

Research Update:

# Denmark-Based Securities Brokerage Firm Saxo Bank A/S Assigned 'BBB' Rating; Outlook Positive

April 12, 2023

## Rating Action Overview

- Saxo Bank A/S (Saxo) is a licensed banking group that is one of Europe's top retail securities brokers in terms of product offering, with a developing institutional franchise.
- Saxo has a well-established franchise in Europe, a historically cautious risk-management stance that we expect will evolve as margin lending expands after its 2019 BinckBank acquisition, and moderate scale relative to larger, more diversified global peers.
- In our base-case scenario, we expect Saxo will be appointed a systemically important bank by the Danish Financial Supervisory Authority (FSA) in the coming months, which could make it eligible for additional loss-absorbing capacity (ALAC) consideration/uplift.
- We therefore assigned our 'BBB' long-term issuer credit rating to Saxo.
- The positive outlook reflects that we could upgrade Saxo if we anticipate that the resolution strategy for the group and its expanding ALAC buffers could enhance the likelihood that senior preferred obligations continue to be paid on time and in full, even if the group failed.

### PRIMARY CREDIT ANALYST

**Olivia K Grant**  
Stockholm  
+ 46 84 40 5904  
olivia.grant  
@spglobal.com

### SECONDARY CONTACT

**Salla von Steinaecker**  
Frankfurt  
+ 49 693 399 9164  
salla.vonsteinaecker  
@spglobal.com

## Rating Action Rationale

**The rating on Saxo reflects its modest business position, strong capital and earnings, limited risk appetite, and strong funding structure as a securities firm holding a bank license.** With total assets of about Danish krone (DKK) 90.5 billion (about €12.2 billion) at year-end 2022, Saxo has established a scalable, high-functionality securities brokerage platform over the past 30 years. Nearly 70% of 2022 trading-related and interest earnings can be attributed to the direct business via its trader and investor segments, with the other 30% relating to the Saxo Institutional customer business. We note that about 40% of trading-related and interest earnings for 2022 were considered recurring in nature. Although Saxo remains much smaller in scale relative to its primary peer IBG LLC (BBB+/Stable/--), with total client assets of about DKK584 billion (\$83 billion) versus IBG's \$306.7 billion, Saxo has a broad product offering of over 60,000 instruments and a long-term customer base with multi-year client relationships. In addition, with the 2019 acquisition of Dutch BinckBank, Saxo gained enhanced capability in margin lending and an

expanding subscription service offering that provides an avenue for growth. As a result of the acquisition, Saxo's total assets more than doubled, and at year-end 2022 it had about 876,000 customers, of which approximately half were direct retail clients, and the other half end clients of institutional wholesale partners.

**Our 'bbb-' anchor--the starting point for the rating--for Danish securities firms is two notches lower than the 'bbb+' anchor for Danish banks to reflect our view of higher industry risk relative to commercial banks.**

These risks include higher competitive risk and less stable, more transactional revenue. Similarly, securities firms' economic risks may exceed those of banks because they are exposed to equity market volatility and dependent on market liquidity to monetize their assets. From a regulatory framework perspective, we see that some securities firms face similar prudential regulation to banks and are actively supervised by the Danish FSA to ensure financial stability for Denmark. We believe that where deposits typically form a large portion of a securities firm's funding base, the Danish regulator is more likely to require it to have a banking license. However, not all securities firms carry banking licenses, leaving them without access to central bank funding.

**We expect capitalization will remain a rating strength, with risk-adjusted capital (RAC)**

**sustained above 15%.** This view is supported by management's commitment to maintain conservative capital levels, and a regulatory framework that drives demanding minimum capital requirements. At year-end 2022, we calculate the bank's RAC ratio at 19.6%. From a regulatory perspective, Saxo reported a common equity Tier 1 (CET1) capital ratio of 24.0% and a total capital ratio of 31% on the same date, relative to the regulatory requirements of 11.1% and 16.8%, respectively. Management has defined a buffer of at least 600 basis points (bps) relative to total capital requirements. This, in addition to the anticipation that capital requirements would increase in line with Saxo's pending systemically importance designation, support our belief that capitalization will remain stable over the next two years.

**We view Saxo's relatively modest risk appetite as neutral for the ratings.** Saxo has built a solid information technology (IT) framework to enable real-time monitoring of client margin exposures and ensure all collateral is actively managed. Automatic stop-outs are in place to ensure that positions are quickly liquidated if a client's balance falls below margin requirements. Like peers, Saxo actively limits exposures on a per-client and per-product basis, some of which is via pricing, and may impose additional limitations if deemed necessary. Following the BinckBank acquisition, we anticipate the bank will expand within margin lending. However, we believe it will adhere to robust margin requirements and compliance standards as it onboards new clients.

**We view funding as a source of strength for Saxo relative to broker peers, since the group has central bank access and a deposit-taking licence.**

This contributes to a solid S&P Global Ratings gross stable funding ratio of over 110%. We see no material funding concentrations and deposit stability is enhanced by approximately 42% being covered by a deposit guarantee scheme at year-end 2022. Supported by prudential regulation, we view Saxo as having robust liquidity management and comfortable liquidity relative to its potential needs. Its liquidity reserve is predominantly invested in high-quality, pledge-able liquid assets, such as European government bonds and Danish covered bonds; the weighted duration typically averages just under 1.5 years.

**Relative to Danish and European commercial bank peers, Saxo remains concentrated given its**

**business model.** Relative to commercial banks that have solid market positions and a broad offering of retail and corporate lending products, Saxo's smaller size and concentration on

securities brokerage mean narrower revenue streams. Similarly, compared with global securities firms, Saxo's client asset size indicates less customer base breadth and span, which possibly curbs earnings. In addition, while we view the current shareholder structure as neutral for the rating, this could have bearing on the firm's financial policy over time. We therefore apply a negative comparable ratings adjustment (CRA) to arrive at the 'bbb' stand-alone credit profile (SACP).

**We do not anticipate any changes to the ownership structure.** Saxo is 51% owned by Geely Financials Denmark A/S, a subsidiary of ultimate parent Zhejiang Geely Holding Group Co. Ltd., a China-based auto manufacturer (BBB-/Negative/--); 19% owned by Sampo PLC, a Nordic insurance group, (A/Stable/--); and 28% owned by CEO and co-founder Kim Fournais. This structure changed in 2018 prior to Saxo's acquisition of BinckBank. However, we assume there is no current operational or financial dependence on Geely and the board structure maintains the distribution of influence over the next two years.

In our base case, we assume

- Modest net income growth because of continued work to increase scale across the bank's trader, investor, and institutional customer segments.
- S&P Global Ratings risk-weighted-asset growth of about 4%-5% over 2023-2024, which covers broad-based growth from credit risk, in addition to increases in market and operational risk.
- The Danish regulator formally designates Saxo as a systemically important bank due to its sizeable deposit base. As a result of a five-year phase-in of the minimum requirement for own funds and eligible liabilities (MREL), senior subordinated issuance will likely be pursued toward year-end 2023.

## Outlook

The positive outlook on Saxo reflects our expectation that we could raise our long-term issuer credit rating within the next 12-18 months.

## Upside scenario

This could occur if the regulator designates it as a systemically important bank and we anticipate a resolution strategy and subordinated buffers that enhance the likelihood of senior preferred obligations continuing to be paid on time and in full, even if the group failed.

The outlook also incorporates our expectation that the group will use its current platform to expand sustainably via an increasing customer base and maintain strong profitability, while ensuring that asset quality remains robust. In addition, we expect Saxo will maintain a RAC ratio above 15% and a solid funding and liquidity profile.

## Downside scenario

Within the same timeframe, we could revise the outlook to stable if:

- We see a reduced likelihood that resolution planning would reduce default risk for senior preferred creditors; or
- We believe growth is being achieved as a result of less prudent risk-management standards,

the group experiences unexpectedly high losses on client or trading exposures, or it reduces tangible capitalization such that the RAC ratio falls below 15%.

## Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors are currently a neutral consideration in our credit rating analysis of Saxo.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Positive/--
SACP	bbb
Anchor	bbb-
Business position	Moderate (-1)
Capital and earnings	Very strong (+2)
Risk position	Adequate (0)
Funding and liquidity	Strong and strong (+1)
Comparable ratings analysis	-1
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. GRE--Government related entity. ALAC—Additional loss-absorbing capacity.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- An Update On Securities Firm Anchors By Country (February 2023), Feb. 3, 2023
- Industry Credit Outlook: U.S. Securities Firms 2023 Outlook: Stable Ratings Through Uncertain Markets, Jan. 18, 2023
- Banking Industry Country Risk Assessment: Denmark, June 9, 2022

## Ratings List

### New Rating; CreditWatch/Outlook Action

#### Saxo Bank A/S

Issuer Credit Rating	BBB/Positive/--
----------------------	-----------------

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.