Internal Capital Adequacy Assessment Process

Saxo Bank Group

Q1 2019

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1. Introduction

The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to determine the adequate level of capital to support Saxo Bank A/S' (hereafter "the Bank") and the Saxo Bank Group's (hereafter "the Group") current and expected future risks from the business strategy. This report is fulfilment of the disclosure requirement as 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 for both the Bank and the Group.

The result of the ICAAP shown in this report is based on figures as of 31 March 2019.

The ICAAP determined Solvency Need for the Group amounted to DKK 1,490 million equal to 12.1% of the total Risk Exposure Amount (REA) with REA totalling DKK 12,305 million. The Group's Total capital amounted to DKK 4,025 giving the Group an excess capital of DKK 2,169 million including the combined buffer requirement of DKK 365 million. The Group's CET1 and Total capital ratios were 27.0% and 32.7%, respectively.

The ICAAP determined Solvency Need for the Bank amounted to DKK 1,472 million equal to 11.9% of the total Risk Exposure Amount (REA) with REA totalling DKK 12,419 million. The Bank's Total capital amounted to DKK 3,985 million giving the Bank an excess capital of DKK 2,197 million including the combined buffer requirement of DKK 316 million. The Bank's CET1 and Total capital ratios were 26.5% and 32.1%, respectively.

The ICAAP Q1 2019 Report is a supplement to the Group's Risk Report 2018 and has been approved by the Board of Directors in the Group. The Risk Report contains detailed descriptions of the Group's risk and capital management and is available at www.home.saxo/about-us/investor-relations.

2. Capital Adequacy Assessment

The Group's primary capital adequacy assessment tool is the ICAAP; rooted in the Danish implementation of Capital Requirement Directive's (CRD IV), including "ICAAP guideline issued by DFSA" which applied from December 2018, (Guideline of 05/12/2018) and the Danish Financial Business Act.

The ICAAP assesses the Group's Solvency Need through three approaches: minimum capital requirement calculation (Pillar I) using the Danish implementation of the Capital Requirements Regulation (CRR), internal assessment of capital requirement (Pillar II) and capital requirement adequacy testing through internal models and stress testing (Pillar II). Pillar III contains the disclosure aspect and is covered by the Group's Risk Report 2018 and this ICAAP Report.

2.1 Internal Capital Adequacy Assessment Process

The Group's ICAAP process follows five steps:

Step 1. Minimum capital requirement (Pillar I)

Step 2. Internal assessment of whether additional capital requirements are needed above and over Pillar I using quantitative approaches and/or management judgement (Pillar II)

Step 3. Capital requirement adequacy testing through stress testing and scenario analysis; if vulnerabilities, not covered in step 2 and 3, are found with sufficient plausibility and severity, an assessment is made whether an add-on (Pillar II) has to be made or addressed in the capital planning

Step 4. Capital adequacy determination based on the three previous steps (Pillar II)

Step 5. Disclosure (Pillar III)

A full ICAAP is performed as often as required, but at least once a year and reported to Danish FSA quarterly.

2.2 Business activities covered by the ICAAP

The primary business activity of the Group is facilitating online trading, investment and other investment services within capital markets to private, corporate institutional clients including white label clients. These activities are driven through Saxo Bank A/S and subsidiaries hereof.

The business activities involve different types of risk and concern different risk areas in the ICAAP as shown in the table below.

Activities/Risk categories	Credit Risk	Market Risk	Operational Risk	Business Risk	Liquidity Risk	Leverage Risk
Trading activities	√	√	√	√	√	√

The different risk types the Group is exposed to, have been examined and split into ICAAP risk categories as shown in the table below. Different methods are applied to assess the Group's capital need within each category.

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

The Risk Report 2018, available at www.home.saxo/about-us/investor-relations, provides more details on each of the Risk categories.

2.3 Internal Assessed Capital Requirement

The internal set level of capital needed reflects the Group's assessment of its capital requirement. The purpose of the internal assessment is to identify and incorporate risks not covered by Pillar I or found to not being conservative enough.

Assessment is initiated by identifying the relevant risk-areas and exposures in the Group not covered by the minimum capital requirement. For each identified risk, it is assessed by the Group whether the risk is covered by Pillar I and, if so, whether it is sufficiently conservative. It is based on internal, quantitative approaches and, if relevant, internal expert input and management judgements.

Furthermore, the Group uses stress testing to test whether the capital requirement is conservative enough and ensuring that the assessed adequate capital level for the Group is sufficient to withstand unlikely, but not impossible, stress scenarios.

A number of stress scenarios have been outlined in the various single risk areas. Furthermore, a stress scenario has been implemented to create a very severe and highly unlikely stress-scenario. Where it is applicable, mitigating measures, like contingency plans and insurance coverage, are applied. The Group also conducts an income sensitivity analysis to ensure that business risks are covered adequately in the budgeted income.

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

2.4 Capital planning

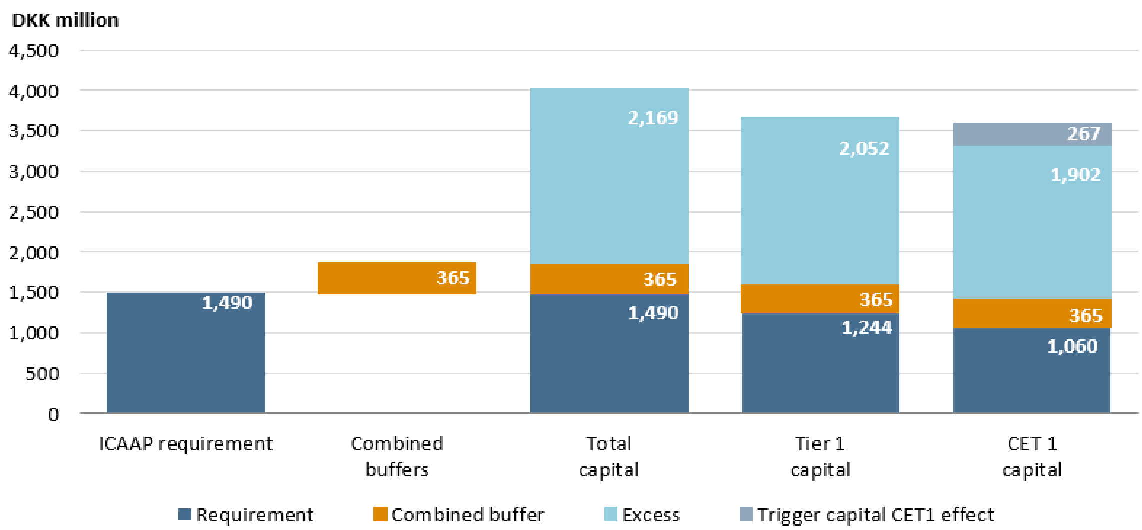
Part of the ICAAP is planning future capital needs in relation to the business environment, growth and strategic plans in the years to come. Potential major changes to the risk profile, and thereby the future changes in capital requirements are estimated. These could be changes in the business strategy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

3. ICAAP Results Q1 2019

Internal solvency need assessment breakdown

Risk Type (DKK millions)	Saxo Bank Group REA	Saxo Bank Group ICAAP	Saxo Bank Group ICAAP pct. of Total REA	Saxo Bank A/S REA	Saxo Bank A/S ICAAP	Saxo Bank A/S ICAAP pct. of Total REA
Credit risk	3,121	364	3.0%	5,049	518	4.2%
Market risk	3,697	457	3.7%	3,877	444	3.6%
Operational risk	5,487	589	4.8%	3,493	429	3.5%
Business risk and other		80	0.7%		80	0.6%
Total solvency need	12,305	1,490	12.1%	12,419	1,472	11.9%
Combined buffers total		365	3.0%		316	2.5%
Total solvency need and buffer requirement		1,856	15.1%		1,788	14.4%
Capital composition						
Common Equity Tier 1 (CET1)		3,327	27.0%		3,287	26.5%
Tier 1		3,662	29.8%		3,622	29.2%
Total capital		4,025	32.7%		3,985	32.1%
Capital requirement buffer						
CET1 excess capital*		2,169	17.6%		2,197	17.7%
Tier 1 excess capital		2,052	16.7%		2,082	16.8%
Total capital excess capital		2,169	17.6%		2,197	17.7%

* Including effects of trigger capital used to fulfil Pillar II requirements



The combined buffer consists of the capital conservation buffer of 2.5% of REA and the countercyclical capital buffer of country-specific buffer-rates.

The current guidelines from Danish FSA allow the Group to use excess trigger capital, (Additional Tier 1 capital with trigger and Tier 2 capital with trigger not used to cover the minimum requirements), to cover a part of the Pillar II add-on requirement. The effect is shown in the graph.

Additional information on the Group's capital management, the regulatory landscape and more, is disclosed in the Risk Report 2018 available at www.home.saxo/about-us/investor-relations.