company's buffer capital and internal minimum capital targets.

The capital adequacy is considered satisfactory considering the results of the performed stress tests. The available capital buffer, after performed stress tests and regulatory capital buffer requirements, is MNOK 1.772,8 compared to MNOK 758,7 at the end of 2018.

Total comprehensive income, after tax and OCI, for 2019 is MNOK 635,4. Further to assessment of current capital levels, prudential capital requirements and internal capital targets, The Board proposes to allocate total comprehensive income for 2019, MNOK 635,4, to Other Equity.

The Board considers that the financial statements give a true and fair view of the company's financial position. Other than what is stated in the accounts there have not been any events after balance-sheet date that may have any significant impact on the financial statements, including the status the situation and known consequences of the Covid-19 virus at closing. Based on the results of the year, the Board concludes that there are grounds for going concern, and this forms the basis for the preperation of the financial statements for 2019.

CORPORATE GOVERNANCE

SG Finans is a wholly owned subsidiary of Société Générale Group, and is subject to comprehensive reporting to and controls from the parent company. Furthermore, the company has established a number of functions to ensure good monitoring and control of the company development, use of resources and risk taking. The company takes credit risk through lending and financing of equipment, while other types of risk are hedged or limited to the extent this is possible and practicable. The company's principles and guidelines for internal governance and internal control are based on among other CEBS guidelines and recommendations. It is established formal committees and procedures for monitoring and control, including control of credit risk, financial risks, operational risks as well as for internal control, compliance, anti-money laundering and audit. The Board of Directors has established a dedicated risk committee for the monitoring of the company's risk governance, i.e. risk appetite and strategies, risk tolerance and exposures, risk management and pricing of assets and liabilities. Furthermore, management testing of internal controls has been integrated in the group permanent supervision tool. The tool facilitates testing, documentation and reporting and supervision of any anomalies, and should thus contribute to further strengthening internal control.

In order to increase staff awareness and comprehension, the company has pursued training programmes on among others international sanctions, anti-money laundering, anti-corruption and management of conflicts of interest. SG Finans thus complies with the internal requirements defined by the parent company, and the company representatives participate in relevant external forums to contribute to the development of rules and regulations for financing companies. The company has updated by-laws, organisation of governance and supervision as well as control functions, as part of the adaptation to the new Norwegian law on financial institutions which entered into force from 2016.

RISK MANAGEMENT

The company's principles for risk management are described more in 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.

The French and Norwegian regulators have validated SG Finans' use of internal models for the calculation of capital requirements according to the Advanced Internal Rating based approach. For the purpose of calculation of capital requirements, SG Finans uses calibrated models for among others the calculation of the probability that a debtor defaults as well as the final loss in case of a default.

The financing provided is generally secured by direct ownership (leasing) or pledge (loans). The value development of the financed objects is therefore critical in assessing and controlling the risk profile of the portfolio, and knowledge about the object's second-hand value, liquidity and markets is fundamental for the credit quality and total loss in the portfolio.

The risk management approach is to balance credit risk (counterparty) and asset value development of the financed equipment or invoice serving as security for our financing.

Since the experiences of the severe consequences of the financial crisis in Europe and globally, regulators have focussed increasingly on ensuring banks and financial institutions have access to necessary liquidity at all times. SG Finans has continuously adapted the maturity profile of funding to match maturities of lending in order to ensure stable long term funding and long term coverage of liquidity requirements. We have refocused our funding strategies to establish new long-term relationships with lenders, in order to broaden our funding sources. As part of liquidity planning and management, we assess sensitivities and continuously maintain liquidity contingency back-up plans. SG Finans contribute to the Société Génerale Group liquidity planning and assessment of liquidity reserve requirements.

SG Finans main source of funding remains the parent company and we maintain a close contact with our parent. In total we can conclude that the company has had access to satisfactory levels of funding and liquidity. In 2019 we have also concluded new loans with the European Investment Bank to support the financing of investments for SMEs in our main markets with a substantial part to be allocated to the financing of climate action projects.

The company is subject to internal and external capital adequacy requirements. The internal guidelines compel the company always to comply with the internal requirements which are stricter than the regulatory minimum requirements. As part of the company's policy and procedures for capital management, the company regularly performs assessment of the capital situation and capital adequacy in given stress tests for various scenarios and relevant types of risk. This has been carried out in accordance with the regulatory requirements for internal processes for the assessment of capital adequacy (Internal Capital Adequacy Assessment Process or ICAAP) and for liquidity (Internal Liquidity Adequacy Assessment Process or ILAAP). The analysis demonstrates that the company's capital adequacy, solidity and liquidity are satisfactory in respect of expected future growth and also following the stress tests that have been performed.

SG Finans has implemented and operated the central elements in Société Générale Group's methods and procedures for operational risk management. As a part of this, the company monitors and reports on key risk indicators for operational risk and scenario analysis of different stress scenarios, in addition to reporting of events and losses and the group's framework for self-assessment of risks and controls. On an overall level, the Board assesses the level of operational risk losses in the company as acceptable.

As part of Société Générale group, the company has worked in line with the group's principles and framework for internal control and corporate governance. Assessments are made of relevant risks and the efficiency of internal controls. The results of these assessments are considered satisfactory.

THE ORGANISATION AND WORKING ENVIRONMENT

At the end of the year the company had 359 employees, whereof 272 in the Norwegian operations, 42 in Sweden and 45 in Denmark. The number of staff has increased with by 1 employee during the year. The average number of FTE has increased by 8,8 FTE in 2019 compared to 2018, with an average of 356,0 FTE in 2019 compared to 347,2 FTE in 2018. During the year, the company has recruited 28 new employees, compared to 41 new employees in 2018. The Board welcomes all new employees joining SG Finans.

SG Finans focuses on ensuring that its employees experience equal opportunities, and initiatives and measures designed to achieve this have been incorporated into the company's strategy plan. Furthermore, the company has established functions and procedures to prevent any form of discrimination. This includes the Remuneration and Recruitment Committee and the Work Environment Committee, whose members are equally staff representatives and company management, anonymous whistle-blower protection procedures for employees, periodic staff appraisal reviews as well as staff satisfaction surveys where any potential discrimination shall be identified and avoided.

SG Finans has in the plans for the company's Health/Safety/Environment activities defined measures to avoid discrimination of employees with disabilities in new recruitments. The company facilities are adapted to employees with disabilities. Based on the above functions and measures the company procedures related to the law against discrimination and availability ("diskriminerings- og tilgjengelighetsloven") are considered satisfactory. SG Finans reports on a set of indicators related to corporate and social responsibility, including diversity, worker's rights and social conditions, which are part of Société Générale Group's sustainability reporting. The report is available on the Société Générale Group's web pages.

Turnover is somewhat lower in 2019 with 7,6% compared to 8,2% in 2018. The turnover rate is considered being at an acceptable level.

SG Finans AS a provider of specialist financial services is exposed to a restricted market for the required skills and competencies reflecting the strong demand for employees with expertise in the finance sector. Being the leading finance company within equipment finance and factoring in Norway and part of Société Générale Group are clearly advantages in attracting new talents to the organisation.

The number of days of absence due to illness is slightly higher in 2019 compared to the year before, but at an acceptable level with in total 2.446 absence days, compared to 2.211 in 2018. The rate of absence during 2019 is 3,9% compared to 3,6% in 2018. SG Finans has a strong and continuous focus on measures to keep the rate of absence as low as possible. This is done by offering regular management training and support from HR on how to prevent long-term sick leave as well as close cooperation with our company health provider. We offer inhouse exercise facilities at the head office at Lysaker with a physiotherapist present once a week to prevent musculoskeletal problems among the employees.

The Board is not aware of any personal injuries occurred at work in 2019. The working environment at SG Finans is considered to be good. This was confirmed in a Great Place to Work survey, which with a good margin led to a Great Place to Work certification of the company.
SG Finans also achieved a high score in the 2019 Société Générale Employer Barometer Survey.

The company has a Work Environment Committee and a Cooperation Committee. Legally required meetings have been held.

The Board compensation committee has monitored compensation to identified staff in line with regulation on compensation, and the compensation policy, including quantitative and qualitative criteria for fixed and variable compensation, is reviewed on at least yearly basis by the Board compensation committee.

Various cultural and expertise-building measures have been conducted in the year, both at local (regional and branch) and central level. Emphasis has also been placed on continuing to build up a common Scandinavian culture based on the company and group values.

GREAT PLACE TO WORK

SG Finans has many years of experience with very strong results from our local staff satisfaction survey and Employee Barometer. We have many initiatives for creating high job satisfaction and positive commitment throughout the company, and our working environment is a result of our combined efforts.

In 2019 we seized the opportunity to do an external mapping of the working environment in our company. In addition, and parallel with this, we also applied for the certification as Great Place to Work®.

We want to improve our insights about our culture and at the same time benchmark ourselves against other great workplaces. Such a certification shall make the organisation proud and contribute to building an even stronger employer brand. This cooperation and certification are also aligned with the vision that we want to be a leading provider of innovative and flexible solutions to finance and manage equipment. We are a digital and customer-centric organization, committed to delivering an excellent experience to vendors partners and clients across countries. We shall be a great place to work, driven by simplicity, agility and sustainability.

Great Place to Work® believes that a good organizational culture is essential to the success of change processes and innovation. In the future, expectations for companies to deliver added value to their customers will increase, and the companies themselves must truly represent good values.

FUTURE PROSPECTS

We are ending a year of many completed achievements, positive development of the company and strong financial results. We observe generally relatively low cost of risk in historic terms and stable level of defaulted engagements. The spread of Covid 19, declared a pandemic by the World Health organization in March 2020, have caused great turmoil in the global economy. The impact is already severe, impacting from global economy, Nations, entities and consumers. The full impact and duration are highly uncertain. All over the world, governments have taken anti-crisis actions trying to counter the many action taken by government to stop or reduce the spread of the pandemic.

In the Nordic area we have seen both fiscal policy and monetary policy measures as a response to the coronavirus. All central banks have introduced liquidity measures to support market functioning, banks and corporates. In addition, across the Nordic countries, counter-cyclical capital buffer (CCyB) requirements have been lowered, providing banks with additional headroom to continue lending to the economy. Moreover, financial supervisory authorities in the three Scandinavian countries are allowing banks to make use of their liquidity buffers, by providing them temporary relief from liquidity coverage ratio requirements. These measures have been effective, but whether it will be sufficient will depend on the duration of the epidemic and extent of restrictions imposed by and austerity relief provided by the authorities. So far SG Finans AS, as a part of Societe Generale Group, has therefore had so far, satisfactory access to liquidity during the current conditions.

As more and more borders have been closed, and travel restriction have been put into place businesses are impacted. As SG Finans key impact factor is liquidity, and we have a broad network of branches in Scandinavia, the impact of these restrictions does not affect SG Finans directly to a large extent. But as a key factor in our business is financing equipment, we are impacted as our suppliers and customers surly meet shortages and increased prices. Ultimately these actions, put in place by Governments will reduce economic activity or even stop, for some of our clients and partners and may eventually lead to reduced demand for new investments.

Unfortunately, no one is completely shielded in the current situation, and we expect a weakening of credit quality across the portfolio. We expect increasing default rate and increasing Cost of Risk in the coming period. On the positive side, we are going into the downturn with arguably a strong portfolio. This will mitigate some downside and we expect the outcome to be manageable. We expect a broad effect independent of sector/segment – although some areas will be more impacted than others. Sectors considered to be most exposed are transport, manufacturing/industry, tourism /events and the wholesale & retail sector. A significant increase in request for payment delays has already materialised and is the first sign of increased counterparty risk in our portfolio. These are to the extent possible considered on an individual level, and closely monitored by Risk department.

SG Finans has to the best of its ability taken measures, enabling the entity and the staff to still maintain and service customers and suppliers during this epidemic. The Board is monitoring the situation closely and has supported establishment of a crisis team within SG Finans. The crisis team meet on a daily basis ensuring that all business aspect possibly impacted by the epidemic, recommendation from heath authorities, and governmental action are closely monitored and followed up.

Further to the agreement between Société Générale and Nordea on the sale and purchase of SG Finans AS, the company has started the necessary activities to prepare for the separation from Société Générale in parallel with the regulatory process to validate the sale of the company. Until the sale is validated by the competition surveillance and prudential authorities, business is maintained as usual, while dedicated teams work on the preparation of the transfer of ownership. We must expect that the sale will be completed according to the agreement in the second half of 2020.

In this period SG Finans is well prepared to continue serving our clients and partners, in their requirement for financial solutions to improve liquidity and to make available the equipment necessary for their activities. It is important for SG Finans that our clients and partners continue to experience that the company has the willingness and ability to be a long-term partner for financing of capital goods and equipment. Our focus will continue to be maintaining and developing the good relations to our existing clients and partners and developing new long-term relations.

SG Finans has demonstrated the capability to adapt to new regulatory requirements, to maintain strong earnings and thus create the basis for future capitalisation and at the same time to develop our tools and staff to the satisfy client and vendor partner demands. The company has employees with a high degree of competence and experience and the organisation has both the capacity and will for adjustment and change. These are strengths to be maintained and develop further also under potential future changed ownership.

Lysaker 26 March 2020

Jochen Jehmlich
Chairman

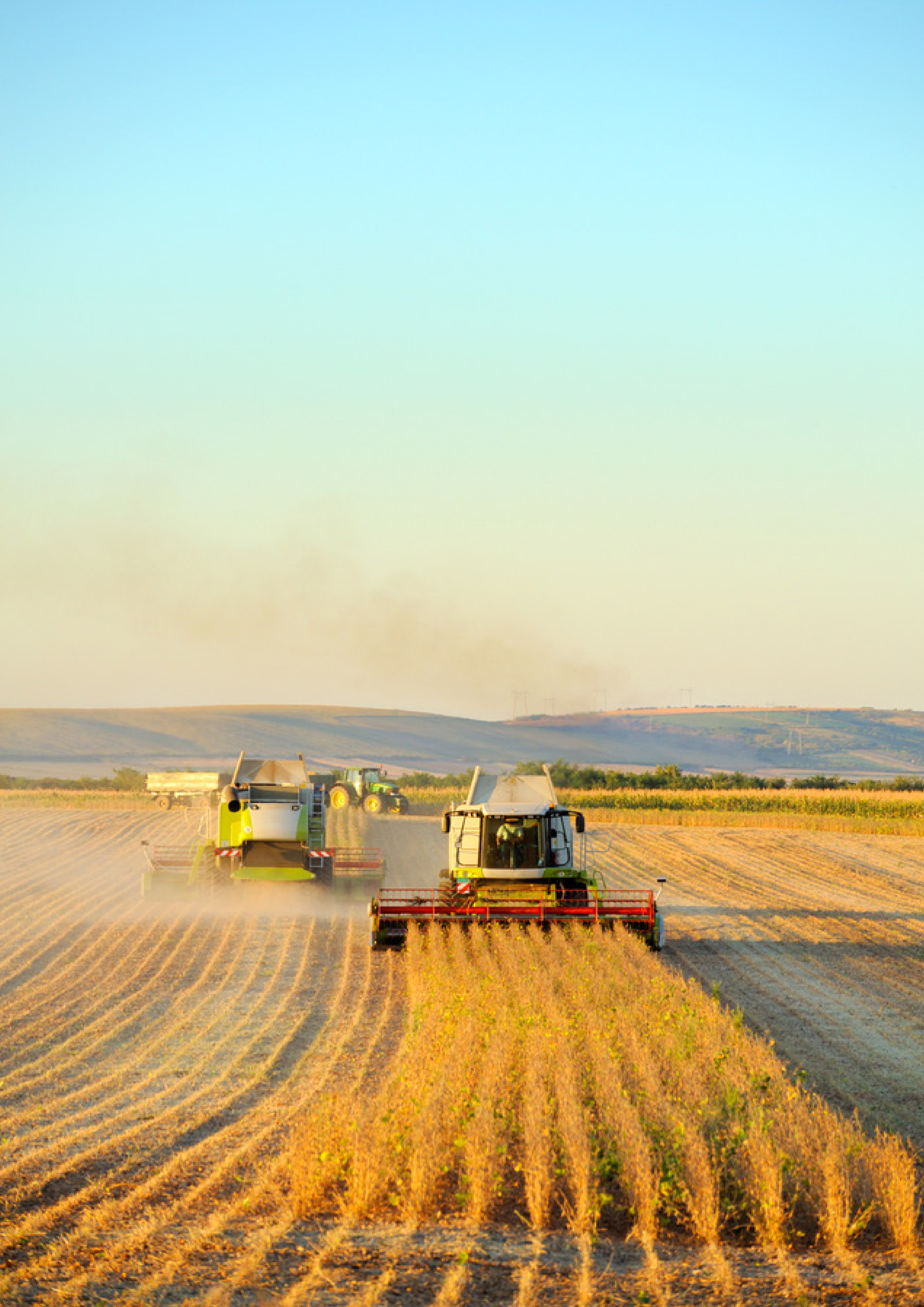
Peter Ström

Ellen Altenborg

Tommy Pedersen

Mariann H. Gulbrandsen

Carsten Thorne
Managing director



SG FINANS SCANDINAVIA

CEO
Carsten Thorne

SALES & BUSINESS DEVELOPMENT

Region North - East
Stig-Are Eriksen

Region South-West
Espen Brochmann

Denmark
Lars Rasmussen

Sweden
Jonas Böös

Sales & Business development equipment
Finn Mathisen

Sales & Business development factoring
Kjell Vegard Opheim

SUPPORT

Finance
Hans Einar Herzog

Credit
Armand Taillandier

IT
Sverre Edin

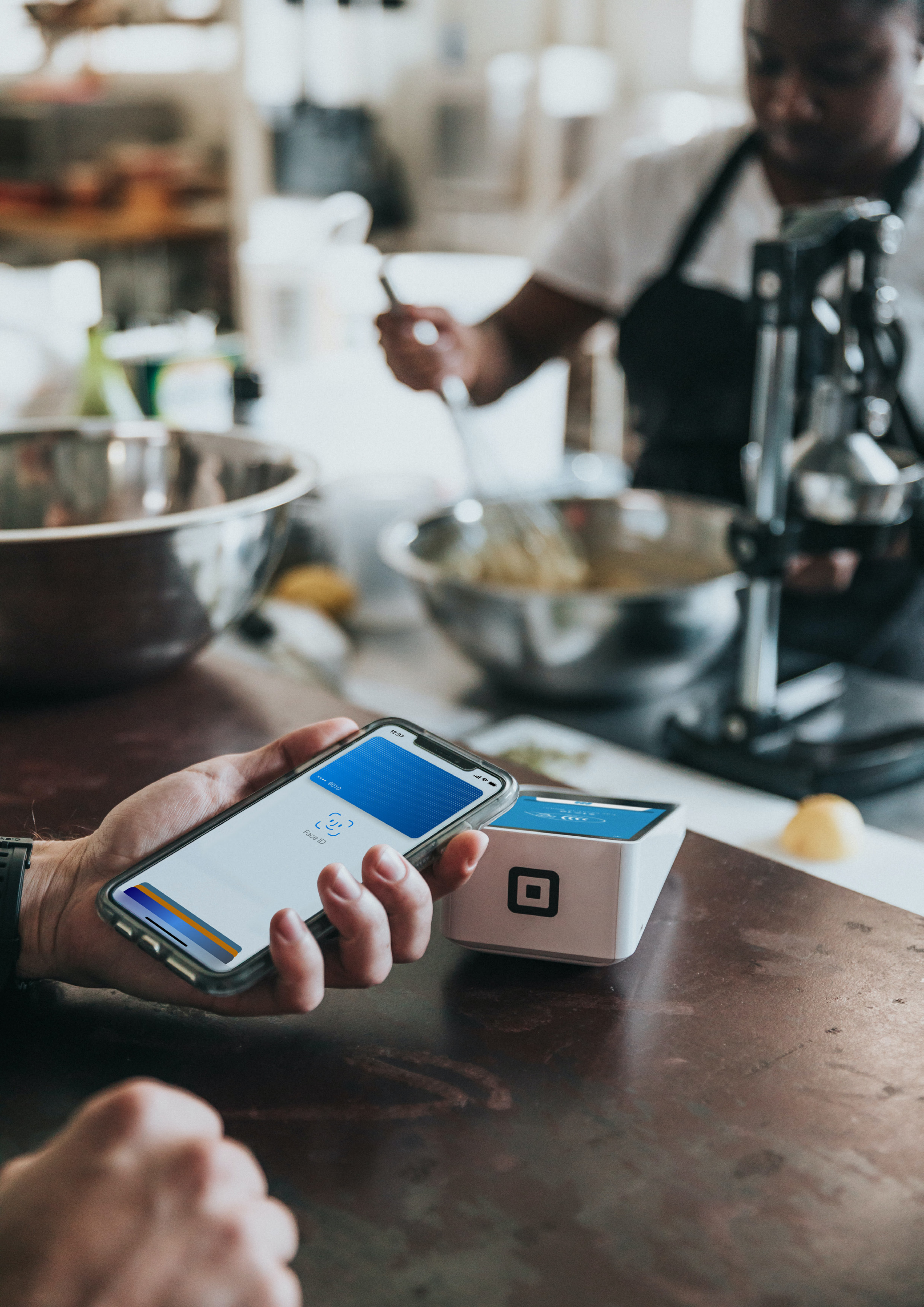
HR
Maria Ulla

CONTROL

Internal Audit
Christian Bakken

Compliance
Carl Gunnar Lunde

Risk Management
Nanina B. Lund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PROFIT AND LOSS ACCOUNT

(in NOK thousand)	Notes	2019	2018
Total interest income	4	1 676 665	1 428 974
Total interest expenses	4	-447 236	-342 560
Commission and fee income	5	314 553	300 609
Commission and fee expenses	5	-174 477	-166 277
Net gains and losses on financial transactions	6	-179	3 258
Income on other activity	5	206 166	180 695
Net banking income		**1 575 492**	**1 404 699**
Total payroll, fees and other staff cost	7,8	-404 005	-388 336
Total other operating expenses	7	-209 283	-219 842
Gross operating income		**962 204**	**796 521**
Cost of risk	14,15	-61 661	-57 995
Operating income		**900 543**	**738 526**
Taxes	9	-252 331	-191 340
Profit for the period		**648 212**	**547 187**
Other comprehensive income			
Items that could be reclassified:			
Exchange differences on translation of foreign operations		-2 767	-500
Taxes		609	115
Items that cannot be reclassified:			
Actuarial gains and losses		-13 609	4 295
Taxes		2 994	-1 193
Attributable to:			
Equity holder of the parent		635 438	549 904
Total comprehensive income of the period		**635 438**	**549 904**

BALANCE SHEET
– ASSETS & LIABILITIES

(in NOK thousand)	**Notes**	**2019**	**2018**
Cash and deposits with central banks		9	10
Hedging derivative assets	6,21,22	97 253	146 466
Due from banks	10	400 085	288 797
Customer loans	11,12,14,15	39 199 392	37 606 693
Revaluation differences		18 178	58 631
Repossessed assets	26	25 485	22 268
Deferred tax assets	9	0	16 559
Tangible and intangible fixed assets	16	122 136	25 112
Other assets		139 217	104 492
Total		**40 001 754**	**38 269 028**
Financial liabilities at fair value through profit and loss	6,21	0	507
Hedging derivative liabilities	6,21	84 648	77 339
Due to banks	17	31 946 015	31 162 541
Customer deposits		248 927	234 642
Other liabilities		780 103	537 392
Pension liabilities	8	94 490	85 748
Deferred tax liabilities	9	8 167	0
Current tax liabilities	9	213 361	180 162
Subordinated debt	18	550 126	550 216
Total liabilities		**33 925 836**	**32 828 548**
Share capital		945 436	945 436
Share premium account		240 639	240 639
Other equity including profit for the year		4 889 843	4 254 405
Total equity		**6 075 918**	**5 440 480**
Total		**40 001 754**	**38 269 028**

Lysaker, 26 March 2020

Jochen Jehmlich
Chairman

Ellen Altenborg

Tommy Pedersen

Peter Ström

Mariann H. Gulbrandsen

Carsten Thorne
Managing director

STATEMENT OF CHANGES IN EQUITY

(in NOK thousand)	Share capital	Share premium	Retained earnings	Translation differences	Actuarial gains and losses	Total
Equity 01.01.18	945 436	240 639	3 898 691	410	-19 082	5 066 095
Adjustment in first time application IFRS 9			-75 518			-75 518
Adjusted equity 01.01.18	945 436	240 639	3 823 173	410	-19 082	4 990 577
Profit for the period			547 187			547 187
Other comprehensive income				-385	3 102	2 717
Dividends			-100 000			-100 000
Total equity 31.12.18	**945 436**	**240 639**	**4 270 360**	**25**	**-15 980**	**5 440 480**
Equity 01.01.19	945 436	240 639	4 270 360	25	-15 980	5 440 480
Profit for the period			648 212			648 212
Other comprehensive income				-2 158	-10 615	-12 773
Dividends						0
Total equity 31.12.19	**945 436**	**240 639**	**4 918 572**	**-2 134**	**-26 595**	**6 075 918**

CASH FLOW STATEMENT

(in NOK thousand)	**2019**	**2018**
Operations		
Interest income	1 612 085	1 351 201
Interest expenses	-447 236	-342 560
Other receipts	396 787	378 104
Operating expenses	-623 530	-600 014
Receipts on previous losses	19 236	19 026
Paid taxes	-222 506	-102 912
Net cash flow from operations	**734 837**	**702 845**
New investments leasing	-15 143 630	-14 476 198
Proceeds from sale of leasing assets	3 563 307	2 679 182
Decrease in loans (net)	9 930 165	9 238 546
Decrease (increase) in other receivables	103 008	410 723
Decrease (increase) in advance payments	-34 725	38 682
Net cash flow from current financial activity	**-1 582 876**	**- 2 109 065**
Decrease (increase) in tangible assets	-8 158	-10 651
Shares and primary capital certificates	0	100
Net cash flow from investment activity	**-8 158**	**-10 551**
Increase (decrease) in deposits from customers	14 285	13 570
Payment of dividends	0	-100 000
Increase (decrease) subordinated debt	0	-550 000
Increase (decrease) in loans from credit institutions	864 454	2 482 521
Increase (decrease) in debt	73 539	-186 184
Increase (decrease) accrued costs	15 725	-5 144
Currency exchange without cash effect	-2 158	1 025
Net cash flow from long term financial activity	**965 845**	**1 655 789**
Net cash flow	**110 648**	**239 018**
Cash at the 1st of January	287 807	48 789
Cash at end of period	**398 455**	**287 807**
Reconciliation cash at end of period		
Cash and deposits with central banks	9	10
Deposits with financial institutions	398 446	287 797
Cash at end of period	**398 455**	**287 807**

NOTES TO THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Company information

SG Finans AS is a Scandinavian finance company and its business is carried out through a broad, Scandinavian distribution network with 15 regional and sales offices in Norway, 5 offices in Sweden and 2 in Denmark. SG Finans AS forms part of Société Générale SA, a group listed on the stock exchange with head office in Paris, France. The Group consolidated financial statement is prepared by Société Générale SA, and is available on www.socgen.com.

The company is a limited company incorporated and domiciled in Norway. Its registered office is in Strandveien 18, Lysaker.

The separate financial statements for the year ended 31 December 2019 were approved in the board meeting on 26 March 2020.

The basis of preparation of the financial statements

SG Finans AS separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), approved by the E.U. The financial statements are set up on an historic cost basis, with the exception of the specific recognition criteria for financial instruments as described below.

Branches

The financial statements show the figures for SG Finans AS, comprising the business operations in Norway, Denmark (branch) and Sweden (branch).

Functional currency and presentation currency

The functional currency is determined in each unit in SG Finans based on the currency within the unit's primary economic environment. Transactions in foreign currency are translated to functional currency using the exchange rate at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Changes in the exchange rates are recognised continuously in the accounting period. SG Finans's presentation currency is Norwegian Kroner (NOK).

The statement of financial position figures of branches with a different functional currency are translated at the exchange rate prevailing at the end of the reporting period for balance sheet items, and the exchange rate at the date of the transaction for profit and loss items. The monthly average exchange rates are used as an approximation of the transaction exchange rate. Exchange differences are recognised in other comprehensive income ("OCI").

Comparable figures

Comparable figures are prepared for profit and loss, balance, cash flow statement and notes.

The use of estimates

The preparation of financial statements in accordance with IFRS includes assessments, estimates and assumptions that affect both which accounting principle is applied and the reported amounts for assets, liabilities, revenues and expenses. The actual amounts can vary from estimated figures. Estimates and underlying assumptions are reviewed and assessed on an ongoing basis. Changes in accounting estimates are applied in the period in which the estimates are changed, and in all future periods affected. Note 2 provide further information on significant estimates and assumptions.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

SG Finans´s financial assets are: derivatives, loan to customers and cash and cash equivalents. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and business model for managing them.

SG Finans classified its financial assets in categories:

- Financial assets at amortised cost
- Derivatives at fair value designated as hedging instruments in line with IAS 39

Financial assets at amortised cost

SG Finans measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Financial assets at amortised cost includes loans, leasing and factoring

Leasing

SG Finans' leasing activities comprise financial lease agreements. Financial leasing is classified as leasing and for accounting purposes treated as loans. Contracts with residual value are written off to the residual value over the duration of the contract.

The interest component of the lease payments is recorded as interest income in accordance with the principles described in the point for loans, while the principal component reduces the lease loan. Revenue from lease payment is recorded in accordance with the annuity principle. For tax purposes, the leasing objects are depreciated using the declining balance method.

Direct marginal revenues and costs when first calculated and the expected gains on sale are included in net interest income. Other leasing gains on sale are posted under other revenues.

Factoring

Factoring is recorded in accordance with the net method, i.e. the loan to the user of the factoring service is recorded in the balance sheet. This loan is classified as loan factoring. If SG Finans has assumed the credit risk for the receivables then this loan is classified as receivables factoring. Retention of margin and other customer accounts is classified as such when prepayment to customer is lower than factoring receivables.

Derivatives at fair value designated as hedging instruments

In accordance with the transitional measures provided by IFRS 9, the SG Finans has elected to continue recognising hedging transactions under IAS 39 as adopted by the European Union.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired, or
- SG Finans has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
    a. SG Finans has transferred substantially all the risks and rewards of the asset, or
    b. SG Finans has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Derivatives are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Derivatives are financial liabilities when the fair value is negative, accounted for similarly as derivatives as assets.

Loans, borrowings and payables

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. Payables are measured at their nominal amount when the effect of discounting is not material.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Fair value hedges:

Derivatives designated as hedging instruments are measured at their fair value and changes in the fair value are recognised in the statement of comprehensive income as they arise. Correspondingly, a change in the fair value of the hedged object which is due to the risk that the object is hedged against, is recognised in the statement of comprehensive income.

The hedge accounting is discontinued if:

a. the hedging instrument expires or is terminated, exercised or sold, or
b. the hedge does not meet the abovementioned hedge requirements, or
c. the company chooses to discontinue hedge accounting for other reasons.

If the hedge assessment is terminated, the changes which have been made in the carrying amount of the hedged object are amortised over the remaining economic life using the effective interest rate method if the hedging instrument is a financial instrument that has been recognised according to the effective interest rate method.

Risk classification

Interest rate

Hedging the interest rate risk from fixed interest rate contracts is implemented through swap contracts where we pay fixed and receive variable interest. This enables us to hedge our financial risk against changes in interest rates, and the loans outstanding match the funding.

Interest rate swaps that do not qualify as hedging instruments are presented in the balance sheet in the line item for financial liabilities at fair value through profit and loss and changes in value are included in “Net gains on financial instruments at fair value”.

Foreign exchange

A Cross Currency Swap is an agreement between two parties to exchange interest payments and principal on loans denominated in two different currencies. In a cross currency swap, a loan’s interest payments and principal in one currency would be exchanged for an equally valued loan and interest payments in a different currency. Such swaps allow SG Finans AS to switch its loan and interest repayments in EUR into currencies as NOK, DKK and SEK, or other currencies when required.

Impairment of financial assets

All debt instruments classified as financial assets, measured at amortised cost or at fair value through other comprehensive income, as well as lease receivables, loan commitments and issued financial guarantee contracts, will be systematically subject to depreciation or provision for expected credit losses. This depreciation or provision will be recognised as soon as loans are granted or as soon as commitments are issued , without waiting for objective evidence of impairment to occur. The purpose of this approach is to recognise credit losses in profit or loss on a timely basis, symmetrically to the recognition in profit or loss of the credit spread embedded in the interest income. Thus, these financial assets will be allocated among three categories according to the gradual deterioration of their credit risk since their initial recognition, and an impairment loss will be recognised for each of these categories as follows:

Credit risk category	**Stage 1** Performing assets	**Stage 2** Underperforming assets	**Stage 3** Credit-impaired or defaulted assets
Transfer criteria	Initial recognition of the instrument in stage 1	Credit risk on the instrument has increased significantly since initial recognition/ 30 days past due	Evidence that the instrument has become credit-impaired/ 90 days past due/ under bankruptcy/ default contagion
Measurement of credit risk	12-month expected credit risk	Lifetime expected credit risk	Lifetime expected credit risk
Interest income recognition basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

Credit-impaired or defaulted assets stage 3

Loans are valued at amortised cost with the exception of loans that are at risk of default or in default where there are objective indications of impairment in value.

Objective evidence of impairment for credit risk on loans includes significant financial problems at the debtor, defaulted payments or other material breaches of contract, instances where it is considered probable that the debtor will initiate debt settlement negotiations or other specific circumstances that have occurred.

Write-downs will be made if objective evidence of a decline in value can be identified.

If there is objective evidence that an impairment in value has occurred, the loss is measured as the difference between the asset's value in the balance sheet and the net present value of estimated future cash flows (excluding future credit losses which have not occurred), discounted with the financial asset's original effective interest rate (i.e. the effective interest rate calculated at inception). The asset's balance sheet value is reduced using a separate provision account. The loss amount is included in the Profit and Loss statement.

Loans are defined as being in default when the delay in payment exceeds 90 days and the delay is not due to accidental circumstances at the customer. If a customer has several contracts, but only one is in default, the entire customer engagement is reported as being in default. Loans that are at risk of default are not necessarily in default, however the customer's financial standing and the value of the securities indicate a risk of default.

The recovery of loans in default takes place with a new assessment when the applicable payment plans have been followed for a period and the loan is no longer deemed to be at risk of default. Write-downs for credit losses are made for loans on an individual basis.

When the company collects assets for realisation of a security interest or sells leased objects, and this is due to customer default, the lease object is classified as a repossessed asset and temporarily valued at the assumed net realisable value. Actual losses on realisation are recorded to losses on loans in the income statement.

Revenue from contracts with customers

Accrual accounting for interest income, sales gains, commissions and fees

Interests are carried at amortised cost in accordance with the effective interest rate method. Commissions received and paid, fees and other related amounts are included in the calculation of the effective interest rate, and are covered by IFRS 9.

Revenue from the sale of goods

SG Finans recognises revenue from the sale of goods (repossessed assets) at the point in time when control of the goods is transferred to the customer. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, and the ability to prevent others from directing the use of and receiving the benefits from the asset. Revenue is generally recognised on delivery of the goods. SG Finans considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the effects of variable consideration, the existence of significant financing components and consideration payable to the customer .

Revenue from sale of services

Sg Finans recognises fee income or expense for an amount equivalent to the remuneration for the service provided and depending on the progress transferring control of these services:

- fees for ongoing services are recognised as income over the life of the service
- fees for one-off services, are recognised as income when the service is provided.

Equity and liabilities

Financial instruments are classified as liabilities or equity in accordance with the underlying economical realities.

Interest, dividend, gains and losses relating to a financial instrument classified as a liability will be presented as an expense or income. Amounts distributed to holders of financial instruments that are classified as equity will be recorded directly in equity.

Pension obligations

As of January 1, 2013 SG Finans applied IAS 19 Employee Benefits (June 2011) (“IAS 19R”) and changed the basis for calculating the pension liability and costs. SG Finans previously used the corridor approach when recognising unamortised changes in accounting estimates. The corridor approach is no longer accepted and all changes in accounting estimates shall be recognised in other comprehensive income in accordance with IAS 19R. A distinction is made between insured and uninsured schemes. From 31st of December 2009, the benefit plan in Norway is replaced with a defined contribution schemes. The Swedish and Danish branches only operate defined contribution schemes. The pension calculations are undertaken by actuaries on the basis of assumptions that can change in the future.

Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities.

Deferred tax assets are recognised when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilise the deferred tax asset. Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the company where temporary differences have arisen.

Deferred tax and deferred tax assets are recognised at their nominal value and classified as non-current asset investments (long-term liabilities) in the balance sheet.

Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

Provisions

Provisions are recorded when the company has an obligation (legally or self-imposed) relating to a prior event, it is probable (more probable than not) that a financial settlement will take place as a result of the obligation and the actual amount can be reliably measured.

Intangible assets

Capitalised software is recorded as an intangible asset and depreciated using the straight-line method based on the estimated lifetime, 3-7 years, from when the software is operational. Capitalisation occurs when the circumstances in accordance with IAS 38 have been met. The costs associated with maintaining the economic value of IT systems are expensed directly.

Machinery, tools and equipment, means of transportation

Tangible assets are valued at their cost less accumulated depreciation and impairment losses. When assets are sold or disposed of, the carrying amount is derecognised and any gain or loss is recognised in the statement of comprehensive income.

The cost of tangible non-current assets is the purchase price, including taxes/duties and costs directly linked to preparing the asset ready for its intended use. Costs incurred after the asset is in use, such as regular maintenance costs, are recognised in the statement of comprehensive income, while other costs that are expected to provide future financial benefits are capitalized.

Depreciation is calculated using the straight-line method over the useful life spanning from 3 to 10 years.

Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be immediately converted into a known amount of cash and have a maximum term to maturity of three months.

In the statement of cash flows, the overdraft facility is stated minus the balance of cash and cash equivalents.

Contingent liabilities and assets

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are unlikely to be incurred.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a benefit will be added to the Group.

Events after the reporting period

New information on the company's financial position on the end of the reporting period which becomes known after the reporting period is recorded in the annual accounts. Events after the reporting period that do not affect the company's financial position on the end of the reporting period but which will affect the company's financial position in the future are disclosed if significant.

1.1 CHANGES IN STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards and interpretations issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. SG Finans intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR (interbank offered rates) reform.

In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

2. IMPORTANT ACCOUNTING ESTIMATES AND DISCRETIONARY EVALUATIONS

The preparation of annual financial statements in conformity with generally accepted accounting principles requires that occasionally management must make estimates and assumptions. Estimates and discretionary evaluations are regularly assessed and are based on historic experience and other factors, including the expectations of future events that are considered to be probable under the current circumstances.

The company prepares estimates and makes presumptions and assumptions connected to the future. The accounting estimates that are based on this will seldom be entirely in accordance with the final outcome. Some accounting principles are considered to be especially important to enlighten the company's financial position because they require the management to make difficult or subjective assessments and determine estimates that are, for the most part, uncertain at the time the estimates are made. Further information on these types of assessments and estimates is provided below.

Impairment of financial assets

Loan write-downs

When evaluating the need for write-downs the most important assessment is related to estimating the most probable future cash flows from the customer. In principle, all cash flows from the loan shall be identified, and an evaluation must be made as to which cash flows are deferred. With the large number of loans that are subject to assessment, these types of calculations must be made based on approximations and experience.

For further information about the procedure used for the write-downs, refer to Note 1 Accounting principles.

Expected sales gain

As part of the equipment leasing activity, SG Finans may obtain sales gains from disposal of leased assets. Based on historic observations, tendencies and development in the second-hand market, estimated sales gains from disposal of leased assets further to the contract coming to end of term are included in interest income, see also note 1.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

3.1 IFRS 16 LEASE

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 Lease sets out principles for recognition, measurement, presentation and disclosure for leases for both parties in a lease, both the customer (lessee) and provider (lessor).

SG Finans as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. SG Finans continues to classify its financial lease agreements as leasing and as loans for accounting purposes. See note 1 accounting principles for further information.

SG Finans as a lessee

IFRS 16 requires lessees to account for most leases under a single on-balance sheet model. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (“right of use asset”). The standard includes a number of optional practical expedients related to recognition and initial application. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset.

Effective 1 January 2019 SG Finans adopted IFRS 16 using the modified retrospective approach and accordingly comparative information has not been restated. All leasing contracts previosuly treated as operational leases were assessed according to the transition requirements.

SG Finans applied the following practical expedients to leases previously classified as operating leases:

- Exemption for short-term leases (defined as 12 months or less)
- Exemption for low value assets
- Excluded any initial direct costs from the measurements of the right-of-use asset
- Applied hindsight when determining the lease term for contracts containing options.

This led to two classes of right of use assets recognized: Real estate (rental agreements for offices spaces) and cars.

The lease liabilities were measured to the present value of the remaining lease payments, discounted using the Group’s incremental borowing rate at 1 January 2019. Right of use assets were recognized with the same amount as the calculated right of use liabilities, giving no equity effect from the implementation of the standard.

The implementation of the standard lead to recognition of right of use assets and corresponding right of use liabilities of MNOK 114 at 1 January 2019. Note 16 Fixed assets gives further details regarding right of use assets and liabilities.

4. NET INTEREST INCOME

(in NOK thousand)	2019	2018
Interest income from financial institutions, valued at amortised cost	17 364	15 951
Interest income from customers financial leases and loans, valued at amortised cost	1 616 528	1 399 627
Interest income financial instruments	42 774	12 899
Total interest income	**1 676 665**	**1 428 974**
Interest expenses to financial institutions, valued at amortised cost	-372 885	-251 448
Interest expenses on deposits and debt to customers, valued at amortised cost	-2 639	-2 313
Interest expenses financial instruments	-45 027	-54 499
Interest expenses on subordinated debt	-20 896	-32 186
Other interest expenses	-5 787	-2 114
Total interest expenses	**-447 236**	**-342 560**
Net interest income	**1 229 429**	**1 086 414**

5. NET FEES AND INCOME ON OTHER ACTIVITY

(in NOK thousand)	2019	2018
Commission and fee income from loans and similar to customers	314 553	300 609
Commission and fee income	**314 553**	**300 609**
Commission and fee expenses from loans and similar to customers	-171 134	-163 419
Other commission and fee expenses	-3 343	-2 859
Commission and fee expenses	**-174 477**	**-166 277**
Net commission and fees income	**140 076**	**134 332**
Gains and losses repossessed assets	23 089	28 258
Termination gain and loss	142 059	112 788
Income from extension of leasing contracts	38 693	35 997
Other income	2 324	3 652
Total income other activity	**206 166**	**180 695**

6. NET GAINS ON FINANCIAL INSTRUMENTS

(in NOK thousand)	2019	2018
Net gains on financial derivatives, trading	507	2 287
Change in fair value on financial derivatives, hedging	42 036	20 786
Change in fair value on hedged fixed interest loans	-40 666	-21 022
Net change in value and gains on foreign currency	-2 056	1 207
Net gains and losses on financial transactions	**-179**	**3 258**

7. OPERATING EXPENSES

(in NOK thousand)	**2019**	**2018**
Payroll	-299 433	-278 892
Pensions	-28 468	-37 557
Social security costs	-48 564	-45 347
Other staff cost	-27 540	-26 541
Total payroll, fees and other staff cost	**-404 005**	**-388 336**
Rent and other office costs	-17 143	-45 837
Fees and temporary staff	-76 744	-74 246
Travel and marketing	-26 695	-27 474
Other operating costs	-15 789	-14 663
Intragroup services	-37 484	-51 439
Depreciation and gain/loss	-35 429	-6 183
Total other operating expenses	**-209 283**	**-219 842**
Total operating expenses	**-613 288**	**-608 177**

Fees paid to Ernst & Young AS and cooperating companies are made up as follows (exclusive VAT):

(in NOK thousand)	**2019**	**2018**
Statutory audit	1 010	991
Other attestation services	0	133
Tax advice	0	9
Other non-audit services	23	0
Total	**1 033**	**1 133**

8. PENSIONS

SG Finans is obligated to follow the Act on Mandatory company pensions. The company's pension scheme complies with the requirement as defined in the Act.

SG Finans AS has defined contribution plans for employees in Norway, Sweden and Denmark. The contributions comprise between 4,5 % and 14,4 % of salaries. As at 31 December 2019, 359 members were covered by the plans.

As a replacement of the old AFP-plan a new AFP-plan has been established. The new AFP-plan is in the contrary to the old, not an early retirement plan, but a plan that gives a lifelong contribution to the ordinary pension. The employees can choose to exercise the new AFP plan starting at the age of 62 years, in addition to working, and it will continue accruing if working until the age of 67 years. The new AFP-plan is a defined benefit multi-company plan which is financed through contributions that are determined by a percentage of the employee's salaries. There is currently no reliable measure and allocation of liabilities and assets in the plan. The plan is accounted for as a defined contribution plan where no accruals are made and the contributions are accounted for as they occur. For 2019 the contribution has been set to 2,5 % of the total salaries between 1 G and 7,1 G to the employees. The plan will be unfunded and it is expected that the level of contribution will increase in the following years.

The company has an additional pension scheme that covers a total of 12 employees. The pension scheme gives the right to defined future benefits, which are mainly dependent on salary level at time of retirement. The following assumptions were used calculating the future pension obligations for the defined benefit pension scheme.

Economic assumptions

(Percentage)	**2019**	**2018**
Discount rate	1,30 %	2,00 %
Expected return on assets	0,00 %	0,00 %
Growth in salary	4,00 %	4,00 %
Inflation	2,50 %	2,50 %
G - regulation	3,75 %	3,75 %
Growth in current pensions	3,75 %	3,75 %
Withdrawal tendency AFP	0,00 %	0,00 %

Pension cost

(in NOK thousand)	Unfunded	Total 2019	Unfunded	Total 2018
Present value of pensions earned during the year	3 835	3 835	4 342	4 342
Interest cost of accrued pension liabilities	1 469	1 469	1 395	1 395
Expected return on plan assets	0	0	0	0
Past service cost (curtailment incl.)	-9 929	-9 929	0	0
Difference between actual and estimated values	0	0	0	0
Net pension cost	**-4 625**	**-4 625**	**5 737**	**5 737**

Pension cost for 2019 amounts to TNOK - 4 625 from the defined benefit plans and TNOK 33 094 from the contribution plans. The total pension cost amounts to TNOK 28 468. Pension cost for 2018 amounts to TNOK 5 737 from the defined benefit plans and TNOK 31 820 from the contribution plans. The total pension cost in 2018 amounts to TNOK 37 557.

Pension liabilities in balance sheet

(in NOK thousand)	Unfunded	Total 2019	Unfunded	Total 2018
Plan assets at market value	0	0	0	0
Estimated pension liabilities	94 940	94 490	85 748	85 748
Net pension liability	94 940	94 490	85 748	85 748
Actuarial gains (-)/losses	0	0	0	0
Plan change, curtailment	0	0	0	0
Recognised pension liability	**94 940**	**94 940**	**85 748**	**85 748**

Recognised pension liability year end 2019 amounts to TNOK 94 940. The total pension liability was TNOK 84 748 at year end 2018.

Change in liabilities

In calculating the pension costs and net pension liabilities, the following assumptions have been made: The discount rate is based on government bonds in Norway adjusted for the duration of the pension obligation. The duration is calculated to 13,0 years (avr). Salary rates, pension adjustments and G-regulations is based on historical observations and an expected future inflation of 2,5 %.

(in NOK thousand)	2019	2018
Opening balance	85 748	84 549
Total service cost	3 835	4 342
Interest cost	1 469	1 395
Payments from internal book	-242	-243
Payments from plan assets	0	0
Past service cost (curtailment incl.)	-9 929	0
Actuarial losses / (gains)	**13 609**	-4 295
Ending balance	**94 490**	**85 748**

Historical disclosure information

(in NOK thousand)	**2019**	**2018**
Gross pension liability 31.12	94 490	85 549
Plan assets, fair value 31.12	0	0
Net pension liability	94 490	85 748
Actuarial gains/(losses)	13 609	-4 295
Experience adjustment expressed as percentage of plan liability	-0,5 %	2,4 %
Experience adjustment expressed as percentage of plan asset	0,0 %	0,0 %

Expected Future Benefit Payments

(in NOK thousand)	**2021**	**2022**	**2023**	**2024**	**2025-2029**
	297	299	302	3 463	15 845

Sensitivity analysis

The defined benefit obligation is affected by changes in actuarial assumption. The table below presents a sensitivity analysis indicating the effect changes in the assumption will have on the benefit obligation.

(Percentage)	**2019**	**2018**
Sensitivities in:		
Discount rate -0.5%	12,5 %	13,3 %
Discount rate +0.5%	-10,9 %	11,4 %
Inflation rate -0.5%	-11,0 %	-10,0 %
Inflation rate +0.5%	12,5 %	11,4 %
Salary increase rate +0.5%	23,3 %	20,4 %

9. TAXES

(in NOK thousand)	2019	2018
The tax expense for the year is made up as follows:		
Taxes payable on profit for the year	213 361	181 725
Adjustment prior years	10 996	6 363
Change in deferred tax	27 974	3 252
Total tax expense for the year	**252 331**	**191 340**
Taxes payable are made up as follows:		
Profit on ordinary activities before tax expense	900 543	738 526
Permanent differences	196 434	65 722
Change in temporary differences	-127 154	-14 139
Basis for taxes payable	**969 824**	**790 109**
Taxes payable on profit for the year	**231 361**	**181 725**

In 2019 TNOK 196 434 of the permanent differences is related to recognition of the operation of the company's branches in Sweden and Denmark. The equivalent difference in 2018 totalled TNOK 73 846.

(in NOK thousand)	2019	2018
Deferred tax assets		
Property, plant and equipment	6 836	33 748
Pensions	20 788	18 865
Derivatives	0	511
Deferred tax assets - gross	27 624	53 124
Deferred tax liabilities		
Derivatives	-259	0
Other	-20 935	-21 714
Exchange rate difference	-14 597	-14 851
Deferred tax liabilities - gross	-35 790	-36 565
Net recognised deferred tax assets	**-8 167**	**16 559**
This years changes in deferred tax assets		
Deferred tax asset 1.1.	16 559	2 266
Changes against ordinary result	-27 974	3 252
Exchange rate diff deferred tax asset	254	-9 172
Adjustments against OCI	2 994	20 213
Deferred tax asset 31.12.	**-8 167**	**16 559**

Reconciliation from nominal to actual tax rate		
Net profit before tax	900 543	738 526
Expected income tax with nominal tax rates (22 % / 23 %)	198 119	169 861
The tax effect of following items;		
Non-deductible costs	43 216	14 363
Adjustment in respect of current income tax*	0	753
Other entries related to allowances previous years	10 996	6 363
Tax expense	**252 331**	**191 340**
Effective tax rate	28,0 %	25,9 %

*From 2018 the current tax rate in Norway was reduced from 23% to 22%. SG Finans has assesed the Finance Tax in Norway, and has concluded that we are exempt from this tax. Assets and liabilities with deferred tax/tax assets were measured using the tax rate of 22 % both in 2018 and 2019. The effect of change in tax rate for 2018 was recognised in profit and / or OCI in line with how changes in the underlying asset /liabilities are recognised.

10. DUE FROM BANKS

(in NOK thousand)	**2019**	**2018**
Deposits with financial institutions	398 446	287 797
Loans to financial institutions	1 639	1 000
Due from banks before impairment	**400 085**	**288 797**
Impairment of individually impaired loans	0	0
Revaluation of hedged item	0	0
Net due from banks	**400 085**	**288 797**

Deposit with financial instritution include restricted deposits for wihtholding tax of NOK 11 002 069.

11. CUSTOMERS LOANS

(in NOK thousand)	**2019**	**2018**
Equipment loans	4 332 719	4 176 744
Factoring receivables	404 586	358 513
Factoring loans	1 755 942	2 047 629
Financial lease agreements	33 130 483	31 478 435
Customer loans before impairment	**39 623 730**	**38 061 322**
Impairment of individually impaired loans	-424 338	-454 628
Net due from customers	**39 199 392**	**37 606 693**

12. LEASING (FINANCIAL LEASING ASSETS)

(in NOK thousand)	**2019**	**2018**
Purchase cost 01.01	56 882 134	53 804 274
Exchange rate difference	-259 194	-76 203
Inflow during the year	15 368 654	14 476 198
Outflow during the year	-12 574 627	-11 322 134
Purchase costs at end of period	**59 416 966**	**56 882 134**
Accumulated ordinary depreciation 01.01	22 875 728	21 996 095
Exchange rate difference	-108 151	-40 302
Ordinary depreciation during the year	10 153 229	9 696 115
Reversed depreciation sold assets	-9 154 285	-8 776 179
Accumulated depreciation at end of period	**23 766 522**	**22 875 728**
Book value leasing assets at end of period	**35 650 445**	**34 006 406**
Customer receivable	-2 476 220	-2 489 505
Other accruals	-43 742	-38 466
Book value in the balance sheet at end of period	**33 130 483**	**31 478 435**

Customer receivables are ordinary leasing receivables and advancement on leasing rent. Up front fees constitute other accruals.

Overview of future minimum finance lease rental:

Within 1 year	8 554 683	8 082 115
1 to 5 years	27 089 828	25 593 363
After 5 years	0	0
Future minimum finance lease rental	35 644 511	33 675 478
Present value non guaranteed	358 947	369 296
Present value of minimum lease payments	33 771 536	31 109 139
Unearned finance income	2 514 028	2 197 043
Average interest	3,6 %	3,4 %

Unearned finance income consists of interest, fees and future estimated sales gain. The company uses standard leasing agreements prepared in cooperation with the Association of Norwegian Finance Houses, and similar agreements in Denmark and Sweden. The company offers leasing of a broad range of equipment to Scandinavian businesses and public sector entities where the material leasing arrangements consist of equipment that fall within:
Industry: Construction machinery, production machinery, graphic machinery, forestry machinery, fish farming installations, furnishing etc.
High-Tech: ICT-equipment, copy machines, office machines, medical equipment etc.
Transport: Vans, trailers, buses, tractors, farming equipment, trucks, mobile cranes, automobiles, containers, helicopters, airplanes, ships etc.

13. ALLOWANCES RECOGNISED AND CUSTOMER LOANS

	2019			
(in NOK thousand)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowances on loans as of 01.01	-68 710	-26 478	-359 440	-454 628
Allowances on new loans	-28 093	-13 489	-23 610	-65 192
Movement from S1 to S2	4 404	-17 017		-12 613
Movement from S1 to S3	2 608		-112 193	-109 585
Movement from S2 to S3		3 092	-23 763	-20 671
Movement from S3 to S2		-2 115	28 857	26 742
Movement from S3 to S1	82		8 514	8 596
Movement from S2 to S1	-1 440	12 665		11 225
Loans terminated	5 376	2 363	45 190	52 929
Change within stage	20 260	3 644	114 955	138 859
Allowances on loans as of 31.12	**-65 513**	**-37 335**	**-321 490**	**-424 338**
Customer loans before impairment	36 492 022	2 385 999	745 708	39 623 730

	2018			
(in NOK thousand)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowances on loans as of 01.01	-64 873	-31 302	-386 176	-482 351
Allowances on new loans	-29 340	-9 655	-31 622	-70 617
Movement from S1 to S2	3 594	-11 703		-8 109
Movement from S1 to S3	1 934		-74 246	-72 312
Movement from S2 to S3	-1 987	13 389		11 401
Movement from S3 to S2		7 729	-65 671	-57 942
Movement from S3 to S1	-324		31 593	31 269
Movement from S2 to S1		-517	14 826	14 310
Loans terminated	3 773	1 796	56 678	62 247
Change within stage	18 513	3 784	95 179	117 476
Allowances on loans as of 31.12	**-68 710**	**-26 478**	**-359 440**	**-454 628**
Customer loans before impairment	34 975 001	2 251 995	834 326	38 061 322

14. LOSSES AND ALLOWANCES RECOGNISED IN THE PROFIT AND LOSS

(in NOK thousand)	2019	2018
Losses on loans		
Write-downs for loan losses at end of period	-424 338	-454 628
Exchange rate adjustments (opening balance)	-1 294	-588
Write-downs for loan losses as at 01.01	454 628	482 351
Total actual losses	-109 893	-104 157
Income on actual losses	19 236	19 026
Cost of risk	**-61 661**	**-57 995**

15. LOANS DAYS OUTSTANDING

Days outstanding status	2019 Net loans to customers	Percentage rate	Whereof past due, non-doubtful
Not past due	37 164 887	94,81 %	
1-29	801 081	2,04 %	760 828
30-59	920 376	2,35 %	868 261
60-89	195 692	0,50 %	150 354
90-179	98 800	0,25 %	41 435
> 180	13 668	0,03 %	444
> 1 year	4 886	0,01 %	0
Total	**39 199 392**	**100,00 %**	**1 821 322**

Days outstanding status	2018 Net loans to customers	Percentage rate	Whereof past due, non-doubtful
Not past due	35 508 970	94,42 %	
1-29	737 929	1,96 %	721 987
30-59	1 110 725	2,95 %	1 001 482
60-89	174 731	0,46 %	115 440
90-179	49 359	0,13 %	3 716
> 180	20 445	0,05 %	1 315
> 1 year	4 534	0,01 %	0
Total	**37 606 693**	**100,00 %**	**1 843 940**

Credit exposure:

(in NOK thousand)	2019	2018
Net loans to customers	39 199 392	37 606 693
Positive market value derivatives	97 253	146 466
Guarantee liabilities and loan commitments	1 569 550	1 382 237
Total credit exposure	**40 866 195**	**39 135 396**

16. TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

(in NOK thousand)	2019				
	Right of use - Real estate	*Right of use - Cars*	*Machines, fixtures, transportation equipment*	*Intangible assets*	*Total tangible and intangible fixed assets*
Purchase costs 01.01	0	0	52 389	82 830	135 219
Change in value - opening balance	0	0	-123	-2	-125
Additions	118 138	6 215	8 486	1 116	133 955
Disposals	-116	-247	-2 084	0	-2 447
Purchase costs at end of period	**118 022**	**5 968**	**58 668**	**83 944**	**266 602**
Accumulated ordinary depreciation 01.01	0	0	33 080	77 027	110 107
Change in value - opening balance	0	0	-98	-2	-100
Ordinary depreciation of the year	25 787	2 460	5 595	1 643	35 485
Change in value - during the year	33	19	3	0	55
Reversed disposed	-43	-92	-946	0	-1 081
Accumulated depreciation at end of period	**25 777**	**2 387**	**37 634**	**78 668**	**144 466**
Book value assets at end of period	**92 245**	**3 581**	**21 034**	**5 276**	**122 136**

(in NOK thousand)	2018		
	Machines, fixtures, transportation equipment	Intangible assets	Total tangible and intangible fixed assets
Purchase costs 01.01	46 597	78 481	125 078
Change in value - opening balance	-53	2	-51
Purchases	6 776	4 347	11 123
Sales	-931	0	-931
Purchase costs at end of period	**52 389**	**82 830**	**135 219**
Accumulated ordinary depreciation 01.01	27 943	76 390	104 333
Change in value - opening balance	-34	2	-32
Ordinary depreciation of the year	5 594	635	6 229
Change in value - during the year	20	0	20
Reversed sold	-443	0	-443
Accumulated depreciation at end of period	**33 080**	**77 027**	**110 107**
Book value leasing assets at end of period	**19 309**	**5 803**	**25 112**

Intangible assets consist of software, which is depreciated linearly over 3-7 year from the time the software is taken into use. Machines, fixtures, transportation equipment is depreciated linearly over 3-10 years. Tangible assets are not pledged or in any other way used as collateral.

Right of use assets
SG Finans has recognized right of use assets in the categories real estate and cars. The categories are presented in the table above and classified as tangible and intangible assets in the balance sheet. The corresponding lease liabilities are classified as other liabilities.
The right of use assets are depreciated lineary over the duration of the lease, ranging from 1-9 years.

In addition to lease agreements related to cars and real estate, SG Finans are part of some other agreements, mainly related to software-licenses. Theese agreements are assessed and considered exempt from IFRS 16 due to low value or short term remaning lease period. The lease-costs for theese agreements are expensed when they incur.

In some of the real estate and car leasing agreements, there are variable lease payments. Theese variable lease payments are expensed as incurred.

For some of the real estate lease agreements, there is a right to renew or prolong the lease period. The probability to exercise the right is assessed when entering into a new agreement. If it is deemed reasonably possibly that the agreement will be renewed, this is reflected in the right of use asset and liability calculation. If there are changes in this assessment during the lease-period, this change is reflected in the right of use asset and right of use liability from the time of the new assesment.

Undiscounted lease liabilities and maturity of cash outflows

(in NOK thousand)					
	2020	**2021**	**2022**	**2023**	**2024-2028**
	28 262	24 563	21 276	18 498	22 233

Summary of lease liabilities

(in NOK thousand)	**2019**
Liabilities recognized at implementation 01.01	113 952
New/changed lease liabilities recognized	11 045
Terminated lease liabilities	-226
Cash payments for the principal portion of the lease liabilites	-27 475
Cash payments for the interest portion of the lease liabilities	-2 340
Interests	2 340
Currency effects	-315
Lease liabilities 31.12.	**96 980**

17. DUE TO BANKS

(in NOK thousand)	2019	2018
Demand deposits and current accounts	3 160	84 140
Term deposits borrowings	31 861 914	30 896 020
Related payables	52 324	37 265
Revaluation of hedged item due to banks	28 617	145 115
Total	**31 946 015**	**31 162 541**

18. SUBORDINATED DEBT

(in NOK thousand)	2019	2018
Subordinated debt	550 000	550 000
Subordinated debt related payables	126	216
Total	**550 126**	**550 216**

19. FUNDING/INTEREST EXPENSES

SG Finans AS' total interest expenses amounted to TNOK 447 239 in 2019. Interest expenses are distributed on the following currencies:

(in currency thousand)				2019
Currency	**Interest expense**	**Average interest rate**	**End balance**	**Average balance**
DKK	221	0,00 %	4 965 580	4 808 902
EUR	381	0,46 %	89 441	82 641
GBP	22	1,12 %	2 004	2 002
NOK	416 724	2,17 %	19 168 701	19 244 739
SEK	22 190	0,39 %	6 091 912	5 661 144
USD	637	3,02 %	11 021	21 100

(in currency thousand)				2018
Currency	**Interest expense**	**Average interest rate**	**End balance**	**Average balance**
DKK	711	0,02 %	4 652 223	4 406 874
EUR	407	0,52 %	75 841	78 493
GBP	21	0,93 %	2 000	2 253
NOK	326 635	1,74 %	19 320 778	18 770 063
SEK	6 590	0,13 %	5 230 376	4 972 385
USD	579	1,86 %	31 179	31 153

20. OTHER LIABILITIES

(in NOK thousand)	**2019**	**2018**
Accounts payable	336 616	292 463
VAT and duties payable	80 098	18 907
Other liabilities	266 409	226 022
Lease liability (Note 16)	96 980	0
Sum other liabilities	**780 103**	**537 392**

21. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

(in NOK thousand)				**2019**
Financial assets	**Derivatives designated as hedging instruments through profit or loss**	**Financial instruments at fair value through OCI**	**Financial instruments at amortised cost**	**Total**
Derivatives				
Foreign exchange forward contracts	97 253			97 253
Debt instruments				
Customer loans			39 199 392	39 199 392
Due from bank			400 085	400 085
Cash and cash equivalents			9	9
Total assets	**97 253**	**0**	**39 599 486**	**39 696 739**

(in NOK thousand)				**2019**
Liabilities	**Derivatives designated as hedging instruments through profit or loss**	**Financial instruments at fair value through OCI**	**Financial instruments at amortised cost**	**Total**
Interest bearing loans and borrowings				
Bank loans			31 946 015	31 946 015
Customer deposits			248 927	248 927
Derivatives				
Foreign exchange forward contracts	65 322			65 322
Interest rate swap	19 325			19 325
Other financial liabilities				
Trade and other payables			780 103	780 103
Total financial liabilities	**84 647**	**0**	**32 975 045**	**33 059 692**

(in NOK thousand)				2018
Financial assets	**Derivatives designated as hedging instruments through profit or loss**	**Financial instruments at fair value through OCI**	**Financial instruments at amortised cost**	**Total**
Derivatives				
Foreign exchange forward contracts	146 466			146 466
Debt instruments				
Customer loans			37 606 693	37 606 693
Due from bank			288 797	288 797
Cash and cash equivalents			10	10
Total assets	**146 466**	**0**	**37 895 500**	**38 041 966**

(in NOK thousand)				2018
Liabilities	**Derivatives designated as hedging instruments through profit or loss**	**Financial instruments at fair value through OCI**	**Financial instruments at amortised cost**	**Total**
Interest bearing loans and borrowings				
Bank loans			31 162 541	31 162 541
Customer deposits			234 642	234 642
Derivatives				
Foreign exchange forward contracts	12 176			12 176
Interest rate swap	65 163			65 163
Other financial liabilities				
Trade and other payables	507		537 371	537 878
Total financial liabilities	**77 846**	**0**	**31 934 554**	**32 012 400**

SG Finans uses the following hierarchy related to determining and disclosing the fair value of financial instruments:

1) Quoted (unadjusted) prices in active markets for identical assets or liabilities (level 1)
2) Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (level 2)
3) Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (level 3)

Valuation technique

The contracts in level 2 have been evaluated based on observable spot rates, yield curve and exchanges rates.

(in NOK thousand)	**2019**		
Financial assets	**level 1**	**level 2**	**level 3**
Financial derivatives	0	97 253	0
Total assets	**0**	**97 253**	**0**
Financial liabilities	**level 1**	**level 2**	**level 3**
Financial derivatives	0	84 648	0
Total liabilities	**0**	**84 648**	**0**

(in NOK thousand)	2018		
Financial assets	**level 1**	**level 2**	**level 3**
Financial derivatives	0	146 466	0
Total assets	**0**	**146 466**	**0**
Financial liabilities	**level 1**	**level 2**	**level 3**
Financial derivatives	0	77 846	0
Total liabilities	**0**	**77 846**	**0**

22. FINANCIAL DERIVATIVES

Financial derivatives are contracts stipulating financial values in the form of interest rate terms for fixed periods of time. Derivatives used by SG Finans AS include interest rate swaps (IRS), currency swaps and forward rate agreements (FRA). Financial derivatives are used to manage interest rate risk from the company's ordinary operations. The table below shows nominal values as well as positive and negative market values of the interest and currency swaps. The company does not have any outstanding forward rate agreements at year end.

(in NOK thousand)	**2019**		
	Nominal values total	**Positive market value**	**Negative market value**
Interest rate swaps NOK	798 840	0	14 646
Interest rate swaps DKK	886 276	0	4 678
Interest rate swaps SEK	582 527	582	2
Currency swaps USD	3 373 349	62 109	48 717
Currency swaps EUR	2 590 304	34 562	16 605
Total	**8 231 296**	**97 253**	**84 648**

(in NOK thousand)	2018		
	Nominal values total	**Positive market value**	**Negative market value**
Interest rate swaps NOK	818 566	0	60 353
Interest rate swaps DKK	980 278	0	4 104
Interest rate swaps SEK	485 550	0	706
Currency swaps USD	2 743 085	44 908	11 108
Currency swaps EUR	3 587 456	101 558	1 068
Total	**8 614 935**	**146 466**	**77 339**

(in NOK thousand)							2019
Maturity profile, Financial derivatives	**1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 year**	**> 5 years**	**No maturity**	**TOTAL**
Fixed rate loans NOK	0	32 996	99 775	492 593	249 238	0	874 602
Fixed rate loans DKK	0	116 407	279 923	631 284	12 840	0	1 040 454
Fixed rate loans SEK	0	74 021	207 186	385 127	4 135	0	670 469
Interest / currency swaps USD	881 760	0	0	2 491 589	0	0	3 373 349
Interest / currency swaps EUR	148 211	78 006	1 390 058	974 029	0	0	2 590 304
Interest rate swaps NOK	0	2 915	75 024	475 008	245 893	0	798 840
Interest rate swaps DKK	0	0	255 300	621 716	9 260	0	886 276
Interest rate swaps SEK	0	0	204 544	375 155	2 828	0	582 527
Currency swaps USD	881 760	0	0	2 491 589	0	0	3 373 349
Currency swaps EUR	148 211	78 006	1 390 058	974 029	0	0	2 590 304
Net position	**0**	**220 508**	**52 015**	**37 125**	**8 233**	**0**	**317 881**

(in NOK thousand)							2018
Maturity profile, Financial derivatives	**1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 year**	**> 5 years**	**No maturity**	**TOTAL**
Fixed rate loans NOK	0	30 057	98 582	685 053	82 392	0	896 083
Fixed rate loans DKK	0	104 127	290 638	713 028	19 065	0	1 126 858
Fixed rate loans SEK	0	81 168	219 115	330 469	6 172	0	636 924
Interest / currency swaps USD	1 216 754	521 466	0	1 004 865	0	0	2 743 085
Interest / currency swaps EUR	198 896	78 512	1 200 180	2 109 868	0	0	3 587 456
Interest rate swaps NOK	0	1 757	80 213	658 835	77 762	0	818 566
Interest rate swaps DKK	0	0	281 031	680 601	18 647	0	980 278
Interest rate swaps SEK	0	0	203 931	276 764	4 856	0	485 550
Currency swaps USD	1 216 754	521 466	0	1 004 865	0	0	2 743 085
Currency swaps EUR	198 896	78 512	1 200 180	2 109 868	0	0	3 587 456
Net position	**0**	**213 596**	**43 161**	**112 351**	**6 364**	**0**	**375 471**

23. OFFSETTING

SG Finans has established Credit Support Annex (CSA) agreements. The agreements involve a mutual commitment to provide collateral for derivatives trading between the parties. Any net position is related to financial derivatives entered into with the group where no CSA agreement is in place.

(in NOK thousand)						2019
Assets	**Gross amount**	**Amounts that are offset**	**Net amount in financial position**	**Financial instruments on balance sheet**	**Cash collateral in the balance sheet**	**Net position**
Financial derivatives	97 253	0	97 253	84 648	3 160	9 445
Total assets	**97 253**	**0**	**97 253**	**84 648**	**3 160**	**9 445**
Liabilities						
Financial derivatives	84 648	0	84 648	84 648	0	0
Total liabilities	**84 648**	**0**	**84 648**	**84 648**	**0**	**0**

(in NOK thousand)						2018
Assets	**Gross amount**	**Amounts that are offset**	**Net amount in financial position**	**Financial instruments on balance sheet**	**Cash collateral in the balance sheet**	**Net position**
Financial derivatives	146 466	0	146 466	77 846	68 620	0
Total assets	**146 466**	**0**	**146 466**	**77 846**	**68 620**	**0**
Liabilities						
Financial derivatives	77 846	0	77 846	77 846	0	0
Total liabilities	**77 846**	**0**	**77 846**	**77 846**	**0**	**0**

24. RISK MANAGEMENT

Credit risk

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 therefore fundamental. The company has implemented credit policies and strategies, organising procedures and regulations as well as models which address this need.

SG Finans has developed classification models for risk assessment and management of business 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.

The financing provided to clients is secured by direct ownership (leasing) or security (loans). The value development of the financed object is therefore critical in assessing and controlling the risk profile of the portfolio, and knowledge about the object's second-hand value, liquidity and markets is therefore fundamental for the credit quality and total loss in the portfolio.

In those cases where a customer defaults on the payment terms in the leasing contract, SG Finans may have to terminate the contract and repossess the asset. The company works to ensure rapid sale of repossessed assets in order to hold the total quantity of assets in storage at an acceptable level. Repossession of assets and sale of repossessed assets is managed by an internal team of specialists. SG Finans uses different channels for the sale of such assets.

Operational risk

The company has implemented the Société Générale group's procedures for identification, assessment and reporting of losses caused by operational risk events. Reported events are used by Société Génerale Group in order to adapt the control environment and procedures as well as for the calculation and allocation of capital requirements to cover operational risk. Furthermore the company has established monitoring and reporting of a number of key risk indicators for operational risk. The company also performs scenario analysis and stress testing of operational risk scenarios. Self-assessment of risks and controls is a central element in the identification and management of operational risk.

Observed losses caused by failures in internal routines, system failures, internal/external fraud and other operational events are very limited. Of the observed events, attempts of external fraud and execution errors are the most common. We assess that the existing control measures are satisfactory for uncovering and preventing this type of fraud and errors.

Financial risk management

The company is subject to 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. Management and control of financial risk are carried out centrally in the finance division, 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, together with banking relations for the whole company i.e. the operations in all the countries.

Treasury is organised as a service centre whose main purpose is to facilitate financing and manage financial risk within defined limits. The boundaries for financial risk are restrictive and adjusted to the size and needs of the operation.

Financial risk is reported to the company's assets and liabilities committee (ALCO) and the group's unit for monitoring and control of financial risk. ALCO has responsibility for the limits, measurement principles and monitoring of financial risk (interest rates, currency, funding and liquidity), managing assets and liabilities, capital requirements and capital structure. ALCO also coordinates stress testing of risks related to the company's internal process for assessment of capital adequacy ("ICAAP") and liquidity ("ILAAP").

Interest rate risk management

The finance policy is 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 the maturity profile of loans outstanding matches the funding. Due to small differences in the maturity profile between fixed interest rate contracts and hedging swaps, a small number of swaps do not meet the hedge accounting requirements. These interest rate swaps are classified as for trading purposes and the change in market value is posted directly to the income statement. 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.

Currency risk management

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 Norwegian Kroner (NOK) or other local currency on realisation. Moreover, the result from the branches in Sweden and Denmark is exchanged into NOK. To some extent the company may borrow in a different currency and use cross currency swaps. 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. Please refer to the notes for a closer description of accounting effects and interest rate sensitivity.

Liquidity management / funding

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 Génerale Group strategy to diversify funding sources for its operating entities. In 2013, SG Finans entered into a cooperation with Nordic Investment Bank under their mandate to provide funding through intermediaries to Nordic small and medium sized business (SMEs). The Nordic Investment Bank provides loans to SG Finans, which shall be allocated to financing equipment for SMEs in Norway. Further, we have established a cooperation with the European Investment Bank since May 2014. The EIB loans are allocated according to European Investment Bank's criteria to qualifying SMEs in Denmark, Sweden and Norway with a substantial share to be allocated to financing of climate action projects and investments in technologies that reduce emissions or energy consumption.

In 2016, we raised new loans from European Investment Bank of MEUR 150, and a loan from Nordic Investment Bank of MEUR 150, followed by a loan of MEUR 100 in 2017 from the EIB. In 2018 we raised new a new loan from NIB for financing of investment projects for SMEs and two new loans from EIB of MEUR 100 for financing of investments by SMEs and climate action projects in Denmark and Sweden and a loan of MEUR 90 for financing of client action projects and investments by SMEs in Norway. In November 2019 two additional loans from EIB of MEUR 150 were raised, for financining of investments by SMEs and climate action projects in Denmark and Sweden.

Since SG Finans' main source of funding remains the parent company, we have in the entire period maintained a close contact with our parent. In total we can conclude that the company has had access to satisfactory levels of funding and liquidity.

Solidity / Capital Adequacy / 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. A central part of the policy for capital management is regular assessment of the capital situation and capital adequacy under stress tests for various scenarios and relevant types of risk. This has been carried out in accordance with the regulatory requirements for internal processes for the assessment of capital adequacy (Internal Capital Adequacy Assessment Process or ICAAP) and liquidity risk (Internal Liquidity Adequacy Assessment Process or ILAAP). The analysis demonstrates that the company's capital adequacy, solidity and liquidity management are satisfactory in respect of expected future growth and also following the stress tests that have been carried out.

SG Finans is subject to minimum capital adequacy requirements as a regulated financial institution in the Kingdom of Norway. These requirements are defined and monitored by Finanstilsynet, the Norwegian Financial Supervisory Authority of Norway. Capital requirements, including capital buffer requirements at the end of 2019, were as follows:

The company should hold minimum common equity capital of 4,5% of the calculation basis (cf note on capital adequacy). The minimum level of core capital (socalled "tier 1" capital) should be 6,0% of the calculation basis. The total capital, including tier 2 capital, should be kept at minimum 8,0% 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, 3,0% system risk buffer and 2,5% (note: individual requirement of 2,14%) countercyclical buffer. The combination of minimum capital requirements and capital buffer requirements leads to total core capital requirement of 13,64% of calculation basis and total capital adequacy requirement of 15,64% at end of 2019. Finanstilsynet and European Central Bank confirmed again in 2018 its prudential requirements for SG Finans which require the entity to maintain 1,5% common equity capital above minimum own funds requirements. Furthermore, the regulator requires that SG Finans maintains common equity tier capital above 15,5%. Consequently, the entity shall hold regulatory minimum common equity / core capital of 15,14% and total capital of 17,14%. The increased buffer requirement is included in the capital planning of the company.

In the planning and management of capital and compliance to internal and external requirements, SG Finans monitor evolution of all core elements of capital, including common equity (equity, share premium account, retained earnings, and deductible items to define regulatory capital base) as well as supplementary capital (tier 2) in the form of subordinated debt. At the end of 2019 the company had issued subordinated debt of MNOK 550, replacing the subordinated debt of MNOK 1 100 issued in 2013. Subordinated debt is issued to strengthen the total capital adequacy level of the company. These elements are considered in capital planning and in stress testing and assessment of future capital situation.

The main principle for the company's capital is that the capital level shall at all times be sufficient to cover regulatory minimum requirements presented above, and to ensure that the company is adequately capitalised for a planning horizon of at least 15 months. The planning horizon of 15 months is assessed as sufficient to allow enough time for the shareholder (Société Génerale Group) to plan for capital increase, allocation of net earnings / dividends or implementation of required measures should the capital situation in SG Finans fall below the defined internal targets. For the current financial planning period, the internal capital level target is set at the same level as recommended by the regulatory authorities, i.e. to maintain common equity capital ratio above 15,50%.

The capital buffer and capital ratio targets are assessed by the Board of Directors when required, and at least in connection with updates to capital management policy and review of the internal capital assessment results.

Note 30 contains further quantitative information on capital and capital adequacy.

Corporate Governance / Internal control

As part of the Société Générale group, the company has continued the development of its principles and framework for internal control and corporate governance to the standards of the group. The main risks and the efficiency of internal controls are assessed on a regular basis. The results of these assessments are satisfactory.

25. 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. Counterparty classification is based on available financial information, as well as other information. The combination of these parameters determines how the exposure is classified. Models for calculating credit risk (probability of default), loss given default and other parameters are used in estimating the risk of an exposure and the level of capital needed to cover future expected and unexpected losses. 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. See also accounting principles.

SG internal obligor rating scale

SG obligor rating	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					

Risk classification loans to customer

In 2014 a complete review of the object risk classes was performed. The goal was to group exposures with similar object risk and have limits adapted to the Loss Given Default (LGD) levels observed in the portfolio today.

In this process it was decided to calculate the actual LGD on each exposure, taking into account maturity, down payment and residual value in addition to object type. This is a natural evolution from before when the average LGDs of each object class was used. When setting the new limits observed historical loss, number of observations and expectations from business line experts were taken into consideration.

(in NOK thousand)							2019
			Object classification				
Obligor classifiaction	**A [0%; 4%]**	**B [4%; 8%]**	**C [8%; 13%]**	**D [13%; 18%]**	**E [18%;100%]**	**Not classified**	**Total**
[1 ; 3] High	39 613	4 539	5 513	2 227	22 562		74 454
[-3 ;-4] High/medium	343 542	282 382	634 005	269 169	640 578		2 169 676
[5+ ;-5] Medium	5 882 094	5 314 821	6 039 997	2 193 882	2 231 032		21 715 826
[6+ ;7+] Medium/Low	2 562 175	2 627 798	2 195 503	688 268	851 814		8 925 559
[7 ;-7] Low	650 470	519 143	462 582	170 508	161 575		1 964 277
[8 ;10] Default	45 195	103 486	209 898	135 596	210 894		705 070
Not classified						4 068 868	4 068 868
Total	**9 523 089**	**8 852 169**	**9 601 497**	**3 459 651**	**4 118 455**	**4 068 868**	**39 623 730**

(in NOK thousand)							2018
			Object classification				
Obligor classifiaction	**A [0%; 4%]**	**B [4%; 8%]**	**C [8%; 13%]**	**D [13%; 18%]**	**E [18%;100%]**	**Not classified**	**Total**
[1 ; 3] High	42 861	11	334	46 732	86 073		176 012
[-3 ;-4] High/medium	377 516	285 294	656 181	245 013	315 975		1 879 978
[5+ ;-5] Medium	5 315 393	4 633 257	5 357 723	1 788 169	2 306 763		19 401 304
[6+ ;7+] Medium/Low	2 604 208	2 522 987	2 303 133	560 845	832 106		8 823 279
[7 ;-7] Low	571 794	468 054	400 119	93 910	140 117		1 673 993
[8 ;10] Default	130 464	102 322	205 705	180 997	212 799		812 287
Not classified						5 249 470	5 294 470
Total	**9 022 235**	**8 011 925**	**8 923 193**	**2 915 665**	**3 893 834**	**5 294 470**	**38 061 322**

26. REPOSSESSED ASSETS

SG Finans has an objective of quickly realizing repossessed assets, and maintaining stock at a reasonable level. The company does not use repossessed assets, but sells the objects to third-parties. The company has achieved acceptable prices on sale of repossessed assets in 2019, and the market for second-hand equipment has generally been very good the last couple of years.

(in NOK thousand)	**2019**	**2018**
Booked value	25 485	22 268
Turnover	318 291	256 392
Number of objects in stock at year end	218	207

27. INTEREST RIKS AND INTEREST RATE ADJUSTMENT PERIOD

Interest rate risk arises from loan and leasing engagements where SG Finans receives fixed interest rate payments from the client. The interest rate can be fixed for different maturities, and in order to manage interest rate exposure, SG Finans AS applies different methods for interest rate hedging. See notes 1 and 25 for a description of hedging. Generally, a change in market interest rates will take effect faster in the interest rate to customer than it will in the funding rate. During normally a three months period this effect will however be neutralized.

Period until next interest rate adjustment

(in NOK thousand)							2019
	1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 year	> 5 years	No agreed fixed rate	TOTAL
Assets							
Cash and deposits with central banks	9	0	0	0	0	0	9
Hedging derivative assets	97 253	0	0	0	0	0	97 253
Due from banks	400 085	0	0	0	0	0	400 085
Customer loans	12 004 079	24 497 738	845 196	1 539 616	312 763	0	39 199 392
- hereof foreign currency	3 813 726	8 084 039	607 638	1 063 587	46 961	0	13 615 951
Revaluation differences	18 178	0	0	0	0	0	18 178
Other assets	139 217	0	0	0	0	0	139 217
Total financial assets	**12 658 821**	**24 497 738**	**845 196**	**1 539 616**	**312 763**	**0**	**39 854 134**
Liabilities							
Financial liabilities at FVTPL	0	0	0	0	0	0	0
Hedging derivative liabilities	84 648	0	0	0	0	0	84 648
Due to banks	10 462 349	21 448 095	0	35 571	0	0	31 946 015
- hereof foreign currency	5 092 068	10 766 250	0	35 571	0	0	15 893 889
Customer deposits	248 927	0	0	0	0	0	248 927
Other liabilities	780 103	0	0	0	0	0	780 103
Pension liabilities	787	1 575	7 087	37 796	47 245	0	94 490
Current tax liabilities	213 361	0	0	0	0	0	213 361
Subordinated debt	0	550 126	0	0	0	0	550 126
Total financial liabilities	**11 790 175**	**21 999 796**	**7 087**	**73 367**	**47 245**	**0**	**33 917 670**
Total balance sheet items	**868 645**	**2 497 942**	**838 110**	**1 466 249**	**265 518**	**0**	**5 936 464**

Period until next interest rate adjustment

(in NOK thousand)							2018
	1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 year	> 5 years	No agreed fixed rate	TOTAL
Assets							
Cash and deposits with central banks	10	0	0	0	0	0	10
Hedging derivative assets	146 466	0	0	0	0	0	146 466
Due from banks	288 797	0	0	0	0	0	288 797
Customer loans	11 603 258	23 028 533	747 205	2 079 223	148 474	0	37 606 693
- hereof foreign currency	3 760 983	7 313 928	601 266	1 242 668	54 779	0	12 973 624
Revaluation differences	58 631	0	0	0	0	0	58 631
Other assets	104 492	0	0	0	0		104 492
Total financial assets	**12 201 654**	**23 028 533**	**747 205**	**2 079 223**	**148 474**	**0**	**38 205 089**
Liabilities							
Financial liabilities at FVTPL	507	0	0	0	0	0	507
Hedging derivative liabilities	77 339	0	0	0	0	0	77 339
Due to banks	10 841 736	19 995 446	205 418	119 941	0	0	31 162 541
- hereof foreign currency	5 220 695	10 138 879	205 418	35 801	0	0	15 600 793
Customer deposits	234 642	0	0	0	0	0	234 642
Other liabilities	537 393	0	0	0	0	0	537 393
Pension liabilities	740	1 481	6 664	35 540	41 323	0	85 748
Current tax liabilities	180 162	0	0	0	0	0	180 162
Subordinated debt	0	550 216	0	0	0	0	550 216
Total financial liabilities	**11 872 519**	**20 547 143**	**212 082**	**155 481**	**41 323**	**0**	**32 828 548**
Total balance sheet items	**329 135**	**2 481 390**	**535 123**	**1 923 742**	**107 151**	**0**	**5 376 541**

28. LIQUIDITY RISK AND REMAINING MATURITY ON BALANCE SHEET ITEMS

Funding is mainly provided by the parent company Société Générale, on the basis of a framework agreement and limits. The company's liquidity risk is therefore mainly linked to the owner, and refinancing is organised in close collaboration with the group treasury department. The table below shows due date for assets and liabilities in nominal values.

Remaining maturity

(in NOK thousand)							2019
	1 month	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 year**	**> 5 years**	**Without maturity**	**TOTAL**
Assets							
Cash and deposits with central banks	9	0	0	0	0	0	9
Hedging derivative assets	97 253	0	0	0	0	0	97 253
Due from banks	400 085	0	0	0	0	0	400 085
Customer loans	1 777 609	3 937 580	8 463 040	22 686 027	2 335 136	0	39 199 392
- hereof foreign currency	866 872	1 142 774	2 905 249	7 871 702	601 574	0	13 388 171
Revaluation differences	18 178	0	0	0	0	0	18 178
Other assets	139 217	0	0	0	0		139 217
Total financial assets	**2 432 351**	**3 937 580**	**8 463 040**	**22 686 027**	**2 335 136**	**0**	**39 854 134**
Liabilities							
Financial liabilities at fair value through profit and loss	0	0	0	0	0	0	0
Hedging derivative liabilities	84 648	0	0	0	0	0	84 648
Due to banks	2 749 828	3 074 199	8 793 363	16 702 493	626 132	0	31 946 015
- hereof foreign currency	1 308 395	1 505 536	3 475 629	8 790 472	0	0	15 080 032
Customer deposits	63 008	0	0	0	185 919		248 927
Other liabilities	304 441	290 554	111 067	70 819	3 223		780 103
Pension liabilities	792	1 574	7 083	37 796	47 245	0	94 490
Current tax liabilities	0	106 681	106 681	0	0	0	213 361
Subordinated debt	0	126	0	550 000	0	0	550 126
Total financial liabilities	**3 302 717**	**3 473 133**	**9 018 194**	**17 361 108**	**862 519**	**0**	**33 917 670**

Remaining maturity

(in NOK thousand)							2018
	1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 year	> 5 years	Without maturity	TOTAL
Assets							
Cash and deposits with central banks	10	0	0	0	0	0	10
Hedging derivative assets	146 466	0	0	0	0	0	146 466
Due from banks	288 797	0	0	0	0	0	288 797
Customer loans	1 803 182	4 075 896	8 410 843	21 433 079	1 883 693	0	37 606 693
- hereof foreign currency	757 891	1 093 654	3 110 919	7 501 102	510 039	0	12 973 605
Revaluation differences	58 631	0	0	0	0	0	58 631
Other assets	96 586	7 906	0	0	0		104 492
Total financial assets	**2 393 651**	**4 083 802**	**8 410 843**	**21 433 079**	**1 883 693**	**0**	**38 205 089**
Liabilities							
Financial liabilities at fair value through profit and loss	507	0	0	0	0	0	507
Hedging derivative liabilities	77 339	0	0	0	0	0	77 339
Due to banks	2 631 566	3 050 821	7 751 464	17 002 665	726 025	0	31 162 541
- hereof foreign currency	1 755 282	1 391 307	3 483 730	8 550 334	99 893	0	15 280 546
Customer deposits	45 660	0	0	0	188 982		234 642
Other liabilities	204 815	136 776	107 857	87 944	0		537 371
Pension liabilities	709	1 430	6 435	34 300	42 874	0	85 748
Current tax liabilities	0	180 162	0	0	0	0	180 162
Subordinated debt	0	216	0	550 000	0	0	550 216
Total financial liabilities	**2 960 596**	**3 369 405**	**7 865 756**	**17 674 909**	**957 881**	**0**	**32 828 547**

29. NET POSITION PER CURRENCY

Foreign currency positions arise from contracts in foreign currencies, and from the activities in the branches in Denmark and Sweden. Net foreign currency position at year end 2019 was TNOK 31 102. Hence giving a foreign currency sensitivity of TNOK 3 110 with a 10 % shift in exchange rates between NOK and other foreign currencies. The impact on net result and equity would be equivalent to TNOK 2 395. For 2018 a shift of 10 % in exchange rates would have resulted in an impact of TNOK 719 before tax and TNOK 554 on net profit and equity. The foreign currency positions shown are only non functional currencies.

			2019			
(in thousand)	**USD**	**EUR**	**SEK**	**CHF**	**GBP**	**DKK**
Assets						
Norway	156 043	173 816	778 667	13	1 890	562 522
Sweden	141 773	12 713	0	0	0	0
Denmark	141 639	116 777	0	0	0	0
Total assets	**439 455**	**303 306**	**778 667**	**13**	**1 890**	**562 522**
Liabilites						
Norway	156 224	173 989	803 033	7	2 222	562 679
Sweden	141 752	12 725	0	0	0	0
Denmark	141 639	116 868	0	0	0	0
Total liabilities	**439 615**	**303 582**	**803 033**	**7**	**2 222**	**562 679**
Net balance sheet items	-160	-276	-24 366	6	-332	-157
Converted to NOK	**-1 411**	**-2 727**	**-22 967**	**55**	**-3 844**	**-208**
Currency sensitivity (10% shift) before tax	-141	-273	-2 297	5	-384	-21
Currency sensitivity (10% shift) after tax	-109	-210	-1 768	4	-296	-16

			2018			
(in thousand)	**USD**	**EUR**	**SEK**	**CHF**	**GBP**	**DKK**
Assets						
Norway	36 857	205 208	1 054 894	6	1 759	808
Sweden	135 099	15 261	0	0	0	0
Denmark	57 901	190 028	0	0	0	0
Total assets	**229 857**	**410 497**	**1 054 894**	**6**	**1 759**	**808**
Liabilites						
Norway	36 600	203 983	1 076 822	0	2 065	899
Sweden	135 078	15 062	0	0	0	0
Denmark	57 901	189 928	0	0	0	0
Total liabilities	**229 580**	**408 973**	**1 076 822**	**0**	**2 065**	**899**
Net balance sheet items	277	1 523	-21 928	6	-306	-91
Converted to NOK	**2 409**	**15 150**	**-21 294**	**55**	**-3 388**	**-121**
Currency sensitivity (10% shift) before tax	241	1 515	-2 129	5	-339	-12
Currency sensitivity (10% shift) after tax	185	1 167	-1 640	4	-261	-9

30. CAPITAL ADEQUACY

With effect as of January 2014, SG Finans is approved by Finanstilsynet (The Norwegian Financial Supervisory Authority) for the use of the advanced IRB approach for calculating capital requirements for the major part of SG Finans' loan/leasing portfolio. Basic Indicator Approach for Operational Risk is applied. The entity does not take Market Risk positions and the capital requirement for Market Risk is nil.

(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 %

SG Finans has been validated to calculate capital requirements and capital adequacy according to Advanced Internal Rating Based Approach for the major portfolios. The capital adequacy calculations are consequently based on SG Finans internal parameters a.o. for PD (”Probability of Default”), LGD (”Loss given Default”), M (”Maturity”) for these portfolios. The capital requirement for Operational Risk is calculated according to the Basic Indicator / Standard Approach for operational risk. The entity does not take Market Risk positions, and the capital requirement for market risk is nil.

31. GUARANTEE LIABILITIES AND LOAN COMMITMENTS

SG Finans AS has at year end 2019 given loan commitments of TNOK 1 539 807. The commitments are related to future financing of equipment, where SG Finans has a contractually obligation. By the end of 2018 the corresponding amount was TNOK 1 322 727.

(in NOK thousand)	**2019**	**2018**
Endorser's liability	9 252	20 253
Guarantee liability	20 491	16 794
Total	**29 743**	**37 316**

32. CONTINGENCIES

SG Finans AS had no major legal disputes pending at the end of the reporting period.

33. OWNERSHIP

The share capital of SG Finans AS is constituted of 101 shares, with a nominal value of NOK 9.360.750 per share. All issued shares have equal voting rights and the same right to receive dividend. All shares are held by SGEF SA, 17 cours Valmy, 92800 PUTEAUX, France, which is ultimately 100 % owned by Société Générale SA, Paris, France.

Ordinary Shares - issued and fully paid

	2019	**2018**
January the 1st	101	101
December 31st	**101**	**101**

Ordinary Shares -dividend

(in NOK thousand)	**2019**	**2018**
Total dividend	0	100 000
Dividend per share	**0**	**990**

34. INFORMATION ON RELATED PARTIES

Assets and interest income

	2019	2018
Loans to Group companies	1 639	1000
Revaluation of hedged item	0	0
Interest income from Group companies	0	0

Liability and interest expense

(in NOK thousand)	2019	2018
Loans from Group companies	24 515 652	24 400 317
Related payables Group companies	36 856	28 635
Revaluation of hedged item due to banks	28 617	145 115
Other liabilities	5 065	5 498
Interest expenses to Group companies	-283 381	-208 054
Subordinated debt	550 000	550 000
Interest expenses on subordinated debt	-20 896	-32 186

Funding is primarily provided by the parent company Société Générale, on the basis of a framework agreement and limits. All transactions are made on market terms.

35. SUMMARY OF COMPENSATION POLICY AND REMUNERATION

MAIN PRINCIPALS

The compensation policy for all employees in SG Finans AS is based on the provisions of Sentralavtalen (the Central Agreement) between the Finans Norge (Employers' Association for Financial institutions) and Finansforbundet (The Finance sector Union of Norway).

The compensation shall be evaluated based on performance, qualifications and market considerations. The criteria shall be discussed with employee representatives, and in connection with the objectives and assessments for each employee.

FIXED SALARY

The fixed salary is based on the wage scale for member companies in the Employers' Association for Financial institutions.

Salaries for the CEO, Management Committee and key employees are validated by SG Group.

Assessment of individual salary raise shall be done in conjunction with the company's annual salary review. The fixed salary is linked to the employee's position and achievement, and is related to the scope of responsibility and the position's market value.

Fixed salary can also be adjusted due to advancement or acquirement of education that involve change of responsibility or job level.

ONE TIME PREMIUMS

Key employees involved in more extensive projects, high achievers or with extraordinary workload can be granted a one-time premium.

VARIABLE COMPENSATION – BONUS SCHEMES

The aim of the bonus system is to reward achievement of performance goals, and to motivate and keep the most valuable staff members, while not giving incentives for excessive risk-taking. Existing bonus schemes are subject to annual revision. No staff in SG Finans has guaranteed bonus payments.

Criteria for variable compensation/bonus schemes include company results, regional/department results, product results and discretionary criteria.

BONUS SCHEME – SENIOR EXECUTIVES

For the senior executives, the composition of fixed and variable remuneration shall be balanced. The variable remuneration shall not exceed the fixed remuration, i.e. 100 per cent of the fixed remuration. The General Assembly, or equivalent body, may decide variable remuneration up to twice the fixed remuneration, that is, 200 percent of the fixed remuneration, for identified staff.
The basis for the variable remuneration shall be a period of the last two years, and at least half of the variable part can be distributed in the form of SG performance shares or as a SG share-adjusted cash bonus over at least a 3 year schedule (in line with SG Group policy and the Norwegian regulation).

Remuneration of senior management

(in NOK thousand)						2019	2018
Management	**Pay**	**Bonus**	**Pension cost**	**Other remuneration**	**Share options**		
Carsten Thorne, CEO	3 198	1 298	551	273	0	5 320	6 440
Hans Einar Herzog, deputy CEO	1 825	663	551	191	0	3 230	3 129
Total	**5 022**	**1 961**	**1 102**	**454**	**0**	**8 550**	**9 569**

An early retirement pension plan is established for the CEO, entitling him to receive an early retirement pension of 70 % of pensionable salary from the age of 62 years.

In addition to the pension cost specified above for the CEO, a reversal of estimated acturay pension provision of TNOK 9 236 is booked as reduced pension costs. This is due to plan ammendments in 2019.

Senior managers are persons with authority to commit the company by virtue of their position (power of procuration). Bonus payments are dependant on the results achieved in relation to agreed conditions both individual and collective, outlined in the Société Générale Fidelity Bonus Plan. Bonus is granted as deferred cash in NOK and deferred Quasi-shares in EUR. Consequently the liability will be a result of underlying number of Quasi-shares and the market price of the shares and the exchange rate EUR/NOK. The cash bonus will be payable in 2020, and the bonus related to the Quasi-shares respectively in 2021 through 2023 upon certain conditions.

Deferred bonus

Carsten Thorne, CEO	**Received in the financial year**	**Changed provision**	**Balance 31.12.19**	**Balance 31.12.18**
Cash	**950**	**975**	**975**	**0**
Quasi-shares	328	595	1 096	501
Total deferred bonus	**1 278**	**1 570**	**2 071**	**501**
Hans Einar Herzog, deputy CEO				
Cash	**400**	**475**	**475**	**0**
Quasi-shares	**143**	**245**	**466**	**221**
Total deferred bonus	**543**	**720**	**941**	**221**

(in NOK thousand)				2019	2018
Remuneration to the Board of Directors	**Pay / Fees**	**Bonus**	**Other remuneration**		
Jochen Jehmlich, chairman	0	0	0	0	0
Peter Ström, board member	0	0	0	0	0
Ellen Altenborg, board member	150	0	0	150	125
Tommy Pedersen, board member	175	0	0	175	175
Mariann H. Gulbrandsen, employee representative	0	0	0	0	0
Anett Carlsson, former employee representative	30	0	0	30	23

Torbjørn Nilsen, former employee representative	0	0	0	0	8
Total remuneration to the Board of Directors	**330**	**0**	**0**	**355**	**330**

36. NUMBER OF EMPLOYEES/FULL-TIME POSITIONS

	Norway	Sweden	Denmark	Total
Number of employees start of year	273	41	44	358
Recruitment	25	2	1	28
Departures	26	1	0	27
Number of employees end of year	**272**	**42**	**45**	**359**

Number of employees calculated on a full-time basis 31.12.2019	269,19	41,89	43,34	354,42
Number of employees calculated on a full-time basis 31.12.2018	269,99	40,93	42,34	353,26

37. SUBSEQUENT EVENTS

The spread of Covid 19, declared a pandemic by the World Health organization in March 2020, have caused great turmoil in the global economy. The impact is already severe, impacting from global economy, Nations, entities and consumers. The full impact and duration are highly uncertain. All over the world, governments have taken anti-crisis actions trying to counter the many action taken by government to stop or reduce the spread of the pandemic.

In the Nordic area we have seen both fiscal policy and monetary policy measures as a response to the coronavirus. All central banks have introduced liquidity measures to support market functioning, banks and corporates. In addition, across the Nordic countries, counter-cyclical capital buffer (CCyB) requirements have been lowered, providing banks with additional headroom to continue lending to the economy. Moreover, financial supervisory authorities in the three Scandinavian countries are allowing banks to make use of their liquidity buffers, by providing them temporary relief from liquidity coverage ratio requirements. These measures have been effective, but whether it will be sufficient will depend on the duration of the epidemic and extent of restrictions imposed by and austerity relief provided by the authorities. SG Finans AS, as a part of Societe Generale Group, has therefore had so far, satisfactory access to liquidity during the current conditions.

As more and more borders have been closed, and travel restriction have been put into place businesses are impacted. As SG Finans key impact factor is liquidity, and we have a broad network of branches in Scandinavia, the impact of these restrictions does not affect SG Finans directly to a large extent. But as a key factor in our business is financing equipment, we are impacted as our suppliers and customers surly meet shortages and increased prices. Ultimately these actions, put in place by Governments will reduce economic activity or even stop, for some of our clients and partners and may eventually lead to reduced demand for new investments.

Unfortunately, no one is completely shielded in the current situation, and we expect a weakening of credit quality across the portfolio. We expect increasing default rate and increasing Cost of Risk in the coming period. On the positive side, we are going into the downturn with arguably a strong portfolio. This will mitigate some downside and we expect the outcome to be manageable. We expect a broad effect independent of sector/segment – although some areas will be more impacted than others. Sectors considered to be most exposed are transport, manufacturing/industry, tourism /events and the wholesale & retail sector. A significant increase in request for payment delays has already materialised and is the first sign of increased counterparty risk in our portfolio. These are to the extent possible considered on an individual level, and closely monitored by Risk department.

SG Finans has to the best of its ability taken measures, enabling the entity and the staff to still maintain and service customers and suppliers during this epidemic. SG Finans is monitoring the situation closely and has established a crisis team. The crisis team meet on a daily basis ensuring that all business aspect possibly impacted by the epidemic, recommendation from heath authorities, and governmental action are closely monitored and followed up.

AUDITOR'S REPORT

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of SG Finans AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SG Finans AS, which comprise the balance sheet as at 31 December 2019, income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Managing Director (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 30 March 2020
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Andreas Lie
State Authorised Public Accountant (Norway)

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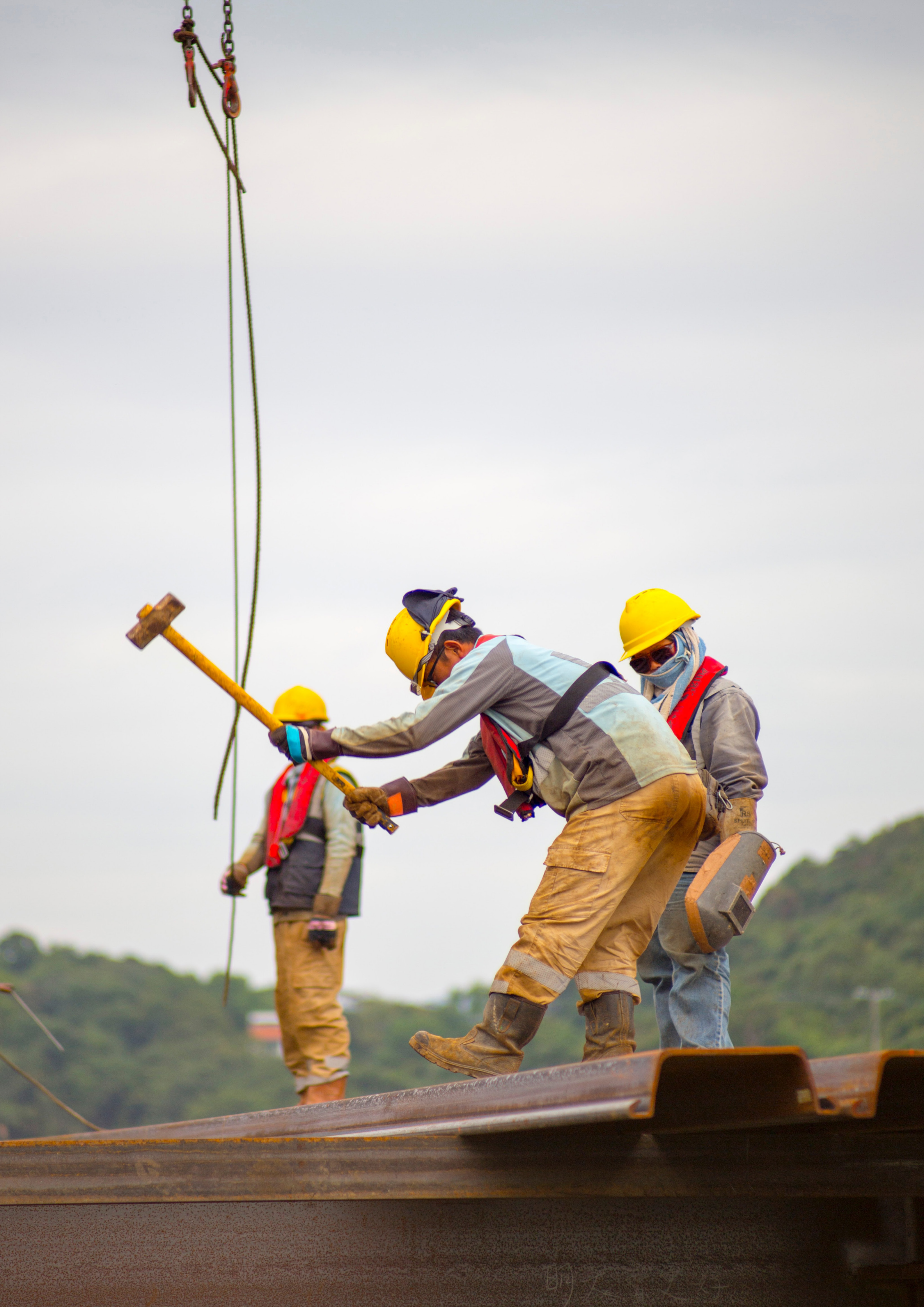

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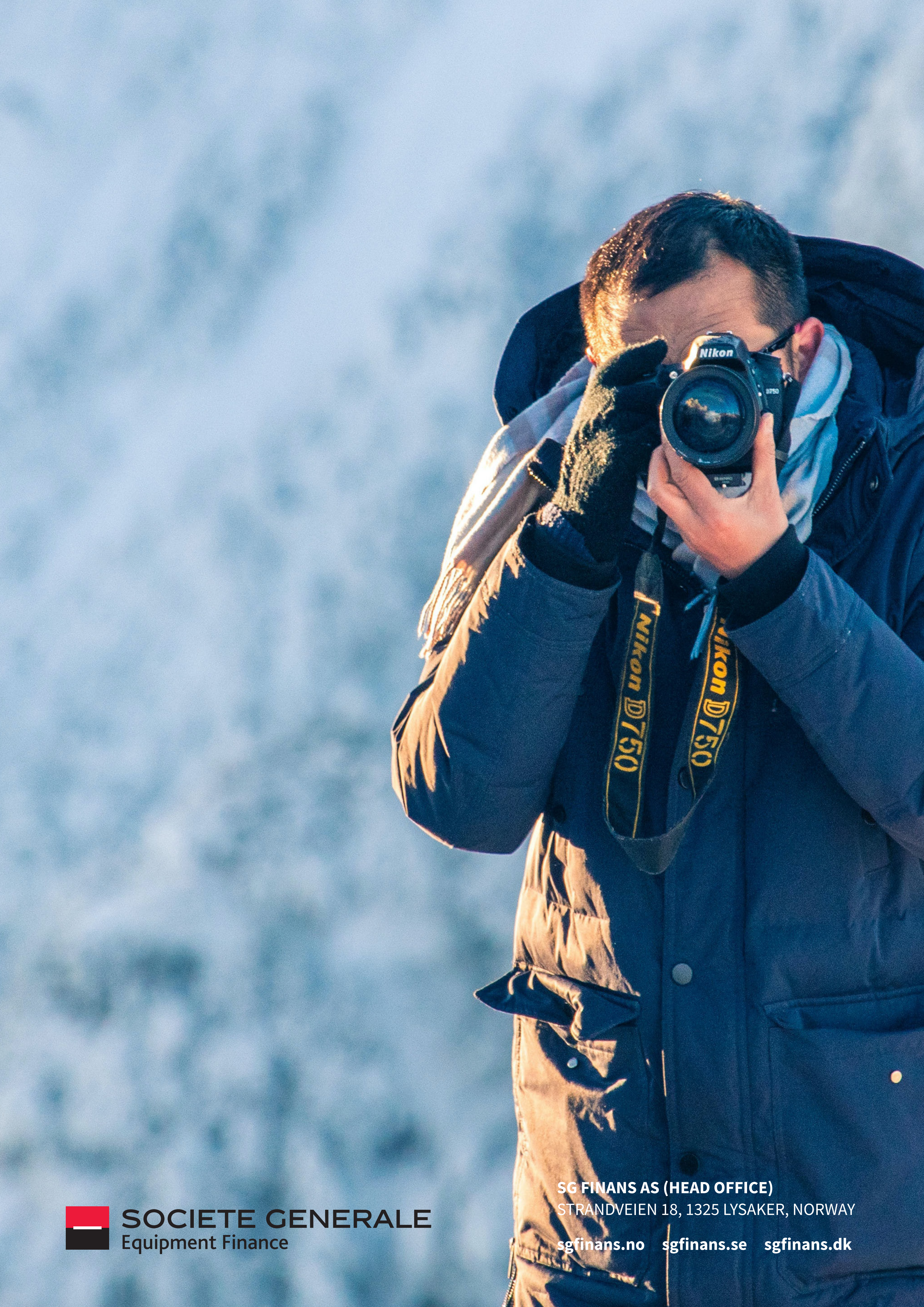

SOCIETE GENERALE
Equipment Finance

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