

2018



ANNUAL REPORT **2018**



SAXO BANK AT A GLANCE

Saxo Bank is a fintech specialist focused on multi-asset trading and investment and offers “Banking-as-a-Service” to other financial institutions. Saxo Bank aims to democratise trading and investing by providing traders and investors with products, platforms and market access that was previously the preserve of fund managers and large financial institutions.

Saxo Bank considers it an ethical duty to educate and empower every human being who wants to navigate their own financial destiny. Investment decisions define everyone's ability to pursue their own and their family's dreams which is why making sense of financial markets is too important to be a privilege that belongs exclusively to a few individuals or institutions with specific financial expertise.

Established in 1992, Saxo Bank was one of the first financial institutions to develop an online trading platform that provided private investors with the same tools and market access as professional traders, large institutions and fund managers.

Saxo Bank offers its own direct clients in more than 170 countries unparalleled access to trading and investment opportunities in global capital markets across asset classes. At the same time, Saxo Bank also has more than 100 partnerships that leverage Saxo Bank's technology to



FOUNDED
1992

39.4 million trades executed in 2018

Clients spanning over **170** countries

More than **100** industry awards for our trading platforms

23
languages

More than
35,000
tradable instruments

1,658 employees
with **63** nationalities across
offices in **15** countries

AUSTRALIA · BRAZIL · CHINA
CZECH REPUBLIC · DENMARK · FRANCE · HONG KONG
INDIA · ITALY · JAPAN · SINGAPORE
SWITZERLAND · THE NETHERLANDS
UNITED ARAB EMIRATES · UNITED KINGDOM

efficiently give their clients a state-of-the art investment experience. Saxo Bank delivers “Banking-as-Service”, supporting the entire value chain of global capital markets investing to wide range of wholesale partners.

As a fully licensed and regulated bank under supervision of the Danish FSA, Saxo Bank offers clients a complete set of tools needed to implement their trading and investment strategies. Saxo Bank enables clients to trade FX, CFDs, ETFs, stocks, bonds, mutual funds, futures, options and other derivatives via its award-winning trading and investment platforms. Additionally, Saxo Bank offers managed investment portfolios based on insights and expertise from BlackRock, Nasdaq and Morningstar through the growing SaxoSelect range. Moreover, SaxoSelect offers clients access to select discretionary trading strategies.

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MANAGEMENT REPORT

FINANCIAL HIGHLIGHTS · SAXO BANK GROUP

| (DKK million) | 2018 | 2017 | 2016 | 2015 ¹⁾ | 2014 |
|--|-----------|-----------|----------|--------------------|----------|
| Operating income | 2,786.1 | 3,027.0 | 2,929.7 | 2,126.7 | 3,006.8 |
| EBITDA | 1,408.0 | 931.6 | 845.2 | (109.4) | 1,099.0 |
| Adjusted EBITDA | 705.7 | 1,026.0 | 954.5 | 864.7 | 1,208.1 |
| Profit before tax | 1,029.0 | 554.2 | 418.2 | (778.4) | 564.8 |
| Net profit | 955.8 | 401.1 | 302.4 | (644.6) | 381.2 |
| Total equity | 5,552.2 | 4,621.4 | 4,238.4 | 3,938.4 | 4,225.2 |
| Total assets | 34,484.1 | 39,955.6 | 43,578.5 | 33,501.6 | 36,008.3 |
| Clients' collateral deposits | 112,577.8 | 103,622.3 | 92,349.9 | 77,568.0 | 68,227.2 |
| Total capital ratio | 35.0% | 22.7% | 19.5% | 20.7% | 19.7% |
| Return on equity before tax | 20.2% | 12.5% | 10.2% | (19.1)% | 14.6% |
| Full-time-equivalent staff (end of year) | 1,658 | 1,594 | 1,639 | 1,516 | 1,485 |
| Hereof employed in India | 584 | 499 | 462 | 346 | 324 |

¹⁾Please note that the numbers for 2015 include the effect of the Swiss event.

See definitions on page 94.

FINANCIAL HIGHLIGHTS

Saxo Bank Group reported a record net profit of DKK 956 million for 2018, more than double the net profit of 2017 of DKK 401 million. The positive result is impacted by the sale of Saxo Payments A/S in October 2018.

The Board of Directors and Board of Management find the result for the year acceptable given the difficult market conditions during 2018, with continued low interest rate environment and uncertainty in the financial markets.

Particularly encouraging in 2018 was the number of new direct trading clients, 21,574 which is an increase of 67% over 2017, as well as the number of active trading clients, which for both the Direct – and the Wholesale business segment ended at record high levels of 178,439. The growing client base combined with the continued high inflow of clients' collateral in 2018, with the total clients' collateral deposits reaching DKK 113 billion by the end of 2018, means that Saxo Bank has strengthened its market position further during 2018 and successfully laid the foundation for future growth.

Throughout 2018, the focus remained on improving the client experience in product offerings, our trading platforms, reduced pricing and improved service. During the year, Saxo Bank has continued to invest within the core business areas in order to improve and digitalize the client

experience on all levels, enabling the Bank to increase competitiveness and continue to offer the best combination of products, platforms, price and service to our clients. In 2018, Saxo Bank launched the SaxoTraderPRO and SaxoInvestor platforms, opened for trading in Chinese equities via StockConnect, launched mutual funds on the platform and opened for digital onboarding of clients in certain jurisdictions. Prices for trading on our platforms were reduced across the board.

Cost continued to be a main focus area in 2018 and has been managed carefully. Resources have been spent on reducing the operational complexity of the Bank. The cost/income ratio for the Bank's recurring core business increased from 62% in 2017 to 72% in 2018 when measured against operating income.

The capital position of Saxo Bank Group remained strong and the total capital ratio for the Group increased to 35.0% as of end 2018 from 22.7% at the end of 2017, retaining a comfortable buffer compared to the capital requirement. The CET1 buffer was DKK 2.5 billion, equivalent to 20.8% of the risk exposure amounts.

On December 17, 2018, Saxo Bank and BinckBank announced an agreement on a recommended all-cash public offer for all BinckBank shares. The transaction is expected to close no later than early Q3 2019.

STRATEGIC DIRECTION

“Saxo Bank exists to democratise trading and investment by levelling the playing field for traders and investors and creating equal opportunities for access to financial markets. This will always be core to Saxo Bank’s DNA.”

The goal of Saxo Bank is to become the most professional and profitable facilitator in global financial capital markets by disrupting traditional business models and adding significant value to our clients and partners. We continue to focus on this ambition by delivering the best SaxoExperience to our target clients which comprise traders, investors and wholesale clients. The SaxoExperience includes our ability to deliver timely and relevant engagement, education and guidance, affordability (competitive prices), simplification and ease of use, accessibility and diversification, fairness and transparency, appropriate risk / reward opportunities and empowerment.

To realise the vision of an unparalleled SaxoExperience, we have set three strategic priorities.

First, is our commitment to unbundle and digitise the full value chain. By digitalising the value chain, the SaxoExperience meets the needs of our clients, is accessible in the ways the client prefers. Digitalisation impacts how we onboard clients, engage with clients and provide insights for clients, whether it is transparency on their portfolio risk or investment themes relevant to them.

Second, to deliver a superior SaxoExperience, we will further develop a world class efficient global distribution and client services organisation, which covers all touchpoints that are not digital across the organisation. Leveraging digitalisation through knowing our customers better, rather than relying purely on ‘AI’ and self-help, allows our organisation to focus on value added solutions for clients.

Last but not least, through our open architecture, we will continue to white label the full value chain of platforms

and services available to our wholesale (Saxo Solutions) clients. By industrialising our Saxo Solutions offering we aim to become the best cloud-native, open banking (Banking-as-a-Service) provider and the preferred partner for global trading and investing.

Saxo Bank aims to be the preferred partner of Traders, Investors and Wholesale clients.

- Traders include private and corporate clients as well as institutions who seek to trade actively at competitive prices. Traders mainly use our SaxoTraderPRO and SaxoTraderGO platforms.
- Investors are characterised by longer-term investment horizons, less frequent trading, lower risk profile and a mixture of self-directed investing and use of discretionary portfolio management services. Such clients use primarily the SaxoTraderGO and SaxoInvestor platforms.
- Saxo Bank’s wholesale clients access our platforms through our Banking-as-a-Service solution (SaxoSolutions). Wholesale clients include traditional financial services providers who use Saxo Bank to facilitate trading and execution for their end-clients, in addition to using services such as digital marketing and post trade services. This segment also includes technology entrants who want to leverage Saxo Bank’s infrastructure to onboard and manage clients and their assets.

Saxo Bank competes on products, platforms, pricing and service – but not on leverage. With the aim of delivering a world class SaxoExperience, we continue to build out the investment product universe, platform functionality and user experience, providing competitive pricing and offer client centric services that empower individuals to take control of their financial destiny.

AWARDS

Saxo Bank continued its award-winning streak in 2018, cementing its position as industry leader delivering superior product, price, platform and services.

In 2018, Saxo Bank won ten leading industry awards for its products, platforms, technologies and services.

- Saxo Bank wins best mobile trading initiative at Sell Side Technology Awards
- Saxo Bank wins Best Prime Broker – Technology at HFM Week European Hedge Fund Services Awards
- Saxo Bank wins Best Margin Sector Platform in Profit & Loss FoXy Awards
- Best Platform for the Active Trader 2018 at the ADVFN International Financial Awards
- Best Sell-Side Mobile Initiative at the Waters Technology Sell-side technology 2018
- Best Prime-of-Prime House at FX Week Best Banks Awards
- Best CFDs Broker at Finance Magnates London summit 2018
- Best B2B Liquidity Provider at Finance Magnates London summit 2018
- Best White Label Solution at Finance Magnates London summit 2018
- Best Multi-Asset Trading Platform at Finance Magnates London summit 2018 statements.



NEW SHAREHOLDERS AND NEW BOARD

In September, Saxo Bank welcomed China's Zhejiang Geely Holding Group Co. Ltd (Geely Holding Group) and Sampo plc of Finland (Sampo) as strategic investors and correspondingly announced changes to the Board of Directors.

With the closing of the transactions, TPG Capital, Lars Seier Christensen and SinarMas have completed the sale of their shares in Saxo Bank of 29.3 percent, 25.7 percent and 9.9 percent respectively. Some minority shareholders also agreed to sell their shares to Geely Holding Group and Sampo, resulting in the two firms holding 52.0 percent and 19.9 percent respectively of Saxo Bank shares. CEO and Founder Kim Fournais' share of 25.71 percent of Saxo Bank remains unchanged.

At an extraordinary general meeting on 13 September 2018, the shareholders of Saxo Bank agreed to change the composition of the Board of Directors with Daniel Donghui Li, Chief Financial Officer and Executive Vice President of Geely Holding Group being appointed Chairman of Saxo Bank. Saxo Bank's board consists of:

- Daniel Donghui Li, Chairman
- Henrik Normann, Vice-chairman
- Ian Zhang, Board Member
- Preben Damgaard, Board Member
- Patrick Lapveteläinen, Board Member



Commenting on the completion of the transaction and the appointment of new board, CEO and Founder, Kim Fournais, said:

"Today, we proudly welcome Geely and Sampo as shareholders. It is an important milestone for Saxo Bank and for me personally as CEO, founder and shareholder. The track-record of both Geely and Sampo is unparalleled and I am confident that the new ownership structure will provide us with the right foundation to deliver long-term growth. With Geely as a shareholder, we will benefit from a strong position in high-growth markets in the Asia region, with Greater China at its core. At the same time, as the leading blue-chip investor in the Nordic financial industry, Sampo will further strengthen our Nordic foundations."

Daniel Donghui Li, Chief Financial Officer and Executive Vice President of Geely Holding Group and Chairman of the Board of Saxo Bank, said:

"We believe that Saxo Bank's technologies and products can be effectively expanded across Asia, where we hope to build on its strong reputation in global financial and regulatory technology. This is expected to generate synergies from the development of financial services in the Chinese market."

Kari Stadigh, Chief Executive Officer and President, Sampo Group, added:

"Saxo Bank is one of the most interesting companies in the Nordic fintech sector. Saxo Bank's unique and highly advanced trading and investment platforms are, in our view, the best in the market and have great potential globally. We are excited to be part of this success story."

CEO and Founder Kim Fournais
and Li Shufu Chairman of Zhejiang
Geely Holding Group

THE BUSINESS OF SAXO BANK

SAXO BANK'S BUSINESS MODEL

Saxo Bank is a facilitator between its clients and the global financial markets and has a truly scalable technology infrastructure supporting traders, investors and wholesale clients. Saxo Bank's business model is based on unbundling the value chain through an open architecture sourcing the best ideas, products, liquidity and services from the best providers in the market.

Liquidity provisioning

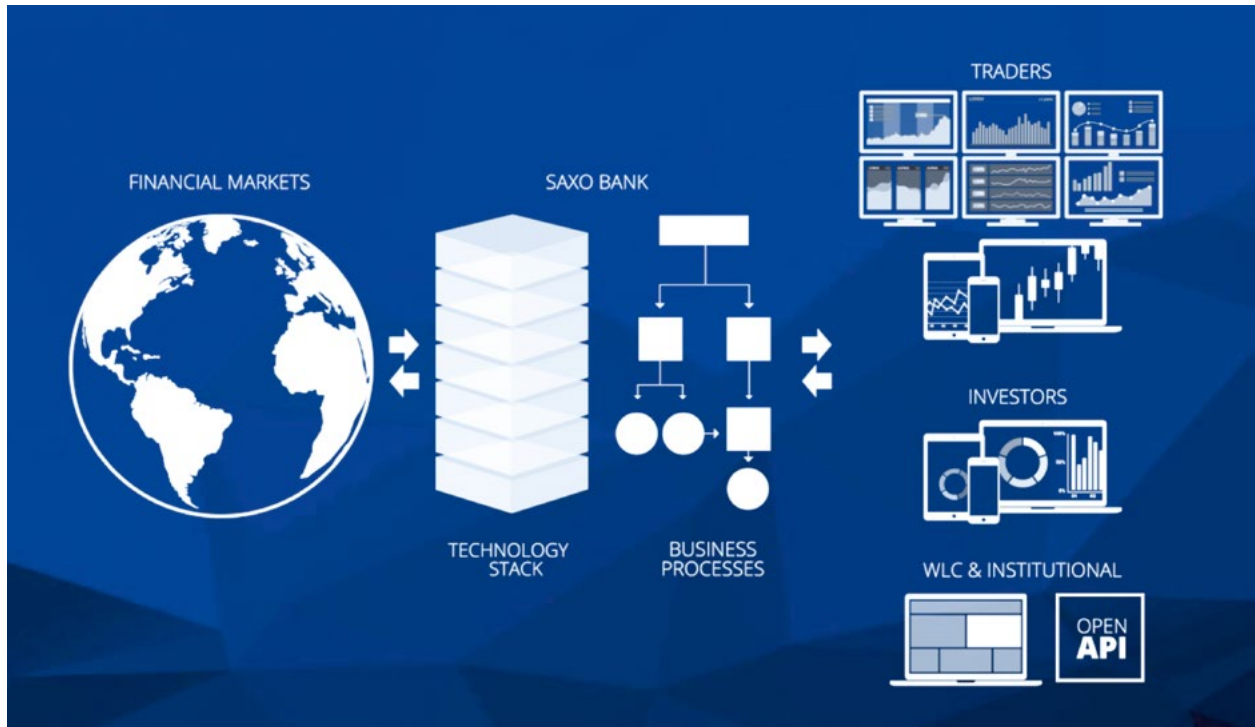
Saxo Bank obtains liquidity from more than 150 different liquidity venues including 20 large global banks as well as the world's major trading venues and stock exchanges. By aggregating liquidity from multiple sources, Saxo Bank is able to stream competitive prices and spreads to its clients, and deal with the flow of transactions in a cost-effective way. Efficient execution and risk management are core competencies of Saxo Bank.

Products

Through the platforms, clients can trade more than 35,000 instruments across bonds, mutual funds, stocks, ETFs, CFD's, futures, options and FX from a single account. Clients also get free access to a large universe of fundamental research and technical trade signals integrated directly in the platform for easy access.

Client interfaces

To facilitate its clients' trading and investment needs, Saxo Bank has developed proprietary online trading and investment platforms, tailored to fit different client experiences, preferences and different types of hardware. The platforms remain the focal point of Saxo Bank's core business.



Saxo Bank today offers three platforms: SaxoTraderPRO, SaxoTraderGO and SaxoInvestor. All platforms are based on HTML5 front-ends connected to the same core technology stack and business process to ensure scalability and flexibility.

Saxo Bank not only supports its own direct clients but also other financial institutions, wholesale partners, looking for an efficient way of giving their end-clients a state-of-the art investment experience. Through this B2B2C-solution, Saxo Bank supports the entire value chain of its partners, offering "Banking-as-Service." Today, Saxo Bank's technology supports more than 120 white label partners globally.

At the forefront of the Open Banking revolution, Saxo Bank was one of the first financial institutions to give access to its trading infrastructure through the Bank's RESTbased Open API. This advanced APIbased trading solution allows partners, clients and external developers to access over 20 years of trading infrastructure innovation and integrate with Saxo Bank's infrastructure in market access in a very flexible and efficient way.



PLATFORMS

Trading and investment platforms have been the core of Saxo Bank since it launched its first online trading platform in 1998. Marking the 20th anniversary of the first platform, two new trading platforms, SaxoTraderPRO and SaxoInvestor, were launched in 2018.

In April, Saxo Bank launched SaxoTraderPRO, an advanced multi-screen trading platform for the active individual traders and the institutional clients.

SaxoTraderPRO replaced the SaxoTrader platform. Saxo Bank's active traders and institutional clients demand unparalleled access to global capital markets combined with a high level of control through advanced trading tools,

fast and reliable execution and extensive options for customizations to fit their individual trading needs. SaxoTraderPRO meets this demand with a unique combination of a feature rich trading platform and ease of use.

In November, Saxo Bank launched SaxoInvestor, a platform tailored to investors who have a longer-term investment horizon. The opportunities for investors



have historically been constrained by limited access to international stocks, high and opaque prices and outdated technology at banks and other investments services providers. SaxoInvestor is set to change that by offering investors the opportunity to diversify across markets and asset classes at market leading low costs.

SaxoInvestor is built on the same technology as Saxo Bank's other platforms, but has a simpler interface that caters for the needs of long-term investors. The new platform focuses on cash products only and gives investors the opportunity to build long-term portfolios across stocks, bonds, mutual funds, ETFs, and SaxoSelect portfolios. It is designed to provide clients with

inspiration by offering various investment themes and a comprehensive instrument screener.

By catering to a much wider audience than Saxo Bank's other platforms, SaxoInvestor marks a significant milestone in Saxo Bank's aim of democratising investment and allowing everyone to navigate their own financial destiny.

The platform has initially launched in Denmark with international roll-out planned to commence in the first quarter of 2019. Furthermore, SaxoInvestor will be an integral part of the Group's white label and partner offering across markets as the platform is developed with a dedicated focus on flexibility and customisation.

OPERATIONAL REVIEW

PRODUCT DEVELOPMENT AND PRICING CHANGES

Financial markets have been and will continue to be subject to price compression to the benefit of clients and forward-looking financial institutions. Saxo Bank has been a driver of this trend, through its mission of democratising trading and investment by giving clients the best platforms, products, prices and services. Saxo Bank has made the strategic decision to be competitively priced and initiated a number of pricing changes 2018: Reduced prices for FX globally in the start of 2018, cross asset price reductions in a number of markets during second half of 2018 significantly reducing prices for all products and client segments. In 2019 we will continue to focus on ensuring competitive pricing across all our markets.

Saxo Bank added mutual funds to its multi-asset offering with a “soft launch” in 2017 to facilitate a White Label partner’s trading flow in mutual funds. In January 2018, Saxo Bank launched an enhanced mutual funds offering to another White Label partner in Spain allowing the partner’s clients to trade mutual funds via SaxoTraderGO. During the course of 2018, Saxo Bank’s direct clients in most of the bank’s markets got access to invest in 122 mutual funds from 18 international fund houses via SaxoTraderGO. The mutual fund offering complements Saxo Bank’s uniquely broad ETF offering and with very competitive pricing, the offering is key part of our foundation for delivering better investment opportunities to investors that have often been left with their bank’s limited range of funds available to invest in.

In June, Saxo Bank announced that clients now had access to trade China A-shares at very competitive prices. Clients have access to A-shares listed on the Shanghai and Shenzhen stock exchanges via the Hong Kong Stock Connect link. Hong Kong Stock Connect is a mutual partnership between the Hong Kong Stock Exchange and Shanghai/Shenzhen exchanges, which supports clients investing in companies listed in mainland China.

Saxo Bank started offering access to China A-shares at a particularly interesting time just after Chinese A-shares were added to the MSCI Emerging Markets index sparking renewed interest in Chinese shares, not least since global investors are significantly underweight exposure to them. The addition of China A-shares strengthens Saxo Bank’s offering to traders and investors and is a major milestone in building the product range for Saxo Bank to be a “gateway” for international investors to Chinese markets. All clients of the Saxo Bank Group have access to China A-shares besides from clients of Saxo Capital Markets in the UK and Saxo Capital Markets in Japan.

In September, Saxo Capital Markets in Australia allowed new clients to settle their securities trades into a local HIN account. The solution allows Australian clients to settle securities (equities, bonds and ETFs) listed on ASX into segregated accounts in the local CSD.

In October, Saxo Bank launched a new trading instrument: CFD Options on a range of option roots, covering puts and calls on 15 of the world’s largest stock indices. The new product is available on SaxoTraderGO (all devices) and SaxoTraderPRO for clients in Saxo Bank A/S as well as those in the Saxo Capital Markets in UK, Saxo Capital Markets in Singapore and Saxo Capital Markets in Australia.

CFD Options are OTC instruments based on Exchange Traded Index Options. They can help diversify a portfolio, as not only do they enable clients to take a position, they can be used for portfolio hedging purposes too. CFD Options are attractive for traders and investors as there is no spread mark-up, no commission and no margin required when buying CFD options – clients simply pay a premium up front and as one lot equals one index, they provide great flexibility in terms of contract size.

SAXO SELECT

The global roll-out of SaxoSelect, Saxo Bank's fully digital and automated investment service launched in 2016, has continued through 2017 and into 2018. SaxoSelect builds on the multi-asset execution capabilities that are the hallmark of Saxo Bank, and illustrates the power of Saxo Bank as a true Fintech company.

SaxoSelect enables clients of Saxo Bank to invest in pre-selected strategies in a real-time, fully transparent environment directly in SaxoTraderGo. Throughout 2018, SaxoSelect assets under management nearly increased by approximately 80% to over EUR 100 million, putting Saxo on the map as a digital investment manager.

Building on a partnership with BlackRock, clients can invest in ETF-portfolios that offer a high level of diversification and low costs through SaxoSelect. The portfolios are built with ETFs from iShares and the portfolios are automatically balanced using research data developed by BlackRock.

Through collaboration with Morningstar, SaxoSelect also offers a value stock portfolio, a smart and cost-effective way to invest in a portfolio of 30 quality stocks based on Morningstar's Economic Moat™ Rating methodology and valuation research, which identifies stocks undervalued by the market.

In 2018 the Nasdaq DW Global Momentum portfolio was launched, investing into global emerging and developed market stocks (ex. US) based on price momentum, representing a collaboration with another strong financial institution. SaxoSelect also offers more sophisticated investors the opportunity to invest in trading strategies that are pre-selected by Saxo Bank.

Saxo Bank A/S, Saxo Capital Markets Ltd in the UK, Saxo Bank AG in Switzerland as well as Saxo Capital Markets Pte Ltd in Singapore hold licenses to offer SaxoSelect.

DIRECT BUSINESS

2018 saw another record breaking year for number of new clients. All in all 21,574 new trading and investment clients choose to start trading with Saxo Bank. This is a staggering improvement of 67% from 2017 levels. This increase is a testament to the strength of Saxo Bank's unique offering, and on the operational side, particularly three major improvements drove this:

- Improved digital client onboarding
- Improved and structured sales processes
- Use of big data and AI in the sales process

For digital onboarding the STP (straight through processing) rates have been steadily climbing through the year thanks to a focused effort.

Saxo Bank has been consistently working on improving every part of the sales processes. Sales training in our GROW academy, system supported and structured lead engagement by the sales leaders and sales teams have proven its worth, and the use of structured data models for prioritising, channel choice and client approach has been instrumental for significantly better conversion rates at the employee level.

Existing Clients

To give existing clients an even better service and to help them manage their goals and risks, we have strengthened our client engagement model further. Using Data models to drive client engagement by monitoring a vast number of relevant data, allows us to target the specific needs of clients. This approach is already showing its value in both the quality and the quantity of our engagement with the clients.

This data driven approach is also reflected in the sales organizations measurements and KPIs that have been redesigned to further emphasize the relevant and timely proactive client engagement.

From both new and existing clients we continue to see a very positive uptake in referrals. Saxo Bank has chosen to reward this very positive engagement from the clients, and we are proud to announce that we have been able to welcome 4,800 clients that were referred by other clients.

WHOLESALE BUSINESS

2018 has been a breakthrough year for the wholesale business with new large and high-profile partners. New partnerships with, for example, Banca Generali and Mandatum Life have set the stage for a new dawn for the business. The new partnerships reflect the strength and depth of the Saxo offering but are also testament to an increasing appetite of bigger financial institutions to outsource as partnerships become more mainstream in the industry.

On a geographic level we begin to dominate in some smaller markets where our offering is utilised by some of the largest retail banks. In Singapore, UK and Switzerland we have established ourselves as a key infrastructure provider for fintech operators particularly in the robo advisory

space and neo-banking sector. Our distribution capabilities are growing and big win-win deals with firms like Microsoft and Gartner are evolving and helping drive new sales opportunities.

The wholesale business continues to be critical facilitator of M&A activities, with key highlights in 2018 being the sale of Saxo Privatbank A/S to Alm. Brand Bank, Saxo Payments A/S to EQT and our South African entity to Sasfin, with all entities continuing to work with Saxo as partners.

In 2018, Saxo Bank established a new structure for the wholesale business – SAS (Saxo Advanced Solutions) dividing the Group into dedicated regional sales efforts, dedicated client service functions as well as a central team focused on developing the product offering and project managing key clients and partners. Additionally, a new strategy was established; at a technical level “industrialisation” of the wholesale business became a core tenet of the strategy as along with a more focused approach to client segments and geographies of the clients we seek to serve.

SOCIAL CONTRIBUTION

Saxo Bank's social responsibility is driven by the overarching goal of creating value through win-win relations with clients, partners, employees and societies in the countries in which Saxo Bank operates.

Saxo Bank was one of the first financial institutions to develop an online trading platform that provides ordinary investors with the same tools and market access as professional traders and fund managers. Today, Saxo Bank's aim remains to continue to democratise trading investment by facilitating access to global financial markets and cutting-edge technologies. Investment decisions define everyone's ability to pursue their own and their family's dreams which is why making sense of financial markets is too important to be a privilege that belongs exclusively to a few individuals or institutions with specific financial expertise.

Saxo Bank considers any company's core products and services adding value to partners and clients as its main social contribution. For Saxo Bank, this means that our work is to level the playing field between institutions and retail investors when it comes to accessing financial markets and offering clients transparent, reliable and competitive access to global financial markets.

A more detailed description of Saxo Bank's business model on page 10 illustrates that Saxo Bank is a facilitator of global financial markets proving traders and investors with a broad range of asset classes and tradable instruments. As a facilitator, Saxo Bank does not invest or trade on behalf of clients and does not risk violating ethics or international conventions.

In 2018, Saxo Bank launched a new investment platform, SaxoInvestor, which gives clients inspiration and insight into opportunities to invest in stocks and bonds of companies working with for example sustainable energy, a key focus area for many of the Bank's clients.

Human rights and Employees engagement

Saxo Bank has a key focus on securing the best talent regardless of age, gender, religion, ethnicity or nationality. As of 31 December 2018, Saxo Bank employs 1,658 employees, including 651 in Denmark. Throughout the organisa-

tion, we encourage and aim for diversity in all its dimensions in hiring processes, graduate programs and the like. Our ongoing commitment to diversity is consistently communicated and trained both in important employee policies such as the Code of Conduct and also in our internal communication throughout the year.

The Saxo Bank Group employs 63 different nationalities as we recognise that employee diversity brings important business benefits such as adding different perspectives and ideas into business decisions, enhance innovation and strengthen internal collaboration. Which are all key components to the Banks ability to enhance the client experience and to service clients effectively in 170 countries. Saxo Bank complies with collective agreements and human rights across all of its offices and is committed to achieving a work environment founded on equality and diversity in all aspects.

Saxo Bank consider it's primary risk in relation to human rights being discrimination. Saxo Bank does not tolerate any form of discrimination of its employees or anyone involved in the Group's activities. Discrimination includes unequal treatment on the basis of race, gender, age, disability, sexual orientation, religion, ethnic origin, political orientation, or similar compromising the principle of equality.

Saxo Bank has a general aim of increasing the number of women in senior management and management positions and has implemented a gender diversity policy and gender composition target for the Board of Directors, senior management and other management levels. For general leadership positions in Saxo Bank, the proportion of women was 23 % in 2018. Saxo Bank's target for women in senior leadership positions remains at 30% while the level in the end of 2018 was 8%. Saxo Bank has a target of 20% women represented on the Board of Directors by 2021 while the level at the end of 2018 was 0%.

The proportion of women in senior leadership positions does not meet the target and therefore remains a key area of focus going forward. Through hiring, internal training, development and career advancement opportunities,

the Bank is actively working towards meeting the set targets. Furthermore, Saxo Bank will initiate an internal assessment of its employees' views on Saxo Bank's and in particular the relevant management's commitment and efforts in securing diversity which includes gender diversity and retention of women in general within the Group. For this purpose, a number of significant initiatives will be implemented in 2019. These initiatives include open forum discussions and focus groups to identify, initiate and implement new ways of securing a strong diversity going forward with special emphasis on gender diversity. The proportion of women in the Board of Directors does not meet the target as no women were appointed to the Board of Directors following the change in shareholder structure in 2018.

Saxo Bank takes pride in securing the welfare of all employees and each year conducts the Saxo Engagement Survey that is used to change and create a better working environment to develop a higher performance and stronger organisation. Employees are a key resource when it comes to delivering on the strategy and dissatisfaction, discrimination and the physical as well as the psychosocial working environment are risk factors we need to mitigate. In 2018, Saxo Bank reached an exceptional response rate of 94% in the Saxo Engagement Survey underlining the trust and dedication from its employees.

Anti-corruption and Anti Money Laundering

Being an online FinTech specialist focused on multi-asset trading and investment, Saxo Bank is at risk of being misused for illegal purposes like money laundering and corruption and the Bank therefore has strict procedures to ensure against illegal activities. The fight against money laundering and terrorist financing is a

high priority at Saxo Bank. To fulfil this objective, the Board of Directors has laid down the AML risk policies. Saxo Bank applies stringent measures to prevent money laundering and financing of terrorism. These measures are applied both when new clients apply for an account and regularly throughout a client relationship.

Saxo Bank maintains a Group AntiBribery and Corruption Policy which sets out rules and procedures to ensure that the Group complies with anti-bribery regulations and standards. The policy has been established to comply specifically with the UK AntiBribery Act which has been assessed to include the highest standards of anti-bribery and corruption regulations within the countries where Saxo Bank Group entities are established and hence complies with local regulations and furthermore with general global standards. In addition to this policy Saxo Bank maintains a policy on the receiving and giving of gifts/inducements.

Saxo Bank has in 2018 continued the development and all relevant employees completed an e-learning course on general antibribery and corruption regulations which must be retaken on an ongoing basis.

Climate and Environment

Saxo Bank is primarily a digital business and therefore its negative impact on the environment is very limited. The Bank does not have an independent policy or actions on this matter and is not an energy intensive company. Its carbon emissions are mainly associated with its electricity use at the Bank's offices and Saxo Bank does not have a climate policy or global actions. However, Saxo Bank does work to minimise carbon emission and in 2018 maintained its use of sea water for both heating and cooling at the Bank's headquarters.

TAX AND OTHER DUTIES

Saxo Bank is established and has headquarters in Denmark, therefore a large part of the Bank's social contribution is in Denmark.

An important component of this social contribution are taxes and other duties, which are incurred directly and also indirectly where taxes are collected by Saxo Bank on behalf of governments, e.g. payroll taxes. Corporate taxes are only a limited part of the total taxes and duties paid. In addition to the total tax contribution, Saxo Bank contributed indirectly through purchases of services, goods etc. from vendors, which again contributes through their employees, purchases and direct and indirect taxes etc.

Saxo Bank does business in a way that meets expectations for a good corporate citizen. This means paying taxes

where profits are earned in accordance with local tax legislation. It means having a balanced tax risk profile and not engaging in tax-avoidance activities.

Saxo Bank is subject to Danish CFC taxation. This entails, that positive income in subsidiaries engaged in financial activities is included in the taxable income of Saxo Bank. The income of the subsidiary is therefore subject to Danish corporate tax with a tax credit granted for foreign tax paid by the subsidiary. The Danish CFC taxation legislation also removes the incentive for tax planning.

In 2018 Saxo Bank does not expect to pay corporate taxes in Denmark due to heavy investments in the products, platform and digitalisation, which for tax purposes can be immediately deducted. Total tax contribution remained at a high level of DKK 722 million in 2018.

THE TOTAL TAX CONTRIBUTION MADE BY SAXO BANK AMOUNTED TO:

| (DKK million) | Denmark | | | Other countries | | | Total | | |
|-------------------------------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Corporate taxes including CFC taxes | - | 57.5 | 19.9 | 49.6 | 59.2 | 53.8 | 49.6 | 116.7 | 73.7 |
| Payroll taxes | 287.7 | 296.9 | 293.6 | 64.7 | 54.2 | 60.0 | 352.4 | 351.1 | 353.6 |
| Social taxes | 1.2 | 1.2 | 0.3 | 57.4 | 51.3 | 48.7 | 58.6 | 52.5 | 49.0 |
| Financial Services Employer taxes | 106.9 | 103.1 | 98.8 | - | - | 0.3 | 106.9 | 103.1 | 99.1 |
| Property taxes | 3.9 | 3.8 | 4.1 | 1.6 | 1.5 | 1.3 | 5.5 | 5.3 | 5.4 |
| Value added taxes | 117.9 | 99.7 | 83.7 | 11.3 | 8.4 | 9.4 | 129.2 | 108.1 | 93.1 |
| Taxes on dividends | - | - | - | 1.1 | 1.6 | - | 1.1 | 1.6 | - |
| Other taxes | 2.5 | 2.4 | 3.7 | 16.2 | 11.5 | 9.4 | 18.7 | 13.9 | 13.1 |
| Total taxes | 520.1 | 564.6 | 504.1 | 201.9 | 187.7 | 182.9 | 722.0 | 752.3 | 687.0 |

STREAMLINING THE BUSINESS FOR GROWTH

During 2018, Saxo Bank continued to streamline its business operations to further focus on its core areas of trading and investing. As part of this strategy, 2018 saw the successful sale of retail bank and wealth management activities in Saxo Privatbank A/S and Saxo Payments A/S, a provider of infrastructure for online cross-border payments. In line with Saxo Bank's partnership strategy, both entities continue to leverage Saxo Bank's technology and investment infrastructure as wholesale partners.

Retail bank and wealth management activities in Saxo Privatbank A/S was acquired by Alm. Brand, a Danish financial services group operating in the non-life insurance, banking and pensions space, in April. At the same time, Saxo Bank and Alm. Brand Bank announced a partnership enabling clients of Alm. Brand to trade and invest in global capital markets through Saxo's award winning platform SaxoTraderGO.

Saxo Bank also sold its shares in Saxo Payments A/S to EQT, a leading private equity group, in October. Saxo Bank invested in Saxo Payments A/S at an early stage and became an incubator supporting the company's growth by leveraging Saxo's expertise in global foreign exchange and fintech solutions. After the sale, Saxo Bank continues the close collaboration with Saxo Payments A/S as the company continues to leverage Saxo Bank's technology and market access.



FINANCIAL REVIEW

The net result for 2018 is the best result that Saxo Bank has ever delivered. Saxo Bank Group reported a net profit of DKK 956 million for 2018, an increase of 138% compared to 2017, positively impacted by the sale of Saxo Payments A/S.

The inflow of clients' collateral from new and existing clients continued successfully in 2018, as clients' collateral deposits increased by DKK 9 billion from the end of 2017 to a record high of DKK 113 billion by the end of 2018.

Despite the introduction of a new competitive pricing structure as well as divestment of activities, operating income in 2018 for the Group reached as high as DKK 2,786 million compared to DKK 3,027 million in 2017.

Staff costs and administrative expenses were DKK 2,210 million for the Group in 2018, an increase of 3% compared to 2017 primarily due to continuous investments in our core offering, digitalisation and further streamlining of the business model.

Other income of DKK 803 million primarily relates to the gain from the sale of Saxo Payments A/S in October 2018.

EBITDA amounted to DKK 1,408 million in 2018 compared to DKK 932 million in 2017. Adjusted for special items, predominantly the gain from sale of Saxo Payments A/S, adjusted EBITDA decreased with 31% to DKK 706 million in 2018.

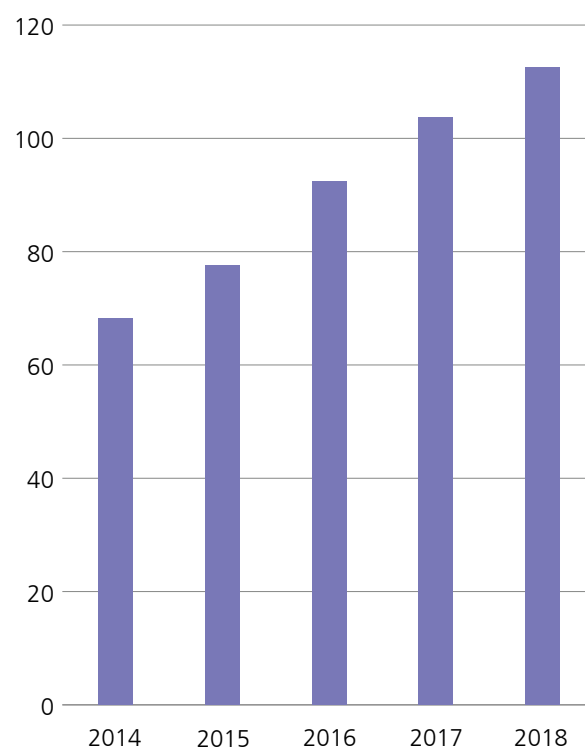
Depreciation and impairment charges of DKK 312 million in 2018 saw a slight increase of DKK 6 million compared to 2017, primarily due to continued investments in our product and platforms.

Impairment charges on loans and receivables etc. in 2018 were an expense of DKK 13 million compared to an income of DKK 8 million in 2017, primarily due to the disposed activities in Saxo Privatbank A/S in April 2018.

STATEMENT OF FINANCIAL POSITION

The continued increase in clients' collateral deposits shows the strength of the business model. The cash inflow from clients' cash deposits are placed with counterparty banks, as well as in bonds and other interest-bearing assets.

Clients' collateral deposits 2014-2018
DKK billion



Trading assets are primarily comprised of bonds and derivative financial instruments with a positive fair value/unsettled spot transactions towards client trading. Trading liabilities are comprised of financial instruments with a negative fair value/unsettled spot transactions towards client trading.

Total assets decreased from DKK 40.0 billion as of 31 December 2017 to DKK 34.5 billion as of 31 December 2018 primarily related to sale of the retail bank and wealth management activities in Saxo Privatbank A/S and the shares in Saxo Payment A/S.

Total shareholders' equity increased by 23% in 2018 to DKK 5.2 million as of 31 December 2018 compared to DKK 4.2 million at the end of 2017.

The Total capital ratio for the Group increased to 35.0% as of end 2018 from 22.7% at the end of 2017, retaining

a comfortable buffer compared to the capital requirement.

In April, Saxo Bank A/S completed the sale of the retail bank and wealth management activities in Saxo Privatbank A/S. In May, Saxo Bank A/S completed the sale of Saxo Capital Markets South Africa (SCMSA). In October Saxo Bank A/S completed the sale of its shares in B Circle Holding S.A. (which owns 100% of the shares in Saxo Payment A/S). Further details on the impact on the Groups assets and liabilities are disclosed in note 19.

CAPITAL, ICAAP & ILAAP

Being based in an EU member state, the Saxo Bank Group is required to fulfil the requirements set out in CRD IV and CRR, which are based on the principles set out in Basel III.

As of 31 December 2018 the Group continued to have a very strong capital situation with a comfortable buffer to the regulatory requirements.

The Common Equity Tier 1 capital (CET1), Tier 1 Capital and Total Capital amounted to DKK 3.51 billion, DKK 3.84 billion and DKK 4.21 billion. This corresponds to a Common Equity Tier 1 ratio, a Tier 1 Capital ratio and a Total Capital ratio for the Group of 29.2%, 32.0% and 35.0% respectively after inclusion of the total comprehensive income for the year. By the end of 2017, the corresponding ratios were 18.1%, 20.4% and 22.7% respectively.

During 2018 contributing to increasing capital ratios was the sale of Saxo Payments A/S and the activities in Saxo Privatbank A/S.

As of 31 December 2018, the Group's ICAAP resulted in a capital requirement of 12.2% of risk exposure amounts, equivalent to DKK 1.5 billion. As such the CET1 buffer was DKK 2.5 billion, equivalent to 20.8% of the risk exposure amounts.

The total risk exposure amounts of the Group was DKK 12.0 billion as of 31 December 2018 compared with DKK 14.9 billion as of 31 December 2017.

The unaudited Risk Report 2018 and the ICAAP Q4 2018 Report provides additional information regarding the Bank's and the Group's Total Capital (including regulatory capital disclosures), risk exposure amounts and capital requirements.

CRD IV and CRR require the Bank and the Group to monitor and report a short term Liquidity Coverage Ratio (LCR) and a long term Net Stable Funding Ratio (NSFR). In Denmark the minimum requirement for the LCR has been phased in gradually, reaching the full requirement level of 100% in 2018. As of 31 December 2018, the Bank and the Group had a sound liquidity buffer to the minimum regulatory requirements with a LCR of 195.9% and 264.4% respectively towards a minimum regulatory requirement of 100%.

The Bank is required to hold liquidity at least equal to the current Internal Liquidity Adequacy Assessment Process (ILAAP) level as determined by the Board of Directors. This ILAAP level cannot be less than the current minimum regulatory requirements. The ILAAP is performed annually based on guidelines issued by the DFSA.

In the ILAAP per end of 2018, it is concluded that the Bank has a safe operational setup within the liquidity area and that the current level of liquidity is sufficient to uphold the Bank's operation and meet a prudent requirement under the LCR regime.

The unaudited Risk Report 2018 provides additional information regarding the Bank's and the Group's liquidity, the liquidity requirements and the ILAAP. The report is available at www.home.saxo/about-us/investor-relations.

EVENTS AFTER THE REPORTING DATE

There have been no events that materially affect the assessment of this Annual Report 2018 after the reporting date.

OUTLOOK 2019

2019 looks to be another year of trade tension which is now fully impacting the overall activity in the market but with the rise of geopolitical risk we also see an increase of volatility on top of the big directional moves in 2018.

The market sell-off in Q4 2018 created a nervous start to 2019 but Central banks globally have move quickly to mitigate some of that risk with lower steering rates and rhetoric support for the markets. This however is once again based on feeding a system full of debt with more credit and as such We expect a nervous, volatile environment for our customer base.

Overall, we see more volatility and increased uncertainty as the elections and trade talks will put focus on anti-globalisation and populism creating non-solutions for growth and economic growth. This trading regime will offer our client excellent hedging and directional trades on our state-of-the-art Saxo platforms.

Cost control, capital and liquidity management as well as risk management will furthermore continue to be important themes for Saxo Bank in 2019.

Saxo Bank is confident that the Group has a solid foundation for its operations in 2019.

Due to the nature of the Group's activities, the forecast of trading related income and net profit is subject to uncertainty. With that in mind and based on the result for 2018, we are confident that we will continue to improve the operating income in 2019.

BINCKBANK

In December 2018 Saxo Bank and BinckBank announced that a conditional agreement has been reached on a recommended public offer to be made by Saxo Bank for the entire issued and outstanding share capital of BinckBank for EUR 6.35 in cash per share. The Offer Price per Share represents an implied equity value for 100% of BinckBank on a fully diluted basis of EUR 424 million.

The combination of the two entities benefits from the two parties' complementarity in geographic footprint, product offerings, and customer bases, covering the full retail client spectrum from mass retail to high-end.

Based on the required steps and subject to the necessary approvals, BinckBank and Saxo Bank anticipate that the offer will close at the end of the second quarter or in the first half of the third quarter of 2019.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements. Statements herein, other than statements of historical fact, regarding future events or prospects are forward-looking statements. The words "may", "will", "should", "expect", "anticipate", "believe", "estimate", "plan", "predict", "intend" or variations of these words, as well as other statements regarding matters that are not historical facts or regarding future events or prospects, constitute forward-looking statements. Saxo Bank has based these forward-looking statements on its current views with respect to future

events, a number of risks and uncertainties which could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of Saxo Bank. Although Saxo Bank believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may differ materially. As a result, you should not rely on these forward-looking statements. Saxo Bank undertakes no obligation to update or revise any forward-looking statements.

REGULATORY ENVIRONMENT

Saxo Bank A/S is required to comply with Danish regulation and EU regulation on Parent level and Group level. In addition, some of the Group's subsidiaries are financial entities which are required to comply with local regulatory requirements. Changes in supervision and regulation could potentially affect the Group's business, the products and services offered or the value of the assets.

A list of the Bank's subsidiaries can be found in Note 29 in the consolidated financial statements. Description of Saxo Bank's legal, management and organisational structure is also available at www.home.saxo/about-us/investor-relations.

MIFID II and MIFIR

The Markets in Financial Instruments Directive (MiFID II) and the Regulation on Markets in Financial Instruments (MiFIR) came into force 3 January 2018. MiFID II and MiFIR contain together more than 5000 pages of regulation, including provisions on reporting, trading in certain standardised OTC products, enhanced investor protection and transparency regulation, corporate governance and other operational requirements, as well as record keeping and the use of algorithmic trading.

Resolution and Recovery of banks

All member states in the EU have to apply a single rule-book for the resolution of banks and large investment firms, as prescribed by the Bank Recovery and Resolution Directive (BRRD). The directive was implemented in Danish law in 2015.

These rules harmonise and improve the tools for dealing with bank crises across the EU. The aim is to ensure that shareholders and creditors of banks will pay their share of the costs through a "bail-in" mechanism.

A Danish resolution fund has been established where Danish credit institutions including Saxo Bank A/S is contributing to. In 2018, the Group contributed with DKK 6.0 million. In addition, the Group is contributing to other resolution funds in other jurisdictions.

The implementation of BRRD broadens the power of national authorities to intervene and prevent banks from failing, while it requires banks themselves to prepare recovery

plans including strategic objectives in critical situations. National authorities have the power to implement resolution plans to resolve failed banks.

To avoid institutions structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools and to avoid the risk of sector contagion or a bank run, the BRRD requires that institutions at all times meet a robust minimum requirement of capital and eligible liabilities (the so-called MREL). As of the disclosure date of the Annual Report, Saxo Bank A/S had not yet received the final MREL requirement from the Danish authorities.

Deposit Guarantee Schemes

In Denmark and other jurisdictions, Deposit Guarantee Schemes and similar funds have been implemented from which compensation for deposits may become payable to customers of financial services firms in the event of a financial services firm being unable to pay, or unlikely to pay, claims against it. In Denmark the deposit guarantee scheme fund "Garantiformuen" is regulated under the Danish implementation of the Deposit Guarantee Scheme Directive (DGSD). Currently, Garantiformuen is fully funded. In addition, the Group is required to pay to other Guarantee Schemes in other jurisdictions.

Accounting standards (IFRS)

The Group adopts new standards and amendments when they become mandatory in EU.

The Group has adopted IFRS 9 "Financial Instruments" at 1 January 2018. IFRS 9 provides principles for recognition, classification and measurement of financial instruments as well as hedge accounting. IFRS 9 introduces a new impairment model to be applied for certain financial assets requiring earlier recognition of credit losses. The impact is disclosed in note 1 in the consolidated financial statements.

From 1 January 2019 the Group will implement IFRS 16, the new accounting standard for leases. The standard changes the accounting treatment of leases currently treated as operating leases. Lessees shall, with a few exceptions, recognise all types of leases as right of use assets in the statement of financial position and the related

lease obligations as liabilities. The lease payments will be recognised as depreciation and interest expense over the leasing period. The estimated impact is disclosed in note 1 in the consolidated financial statements.

EU Tax regulations plans

The Base Erosion and Profit Shifting (BEPS) project, headed by the OECD, aims to set up an international framework to combat tax avoidance by multinational entities. The BEPS project resulted in 15 action points with measures aiming to realign taxation with economic substance and value creation. The implementation of the measures continued in 2018 in the participating countries with several measures being immediately applicable.

On 21 March 2018 the EU Commission published its proposal for fair taxation of the Digital economy. The proposal consists of measures which aims to ensure that in a digital economy profits are taxed where the value is created. There seems to be consensus between the EU member states that taxation of the growing digital economy is a challenge that needs to be addressed. However, whether the member states can agree on a solution for a coordinated tax policy remains uncertain.

On 25 May 2018 the EU Council adopted a Directive on mandatory disclosure and exchange of information on cross-border tax arrangements. The Directive is an amendment to the Directive of Administrative Cooperation (DAC) and is part of the efforts to fight aggressive tax planning and increase tax transparency within the EU. Under the Directive EU based intermediaries will be obliged to disclose information on cross-border tax arrangements to the tax authorities, if the arrangement meets certain specific defined criteria. The reporting obligation will start on 31 august 2020 for tax arrangements initiated after 25 June 2018.

CRR and CRD IV

The Fourth edition of the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) has been applicable from the beginning of 2014. In November 2016 the EU Commission published a proposal containing a package of legislative revisions of key parts of the regulation frameworks here amongst parts of CRR/CRD IV. The revision which includes vari-

ous implementations from Basel III is not yet finalised and the exact timing of EU implementation is still uncertain.

Depending on the final calibration of the regulation and implementation in the EU, the revision may impact the Group's future level of Risk Exposure Amounts.

CRD IV defines the overall supervisory framework for banks (including the individual risk assessment) and other measures such as the combined capital buffer requirements, governance and remuneration requirements.

CRD IV has come into force through implementation in the Danish regulation.

CRR covers a wide range of requirements for banks across EU member states, including capital requirements, definitions of capital, risk exposure amounts, leverage ratio, large exposure and liquidity requirements. CRR applies directly to all credit institutions in the EU and does not, unlike the directive, require national implementation in the form of national law.

In addition to CRD IV and CRR, the EU has issued several Commission Delegated Acts, Commission Implementation Acts, Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS), which are applicable for the Bank and the Group.

Capital requirements

CRD IV and CRR require the Group to monitor and report capital requirements and buffers. Saxo Bank will, over time, be required to set aside more and higher quality capital as a cushion against events with a negative capital impact.

Saxo Bank is 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 accumulates a sufficient capital base to enable it to continue its operations under adverse conditions. In addition, member states may decide to require additional buffers. If the Bank does not maintain these buffers, restrictions will be placed on its ability to pay dividend until the buffer-requirements are sufficiently met.

In Denmark, the “capital conservation buffer” will reach the final stage of its phasing in 2019 reaching a level of 2.5% of the Risk Exposure Amounts.

The “countercyclical capital buffer” has been applied since 2015 and is dependent on the potential national introduction of the countercyclical buffers. This may affect the Group’s capital ratios, if the buffer requirement is activated in jurisdictions where the Group has exposures. However, only a few countries have currently set a countercyclical buffer. In Denmark a countercyclical capital buffer level of 0.5% of the Risk Exposure Amounts is introduced on 31 March 2019, and a further increase to 1.0% is scheduled on 30 September 2019.

Specification on the Bank’s and the Group’s capital statement, capital instruments, current capital requirements and capital buffers are disclosed in the unaudited Risk Report 2018 and the quarterly ICAAP Q4 2018 Report. The reports are available at www.home.saxo/about-us/investor-relations.

Leverage ratio

CRD IV and CRR require Saxo Bank and the Group 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”). The leverage ratio is currently assessed under Pillar II (ICAAP requirement). A minimum requirement to the Leverage Ratio is expected to be introduced; exact timing and potential transition rules will be decided by the EU. Due to the comfortable capital situation of the Group, fulfilment of a potential minimum requirement is not expected to be an issue.

Specifications on the Bank’s and the Group’s leverage ratios are disclosed in the unaudited Risk Report 2018 and are available at www.home.saxo/about-us/investor-relations.

Liquidity requirements

CRR defines two liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR stipulates that banks must have a liquidity buffer that ensures a survival horizon of at least 30 calendar days in a stressed liquidity scenario.

The NSFR is intended to ensure a sound funding structure by promoting an increase in long-term funding. NSFR expected to be introduced as a binding requirement; however exact timing and potential transition rules is still undecided by the EU.

In addition, CRR and guidelines from EBA require Saxo Bank to monitor, report and disclose Asset Encumbrance.

Specification on the Bank’s and the Group’s LCR, NSFR and Asset Encumbrance are disclosed in the unaudited Risk Report 2018 and are available at www.home.saxo/about-us/investor-relations.

Governance

CRD IV sets requirements concerning corporate governance arrangements and processes with the aim to ensure the effectiveness of risk oversight by Boards, improving the status of the risk management function and ensuring effective monitoring by supervisors of risk governance. The Group’s current implementation of governance is disclosed in the unaudited Risk Report 2018 according to CRR.

Remuneration

According to CRD IV and Danish Legislation, the Group is required to implement a remuneration policy for staff members whose professional activities have material impact on the institution’s risk profile. This policy shall ensure that remuneration is consistent with sound and effective risk management and provides an incentive for prudent and sustainable risk taking. Remuneration Regulation sets limits on the relationship between the variable (or bonus) component of remuneration and the fixed component (or salary), requirements to remuneration reporting and disclosure requirements. The Saxo Bank Remuneration Report for 2018 is available at www.home.saxo/about-us/investor-relations.

Supervisory Diamond

The Danish FSA applies a number of specific risk indicators and threshold values to banks in Denmark, in a Supervisory Diamond. Saxo Bank A/S’ compliance with the specific risk indicators is disclosed in the Supervisory Diamond Report which can be found at www.home.saxo/about-us/investor-relations.



CLOUD PARTNERSHIP WITH MICROSOFT

Saxo Bank joins forces with Microsoft to shape the future of cloud services in the financial industry

In April, Saxo Bank and Microsoft announced a strategic partnership to break new ground in terms of the financial industry's use of cloud solutions, with the aim of running the Saxo Bank Group's entire banking platform on Microsoft's Azure cloud. By leveraging the Microsoft Cloud Saxo Bank gets a much more efficient, flexible and scalable infrastructure, allowing Saxo Bank to spend more time on developing technology and less time on running it. Running the entire technology stack in the cloud allows Saxo Bank to tap into Microsoft's global infrastructure and data centers which brings the technology even closer to partners and clients.

Saxo Bank's cloud journey also allows for easier integration with partners, which is crucial to the bank's strategy. Moreover, the partnership gives Saxo Bank the opportunity to leverage Microsoft's global salesforce through a co-selling setup. This showcases Saxo Bank's fintech solutions and demonstrates the true potential of the partnership to a global audience.

With the migration to Microsoft's cloud Saxo Bank ensures scalability, flexibility and security in the digital infrastructure, Saxo Bank's "Banking-as-a-service" offering is expected to scale significantly.

CAPITAL MANAGEMENT

The purpose of Saxo Bank Group's capital management is to ensure that the Group has sufficient capital at all times to cover the risks associated with its activities. The framework for the Group's capital management is rooted in the CRD IV Pillars I, II and III. Pillar I define a set of rules for calculating the minimum capital requirement. Pillar II describes the framework for the Group's Internal Capital Adequacy Assessment Process (ICAAP) and the supervisory review, while Pillar III contains the disclosure aspects. The Group's ICAAP comprises five steps as described below:

- Step 1: Minimum capital requirement (Pillar I), which constitutes 8% of the Group's Risk Exposure Amount (REA) calculated in accordance with the standard formulas defined in CRR and CRD IV.
- Step 2: Internal assessment of whether further capital requirements are needed in addition to Pillar I using quantitative approaches and expert inputs (Pillar II)
- Step 3: Stress testing of different risk items under each risk category using sensitivity testing and scenario analysis. If the potential impact of risks are found, with sufficient plausibility and severity, not covered sufficiently in step 1 and 2, an assessment is made whether further 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
- Step 5: Disclosure (Pillar III)

PILLAR I, CAPITAL REQUIREMENTS

This first step in assessing the Group's adequate capital level is to calculate the minimum capital requirement using the CRR - Pillar I. The Group uses the following methodologies to calculate risk exposure amounts for the three types of risks:

Credit risk - The Standard Method

- Credit Risk: The Standard Method
- Counterparty Credit Risk: Marked to market Method
- Credit Risk Mitigation: Financial Collateral Comparative Method
- CVA-Risk: Standardised Method

Market risk - Standard methods

- Equity 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

PILLAR II, 8+ METHODOLOGY

The second step is an internal assessment of the risks to which the Group is exposed using a quantitative approach or expert input. This approach, where each risk category is assessed subjectively in accordance with certain principles and with DFSA's capital adequacy requirement guideline, determines whether additional capital requirements for each of the risk categories are needed in addition to Pillar I. More details regarding how the exposures for each of the risk categories are assessed can be found in the unaudited Saxo Bank Group Risk Report 2018, which is available at www.home.saxo/about-us/investor-relations.

Credit risk

As a baseline, the Group follows the DFSA capital adequacy requirement guideline in the assessment of additional Pillar II requirements within the Credit risk area. As a supplement to this, credit exposures arising from margin trading activities are assessed using alternative approaches to assess the risks not covered by the Pillar I calculation.

Market risk

As a baseline, the Group follows the DFSA capital adequacy requirement guideline in the assessment of additional Pillar II requirements within the Market risk area. As a supplement to this expert judgements are being used to evaluate if there are risks not covered by Pillar I.

Operational, Compliance and Legal risk

The Group's operational risk is as a baseline assessed according to the DFSA capital adequacy requirement guideline in the assessment of additional Pillar II requirements within the operational risk area. As a supplement to this expert

judgements are being used to evaluate if there are risks not covered by Pillar I.

Liquidity risk

The liquidity risk is determined as the increased cost of raising capital in a very illiquid market. The Saxo Bank Group has determined the liquidity risk based on stressed scenarios with a liquidity shortfall within the Group. To the extent that the events bring the liquidity below internally set thresholds, capital will be explicitly allocated to cover the risk.

Business risk

The business risk reflects the risks of a direct or an indirect loss, or damaged reputation as a result of changes in external circumstances or events. Some of these risks are only partially captured in the other risk categories, which is why these risks are addressed in this category.

CAPITAL REQUIREMENT ADEQUACY TESTING

In addition to the Pillar I and Pillar II approach, the Group uses stress testing and scenario analysis to test the adequacy of the capital requirement. The stress tests and scenarios reflect a loss given the occurrence of an impact or event. The tests and scenarios are developed on the basis of the risk register and reflect exceptional but possible single events or chains of events.

Furthermore, the Group uses a number of combined scenarios, combining multiple events across risk categories. Where applicable, the scenarios takes insurance coverage into account.

If the testing shows the capital requirement assessed through Pillar I and Pillar II is underestimating the risks, then the Pillar II assessment is revisited.

CAPITAL ADEQUACY DETERMINATION

Upon completion of the previous steps, the appropriate level of capital adequacy to operate the Group is determined as the sum of each risk category's capital requirement.

CAPITAL PLANNING

Part of the ICAAP is planning future capital needs in relation to the future regulatory requirements, the business environment, growth and strategic plans in the years to come. Potential major changes to the risk profile, and thereby the future solvency needs, are estimated using the ICAAP and captured in the Capital Plan. The Capital Plan is used in the strategic decision-making process by the Board of Management and the Board of Directors.

LIQUIDITY MANAGEMENT

In accordance with EU regulation, Danish credit institutions are required to perform an internal liquidity adequacy assessment process (ILAAP). Accordingly, the purpose of the ILAAP is to determine the adequate level of liquidity that is required to operate the Saxo Bank Group.

The ILAAP is based on an internal process in which the Board of Management assesses the overall liquidity and funding risks. It is the policy of the Group to update, maintain and execute stress tests on the liquidity on an ongoing basis. In addition, the Group's objectives and liquidity risk appetite are monitored as part of the ILAAP process. Liquidity management in the Saxo Bank Group covers short-term and long-term as well as intraday liquidity management. The Group relates to both regulatory and self-assessed liquidity ratios and stress tests to ensure that liquidity requirements and operating obligations are met on all time horizons.

Procedures for the intraday liquidity management ensure that the Bank is positioned for timely and accurate settlements and executions of any demands, requirements and obligations.

Details regarding the liquidity management can be found in the unaudited Saxo Bank Group Risk Report 2018 available at www.home.saxo/about-us/investor-relations.

RISK FACTORS

Saxo Bank Group is exposed to various risks that are actively monitored as applicable based on the underlying exposure. The Group strives to manage and mitigate those risks that it has influence upon in order to ensure that risks are within the Group's risk appetite. In addition, the Group may be subject to external events beyond its control, e.g. acts of terror, political intervention, changes in technology or other rare and unpredictable exogenous events. The Group strives to be observant and responsive to changes in the external environment.

Risk factors, which may adversely affect the Group's future growth, activities, financial position and results, are described below. However, this may not be an exhaustive description.

Further information on the risk management framework can be found in the Risk Report 2018 at www.home.saxo/about-us/investor-relations.

CREDIT RISK

Client's margin trading exposures may lead to uncollateralised client trading exposures in the event of an unexpected large price gap in one or several markets. In these instances the collateral posted by clients may not fully offset sustained trading deficits, which in turn may turn into losses if the Group is unable to collect the amounts due. To limit these risks the Group has several mitigants in place, e.g. a real-time monitoring system which can intervene and liquidate client exposures instantaneously in case of an adverse market movement.

Counterparty credit exposures also exist towards the Group's prime brokers/market liquidity providers being in general major international banks. The majority of the Group's counterparty default risk exposure is mitigated by pledging collateral via third party custody accounts or by bilateral collateral agreements. However, all credit exposures cannot be totally eliminated on an intraday basis. In acknowledgement of this fact, the Group only operates with regulated counterparties having a high credit rating and within a set of predefined limits.

MARKET RISK

The Group is market liquidity provider with no proprietary position taking in the Markets operation. The vast majority of the trading flow from clients taking place on the Saxo trading platform is executed and hedged automatically in order to minimize the intermediate market risk. However limited market risk arises from the trading when the trading flows related to some products are optimised e.g. by bundling of client trades toward the broker counterparties.

The Group encounters market risk from the investment of client funds deposited in Saxo Bank as margin to support the clients' trading activities. The deposited funds are invested conservatively in short-term government or prime rated covered bonds. The difference in the variability of short-term interest rates for deposited client funds and the variability for short- to medium-term government or other bonds bought by the Group entails market risk.

Market risk exposures are monitored closely on an intraday basis.

OPERATIONAL RISK

Business and IT infrastructure disruption

The Saxo Bank Group is highly dependent on the continuous operation of its IT infrastructure. Therefore, system failures could impact the Group's services to its clients or critical internal business processes. Consequently, a system outage may have a financial and reputational impact on the Group.

In order to control and minimize this risk the Group has redundant data centres, business contingency plans and insurance programs in place that are regularly reviewed and challenged to ensure continuing effectiveness and relevance.

Compliance risk

As the Group is operating under regulated licences an exposure to compliance risk is present. In order to minimise this risk Saxo Bank Group promotes a strong compliance

culture, where compliance risk is identified and continuously monitored.

Cyber security risk

Cyber-attacks on financial institutions are increasingly becoming more sophisticated and targeted than ever before. These emerging threats could harm the Group and its clients, which might affect the Group financially or harm its reputation.

The Group is taking several steps to protect its infrastructure both with policies and procedures as well as mitigation using technical controls for these emerging threats. The Group furthermore monitors the evolution of cyber-attacks, ensuring that effective and adaptive defences are in place at all times.

Third party service providers

The Group relies on service providers to perform certain functions. These service providers also face technology and operating risks, and any significant failures by them could cause the Group to incur losses and harm the Group's reputation.

Substantial outsourcing agreements with third parties are monitored and reviewed regularly to ensure that they meet the Group's internal policies and requirements.

BUSINESS RISK

The competitive environment

Technology spreads out making it easier to replicate existing trading platforms and enabling newcomers to start up at low cost. As a result of lower barriers to entry, many low-cost players have been attracted to the marketplace.

Consequently, these newcomers may lead to increased price competition, which could have an adverse impact on the Group. The Group continuously seeks to differentiate

its offerings from its competitors through investment in its products, services and technology.

The regulatory environment

Furthermore, new regulations could potentially constrain the Group's ability to provide products and services to its clients or may increase the costs of providing such products and services.

A more detailed description of the Group's regulatory environment can be found on page 25.

Client activity

Saxo Bank Group believes that the potential growth in demand for its products is impacted by market volatility as well as the general economic conditions. Thus, the demand for the Group's products is subject to changes in market conditions as well as clients' attitude towards risk and other factors beyond the Group's control. Periods of low risk appetite mean lower activity and reduced demand for the Group's leveraged products, which may have an adverse effect on the Group's results and financial position.

LIQUIDITY RISK

The Group encounters liquidity risk mainly when facilitating clients' trading activities. Liquidity Risk is the risk of the Group not being able to fulfil its payment obligation as they fall due, the risk of the cost of funding rising to disproportionate levels or the risk that the Group does not comply with regulatory liquidity requirements.

Liquidity management in Saxo Bank covers short-term and long-term, as well as intraday liquidity management. In order to mitigate liquidity risk, the Group is operating with systems enabling relevant parties to gain timely information on the liquidity requirements and reserves at any given time.

SAXO BANK DRIVES TRANSPARENCY, INTEGRITY AND TRUST IN THE SECTOR

The pan-European financial regulator, ESMA, implemented new consumer protection measures in relation to the provision of CFDs to retail clients. Saxo Bank welcomes and supports the measures set forth by ESMA and believes that consistent, harmonised regulation at a European level is very positive for clients and the industry as a whole. The measures include caps on leverage that help create better alignment between leverage levels and market conditions, which Saxo Bank finds fair and proportionate.

Saxo Bank expects these measures will increasingly turn the competitive focus in the margin trading industry away from high leverage and towards the quality of platforms, price, product and service. This shift is positive for clients and for Saxo Bank.

Saxo Bank has made the clear strategic decision not to compete on high leverage and focus on creating mutually beneficial relationships with clients, which means the bank is well placed to maintain and grow the business in this new regulatory environment.



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INCOME STATEMENT – SAXO BANK GROUP
1 JANUARY – 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|------|---|------------------|------------------|
| 3 | Interest income calculated using the effective interest method | 122,859 | 150,275 |
| 3 | Other interest income | 1,617,822 | 1,518,646 |
| 4 | Interest expense | (323,544) | (225,954) |
| | Net interest income | 1,417,137 | 1,442,967 |
| 5 | Fee and commission income | 1,441,636 | 1,385,600 |
| 6 | Fee and commission expense | (862,072) | (888,542) |
| | Net interest, fees and commissions | 1,996,701 | 1,940,025 |
| 7 | Price and exchange rate adjustments | 789,368 | 1,086,952 |
| | Operating income | 2,786,069 | 3,026,977 |
| 19 | Other income | 803,230 | 7,318 |
| 8 | Staff costs and administrative expenses | (2,209,974) | (2,150,505) |
| | Depreciation, amortisation and impairment of intangible and tangible assets | (311,519) | (305,767) |
| | Other expenses | (25,872) | (31,685) |
| | Impairment charges loans and receivables etc. | (12,973) | 7,826 |
| | Profit before tax | 1,028,961 | 554,164 |
| 10 | Tax | (73,196) | (153,041) |
| | Net profit | 955,765 | 401,123 |
| | Net profit attributable to: | | |
| | Shareholders of Saxo Bank A/S | 947,667 | 394,827 |
| | Additional tier 1 capital holders | 32,643 | 32,643 |
| | Non-controlling interests | (24,545) | (26,347) |
| | Net profit | 955,765 | 401,123 |

STATEMENT OF COMPREHENSIVE INCOME – SAXO BANK GROUP
1 JANUARY – 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|------|---|----------------|-----------------|
| | Net profit | 955,765 | 401,123 |
| | Other comprehensive income | | |
| | Items that will not be reclassified subsequently to income statement: | | |
| | Remeasurement of defined benefit plans | (1,846) | 12,025 |
| 10 | Tax | 390 | (1,578) |
| | Items that will not be reclassified subsequently to income statement | (1,456) | 10,447 |
| | Items that are or may be reclassified subsequently to income statement: | | |
| | Exchange rate adjustments | 41,867 | (145,248) |
| 24 | Hedge of net investments in foreign entities | (15,087) | 104,417 |
| | Items reclassified to income statement | 233 | - |
| 24 | Fair value adjustment of cash flow hedges: | | |
| | Effective portion of changes in fair value | 761 | (1,675) |
| | Net amount transferred to income statement | 6,290 | 13,615 |
| 10 | Tax | 903 | (24,251) |
| | Items that are or may be reclassified subsequently to income statement | 34,967 | (53,142) |
| | Total other comprehensive income | 33,511 | (42,695) |
| | Total comprehensive income | 989,276 | 358,428 |
| | Total comprehensive income attributable to: | | |
| | Shareholders of Saxo Bank A/S | 981,178 | 352,132 |
| | Additional tier 1 capital holders | 32,643 | 32,643 |
| | Non-controlling interests | (24,545) | (26,347) |
| | Total comprehensive income | 989,276 | 358,428 |

STATEMENT OF FINANCIAL POSITION – SAXO BANK GROUP
AT 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|--------------------------------------|--|-------------------|-------------------|
| ASSETS | | | |
| | Cash in hand and demand deposits with central banks | 2,960,272 | 2,720,359 |
| | Receivables from credit institutions and central banks | 1,777,088 | 4,113,164 |
| 11 | Trading assets | 26,504,833 | 28,713,715 |
| | Loans and other receivables at amortised cost | 138 | 1,686,002 |
| | Current tax assets | 47,523 | 4,974 |
| 12 | Intangible assets | 1,768,806 | 1,617,712 |
| 14 | Tangible assets | 790,355 | 784,799 |
| 10 | Deferred tax assets | 29,265 | 28,551 |
| 17 | Other assets | 605,833 | 286,275 |
| Total assets | | 34,484,113 | 39,955,551 |
| LIABILITIES | | | |
| | Debt to credit institutions and central banks | 4,653,809 | 3,764,567 |
| 11 | Trading liabilities | 1,724,743 | 2,519,801 |
| | Deposits | 21,370,224 | 27,811,163 |
| | Current tax liabilities | 61,842 | 55,861 |
| 17 | Other liabilities | 600,529 | 670,733 |
| 10 | Deferred tax liabilities | 41,595 | 54,154 |
| 15 | Provisions | 118,531 | 106,727 |
| 16 | Subordinated debt | 360,672 | 351,131 |
| Total liabilities | | 28,931,945 | 35,334,137 |
| EQUITY | | | |
| 18 | Share capital | 68,284 | 68,284 |
| | Translation reserve | 213,181 | 174,721 |
| | Hedging reserve | (37,885) | (43,269) |
| | Revaluation reserve | 49,597 | 51,936 |
| | Retained earnings | 4,913,000 | 3,985,584 |
| Shareholders of Saxo Bank A/S | | 5,206,177 | 4,237,256 |
| | Additional tier 1 capital | 345,991 | 346,048 |
| | Non-controlling interests | - | 38,110 |
| Total equity | | 5,552,168 | 4,621,414 |
| Total liabilities and equity | | 34,484,113 | 39,955,551 |

STATEMENT OF CHANGES IN EQUITY – SAXO BANK GROUP
AT 31 DECEMBER

| (DKK 1,000) | Shareholders of Saxo Bank A/S | | | | | Total | Additional tier 1 capital | Non-controlling interests | Total |
|--|-------------------------------|----------------------|-----------------|----------------------|-------------------|------------------|---------------------------|---------------------------|------------------|
| | Share capital | Trans-lation reserve | Hedging reserve | Reva-luation reserve | Retained earnings | | | | |
| Equity 1 January 2017 | 68,284 | 237,061 | (52,467) | 53,944 | 3,543,842 | 3,850,664 | 346,026 | 41,710 | 4,238,400 |
| Net profit | - | - | - | - | 394,827 | 394,827 | 32,643 | (26,347) | 401,123 |
| Other comprehensive income | | | | | | | | | |
| Exchange rate adjustments | - | (145,248) | - | - | - | (145,248) | - | - | (145,248) |
| Hedge of net investments in foreign entities | - | 104,417 | - | - | - | 104,417 | - | - | 104,417 |
| Fair value adjustment of cash flow hedges | - | - | 11,940 | - | - | 11,940 | - | - | 11,940 |
| Revaluation of domicile properties | - | - | - | (2,575) | 2,575 | - | - | - | - |
| Remeasurement of defined benefit plans | - | - | - | - | 12,025 | 12,025 | - | - | 12,025 |
| Tax | - | (21,509) | (2,742) | 567 | (2,145) | (25,829) | - | - | (25,829) |
| Total other comprehensive income | - | (62,340) | 9,198 | (2,008) | 12,455 | (42,695) | - | - | (42,695) |
| Total comprehensive income | - | (62,340) | 9,198 | (2,008) | 407,282 | 352,132 | 32,643 | (26,347) | 358,428 |
| Transactions with owners | | | | | | | | | |
| Tier 1 interest payment | - | - | - | - | - | - | (32,621) | - | (32,621) |
| Share-based payments | - | - | - | - | 25,628 | 25,628 | - | 367 | 25,995 |
| Transactions with non-controlling interests | - | - | - | - | 1,650 | 1,650 | - | 22,380 | 24,030 |
| Tax | - | - | - | - | 7,182 | 7,182 | - | - | 7,182 |
| Equity at 31 December 2017 | 68,284 | 174,721 | (43,269) | 51,936 | 3,985,584 | 4,237,256 | 346,048 | 38,110 | 4,621,414 |
| Restatement on initial application of IFRS 9 | - | - | - | - | (26,498) | (26,498) | - | (1,463) | (27,961) |
| Restated equity at 1 January 2018 | 68,284 | 174,721 | (43,269) | 51,936 | 3,959,086 | 4,210,758 | 346,048 | 36,647 | 4,593,453 |
| Net profit | - | - | - | - | 947,667 | 947,667 | 32,643 | (24,545) | 955,765 |
| Other comprehensive income | | | | | | | | | |
| Exchange rate adjustments | - | 41,867 | - | - | - | 41,867 | - | - | 41,867 |
| Hedge of net investments in foreign entities | - | (15,087) | - | - | - | (15,087) | - | - | (15,087) |
| Items reclassified to income statement | - | 233 | - | - | - | 233 | - | - | 233 |
| Fair value adjustment of cash flow hedges | - | - | 7,051 | - | - | 7,051 | - | - | 7,051 |
| Revaluation of domicile properties | - | - | - | (2,999) | 2,999 | - | - | - | - |
| Remeasurement of defined benefit plans | - | - | - | - | (1,846) | (1,846) | - | - | (1,846) |
| Other equity movements | - | 8,877 | - | - | (8,877) | - | - | - | - |
| Tax | - | 2,570 | (1,667) | 660 | (270) | 1,293 | - | - | 1,293 |
| Total other comprehensive income | - | 38,460 | 5,384 | (2,339) | (7,994) | 33,511 | - | - | 33,511 |
| Total comprehensive income | - | 38,460 | 5,384 | (2,339) | 939,673 | 981,178 | 32,643 | (24,545) | 989,276 |
| Transactions with owners | | | | | | | | | |
| Tier 1 interest payment | - | - | - | - | - | - | (32,700) | - | (32,700) |
| Share-based payments | - | - | - | - | 7,059 | 7,059 | - | - | 7,059 |
| Transactions with non-controlling interests | - | - | - | - | - | - | - | (12,102) | (12,102) |
| Tax | - | - | - | - | 7,182 | 7,182 | - | - | 7,182 |
| Equity at 31 December 2018 | 68,284 | 213,181 | (37,885) | 49,597 | 4,913,000 | 5,206,177 | 345,991 | - | 5,552,168 |

STATEMENT OF TOTAL CAPITAL – SAXO BANK GROUP
AT 31 DECEMBER

| (DKK 1,000) | 2018 | 2017 |
|--|-------------------|-------------------|
| Tier 1 capital | | |
| Total equity 1 January excl. non-controlling interests | 4,210,758 | 3,850,664 |
| Net profit excl. non-controlling interests | 980,310 | 427,470 |
| Accrued interest (dividend) on Additional tier 1 capital, net of tax | (25,461) | (25,461) |
| Share-based payments | 7,059 | 25,628 |
| Total other comprehensive income | 33,511 | (42,695) |
| Change in Common equity tier 1 capital (CET1 capital) | - | 1,650 |
| Common equity tier 1 capital from subsidiaries | - | 964 |
| Hedging reserve | 37,884 | 43,269 |
| Intangible assets | (1,768,806) | (1,617,712) |
| Deferred tax liabilities, intangible assets | 78,516 | 91,962 |
| Deferred tax assets | (15,691) | (14,594) |
| Prudent valuation adjustments | (28,262) | (31,234) |
| Common equity tier 1 capital (net after deduction) | 3,509,818 | 2,709,911 |
| Additional tier 1 capital | 334,802 | 334,802 |
| Tier 1 capital from subsidiaries | - | 101 |
| Total tier 1 capital | 3,844,620 | 3,044,814 |
| Tier 2 capital | | |
| Subordinated debt | 360,672 | 351,131 |
| Tier 2 capital from subsidiaries | - | 169 |
| Total tier 2 capital | 360,672 | 351,300 |
| Total capital | 4,205,292 | 3,396,114 |
| Risk exposure amounts | | |
| Credit risk | 3,069,572 | 5,896,996 |
| Market risk | 3,474,861 | 3,952,949 |
| Operational risk | 5,487,437 | 5,099,745 |
| Total Risk exposure amounts | 12,031,870 | 14,949,690 |
| Common equity tier 1 ratio | 29.2% | 18.1% |
| Tier 1 capital ratio | 32.0% | 20.4% |
| Total capital ratio | 35.0% | 22.7% |

Total capital is calculated in accordance with CRD IV and CRR applicable taking transitional rules into account as stipulated by the Danish Financial Supervisory Authority.

The unaudited Risk Report 2018 provides further information on the assessment of the regulatory capital and is available on the Group's website www.home.saxo/about-us/investor-relations.

CASH FLOW STATEMENT – SAXO BANK GROUP

AT 31 DECEMBER

| (DKK 1,000) | 2018 | 2017 |
|--|--------------------|--------------------|
| Cash flow from operating activities | | |
| Profit before tax | 1,028,961 | 554,164 |
| Tax paid | (121,973) | (130,387) |
| <i>Adjustment for non-cash operating items:</i> | | |
| Amortisation and impairment charges of intangible assets | 263,919 | 263,010 |
| Depreciation and impairment charges of tangible assets and investment properties | 47,600 | 42,757 |
| Loan impairment charges | 12,973 | (7,826) |
| Other non-cash operating items | (789,836) | (142,989) |
| Total | 441,644 | 578,729 |
| <i>Changes in operating capital:</i> | | |
| Receivables from credit institutions and central banks | (563) | 9,537 |
| Derivative financial instruments | (38,832) | 84,876 |
| Loans and other receivables at amortised cost | (5,827) | (64) |
| Bonds | (44,465) | 1,674,550 |
| Other assets | (136,628) | 15,790 |
| Debt to credit institutions and central banks | 887,232 | (3,219,336) |
| Deposits | (545,648) | 176,735 |
| Provisions and other liabilities | 72,792 | 29,548 |
| Cash flow from operating activities | 629,705 | (649,635) |
| Cash flow from investing activities | | |
| Divestment of businesses and other participating interests, net of cash | (2,187,728) | 1,639 |
| Acquisition of businesses and other participating interests, net of cash | (2,107) | - |
| Acquisition of intangible and tangible assets | (526,008) | (341,800) |
| Cash flow from investing activities | (2,715,843) | (340,161) |
| Cash flow from financing activities ¹⁾ | | |
| Tier 1 interest payment | (32,700) | (32,621) |
| Redemption of subordinated debt | - | (186,008) |
| Transactions with non-controlling interests | 14,682 | 22,904 |
| Share-based payments | 7,430 | 8,361 |
| Cash flow from financing activities | (10,588) | (187,364) |
| Net increase/(decrease) in cash and cash equivalents | (2,096,726) | (1,177,160) |
| Cash and cash equivalents at 1 January | 6,828,633 | 8,005,793 |
| Cash and cash equivalents at 31 December | 4,731,907 | 6,828,633 |
| Cash and cash equivalents at 31 December | | |
| Cash in hand and demand deposits with central banks | 2,960,272 | 2,720,359 |
| Amounts due from credit institutions and central banks within three months | 1,771,635 | 4,108,274 |
| Cash and cash equivalents at 31 December | 4,731,907 | 6,828,633 |

¹⁾ Cash and non-cash changes arising from financing activities are disclosed in note 16 Subordinated debt.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU commission, and the requirements in the Danish FSA's executive order on the application of IFRS by entities subject to the Danish Financial Business Act.

On 25 February 2019, the Board of Directors and Board of Management authorise the Annual Report for the financial year 2018 for Saxo Bank A/S for issue. The Annual Report will be submitted for approval by the shareholders of Saxo Bank A/S at the Annual General Meeting on 26 February 2019.

The Group has implemented standards and amendments applicable from 1 January 2018. Except for the implementation of IFRS 9 Financial Instruments as described below there has been no material impact on shareholder's equity or total assets regarding implementation of other standards and amendments.

Change in accounting policies

IFRS 9 Financial Instruments

The IAS 39 accounting standard for Financial Instruments is replaced with IFRS 9 Financial Instruments. The Group has adopted IFRS 9 with date of transition 1 January 2018. IFRS 9 provides principles for recognition, classification and measurement of financial instruments as well as hedge accounting. IFRS 9 introduces a new impairment model (the expected credit loss impairment model, compared to an incurred loss impairment model in IAS 39) to be applied for certain financial assets requiring earlier recognition of credit losses.

Impact of the change in accounting policy and comparative figures

The Group's classification of financial assets and liabilities has not changed due to the implementation of IFRS 9 compared to IAS 39. Application of the new impairment model has increased the provisions for impairment and impacts the carrying amount of the financial assets accordingly. There have been no changes to measurement of financial liabilities.

Adjustments to the carrying amounts of financial assets at the date of transition were recognised in Equity (retained earnings) as per 1 January 2018. The impact is a reduction of equity of DKK 35.8 million before tax and DKK 27.9 million after tax. As permitted by the transitional provisions of IFRS 9 comparative figures are not restated.

For the purpose of clarity, the disclosures of the impact of IFRS 9 are prepared using the concepts of materiality and relevance especially after the disposal of the retail banking activities in Saxo Privatbank A/S. This means that disclosures not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the notes.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement under IAS 39 to their new measurement upon transition to IFRS 9. The measurement for financial assets measured at amortised cost has changed due to the new impairment model.

| (DKK 1,000) | IAS 39 carrying amount 31 December 2017 | Remeasurement due to changes in accounting policy | IFRS 9 carrying amount 1 January 2018 |
|--|--|---|--|
| ASSETS | | | |
| Cash in hand and demand deposits with central banks | 2,720,359 | | 2,720,359 |
| Receivables from credit institutions and central banks | 4,113,164 | (5,804) | 4,107,360 |
| Trading assets | 28,713,715 | | 28,713,715 |
| Loans and advances at amortised cost | 1,686,002 | (30,044) | 1,655,958 |
| Current tax assets | 4,974 | | 4,974 |
| Intangible assets | 1,617,712 | | 1,617,712 |
| Tangible assets | 784,799 | | 784,799 |
| Deferred tax assets | 28,551 | | 28,551 |
| Other assets | 286,275 | | 286,275 |
| Total assets | 39,955,551 | (35,848) | 39,919,703 |

The tax impact due to remeasurement amounts DKK 7,887 thousand.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies · continued

Basis of preparation

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency of Saxo Bank A/S. All amounts have been rounded to nearest DKK thousand, unless otherwise stated.

The consolidated financial statements of Saxo Bank A/S for the year ended 31 December 2018 comprise Saxo Bank A/S and its subsidiaries (together referred to as "the Group").

The consolidated financial statements have been prepared on the historical cost basis, except for the following assets and liabilities, which are measured at fair value: trading assets, investment securities, investment properties and trading liabilities.

For the purpose of clarity, the financial statements and the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the financial statements. Similarly, information not considered material is not presented in the notes.

Basis of consolidation

The consolidated financial statements comprise Saxo Bank A/S and subsidiaries controlled by Saxo Bank A/S. Control is achieved when Saxo Bank A/S is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When determining whether Saxo Bank A/S has control, de facto control and potential voting rights, which at the reporting date are substantive, are considered. For a right to be substantive, Saxo Bank A/S must have the practical ability to exercise that right.

Changes in ownership interest in a subsidiary, without loss of control, are accounted for as equity transactions.

In case of loss of control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity. Any gain or loss is recognised in Other income and expenses. Any investment retained is recognised at fair value on initial recognition. Subsequently it is accounted for as an associate, joint venture or investment security depending on the level of influence retained.

Information on Group entities is disclosed in note 29.

The consolidated financial statements have been prepared as a consolidation of the financial statements of Saxo Bank A/S and subsidiaries prepared according to the Group's accounting policy. On consolidation, group internal income and expenses, shareholdings, group internal balances, and realised and unrealised gains and losses on group internal transactions are eliminated.

The non-controlling interest's share of the net profit/loss for the year and of the equity of subsidiaries, which are not wholly owned, are included in the Group's net profit/loss and equity, respectively, but is disclosed separately.

Business combinations

Acquired businesses are recognised in the consolidated financial statements from the date of acquisition. The date of acquisition is the date when the Group obtains control of the acquired entity. Businesses which are divested are recognised in the consolidated financial statements until the date of control ceases.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. The identifiable assets, liabilities and contingent liabilities of acquired businesses are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if separable or if they arise from contractual or other legal rights. Deferred tax, if any, related to fair value adjustments is recognised.

If uncertainties exist at the acquisition date regarding identification or measurement of identifiable assets, liabilities and contingent liabilities or the consideration transferred, initial recognition will take place on the basis of provisionally determined fair values. If identifiable assets, liabilities and contingent liabilities or consideration are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up to 12 months after the acquisition date and comparative figures are restated accordingly. Thereafter no adjustments are made to goodwill, and changes in estimates of contingent consideration relating to business combinations are recognised in Other income and expenses, net.

Any excess of the fair value of the consideration transferred over the fair value of the identifiable assets, liabilities and contingent liabilities assumed is recognised as goodwill in Intangible assets. If the excess is negative, a gain is recognised in the income statement. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the presentation currency applied in the Group are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

In a business combination achieved in stages (step acquisition), the shareholding held immediately before the step acquisition is remeasured at fair value at the acquisition date and recognised as the cost of the shareholding in the entity. Gain or losses from the remeasurement is recognised in Other income or Other expenses.

For each business combination, the Group elects whether to measure the non-controlling interests at fair value or at the proportionate share of the identifiable net assets. Acquisition-related costs are expensed as incurred.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies - continued

On acquisition of non-controlling interests net assets are not remeasured at fair value. On acquisition of non-controlling interests, the difference between the consideration transferred and the non-controlling interests' share of total carrying amount including goodwill is transferred from the non-controlling interests' share of equity to equity attributable to the shareholders of Saxo Bank A/S. On disposal of shareholdings to non-controlling interests, the difference between the consideration received and the share of total carrying amount, including goodwill, acquired by the non-controlling interests is transferred from equity attributable to the shareholders of Saxo Bank A/S to the non-controlling interests' share of equity.

Gains or losses on the divestment or winding-up of subsidiaries are measured as the difference between the consideration received adjusted for directly related divestment or winding-up costs and the carrying amount of the net assets at the time of disposal or winding-up including any carrying amount of goodwill.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to offset in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting in accordance with IFRS.

Foreign currency

Transactions in currencies other than the functional currency of the respective Group entities are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the respective functional currencies of the Group companies at the exchange rates at the transaction date. Foreign exchange adjustments arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as Foreign exchange rate adjustments.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date of transaction or the exchange rate in the latest financial statements is recognised in the income statement as Foreign exchange rate adjustments.

On recognition in the consolidated financial statements of Group companies with a functional currency other than DKK, the income statements and statements of cash flows are translated at the exchange rates at the transaction date and the statements of financial position are translated at the exchange rates at the reporting date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Both the foreign exchange adjustments arising on translation of the opening balance of equity (including goodwill) of foreign entities at the exchange rates at the reporting date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the reporting date are recognised in other comprehensive income and presented in equity under Translation reserve.

On complete or partial disposal of a foreign entity, the share of the cumulative amount of the exchange rate adjustments recognised in other comprehensive income relating to that foreign entity is recognised in the income statement when the gain or loss on disposal is recognised.

Hedge accounting

Net investment hedge

When a derivative or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign entity any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in equity under Translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. On complete or partial disposal of a foreign entity gains and losses accumulated in equity are reclassified and recognised in the income statement when the gain or loss on disposal is recognised.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised liability the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in equity under Hedging reserve. The amount is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

INCOME STATEMENT

Interest, fees and commissions

Interest income and expense is recognised in the income statement, using the effective interest method on the basis of the cost of the individual financial instrument. Premiums on forward transactions are accrued over the lifetime of the transactions and recognised as Interest income or expense.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Net premiums on forward transactions related to foreign exchange and securities are recognised as Interest income or expense.

Received and paid fees and commissions result from trading with equities, derivative financial instruments and from assets under management. Fees and commissions are recognised when services are delivered or received.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies · continued

Price and exchange rate adjustments

Price and exchange rate adjustments comprise gains and losses related to trading asset, trading liabilities and investment securities including realised and unrealised fair value adjustments, foreign exchange rate adjustments and fair value adjustments to investment properties.

Other income

Other income includes income that is secondary to the Group's activities. This includes operating income from non-financial activities, gain on step acquisitions, gain from divestments, adjustments to contingent considerations etc.

Staff costs and administrative expenses

Salaries and other remuneration that the Group pays for work carried out during the year are expensed in Staff costs and administrative expenses, including the value of share-based payments.

Share-based payments

The Board of Directors, the Board of Management and other employees have been granted warrants. The warrants are measured at fair value at the grant date and are recognised as an expense in Staff costs and administrative expenses over the vesting period. Expenses are set off against shareholders' equity.

The fair value of the warrants is measured using the Black-Scholes valuation method or other generally accepted valuation techniques. The calculation takes into account the terms and conditions under which the warrants are granted. Subsequent fair value adjustments are not recognised in the income statement.

If subsequent modifications to a warrant program increase the value of the warrants granted, measured before and after the modification, the increase is recognised as an expense. If the modification occurs before the vesting period the increase in value is recognised as an expense over the period for services to be received. If the modification occurs after vesting date, the increase in value is recognised as an expense immediately. Consideration received for warrants sold are recognised directly in equity.

Other expenses

The Group participates in the Danish Deposit Guarantee Fund, Danish Resolution Fund and Guarantee Schemes in other jurisdictions. Guarantee commission and provision to cover possible losses under the schemes are recognised in Other expenses.

Loss on step acquisitions, loss from divestments and adjustments to contingent considerations is recognised in Other expenses.

Impairment charges loans and receivables etc.

Impairment charges include losses on and impairment for expected credit loss against receivables from credit institutions, loans, other receivables and guarantees.

Income taxes

Income tax comprises current tax and changes in deferred tax, including changes due to change in tax rate, and is recognised in income statement, other comprehensive income or equity.

The current Danish corporation tax is allocated between the Danish jointly taxed companies as proportion to their taxable income.

STATEMENT OF FINANCIAL POSITION

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price: Quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 – Observable input: Valuation techniques based on inputs, other than quoted prices included within level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Non-observable input: Valuation techniques based on inputs for the assets or liabilities that are not based on observable market data. The valuation is primarily based on generally accepted valuation techniques.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies - continued

Amortised cost measurement

The amortised cost is the amount at which the financial assets or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and for financial assets, adjusted for any loss allowance.

Financial instruments

From 1 January 2018 the Group's financial assets are classified into the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Financial assets and liabilities are at initial recognition measured at fair value. For financial assets and liabilities not measured at fair value through profit and loss (FVPL) transactions cost that are directly attributable to the acquisition or issue of the financial asset or liability shall be included in the initial fair value.

Classification and subsequent measurement depend on the Group's business model for managing the financial asset and the contractual cash flow characteristics of the asset.

Based on these factors, the Group classifies its financial assets into one of the two following measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represents solely payments of principal and interests ("SPPI"), and that are not designated at FVPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in Interest income using the effective interest rate method.
- Fair value through profit and loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit and loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit and loss and not part of a hedging relationship is recognised in the income statement in Price and exchange rate adjustments.

Financial liabilities are subsequently measured at amortised cost, except from derivative financial liabilities held for trading. Derivative financial liabilities held for trading are measured at fair value.

Trading assets and trading liabilities at fair value

Trading assets comprise equities, bonds, derivative financial instruments with positive fair value and unsettled spot transactions and are part of the Group's trading portfolio. The Group manages performance of the trading portfolio with the objective of realising cash flows through the sale of the assets. The trading portfolio is managed and evaluated on a fair value basis. Trading assets do not meet the criteria for amortised cost or FVOCI and are recognised and measured at fair value through profit or loss.

Trading liabilities comprise of derivatives financial instruments with negative fair value and unsettled spot transactions and are measured at fair value.

Trading assets and trading liabilities are measured at fair value by applying the fair value hierarchy level 1, level 2 and level 3, see page 47.

For matching positions mid prices are applied as the basis for determining the fair value of the matching position and bid/ask prices are applied on the open net position, respectively.

Purchase and sale of financial assets and liabilities are accounted for on the trade date.

The fair value of derivatives is adjusted for credit risk related to the counterparty to the derivative.

Financial assets measured at amortised cost

Receivables from credit institutions and central banks and Loans and other receivables are held for collection of contractual cash flows where those cash flows represents solely payments of principal and interests ("SPPI"), and measured at amortised cost less expected credit loss.

Impairment on financial assets measured at amortised cost as from 1 January 2018

Impairments for expected credit losses apply to the Group's financial assets recognised at amortised cost, loan commitments and financial guarantees.

For financial assets recognised at amortised cost, expected credit losses are recognised in the income statement and set off against the asset in the statement of financial position. However, on loan commitments and financial guarantee contracts expected credit losses are recognised as a liability.

The impairment for expected credit loss follows a three-stage model:

- Stage 1: If the credit risk has not increased significantly since initial recognition, the impairment equals an amount equal to 12 month expected credit losses.
- Stage 2: If the credit risk has increased significantly since initial recognition, the financial assets are transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised.
- Stage 3: If a financial asset is in default or otherwise credit-impaired, it is transferred to stage 3, which is the same as stage 2, except that interest income is recognised on the net carrying amount.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies · continued

Impairment on financial assets measured at amortised cost before 1 January 2018

If objective evidence of impairment of a loan or a receivable exists the Group determines the impairment charge individually. The impairment charge equals the difference between the carrying amount and the present value of the expected future cash flows from the loan including realisation value of any collateral. The impairment charge is adjusted if the present value of the expected future cash flows is changed subsequently.

Loans and receivables (retail banking activities) without objective evidence of impairment are included in an assessment of collective impairment on a portfolio basis. Collective impairment is calculated for portfolios of loans and receivables with similar credit characteristics. The loans and receivables are divided into portfolios based on current ratings.

Collective impairment is calculated as the difference between the carrying amount of the loans and receivables of the portfolio and the present value of expected future cash flows.

If subsequent events show that impairment is not permanent, it is reversed. Loans that are considered uncollectible are written off.

Amounts due to credit institutions and central banks and deposits

Amounts due to credit institutions and central banks and deposits are measured at amortised cost.

Margin trading clients may place deposits which due to local requirements are deposited and segregated with external credit institutions acting as trustees. These deposits are not at present obligations for the Group and not recognised in the consolidated statement of financial position.

Intangible assets

Goodwill is measured at cost less any impairment.

Software developed by the Group is recognised as an asset if the cost of development is reliably measurable and an analysis shows that future economic benefits from using the software exceed the cost. Cost is defined as development costs incurred to make the software ready for use. Once a software application has been developed the cost is amortised over the expected useful life 3-5 years. The cost of development consists primarily of direct salaries and other directly attributable development costs. Expenses incurred in the planning phase are expensed when incurred.

Impairment test

Goodwill is tested for impairment at least annually. The first impairment test is performed no later than at the end of the acquisition year. Other intangible assets are tested for impairment if indications of impairment exist. Intangible assets are written down to the recoverable amount, if the carrying amount exceeds the higher of the fair value less cost to sell and the value in use.

Amortisation and impairment charges are recognised in Depreciation, amortisation and impairment of intangible and tangible assets in the income statement.

Domicile properties

Domicile properties are properties occupied by the Group. Domicile properties are at initial recognition recognised at cost. Subsequently domicile properties are measured at revalued amount representing the fair value. Revaluations are made with regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. An increase in the carrying amount as a result of a revaluation is recognised in other comprehensive income and presented in equity under Revaluation reserve. If an increase due to revaluation reverses a revaluation decrease previously recognised in the income statement the increase is recognised in the income statement. A decrease in the carrying amount as a result of a revaluation is recognised in the income statement, except from when the decrease reverses a previous revaluation increase recognised in equity, then it is recognised in equity.

The fair value of domicile properties is determined by applying an asset return model or observable market price. The asset return model includes the property's rental income and operating expenses. Operating expenses are calculated on the basis of the condition of the individual property, construction year, materials used etc. The return rate is calculated on the basis of the location of the individual property, potential use, condition, term of lease etc.

Tangible assets

Leasehold improvements, fixtures, equipment and vehicles, IT equipment are measured at cost, less accumulated depreciation and impairment.

The tangible assets are depreciated on a straight-line basis over the estimated useful life:

Domicile properties 50 years
Leasehold improvements 5 years
Fixtures, equipment and vehicles 3-5 years
IT equipment 3-5 years

Tangible assets are tested for impairment if indications of impairment exist. Tangible assets are written down to its recoverable amount, if the carrying amount exceeds the higher of the fair value less costs to sell and the value in use. Depreciation and impairment charges are recognised in the income statement.

Pension plans

The Group has entered into retirement benefits schemes and similar arrangements with the majority of the Group's employees.

Contributions to defined contribution plans are recognised in the income statement in the period to which they relate and any contributions outstanding are recognised in the statement of financial position as Other liabilities.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies - continued

For defined benefit plans an annual actuarial calculation is made of the present value of future benefits under the defined benefit plan. For defined benefit plans, the Group has an obligation to pay defined future benefits from the time of retirement. The present value is determined on the basis of expected future development in variables such as salary levels, interest rates and inflation, time of retirement and mortality. Pension costs for the year are recognised in the income statement based on actuarial estimates and financial expectations at the beginning of the reporting period. Any difference between the expected development in pension plan assets and liabilities and realised amounts determined at the reporting date constitutes actuarial gains or losses and is recognised in other comprehensive income. The actuarial present value of defined benefit obligations less the fair value of plan assets is recognised in the statement of financial position under Other assets or Other liabilities.

Provisions

Provisions are recognised if the Group, as a result of a past event has a present legal or a constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The costs required to settle the obligation are discounted if this significantly impacts the measurement of the liability. The entity's average borrowing rate is used as discount rate.

Subordinated debt

At initial recognition subordinated debt is measured at fair value, equaling the payment received less directly attributable costs incurred. Subsequently, subordinated debt is measured at amortised cost.

Other assets and liabilities

The Group uses quantitative and qualitative materiality considerations when aggregating line items in the statement of financial position that are not considered individually material. Such line items are presented under Other assets or Other liabilities including net assets or net liabilities in defined benefit pension plans, rent deposits etc.

Tax

Current tax asset and liability is recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income for previous years and for tax paid on account.

Deferred tax comprises temporary differences between the accounting and the tax values of assets and liabilities and is measured in accordance with the liability method. Deferred tax is adjusted for elimination of unrealised group internal profit and losses. Deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from in business combination, arose at the time of acquisition without affecting either the Net profit or the taxable income. Where alternative taxation rules can be applied to determine the tax base, deferred tax is measured according to management's intended use of the assets or settlement of the liability. Deferred tax is measured according to the tax regulations and tax rates in the respective countries enacted or substantively enacted at the end of the reporting date.

Deferred tax assets, including the tax base of tax losses carried forward, are recognised at the expected value of their utilisation: either as offset against tax on future income or as offset against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and liabilities are offset if the Group has a legal right to offset these, intends to settle these on a net basis or to realise the assets and settle the liabilities, simultaneously.

Shareholders' equity

Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign entities on or after 1 January 2010. The reserve also comprises foreign exchange differences arising from the translation of derivative financial instruments which hedge the Group's net investment in foreign entities.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss.

Revaluation reserve

The revaluation reserve comprises revaluations of domicile properties after the recognition of deferred tax. Subsequent depreciation net of tax of the revaluation is transferred from the revaluation reserve to retained earnings.

Dividends

Dividends are recognised as a liability at the date when the dividends are adopted at the Annual General Meeting (date of declaration). Dividends proposed for the year are shown in Shareholders' equity.

Treasury shares

Treasury shares are not recognised as assets. Proceeds related to acquisition or disposal of treasury shares are recognised directly in Retained earnings in Shareholders' equity.

Additional tier 1 capital

Additional tier 1 capital under Equity comprises proceeds received at the date of issuance and accrued interest not yet paid to the holders.

Tier 1 capital issued includes no contractual obligation to deliver cash or another financial asset to the holders, as Saxo Bank A/S may, at its sole discretion, omit payment of interest and principal payments to the bond holders. The issue does not qualify as a financial liability according to IAS 32. The net amount received at the date of issue is recognised as an increase in equity. Interest payments are accounted for as dividends which are recognised directly in equity at the time the payment obligation arises. If Saxo Bank A/S chooses to redeem the bonds, equity will be reduced by the redemption amount at the date of redemption.

NOTES – SAXO BANK GROUP

Note

1 Accounting policies · continued

Non-controlling interests

Non-controlling interests comprise the share of the shareholder's equity not owned directly or indirectly by Saxo Bank A/S, equaling the carrying amount of the net assets in subsidiaries not owned or controlled directly or indirectly by Saxo Bank A/S.

CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The cash flow statement is based on the profit before tax for the year and shows cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalent during the year.

Cash and cash equivalents comprise cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks within three months.

UPCOMING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS

IASB has published the following standards and amendments to existing standards that are not yet mandatory for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018:

- IFRS 16: Leases
- IFRS 17: Insurance contracts
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9: Prepayments Features with Negative Compensation
- Amendments to IAS 19: Plan amendment, Curtailment or settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to References to the Conceptual Framework in IFRS Standards
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRIC 23: Uncertainty over Income tax Treatments

The Group adopts the new standards and amendments when they become mandatory in the EU.

None of these standards and amendments are expected to have an impact on the consolidated financial statements except for IFRS 16 Leases mentioned below.

IFRS 16 Leases

The Group adopts from 1 January 2019 IFRS 16, the new accounting standard for leases. The present IAS 17 Leases is replaced with IFRS 16. IFRS 16 changes the accounting treatment of leases currently treated as operating leases. As from 1 January 2019 the lessees shall with few exceptions recognise all leases as right of use assets and the related lease obligations as liabilities in the statement of financial position. The lease payments will be recognised as depreciation and interest over the lease period.

The estimated impact of IFRS 16 on statement of financial position 1 January 2019 is an increase of both the Group's assets and liabilities in the range of DKK 200-220 million. The impact on the net profit in 2019 is immaterial.

The standard will be applied prospectively with the cumulative effect of initially applying the standard recognised at 1 January 2019. As permitted by the transitional provisions of IFRS 16 comparative figures will not be restated in the Annual Report for 2019.

NOTES – SAXO BANK GROUP

Note

2 Critical accounting estimates and judgements

In preparing the consolidated financial statements, management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Group's assets, liabilities, income and expenses.

The estimates and judgements made are based on historical experience and other factors that management assesses to be reliable, but that, by nature, are associated with uncertainty and unpredictability. The assumptions may be incomplete, unexpected future events or situations may occur, and other parties may arrive at other estimated values.

Critical estimates and judgements have the most impact on the consolidated financial statements in the following areas:

- fair value measurement of financial instruments
- measurement of goodwill and other intangible assets

Fair value measurement of financial instruments

Measurements of financial instruments based on quoted market prices in an active market or based on generally accepted valuation techniques employing observable market data are not subject to critical estimates.

Measurements of financial instruments that are not based on observable market data, such as client positions with counterparty credit risk, unlisted equities and certain bonds for which there is no active market, are subject to estimates. The fair value of derivative financial instruments is adjusted for credit risk related to the counterpart of the derivative.

Classification of financial instruments using the fair value hierarchy and changes to fair value level due to unobservable adjustments are disclosed in note 23 Classifications and valuation of financial instruments.

Measurement of goodwill and other intangible assets

Goodwill is tested for impairment if indication of impairment exists or at least annually. Impairment testing requires that management estimates future cash flows from acquired entities. A number of factors affect the value of such cash flows, including discount rates, changes in expected long-term growth, capital requirements, economic development and other variables.

In 2018 no impairment loss related to goodwill is recognised (2017: DKK 7 million).

Other intangible assets are tested if there are indications of impairment. Impairment testing requires that management estimates future cash flows from the intangibles. A number of factors affect the value of such cash flows, including discount rates, expected useful life, economic development and other variables.

In 2018 impairment losses related to other intangible assets of DKK 1 million (2017: DKK 0 million) are recognised.

Note 13 Impairment test provides more information on impairment test.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|----------|--|------------------|------------------|
| 3 | Interest income | | |
| | Credit institutions and central banks | 102,322 | 65,040 |
| | Loans and other receivables | 20,537 | 85,235 |
| | Bonds | 219,284 | 200,335 |
| | Derivative financial instruments | 1,394,655 | 1,315,296 |
| | Other interest income | 3,883 | 3,015 |
| | Total interest income | 1,740,681 | 1,668,921 |
| 4 | Interest expense | | |
| | Credit institutions and central banks | (55,337) | (64,695) |
| | Deposits | (25,476) | (14,245) |
| | Subordinated debt | (53,268) | (55,480) |
| | Derivative financial instruments | (189,218) | (90,453) |
| | Other interest expense | (245) | (1,081) |
| | Total interest expense | (323,544) | (225,954) |
| 5 | Fee and commission income | | |
| | Trading with equities and derivative financial instruments | 1,402,854 | 1,301,333 |
| | Origination fees | 9,154 | 35,543 |
| | Asset management fees | 2,278 | 13,407 |
| | Other fee and commission income | 27,350 | 35,317 |
| | Total fee and commission income | 1,441,636 | 1,385,600 |
| 6 | Fee and commission expense | | |
| | Trading with equities and derivative financial instruments | (862,072) | (888,542) |
| | Total fee and commission expense | (862,072) | (888,542) |
| 7 | Price and exchange rate adjustments | | |
| | Bonds | (175,428) | (192,864) |
| | Investment securities | 3,470 | (667) |
| | Foreign exchange | 674,464 | 1,007,356 |
| | Derivative financial instruments ¹⁾ | 286,862 | 273,162 |
| | Investment properties | - | (35) |
| | Total price and exchange rate adjustments | 789,368 | 1,086,952 |

¹⁾ Other than foreign exchange.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|----------|--|--------------------|--------------------|
| 8 | Staff costs and administrative expenses | | |
| | Staff costs | (1,129,335) | (1,182,563) |
| | Administrative expenses | (1,080,639) | (967,942) |
| | Total staff costs and administrative expenses | (2,209,974) | (2,150,505) |
| | Staff costs | | |
| | Salaries | (1,133,687) | (1,156,290) |
| | Share-based payments | 370 | (17,694) |
| | Defined benefit pension plans | (5,177) | (3,584) |
| | Defined contribution pension plans | (83,386) | (78,594) |
| | Social security expenses and financial services employer tax | (137,896) | (132,421) |
| | Staff costs transferred to software under development | 230,441 | 206,020 |
| | Total staff costs | (1,129,335) | (1,182,563) |
| | Number of full-time-equivalent staff (avg.) | 1,633 | 1,584 |

Note 28 provides information on Remuneration of management and significant risk takers.

Pension plans

Most of the Group's pension plans are defined contribution plans under which the Group pays contributions to independent insurance companies responsible for the pension obligation towards the employees. In these plans the Group has no legal or constructive obligation to pay further contributions irrespective of the funding by these insurance companies. Pension costs related to such plans are recognised as expenses when incurred.

The Group has entered into defined benefit plans in Switzerland. An obligation is recognised in the statement of financial position based on an actuarial calculation of the present value at the end of the reporting period less the plan asset. The obligations are partly funded.

At 31 December 2018, the net present value of obligations related to the defined benefit pension plans was DKK 99 million (2017: DKK 82 million), and the fair value of plan assets was DKK 62 million (2017: DKK 49 million). The present value of obligations under defined benefit plans less the fair value of pension assets is recognised for each plan under Other assets/Other liabilities. Pension plan net liabilities amounted to DKK 37 million (2017: DKK 33 million). The Group recognises the service cost and interest on the net defined benefit asset/liability in the income statement, whereas actuarial gains or losses are recognised under Other comprehensive income.

The calculation of the net obligation is based on valuations made by external actuaries. These valuations rely on assumptions about a number of variables, including discount and mortality rates and salary increases. The discount rate is based on market yield of high-quality corporate bonds with maturity approximating to the terms of the defined benefit obligations. Expected return on plan assets is based on the plan asset portfolio and general expectations to the economic development.

The Group expects to pay DKK 4.5 million in contribution to defined benefit plans during 2019 (2018: DKK 4.0 million).

| | | 2018 | 2017 |
|----------|--|----------------|----------------|
| 9 | Audit fees | | |
| | Audit firm appointed by the general meeting: | | |
| | Fees for statutory audit of the consolidated and parent company financial statements | (3,426) | (3,554) |
| | Fees for other assurance engagements | (1,305) | (1,279) |
| | Fees for tax advisory services | (1,268) | (479) |
| | Fees for other services | (959) | (556) |
| | Total audit fees | (6,958) | (5,868) |

Fees for non-audit services provided by Ernst & Young P/S for the Group cover various assurance reports, including report on business controls and IT security, review procedures with respect to recognition of profit in core capital, financial due diligence services and other general accounting and tax advisory services.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|---|-----------------|------------------|
| 10 | Tax | | |
| | Reconciliation of effective tax rate | | |
| | Profit before tax | 1,028,961 | 554,164 |
| | Tax using the Danish tax rate 22% | (226,371) | (121,916) |
| | Effect of tax rates in foreign jurisdictions different from 22% | (8,252) | (13,940) |
| | Changes in deferred tax from change in tax rate | 3,111 | (68) |
| | Non tax-deductible expenses | (19,428) | (16,778) |
| | Tax-exempt income (disposal of shares, etc.) | 179,401 | 1,010 |
| | Impairment | (840) | (711) |
| | Non exempted withholding tax and other taxes | (4,459) | (1,419) |
| | Adjustments to tax previous years | 3,643 | 781 |
| | Total income tax recognised in income statement | (73,196) | (153,041) |
| | Effective tax rate | 7.1% | 27.6% |

| 2018 | Income statement | Other comprehensive income | Directly in equity | Total |
|---|------------------|----------------------------|--------------------|-----------------|
| Current tax | (85,298) | 903 | 7,182 | (77,213) |
| Changes in deferred tax for the year | 9,807 | 390 | - | 10,197 |
| Changes in deferred tax from change in tax rate | 3,111 | - | - | 3,111 |
| Non exempted withholding tax and other taxes | (4,459) | - | - | (4,459) |
| Adjustment to previous years | 3,643 | - | - | 3,643 |
| Total | (73,196) | 1,293 | 7,182 | (64,721) |

| 2017 | Income statement | Other comprehensive income | Directly in equity | Total |
|---|------------------|----------------------------|--------------------|------------------|
| Current tax | (106,516) | (24,251) | 7,182 | (123,585) |
| Changes in deferred tax for the year | (45,818) | (1,578) | - | (47,396) |
| Changes in deferred tax from change in tax rate | (68) | - | - | (68) |
| Non exempted withholding tax and other taxes | (1,419) | - | - | (1,419) |
| Adjustment to previous years | 781 | - | - | 781 |
| Total | (153,041) | (25,829) | 7,182 | (171,688) |

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

10 Tax - continued

Tax recognised in Other comprehensive income

| 2018 | Before tax | Tax | Net of tax |
|--|---------------|--------------|---------------|
| Exchange rate adjustments | 41,867 | - | 41,867 |
| Hedge of net investments in foreign entities | (15,087) | 3,319 | (11,768) |
| Items reclassified to income statement | 233 | (749) | (516) |
| Fair value adjustment of cash flow hedges | 7,051 | (1,667) | 5,384 |
| Remeasurement of defined benefit plans | (1,846) | 390 | (1,456) |
| Total | 32,218 | 1,293 | 33,511 |

| 2017 | Before tax | Tax | Net of tax |
|--|-----------------|-----------------|-----------------|
| Exchange rate adjustments | (145,248) | - | (145,248) |
| Hedge of net investments in foreign entities | 104,417 | (21,509) | 82,908 |
| Fair value adjustment of cash flow hedges | 11,940 | (2,742) | 9,198 |
| Remeasurement of defined benefit plans | 12,025 | (1,578) | 10,447 |
| Total | (16,866) | (25,829) | (42,695) |

| Deferred tax assets and deferred tax liabilities | 2018 | 2017 |
|--|-----------------|-----------------|
| Deferred tax at 1 January, net | (25,603) | 31,183 |
| Disposals from divestments | (1,457) | - |
| Change in deferred tax for the year | 10,197 | (47,396) |
| Change in deferred tax from change in tax rate | 3,111 | (68) |
| Adjustments to previous years | 680 | (6,304) |
| Exchange rate adjustments | 742 | (3,018) |
| Deferred tax at 31 December, net | (12,330) | (25,603) |

| | Deferred tax assets | | Deferred tax liabilities | | Total deferred tax | |
|----------------------------|---------------------|---------------|--------------------------|-----------------|--------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Intangible assets | - | - | (78,516) | (81,865) | (78,516) | (81,865) |
| Tangible assets | - | - | (2,952) | (513) | (2,952) | (513) |
| Tax losses carried forward | 15,691 | 14,594 | - | - | 15,691 | 14,594 |
| Provisions | 13,574 | 13,957 | 39,873 | 28,224 | 53,447 | 41,181 |
| Total | 29,265 | 28,551 | (41,595) | (54,154) | (12,330) | (25,603) |

Deferred tax assets and liabilities are offset in the consolidated statement of financial position if the Group has legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same legal tax entity.

Deferred tax assets DKK 16 million (2017: DKK 15 million) arising from unused tax losses are recognised to the extent that the realisation of the related benefit is probable. Tax losses of DKK 12 million (2017: DKK 12 million) have expiry date 31 December 2022.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|---|-------------------|-------------------|
| 11 | Trading assets and liabilities | | |
| | Listed bonds | 21,883,044 | 23,350,095 |
| | Derivative financial instruments with positive fair value | 4,621,789 | 5,359,737 |
| | Other securities (unlisted) | - | 3,883 |
| | Total trading assets | 26,504,833 | 28,713,715 |
| | Derivative financial instruments with negative fair value | 1,724,743 | 2,519,801 |
| | Total trading liabilities | 1,724,743 | 2,519,801 |

12 Intangible assets

| 2018 | Goodwill | Software under development | Software developed | Software purchased | Client relationships | Other | Total |
|---|------------------|----------------------------|--------------------|--------------------|----------------------|-------------|--------------------|
| Cost at 1 January | 990,109 | 20,438 | 2,215,959 | 101,505 | 60,505 | 18 | 3,388,534 |
| Additions | - | 513,298 | - | 12,070 | - | - | 525,368 |
| Transfers from internal development | - | (388,281) | 388,281 | - | - | - | - |
| Disposals | (11,289) | (23,547) | (149,954) | (14,677) | (26,210) | - | (225,677) |
| Exchange rate adjustments | 23,033 | - | (24) | 530 | 981 | 1 | 24,521 |
| Cost at 31 December | 1,001,853 | 121,908 | 2,454,262 | 99,428 | 35,276 | 19 | 3,712,746 |
| Amortisation and impairment at 1 January | (86,473) | - | (1,540,596) | (92,932) | (50,809) | (14) | (1,770,824) |
| Amortisation | - | - | (252,650) | (3,412) | (6,586) | (2) | (262,650) |
| Impairment losses | - | - | (1,282) | - | - | - | (1,282) |
| Disposals | - | - | 53,748 | 12,349 | 26,026 | - | 92,123 |
| Exchange rate adjustments | - | - | 20 | (325) | (1,001) | (1) | (1,307) |
| Amortisation and impairment at 31 December | (86,473) | - | (1,740,760) | (84,320) | (32,370) | (17) | (1,943,940) |
| Carrying amount at 31 December | 915,380 | 121,908 | 713,502 | 15,108 | 2,906 | 2 | 1,768,806 |

Intangible assets continued on page 58

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

12 Intangible assets - continued

| 2017 | Goodwill | Software under development | Software developed | Software purchased | Client relationships | Other | Total |
|---|-----------------|-----------------------------------|---------------------------|---------------------------|-----------------------------|--------------|--------------------|
| Cost at 1 January | 1,040,110 | 9,173 | 2,427,331 | 122,910 | 75,132 | 7,664 | 3,682,320 |
| Additions | - | 293,066 | 9,256 | 5,554 | 4,234 | - | 312,110 |
| Transfers from internal development | - | (281,801) | 281,801 | - | - | - | - |
| Disposals | - | - | (502,405) | (26,120) | (16,614) | (7,645) | (552,784) |
| Exchange rate adjustments | (50,001) | - | (23) | (838) | (2,247) | (1) | (53,110) |
| Cost at 31 December | 990,109 | 20,438 | 2,215,960 | 101,506 | 60,505 | 18 | 3,388,536 |
| Amortisation and impairment at 1 January | (79,849) | - | (1,797,188) | (111,634) | (67,313) | (7,659) | (2,063,643) |
| Amortisation | - | - | (245,852) | (8,139) | (2,395) | (2) | (256,388) |
| Impairment losses | (6,624) | - | - | - | - | - | (6,624) |
| Disposals | - | - | 502,405 | 26,120 | 16,614 | 7,645 | 552,784 |
| Exchange rate adjustments | - | - | 39 | 721 | 2,285 | 2 | 3,047 |
| Amortisation and impairment at 31 December | (86,473) | - | (1,540,596) | (92,932) | (50,809) | (14) | (1,770,824) |
| Carrying amount at 31 December | 903,636 | 20,438 | 675,364 | 8,574 | 9,696 | 4 | 1,617,712 |

In 2018, the Group expensed DKK 20.8 million (2017: DKK 15.3 million) for development projects, primarily planning costs.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

13 Impairment test

Goodwill

For the purpose of the impairment test, goodwill acquired in a business combination is allocated to cash generating units (CGU) which are the smallest identifiable groups of assets that generate cash inflows largely independent of the cash inflows from other assets or activities.

The impairment test compares the carrying amount and the recoverable amount. The recoverable amount is represented by the present value of expected future cash flows (value in use). The special debt structure of financial institutions requires the use of the discounted dividend model to calculate the present value of expected future cash flows. For non-financial CGU's a discounted cash flow model is applied.

Key assumptions applied in the impairment test for CGU's with significant goodwill are disclosed below.

| | Carrying amount goodwill | Growth in terminal period | Discount rate, post tax | Discount rate, pre tax |
|----------------------------|--------------------------|---------------------------|-------------------------|------------------------|
| 2018 | | | | |
| Saxo Bank (Switzerland) AG | 366,552 | 0.34% | 7.00% | 8.78% |
| Nordic activities | 246,939 | 1.77% | 8.50% | 10.35% |
| Other | 301,889 | - | - | - |
| Total | 915,380 | | | |
| | | | | |
| | Carrying amount goodwill | Growth in terminal period | Discount rate, post tax | Discount rate, pre tax |
| 2017 | | | | |
| Saxo Bank (Switzerland) AG | 351,675 | 0.34% | 6.90% | 8.56% |
| Nordic activities | 245,681 | 1.77% | 8.50% | 10.38% |
| Other | 306,280 | - | - | - |
| Total | 903,636 | | | |

The cash flow projections are based on earnings estimates for each of the CGUs for a 5-year forecast period. Anchor Forecast for 2019 approved by the Board of Directors is applied for the first year of the forecast period, and for entities with normalised earnings a growth rate of 1% in year 2-5 is applied for both revenue and cost. For entities where earnings are not considered to be at a normalised level in 2019, the estimated earnings from 2020 onwards are projected on the basis of business plans.

For the terminal period the long-term growth rate is determined on the basis of forecast GDP rates in the country in which the CGU operates.

The estimated dividend flow/cash flow is discounted at a post-tax CGU specific discount rate. The CGU specific discount rate, which is calculated net of tax, is generally based on a 10 year government bond of the respective countries in which the CGU is located.

Impairment test results

No impairment related to goodwill is recognised in 2018. In 2017 an impairment of DKK 7 million was recognised and the recoverable amount of the impaired goodwill amounts to DKK 11 million.

Key assumptions

The carrying amount of goodwill related to Saxo Bank (Switzerland) AG represents 40% of the total goodwill. In the impairment test a revenue growth of 4% in 2019 and 5% year on year for 2020-2023 and steady cost base due to the business scalability is applied. In the terminal period a growth of 0.3% is applied for both revenue and costs. A sensitivity analysis shows that if the growth rate in the terminal period decline from 0.3% to -1.4% or the discount rate post tax increases from 7.0% to 7.7% all other things equal the excess value would be zero.

The carrying amount of goodwill related to Nordic activities represents 27% of the total goodwill. In the impairment test a revenue growth of 5% in 2019, 4% in 2020 and 2% average growth year on year for 2021-2023 and steady cost base due to the business scalability is applied. In the terminal period a growth of 1.8% is applied. A sensitivity analysis shows that if the growth rate in the terminal period decline from 1.8% to 1.3% or the discount rate post tax increases from 8.5% to 8.9% all other things equal the excess value would be zero.

The carrying amount of goodwill related to Other represents 33% of the total goodwill. Other goodwill mainly relates to Group entities in United Kingdom, France, India and the Netherlands.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

14 Domicile properties and other tangible assets

The carrying amount of tangible assets amounts to DKK 790 million (2017: DKK 785 million) of which DKK 647 million (2017: DKK 693 million) is domicile properties. If domicile properties were carried under the cost method, the carrying amount would have amounted to DKK 579 million (2017: DKK 625 million).

The fair value of the Groups domicile properties rely on non-observable input.

The domicile properties are measured by applying an asset return model. No independent valuer has been involved. The key input in the asset return model is the rate of return and market rent.

The weighted average rate of return applied in the fair value calculation of domicile properties is 5.66% (2017: 5.50%).

The value of domicile properties decreases with DKK 55.8 million (2017: DKK 61.5 million) if the rate of return increases with 0.5 percentage point.

No revaluation has taken place in 2018 or 2017.

| | 2018 | 2017 |
|----------------------------------|----------------|----------------|
| 15 Provisions | | |
| Provisions at 1 January | 106,727 | 120,628 |
| Additional provisions recognised | 20,218 | 18,739 |
| Used during the year | (8,381) | (25,164) |
| Reversal of unused provisions | (332) | (4,996) |
| Exchange rate adjustments | 299 | (2,480) |
| Provisions at 31 December | 118,531 | 106,727 |

The provision comprises litigations, claims and restructuring costs including costs for reorganisation of the Group's operations as well as various other obligations incurred in the normal course of business such as provision for onerous contracts etc.

NOTES – SAXO BANK GROUP

| Note | | (DKK 1,000) | | | | | | | | 2018 | 2017 | |
|---|--------------------------|----------------------|-----------------|-----------------------------|----------------------------|--------------|-----------------------------|--------------|----------------------------|--------------|----------------|----------------|
| 16 | Subordinated debt | | | | Margin first period | | Margin second period | | Margin third period | | | |
| | Cur-rency | Year of issue | Maturity | Interest | Rate | Years | Rate | Years | Rate | Years | | |
| | EUR | 2015 | 14.04.2025 | Fixed/EURIBOR ¹⁾ | 14.40% | 0.25 | 12.00% | 4.75 | 12.30% | 5 | 360,672 | 351,131 |
| Total Tier 2 capital instruments | | | | | | | | | | | 360,672 | 351,131 |

¹⁾ Fixed interest apply in first and second margin period and EURIBOR apply in third margin period.

Saxo Bank A/S has issued for nominal EUR 50 million Subordinated Fixed Rate Resettable Convertible Tier 2 Notes with maturity date 14 April 2025. The tier 2 notes can be optionally redeemed by Saxo Bank A/S from 14 April 2020. The tier 2 notes are eligible to constitute tier 2 capital of Saxo Bank A/S under CRD IV.

The tier 2 notes will fully or partially be converted to ordinary shares if the CET 1 capital ratio of Saxo Bank A/S or Saxo Bank Group falls below 7% if write-down of CET 1 capital or conversion of Additional tier 1 or higher-tricker tier 2 instruments into ordinary shares is insufficient to restore the CET 1 capital ratio above 7%. Capital ratios for the Group are disclosed in Statement of Total capital.

The tier 2 notes constitute direct, unsecured and subordinated debt obligation of Saxo Bank A/S. In case of the Group's voluntary or compulsory winding-up the tier 2 capital instruments will not be repaid until the claims of ordinary creditors have been met. The ranking in coverage is that tier 1 capital ranks below tier 2 capital.

Early redemption of subordinated debt is subject to approval from the Danish Financial Supervisory Authority (DFSA). In 2017, the Group redeemed nominal EUR 25 million of the subordinated debt by early redemption after approval from DFSA.

Note 18 Equity provides information on Additional tier 1 capital accounted for as equity.

| Cash and non-cash changes | 2018 | 2017 |
|--|----------------|----------------|
| At 1 January | 351,131 | 529,077 |
| Cash flows | - | (186,008) |
| Exchange rate adjustments | 994 | 712 |
| Amortisation | 8,547 | 7,350 |
| Total tier 2 capital instruments at 31 December | 360,672 | 351,131 |

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|---|----------------|----------------|
| 17 | Other assets and other liabilities | | |
| | Other assets | | |
| | Investment securities | 32,283 | 37,019 |
| | Accrued interests and commissions | 124,759 | 51,564 |
| | Prepayments | 126,568 | 102,953 |
| | Rent deposits | 28,410 | 26,212 |
| | Investment properties | - | 2,270 |
| | Other receivables | 293,813 | 66,257 |
| | Total other assets | 605,833 | 286,275 |
| | Other liabilities | | |
| | Accrued interests | 6,773 | 9,063 |
| | Suppliers and other outstanding costs | 268,898 | 294,270 |
| | Staff commitments | 204,971 | 249,083 |
| | Interest swaps | 59,319 | 66,895 |
| | Defined benefit pension plans | 36,625 | 32,501 |
| | Provision for guarantees | 19,970 | 10,936 |
| | Other obligations | 3,973 | 7,985 |
| | Total other liabilities | 600,529 | 670,733 |

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|--|-------------------|-------------------|
| 18 | Equity | | |
| | Number of shares outstanding | | |
| | Shares issued at 31 December | 68,283,943 | 68,283,943 |
| | Holding of treasury shares | 67,706 | 67,706 |
| | Shares outstanding at 31 December | 68,216,237 | 68,216,237 |

The share capital consist of shares with a nominal value of DKK 1 per share. All shares are issued and fully paid and no shares carry special rights.

| Holding of treasury shares | Number of shares | Nominal value DKK | Percentage of issued shares | Sales/purchase price DKK (1,000) |
|------------------------------------|------------------|-------------------|-----------------------------|----------------------------------|
| At 1 January 2017 | 67,706 | 67,706 | 0.10% | |
| Purchased/sold | - | - | - | - |
| Holding at 31 December 2017 | 67,706 | 67,706 | 0.10% | |
| Purchased/sold | - | - | - | - |
| Holding at 31 December 2018 | 67,706 | 67,706 | 0.10% | |

No dividend has been declared and paid to shareholders of Saxo Bank A/S in 2018 or 2017.

On 13 September 2018 warrants issued were to shareholders of Saxo Bank A/S. The warrants entitle the holder to subscribe for up to nominally DKK 1,770,000 shares in Saxo Bank A/S. The warrants can be exercised at any time during the period from 13 September 2018 until and including 30 December 2019 with an exercise price of EUR 19.40 per share with a nominal value of DKK 1.

For warrants issued as part of remuneration, see note 28.

Additional tier 1 capital

| Currency | Year of issue | Maturity | Interest | Nominal | Rate | Years | 2018 | 2017 |
|---|---------------|-----------|---------------------|---------|-------|--------------------|----------------|----------------|
| EUR | 2014 | Perpetual | Fixed ¹⁾ | 45,000 | 9.75% | 5.25 ¹⁾ | 334,802 | 334,802 |
| Equity accounted Additional tier 1 capital | | | | | | | 334,802 | 334,802 |

¹⁾The interest rate is fixed the first five years and three months after issuance. Hereafter the interest rate is fixed every fifth year at the 5-year mid-swap rate plus 9.30% until redemption.

Equity accounted Additional tier 1 capital represents the nominal value translated into DKK at the exchange rate at issuance and equals the amounts included as tier 1 capital in the Statement of capital.

The Perpetual Fixed Rate Resettable Additional tier 1 Capital notes are perpetual securities and have no fixed date for redemption. The notes can be optionally redeemed by Saxo Bank A/S on the first call date 26 February 2020 or on any interest payment date. Thereafter at their outstanding principal amount.

Saxo Bank A/S may, at its sole discretion, omit interest and principal payments to bond holders. Any interests must be paid out of distributable items in Saxo Bank Group and Saxo Bank A/S. The Additional tier 1 capital will be written down temporarily if the Common equity tier 1 ratio falls below 7% for Saxo Bank Group or Saxo Bank A/S. Capital ratios are disclosed in Statement of Total capital.

As at December 2018, the tier 1 capital notes including carrying interests included in equity amount to DKK 346 million (2017: DKK 346 million).

The issue is classified as an equity instrument and equity increased at the time of issue by the net proceeds received. Interest paid to the bond holders reduces equity at the time of payment and does not affect net profit. If capital is repaid, equity will be reduced by the repaid amount at the time of redemption.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

19 Divestments

In October 2018 the Group has divested its shares in B Circle Holding S.A. (owns 100% of the shares in Saxo Payment A/S). The divestment resulted in a gain of DKK 802 million. The consideration for the shares in B Circle Holding S.A. is partially contingent. Management expects the conditions to be fulfilled hence a contingent consideration net of costs DKK 207 million is included in the measurement of the gain of DKK 802 million.

Other divestments resulted in a net loss of DKK 9 million.

Gain/(losses) recognised due to the divestments are recognized in the income statement in Other income/(Other expenses).

| | 2018 |
|--|------------------|
| Divested assets and liabilities at the disposal date | |
| Cash in hand and demand deposits with central banks | 282,062 |
| Receivables from credit institutions and central banks | 2,978,324 |
| Trading assets | 3,456,456 |
| Loans and other receivables at amortised cost | 1,678,624 |
| Other assets ¹⁾ | 106,707 |
| Total assets | 8,502,173 |
| ¹⁾ Other assets contains assets which are individually immaterial | |
| Deposits | 7,934,961 |
| Other liabilities ¹⁾ | 124,563 |
| Total liabilities | 8,059,524 |

¹⁾ Other liabilities contains liabilities which are individually immaterial

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

20 Expected due dates of statement of financial position items

The Group presents the statement of financial position items based on liquidity instead of distinguishing between current and non-current items. The table below shows the statement of financial position items expected to mature within one year (current) and after more than one year (non-current).

| | 2018 | | 2017 | |
|--|------------|-----------|------------|-----------|
| | < 1 year | > 1 year | < 1 year | > 1 year |
| Assets | | | | |
| Cash in hand and demand deposits with central banks | 2,960,272 | - | 2,720,359 | - |
| Receivables from credit institutions and central banks | 1,776,737 | 351 | 4,113,164 | - |
| Trading assets | 18,430,207 | 8,074,626 | 18,853,938 | 9,859,777 |
| Loans and other receivables at amortised cost | 138 | - | 739,860 | 946,142 |
| Current tax assets | 47,523 | - | 4,974 | - |
| Other assets | 545,141 | 60,692 | 220,774 | 65,501 |
| Liabilities | | | | |
| Debt to credit institutions and central banks | 4,380,367 | 273,442 | 3,462,398 | 302,169 |
| Trading liabilities | 1,573,772 | 150,971 | 2,245,879 | 273,922 |
| Deposits | 21,370,224 | - | 27,170,039 | 641,124 |
| Current tax liabilities | 61,842 | - | 55,861 | - |
| Other liabilities | 489,792 | 110,737 | 560,400 | 110,333 |
| Provisions | 41,269 | 77,262 | 31,466 | 75,261 |
| Subordinated debt | - | 360,672 | - | 351,131 |

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

21 Maturity analysis of financial liabilities

The table below disclose a maturity analysis of the Groups financial liabilities. The maturity analysis is based on the earliest date the Group can be required to pay and does not reflect the expected due dates.

The financial liabilities balances in the table (except from Derivative financial instruments) do not reconcile with the amounts reported in the consolidated statement of financial position as it incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

| 2018 | On demand | Within 3 months | From 3-12 months | From 1-5 years | More than 5 years | Total |
|--|-------------------|------------------|------------------|----------------|-------------------|-------------------|
| Debt to credit institutions and central banks | 4,351,636 | 17,859 | 53,556 | 284,730 | 373,855 | 5,081,636 |
| Deposits | 21,370,224 | - | - | - | - | 21,370,224 |
| Subordinated debt | - | 10,820 | 32,460 | 173,122 | 416,522 | 632,924 |
| Total financial liabilities (non-derivatives) | 25,721,860 | 28,679 | 86,016 | 457,852 | 790,377 | 27,084,784 |
| Currency contracts | - | 522,879 | 165,603 | 2,446 | - | 690,928 |
| Interest rate contracts | - | 17,879 | 2,089 | 15,556 | 59,319 | 94,843 |
| Equity contracts | - | 554,536 | 138,475 | 110,598 | 1,223 | 804,832 |
| Commodity contracts | - | 109,013 | 63,298 | 21,148 | - | 193,459 |
| Total financial liabilities (derivatives) | - | 1,204,307 | 369,465 | 149,748 | 60,542 | 1,784,062 |
| Guarantees | 62,826 | - | - | - | - | 62,826 |
| Loan commitments etc. | 50,000 | - | - | - | - | 50,000 |
| Total financial liabilities (other) | 112,826 | - | - | - | - | 112,826 |
| Total | 25,834,686 | 1,232,986 | 455,481 | 607,600 | 850,919 | 28,981,672 |

| 2017 | On demand | Within 3 months | From 3-12 months | From 1-5 years | More than 5 years | Total |
|--|-------------------|------------------|------------------|----------------|-------------------|-------------------|
| Debt to credit institutions and central banks | 3,433,609 | 10,969 | 32,848 | 173,640 | 259,443 | 3,910,509 |
| Deposits | 26,858,448 | 298,682 | 12,928 | 56,614 | 584,911 | 27,811,583 |
| Subordinated debt | - | 10,534 | 31,602 | 168,543 | 447,639 | 658,318 |
| Total financial liabilities (non-derivatives) | 30,292,057 | 320,185 | 77,378 | 398,797 | 1,291,993 | 32,380,410 |
| Currency contracts | - | 776,231 | 27 | 85,025 | - | 861,283 |
| Interest rate contracts | - | 49,887 | 12,058 | 1,194 | 66,895 | 130,034 |
| Equity contracts | - | 1,153,418 | 159,381 | 97,700 | 3,791 | 1,414,290 |
| Commodity contracts | - | 90,777 | 3,588 | 86,212 | - | 180,577 |
| Other contracts | - | 512 | - | - | - | 512 |
| Total financial liabilities (derivatives) | - | 2,070,825 | 175,054 | 270,131 | 70,686 | 2,586,696 |
| Guarantees | 49,001 | 309,249 | 202,088 | 139,687 | 380,924 | 1,080,949 |
| Loan commitments etc. | 348,358 | 603,502 | - | - | - | 951,860 |
| Total financial liabilities (other) | 397,359 | 912,751 | 202,088 | 139,687 | 380,924 | 2,032,809 |
| Total | 30,689,416 | 3,303,761 | 454,520 | 808,615 | 1,743,603 | 36,999,915 |

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Note (DKK 1,000)

22 Offsetting financial assets and liabilities

| 2018 | Gross amount | Offsetting | Net carrying amount in the statement of financial position | Amounts not offset but subject to master netting agreement and similar agreements | | | Net amount |
|--|------------------|------------|--|---|--------------------|----------------------|------------------|
| | | | | Financial instruments | Cash collateral | Financial collateral | |
| Financial assets | | | | | | | |
| Derivatives with positive fair value ¹⁾ | 4,621,789 | - | 4,621,789 | (1,079,284) | (3,323,713) | (47,643) | 171,149 |
| Total | 4,621,789 | - | 4,621,789 | (1,079,284) | (3,323,713) | (47,643) | 171,149 |
| Financial liabilities | | | | | | | |
| Derivatives with negative fair value ¹⁾ | 1,724,743 | - | 1,724,743 | (1,079,284) | (10,535) | (40,729) | 594,195 |
| Interest swaps ²⁾ | 59,319 | - | 59,319 | - | - | (59,319) | - |
| Total | 1,784,062 | - | 1,784,062 | (1,079,284) | (10,535) | (100,048) | 594,195 |
| 2017 | | | | | | | |
| Financial assets | | | | | | | |
| Derivatives with positive fair value ¹⁾ | 5,359,737 | - | 5,359,737 | (1,177,703) | (3,852,654) | (8,865) | 320,515 |
| Total | 5,359,737 | - | 5,359,737 | (1,177,703) | (3,852,654) | (8,865) | 320,515 |
| Financial liabilities | | | | | | | |
| Derivatives with negative fair value ¹⁾ | 2,519,801 | - | 2,519,801 | (1,177,703) | (179,729) | (45,996) | 1,116,373 |
| Interest swaps ²⁾ | 66,895 | - | 66,895 | - | - | (66,895) | - |
| Total | 2,586,696 | - | 2,586,696 | (1,177,703) | (179,729) | (112,891) | 1,116,373 |

¹⁾ Recognised as Trading assets and liabilities in statement of financial position, see note 11.

²⁾ Recognised as Other liabilities in statement of financial position, see note 17.

Assets and liabilities are offset when the Group and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to additional offset in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting.

The Group determines a margin requirement for trading clients. The margin requirement maintained by the Group is for the purpose of providing collateral on derivative positions. The margin requirement is not offset with the clients' unrealised positions in the statement of financial position. In case of margin insufficiency the Group may close out all the client's margin trades and offset against collateral received.

The Group has deposited bonds as collateral for the Group's business with financial counterparts. The collateral varies from day to day with the development in open positions (net amount of derivative financial instruments with respectively positive and negative value).

Cash collateral received is recognised in Deposits and Debt to credit institutions and central banks in the statement of financial position. Cash and financial collateral provided is part of Assets deposited as collateral in note 27.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

23 Classification and valuation of financial instruments

| 2018 | Fair value through profit and loss | Amortised cost | Total carrying amount |
|--|--|-------------------|-----------------------------|
| Financial assets | | | |
| Cash in hand and demand deposits with central banks | - | 2,960,272 | 2,960,272 |
| Receivables from credit institutions and central banks | - | 1,777,088 | 1,777,088 |
| Trading assets | 26,504,833 | - | 26,504,833 |
| Loans and other receivables at amortised cost | - | 138 | 138 |
| Investment securities ¹⁾ | 32,283 | - | 32,283 |
| Financial liabilities | | | |
| Debt to credit institutions and central banks | - | 4,653,809 | 4,653,809 |
| Trading liabilities | 1,724,743 | - | 1,724,743 |
| Deposits | - | 21,370,224 | 21,370,224 |
| Interest swaps | 59,319 | - | 59,319 |
| Subordinated debt | - | 360,372 | 360,372 |
| 2017 | | | |
| Financial assets | | | |
| Cash in hand and demand deposits with central banks | - | 2,720,359 | 2,720,359 |
| Receivables from credit institutions and central banks | - | 4,113,164 | 4,113,164 |
| Trading assets | 28,713,715 | - | 28,713,715 |
| Loans and other receivables at amortised cost | - | 1,686,002 | 1,686,002 |
| Investment securities ¹⁾ | 37,019 | - | 37,019 |
| Financial liabilities | | | |
| Debt to credit institutions and central banks | - | 3,764,567 | 3,764,567 |
| Trading liabilities | 2,519,801 | - | 2,519,801 |
| Deposits | - | 27,811,163 | 27,811,163 |
| Interest swaps ¹⁾ | 66,895 | - | 66,895 |
| Subordinated debt | - | 351,131 | 351,131 |

¹⁾ Investment securities and interest swaps are presented in the statement of financial position as Other assets and Other liabilities, note 17.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

23 Classification and valuation of financial instruments · continued

Fair value hierarchy for financial instruments

| | Quoted market price - Level 1 | Observable input - Level 2 | Non- observable input - Level 3 | Total fair value | Total carrying amount |
|--|-------------------------------------|----------------------------------|--|---------------------|-----------------------------|
| 2018 | | | | | |
| Financial assets¹⁾ | | | | | |
| Trading portfolio bonds | 21,883,044 | - | - | 21,883,044 | 21,883,044 |
| Derivative financial instruments with positive value | 2,103,145 | 2,371,072 | 147,572 | 4,621,789 | 4,621,789 |
| Loans and other receivables at amortised cost | - | - | 138 | 138 | 138 |
| Investment securities ²⁾ | 23,577 | - | 8,706 | 32,283 | 32,283 |
| Financial liabilities | | | | | |
| Derivative financial instruments with negative value | 956,704 | 768,039 | - | 1,724,743 | 1,724,743 |
| Interest swaps ²⁾ | - | 59,319 | - | 59,319 | 59,319 |
| Subordinated debt | - | - | 360,672 | 360,672 | 360,672 |
| 2017 | | | | | |
| Financial assets¹⁾ | | | | | |
| Trading portfolio bonds | 23,350,095 | - | - | 23,350,095 | 23,350,095 |
| Trading portfolio equities | 883 | - | 3,000 | 3,883 | 3,883 |
| Derivative financial instruments with positive value | 2,082,251 | 3,147,568 | 129,918 | 5,359,737 | 5,359,737 |
| Loans and other receivables at amortised cost | - | - | 1,677,452 | 1,677,452 | 1,686,002 |
| Investment securities ²⁾ | - | - | 37,019 | 37,019 | 37,019 |
| Financial liabilities | | | | | |
| Derivative financial instruments with negative value | 1,638,728 | 881,073 | - | 2,519,801 | 2,519,801 |
| Interest swaps ²⁾ | - | 66,895 | - | 66,895 | 66,895 |
| Subordinated debt | - | - | 351,131 | 351,131 | 351,131 |

¹⁾ Trading portfolio bonds, equities and derivatives are presented in the statement of financial position as Trading assets and Trading liabilities, note 11.

²⁾ Investment securities and interest swaps are presented in the statement of financial position as Other assets and Other liabilities, note 17.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

23 Classification and valuation of financial instruments - continued

| Financial instruments valued at the basis of non-observable input - Level 3 | 2018 | 2017 |
|--|----------------|----------------|
| Fair value at 1 January | 169,937 | 177,568 |
| Additions | 18,844 | 1,324 |
| Disposals | (33,107) | (10,145) |
| Gains and losses recognised in income statement: | | |
| Realised fair value adjustments | 1,565 | 1,884 |
| Unrealised fair value adjustments | (961) | (694) |
| Fair value at 31 December | 156,278 | 169,937 |

Financial instruments measured at fair value

Fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices. Listed bonds, listed equities, futures, ETO's and CFD single equities are measured based on quoted prices (level 1).

If quoted prices for financial instruments fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established using interbank quoted prices or valuation techniques. Interbank quoted prices are generally provided by several other financial institutions. The Group applies valuation techniques for FX instruments. Valuation techniques used are different option pricing models. In most cases the valuation is substantially based on observable input, such as interbank quoted prices and implied volatility (level 2).

Fair value for CFD contracts with clients where credit value adjustments are made is established by using the same valuation techniques as for level 2. This fair value is adjusted for credit value adjustment based on the client's worthiness. Investment securities are primarily measured based on third party pricing information (level 3).

The Group has an ongoing process of assessing the best valuation technique and changes in the valuation process are implemented when relevant. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at amortised cost

For financial assets and financial liabilities measured at amortised cost, the fair value estimated is based on changes in market conditions after initial recognition affecting the price that would have been fixed had the terms been agreed at the reporting date.

Fair value of loans and other receivables is primarily estimated on expected future payments, the basis of difference between current market interest rate level and the agreed interests as well as the difference between the expected loss and incurred loss on the loans.

For subordinated debt an estimate of the current return required by the market is applied to measure the fair value.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

24 Hedge accounting

Hedge of net investments

The net investment in foreign entities includes the net assets and goodwill. The Group hedges the foreign exchange rate exposure arising from net investments exclusive goodwill by establishing hedge relationship between the net investments and currency derivatives or non-derivative financial liabilities designated as the hedge instruments.

There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that match the foreign exchange exposure on the currency derivatives or non-derivative financial liabilities. The Group has established a hedge ratio of 1:1 as the exposure in net investments is measured and updated each month with the realised net profit of each of the hedged net investment. The notional amount includes the initial net investment and the realised net profit, deducted with dividend and increased/decreased with any other transactions on equity. The Group does not hedge the foreign entities' future income or transactions. The hedge ineffectiveness will arise when the notional foreign currency amount of the investment in foreign entities become lower than the notional amount of the hedging instruments.

| | Notional amount | Carrying amount | Financial position item | Change in fair value used for measuring hedge ineffectiveness | Recognised in the translation reserve, net of tax (accumulated) |
|--|-----------------|-----------------|-------------------------|---|---|
| 2018 | | | | | |
| <i>Hedged exposure:</i> | | | | | |
| Foreign exchange net Investment in foreign entities exclusive goodwill | | 1,657,879 | | 17,930 | |
| <i>Hedging instruments</i> | | | | | |
| Foreign currency derivatives | (55,109) | (55,109) | Trading liabilities | 2,929 | |
| Non-derivatives | (1,623,170) | (1,623,170) | Deposits | (17,379) | (35,797) |
| 2017 | | | | | |
| <i>Hedged exposure:</i> | | | | | |
| Foreign exchange net Investment in foreign entities exclusive goodwill | | 1,465,113 | | (101,976) | |
| <i>Hedging instruments</i> | | | | | |
| Foreign currency derivatives | (53,642) | (53,642) | Trading liabilities | 4,087 | |
| Non-derivatives | (1,442,723) | (1,442,723) | Deposits | 97,472 | (35,568) |

Hedge ineffectiveness of DKK 0.9 million (2017: DKK -0.4 million) is recognised in Price and exchange rate adjustments in the income statement. The impact on Other comprehensive income in Translation reserve is disclosed in Statement of changes in equity on page 41.

Cash flow hedge

The Group has an interest rate swap agreement in place whereby the Group receives a variable rate of interest and pays interests at a fixed rate on the notional amount. The Group hedges the exposure to variability in future cash flows due to changes in interest rates on the Group's mortgage with a variable interest rate.

The Group has established a hedge ratio of 1:1 as the terms of the interest swap match the terms of the variable rate mortgage. To test the ineffectiveness, the Group uses the hypothetical derivative method. Hedge ineffectiveness will arise if the terms of the interest swap and the mortgage change inconsistently. There is no ineffectiveness recognised in the income statement in 2018 and 2017.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

24 Hedge accounting - continued

| 2018 | Notional amount | Carrying amount | Financial position item | Change in fair value used for calculation in fair value used for calculating hedge ineffectiveness | Recognised in the hedging reserve, net of tax (accumulated) |
|----------------------------|-----------------|-----------------|-------------------------|--|---|
| <i>Hedging instruments</i> | | | | | |
| Fixed interest swap 2018 | 276 million | 59,319 | Other liabilities | 7,051 | (37,885) |
| Fixed interest swap 2017 | 296 million | 66,895 | Other liabilities | 11,940 | (43,269) |

The impact on Other comprehensive income in Hedging reserve is disclosed in Statement of changes in equity on page 41.

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

| | 2018 | 2017 |
|----------------------|--------|--------|
| Cash inflows | | |
| Within 1 year | - | - |
| 1-5 years | 5,699 | 3,688 |
| More than 5 years | 6,310 | 8,288 |
| Cash outflows | | |
| Within 1 year | 12,855 | 14,396 |
| 1-5 years | 39,878 | 44,624 |
| More than 5 years | 19,050 | 27,126 |

During 2018, losses of DKK 12.9 million (2017: DKK 13.6 million) relating to cash flow hedge were transferred from equity to profit and loss and are reflected in interest expense.

25 Related parties

Geely Financials Denmark A/S has by ownership of more than 50% of the share capital obtained controlling influence in Saxo Bank A/S from 14 September 2018. Before this date no party had the controlling influence in Saxo Bank A/S. The shareholding ownership of Geely Financials Denmark A/S is undergoing a restructuring pending regulatory approval, affecting the ultimate parent of Saxo Bank A/S.

At 31 December 2018, the following shareholders are registered as holders of more than 5% of the share capital of Saxo Bank A/S:
 Geely Financials Denmark A/S, DK-1609 Copenhagen, Denmark
 Fournais Holding A/S, DK-2850 Nærum, Denmark
 Sampo Plc. FI-00100 Helsinki, Finland

| (DKK million) | Board of Directors | | Board of Management | | Parties with significant influence | |
|------------------------|--------------------|------|---------------------|-------|------------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Deposits (liabilities) | - | 3.4 | 0.4 | (1.7) | - | 11.4 |
| Fees and commissions | - | - | 0.1 | - | - | - |
| Other services | - | - | 1.2 | 0.1 | - | 17.0 |

Remuneration to Board of Directors and Board of Management is disclosed in note 28 Remuneration of management and significant risk takers.

Neither Saxo Bank A/S nor any Group companies have provided any loans, pledges or guarantees to any member of Saxo Bank A/S Board of Directors or Board of Management or to persons related to these.

All transactions and agreements with related parties are settled on an arms-length basis.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|--|----------------|------------------|
| 26 | Contingent and other contractual commitments | | |
| | Guarantees | | |
| | Financial guarantees | 43,036 | 242,293 |
| | Mortgage finance guarantees | - | 329,691 |
| | Registration and remortgaging guarantees | - | 220,403 |
| | Other guarantees | 19,790 | 288,562 |
| | Total guarantees, net of allowance | 62,826 | 1,080,949 |
| | Loan commitments etc. | | |
| | Other unutilised credit facilities | 50,000 | 951,860 |
| | Total loan commitments etc. | 50,000 | 951,860 |
| | Other contractual commitments | | |
| | Other contractual commitments incl. operating leases | 343,580 | 459,895 |
| | Total other contractual commitments | 343,580 | 459,895 |

The Group is the lessee in a number of operating leases, involving mainly leasing of office premises, car leasing, software leasing and other.

Operating lease expenses recognised in the income statement in 2018 amounts to DKK 58.1 million (2017: DKK 63.1 million).

At 31 December 2018, minimum future operating lease payments under non-cancellable operating leases amounts to DKK 152.6 million (2017: DKK 119.7 million), with DKK 53.7 million (2017: DKK 48.6 million) relating to operating leases payments within one year, DKK 98.9 million (2017: DKK 71.1 million) from one to five years and DKK 0 million (2017: DKK 0 million) above 5 years.

Due to the business volume of the Group, disputes with clients etc. occur from time to time. The Group does not consider the outcome of the cases pending to have any material effect on the Group's financial position.

Until 14 September 2018 Saxo Bank was the administration company for the Danish joint taxation consisting of Saxo Bank A/S and its Danish subsidiaries. Due to Geely Financials Denmark A/S' controlling influence in Saxo Bank A/S, Saxo Bank A/S and its Danish subsidiaries joint from 14 September 2018 a Danish joint taxation with Geely Financials Denmark A/S.

Saxo Bank A/S is taxed jointly with all Danish entities in the Danish joint taxation and is jointly and severally liable with these for payments of Danish corporate tax and withholding tax etc.

In December 2018 Saxo Bank and BinckBank announced that a conditional agreement has been reached on a recommended public offer to be made by Saxo Bank for the entire issued and outstanding share capital of BinckBank for EUR 6.35 in cash per share. The Offer Price per Share represents an implied equity value for 100% of BinckBank on a fully diluted basis of EUR 424 million.

The commencement of the Offer is subject to the satisfaction or waiver of pre-offer conditions customary for a transaction of this kind. If the Merger Protocol is terminated because of a Superior Offer having been made, BinckBank will forfeit a EUR 4.3 million termination fee to Saxo Bank. If the Merger Protocol is terminated because the Regulatory Clearances have not been obtained, Saxo Bank will forfeit a EUR 4.3 million termination fee to BinckBank. The foregoing termination fees are without prejudice to each party's rights under the Merger Protocol to demand specific performance.

27 Assets deposited as collateral

Of the Group's bond holdings, bonds with a nominal value of DKK 2.9 billion (2017: DKK 4.1 billion), and a fair value of DKK 3.0 billion (2017: DKK 4.1 billion), are held in custody with institutions. The bonds serve as security for the Group's ongoing financial business with the individual institutions. The actual demand for collateral varies from day to day in line with the fair value of the Group's open positions against these institutions. At 31 December 2018, 14% (2017: 18%) of the Group's total fair value of bonds were held in custody.

Of deposits with investment brokers, banks and other credit institutions, DKK 225.0 million (2017: DKK 224.5 million) serve as collateral for the Group's ongoing financial business with the individual institutions. The actual demand for collateral varies from day to day in line with the fair value of the Group's open positions against these institutions.

The Group has placed cash DKK 71.6 million (2017: DKK 71.8 million) as security for an interest swap entered to hedge the Group's mortgage debt.

Debt to credit institutions is secured by mortgage deed of DKK 336 million (2017: DKK 365 million) on the Group's domicile properties.

NOTES – SAXO BANK GROUP

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|---|-----------------|-----------------|
| 28 | Remuneration of management and significant risk takers | | |
| | Remuneration of Board of Management | | |
| | Salaries and other remuneration | (31,686) | (29,258) |
| | Defined contribution pension plans | (2,117) | (1,372) |
| | Share-based payments | (683) | (1,132) |
| | Total remuneration of Board of Management | (34,486) | (31,762) |
| | In 2018, variable remuneration to Board of Management amounts to DKK 0.7 million (2017: DKK 3.1 million). | | |
| | Remuneration of Board of Management | | |
| | Kim Fournais | (17,634) | (14,472) |
| | Søren Kyhl | (9,515) | (10,086) |
| | Steen Blaafoalk | (6,262) | (7,204) |
| | Damian Bunce From 5 November 2018 | (1,075) | - |
| | Total remuneration of Board of Management | (34,486) | (31,762) |

The Group has no pension obligations towards Board of Management as pension schemes are defined contribution plans.

The Board of Management, employed at the time, participated in the 2008 warrant programme. The warrants expired in 2018.

Part of Board of Management participates in the Saxo Bank A/S warrant programme issued in 2015. The warrants issued by Saxo Bank A/S have an exercise price between DKK 150-210 per share and can be exercised during the period 1 February 2020 until 28 February 2022.

| Remuneration of Board of Directors | | 2018 | 2017 |
|---|---|----------------|----------------|
| Daniel Donghui Li (Chairman) | From 13 September 2018 | - | - |
| Henrik Normann | From 19 May 2015 | (2,100) | (1,708) |
| Ian Zhang | From 13 September 2018 | - | - |
| Patrick John Sture Lapveteläinen | From 13 September 2018 | (292) | - |
| Preben Damgaard Nielsen | From 13 September 2018 | (292) | - |
| Lone Fønss Schrøder ¹⁾ | | (193) | (2,041) |
| Asiff S. Hirji ²⁾ | | (1,056) | (1,500) |
| Wikawi Oei ²⁾ | | (528) | (750) |
| Jacob Polny ²⁾ | | - | - |
| Thomas Plenborg ²⁾ | | (704) | (1,000) |
| | Total remuneration of Board of Directors | (5,165) | (6,999) |

In 2018, variable remuneration to Board of Directors amounts to DKK 0.2 million (2017: DKK 0.7 million). The Group has no pension obligations towards the Board of Directors.

¹⁾ Resigned from the Board of Directors as of 20 February 2018.

²⁾ Resigned from the Board of Directors as of 13 September 2018.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

28 Remuneration of management and significant risk takers · continued

| Remuneration of significant risk takers | 2018 | 2017 |
|---|-----------------|------------------|
| Number of significant risk takers (full-time-equivalents) | 33 | 36 |
| Fixed remuneration | (73,556) | (101,174) |
| Variable remuneration | (9,548) | (16,845) |
| Total remuneration of significant risk takers | (83,104) | (118,019) |

The Group has no pension obligations towards significant risk takers as their pension schemes are defined contribution plans. Variable remuneration is determined according to the Group's remuneration policy and is based on the performance of the individual person. Some of the significant risk takers participate in the warrant programme.

Disclosures on remuneration in accordance to article 450 in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and disclosures according to the Danish executive order on remuneration policy and disclosure requirements on remuneration for financial undertakings and financial groups are available on the Group's website www.home.saxo/about-us/investor-relations. The disclosures are not covered by the statutory audit.

Share-based payments

Expense/income in income statement

Due to repurchase of warrants in 2018 an income of DKK 0.4 million (2017: an expense of DKK 18 million) regarding warrants was recognised as Staff costs and administrative expenses with a corresponding decrease in equity. Consideration received/paid for warrants sold/repurchased is recognised directly in equity.

Warrants Saxo Bank A/S

From 2015 to 2018 5,599,392 warrants with a right to subscribe for shares in Saxo Bank A/S were sold to employees in Saxo Bank Group. The total fair value of the warrants issued was estimated to DKK 46 million at the grant date. The fair value was measured using the Black-Scholes option pricing model based on the assumptions at the grant date considering time to maturity, risk-free interest rate (-0.26%/0.27%), volatility (25%), share price (140/115) and exercise restrictions etc. 25% volatility is applied based on the annualised volatility on relevant peer groups derived from the standard deviation of daily observations in a 1 year period. The warrants vest over a period of 3-5 years. The warrants are conditional on the performance of the Group. In case of leave of a holder the warrants of said holder may be repurchased. The warrants may be exercised during 1 February 2020 until 28 February 2022. The warrants or a portion thereof that are not exercised by 28 February 2022 will be deemed forfeited without any further compensation. The fair value at grant date of these warrants after deduction of cash payment received from participants is expensed in the income statement over the vesting period from 2015 to 2019.

At 31 December 2017 1,821,363 of the warrants issued in 2007 and 2008 were outstanding; the warrants are all expired in 2018.

All warrants are accounted for as equity-settled transactions.

NOTES – SAXO BANK GROUP

Note (DKK 1,000)

28 Remuneration of management and significant risk takers - continued

| Number of warrants | Average exercise price | Board of Directors | Board of Management ¹⁾ | Employees | Total |
|--|------------------------|--------------------|-----------------------------------|------------------|------------------|
| Outstanding at 1 January 2017 | | 390,000 | 2,669,100 | 1,816,263 | 4,875,363 |
| Granted | 180 | 113,220 | - | 2,437,557 | 2,550,777 |
| Repurchased | 180 | - | - | (246,420) | (246,420) |
| Expired | 120 | (390,000) | - | - | (390,000) |
| Outstanding at 31 December 2017 | | 113,220 | 2,669,100 | 4,007,400 | 6,789,720 |
| Granted | 180 | - | - | 26,640 | 26,640 |
| Repurchased | 180 | - | - | (1,126,872) | (1,126,872) |
| Transfers | 180 | - | 233,100 | (233,100) | - |
| Expired | 147 | - | (1,770,000) | (51,363) | (1,821,363) |
| Outstanding at 31 December 2018 | | 113,220 | 1,132,200 | 2,622,705 | 3,868,125 |

¹⁾Includes warrants granted to previous member of Board of Management.

| Warrants outstanding | Exercise price | Expiry date | Exercise period | 2018 | 2017 |
|---------------------------------------|----------------|-------------|-----------------|------------------|------------------|
| Warrants in 2007 | 103 | 2018 | 2018 | - | 51,363 |
| Warrants in 2008 | 148 | 2018 | 2018 | - | 1,770,000 |
| Warrants in 2015, 2016, 2017 and 2018 | 150 | 2022 | 2020-2022 | 1,289,375 | 1,656,119 |
| Warrants in 2015, 2016, 2017 and 2018 | 180 | 2022 | 2020-2022 | 1,289,375 | 1,656,119 |
| Warrants in 2015, 2016, 2017 and 2018 | 210 | 2022 | 2020-2022 | 1,289,375 | 1,656,119 |
| Total warrants outstanding | | | | 3,868,125 | 6,789,720 |

Warrants Saxo Payments A/S

Outstanding warrants 23,332 at 31 December 2017 were all exercised in april 2018 at exercise prices between 72 and 263.

The fair value of the warrants issued in 2015 and 2016 was estimated in total to DKK 3.6 million. The fair value was measured using the Black-Scholes option pricing model based on the assumptions at the grant date considering time to maturity, risk-free interest rate (2%), volatility (25%), share price (373.11 in 2016 and 246.25 in 2015) and exercise restrictions etc. The fair value calculated using Black-Scholes at grant date after deduction of cash payment received from participants is expensed in the income statement from 2015 to 2017.

All warrants are accounted for as equity-settled transactions.

NOTES – SAXO BANK GROUP

Note

29 Group entities

| Subsidiaries | Local currency '000 | Net profit | Equity | Ownership |
|--|---------------------------|------------|-----------|-----------|
| Financial institutions | | | | |
| Saxo Bank do Brasil Escritorio de Rep., Brazil ¹⁾ | BRL | - | - | 100% |
| Saxo Bank Securities Ltd., Japan | JPY | 92,943 | 1,284,739 | 100% |
| Saxo Bank (Schweiz) AG, Switzerland | CHF | 6,973 | 62,115 | 100% |
| Saxo Banque France SAS, France | EUR | 963 | 10,697 | 100% |
| Saxo Capital Markets HK, Hong Kong | HKD | 11,721 | 133,785 | 100% |
| Saxo Capital Markets Pte. Ltd., Singapore | SGD | 18,592 | 71,999 | 100% |
| Saxo Capital Markets Pty Ltd., Australia | AUD | 4,369 | 20,975 | 100% |
| Saxo Capital Markets UK Ltd., UK | GBP | 6,359 | 28,792 | 100% |
| Saxo Far East (HK) Limited, Hong Kong | HKD | 787 | 9,230 | 100% |
| Saxo Privatbank A/S, Denmark | DKK | 49,098 | 439,262 | 100% |
| BG SAXO SIM S.p.A ²⁾ | EUR | - | - | 100% |
| Other | | | | |
| Ejendomsselskabet Bygning 119 A/S, Denmark | DKK | 9,149 | 199,011 | 100% |
| Initto A/S, Denmark | DKK | 255 | 25,090 | 100% |
| Saxo Group India Private Limited ²⁾ | INR | - | - | 100% |
| Saxo Treasury A/S, Denmark | DKK | (1,138) | 26,046 | 100% |

¹⁾ The company does not publish an annual report.

²⁾ The company was founded in 2018

The list includes significant subsidiaries.

The financial information disclosed is extracted from the companies' most recent annual reports prior to approval of the consolidated financial statements of Saxo Bank A/S.

Financial institutions supervised by national FSAs are subject to local statutory capital requirements. These requirements restrict intra-group facilities and dividend payouts.

30 Events after the reporting date

There have been no events that materially affect the assessment of this Annual Report 2018 after the reporting date.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

The Group's overall risk management framework and governance structure is established by the Board of Directors and based on recommendations from the Board Risk Committee. The Board of Directors has in the Board Instructions laid out a set of instructions to the Board of Management on management of the day-to-day business of the Group.

The Board instructions are supplemented by the Group Risk Management Governance & Policies and the Risk Appetite Statements, which defines the Group's risk management framework and articulates the Group's risk appetite and includes specific limits for the Group's risk taking activities.

The Chief Risk Officer (CRO) has the overall responsibility for maintaining and developing the risk management framework, as well as for controlling and reporting the Group's risks.

Risk types

The Bank and the Group are exposed to a number of risks, which can be categorised as follows:

- Credit risk: The potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- Market risk: The risk of a loss in value as a result of changes in market rates and parameters that affect the market values, e.g. interest rates, credit spreads, FX rates, equity prices, commodity prices and option volatilities.
- Operational risk: The risk of direct or indirect financial losses or damaged reputation due to failure attributable to technology, employees, procedures or external events. Operational risk includes legal and compliance risk.
- Liquidity risk: The risk that the Group does not have sufficient liquidity to fulfil its payment obligations as and when they fall due. Also, the risk that the Group's cost of funds rise to disproportionate levels or in worst case prevents the Group from continuing as a going concern under its current business model. Finally, the risk that the Group does not comply with regulatory liquidity requirements, e.g. liquidity coverage ratio.
- Business risk: The risk of reduced earnings as a result of changes to external circumstances and events due to risks not related to the other risk categories.

The Board of Management and the Board of Directors are informed on the Group's risks, capital requirements and liquidity situation on a regular basis.

The Danish FSA receives reporting on the Bank's and the Group's capital requirements and liquidity situation on a regular basis and at least quarterly.

The unaudited Risk Report 2018 provides additional information about the Group's risk management approach. Risk Report 2018 is available for download from the Group's website at www.home.saxo/about-us/icaap-and-risk-reports.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

CREDIT RISK

Credit risk is defined as the risk that a borrower or counterparty fails to meet its obligations in accordance with agreed terms.

The Board of Directors has defined the Group Credit Risk Policy, and articulated the Group's credit risk appetite and approved specific limits for the Group's largest clients and counterparties as well as industry sector limits. The Policy, Risk Appetite Statements and the limits are reviewed as often as needed and as a minimum once a year.

General credit risk

The potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction. A financial loss would occur if the transactions or portfolio of transactions with a counterparty has a positive financial value at the time of default and if the collateral posted by the counterparty is insufficient to cover the loss.

Settlement risk

Settlement risk is the risk of a counterparty failing to deliver money or securities according to contractual terms at the time of settlement. Settlement risk includes a principal risk if money or securities are transferred before the corresponding asset has been received with finality.

To reduce settlement risk in foreign exchange transactions, the Group has entered into settlement agreements with the Group's prime brokers. In securities trading, the settlement risk is mitigated by delivery versus payment settlement and contractual settlement agreements.

Credit risk from activities in the Group's Trading Book

The Group is exposed to credit risk through bonds holdings obtained as part of the liquidity management. However, the Board Risk Appetite Statement set requirements for the credit quality of these and accordingly only a smaller part of the Group's own trading book can be placed in bonds that are rated less than AAA and all bonds have to be at least investment grade (BBB).

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

CREDIT RISK - continued

Credit risk exposure

The Group's credit risk exposure consists of financial statement items and off-balance items that carry credit risk. Exposure credit risk derives from lending activities, counterparty risk and exposures from trading and investing activities.

| 2018 | Lending activities | Counter-party risk, derivatives | Trading & investing securities | Total |
|---|--------------------|---------------------------------|--------------------------------|-------------------|
| Statement of financial position item | | | | |
| Cash in hand and demand deposits with central banks | 2,960,272 | - | - | 2,960,272 |
| Receivables from credit institutions and central banks | 1,779,353 | - | - | 1,779,353 |
| Trading assets | - | 4,621,789 | 21,883,044 | 26,504,833 |
| Loans and other receivables at amortised cost | 1,985 | - | - | 1,985 |
| Investment securities | - | - | 32,283 | 32,283 |
| Credit exposure before impairment | 4,741,610 | 4,621,789 | 21,915,327 | 31,278,726 |
| Impairment provision | (4,112) | - | - | (4,112) |
| Credit exposure in statement of financial position | 4,737,498 | 4,621,789 | 21,915,327 | 31,274,614 |
| Off-balance items | | | | |
| Guarantees | 82,796 | - | - | 82,796 |
| Other unutilised credit facilities | 50,000 | - | - | 50,000 |
| Impairment for off-balance items | (19,970) | - | - | (19,970) |
| Credit exposure off-balance items | 112,826 | - | - | 112,826 |
| Total credit exposure net of impairment | 4,850,324 | 4,621,789 | 21,915,327 | 31,387,440 |
| 2017 | | | | |
| Statement of financial position item | | | | |
| Cash in hand and demand deposits with central banks | 2,720,359 | - | - | 2,720,359 |
| Receivables from credit institutions and central banks | 4,113,164 | - | - | 4,113,164 |
| Trading assets | - | 5,359,737 | 23,353,978 | 28,713,715 |
| Loans and other receivables at amortised cost | 1,790,172 | - | - | 1,790,172 |
| Investment securities | - | - | 37,019 | 37,019 |
| Credit exposure before impairment | 8,623,695 | 5,359,737 | 23,390,997 | 37,374,429 |
| Impairment provision | (104,170) | - | - | (104,170) |
| Credit exposure in statement of financial position | 8,519,525 | 5,359,737 | 23,390,997 | 37,270,259 |
| Off-balance items | | | | |
| Guarantees | 1,091,885 | - | - | 1,091,885 |
| Other unutilised credit facilities ¹⁾ | 603,502 | - | - | 603,502 |
| Impairment off-balance items | (10,936) | - | - | (10,936) |
| Credit exposure off-balance items | 1,684,451 | - | - | 1,684,451 |
| Total credit exposure net of impairment | 10,203,976 | 5,359,737 | 23,390,997 | 38,954,710 |

¹⁾The Group had 31 December 2017 in addition granted credit facilities in regards to stock loans amounting DKK 348 million. The credit facilities could only be utilised, if required collateral was provided and could be terminated on demand. After disposal of the retail banking activities in Saxo Privatbank A/S the Group has no such facilities.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

CREDIT RISK - LENDING ACTIVITIES

Credit exposure from lending activities includes loans, amounts due from credit institutions and central banks and related off-balance items. The exposure is measured net of accumulated impairment charges. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount.

The Group uses internal credit ratings that reflect its assessment of the probability of default. The credit ratings are calibrated such that the risk of default increases exponentially at each higher risk rating. The impairment model is based on the probability of default (PD), expected exposure at default (EAD) and the expected loss given default (LGD).

The probability of default is based on the internal credit assessment of the clients. The Group's clients are rated as often as needed and as a minimum once a year. The expected exposure of default takes into consideration: the expected changes in the exposure after the reporting date, including interest and instalments.

The Group considers whether a significant increase in credit risk has occurred if the internal rating is downgraded with at least 2 notches.

The significant decrease in credit exposure on loans and guarantees from 2017 to 2018 is due to the disposal of the loan portfolio in Saxo Privatbank A/S in 2018. After the disposal the Group has no retail banking activities.

| | Maximum credit exposure | Impairment | Exposure before collateral | Collateral held | Remaining exposure |
|--|-------------------------------|-----------------|----------------------------------|--------------------|-----------------------|
| 2018 | | | | | |
| Demand deposits with central banks | 2,960,241 | - | 2,960,241 | - | 2,960,241 |
| Receivables from credit institutions and central banks | 1,779,353 | (2,265) | 1,777,088 | - | 1,777,088 |
| Loans and other receivables at amortised cost | 1,985 | (1,847) | 138 | 138 | - |
| Guarantees and other unutilised facilities | 132,796 | (19,970) | 112,826 | 19,790 | 93,036 |
| Total | 4,874,375 | (24,082) | 4,850,293 | 19,928 | 4,830,365 |

At 31 December 2018 loans and other receivables comprise outstanding balances with investment brokers. Loans and receivables are all categorised as credit impaired clients (stage 3).

The impairment for receivables from credit institutions and central banks are measured at an amount equal to 12 month expected credit losses (stage 1). Rating is disclosed on page 82.

Collateral received 31 December 2018 consist of other corporate tangible and intangible assets.

| | Maximum credit exposure | Impairment | Exposure before collateral | Collateral held | Remaining exposure |
|--|-------------------------------|------------------|----------------------------------|--------------------|-----------------------|
| 2017 | | | | | |
| Demand deposits with central banks | 2,708,609 | - | 2,708,609 | - | 2,708,609 |
| Receivables from credit institutions and central banks | 4,113,164 | - | 4,113,164 | - | 4,113,164 |
| Loans and other receivables at amortised cost | 1,790,172 | (104,170) | 1,686,002 | 680,040 | 1,005,962 |
| Guarantees and other unutilised facilities | 1,695,387 | (10,936) | 1,684,451 | 350,251 | 1,334,200 |
| Total | 10,307,332 | (115,106) | 10,192,226 | 1,030,291 | 9,161,935 |

Collateral received 31 December 2017 consist primarily of property (60%) and exchange traded equities, bonds and mutual funds (28%).

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

CREDIT RISK VERSUS CREDIT INSTITUTIONS AND CENTRAL BANKS

The ratings in the following tables are based on Standard & Poor's rating methodology or equivalent rating.

Receivables from credit institutions and central banks broken down by credit rating category

| 2018 | Credit institutions | Central banks | Total |
|---|---------------------|------------------|------------------|
| AAA | - | 2,468,591 | 2,468,591 |
| AA+ | 6,528 | - | 6,528 |
| AA | 6,084 | 491,650 | 497,734 |
| AA- | 260,345 | - | 260,345 |
| A+ | 305,042 | - | 305,042 |
| A | 458,191 | - | 458,191 |
| A- | 81,059 | - | 81,059 |
| BBB+ | 565,322 | - | 565,322 |
| BBB | 17,443 | - | 17,443 |
| BBB- | 18,753 | - | 18,753 |
| BB+ | 2,224 | - | 2,224 |
| BB | 8,672 | - | 8,672 |
| Sub-investment grade or unrated ¹⁾ | 47,425 | - | 47,425 |
| Total | 1,777,088 | 2,960,241 | 4,737,329 |
| 2017 | | | |
| AAA | 503 | 2,313,794 | 2,314,297 |
| AA+ | 2,868 | - | 2,868 |
| AA | 24,984 | 394,617 | 419,601 |
| AA- | 343,082 | - | 343,082 |
| A+ | 136,530 | - | 136,530 |
| A | 1,757,711 | 135 | 1,757,846 |
| A- | 138,732 | - | 138,732 |
| BBB+ | 779,399 | - | 779,399 |
| BBB | 800,022 | - | 800,022 |
| BBB- | 23,576 | - | 23,576 |
| BB | 38,135 | - | 38,135 |
| BB- | 15,294 | - | 15,294 |
| Sub-investment grade or unrated ¹⁾ | 52,328 | - | 52,328 |
| Total | 4,113,164 | 2,708,546 | 6,821,710 |

¹⁾ Credit institutions unrated have been approved based on internal rating methodology.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

CREDIT RISK VERSUS CREDIT INSTITUTIONS AND CENTRAL BANKS · continued

Receivables from credit institutions and central banks broken down by geography

| 2018 | Credit institutions | Central banks | Total |
|---------------------------|----------------------------|----------------------|------------------|
| Denmark | 187,018 | 966,559 | 1,153,577 |
| Europe, excluding Denmark | 1,003,476 | 1,993,682 | 2,997,158 |
| USA | 213,784 | - | 213,784 |
| Australia | 64,777 | - | 64,777 |
| Asia | 300,173 | - | 300,173 |
| Other | 7,860 | - | 7,860 |
| Total | 1,777,088 | 2,960,241 | 4,737,329 |

| 2017 | | | |
|---------------------------|------------------|------------------|------------------|
| Denmark | 1,862,726 | 864,689 | 2,727,415 |
| Europe, excluding Denmark | 1,792,104 | 1,843,857 | 3,635,961 |
| USA | 315,958 | - | 315,958 |
| Australia | 32,510 | - | 32,510 |
| Asia | 87,944 | - | 87,944 |
| Other | 21,922 | - | 21,922 |
| Total | 4,113,164 | 2,708,546 | 6,821,710 |

Impairment allowance financial assets at amortised cost and guarantees.

| 2018 | Stage 1 12 months ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|----------------------------------|---------------------------------|---------------------------------|---------------|
| Impairment allowance 1 January 2018 | - | - | 115,106 | 115,106 |
| Restatement of prior year due to change in accounting policy | 17,190 | 29,629 | (10,971) | 35,848 |
| Disposal of Saxo Payments A/S and the loan portfolio in Saxo Privatbank A/S | (14,395) | (29,629) | (88,620) | (132,644) |
| Impairment for the year | - | - | 19,872 | 19,872 |
| Reversal of impairment from previous years | (530) | - | (4,318) | (4,848) |
| Amounts written down | - | - | (4,207) | (4,207) |
| Other | - | - | (5,045) | (5,045) |
| Impairment allowance 31 December 2018 | 2,265 | - | 21,817 | 24,082 |

| 2017 | | |
|--|--|----------------|
| Impairment allowance 1 January 2017 (collective and individual) | | 212,175 |
| Impairment for the year | | 31,799 |
| Reversal of impairment from previous years | | (33,100) |
| Other | | 3,275 |
| Amounts written down | | (99,043) |
| Impairment allowance 31 December 2017 (collective and individual) | | 115,106 |

The new impairment model in IFRS 9 is applied from 1 January 2018. Comparative figures for 2017 are not restated.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

CREDIT RISK IN THE GROUP'S TRADING BOOK

Derivatives

Derivatives are subject to credit risk. The Group has entered into master netting or similar agreements that include rights to additional set-off in the event of default by a counterparty. Such agreements reduce the exposure, but they do not qualify for offsetting the statement of financial position. The net current exposure to derivatives with positive market value after offsetting under master netting agreements amounted to DKK 171 million (2017: DKK 321 million) according to note 22. The net uncovered positive fair value generally represents credit exposures, which the Group has accepted within its policies and risk limits, either as a granted credit line or through a closeout netting agreement, which is not formally verified by a legal opinion.

Bond portfolio broken down by rating category

| 2018 | Danish mortgage bonds | Government bonds | Other bonds | Total |
|---------------------------------|-----------------------|------------------|----------------|-------------------|
| AAA | 7,699,728 | 898,421 | 166,424 | 8,764,573 |
| AA+ | 6,153,213 | 3,897,148 | - | 10,050,361 |
| AA | - | 1,249,644 | - | 1,249,644 |
| Sub-investment grade or unrated | - | 1,818,463 | 3 | 1,818,466 |
| Total | 13,852,941 | 7,863,676 | 166,427 | 21,883,044 |

2017

| | | | | |
|---------------------------------|-------------------|------------------|----------|-------------------|
| AAA | 7,930,913 | 216,915 | - | 8,147,828 |
| AA+ | 6,065,163 | 4,787,249 | - | 10,852,412 |
| AA | - | 2,269,780 | - | 2,269,780 |
| Sub-investment grade or unrated | - | 2,080,075 | - | 2,080,075 |
| Total | 13,996,076 | 9,354,019 | - | 23,350,095 |

Bonds with no rating are mainly attributable to structured bonds.

Bond portfolio broken down by geography

| 2018 | Danish mortgage bonds | Government bonds | Other bonds | Total |
|---------------------------|-----------------------|------------------|----------------|-------------------|
| Denmark | 13,852,941 | - | - | 13,852,941 |
| Europe, excluding Denmark | - | 3,448,042 | 166,424 | 3,614,466 |
| USA | - | 4,356,175 | - | 4,356,175 |
| Other | - | 59,459 | 3 | 59,462 |
| Total | 13,852,941 | 7,863,676 | 166,427 | 21,883,044 |

2017

| | | | | |
|---------------------------|-------------------|------------------|----------|-------------------|
| Denmark | 13,996,076 | - | - | 13,996,076 |
| Europe, excluding Denmark | - | 5,382,547 | - | 5,382,547 |
| USA | - | 3,971,472 | - | 3,971,472 |
| Total | 13,996,076 | 9,354,019 | - | 23,350,095 |

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

MARKET RISK

Market risk is defined as the risk of a loss in value as a result of changes in market rates and parameters that affect the market values, e.g. interest rates, credit spreads, FX rates, equity prices, commodity prices and option volatilities.

The Group's market risks can be grouped into the following three main categories:

1. Trading market risk exposures relating to the Market Making of Trading and Market Access supporting the Group's online trading and investment services when not traded on a fully back-to-back hedged basis.
2. Investments/liquidity buffer related market risk exposures in Group Treasury.
3. Structural market risk exposures in the Group's statement of financial position.

The Board of Directors has defined the overall Group Market Risk Policies as well as specific limits for the different types of market risk in the Group's risk appetite. Based on this, market risk limits are delegated to the organisation. Market risk exposures are monitored by Group Risk & Capital Management, and the limit utilisation is reported to all governing levels of the Group, including the Board of Directors on a regular basis.

The overall Board policies and limits are supplemented by sub policies, business procedures, work instructions and more detailed risk limits. The Group Market Risk Policy, the Risk Appetite Statements and the limits are reviewed as often as needed and as a minimum once a year.

Exposures to various types of market risk for the Group are disclosed below. This information is supported by ES (Expected Shortfall) information for part of the market risk in the Group.

Risk exposure amounts according to the standard method for market risk

| | | Of which is covered by ES positions ¹⁾ |
|-------------------------------|--------------|--|
| 2018 | Group | |
| Foreign currency risk | 823,590 | 790,765 |
| <i>hereof non-delta risks</i> | 667,595 | 667,595 |
| Interest rate risk | 2,257,502 | 2,257,502 |
| Equity price risk | 86,027 | 86,027 |
| <i>hereof non-delta risks</i> | 1,331 | 1,331 |
| Commodity price risk | 306,411 | 306,411 |
| 2017 | | |
| Foreign currency risk | 672,730 | 638,404 |
| <i>hereof non-delta risks</i> | 251,610 | 251,610 |
| Interest rate risk | 2,786,326 | 2,786,326 |
| Equity price risk | 46,047 | 40,047 |
| Commodity price risk | 447,846 | 447,846 |

¹⁾ ES positions are disclosed on page 86.

The Group's foreign currency risk that arises in the daily cash management handling in the subsidiaries are not part of the daily calculation of ES.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

MARKET RISK - continued

Trading and investment services

The Group operates its trading and investment business using the Group's online trading and investment platforms. The Group has a low appetite for trading and investment related market risk and continue to execute strategic initiatives to minimise the need for open market risk exposures obtained via market making and client trading activities. The Group's market risk appetite including the appetite for investment risks in Group Treasury is defined by limits set in the Risk Appetite Statements. The Group has low risk appetite for structural market risk exposures to the extent these can be mitigated in a structured and meaningful way.

The market risk is quantified and monitored against a number of exposure and Expected Shortfall limits.

Exposure limit utilisation is monitored on a continuous basis, while Expected Shortfall limit utilisation is evaluated on an end-of-day basis. Exposure limits are both set according to the underlying asset class and different risk profiles within a single asset class.

Exposure limits on foreign exchange are segmented into more granular levels based on instrument characteristics such as market availability, liquidity and volatility. On foreign exchange options limits are also set on the gamma and vega to ensure that the key risk elements (underlying price sensitivity, and volatility) from options are considered and monitored.

Exposure limits on equities and commodities are set on gross, net and single to capture market movements and concentration risk. The single level is furthermore broken into tenors to avoid concentration risk in specific time buckets.

The Expected Shortfall (ES) is an estimated expected loss to a portfolio value from an adverse market movement with a specified probability (confidence level). The ES limit framework used by the Group is based on the average loss in the 1% worst case scenarios on a daily basis. The ES model used is based on 5,000 Monte Carlo simulations with full repricing for all instruments in the portfolio.

The Group has changed from VaR 95% measurement to ES 1% 1 January 2018 due to regulatory trends but also to reflect that the Group on its main business (i.e. client margin trading) is exposed to extreme price movement called 'tail risk'. Comparative figures are changed accordingly. ES is deemed to be a good basis for estimating expected loss in the 1% worst cases and for comparing and monitoring risk across different asset classes. However, the model is based on certain assumptions that should be noted:

- A 1-day holding period assumes that it is possible to hedge or eliminate market risk exposure within that period. This may not always be the case for highly illiquid markets
- ES is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios.

| | 2018 | 2017 |
|--|-------|--------|
| Expected Shortfall (ES) positions | | |
| Foreign currency risk | 1,272 | 1,516 |
| Interest rate risk | 6,300 | 17,677 |
| Equity price risk | 2,412 | 548 |
| Commodity price risk | 154 | 216 |
| Total ES | 6,962 | 17,341 |

To supplement ES a stress testing framework is implemented. Based on the most important risk factors in terms of exposures and ES contributors, a number of stress tests have been constructed to determine the Group's vulnerability to large unexpected changes in these risk factors.

The ES position is dependent on the Group's exposure (limits) and the conditions in the market place. The ES positions at 31 December 2018 are in general representative for the ES development during 2018. Any fluctuations in ES were mainly due to varying market conditions and a result of ongoing work to become less dependent on market making activities.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

MARKET RISK · continued

Foreign currency risk

The Group measures its foreign currency risk using Foreign currency indicator 1 and 2.

Foreign currency indicator 1 is calculated as the higher of the sum of long foreign currency positions or the sum of short foreign currency positions.

The Groups foreign currency positions can be specified as follows:

Foreign currency indicator 1

2018

| | |
|--------------|----------------|
| EUR | 79,386 |
| INR | 19,432 |
| SGD | 15,997 |
| NOK | 13,161 |
| USD | 10,743 |
| Other | 17,275 |
| Total | 155,994 |

2017

| | |
|--------------|----------------|
| EUR | 310,693 |
| USD | 38,512 |
| XAU | 19,893 |
| SEK | 16,599 |
| CZK | 10,275 |
| Other | 25,148 |
| Total | 421,120 |

| | 2018 | 2017 |
|--|---------------|----------------|
| Foreign currency indicator 2 | | |
| Foreign currency indicator 2 is calculated on the basis of variances and covariances published by the Danish FSA on the basis of the last 3 years' rolling 10-days periods. Foreign currency indicator 2 means, that if the Group does net change foreign currency positions in the following 10 days, there is a 1% probability that the Group will have a capital loss greater than the indicator value. | | |
| Total | 744 | 1,621 |
| Interest rate risk | | |
| Interest rate risk on financial instruments included in trading portfolio | 117,004 | 152,573 |
| Interest rate risk on loans not included in trading portfolio | (21,371) | (27,389) |
| Total interest rate risk | 95,633 | 125,184 |

Interest rate risk is calculated as the market value effect of a parallel shift in the interest rate curve by one percentage point.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

(DKK 1,000)

MARKET RISK - continued

| Derivative financial instruments | 2018 | | | 2017 | | |
|---|-----------------|---------------------|---------------------|-----------------|---------------------|---------------------|
| | Notional amount | Positive fair value | Negative fair value | Notional amount | Positive fair value | Negative fair value |
| Currency contracts | | | | | | |
| Forwards/futures purchased | 21,810,416 | 264,426 | (145,934) | 24,064,750 | 76,840 | (304,459) |
| Forwards/futures sold | 28,734,077 | 120,508 | (217,758) | 32,396,393 | 314,979 | (171,405) |
| Options purchased | 20,261,143 | 42,446 | (128,375) | 27,892,882 | 88,865 | (99,495) |
| Options written | 21,750,529 | 180,477 | (44,079) | 29,496,109 | 367,892 | (77,806) |
| Unsettled spot purchased | 22,562,958 | 855,095 | (80,481) | 22,794,674 | 772,315 | (156,240) |
| Unsettled spot sold | 21,906,705 | 694,197 | (74,301) | 33,516,273 | 1,181,273 | (51,878) |
| Interest rate contracts | | | | | | |
| Forwards/futures purchased | 9,518,899 | 1,238 | (31,767) | 18,620,997 | 41,546 | (3,649) |
| Forwards/futures sold | 9,461,452 | 34,550 | (1,082) | 18,620,408 | 5,346 | (54,773) |
| Options purchased | 1,963,559 | 813 | (1,881) | 7,684,601 | 2,187 | (2,786) |
| Options written | 1,963,559 | 1,881 | (794) | 7,684,601 | 2,786 | (1,931) |
| Interest swaps ¹⁾ | 335,897 | - | (59,319) | 335,897 | - | (66,895) |
| Equity contracts | | | | | | |
| Forwards/futures purchased | 12,478,945 | 1,436,359 | (210,918) | 22,287,795 | 869,882 | (747,383) |
| Forwards/futures sold | 12,179,376 | 363,228 | (199,640) | 22,873,123 | 944,641 | (195,490) |
| Options purchased | 14,532,575 | 239 | (394,030) | 23,623,762 | 559 | (470,844) |
| Options written | 14,531,668 | 393,895 | (243) | 23,623,762 | 470,828 | (573) |
| Commodity contracts | | | | | | |
| Forwards/futures purchased | 4,453,067 | 135,714 | (84,771) | 5,655,751 | 79,361 | (101,038) |
| Forwards/futures sold | 4,790,643 | 54,263 | (66,239) | 5,618,030 | 106,910 | (47,354) |
| Options purchased | 2,902,709 | 1,029 | (41,431) | 2,638,117 | 664 | (32,070) |
| Options written | 2,902,709 | 41,431 | (1,018) | 2,638,117 | 32,862 | (115) |
| Other contracts | | | | | | |
| Credit derivatives sold | - | - | - | 62,027 | - | (512) |
| Total derivatives held for trading purpose | | 4,621,789 | (1,784,061) | | 5,359,737 | (2,586,696) |

¹⁾ Interest swaps are presented as Other liabilities, see note 17.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

OPERATIONAL RISK

Operational risk is inherent in all activities within the Group, in outsourced activities and in all interactions with external parties.

Operational risk is defined as the risk of direct or indirect financial losses or damaged reputation due to failure attributable to technology, employees, procedures or external events. The definition includes legal and compliance risk.

Operational risk management

The Group's Operational Risk Management Policy is approved by the Board of Directors which provides guiding principles for the identification, assessment, monitoring, controlling and reporting of operational risks the Group faces or may face. The operational risk profile is determined by the Group's risk appetite, which is approved by the Board of Directors. A separate Substantial Outsourcing Policy approved by the Board of Directors is also included in the operational risk management framework. The Policies and Risk Appetite Statements are reviewed as often as needed and as a minimum once a year.

The Board of Management oversees the Group's operational risk management and has established an Operational Risk Committee to ensure that the Group's operational risk management framework is robust and well-functioning, to oversee the Group's operational risk profile, and to escalate threats to the risk profile and breaches in risk appetite as appropriate. The Operational Risk Committee is chaired by the Chief Risk Officer.

The overall objective of the operational risk management framework is to define standards, tools and processes to support the organisation in proactively identifying, assessing, monitoring and managing/mitigating operational risks to the largest extent possible at reasonable costs. The Group has a low risk appetite for operational risks that can be mitigated by sound procedures, controls or otherwise insured. Moreover, the Group has no appetite for launching new products, processes, systems or activities that have not been appropriately risk assessed.

The Group emphasises training personnel on risk awareness and sound risk culture. The training ensures that all employees have relevant and sufficient knowledge of operational risks related to their tasks.

The Group's operational risk landscape is mapped based on historical data and internal risk self-assessments. The following techniques for collecting operational risk events are used and documented, and they form the basis for a consistent examination of the Group's exposures related to operational risk:

- Direct and potential losses ("near-misses") in excess of DKK 15 thousand arising from operational risk events are systematically collected and categorised in the Group's error register. Risk assessments and root cause analysis must be performed to effectively address and provide mitigation actions to material operational risk events.
- The Group's operational risk profile is monitored through regular self-assessments processes which are performed at least annually. The purpose of the activity is to assess the quality of internal controls, ensure that all material operational risks inherent in the Group's products, activities, processes and systems are captured and reassessed in a systematic and timely manner to identify areas for improvements.

LIQUIDITY RISK

Liquidity requirements

Saxo Bank is required to fulfil liquidity requirements according to the CRR as well as the liquidity standards set out in the Danish Financial Business Act. In addition, the Danish FSA has defined liquidity threshold values in the so-called Supervisory Diamond.

Current minimum requirements

The LCR-requirement stipulates that banks are obligated to hold a buffer of liquid assets as a percentage of net cash outflows over a 30-day period. The objective of the LCR framework is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets (HQLA) to withstand a stressed scenario of 30 days.

In Denmark the LCR requirement is 100%.

As of 31 December 2018, the Group's reported LCR ratio was 264% (2017: 205%). The Group is highly liquid and holds a large portfolio of Level 1 assets hereunder cash at central banks.

ILAAP requirement

In addition to the above the Group is obligated to hold liquidity of at least the current ILAAP level as determined by the Board of Directors. This ILAAP level cannot be less than the current minimum regulatory standard. The ILAAP is performed based on guidelines issued by the Danish FSA.

The calculation of the ILAAP result is based on an internal process in which management assesses the liquidity risks, the overall liquidity management and the funding risks. The Group has implemented liquidity stress testing based on the LCR. Stress tests are conducted by minimum on a monthly basis. The Group continuously monitors its liquidity and LCR level in order to ensure compliance with the regulatory standards.

The Group operates with a liquidity buffer available at all times in the form of unencumbered, highly liquid securities and cash instruments to address the estimated potential cash needs during a liquidity crisis. However, the Group acknowledges the value of flexibility and the balance between the counterparty risks associated with holding cash during a liquidity crisis and the importance of having sufficient liquidity during the initial phase of a liquidity crisis.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

LIQUIDITY RISK · continued

Additional information about the Group's liquidity risk and ILAAP is disclosed in the unaudited Risk Report 2018 and is available at www.home.saxo/about-us/icaap-and-risk-reports.

Funding requirements and Assets Encumbrance

CRD IV and CRR require the Group to monitor and report a long-term Net Stable Funding Ratio (NSFR).

The aim of NSFR is to ensure that banks have an acceptable amount of stable funding to support their assets and activities over the medium term (i.e. a one-year period). Currently, the Group is required to report and monitor NSFR. The regulatory minimum requirement is expected to be set to 100% when implemented, a level that is already met by the NSFR ratio in the Group.

In addition to the funding ratio, the Group is also required to monitor, report and disclose Asset Encumbrance.

Asset Encumbrance as per end of 2018 is disclosed in the unaudited Risk Report 2018 and is available at www.home.saxo/about-us/icaap-and-risk-reports.

TOTAL CAPITAL

Regulatory requirements

Saxo Bank is subject to the capital requirements set out in CRR as well as the Danish implementation of CRD IV. This means that Saxo Bank is required to perform an Internal Capital Adequacy Assessment Process (ICAAP) in accordance with Danish guidelines, issued by the Danish FSA.

Saxo Bank is required to fulfil and report capital requirements on Bank and Group level. The Group reports capital, risk exposure amounts and ICAAP level to Danish FSA in accordance with Implementing Technical Standards and Regulatory Technical Standards developed by the European Banking Authority and additional reporting requirements issued by Danish FSA.

Regulatory capital structure

As of 31 December 2018, the Common equity tier 1 capital (CET1), tier 1 capital and Total capital for the Group were DKK 3.51 billion, DKK 3.84 billion and DKK 4.21 billion, respectively, after inclusion of the total comprehensive income for the year, compared with DKK 2.71 billion, DKK 3.04 billion and DKK 3.40 billion as of 31 December 2017.

The statement of Total capital for the Group on page 42 and for Saxo Bank A/S on page 101 provides a specification of Total capital including Common equity tier 1 capital, Tier 1 capital and Tier 2 capital, and note 16 in the consolidated financial statements provides a specification of subordinated debt.

The unaudited Risk Report 2018 provides additional information regarding the Bank's and the Group's Regulatory Capital Structure (including regulatory capital disclosures) and is available at www.home.saxo/about-us/icaap-and-risk-reports.

Risk exposure amounts according to CRR

To calculate the minimum capital requirements, Pillar I, the Bank and Group applies the following methods according to CRR to calculate the risk exposure amounts:

Credit risk: Standard Methods

Market risk: Standard Methods

Operational risk: Standard Methods

The Bank and the Group does not take diversification effects between the risk categories into account. The risk exposure amounts for each risk category are simply aggregated.

The total risk exposure amounts were DKK 12.0 billion as of 31 December 2018 compared with DKK 14.9 billion as of 31 December 2017.

The unaudited Risk Report 2018 provides additional information about the Bank's and the Group's risk exposures amounts and is available at www.home.saxo/about-us/icaap-and-risk-reports.

Minimum requirements according to CRR

The minimum capital requirement for Common equity tier 1 is 4.5% of the risk exposure amounts.

The minimum capital requirement for Tier 1 capital is 6.0% of the risk exposure amounts.

The minimum capital requirement for Total capital is 8.0% of the risk exposure amounts.

The Group met the regulatory minimum capital requirements throughout the year 2018.

NOTES – RISK MANAGEMENT – SAXO BANK GROUP

TOTAL CAPITAL · continued

Additional buffer requirements

According to CRD IV the Group is required to hold a “capital conservation buffer” to absorb losses and to further protect the capital. In Denmark the capital conservation buffer is phased in with an annual increase of 0.625% until reaching the full requirement of 2.5% of the risk exposure amounts in 2019. In 2018, the capital conservation buffer was set to 1.88% of the risk exposure amounts.

Furthermore, the “countercyclical capital buffer” has been applicable since the beginning of 2015. The buffer level is set by the national authorities and aims to ensure that financial institutions in periods with high economic growth and times of stress, holds sufficient capital to be able to supply extensions of credit. The total countercyclical buffer rate for the Group was per 31 December 2018 close to 0%, as only a limited amount of credit exposures is residing in jurisdictions with buffer rates above 0%. The primary driver in the countercyclical buffer rate of both the Bank and the Group is the buffer rate set in Denmark.

ICAAP requirement

The Group must hold total capital at least equal to the current ICAAP level as determined by the Board of Directors.

The assessment of the ICAAP level is based on an internal process in which management assesses the overall risks. The ICAAP is updated by minimum quarterly as capital requirements are subject to change. The Group met the regulatory capital requirements throughout the year 2018.

The ICAAP Q4 2018 Report provides information regarding the Bank's and the Group's ICAAP level. The quarterly ICAAP reports are available at www.home.saxo/about-us/icaap-and-risk-reports.

Leverage

CRD IV and CRR require the Group to report and monitor the degree of leverage using the Leverage Ratio. The Leverage Ratio is defined as tier 1 capital divided by a non-risk based measure of the institution's on- and off-balance sheet items.

As of 31 December 2018, the Leverage Ratios were respectively 11.4% (2017: 9.0%) for the Bank and 10.9% (2017: 7.5%) for the Group, with both entities being above the expected minimum requirement of 3.0% once implemented.

The unaudited Risk Report 2018 provides additional information about the Bank's and the Group's leverage ratio and is available at www.home.saxo/about-us/icaap-and-risk-reports.

NOTES – KEY FIGURES AND RATIOS – SAXO BANK GROUP

| (DKK 1,000) | 2018 ¹⁾ | 2017 | 2016 | 2015 | 2014 |
|--|--------------------|-------------|-------------|-------------|-------------|
| Highlights | | | | | |
| Net interest, fees and commissions | 1,996,701 | 1,940,025 | 1,529,719 | 1,352,561 | 1,204,680 |
| Price and exchange rate adjustments | 789,368 | 1,086,952 | 1,399,969 | 774,130 | 1,802,151 |
| Staff costs and administrative expenses | (2,209,974) | (2,150,505) | (2,083,830) | (2,296,832) | (2,008,907) |
| Impairment charges loans and receivables etc. | (12,973) | 7,826 | (96,816) | (40,338) | (1,745) |
| Income from associates and joint ventures | - | - | - | (53,099) | (74,076) |
| Net profit before tax | 1,028,961 | 554,164 | 418,203 | (778,361) | 564,785 |
| Net profit | 955,765 | 401,123 | 302,448 | (644,639) | 381,224 |
| Loans and other receivables at amortised cost | 138 | 1,686,002 | 1,691,487 | 1,793,022 | 1,834,306 |
| Subordinated debt | 360,672 | 351,131 | 529,077 | 674,070 | 542,743 |
| Total equity | 5,552,168 | 4,621,414 | 4,238,400 | 3,938,427 | 4,225,224 |
| Total assets | 34,484,113 | 39,955,551 | 43,578,517 | 33,501,563 | 36,008,268 |
| Full-time-equivalent staff (end of year) | 1,658 | 1,594 | 1,639 | 1,516 | 1,485 |
| EBITDA | | | | | |
| Net profit before tax adjusted for: | 1,028,961 | 554,164 | 418,203 | (778,361) | 564,758 |
| <i>Depreciation and amortisation</i> | 311,519 | 305,767 | 350,730 | 535,136 | 420,122 |
| <i>Income from associates and joint ventures</i> | - | - | - | 53,099 | 74,076 |
| <i>Interest expenses, non-core</i> | 67,499 | 71,697 | 76,220 | 80,745 | 40,081 |
| EBITDA | 1,407,979 | 931,628 | 845,153 | (109,381) | 1,099,037 |
| <i>Impairment on loans and CVA adjustments</i> | - | (17,589) | 80,000 | 802,134 | 124,871 |
| <i>Divestments</i> | (789,166) | - | (10,253) | (15,378) | - |
| <i>Litigations, claims and restructuring</i> | 52,776 | 94,527 | 18,176 | 161,487 | 66,647 |
| <i>Gain on sale of claims</i> | - | - | - | (18,970) | (92,344) |
| <i>Other income and expenses, net</i> | 34,105 | 17,473 | 21,419 | 44,848 | 9,881 |
| Adjusted EBITDA | 705,694 | 1,026,039 | 954,495 | 864,740 | 1,208,092 |

¹⁾ Key figures and ratios are impacted by divestment of the retail bank and wealth management activities in Saxo Privatbank A/S and the ownership interest in Saxo Payment A/S, see note 19 Divestments.

Key figures and ratios continued on page 93.

NOTES – KEY FIGURES AND RATIOS – SAXO BANK GROUP

| (DKK 1,000) | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------|--------|--------|---------|--------|
| Key figures and ratios | | | | | |
| Total capital ratio | 35.0% | 22.7% | 19.5% | 20.7% | 19.7% |
| Tier 1 capital ratio | 32.0% | 20.4% | 17.1% | 17.4% | 18.3% |
| Return on equity before tax | 20.2% | 12.5% | 10.2% | (19.1)% | 14.6% |
| Return on equity after tax | 18.8% | 9.1% | 7.4% | (15.8)% | 9.9% |
| Income/cost ratio | 140.2% | 122.3% | 116.5% | 73.1% | 123.0% |
| Interest rate risk | 2.5% | 4.1% | 4.3% | 2.5% | 2.0% |
| Foreign exchange rate risk/Tier 1 capital | 4.1% | 13.8% | 20.2% | 15.0% | 37.6% |
| Value at risk of foreign exchange rate risk/Tier 1 capital | 0.0% | 0.1% | 0.0% | 0.2% | 0.2% |
| Loans and other receivables plus impairment allowance/Deposits | 0.1% | 6.5% | 6.8% | 8.5% | 9.1% |
| Loans and other receivables proportional to Total equity | 0.00 | 0.36 | 0.40 | 0.46 | 0.43 |
| Growth in loans and other receivables | (100.0)% | (0.3)% | (5.7)% | (2.3)% | (6.2)% |
| Excess liquidity coverage/liquidity requirement ²⁾ | - | 444.7% | 438.1% | 387.1% | 399.1% |
| Liquidity coverage ratio ²⁾ | 264.4% | 204.9% | 159.7% | - | - |
| Sum of large exposures/Total capital ³⁾ | 10.1% | - | - | - | - |
| Loss and provisions ratio | 15.3% | (0.3)% | 3.5% | 1.4% | 0.1% |
| Return on assets | 2.8% | 1.0% | 0.7% | (1.9)% | 1.1% |

²⁾ From 2018 section 152 on liquidity in the Danish Financial Business act has been replaced by the Liquidity coverage ratio.

³⁾ Change in computation of large exposures applied from 2018. Comparative figures are not restated.

See page 94 for definitions.

NOTES – DEFINITIONS OF KEY FIGURES AND RATIOS

Key figures and ratios

Definitions

| | |
|--|--|
| EBITDA | Net profit before tax, depreciation, amortisation, income from associates and joint ventures and non-core interest expenses. |
| Adjusted EBITDA | EBITDA adjusted for income and expenses that are not considered to be recurring and are of such character or size that it is considered to have significant impact on the Group's net profit. |
| Common equity tier 1 capital (CET1) | Primarily paid-up share capital and retained earnings excluding intangible assets and other deductions. |
| Additional tier 1 capital (AT1) | Loans which are part of the tier 1 capital. If equity is lost then this capital instrument type is used to cover the losses. |
| Tier 1 capital | Common equity tier 1 capital and Additional tier 1 capital. |
| Tier 2 capital | Subordinated debt capital subject to certain restrictions. |
| Total capital | Tier 1 and tier 2 capital. |
| CET 1 capital ratio | Common equity tier 1 capital as a percentage of Risk exposure amounts. |
| Tier 1 capital ratio | Tier 1 capital as a percentage of Risk exposure amounts. |
| Total capital ratio | Capital base as a percentage of Risk exposure amounts. |
| Return on equity before tax | Profit before tax as a percentage of average Total equity. |
| Return on equity after tax | Net profit as a percentage of average Total equity. |
| Income/cost ratio | Total income divided by expenses, including impairment charges. |
| Interest rate risk | Interest rate risk under market risk as a percentage of tier 1 capital. |
| Foreign exchange rate risk/Tier 1 capital | Foreign exchange rate risk as a percentage of tier 1 capital. |
| Value at risk of foreign exchange rate risk/Tier 1 capital | Value at risk of foreign exchange rate risk as a percentage of tier 1 capital. |
| Loans and other receivables plus impairment charges/Deposits | Loans and other receivables gross (before impairment allowance) as a percentage of Deposits. |
| Loans and other receivables proportional to Total equity | Loans and other receivables proportional to Total equity. |
| Growth in Loans and other receivables | Increase in Loans and other receivables as a percentage of the previous financial year. |
| Excess liquidity coverage/liquidity requirement | Excess liquidity coverage is the amount of excess liquidity after fulfilment of the statutory minimum requirement (the 10% or 15% requirement in section 152 of the Danish Financial Statement Act) measured as a percentage of the statutory minimum liquidity requirement. |
| Liquidity coverage ratio | Liquidity Coverage Ratio measures the amount of high quality liquid assets as a percentage of the net liquidity outflow. The ratio is subject to the 100 pct. minimum requirement. |
| Sum of large exposures/Total capital | Large exposures as a percentage of Total capital. |
| Loss and provisions ratio | Loss and provisions for bad debt on Loans and other receivables as a percentage of Loans and other receivables plus Guarantees. |
| Return on assets | Net profit proportional to Total assets. |
| Full-time-equivalent staff (End of year) | Number of full-time-equivalent staff (part-time staff translated into full-time staff) at 31 December. |

PARENT FINANCIAL STATEMENTS

INCOME STATEMENT – SAXO BANK A/S
1 JANUARY – 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|------|---|------------------|------------------|
| 2 | Interest income | 1,555,540 | 1,461,243 |
| 3 | Interest expense | (307,357) | (200,083) |
| | Net interest income | 1,248,183 | 1,261,160 |
| 4 | Fee and commission income | 1,300,644 | 1,184,551 |
| 5 | Fee and commission expense | (1,610,205) | (1,646,733) |
| | Net interest, fees and commissions | 938,622 | 798,978 |
| 6 | Price and exchange rate adjustments | 783,686 | 1,072,443 |
| | Operating income | 1,722,308 | 1,871,421 |
| 7 | Other income | 835,580 | 35,419 |
| 8 | Staff costs and administrative expenses | (1,453,834) | (1,369,888) |
| | Depreciation, amortisation and impairment of intangible and tangible assets | (288,735) | (294,251) |
| | Other expenses | (6,538) | (28,349) |
| | Impairment charges loans and receivables etc. | (11,815) | 7,572 |
| | Income from subsidiaries | 201,917 | 280,815 |
| | Profit before tax | 998,883 | 502,739 |
| 9 | Tax | (18,573) | (75,268) |
| | Net profit | 980,310 | 427,471 |
| | Net profit attributable to: | | |
| | Equity method reserve | 169,381 | 245,056 |
| | Additional tier 1 capital holders | 32,643 | 32,643 |
| | Retained earnings | 778,286 | 149,772 |
| | Net profit | 980,310 | 427,471 |

STATEMENT OF COMPREHENSIVE INCOME – SAXO BANK A/S
1 JANUARY – 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|------|---|------------------|-----------------|
| | Net profit | 980,310 | 427,471 |
| | Other comprehensive income | | |
| | Items that will not be reclassified subsequently to income statement: | | |
| | Other comprehensive income from subsidiaries, net of tax | (1,456) | 10,447 |
| | Items that will not be reclassified subsequently to income statement | (1,456) | 10,447 |
| | Items that are or may be reclassified subsequently to income statement: | | |
| | Exchange rate adjustments | 41,867 | (145,248) |
| 19 | Hedge of net investments in foreign entities | (15,087) | 104,417 |
| | Items reclassified to income statement | 233 | - |
| | Other comprehensive income from subsidiaries, net of tax | 5,384 | 9,198 |
| 9 | Tax | 2,570 | (21,509) |
| | Items that are or may be reclassified subsequently to income statement | 34,967 | (53,142) |
| | Total other comprehensive income | 33,511 | (42,695) |
| | Total comprehensive income | 1,013,821 | 384,776 |
| | Total comprehensive income attributable to: | | |
| | Equity method reserve | 341,424 | 202,361 |
| | Additional tier 1 capital holders | 32,643 | 32,643 |
| | Retained earnings | 639,754 | 149,772 |
| | Total comprehensive income | 1,013,821 | 384,776 |

STATEMENT OF FINANCIAL POSITION – SAXO BANK A/S
AT 31 DECEMBER

| Note | (DKK 1,000) | 2018 | 2017 |
|--------------------------------------|--|-------------------|-------------------|
| ASSETS | | | |
| | Cash in hand and demand deposits with central banks | 967,335 | 703,207 |
| 10 | Receivables from credit institutions and central banks | 1,018,901 | 811,848 |
| 11,12 | Loans and other receivables at amortised cost | 119,818 | 73,758 |
| 13 | Bonds at fair value | 20,638,824 | 21,232,286 |
| | Equities etc. | 27,784 | 4,124 |
| | Investments in subsidiaries | 2,316,740 | 2,132,020 |
| 14 | Intangible assets | 1,790,068 | 1,608,976 |
| | Tangible assets | 71,102 | 71,015 |
| | Tax receivables | 48,151 | 1,782 |
| 9 | Deferred tax assets | 791 | 5,797 |
| | Other assets | 5,052,616 | 5,498,632 |
| | Prepayments | 68,958 | 41,280 |
| Total assets | | 32,121,088 | 32,184,725 |
| LIABILITIES | | | |
| 15 | Debt to credit institutions and central banks | 5,315,220 | 5,320,643 |
| 16 | Deposits | 18,588,093 | 18,886,080 |
| | Tax liabilities | 41,271 | 34,448 |
| | Other liabilities | 2,119,277 | 2,859,451 |
| Total debt | | 26,063,861 | 27,100,622 |
| 9 | Deferred tax liabilities | 30,148 | 48,688 |
| 12 | Provision for guarantees | 19,970 | 9,970 |
| | Other provisions | 93,701 | 90,442 |
| Total provisions | | 143,819 | 149,100 |
| 17 | Subordinated debt | 360,672 | 351,131 |
| 18 | EQUITY | | |
| | Share capital | 68,284 | 68,284 |
| | Equity method reserve | 745,242 | 428,531 |
| | Retained earnings | 4,393,219 | 3,741,009 |
| Shareholders of Saxo Bank A/S | | 5,206,745 | 4,237,824 |
| | Additional tier 1 capital | 345,991 | 346,048 |
| Total equity | | 5,552,736 | 4,583,872 |
| Total liabilities and equity | | 32,121,088 | 32,184,725 |

STATEMENT OF CHANGES IN EQUITY – SAXO BANK A/S

AT 31 DECEMBER

| (DKK 1,000) | Share capital | Equity method reserve | Retained earnings | Total | Additional tier 1 capital | Total |
|--|---------------|-----------------------|-------------------|------------------|---------------------------|------------------|
| Equity at 1 January 2017 | 68,284 | 225,802 | 3,557,145 | 3,851,231 | 346,026 | 4,197,257 |
| Net profit | - | 245,056 | 149,772 | 394,828 | 32,643 | 427,471 |
| Other comprehensive income | | | | | | |
| Exchange rate adjustments | - | (145,248) | - | (145,248) | - | (145,248) |
| Hedge of net investments in foreign entities | - | 104,417 | - | 104,417 | - | 104,417 |
| Other comprehensive income from subsidiaries, net of tax | - | 19,645 | - | 19,645 | - | 19,645 |
| Tax | - | (21,509) | - | (21,509) | - | (21,509) |
| Total other comprehensive income | - | (42,695) | - | (42,695) | - | (42,695) |
| Total comprehensive income | - | 202,361 | 149,772 | 352,133 | 32,643 | 384,776 |
| Transactions with owners | | | | | | |
| Tier 1 interest payments | - | - | - | - | (32,621) | (32,621) |
| Share-based payments | - | 368 | 25,260 | 25,628 | - | 25,628 |
| Other equity movements | - | - | 1,650 | 1,650 | - | 1,650 |
| Tax | - | - | 7,182 | 7,182 | - | 7,182 |
| Equity at 31 December 2017 | 68,284 | 428,531 | 3,741,009 | 4,237,824 | 346,048 | 4,583,872 |
| Restatement on initial application of IFRS 9 | - | (24,713) | (1,785) | (26,498) | - | (26,498) |
| Restated equity 1 January 2018 | 68,284 | 403,818 | 3,739,224 | 4,211,326 | 346,048 | 4,557,374 |
| Net profit | - | 169,381 | 778,286 | 947,667 | 32,643 | 980,310 |
| Transfers due to divestments | - | 129,655 | (129,655) | - | - | - |
| Other comprehensive income | | | | | | |
| Exchange rate adjustments | - | 41,867 | - | 41,867 | - | 41,867 |
| Hedge of net investments in foreign entities | - | (15,087) | - | (15,087) | - | (15,087) |
| Items reclassified to income statement | - | 233 | - | 233 | - | 233 |
| Other comprehensive income from subsidiaries, net of tax | - | 3,928 | - | 3,928 | - | 3,928 |
| Other equity movements | - | 8,877 | (8,877) | - | - | - |
| Tax | - | 2,570 | - | 2,570 | - | 2,570 |
| Total other comprehensive income | - | 42,388 | (8,877) | 33,511 | - | 33,511 |
| Total comprehensive income | - | 341,424 | 639,754 | 981,178 | 32,643 | 1,013,821 |
| Transactions with owners | | | | | | |
| Tier 1 interest payments | - | - | - | - | (32,700) | (32,700) |
| Share-based payments | - | - | 7,059 | 7,059 | - | 7,059 |
| Tax | - | - | 7,182 | 7,182 | - | 7,182 |
| Equity at 31 December 2018 | 68,284 | 745,242 | 4,393,219 | 5,206,745 | 345,991 | 5,552,736 |

STATEMENT OF TOTAL CAPITAL – SAXO BANK A/S

AT 31 DECEMBER

| (DKK 1,000) | 2018 | 2017 |
|---|-------------------|-------------------|
| Tier 1 capital | | |
| Total equity 1 January | 4,211,326 | 3,851,231 |
| Net profit | 980,310 | 427,471 |
| Accrued interest (dividend) on Additional tier 1 capital | (25,461) | (25,461) |
| Share-based payments | 7,059 | 25,628 |
| Total other comprehensive income | 33,511 | (42,695) |
| Change in Common equity tier 1 capital (CET1 capital) | - | 1,650 |
| Intangible assets | (1,790,068) | (1,608,976) |
| Deferred tax liabilities, intangible assets | 84,907 | 95,053 |
| Prudent valuation adjustments | (27,013) | (29,112) |
| Common equity tier 1 capital (net after deduction) | 3,474,571 | 2,694,789 |
| Additional tier 1 capital | 334,802 | 334,802 |
| Total tier 1 capital | 3,809,373 | 3,029,591 |
| Tier 2 capital | | |
| Subordinated debt | 360,672 | 351,131 |
| Total tier 2 capital | 360,672 | 351,131 |
| Total capital | 4,170,045 | 3,380,722 |
| Risk exposure amounts | | |
| Credit risk | 4,905,260 | 5,141,205 |
| Market risk | 3,368,663 | 3,769,781 |
| Operational risk | 3,470,485 | 3,201,540 |
| Total Risk exposure amounts | 11,744,408 | 12,112,526 |
| Common equity tier 1 ratio | 29.6% | 22.2% |
| Tier 1 capital ratio | 32.4% | 25.0% |
| Total capital ratio | 35.5% | 27.9% |

Total capital is calculated in accordance with CRD IV and CRR applicable taking transitional rules into account as stipulated by the Danish Financial Supervisory Authority.

The unaudited Risk Report 2018 provides further information on the assessment of the regulatory capital and is available at the Group's website www.home.saxo/about-us/icaap-and-risk-reports.

NOTES – SAXO BANK A/S

Note (DKK 1,000)

1 Accounting policies

The financial statements of Saxo Bank A/S have been prepared in accordance with the Danish Financial Business Act and the Danish executive order on financial reports for credit institutions and investment companies, etc. The accounting policies for Saxo Bank A/S are the same as for the Saxo Bank Group, note 1 to the consolidated financial statements, with the exception of the items below.

Change in accounting policies

At 1 January 2018 the accounting policy for measurement of financial assets measured at amortised cost has changed due a new credit loss impairment model. Except from this change Saxo Bank A/S has not changed its accounting policies compared to those applied in the Annual Report 2017. For further information see note 1 in the consolidated financial statements.

Application of the new impairment model has increased the provisions for impairment and impacts the carrying amount of the financial assets accordingly.

Adjustments to the carry amounts of financial assets, at the date of transition, were recognised in Equity (retained earnings) as per 1 January 2018. The comparative figures are not restated.

Reconciliation of statement of financial position balances from 31 December 2017 to 1 January 2018:

The following table reconciles the carrying amounts of financial assets, from their previous measurement to their new measurement upon implementation of the expected credit loss impairment model.

| (DKK 1,000) | Carrying amount 31 December 2017 | Remeasurement due to change in accounting policy | Carrying amount 1 January 2018 |
|--|--|--|-----------------------------------|
| ASSETS | | | |
| Cash in hand and demand deposits with central banks | 703.207 | - | 703.207 |
| Receivables from credit institutions and central banks | 811.848 | (2.288) | 809.560 |
| Loans and other receivables at amortised cost | 73.758 | - | 73.758 |
| Bonds at fair value | 21.232.286 | - | 21.232.286 |
| Equities etc. | 4.124 | - | 4.124 |
| Investments in subsidiaries | 2.132.020 | (31.683) | 2.100.337 |
| Intangible assets | 1.608.976 | - | 1.608.976 |
| Tangible assets | 71.015 | - | 71.015 |
| Tax receivables | 1.782 | - | 1.782 |
| Deferred tax assets | 5.797 | - | 5.797 |
| Other assets | 5.498.632 | - | 5.498.632 |
| Prepayments | 41.280 | - | 41.280 |
| Total assets | 32.184.725 | (33.971) | 32.150.754 |

The tax impact due to remeasurement is DKK 7,473 thousand.

NOTES – SAXO BANK A/S

Note (DKK 1,000)

1 Accounting policies - continued

Change in accounting policies 1 January 2019

New accounting rules on leases will be applied from 1 January 2019. The new accounting changes the accounting treatment of leases currently treated as operating leases. The lessees shall with few exceptions recognise all leases as right of use assets and the related lease obligations as liabilities in the statement of financial position. The lease payments will be recognised as depreciation and interest over the lease period.

Saxo Bank A/S has entered into a lease agreement with its 100% owned subsidiary Ejendomsselskabet Bygning 119 A/S regarding office premises. The subsidiary is measured in accordance with the equity method. The intercompany lease agreement is eliminated when applying the new accounting rules for leases. Hence the intercompany lease will continue to be accounted for as operational lease and will not impact the statement of financial position at the date of transition for the new accounting rules for leases.

The estimated impact from change in accounting policy on the statement of financial position 1 January 2019 is an increase of both the assets and liabilities in the range of DKK 20-30 million. The impact on the net profit in 2019 is immaterial.

The change in accounting policy will be applied prospectively from 1 January 2019.

Operating income

Operating income is not split on geographical markets. The underlying market conditions do not vary as most of the products and services are offered through online trading platforms.

Investments in subsidiaries

Investments in subsidiaries are measured in accordance with the equity method, which means that the investments are measured at the parent company's proportionate share of the net asset value of the subsidiaries at the reporting date. Profit or loss from investments in subsidiaries represents Saxo Bank A/S' share of the profit and loss after tax. The net revaluation is recognised in equity under Equity method reserve.

Acquisitions of non-controlling interests in subsidiaries are accounted for as additional investments. If the cost of the investment exceeds the net asset value the excess amount is recognised as goodwill. If the excess is negative, the negative amount is recognised in the income statement. Gains or losses on transactions with non-controlling interests are recognised in the income statement.

Equity method reserve

The equity method reserve comprises value adjustments of equity investments in subsidiaries according to the equity method. The reserves are reduced by the dividends distributed to Saxo Bank A/S, and other movements in the shareholders' equity of the investments, or if the equity investments are realised in whole or in part.

Derivative financial instruments

Derivative financial instruments with a positive fair value are recognised as Other assets while Derivative financial instruments with a negative fair value are recognised as Other liabilities.

The format of the financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRS.

Financial instruments measured at amortised cost

The carrying amount for financial assets and financial liabilities measured at amortised cost is a reasonable approximation of the fair value. For this reason the disclosure of the fair value is omitted.

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 |
|----------|--|--------------------|--------------------|
| 2 | Interest income | | |
| | Credit institutions and central banks | 15,258 | 14,919 |
| | Loans and other receivables | 45,237 | 37,587 |
| | Bonds | 209,606 | 194,502 |
| | Derivative financial instruments | 1,284,367 | 1,214,232 |
| | Other interest income | 1,072 | 3 |
| | Total interest income | 1,555,540 | 1,461,243 |
| 3 | Interest expense | | |
| | Credit institutions and central banks | (22,856) | (34,693) |
| | Deposits | (44,113) | (18,901) |
| | Subordinated debt | (53,268) | (55,480) |
| | Derivative financial instruments | (186,940) | (90,060) |
| | Other interest expense | (180) | (949) |
| | Total interest expense | (307,357) | (200,083) |
| 4 | Fee and commission income | | |
| | Trading with equities and derivative financial instruments | 1,300,644 | 1,184,551 |
| | Total fee and commission income | 1,300,644 | 1,184,551 |
| 5 | Fee and commission expense | | |
| | Trading with equities and derivative financial instruments | (1,610,205) | (1,646,733) |
| | Total fee and commission expense | (1,610,205) | (1,646,733) |
| 6 | Price and exchange rate adjustments | | |
| | Bonds | (171,950) | (201,959) |
| | Foreign exchange | 672,164 | 1,007,066 |
| | Derivative financial instruments ¹⁾ | 283,472 | 267,336 |
| | Total price and exchange rate adjustments | 783,686 | 1,072,443 |
| | ¹⁾ Other than foreign exchange. | | |
| 7 | Other income | | |
| | Gain on divestments | 802,231 | - |
| | Service agreements and administrative services | 30,645 | 32,634 |
| | Other | 2,704 | 2,785 |
| | Total other income | 835,580 | 35,419 |

Details on divestments are disclosed in note 19 in the consolidated financial statement.

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 |
|----------|--|--------------------|--------------------|
| 8 | Staff costs and administrative expenses | | |
| | Staff costs | (704,561) | (676,339) |
| | Administrative expenses | (749,273) | (693,549) |
| | Total staff costs and administrative expenses | (1,453,834) | (1,369,888) |
| | Staff costs | | |
| | Salaries | (735,078) | (710,170) |
| | Share-based payments | 370 | (16,900) |
| | Defined contribution pension plans | (64,686) | (56,824) |
| | Social security expenses and financial services employer tax | (103,109) | (85,864) |
| | Staff cost transferred to software under development | 197,942 | 193,419 |
| | Total staff costs | (704,561) | (676,339) |
| | Number of full-time-equivalent staff (average) | 943 | 1,060 |
| | Remuneration to Board of Directors and the Board of Management and description of Share-based payments are disclosed in note 28 Remuneration of management and significant risk takers in the consolidated financial statements. | | |
| | Remuneration of significant risk takers | | |
| | Number of significant risk takers (full-time-equivalents) | 11 | 13 |
| | Fixed remuneration | (42,417) | (61,999) |
| | Variable remuneration | (4,537) | (12,206) |
| | Total remuneration of significant risk takers | (46,954) | (74,205) |

Saxo Bank A/S has no pension obligations towards significant risk takers as their pension schemes are defined contribution plans. Variable remuneration is determined according to the Bank's remuneration policy and is based on the performance of the individual person. Risk takers in controlling functions do not receive variable remuneration. Some of the significant risk takers participate in the warrant programme described in note 28 Remuneration of management and significant risk takers in the consolidated financial statements.

Disclosures on remuneration in accordance with article 450 in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and disclosures according to the Danish executive order on remuneration policy and disclosure requirements on remuneration for financial undertakings and financial groups are available at the Group's website www.home.saxo/about-us/investor-relations. The disclosures are not covered by the statutory audit.

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 |
|----------|--|-----------------|-----------------|
| 9 | Tax | | |
| | Reconciliation of effective tax rate | | |
| | Profit before tax | 998,883 | 502,739 |
| | Tax using the Danish tax rate 22% | (219,754) | (110,603) |
| | Effect of tax rates in foreign jurisdictions | (1,284) | (4,083) |
| | CFC taxation | (10,000) | (12,100) |
| | Non tax-deductible expenses | (9,608) | (12,647) |
| | Tax-exempt income (disposal of shares, etc.) | 178,025 | 292 |
| | Non exempted withholding tax | (2,694) | (289) |
| | Effect of tax on income from subsidiaries | 44,422 | 61,779 |
| | Adjustments to previous years | 2,320 | 2,383 |
| | Total income tax recognised in income statement | (18,573) | (75,268) |
| | Effective tax rate | 1.9% | 15.0% |

| 2018 | Income statement | Other comprehensive income | Directly in equity | Total |
|--------------------------------------|------------------|----------------------------|--------------------|----------------|
| Current tax | (31,798) | 2,570 | 7,182 | (22,046) |
| Changes in deferred tax for the year | 13,599 | - | - | 13,599 |
| Non exempted withholding tax | (2,694) | - | - | (2,694) |
| Adjustments to previous years | 2,320 | - | - | 2,320 |
| Total | (18,573) | 2,570 | 7,182 | (8,821) |

| 2017 | Income statement | Other comprehensive income | Directly in equity | Total |
|--------------------------------------|------------------|----------------------------|--------------------|-----------------|
| Current tax | (51,862) | (21,509) | 7,182 | (66,189) |
| Changes in deferred tax for the year | (25,500) | - | - | (25,500) |
| Non exempted withholding tax | (289) | - | - | (289) |
| Adjustments to previous years | 2,383 | - | - | 2,383 |
| Total | (75,268) | (21,509) | 7,182 | (89,595) |

NOTES – SAXO BANK A/S

Note (DKK 1,000)

9 Tax - continued

Tax recognised in Other comprehensive income

| 2018 | Before tax | Tax | Net of tax |
|--|---------------|--------------|---------------|
| Exchange rate adjustments | 41,867 | - | 41,867 |
| Hedge of net investments in foreign entities | (15,087) | 3,319 | (11,768) |
| Items reclassified to income statement | 233 | (749) | (516) |
| Other comprehensive income from subsidiaries, net of tax | 3,928 | - | 3,928 |
| Total | 30,941 | 2,570 | 33,511 |

| 2017 | Before tax | Tax | Net of tax |
|--|-----------------|-----------------|-----------------|
| Exchange rate adjustments | (145,248) | - | (145,248) |
| Hedge of net investments in foreign entities | 104,417 | (21,509) | 82,908 |
| Other comprehensive income from subsidiaries, net of tax | 19,645 | - | 19,645 |
| Total | (21,186) | (21,509) | (42,695) |

| Deferred tax assets and deferred tax liabilities | 2018 | 2017 |
|--|-----------------|-----------------|
| Deferred tax at 1 January, net | (42,891) | (11,977) |
| Changes in deferred tax for the year | 13,599 | (25,500) |
| Adjustments to previous years | 243 | (5,201) |
| Exchange rate adjustments | (308) | (213) |
| Deferred tax at 31 December, net | (29,357) | (42,891) |

| | Deferred tax assets | | Deferred tax liabilities | | Total deferred tax | |
|-------------------|---------------------|--------------|--------------------------|-----------------|--------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Intangible assets | - | - | (84,907) | (95,053) | (84,907) | (95,053) |
| Tangible assets | - | - | 16,835 | 18,472 | 16,835 | 18,472 |
| Provisions | 791 | 5,797 | 37,924 | 27,893 | 38,715 | 33,690 |
| Total | 791 | 5,797 | (30,148) | (48,688) | (29,357) | (42,891) |

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 | | |
|-----------|--|----------------------|---------------------|---------------------|---------------|
| 10 | Receivables from credit institutions and central banks | | | | |
| | Demand deposits, credit institutions | 1,018,901 | 811,848 | | |
| | Total receivables from credit institutions and central banks | 1,018,901 | 811,848 | | |
| 11 | Loans and other receivables at amortised cost | | | | |
| | Demand deposits: | | | | |
| | Trading clients | 138 | 8,678 | | |
| | Subsidiaries | 119,680 | 65,080 | | |
| | Total loans and other receivables at amortised cost | 119,818 | 73,758 | | |
| | Loans, other receivables and guarantees by sector and industry | | | | |
| | Finance and insurance | 53% | 26% | | |
| | Other business | 47% | 66% | | |
| | Total corporate sector | 100% | 92% | | |
| | Private clients | 0% | 8% | | |
| | Total loans, other receivables and guarantees | 100% | 100% | | |
| 12 | Impairment allowance financial assets at amortised cost and guarantees | | | | |
| | | Stage 1 | Stage 2 | Stage 3 | |
| | | 12 months ECL | Lifetime ECL | Lifetime ECL | Total |
| | 2018 | | | | |
| | Impairment allowance 1 January 2018 | - | - | 15,016 | 15,016 |
| | Restatement of prior year due to change in accounting policy | 2,288 | - | - | 2,288 |
| | Impairment for the year | - | - | 16,934 | 16,934 |
| | Reversal of impairment from previous years | (24) | - | (894) | (918) |
| | Amounts written down | - | - | (4,207) | (4,207) |
| | Other | - | - | (5,045) | (5,045) |
| | Impairment allowance 31 December 2018 | 2,264 | - | 21,804 | 24,068 |
| | 2017 | | | | |
| | Impairment allowance 1 January 2017 | | | 28,269 | 28,269 |
| | Impairment for the year | | | - | - |
| | Reversal of impairment from previous years | | | (83) | (83) |
| | Amounts written down | | | (13,170) | (13,170) |
| | Impairment allowance 31 December 2017 | | | 15,016 | 15,016 |
| | Due to changes in accounting policy a new impairment model is applied for 2018. Comparative figures for 2017 are not restated, see note 1. | | | | |
| 13 | Bonds at fair value | | 2018 | 2017 | |
| | Quoted on NASDAQ OMX Nordic | | 13,634,854 | 12,558,939 | |
| | Quoted on other stock exchanges | | 7,003,970 | 8,673,347 | |
| | Total bonds at fair value | | 20,638,824 | 21,232,286 | |

NOTES – SAXO BANK A/S

Note (DKK 1,000)

14 Intangible assets

| 2018 | Goodwill | Software under development | Software developed | Software purchased | Other | Total |
|---|------------------|-----------------------------------|---------------------------|---------------------------|----------------|--------------------|
| Cost at 1 January | 989,184 | 51,616 | 2,283,584 | 80,757 | 4,347 | 3,409,488 |
| Additions | 690 | 430,381 | - | 2,942 | - | 434,013 |
| Transfers from internal development | - | (349,726) | 349,726 | - | - | - |
| Disposals | (11,162) | - | (36,824) | (143) | - | (48,129) |
| Exchange rate adjustments | 22,742 | - | - | (6) | - | 22,736 |
| Cost at 31 December | 1,001,454 | 132,271 | 2,596,486 | 83,550 | 4,347 | 3,818,108 |
| Amortisation and impairment at 1 January | (86,473) | - | (1,633,238) | (76,454) | (4,347) | (1,800,512) |
| Amortisation | - | - | (260,875) | (2,342) | - | (263,217) |
| Impairment losses | - | - | (1,282) | - | - | (1,282) |
| Disposals | - | - | 36,823 | 143 | - | 36,966 |
| Exchange rate adjustments | - | - | - | 5 | - | 5 |
| Amortisation and impairment at 31 December | (86,473) | - | (1,858,572) | (78,648) | (4,347) | (2,028,040) |
| Carrying amount at 31 December | 914,981 | 132,271 | 737,914 | 4,902 | - | 1,790,068 |

| 2017 | Goodwill | Software under development | Software developed | Software purchased | Other | Total |
|---|-----------------|-----------------------------------|---------------------------|---------------------------|----------------|--------------------|
| Cost at 1 January | 1,036,982 | 42,478 | 2,511,826 | 104,627 | 4,347 | 3,700,260 |
| Additions | 1,684 | 290,939 | - | 1,501 | - | 294,124 |
| Transfers from internal development | - | (281,801) | 281,801 | - | - | - |
| Disposals | - | - | (510,043) | (25,355) | - | (535,398) |
| Exchange rate adjustments | (49,482) | - | - | (16) | - | (49,498) |
| Cost at 31 December | 989,184 | 51,616 | 2,283,584 | 80,757 | 4,347 | 3,409,488 |
| Amortisation and impairment at 1 January | (79,849) | - | (1,885,654) | (94,547) | (4,347) | (2,064,397) |
| Amortisation | - | - | (257,627) | (7,276) | - | (264,903) |
| Impairment losses | (6,624) | - | - | - | - | (6,624) |
| Disposals | - | - | 510,043 | 25,355 | - | 535,398 |
| Exchange rate adjustments | - | - | - | 14 | - | 14 |
| Amortisation and impairment at 31 December | (86,473) | - | (1,633,238) | (76,454) | (4,347) | (1,800,512) |
| Carrying amount at 31 December | 902,711 | 51,616 | 650,346 | 4,303 | - | 1,608,976 |

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|--|-------------------|-------------------|
| 15 | Debt to credit institutions and central banks | | |
| | Debt on demand | 5,315,220 | 5,320,643 |
| | Total debt to credit institutions and central banks | 5,315,220 | 5,320,643 |
| | Debt on demand include DKK 11 million (2017: DKK 6 million) placed as collateral for unrealised client trading positions as at 31 December. | | |
| 16 | Deposits | | |
| | Deposits on demand | 18,588,093 | 18,886,080 |
| | Total deposits | 18,588,093 | 18,886,080 |
| | Deposits on demand include DKK 2,402 million (2017: DKK 2,589 million) placed as collateral for unrealised client trading positions as at 31 December. | | |
| 17 | Subordinated debt | | |
| | For detailed information on subordinated debt, see note 16 Subordinated debt in the consolidated financial statements. | | |
| 18 | Equity | | |
| | As at 31 December 2018, the share capital consisted of 68,283,943 (2017: 68,283,943) shares with a nominal value of DKK 1. | | |
| | Tier 1 capital notes including carrying interests included in equity amounts to DKK 346 million (2017: DKK 346 million). | | |
| | Holding of treasury shares and details on tier 1 capital is disclosed in note 18 Equity in the consolidated financial statements. | | |
| 19 | Hedge accounting | | |
| | Saxo Bank A/S hedges the exchange rate risk of net investments in certain foreign entities excluding goodwill by establishing hedge relationship between the net investments and currency derivatives or a non-derivative currency financial liability designated as the hedging instruments. Saxo Bank A/S does not hedge the entities' expected income or future transactions. | | |
| | At 31 December 2018 the fair value of the hedging instrument amounted to DKK 1,678 million (2017: DKK 1,496 million). The corresponding carrying amount of net investments hedged amounted to DKK 1,658 million (2017: DKK 1,478 million). | | |

NOTES – SAXO BANK A/S

Note (DKK 1,000)

20 Related parties

Geely Financials Denmark A/S has, by ownership of more than 50% of the share capital, obtained controlling influence in Saxo Bank A/S from 14 September 2018. Before this date no party had the controlling influence in Saxo Bank A/S.

Saxo Bank A/S is consolidated with Geely Financials Denmark A/S. The consolidated financial statements are available when published at:

Saxo Bank A/S
Philip Heymans Allé 15
DK-2900 Hellerup

The shareholding ownership of Geely Financials Denmark A/S is undergoing a restructuring pending regulatory approval, affecting the ultimate parent of Saxo Bank A/S.

At 31 December 2018, the following shareholders are registered as holders of more than 5% of the share capital of Saxo Bank A/S:
Geely Financials Denmark A/S, DK-1609 Copenhagen, Denmark
Fournais Holding A/S, DK-2850 Nærum, Denmark
Sampo Plc. FI-00100 Helsinki, Finland

| (DKK million) | Board of Directors | | Board of Management | | Parties with significant influence | | Subsidiaries | |
|---|--------------------|------|---------------------|------|------------------------------------|------|--------------|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Loans and other receivables at amortised cost | - | - | - | - | - | - | 119.7 | 65.1 |
| Deposits (liabilities) | - | - | 0.4 | 0.3 | - | 11.4 | 2,141.5 | 3,532.1 |
| Trading assets | - | - | - | - | - | - | 558.9 | 295.0 |
| Other assets | - | - | - | - | - | - | 31.9 | 31.2 |
| Other liabilities | - | - | - | - | - | - | 35.7 | 8.9 |
| Interest income (expense) | - | - | - | - | - | - | (51.8) | 22.7 |
| Fee and commission income | - | - | 0.1 | - | - | - | 7.8 | 1.4 |
| Fee and commission expense | - | - | - | - | - | - | 800.2 | 825.4 |
| Other services (income) | - | - | - | - | - | - | 31.0 | 33.3 |
| Other services (expense) | - | - | 1.2 | 0.1 | - | 17.0 | 7.9 | 0.3 |
| Client support services | - | - | - | - | - | - | 39.9 | 45.4 |
| Leases | - | - | - | - | - | - | 42.3 | 41.4 |
| Subleases | - | - | - | - | - | - | 1.6 | 1.5 |
| Software development | - | - | - | - | - | - | 65.4 | 6.4 |
| Dividend from subsidiaries | - | - | - | - | - | - | 32.5 | 35.8 |
| Capital increases | - | - | - | - | - | - | 13.3 | 22.5 |

Remuneration to Board of Directors and Board of Management is disclosed in note 28 Remuneration of management and significant risk takers in the consolidated financial statements.

Saxo Bank A/S has not provided any loans, pledges or guarantees to any member of Saxo Bank A/S' Board of Directors or Board of Management or to persons related to these.

All transactions and agreements with related parties are settled on an arms-length basis.

NOTES – SAXO BANK A/S

Note (DKK 1,000)

21 Activities by country

| Country | Activity | 2018 | | | |
|-----------------------|---|----------------------|-------------------|---------------|----------------------------|
| | | Income ¹⁾ | Profit before tax | Tax on profit | Full-time-equivalent staff |
| Australia | Trading and investment | 96,245 | 18,548 | (6,188) | 17 |
| Brazil | Trading and investment | 7,580 | 545 | (231) | 2 |
| China | Sales and marketing | 24,617 | 851 | (170) | 31 |
| Cyprus | Sales and marketing | 40 | (519) | (4) | - |
| Czech Republic | Sales and marketing | 55,025 | 5,001 | (1,248) | 48 |
| Denmark | Retail banking and other activities ²⁾ | 256,565 | (25,273) | (3,168) | 14 |
| Dubai | Trading and investment | - | 222 | - | 11 |
| France | Trading and investment | 87,170 | 18,631 | (6,030) | 29 |
| Hong Kong | Trading and investment | 48,187 | (796) | 108 | 16 |
| India | IT-development | 163,256 | 12,540 | (10,119) | 585 |
| Italy | Trading and investment | 10,697 | 288 | (352) | 10 |
| Japan | Trading and investment | 47,812 | 2,819 | (708) | 23 |
| Netherlands | Sales and marketing | 12,703 | 782 | 472 | 4 |
| Singapore | Trading and investment | 307,992 | 98,521 | (14,576) | 94 |
| South Africa | Trading and investment | 34,819 | 12,986 | (3,636) | - |
| Switzerland | Trading and investment | 260,278 | 20,991 | (1,959) | 50 |
| Turkey | Trading and investment | 3,836 | (2,404) | (669) | - |
| UK | Sales and marketing, trading and investment | 299,130 | 85,305 | (16,969) | 85 |

¹⁾Income is defined as the sum of Interests income, Fee and commission income and Other income.

²⁾Other activities include management of domicile property, payment services and asset management.

The table disclose information by country, in which Saxo Bank A/S operates through a subsidiary or a branch.

Note 29 in the consolidated financial statements provides information on the company names and financial information for the Group's significant subsidiaries.

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 |
|-----------|--|----------------|----------------|
| 22 | Contingent and other contractual commitments | | |
| | Guarantees | | |
| | Financial guarantees | 215,398 | 182,594 |
| | Guarantees issued to subsidiaries | 17,607 | 22,203 |
| | Other guarantees | 2,183 | 8,380 |
| | Total guarantees, net of allowance | 235,188 | 213,177 |
| | Loan commitments etc. | | |
| | Other unutilised credit facilities | 50,000 | - |
| | Total loan commitments etc. | 50,000 | - |
| | Other contractual commitments | | |
| | Rent commitments towards subsidiaries | 390,729 | 429,971 |
| | Other contractual commitments incl. operating leases | 204,962 | 224,960 |
| | Total other contractual commitments | 595,691 | 654,931 |

Due to the business volume of the Bank, disputes with clients etc. occur from time to time. The Bank does not consider the outcome of the cases pending to have any material effect on the Bank's financial position.

Saxo Bank A/S has issued a letter of undertaking to the Monetary Authorities in Hong Kong concerning Saxo Capital Markets HK Ltd.

Until 14 September 2018 Saxo Bank was the administration company for the Danish joint taxation consisting of Saxo Bank A/S and its Danish subsidiaries. Due to Geely Financials Denmark A/S' controlling influence in Saxo Bank A/S, Saxo Bank A/S and its Danish subsidiaries joint from 14 September 2018 a Danish joint taxation with Geely Financials Denmark A/S.

Saxo Bank A/S is taxed jointly with all Danish entities in the Danish joint taxation and is jointly and severally liable with these for payments of Danish corporate tax and withholding tax etc.

In December 2018 Saxo Bank and BinckBank announced that a conditional agreement has been reached on a recommended public offer to be made by Saxo Bank for the entire issued and outstanding share capital of BinckBank for EUR 6.35 in cash per share. The Offer Price per Share represents an implied equity value for 100% of BinckBank on a fully diluted basis of EUR 424 million.

The commencement of the Offer is subject to the satisfaction or waiver of pre-offer conditions customary for a transaction of this kind. If the Merger Protocol is terminated because of a Superior Offer having been made, BinckBank will forfeit a EUR 4.3 million termination fee to Saxo Bank. If the Merger Protocol is terminated because the Regulatory Clearances have not been obtained, Saxo Bank will forfeit a EUR 4.3 million termination fee to BinckBank. The foregoing termination fees are without prejudice to each party's rights under the Merger Protocol to demand specific performance.

23 Assets deposited as collateral

Of the Bank's bond holdings, bonds with a nominal value of DKK 2.9 billion (2017: DKK 4.1 billion), and a fair value of DKK 3.0 billion (2017: DKK 4.1 billion), are held in custody with institutions. The bonds serve as security for the Bank's ongoing financial business with the individual institutions. The actual demand for collateral varies from day to day in line with the fair value of the Bank's open positions against these institutions. At 31 December 2018, 14% (2017: 19%) of the Bank's total fair value of the bonds were held in custody.

Of deposits with investment brokers, banks and other credit institutions, DKK 225.0 million (2017: DKK 224.5 million) serve as collateral for the Bank's ongoing financial business with the individual institutions. The actual demand for collateral varies from day to day in line with the fair value of the Bank's open positions against these institutions.

NOTES – SAXO BANK A/S

Note

24 Risk Management

Risk exposure

Saxo Bank A/S is exposed to a number of risks, which can be categorised as follows:

- Credit risk: The potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- Market risk: The risk of a loss in value as a result of changes in market rates and parameters that affect the market values, e.g. interest rates, credit spreads, FX rates, equity prices, commodity prices and option volatilities.
- Operational risk: The risk of direct or indirect financial losses or damaged reputation due to failure attributable to technology, employees, procedures or external events. Operational risk includes legal and compliance risk.
- Liquidity risk: The risk that the Bank does not have sufficient liquidity to fulfil its payment obligations as and when they fall due. Also, the risk that the Bank's cost of funds rise to disproportionate levels or in worst case prevents the Bank from continuing as a going concern under its current business model. Finally, the risk that the Bank does not comply with regulatory liquidity requirements, e.g. liquidity coverage ratio.
- Business risk: The risk of reduced earnings as a result of changes to external circumstances and events due to risks not related to the other risk categories.

The risk exposures, policies and procedures to monitor the risks for Saxo Bank A/S are the same as for the Group and are described in the Risk Management for the Group.

In addition to the credit risk described in Risk Management for the Group Saxo Bank A/S has credit exposure against its subsidiaries due to granted trading and credit lines. The unutilised lines as per 31 December 2018 can be terminated on demand.

Market and credit risk related to derivative financial instruments is disclosed in the Risk Management and in note 22 Offsetting financial assets and liabilities in the consolidated financial statements. Derivative financial instruments with positive value DKK 4.6 million (2017: DKK 5.4 million) are included in Other assets and Derivative financial instruments with negative value DKK 1.7 million (2017: DKK 2.5 million) are included in Other liabilities.

The Management's Report and Risk Report 2018 provide additional information about Saxo Bank A/S' risk management approach. Risk Report 2018 is available for download from the Group's website at www.home.saxo/about-us/icaap-and-risk-reports. The Risk Report is not covered by the statutory audit.

NOTES – SAXO BANK A/S

| Note | (DKK 1,000) | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------|--|-------------|-------------|-------------|-------------|-------------|
| 25 | Key figures and ratios | | | | | |
| | Highlights | | | | | |
| | Net interest, fees and commissions | 938,622 | 798,978 | 437,779 | 235,459 | 115,772 |
| | Price and exchange rate adjustments | 783,686 | 1,072,443 | 1,395,413 | 1,029,692 | 1,752,589 |
| | Staff costs and administrative expenses | (1,453,834) | (1,369,888) | (1,295,774) | (1,527,141) | (1,323,609) |
| | Impairment charges loans and receivables etc. | (11,815) | 7,572 | (25,009) | (828) | 13,347 |
| | Income from subsidiaries. | 201,917 | 280,815 | 170,795 | (46,820) | 246,580 |
| | Net profit | 980,310 | 427,471 | 328,054 | (623,264) | 399,722 |
| | Loans and other receivables at amortised cost | 119,818 | 73,758 | 102,261 | 38,565 | 75,484 |
| | Subordinated debt | 360,672 | 351,131 | 529,077 | 674,070 | 335,133 |
| | Total equity | 5,552,736 | 4,583,872 | 4,197,257 | 3,896,429 | 4,198,863 |
| | Total assets | 32,121,088 | 32,184,725 | 37,372,290 | 27,965,236 | 30,200,852 |
| | Key figures and ratios | | | | | |
| | Total capital ratio | 35.5% | 27.9% | 24.6% | 26.7% | 22.1% |
| | Tier 1 capital ratio | 32.4% | 25.0% | 21.6% | 22.4% | 20.5% |
| | Return on equity before tax | 19.7% | 11.5% | 9.8% | (19.1)% | 13.0% |
| | Return on equity after tax | 19.3% | 9.7% | 8.1% | (15.4)% | 10.4% |
| | Income/cost ratio | 156.7% | 129.8% | 123.9% | 62.3% | 129.0% |
| | Interest rate risk | 2.8% | 4.2% | 4.8% | 3.0% | 2.9% |
| | Foreign exchange rate risk/Tier 1 capital | 3.2% | 12.8% | 16.5% | 9.6% | 37.0% |
| | Value at risk of foreign exchange rate risk/Tier 1 capital | 0.1% | 0.1% | 0.1% | 0.2% | 0.2% |
| | Loans and other receivables plus impairment allowance/Deposits | 0.8% | 0.5% | 0.6% | 0.3% | 0.5% |
| | Loans and other receivables proportional to total equity | 0.02 | 0.02 | 0.02 | 0.01 | 0.02 |
| | Growth in loans and advances | 62.4% | (27.9)% | 165.2% | (48.9)% | (78.6)% |
| | Excess liquidity coverage/liquidity requirement ¹⁾ | - | 405.8% | 415.2% | 354.3% | 345.1% |
| | Liquidity coverage ratio ¹⁾ | 195.9% | 182.1% | 146.7% | - | - |
| | Sum of large exposures/Total capital ²⁾ | 7.8% | - | - | - | - |
| | Loss and provisions ratio | 3.1% | (2.5)% | 8.2% | 0.3% | (17.2)% |
| | Return on assets | 3.1% | 1.3% | 0.9% | (2.2)% | 1.3% |

See page 94 for definitions.

¹⁾ From 2018 section 152 on liquidity in the Danish Financial Business act has been replaced by the Liquidity coverage ratio.

²⁾ Change in computation of large exposures applied from 2018. Comparative figures are not restated.

STATEMENTS AND REPORTS

STATEMENT BY THE MANAGEMENT

The Board of Directors and Board of Management have considered and approved the Annual Report for the financial year 2018 for Saxo Bank A/S.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the parent company's financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2018.

Moreover, in our opinion, the Management Report include a fair review of developments in the Group's and the Parent Company's operations and financial position (page 4-35) and describe the significant risks and uncertainty factors that may affect the Group and the Parent Company.

The 2018 Annual Report is submitted for the approval of the Annual General Meeting.

Copenhagen, 25 February 2019

BOARD OF MANAGEMENT

Kim Fournais
CEO and Co-founder

Søren Kyhl
Group Chief Operating Officer

Steen Blaafock
Group Chief Financial and Risk Officer

Damian Bunce
Chief Commercial Officer

BOARD OF DIRECTORS

Daniel Donghui Li
Chairman

Henrik Normann

Ian Zhang

John Patrick Sture Lapveteläinen

Preben Damgaard Nielsen

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SAXO BANK A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Saxo Bank A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of total capital and notes, including accounting policies, for the Group and the Parent Company and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and the financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions.

Further, in our opinion the parent company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of Saxo Bank A/S on November 28, 1995 for the financial year 1995. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 23 years up until the financial year 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2018. These matters were addressed during our audit of the consolidated financial statements and the parent company financial statements as

INDEPENDENT AUDITORS' REPORT

a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements and the parent company financial statements.

Trading assets and liabilities - valuation and revenue recognition of derivative financial instruments

Risk assessment: Trading assets and liabilities include derivative financial instruments of DKK 4,622 million (assets) and DKK 1,725 million (liabilities) respectively as at 31 December 2018 which are measured at fair value, corresponding to 13% of total assets and 5% of total liabilities. The Group enters into derivative financial instruments with clients and financial counterparties based on a number of underlying assets (currencies, securities, etc.). Due to the nature of the Group's business, the volume of open derivative financial instruments is very large. The derivative financial instruments are generally short in maturity and based on relatively liquid underlying assets. In some circumstances, the underlying asset may unexpectedly become illiquid or the position may become uncollateralised, exposing the Group to a credit risk. For such positions, the calculation of fair value at the balance sheet date may involve estimates, which increase the valuation uncertainty. Given the volume of derivative financial instruments, we determined this to be a significant item for our audit.

Audit approach: Our audit procedures comprised an assessment of the methodology and the appropriateness of the valuation models and assumptions used to value derivative financial instruments. Also, we placed reliance on internal controls over the trading processes, including reconciliations of trades and positions. We have specifically assessed the valuation of material illiquid positions. Finally, we considered the completeness and accuracy of the disclosures related to derivative financial instruments to assess compliance with disclosure requirements.

Intangible assets - valuation of goodwill and software development costs

Risk assessment: Goodwill impairment testing relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting of future cash flows and the significance of the Group's recognised goodwill (DKK 915 million), this is deemed a significant risk. Uncertainty is typically highest for those units where headroom between value-in-use and carrying value is limited and where the value-in-use is most sensitive to changes in assumptions for the estimated future cash flows.

Other intangible assets than goodwill primarily consist of software development costs, which are amortised over a period of up to 5 years. In case of indications of impairment, an impairment test is carried out based on the estimated value-in-use.

Audit approach: Our audit of valuation of goodwill was focused on the units that were most sensitive and dependent on future cash flow projections and, as a result of recent historical performance, were expected to have reduced headroom.

Our audit procedures in respect of goodwill included an assessment of the key assumptions supporting the Group's value-in-use calculations, including the cash flow projections and discount rates. We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. With the assistance of our own specialists,

INDEPENDENT AUDITORS' REPORT

we critically assessed the assumptions and methodologies used to forecast value-in-use for those units where significant goodwill was found to be sensitive to changes in those assumptions.

Additionally, we considered whether the Group's disclosures of the application of judgement and the sensitivity of the results of those estimates adequately reflect the risks associated with goodwill impairment, cf. note 13.

Our audit procedures in respect of capitalised software development costs included the assessment of controls over the Group's process for the recognition and measurement of software development cost, including Management's assumptions of estimated life-time. Our audit also included review of Management's assessment of impairment of capitalised software development costs.

Statement on the Management report

Management is responsible for the Management report on page 4-35.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management report and, in doing so, consider whether the Management report is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management report is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management report.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and the parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Business Act. Moreover, Management is responsible 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 consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent 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 in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company 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 and additional requirements applicable in Denmark 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 the consolidated financial statements and the parent company financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 Group's and the Parent 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 in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 consolidated financial statements and the parent company 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the note disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the parent company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 25 February 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised Public Accountant
MNE no. 28632

Thomas Hjortkjær Petersen
State Authorised Public Accountant
MNE no. 33748

COMPANY INFORMATION

BOARD OF DIRECTORS AND BOARD OF MANAGEMENT

Saxo Bank A/S' Board of Directors currently consists of five members elected by the general meeting. The members of the Board of Directors are elected or appointed for a one year term. Reelection and reappointment may take place.

The Board of Management is not a part of the Board but participates in the Board meetings. It is the Board's belief that the size and composition of the Board is appropriate for achieving a constructive debate and efficient decision making. It is important for the Board of Directors that each member has the sufficient knowledge, professional competences and experience to be able to carry out the duties and responsibilities of his position as member of the Board in Saxo Bank A/S. Moreover, the members of the Board of Directors must set aside sufficient time to carry out hers or his duties and responsibilities as a member of Board of Directors in Saxo Bank A/S.

Management positions and Directorships held by the Board of Directors and the Board of Management in companies excluding positions in the Group's subsidiaries (Chairman (CM), Board member (BM), Chief Executive Officer (CEO)):

BOARD OF MANAGEMENT

Kim Fournais – Founder and CEO

Fournais Holding A/S (CEO & BM)
Fournais Aviation ApS (CEO)
Vejrø ApS (CM)

Søren Kyhl – Deputy CEO and COO

Søren Kyhl Holding ApS (CEO)

Steen Blaafalk – Chief Financial and Risk Officer

Blue Falcon Holding ApS (CEO)
Falcon Future ApS (CEO)
Momentum Gruppen A/S (CM)
Adept Water Technologies A/S (BM)

Damian Bunce – Chief Commercial Officer

BOARD OF DIRECTORS

Daniel Donghui Li – Chairman

Geely Automotive Holdings Limited (BM)
Geely Financials Denmark A/S (CM)
Geely Holding Group (CFO & BM)
Genius Auto Finance Co. Limited (CM)
Group Lotus PLC (CM)
Volvo Car Corporation (BM)
Zhejiang Wisdom Financials Leasing Co., Ltd. (CM)

Henrik Normann – Member of Board

Investeringsforeningen Maj Invest (CM)
Nordic Investment Bank (President & CEO)
Syfoglomad Limited (CM)
Saga Private Equity ApS (CM)

Ian Zhang – Member of Board

Geely Financials Denmark A/S (BM)
Geely Financial International Limited (BM)
Geely International (Hong Kong) Limited (BM)
Gly Capital Management Limited (BM)
Terrafugia Inc. (BM)

John Patrick Sture Lapveteläinen – Member of Board

Asiakastieto Group Plc (CM)
If P&C Insurance Holding Ltd (BM)
Mandatum Life Insurance Company Limited (BM)
Sampo plc (GCIO)

Preben Damgaard Nielsen – Member of Board

7N A/S (CM)
AO Invest A/S (BM)
Brødrene A. & O. Johansen A/S (BM)
BBIP ApS (CEO)
Configit A/S (BM)
Configit Holding A/S (BM)
Damgaard Company A/S (CEO & BM)
Damgaard Group A/S (CEO & CM)
Damgaard Group Holding A/S (CEO & BM)
Damgaard Family Invest ApS (CEO)
DGH I ApS (CEO)
DGH II ApS (CEO)
Dixa ApS (BM)
Ejendomsselskabet Oktanten ApS (CEO)
Ejendomsselskabet Tesch Alle ApS (CEO)
Galleri Bo Bjerggaard International ApS (CEO)
Katrine Damgaard Invest ApS (CEO)
Markus Damgaard Invest ApS (CEO)
Olivia Damgaard Invest ApS (CEO)
OrderYOYO ApS (BM)
PD International Invest ApS (CEO)
Proactive A/S (CM)
Proactive Holding 2008 A/S (CM)
Scalepoint Technologies Denmark A/S (BM)
Scalepoint Technologies Holding A/S (BM)
Skolebordet.dk ApS (BM)
Templafy ApS (CM)
The Closet ApS (CEO)
Too Good To Go ApS (CM)
Too Good To Go Holding ApS (CM)

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SAXO PRIVATBANK A/S

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