

ICAAP Q3 2014

Saxo Bank A/S

Saxo Bank Group

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1. Introduction

The purpose of the Saxo Bank Group's (hereafter Group) and Saxo Bank A/S's (hereafter Bank) capital management practice is to ensure that the Group and Bank have sufficient capital at all times to cover the risks associated with its activities. The framework for the capital management is rooted in the Capital Requirement Directive's (CRD IV) Pillar I, II and III. Pillar I contains a set of rules listed in the Capital Requirements Regulation (CRR) for calculating the minimum capital requirement. Pillar II describes the framework for the Group's and Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the supervisory review, while Pillar III contains the disclosure aspect.

New capital regulation in 2014

The Fourth editions of the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) were approved by the EU Council of Ministers end of June 2013 and are applicable from 2014. The CRR introduces the first single set of prudential rules for banks across the EU. It applies directly to all banks in EU member states. It should help to ensure that the Basel III international standards for bank capital adequacy are fully respected in all EU member states. EU Banks will be supervised by EU member states' competent authorities, in collaboration with the European Banking Authority (EBA), whose supervisory powers will be expanded.

CRD IV and CRR require the Group and Bank to monitor and report new capital requirements and buffers. The Group and Bank will be required to set aside more and better capital as a cushion against hard times. Furthermore, the Group and Bank will also be required to hold a "capital conservation buffer" to absorb losses and protect the capital, and a "countercyclical capital buffer" to ensure that in times of economic growth, the Group and Bank accumulate a sufficient capital base to enable it to continue supplying a stable supply of credit in stress periods. In Denmark the "capital conservation buffer" is phased in from 2016 and the "countercyclical capital buffer" from 2015. In addition, member states may require additional buffers.

CRR and CRD IV in Danish legislation, including some of the Danish Member State's transitional rules, were implemented, end of March 2014. During the first three quarters of 2014 the European Commission has adopted some supplementing Regulatory Technical Standards to CRR. Some of the draft regulation standards from EBA have not yet been adopted by the European Commission. Based on final regulation

standards, EBA's draft regulations and the transitional rules issued, the estimated ICAAP Q3 2014 is disclosed.

The assumptions and methodology in capital calculations are disclosed in Risk Report 2013. The Risk Report 2013 is available at www.saxoworld.com/investorrelations. The assumed Danish transitional rules in the Risk Report were approved without changes in the final version. The calculated Total Capital and Risk Weighted-Assets (RWA) may change due to final regulation standards and issue of guidelines from EBA and Danish FSA including pending final standards regarding Prudent Valuation Adjustments in Common Equity Tier 1 Capital.

The external subordinated debt issued by the group does not fulfil the requirements in CRR. It will therefore be reduced stepwise from beginning of 2014 to end of 2017 based on CRR and the Danish transition rules and will be eliminated fully end of 2017.

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's and Bank's ICAAP process follows six steps:

Step 1: Capital requirement according to the new regulation CRR/CRD IV (Pillar I)

Step 2: Self assessed capital requirement using a quantitative approach

Step 3: Capital requirements using the 8+ methodology

Step 4: Self assessed capital requirement using a scenario based approach

Step 5: Capital adequacy determination, based on the 4 previous steps

Step 6: Disclosure (Pillar III)

} (Pillar II)

Business Activities

The Group and Bank carry out the following main activities:

- Online trading and investment and other investment services within capital markets to retail clients, corporations, financial institutions and white label clients.
- Professional portfolio, fund and asset management to retail and professional clients.
- Classic bank services in Denmark, primarily to retail clients, hereunder bank accounts and debit/credit cards, mortgage credit, bank advice services and pension products.

The Group and Bank are exposed to a number of risk types stemming from these activities, which can be categorised as follows:

Market Risk: The risk of loss due to movements in market risk factors.

Credit Risk: The risk that counterparties or clients of the Group and Bank fail to fulfil their obligations.

Operational Risk: The risk of loss resulting from inadequate or failed processes, people or systems, inaccuracy and improper disclosure of data, (including Legal and Information security risk)

Liquidity Risk: The risk of loss resulting from lack of liquidity.

Leverage Risk: The risk of loss resulting from high leverage.

Business Risk: Reflects the risk of direct or indirect loss, or damaged reputation as a result of changes in external circumstances or events.

Other Risks: Other risk covers strategic risk, and risk not included in the previous categories.

Each risk category is described in details in the coming sections including a description of the measurement methods.

Capital planning

Part of the ICAAP is planning future capital needs in relation to the business environment, growth and strategic plans in the years to come. Potential major changes to the risk profile, and thereby the future solvency need, are estimated using the ICAAP. These could be changes in the business strategy or competitive landscape, significant increases in traded volumes, fundamental changes in the market conditions, changes in the internal organisation, M&A activity, material changes in regulatory requirements or introductions of new products. This input is used in the strategic decision-making process by the Board of Directors and the Board of Management. Furthermore the result of the ICAAP is used as input to the capital plan and the capital contingency plan.

The capital plan is a function of the estimated (budgeted) forecast of capital, risk and earnings.

The result of the ICAAP step four (scenario based approach) is used as input to the capital contingency plan. The financial consequences following the various scenarios and potential management actions are estimated using the methodology described under the ICAAP step two - whereby the most likely net financial consequences from a scenario appear. The potential management actions are revised should the

estimated net financial consequences bring the Group and/or Bank below the required minimum capital level.

A full ICAAP is performed as often as required, but at least once a year. Capital adequacy levels adjusted according to the on-going limit utilisation are published and reported to the Danish FSA on a quarterly basis.

2. Results

Capital Requirement - Saxo Group - Q3 2014						
Risk Type	Pillar I	Internal Quantitative		Scenario Based	ICAAP	RWA %
		Approach	8+ Method	Approach		
Credit Risk	420.7	705.5	705.5		705.5	4.7%
Market Risk	309.9	103.6	309.9		309.9	2.0%
Operational Risk	482.2	432.6	482.2		482.2	3.2%
Business Risk	0.0	227.6	227.6		227.6	1.5%
Liquidity Risk	0.0	0.0	0.0		0.0	0.0%
Other	0.0	150.0	150.0		150.0	1.0%
Wide Market Turbulance				478.0	0.0	0.0%
Capital Requirement	1,212.8	1,619.3	1,875.2	478.0	1,875.2	12.4%
% of RWA	8.0%	10.7%	12.4%	3.2%	12.4%	
Risk Weighted Assets (RWA)	15,159.9					
Capital - Saxo Group - Q3 2014						
CET1					2,088.6	
T1					2,178.8	
Total Capital					2,401.5	
Buffers - Saxo Group - Q3 2014						
CET1 Buffer					526.3	
T1 Buffer					526.3	
Total Capital Buffer					526.3	

Table 1: Capital adequacy, capital and buffers for Saxo Group Q3 2014

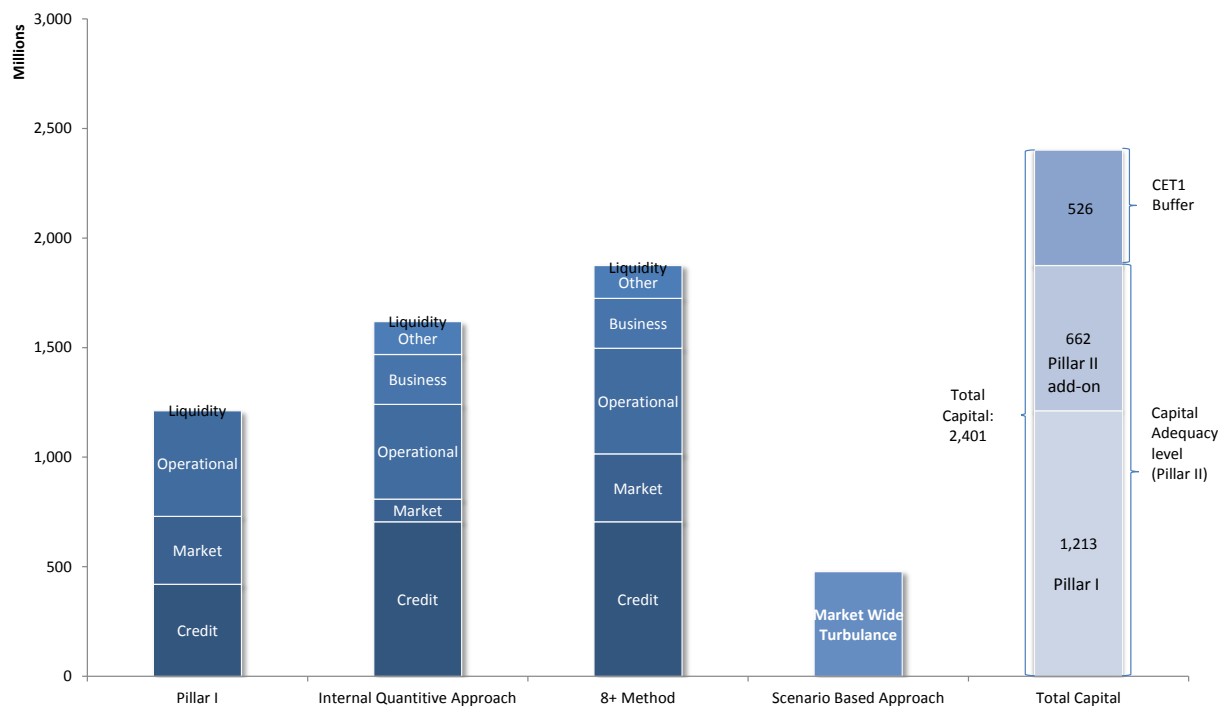


Figure 1: Capital adequacy, capital and buffers for Saxo Group Q3 2014

Capital Requirement - Saxo Bank A/S - Q3 2014						
Risk Type	Pillar I	Internal Quantitative Approach	8+ Method	Scenario Based Approach	ICAAP	RWA %
Credit Risk	359.9	461.2	461.2		461.2	3.8%
Market Risk	278.9	98.6	278.9		278.9	2.3%
Operational Risk	337.5	397.8	397.8		397.8	3.3%
Business Risk	0.0	227.6	227.6		227.6	1.9%
Liquidity Risk	0.0	31.4	31.4		31.4	0.3%
Other	0.0	150.0	150.0		150.0	1.2%
Counterparty default				478.0	0.0	0.0%
Capital Requirement	976.3	1,366.6	1,546.9	478.0	1,546.9	12.7%
% of RWA	8.0%	11.2%	12.7%	3.9%	12.7%	
Risk Weighted Assets (RWA)	12,204.0				0.0%	
Capital - Saxo Bank A/S - Q3 2014						
CET1					1,884.4	
T1					1,884.4	
Total Capital					2,090.7	
Buffers - Saxo Bank A/S - Q3 2014						
CET1 Buffer					543.8	
T1 Buffer					543.8	
Total Capital Buffer					543.8	

Table 2: Capital adequacy, capital and buffers for Saxo Bank A/S Q3 2014

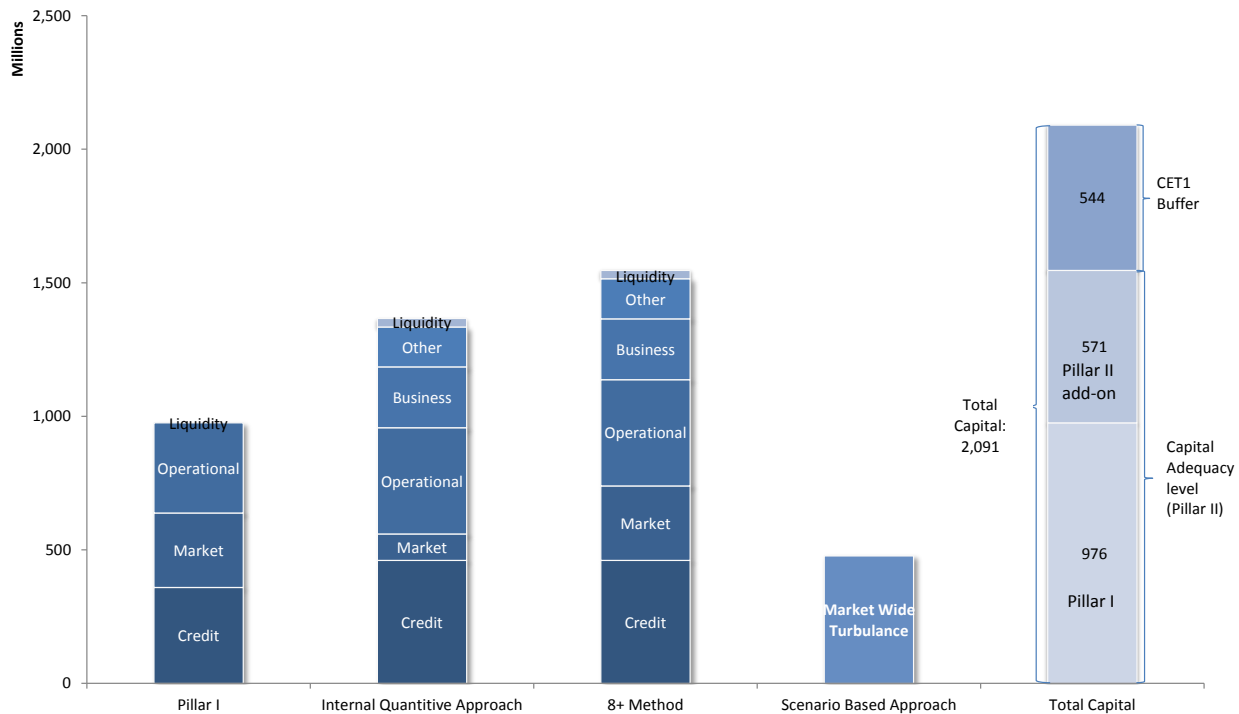


Figure 2: Capital requirements, capital and buffers for Saxo Bank A/S Q3 2014

3. Capital requirements, Pillar I

This first step calculates the minimum capital using the Danish implementation of the Capital Requirements Regulation (CRR), Pillar I. The Bank and Group use the following methods to calculate risk-weighted assets for the three types of Pillar I risks:

- Credit risk: The Standard method
 - Counterparty Risk: Marked to market Method
 - Credit Risk Mitigation: Financial Collateral Comparative Method

- Market risk: Standard methods
 - Share Price Risk: The Standardised Approach
 - Currency Risk: The Standardised Approach
 - Interest Rate Risk: The Standardised Approach
 - Option Risk (gamma, vega): The Scenario Approach

- Commodity Risk: The Maturity Ladder Method

- Operational risk: Basic Indicator Method

The Group and Bank do not take diversification effects between the risk categories into account. The capital charge for each risk category is simply aggregated.

Table 1 and Figure 1 present the capital requirements for Pillar I and furthermore the split between the different risk categories, both for the Bank and the Group.

4. Risk self-assessment, Pillar II

The second step is to assess the actual risks to which the Group and Bank are exposed and calculate the self-assessed capital charge for each risk category.

The different risk types, the Group and Bank are exposed to, have been examined and split into ICAAP risk categories as shown in Table 3 on next page. Different methods are applied to assess the Group's and Bank's capital need in each category, which are described in the following sections.

CRD IV and CRR require the Group and Bank to report and monitor the leverage ratios. From 2014 the leverage ratios are assessed under Pillar II (ICAAP requirement).

Credit Risk

To assess the credit risk the Group and Bank are exposed to, the different counterparty types have been examined, and the outstanding counterparty risk has been determined in each case or each segment.

For retail and institutional clients, credit exposure at default (EAD) is estimated based on derived client loss distributions (across actual daily individual client portfolios). EAD is calculated as the average of losses exceeding the collateral placed for margin. For banks and brokers the exposure is the outstanding cash and unrealized profit amount on open positions. For credit lines it is the issued line.

For retail and institutional clients, exposure at default is used as a conservative capital measure, for all others the risk has been assessed using impact and likelihood, based on empirical data, expert judgement and credit ratings wherever applicable.

Risk Types/Risk categories	Credit Risk	Market Risk	Operational Risk	Business Risk	Liquidity Risk	Leverage Risk
General	√	√	√	√	√	√
Earnings				√		
Growth				√		
Credit risk	√					
Market risk		√				
Concentration risk	√	√		√		
Group risks	√	√	√	√	√	√
Liquidity risk					√	
Leverage risk						√
Operational risk			√			
Control risk			√			
Business size				√		
Settlement risk	√		√			
Strategic risk				√		
Reputational risk			√	√		
Non-trading interest rate risk		√				
External risk	√		√	√	√	√
Other conditions	√			√		
Stress testing	√	√	√	√	√	

Table 3: Risk types mapped into risk categories

A Monte Carlo simulation has been utilized, running a statistically significant number of simulations with a 30% event correlation on bank and broker counterparties, and full event correlation on trading clients, to determine the loss distribution of credit risk events. Correlation is applied to simulate a stressed credit environment. The Group and Bank use expected shortfall, less expected loss (average of events greater than VaR) with a 99.9% confidence level on a one year time horizon. This means that all events in the tail of the distribution are considered when determining the adequate capital level. Credit risk outside the traded portfolio, domicile building, tangible assets and off balance sheet items, have been added using the standard method under the CRR.

Subsidiaries' credit risk has been included based on the underlying business activity. Subsidiaries within online trading and investment and other investment services within capital markets, are included using the same approach, in essence running simulations on the group's combined portfolio. Domicile buildings, tangible assets and off balance sheet items, are included using the standard method under the CRR. Saxo Privatbank offers classic bank services that have been included using their respective individual capital adequacy numbers, using simple addition, offering no diversification effects.

In addition the board sets additional adjustments to cover exposures not reflected in the credit adjustment on the balance sheet and risks on large or otherwise non-standardised customers, as well as other risks not covered by the above calculations.

Market Risk

The market risk in the Group has been determined using an exponentially weighted moving average VaR approximation to derive Expected Shortfall (ES) on the Group's and Bank's actual outstanding exposures. To better reflect the Group's and Bank's risk appetite the most recent monthly and weekly averages are compared and the largest number is selected as being representative of the Group's and Bank's current market risk appetite. The model uses actual correlations within the traded portfolio. ES is determined with 99.97% confidence, and a one day time horizon on OTC products, and a two day time horizon for products traded on an exchange, as the vast majority of the trading exposure can be eliminated within one or two days respectively.

Subsidiaries interest risk has been included based on the above methodology. Subsidiaries' other market risk has been included based on the underlying business activity. Online trading and investment and other

investment services within capital markets, are included using a CRR Pillar I approach where applicable. Results are aggregated at a group level using simple addition. Portfolio, fund and asset management or classic bank services have been included using their respective individual capital adequacy numbers. These have been aggregated at a group level using simple addition, offering no diversification effects.

To cater for concentration risk in the trading portfolio, if appropriate, a buffer consisting of a 2% USD stress, is added to offset for price moves beyond what is embedded in the market risk ES calculation.

Operational, Compliance and Legal Risk

The risk from the Group's operations is assessed through an interview process where likelihood and impact levels of events are determined in co-operation with applicable stakeholders. The risks have been assessed using the same simulation model as described under credit risk. The operational risk in the Group and Bank has been determined using a portfolio approach and Monte Carlo simulation with a 0% event correlation. To incorporate stress, a number of combined event scenarios have been introduced in the simulation. These scenarios imply 100% correlation between underlying events, and consider severe impacts, setting impact and probability levels at average, worst out of 20 occurrences and worst out of 100 occurrences. The events are constructed using external data sources, and expert advice. A one-year time horizon and expected shortfall, less expected loss, with a 99.9% confidence level has been applied.

Subsidiaries' operational risk has been included based on the underlying business activity. Subsidiaries within online trading and investment and other investment services within capital markets, are included using the same simulation approach, in essence running simulations on the group's combined portfolio. Saxo Privatbank offers classic bank services that have been included using their respective individual capital adequacy numbers, using simple addition, offering no diversification effects.

In addition the board sets additional adjustments to cover operational risk on large or otherwise non-standardised customers and model risk, as well as other risks not covered by the above calculations.

Business Risk

The key potential business risks are identified as part of the budgeting process. The outcome of this process forms the basis for sensitivity analyses of the net income, which is included in the annual budget report. Business risk is covered by the budgeted income. However, if the income is not sufficient, capital must explicitly be set aside. Throughout the year the performance is evaluated to determine whether capital should be set aside. Furthermore capital is set aside in recognition of the granted, unutilized, market risk exposure limits, not included under Pillar I.

Liquidity Risk

CRR/CRD IV requires that a short-term Liquidity Coverage Ratio (LCR) must be calculated to ensure that institutions always have an adequate holding of liquid assets to cover imbalances arising between incoming and outgoing cash flows in stressful situations over a thirty-day period.

In Denmark, the LCR will be phased in, i.e. a gradual phasing-in of 60% of the full requirement in 2015, 70% in 2016, 80% in 2017 and 100% in 2018. The current Danish liquidity requirement is to be maintained parallel to the new one up to, and including, 2016. In addition the Bank and Group expect to be required to hold a buffer above the LCR minimum requirement.

Danish FSA considers replacing the current “liquidity limit value” in the Supervisory Diamond to a “LCR limit value” and may publish the new limit values later in 2014 or in 2015. The Supervisory Diamond First Half 2014 is available at www.saxoworld.com/investorrelations

The liquidity regulation is not final. In addition EBA has issued some draft supplementing regulatory standards including “Additional collateral outflows on derivatives contracts”; not yet adopted by the European Commission.

The Bank and Group expect the future liquidity regulation to be more restrictive than the current Danish regulation due to expected higher liquidity requirements on investment bank activities which is the Bank’s and Group’s core business. The Bank and Group are monitoring the final regulation and interpretations closely and has initiated an action plan based on the estimated impact on the future liquidity regulation.

The Bank may need to increase funding resources with a longer maturity than 30 day. The liquidity risk is determined as the risk of increased cost of raising additional liquidity in a regulatory scenario.

Leverage Risk

CRD IV and CRR require the Bank and Group to report and monitor their leverage ratios. From 2014 leverage ratios will be assessed under Pillar II (ICAAP requirement).

Basel III's leverage ratio is defined as the "capital measure" (the numerator) divided by the "exposure measure" (the denominator) and is expressed as a percentage. The capital measure is currently defined as Tier 1 capital and the minimum leverage ratio is 3%. The Bank and Group are expected to fulfil this requirement from 2014 and so no additional capital requirement is added.

Other risk

Other risk covers strategic risk, and risk not included in the previous categories. Methodologies for assessing capital requirement vary depending on the underlying risk event type. In addition the board sets additional adjustments to cover other risks not covered by the above calculations.

Total self-assessed requirement

The capital needs for each risk category are aggregated using simple addition, without considering potential diversification benefits from portfolio effects and before using the 8 + method.

The results of Pillar II; capital requirements for each risk category, the overall capital requirements and those in proportion of the risk weighted assets from Pillar I, are presented in Table 1 and Figure 1 for the Group and in Table 2 and Figure 2 for the Bank.

5. Capital requirements, 8+ methodology

The third step calculates the capital requirement in line with the requirements of the Danish Financial Supervisory Authorities capital adequacy requirement guideline (referred to as 8+).

Each defined risk category is examined, in order to determine whether additional capital beyond the Pillar I requirement should be set aside, and as determined by the internal Pillar II calculation.

The results of 8+Method; capital requirements for each risk category, the overall capital requirements and those in proportion of the risk weighted assets from Pillar I, are presented in Table 1 and Figure 1 for the Group, but in Table 2 and Figure 2 for the Bank.

6. Scenario based approach

The fourth step in the ICAAP estimates the capital and earnings effects of stress test scenarios regardless of the previous capital adequacy levels.

Stress tests are developed on the basis of the risk register. One or more stress scenarios are made in the major categories, consisting of one or more events from the register in the applicable risk category. Furthermore, the Group and Bank use a number of combined stress scenarios, combining multiple events across risk categories. One of the combined events entails a close to unlikely chain of events, in order to ensure the utmost degree of stress. Where applicable, the stress test takes insurance coverage into account.

The stress scenarios are updated and reviewed according to changes in the market and economic environment, and at least once a year.

The results of the Scenario based approach; the overall capital requirements and those in proportion of the risk weighted assets from Pillar I, are presented in Table 1 and Figure 1 for the Group, but in Table 2 and Figure 2 for the Bank.

7. Capital adequacy determination

To determine the appropriate level of capital, the results of the four steps are compared – both in nominal terms and as percentages. The percentage is determined by using the risk weighted assets calculated in step one as denominator. This represents the minimum regulatory required 8% of the risk weighted assets.

The largest percentage is determined and is considered as the capital level within which the Group should operate.

As is presented in Table 1 and Table 2 the method that gave the largest capital requirement was the 8+ methodology for both the Bank and the Group. Interim profits are included in the capital numbers as those have been audited and permission has been given by Danish FSA.

Hellerup, November 2014
Saxo Bank