

ICAAP Report

Q2 2015



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1. Introduction

The purpose of the Saxo Bank Group's (hereafter Group) and Saxo Bank A/S's (hereafter Bank) Internal Capital Adequacy Assessment Process (ICAAP) is to ensure that the Group and Bank have sufficient capital at all times to cover the risks associated with its activities.

The regulatory framework for the ICAAP is rooted in the Danish implementation of Capital Requirement Directive's (CRD IV), including "ICAAP guideline issued by DFSA" which has applied from December 2014, (Guideline number 9026 of 19/01/2015) and the Danish Financial Business Act.

According to the Danish Executive Order of 27 March 2014 on Calculation of Risk Exposures, Own Funds and Solvency Need and the Danish Financial Business Act, the Bank must publish the results of the Internal Capital Adequacy Assessment process (ICAAP) at least quarterly.

This report presents the results of the ICAAP process completed during August 2015. The ICAAP was performed based on figures end of Q2 2015.

1.1 The three Pillars from the Basel Committee

Pillar I contains a set of formulas listed in the Capital Requirements Regulation (CRR) for calculating the minimum capital requirements for credit, market and operational risks. Pillar II describes the framework for the Group's and Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the supervisory review. Pillar III contains the disclosure aspect and is covered by the Bank's and Group's Risk Report 2014, Risk Report half year 2015 and this ICAAP Report.

1.2 Board of Management approval of the ICAAP Q2 2015

This ICAAP Q2 2015 Report has been approved by the Board of Directors in the Bank. A list of the current board members and the Annual Report are available at www.saxobank.com/investor-relations.

This ICAAP Report is an annex to the Interim Report First Half 2015 for the Bank and Group.

1.3 Capital calculation

The Total Capital of the Bank and the Group is calculated in accordance with CRR and the Danish implementation of CRD IV, including the Danish transition rules. Items included in the Common Equity Tier 1 Capital (CET1), Tier 1 Capital (T1) and Total Capital are listed in the Risk Report half year 2015 available at www.saxobank.com/investor-relations.

1.1.1 Use of Excess Trigger capital to cover the Pillar II add-on

The current guidelines from Danish FSA allow the Bank and Group to use excess trigger capital, (Additional Tier 1 capital with 7 % trigger and Tier 2 capital with 7% trigger not used to cover the minimum requirements), to cover the Pillar II add-on requirement fully or partly.

The impact for the Bank and Group are shown in Figures 1-2. The rest of the Pillar II add-on should be covered with CET1 capital.

2. Regulatory Landscape

The Fourth edition 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 have been applicable from beginning of year 2014. The CRR introduces the first single set of prudential rules for banks across the EU, and applies directly to all banks in the 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 are supervised by EU member states' competent authorities, in collaboration with the European Banking Authority (EBA), whose supervisory powers have been expanded.

2.1 Additional buffer requirements

According to CRD IV the 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 Bank accumulates a sufficient capital base to enable it to continue supplying a stable supply of credit in stress periods. In Denmark the capital conservation buffer will be phased in from 2016 and the countercyclical capital buffer from 2015. The Bank and Group have implemented the countercyclical capital buffer as the first two countries have published their country-specific buffer-rates higher than 0%. In addition, member states may require additional buffers. If a bank does not maintain these buffers, restrictions will be placed on its ability to pay dividends etc. until the buffers are rebuilt.

As of Q2 2015, the countercyclical capital buffer requirement is a little over 0% of the Risk Exposure Amounts. Since the Bank and Group have credit risk exposures in several countries it is likely that the Bank should in the future hold a countercyclical capital buffer above 0% if local member states decide to set a countercyclical capital buffer requirement against local exposures. As only two countries have published their buffer-rates it is to be expected that the buffer will increase with increased number of countries publishing their buffer-rates.

The CET1 Buffer, T1 Buffer and Total Capital Buffer disclosed in this report do not include any of the additional buffer requirements.

2.2 Transition rules and regulation landscape

CRR and CRD IV were implemented in the Danish legislation, including the Danish transitional rules, end of March 2014. The estimated ICAAP is disclosed according to final and draft regulation standards (Implementing Technical Standards and Regulatory Technical Standards) issued by EBA, and the Danish transitional rules.

The assumptions and methodology in the capital calculations and more details regarding the regulatory landscape are

disclosed in the Risk Report 2014 and Risk Report half year 2015

The Risk Report 2014 is available at www.saxobank.com/investor-relations. The calculated Total Capital and Risk Exposure Amounts (REA) 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. In addition the expected forthcoming regulations listed in the Risk Report may impact the ICAAP requirement.

3. 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)

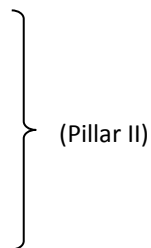
Step 2: Self assessed capital requirement using a quantitative approach

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)



See further details in section 5.

3.1 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. These activities are driven through the Bank and subsidiaries in Singapore, Swiss, France, UK etc. These subsidiaries must comply with local capital and liquidity requirements on individual level.
- Classic bank services primarily in Denmark through the subsidiary Saxo Privatbank A/S, primarily to retail clients, hereunder bank accounts and debit/credit cards, mortgage credit, bank advice services and pension products. Saxo Privatbank A/S activities include professional portfolio, fund and asset management to retail and professional clients. Saxo Privatbank A/S applies CRR.
- Group Services, a property company in Denmark with the sole purpose of owning the Bank's headquarter and an IT and service company in India with the purpose to service the Bank.
- 25 % holdings in Banco Best (associated company) and a 51% of Saxo Payments (subsidiary) with payment services activities.

The Group and Bank are exposed to a number of risk categories 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 the Group not being able to fulfil their obligations due to lack of liquidity in stressed circumstances.

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.

3.2 Capital planning and Capital Contingency Plan

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 change in capital requirements, are estimated. 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 ICAAP level.

A full ICAAP is performed as often as required, but at least once a year and reported to Danish FSA quarterly (KSBC and KSBC template developed by Danish FSA).

4. Results

4.1 Saxo Bank Group Q2 2015

Capital Requirement - Saxo Group - Q2 2015						
Risk Type	Pillar I	Internal Quantitative		Scenario Based	ICAAP	REA %
		Approach	8+ Method	Approach		
Credit Risk	404.2	561.5	561.5		561.5	3.9%
Market Risk	292.3	38.9	292.3		292.3	2.0%
Operational Risk	456.3	383.0	456.3		456.3	3.2%
Business Risk	0.0	206.5	206.5		206.5	1.4%
Liquidity Risk	0.0	27.7	27.7		27.7	0.2%
Other	0.0	350.0	350.0		350.0	2.4%
Wide Market Turbulance				502.0	0.0	0.0%
Capital Requirement	1,152.8	1,567.4	1,894.2	502.0	1,894.2	13.1%
% of REA	8.0%	10.9%	13.1%	3.5%	13.1%	
Risk Exposure Amounts (REA)	14,409.7					

Capital - Saxo Group - Q2 2015	
CET1	1,982.4
T1	2,322.2
Total Capital	2,797.2

Excess Capital - Saxo Group - Q2 2015	
CET1 Excess Capital*	760.3
T1 Excess Capital	716.2
Total Excess Capital	903.1

*Including effects of trigger capital used to fulfil PII requirements

Table 1: Capital adequacy, capital and excess capital for Saxo Group Q2 2015

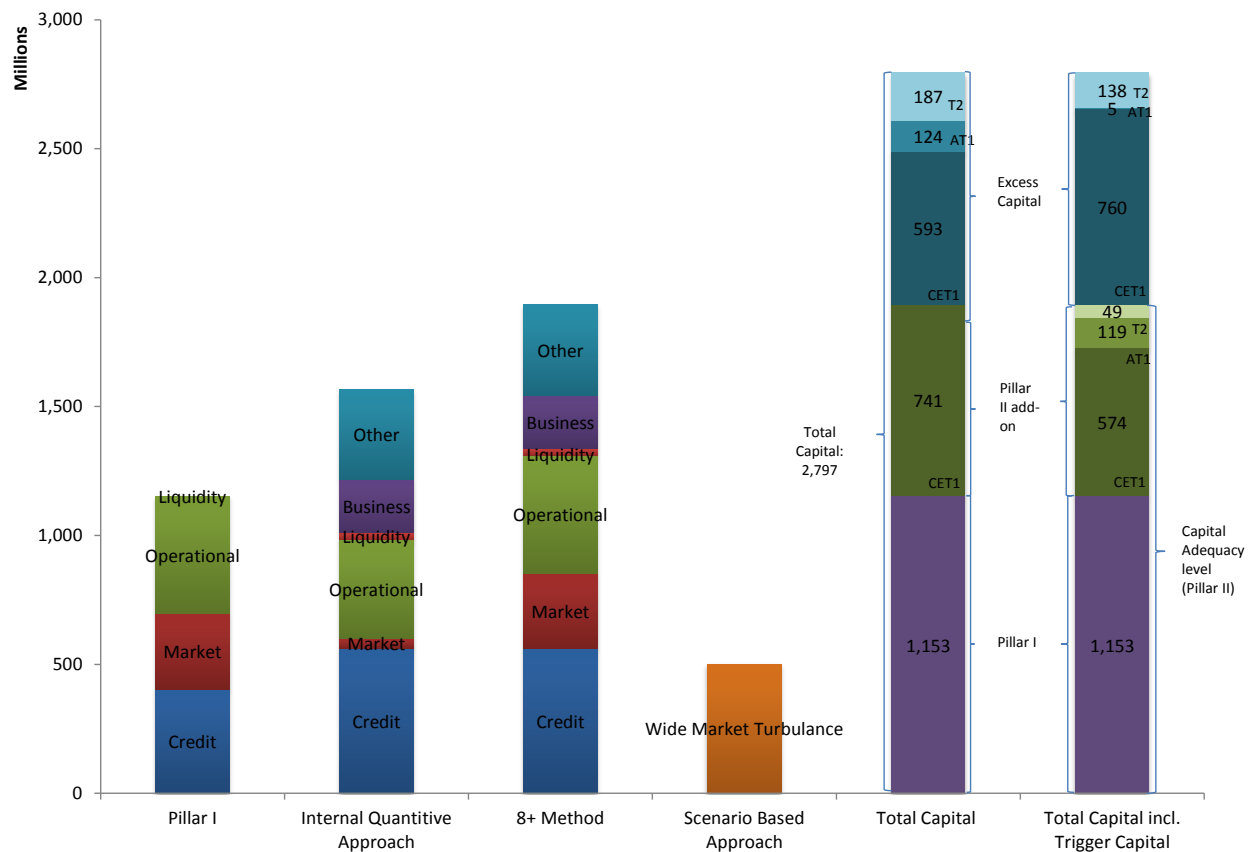


Figure 1: Capital adequacy, capital and excess capital for Saxo Group Q2 2015

4.2 Saxo Bank A/S Q2 2015

Risk Type	Internal Quantitative			Scenario Based		ICAAP	REA %
	Pillar I	Approach	8+ Method	Approach			
Credit Risk	351.7	289.5	351.7			351.7	3.1%
Market Risk	251.0	36.5	251.0			251.0	2.2%
Operational Risk	297.9	481.5	481.5			481.5	4.3%
Business Risk	0.0	217.1	217.1			217.1	1.9%
Liquidity Risk	0.0	28.6	28.6			28.6	0.3%
Other	0.0	250.0	250.0			250.0	2.2%
Wide Market Turbulance				502.0		0.0	0.0%
Capital Requirement	900.7	1,303.3	1,580.0	502.0		1,580.0	14.0%
% of REA	8.0%	11.6%	14.0%	4.5%		14.0%	
Risk Exposure Amounts (REA)	11,258.2					0.0%	

Capital - Saxo Bank A/S - Q2 2015	
CET1	1,871.1
T1	2,206.0
Total Capital	2,669.3

Excess Capital - Saxo Bank A/S - Q2 2015	
CET1 Excess Capital*	963.3
T1 Excess Capital	851.1
Total Excess Capital	1,089.3

Table 2: Capital adequacy, capital and excess capital for Saxo Bank A/S Q2 2015

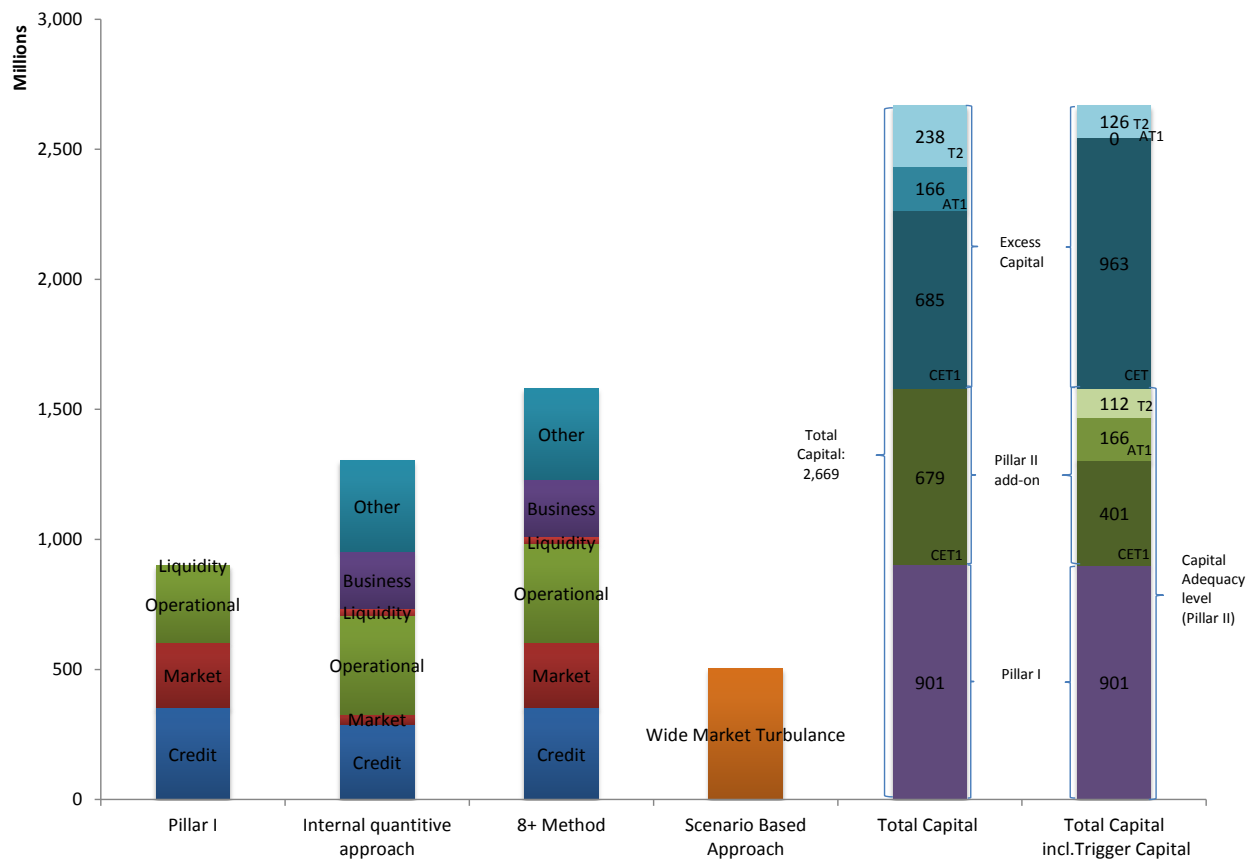


Figure 2: Capital requirements, capital and excess capital for Saxo Bank A/S Q2 2015

5. Capital requirements, Pillar I

This first step calculates the minimum capital using the Danish implementation of the Capital Requirements Regulation (CRR), Pillar I.

To calculate the minimum capital requirements, Pillar I, the Bank applies the following methods according to the Capital Requirements Regulation (CRR) to calculate the Risk Exposure:

Credit Risk: The Standard Method

- Counterparty Risk: Marked to market Method
- Credit Risk Mitigation: Financial Collateral Comprehensive Method

Market Risk: Standard Methods

- Share Price Risk: The Standardized Approach
- Currency Risk: The Standardized Approach
- Interest Rate Risk: The Standardized 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 1-2 and Figure 1-2 present the capital requirements for Pillar I and furthermore the split between the different risk categories, both for the Bank and the Group.

6. 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 their leverage ratios. From 2014 the leverage ratios have been assessed under Pillar II (ICAAP requirement).

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

6.1 Credit Risk

Credit risks sustained from retail and small institutional clients derive from the possibility that posted collateral may not offset sustained deficits. In response, the Group uses a near real-time monitoring system, which can notify and intervene immediately.

In the event of a price gap larger than the client posted collateral, the Group will have an exposure at default, which it may not be able to collect, resulting in a credit loss. Furthermore, in the event of a price gap where many clients are affected simultaneously, there is an added execution risk, should market liquidity show not to be sufficient to close client positions in due course. Such an event may result in material losses.

The Bank has recently incurred two price gap events that resulted in material losses. The first incident was due to a price gap in Asian equities that was driven by suspected fraudulent activity in three closely correlated companies resulting in a rapid price-drop in all three companies. The other incident was driven by the fact that the Swiss National Bank had imposed a 1.20 floor rate to the EUR. This floor was abandoned on January 15 2015, resulting in a price gap in excess of 30%.

The Group also faces credit risks from liquidity providers, financial brokers and counterparties. The counterparty default risk from this category is mitigated by pledging collateral via third party custody accounts, and implementing bilateral collateral agreements, however all exposure cannot be eliminated on an intraday basis. In acknowledgement of the risk, the Group only operates with regulated counterparties with high credit ratings, within a set of predefined limits.

Furthermore, the Group incurs credit risk in relation to its retail banking activities. The granting of a credit facility is based on the Group's insight into the client's financial position. As part of this process, the Group strives to ensure that each facility matches the credit quality and financial position of the client.

A common factor of the various credit risks in which the Group has become engaged, is that the risk stems from adverse market movements or severe changes in macroeconomic and financial factors, all of which are beyond the Group's influence. Despite measures taken within credit risk management, the Group may experience losses that may have a material adverse effect on the Group.

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.

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.

6.2 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 market 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. Results are aggregated at a group level using simple addition. 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.

6.3 Operational, Compliance and Legal Risk

The Group has established an operational risk management framework to understand the business' exposures to operational risk. Operational risk self- assessments are conducted across the Group on a regular basis. This activity ensures that all material operational risks inherent in the Group's products, activities, processes and systems are captured in a systematic and timely manner. Third party risk experts carry out an assessment of external risk events in order to identify potential gaps in the Group's risk landscape. The outcome of the assessment is captured in combined event scenarios which are reviewed and evaluated with internal parties and added to the Group's risk landscape.

The assessment includes a systematic evaluation of operational risk events in terms of likelihood and impact. Each risk event is evaluated in light of implemented mitigating measures/controls. Control failures are captured and evaluated similar to other risk events. Combined event scenarios consider severe impacts, setting impact and probability levels at; average, worst out of 20 occurrences and worst out of 100 occurrences.

The operational risk in the Group has been determined using a portfolio approach and Monte Carlo simulation with a 0% event correlation. The identified risk events with insurance effect are used as input to the calculations. A one-year time horizon and expected shortfall, less expected loss, with a 99.9% confidence level has been applied.

Subsidiaries' operational risks have been included based on the underlying business activity. Subsidiaries within online trading and investment and other investment services within capital markets, is 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.

6.4 Business Risk

The key potential business risks are identified as a 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 and budgeted change in CET1 according to the capital plan a year forward. However, if the expected income or capital change 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 the current positions included in the Pillar I requirement.

6.5 Liquidity Risk

According to CRR/CRD IV the Group is required to calculate a short-term Liquidity Coverage Ratio (LCR). During 2014 the European Commission issued a delegated act on the liquidity coverage requirement that sets out detailed quantitative liquidity rules. These determine how to calculate net cash outflows expected in times of crisis, and what liquid assets banks must hold to meet them. Banks will be required to constitute a buffer of liquid assets as a percentage of net cash outflows in stressed conditions over a 30-day period.

In Denmark, the LCR will be phased in, i.e. a gradual phasing-in of 60% of the full requirement in October 2015, 70% in 2016, 80% in 2017 and 100% in 2018.

The LCR requirement is more restrictive than the current Danish regulation due to higher liquidity requirements on investment bank activities which are the Bank's core business. Some guidelines from EBA related to liquidity are not final including "Additional collateral outflows on derivatives contracts"

The Bank has initiated actions to increase the LCR ratio as part of the Bank's liquidity plan to make sure that the Bank and the Group can fulfil the forthcoming liquidity regulation.

The liquidity risk in the ICAAP is determined as the risk of increased cost of raising additional liquidity in a regulatory scenario. Other liquidity risk is covered by the Bank's and the Group's Internal Liquidity Adequacy Assessment Process (ILAAP).

6.6 Leverage Risk

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

CRD IV and CRR require the Bank to report and monitor their leverage ratios. The leverage ratio is defined as Tier 1 capital divided by a non-risk-based measure of an institution's on- and off-balance sheet items (the "exposure measure"). From 2014, leverage ratios will be assessed under Pillar II (ICAAP requirement).

The leverage ratio will have to be disclosed from 1 January 2015. The Bank expects the European Commission to Council and Parliament to issue a report by the end of 2016 which will include a legislative proposal to introduce the leverage ratio of 3% as introduced by the Basel Committee as a binding measure as of 2018. The Bank and Group are currently expected to fulfil this requirement from 2014 and so no additional capital requirement is added.

6.7 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.

6.8 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 exposure amounts from Pillar I, are presented in Table 1 and Figure 1 for the Group and in Table 2 and Figure 2 for the Bank.

7. 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 exposure amounts from Pillar I, are presented in Table 1 and Figure 1 for the Group, but in Table 2 and Figure 2 for the Bank.

8. 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 in the major categories consist 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 exposure amounts from Pillar I, are presented in Table 1 and Figure 1 for the Group, but in Table 2 and Figure 2 for the Bank.

9. 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 exposure amounts calculated in step one as denominator. This represents the minimum regulatory required 8% of the risk exposure amounts.

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

The difference between the ICAAP requirement and the 8 % minimum requirement is the Pillar II add-on requirement.

As is presented in Table 1 and 2 the method that gave the largest capital requirement was the 8+ methodology for both the Bank and the Group.