PILLAR 3
2019

Safe Deposit Bank of Norway AS
&
Safe Deposit Holding ASA

Consolidated

sdbn

Safe
Deposit
Bank
of Norway

Table of Contents

sdbn

Safe
Deposit
Bank
of Norway

1 - Introduction

The purpose of this document is to fulfill the regulatory requirements in "Kapitalkravsforordningen (CRR) (EU) 2013/275" by providing the Company Group's (the "Group") financial information to the public on a consolidated basis, consisting of Safe Deposit Holding ASA ("SDH" or "Company") and its fully owned subsidiary Safe Deposit Bank of Norway AS ("SDBN" or "the Bank").

The information presented is based on consolidated financial figures from 31.12.2019 and will be updated on an annual basis. The Group conducts ICAAP and ILAAP analysis on an annual basis to assess the Group's risk situation, capital adequacy and capital targets.

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

The Group consists of Safe Deposit Holding ASA and its fully owned subsidiary Safe Deposit Bank of Norway AS. The companies are fully consolidated for both accounting purposes and for capital requirement purposes.

Oslo, March 25, 2020

Christian A. Horneman Wist	Olga Godinho	Monika Amanda Haugan	Harry Konterud	Daniel Vock	Morten Frode Meland
Chairman of the Board	*Board Member*	*Board Member*	*Board Member*	*Board Member*	*CEO*

2 - Regulatory Capital

The capital base, which consists of the 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.

	Group Q4 2019 (TNOK)	SDBN Q4 2019 (TNOK)
Capital instruments qualifying as core Tier 1 capital	125 467	120 490
Retained earnings carry over	-71 606	-67 475
(-) Other intangible assets	-4305	-4305
Capital base	**49 557**	**48 711**

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

Development in capital requirements (internal estimates)	Group		SDBN	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
CET 1 capital	49 557	41 157	48 711	39 744
Tier 1 capital	49 557	41 157	48 711	39 744
Total liable capital	49 557	41 157	48 711	39 744
Capital ratio[1]	654,37 %	1418,0 %	673,30 %	1537.9 %

[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 Group and SDBN. All numbers, line-ups, and referrals relate to 31.12.2019 unless otherwise stated.

As of 31 December, 2019, the capital conservation buffer requirement is 2.5 percent, the systemic risk requirement is 3.0 percent and countercyclical buffer is 2.5 percent. These requirements are additional to the requirement of 4.5 percent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.5 percent. Due to the COVID-19 virus, the countercyclical buffer has been reduced to 1 % as of March 2020. The Group considers this as temporary and has therefore conservatively not taken this into account.

Pillar 1 capital requirement in percentage = Total Capital requirement / (credit risk exposure+ market risk exposure + operational risk exposure)

3.1 Basis for calculations

Basis for calculation	Group Q4 2019 (TNOK)	SDBN Q4 2019 (TNOK)
Institutions	4 654	4 449
Other commitments	2 603	2 603
Total credit risk exposure	**7 256**	**7 051**
Basis for calculation of operational risk (OpR)	317	183
Overall basis of calculation	**7 573**	**7 325**

3 - Capital requirements

3.2 Pillar 1 capital requirements

31.12.2019	%	Group (TNOK)	SDBN (TNOK)
Minimum requirement	4,5	341	326
Capital conservation buffer	2,5	189	181
Systemic risk buffer	3,0	227	217
Countercyclical buffer	2,5	189	181
Capital Requirement CET 1	**12,5**	**947**	**904**
Hybrid capital	1,5	113	109
Capital Requirement Tier 1	**14,0**	**1 060**	**1 013**
Additional capital requirements	2,0	151	145
Total Capital Requirement	**16,0**	**1 212**	**1 158**

The Group's Common Equity Tier 1 capital at 31 December, 2019 was TNOK 49 557 and the basis for calculation of the capital requirements was TNOK 7 573, which gives a CET1 capital ratio of 654,37 % on a consolidated basis. SDBN's Common Equity Tier 1 capital at 31 December, 2019 end was TNOK 48 711 and that the basis for calculation of the capital requirements were TNOK 7 325, which gives a CET1 capital ratio of 673,30 % on a stand-alone basis.

3 - Capital requirements

3.3 Pillar 2 capital requirement

The ICAAP analysis shows that the Group has a capital base (Tier 1 and Tier 2 capital) of 49,6 MNOK, which is above the ICAAP capital target (1,9 MNOK) and above the legal minimum requirement. SDBN has a capital base (Tier 1 and Tier 2 capital) of 48 711 MNOK, which is above the ICAAP capital target (1.9 MNOK) and above the legal minimum requirement.

31.12.2019	%	Required amount Group (TNOK)	Required amount SDBN (TNOK)	Percent aggregated (%)
Total capital requirement Pillar 1		1 212	1 158	16
Pillar 2 Operational risk	9,2/9,7	700	700	
Sum Pillar 1 + 2		**1 912**	**1 858**	**26,8/27,6**

31.12.2019	Group	SDBN
Risk Weighted Assets	TNOK 7 573	TNOK 7 325
Capital requirement	25,2 %	25,7 %
Actual capital ratio	654,37 %	673,30 %

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, stipulates responsibilities for the risk management system, 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, credit risk and business & strategic risks.

4.2 Credit and counterparty risks

The Group has no credit and counterparty risks related to loans or Client deposits. The Client assumes all risks and rewards pertaining to their deposits and SDBN has no obligation to credit or pay the Client any amount unless equivalent amounts are credited SDBN by the Central Bank, and made available for payment to SDBN. Client deposits are backed one-to-one with deposits at the Central Bank without exception. Credit and counterparty risks are therefore only relevant to the Group's own bank deposits. All own funds are to be deposited with the Group's main bank (Handelsbanken) or European Central Banks. Credit risk is thus limited to the funds held with these counterparties.

Guidelines on how to manage these risks are set out in a separate credit and counterparty policy.

4.3 Market and currency risks

The Group does not hold any investments in financial instruments. Market risk relates mainly to either deposits in European Central Banks or the operating capital held at the Group's housebank (Handelsbanken). The Group is not exposed to a material interest rate risk. Interest on Client deposits reflects the interest rate of the respective Central Banks. The equity can only be invested on a floating rate (overnight rate) basis.

The Group is exposed to currency risk as some of the Group's core suppliers operate in EUR. The Group's expected revenue is mainly in EUR. Nonetheless, whenever the Board considers the exposure to currency risk as high, the Group will implement mitigations towards currency risk. Risks related to deposits in Norges Bank, Deutsche Bundesbank or other banks are covered by the credit and counterparty risk policy.

4.4 Operational risk

SDH does not have any Clients as the Company's sole purpose is to be a Holding Company for SDBN, hence, the operational risk of the Group is associated with SDBN's operational risks, which are;

- Attracting institutional Clients
- Ensure zero error payment transaction processing
- Operational stability / deposit liquidity – Client deposits available at all times
- Integrity and confidentiality of Client data

4 - Governing and risk control

The 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 Group's business service is based on providing institutions real time liquidity with low risk for their liquid cash assets. A prerequisite to avoid reputational risk would be operational stability. Operational risk management ensuring adequate control over internal processes, systems and human errors is therefore of vital importance to the overall achievement of business objectives. As there has been no crucial systems and human errors in 2019, the reputational risk is considered as low.

Compliance risk:
Although the Group's operating model is relatively straight forward, the banking sector is subject to stringent regulatory requirements. However, given the Group's size and high-responsibility nature, the clear processes and procedures, as well as the support the Bank receives from external advisors, the compliance risk is expected to be low.

AML risk
The Group's AML processes and Client due diligence are very strict, supported by a state of the art IT system, which should imply low risk especially considering there are, and will be, few Clients in the Bank. The Group's core banking system restricts third-party payments, Client fund transfers are only allowed for predefined beneficiary accounts and there are deposit capacity limits. In addition, the Bank has implemented "No Cash Policy", meaning the Group will under no circumstances accept deposits and withdrawals in the form of cash from Clients. The Group has a clear organisation and clear division of responsibilities of its work, including a money laundering manager. The internal guidelines for money laundering have been reviewed by PwC and approved by the BoD. The Group carries out a risk-based Client due diligence and ongoing follow-up, and, where applicable, investigate and report suspicious transactions to Økokrim. All documentation on AML are stored.

Model risk
There are two types of model risk, 1) Risk for underestimating using internal models to calculate the capital requirement, and 2) risk of loss as a result of development, implementation and incorrect use of models used in the Company's decision-making processes, e.g. Pricing of products, evaluation of financial instruments, monitoring of risk limits and target figures.

Model risk 1) is not applicable for the Group, as the Group is not using internal models for calculating the capital requirement. Regarding model risk 2), the Group has only one product with a simple pricing model. The Group has no financial instruments, and monitoring of the risk limits and target figures are done based on the nature and size of the institution, and does not imply additional risk.

Key personnel risk
The Group has currently five employees, hence the consequence of an employee resigning is inherently high. To mitigate this risk, all key employees have been signed on a 6 months notice period.
In addition, the Group uses long-term outsourced competent advisors to reduce the key personnel risk.

4 - Governing and risk control

4.5 Liquidity and financing risks

The Group's exposure to liquidity and financing risks is limited to:

- The risk that the Group does not have enough liquidity to fulfil its obligations with regards to operating expenses. In the case of low liquidity financing risks may arise.

The Group is, according to FSA regulations, required to meet the LCR regulatory target relating to size and quality of the Group's liquidity reserve. The Group is required to meet the required target of 100% at all times. The Group has per 31.12.2019 an LCR of 158 258 %, which exceeds the minimum requirement. Guidelines on how to manage this risk are set out in the liquidity and financing risks policy.

4.6 Business and strategic risks

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

SDH is the holding Company of SDBN, which is a service bank that offers a new custody product to a defined and institutional market segment. The business is based servicing targeted Clients that have a need to diversify their liquidity portfolio from traditional banking products to lower risk liquidity asset alternatives. In the Euro-launch phase there are uncertainty and risks related to how SDBN will attract these Clients, and whether the targeted market is sufficiently large 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 Euro-launch phase, the risk appetite is moderate, with a view to reduce this to a low level in the medium/long term.

4.7 Other risk categories

SDH will be exposed to ownership risk related to its shares in SDBN. Ownership 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 risks. Risk exposure and risk tolerance is low due to the Group's business model requires and ensures that Client deposits are highly liquid assets, as they are placed in overnight deposits with Norges Bank and Deutsche Bundesbank. There is also an inherent risk that group companies do not have enough liquidity to fulfill their obligations with regards to operating expenses. SDH Group and SDBN have adequate capital for 2020 and beyond.

The Group has neither: leverage risk, pension risk, concentration risk, risk related to securitisation nor insurance risk. Systemic risk is inherently low given the Group's business model.

Safe Deposit Bank
of Norway AS

Haakon VIIs gate 1
P.O.Box 1667 Vika
NO–0120 Oslo
Norway

T: +47 24 07 60 50
post@sdbn.com

Org.no. 999 644 392

sdbn

Safe
Deposit
Bank
of Norway