PILLAR 3

Safe Deposit Bank of Norway AS
&
Safe Deposit Holding ASA

sdbn

Safe Deposit Bank of Norway

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Safe Deposit Bank of Norway

1 - Introduction

The purpose of this document is to fulfil the regulatory requirements in "Kapitalkravsforsikriften" section IX (Pillar III) by providing the Safe Deposit Group's ("Group") financial information to the public. The report covers Safe Deposit Holding ASA ("SDH") and Safe Deposit Bank of Norway AS ("SDBN"). The companies are fully consolidated for both accounting purposes and for capital requirement purposes.

The information presented is based on consolidated financial figures from 31.12.2017 and will be updated on an annual basis. The Group conducts ICAAP and ILAAP analysis on an annual basis to assess the companies risk situation, capital adequacy and capital targets.

The Group uses the standard and basic approach for calculating capital requirements in Pillar I according to the standard method developed by the government. In addition, the Bank assesses the need for additional capital need in an ICAAP/ILAAP-process (Pillar 2).

2 - Regulatory Capital

The capital base, which consists of the Bank's Tier 1 and Tier 2 capital, lays the foundation for the comparison between the real CET1 capital ratio and the required amount stated by the Tier 1 capital requirement.

TNOK 31.12.2017	Group	SDBN
Capital instruments qualifying as Core Tier 1 capital	104 001	90 090
Retained earnings carry over	-46 285	- 43 377
(-) Other intangible assets	- 2 150	- 2 150
Capital base	55 566	44 563

The table below illustrates Core Equity Tier 1 (CET 1), Tier 1 and Tier 2 capital.

TNOK	Group		SDBN	
Development in capital requirements (internal estimates)	31.12.2017	31.12.2016	31.12.2017	31.12.2016
CET 1 capital	55 566	65 570	44 563	54 868
Tier 1 capital	55 566	65 570	44 563	54 868
Total liable capital	55 566	65 570	44 563	54 868
Capital ratio[1]	725,9%		642,0%	

[1] All liable capital in the company is CET 1 capital.

3 - Capital requirements

This chapter provides an overview of the capital requirements for the SDH Group and SDBN. All numbers, line-ups, and referrals relates to 31.12.2017 unless otherwise stated.

As of December 31 2017 the capital conservation buffer requirement is 2.5 percent, the systemic risk requirement is 3.0 percent and countercyclical buffer is 2.0 percent. These requirements are additional to the requirement of 4.5 percent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.0 percent.

Pillar 1 capital requirements = (Capital)/((Sum of Credit Risk-weighted assets + Capital charges for market risk + operational risk)*12,5)

3.1 Pillar 1 – basis for calculations

TNOK 31.12.2017	Group	SDBN
Institutions	873	159
Other commitments	32	32
Total risk-weighted assets credit risk	905	191
Basis for calculation for operational risk (OpR)	6 750	6 750
Overall basis of calculation	7 655	6 941

3 - Capital requirements

3.2 Pillar 1

TNOK 31.12.2017	%	Group	SDBN
Minimum requirement	4,5	344	312
Capital conservation buffer	2,5	191	174
Systemic risk buffer	3,0	230	208
Countercyclical buffer	2,0	153	139
Capital Requirement CET 1	12,0	919	833

The Group's common equity Tier 1 capital at December 31 2017 was NOK 55 566 TNOK and the basis for calculation of capital requirements was TNOK 7 655, which gives a CET1 capital ratio of 725.9% on a consolidated basis. SDBN's common equity Tier 1 capital at December 31 2017 was TNOK 44 563 and the basis for calculation of capital requirements was TNOK 6 941, which gives a CET1 capital ratio of 642.0% on a stand-alone basis.

3 - Capital requirements

3.3 Pillar 2

The ICAAP analysis show that the Bank has a capital base (Tier 1 and Tier 2 capital) of 55,5 MNOK which is above the ICAAP capital target of 1,4 MNOK, and above the legal minimum requirement.

TNOK 31.12.2017	%	Group	SDBN	aggregated (%)
Capital requirement CET 1		919	833	12,0
Hybrid	1,5	115	104	13,5
Sum Capital Requirement Tier 1		1 033	937	13,5
Additional capital requirements	2,0	153	139	15,5
Total Capital Requirement Pillar 1		1 187	1 076	15,5
Pillar 2 Operational risk	3,3 / 3,6	250	250	18,8 / 19,1
Sum Pillar 1 + 2		1 437	1 326	18,8 / 19,1

TNOK 31.12.2017	Group	SDBN
Risk Weighted Assets	7 655	6 941
Capital requirement	18,8%	19,1%
Actual capital ratio	725,9%	642,0%

4 - Governing and risk control

4.1 General

The SDH Group started operations in Q3 of 2016. The Group's Risk Management Strategy provides an effective risk management process that is appropriate to its size and risks.

The Risk Management Strategy describes the overall risk appetite for the Group and stipulates responsibilities for the risk management system and helps ensure adequate and systematic risk management and internal controls within the Group, in order to ensure that the risk profile of the Bank remains within the risk appetite level deemed appropriate by the Board of Directors. The Group operates at a low level of aggregate risk. The Group's main risk categories, as outlined below, are operational risk and business and strategic risk.

4.2 Credit risk

The group has no credit and counterparty risk related to loans or accounts receivable as SDBN's receives their income as a cut of the customers' bank deposits in the Norges Bank continuously.

Credit and counterparty risk is therefore only relevant to SDBN's own bank deposits. All own funds are to be deposited with SDBN's main bank (Handelsbanken) or Norges Bank. Credit risk is therefore limited to the funds held with these counterparties.

Guidelines for how to manage this risk are set out in a separate credit and counterparty policy.

4.3 Operational risk

It follows from the operating model that the key operational risks are;

- Acceptance of adequate Clients
- Safeguarding of deposit and withdrawal transactions
- Operational stability / deposit liquidity – Client deposits available at all times
- Integrity and confidentiality of Client data

The Bank's operating model gives rise to other operational risks;

- Key personnel risk – a limited number of staff means that the business is vulnerable to loss of key persons
- Extensive use of outsourced service providers (Dealt with in outsourcing policy)

Reputational risk:
As the business model is based on Clients seeking a low risk placement for assets, it is sensitive to reputational risk. A prerequisite to avoid reputational risk would be operational stability. Operational risk management ensuring adequate control over internal processes, systems, human errors are therefore of vital importance to its overall achievement of business objectives.

4 - Governing and risk control

Compliance risk:
Although the operating model for SDBN is relatively straight forward, the banking sector is subject to stringent regulatory requirements. As a result, compliance risk is inherently high. Operational risk management also needs to consider actions and control measures to mitigate this risk.

Guidelines for how to manage these risks are set out in a separate operational risk policy.

4.4 Liquidity risks

The group is exposed to liquidity and financing risk as follows:

1. SDBN's business model requires and ensures that Client deposits are highly liquid assets, as they are placed in overnight deposits with the Central Bank of Norway.

2. There is an inherent risk that SDBN does not have enough liquidity to fulfil its obligations with regards to operating expenses. In the case of low liquidity financing risks may arise.

Guidelines for how to manage this risk is set out in the Liquidity and financing risk policy

4.5 Business and strategic risk

The Group, as all operating companies, will be exposed to business and strategic risk.

SDBN is a new Bank that offers a new product to a defined and selective market segment. The business idea is based on an assumption that targeted Clients do not have sufficient trust in regular banking products in times of financial volatility, and prefer placements directly with Norges Bank. In a start-up phase there is uncertainty and risk related to how SDBN will attract these Clients, and whether the targeted market is sufficiently large for SDBN to be profitable.

Over time competitors may offer the same products as SDBN, thus increasing business risk.

Business and strategic risks need to be continuously monitored and managed. The annual strategy and ongoing risk management processes shall focus on these aspects.

Initially in the start-up phase, the risk appetite is moderate, with a view to reduce this to a low level in the medium/long term.

4 - Governing and risk control

4.6 Other risk categories

SDH will be exposed to ownership risk related to their shares in SDBN. This risk will mainly be related to business operations in SDBN and is covered by other descriptions in this report. This will be monitored by the management and Board of Directors in SDH.

The Group is exposed to liquidity and financing risk. Risk exposure and risk tolerance is low as the Group's business model requires and ensures that Client deposits are highly liquid assets, as they are placed in overnight deposits with the Central Bank of Norway (Norges Bank). There is also an inherent risk that group companies do not have enough liquidity to fulfil its obligations with regards to operating expenses. SDH Group and SDBN have adequate capital for 2018 and beyond.

The Group has no: Concentration Risk, Risk related to securitization, nor insurance risk.

The Group will not have any market risk as the Bank will not hold any investments in financial instruments or assume any foreign currency risk. Leverage risk is not relevant since no Group company has any debt. Systemic risk is inherently low given the business model.

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