SAXO BANK

Risk Report 2011

Saxo Bank A/S
Saxo Bank Group

Contents

Introduction

According to the provisions of the Danish executive order on capital adequacy, cf. Annex 20, Saxo Bank A/S (Saxo Bank) and Saxo Bank Group (Saxo Group) is required to disclose information on the Bank's financial risks and policies relating to financial risk management and the calculation of Pillar I and Pillar II capital requirements.

Saxo Bank and the Saxo Group have decided to publish the information on the Bank's website.

The information given in this Risk Report concerns the year 2011 unless otherwise stated. The information has not been audited by the Bank's external or internal auditors.

Saxo Bank and the Saxo Group have decided only to provide information relevant to Saxo Bank and the Saxo Group. This means that risks and positions with no exposure, or models that Saxo Bank and the Saxo Group does not use, do not appear in the risk report.

ICAAP Report and Risk Report

Under Danish law Saxo Bank must publish the result of the Internal capital adequacy assessment process (ICAAP). The unaudited report end year 2011 is available at www.saxoworld.com/investorrelations, and covers both Saxo Bank and Saxo Group.

This ICAAP report comply together with this risk report the requirements in of the Danish executive order on capital adequacy, cf. Annex 20. The ICAAP report end year 2011, named "ICAAP Q4 2011", must be regarded as an annex to this risk report.

Hellerup, March 2012

Saxo Bank

1 Scope

Information is disclosed under the Danish executive order on capital adequacy, cf. Annex 20 and covers

1. Saxo Bank A/S (Saxo Bank), Philip Heymans Allé 15, DK-2900 Hellerup, company registration no. 15 73 12 49, and
2. Saxo Bank Group (Saxo Group)

All Saxo Bank´s subsidiaries are fully consolidated in the Saxo Group for accounting and regulatory purposes.

Saxo Bank and the Saxo Group are both subject to Danish regulatory capital requirements and therefore need to comply with the capital requirements of the Danish Financial Business Act. The rules are based on the EU capital requirements directives. Saxo Bank´s financial subsidiaries and other subsidiaries in and outside Denmark must comply with Danish or local capital and liquidity requirements. Transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries must comply with this regulatory requirements.

Saxo Bank´s subsidiaries are disclosed in the Saxo Bank Annual Report 2011. Saxo Bank annual report is available at www.saxoworld.com/investorrelations.

2 Objectives and risk policies

Saxo Bank's and Saxo Group´s overall risk framework has been established by the Board of Directors through instructions and policies that set the scope for Saxo Bank's and Saxo Group´s risk taking and activities. The Board Instructions determine the limits for market, credit and liquidity risks. In addition, the Board of Directors has issued a market risk policy which establishes guidelines for market exposure and a credit policy which establishes guidelines for managing counterparties and credit limits.

The Board of Management applies the instructions and policies through implementation of a risk management framework. The ongoing monitoring and control of the risks are delegated to the Bank's and the Group´s Risk Director and centralised in the Risk Management department.

During the year, the Board of Directors monitors the Bank's and the Group´s overall risk parameters for market risks such as foreign exchange, CFDs and other related products as well as credit risks such as margin levels and counterparty exposure limits, in response to the continued changes in market conditions and trading volumes.

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

Market risk: The risk of loss due to movements in market risk factors

Credit risk: The risk that counterparties fails to fulfil their obligations

Operational risk: The risk of loss resulting from inadequate or failed processes, people or systems

Liquidity risk: The risk of being unable to meet obligations as they fall due

Business risk: The risk related to the macro-environment and the competitive environment within the banking industry

2.1 Market Risk

Market risk is defined as the risk of loss due to movements in market risk factors such as foreign exchange, equity prices, commodity prices and interest rates. Market risk primary arises from handling the client flow in the market maker function and from inventory positions in the trading organisation.

Objective

The objective of Market Risk Management is to manage and control market risk exposures within the Board given mandate.

The Board of Directors has set limits for the different risk factor types via the Board Instructions; these are allocated within the Saxo Groups subsidiaries and subsequently trading organisation. The limits are monitored by the Risk Management Department and utilisation is reported back to the Board of Directors.

Policy

The Board of Directors has approved the Group's market risk policy. Furthermore, the Board of Directors has set limits for the different risk factor types via the Board Instructions; these are allocated within the trading organisation and Treasury. The limits are monitored by the Risk Management Department and utilisation is reported back to the Board of Directors.

The market risk of the Group is quantified and monitored against exposure, loss and Value-at-Risk limits. Value-at-Risk is a technique used to assess the likelihood of a portfolio loss based on a statistical analysis of the historical price development and volatility. Exposure and loss limit utilisations are monitored on an on-going basis, while Value-at-Risk limit utilisation is evaluated on an end-of-day basis.

Exposure limits on foreign exchange are segmented into more granular levels based on instruments characteristics such as market availability, liquidity and volatility. On foreign exchange options limits are also set on the Greeks: delta, gamma, vega and theta. Such limits assure that the different risk elements (underlying price, volatility and time-decay) from options are managed.

Exposure limits on equities are set on gross, net and single to cater for market wide movements and concentration risk. Exposure limits on commodities are also set on gross, net and single. The single level is furthermore broken down into tenors to avoid concentration risk in a single tenor segment.

The Group also uses a Value-at-Risk model to estimate market risk. Value-at-Risk estimates a potential loss with a certain confidence on a portfolio given a defined holding period. The Bank calculates Value-at-Risk using Monte Carlo simulations to account for non-linear instruments. Limits across the trading organisation have been defined in terms of Value-at Risk. To supplement Value-at-Risk a stress testing framework is also implemented. Based on the most important risk factors, a number of stress tests have been constructed to determine the Bank's vulnerability to large unexpected changes in these risk factors. Furthermore, a set of stress tests replicating changes experienced in known historical events are also performed. Daily and weekly loss limits also exist to prevent losses larger than the approved risk appetite.

The Group uses generally accepted third-party systems to calculate Value-at-Risk and delta, gamma, vega and theta. Principles governing the calculation of exposure are described in greater detail in the Board Instructions.

2.2 Credit Risk

Credit risk is defined as the risk of counterparties of the Bank and the Group failing to fulfil their agreed obligations.

Objectives

In addition to limiting losses as much as possible, the Bank's and the Group´s objectives are to have clear guidelines for lending activities relative to counterparties, trading activities as well as collateral.

Policy

Saxo Bank and Saxo Group are operating in accordance with the Board instructions and the credit policy approved by the Board of Directors. The Board instructions set rules on accepted counterparties and thereby diversification of the Bank´s and the Group’s engagements. The instructions also set limits on counterparty credit exposure, considering creditworthiness, geography and other measures aiming at minimising the credit risk undertaken. Furthermore, the credit policy addresses accepted forms of

collateral as well as leverage factors on individual instrument classes for margin trading. The policy is revised as needed and at least once a year.

The Bank and the Group has segregated duties in order to maintain impartiality during limit setting, the approval process and the following control hereof. Limit setting is done based on client classification. An internal credit evaluation is performed and daily monitoring is performed on issued lines. A periodic line utilisation review is performed to monitor and follow up on issued lines. All lines are re-evaluated at least once a year. The corporate loan portfolio is diversified based on geography and industry sectors. Credit risk due to counterpart´s loss on margin trading risk is monitored on a real-time basis, automatically and manually, with the execution of risk mitigative intervention in due time to avoid any credit loss situation occurring. The Bank and the Group is exposed to five main sources of credit and counterparty risk as described below.

Margin sufficiency

Credit risk arises as a result of losses sustained by the counterparty on margin trading. This risk is monitored on a real-time basis, both automatically and manually, with the execution of stop-outs in due time to avoid credit loss situations.

Credit lines

Credit risk arises as a result of credit lines offered to certain counterparties subject to credit assessment. The credit assessment is carried out in the Group's credit risk management function.

Retail bank activities

Retail banking activities constitute traditional banking services such as loans, overdraft facilities, business credits, construction and housing credits, guarantees etc. The granting of a credit is based on the Group's insight into the client's financial position. As part of this process, the Group strives to ensure that each facility matches the credit quality and financial position of the client.

Settlement risk

Settlement risk is the risk that the Bank and the Group delivers one leg of a transaction but the counterparty fails to meet its obligation. The Bank and the Group has entered into settlement agreements to decrease settlement risk. This includes give-up agreements to the Group's prime brokers (PBs) and continuous linked settlements (CLS). Even so, the Bank and the Group occasionally endures settlement risk when trades are not matched in CLS but have to be gross settled against a given counterpart.

Placement of funds

Credit risk arises as a result of Saxo Bank´s and Saxo Group´s placements of funds with credit institutions or in bonds and equities. The above mentioned credit related risks are managed on an

ongoing basis by risk policies approved by the Board of Directors and systems and procedures approved by the Board of Management.

Credit risk exposure

The Bank´s and the Group's credit risk exposure, consists of both balance items and off-balance items that involve credit risk. Exposure risk derives from lending activities, credit lines, guarantees, derivative financial instruments (counterparty risk) and exposure from investing activities inside and outside the trading book.

The above mentioned credit related risks are managed on an ongoing basis by risk policies approved by the Board of Directors and procedures approved by the Board of Management. Monitoring of these risks is performed by a number of systems.

2.3 Operational Risk

Operational risk is inherent in all business activities and cannot be completely eliminated. Furthermore, operational risk has no material upside in terms of return/income generation, which means that the Group cannot in general expect to gain a higher expected return by assuming more operational risk. Therefore, the overall objective of operational risk management is to identify material risks and to mitigate them where feasible and to the extent economically reasonable.

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, human errors, and errors in IT-systems, or as a consequence of external events.

Objective

The overall objective of operational risk management is to identify material risks and to mitigate them where feasible and to the extent economically reasonable.

The operational risk appetite is defined as the level of residual risk tolerated by Saxo Bank and Saxo Group in the pursuit of its business objectives. In general, the Bank and the Group has low tolerance towards operational risks and is aiming to reduce the losses resulting from these events to a point where the Bank and the Group is not materially impacted by them. However, Saxo Bank and Saxo Group has zero tolerance towards operational risk related to fraud and compliance breaches and therefore the Bank and the Group makes its utmost to mitigate these types of risk.

2.3.1 Operational Risk Management Framework

Saxo Bank and Saxo Group has established an operational risk management framework and takes all possible steps to understand the business' exposure to risk arising from failures in internal controls,

operational processes or the systems that support them. The aim of the operational risk management framework is to enable the Bank and the Group to collect, assess, manage, and report operational risk efficiently and effectively.

Collection and registration of data

Management ensures that procedures and tools are implemented pertaining to ensure a systematic identification, collection and classification of operational risk events across Saxo Group. The mapping of the Group's operational risk landscape is based on internal and external historical data, internal risk assessment and external expert reports. Therefore, the following techniques for collecting operational risk events are used and documented and form the basis for a consistent examination of the Group's exposures related to operational risk:

All losses/gains above a certain limit arising from operational risk events are collected and registered in an error register on a daily basis

Operational risk and control self-assessments are conducted across Saxo Group on a regular basis. This activity ensures that all material operational risks inherent in the Group's products, activities, processes and systems are captured in a systematic and timely manner. Operational risks inherent in new products, activities, processes and systems are assessed before the initiatives are introduced or undertaken.

Information on external operational risk events occurring in the banking industry are systematically utilised to ensure the completeness of the Group's risk landscape.

Assessment

The risk assessment includes a systematic evaluation of risk events in terms of likelihood and impact based on expected loss frequency, i.e. how often an event occurs, and expected loss on average, i.e. the average cost of an event when it occurs. Each risk event is evaluated in light of implemented mitigating measures/controls. Control failures are captured and evaluated similar to other risk events.
External risk events are assessed and evaluated in cooperation with internal parties through workshops. In addition, for all loss events in the error register, the Group determines the actual loss, i.e. the loss or gain that an actual event resulted in, and potential loss, i.e. the highest loss that the actual event could have resulted in, given the current controls. To determine the Group's capital requirements in the context of operational risk, the content of the risk register is used as input to Monte Carlo simulations. The latter method is used to generate random loss scenarios based on assessed probabilities and impact. The result is a loss distribution, which forms the basis for the determination of expected loss, Value-at-risk and expected shortfall with one year horizon. Assumptions are made on confidence levels as well as on the correlation between the various events.

2.3.2 Management and Mitigation

The following three methods are mainly used to manage and mitigate risks:

Insurance coverage

Insurance coverage is used to ensure appropriate coverage against extreme events. However, Saxo Group may incur liabilities that are not covered by insurance as not all claims are insurable. Thus, there can be no assurance that the Group will not experience major incidents of a nature that are non-insurable.

Contingency plan

Contingency plans are developed in accordance with the overall risk strategy.

Controls

Controls are in place to prevent or detect material risk events. Implementation and improvements of controls are based on a cost benefit analysis.

Reporting

Operational risk errors with material impacts, direct and indirect losses above a certain limit are reported to the Board of Directors. The report describes events that led or could lead to substantial losses and actions taken to ensure that the likelihood of similar errors is reduced. at least annually, a written report describing the size and development of Saxo Group's operational risks is provided to the Board of Directors enabling the Board of Directors to and make any changes to the operational risk policy. The report provides an assessment of the current operational risk landscape, describes the events that led or could have led to substantial losses for the Group, proposed changes to the Group's business model, system and products.

Saxo Group's operational risk policy is approved by the Board of Directors and is reviewed annually. Furthermore, the Board of Directors have established guidelines for handling the Group's operational risk in the instructions to the Board of Management.

2.4 Liquidity Risk

Liquidity risk is defined as the risk of being able to meet liquidity obligations at increased cost or, ultimately, being unable to meet obligations as they fall due.

Objective

Saxo Bank and Saxo Group are operating with the following main liquidity objectives:

- Saxo Bank and SaxoGroup has the capacity to fulfill all payment obligations as and when they fall due – to their full extent and in the currency required

- Saxo Bank and Saxo Group continues as a going concern under its current business model in case of increasing cost of funding or even lack of funding

- Prevent the Bank´s and the Group´s cost of funding rises to disproportionate levels

Policy

Saxo Bank´s and Saxo Group's liquidity risk policy is approved by the Board of Directors and is reviewed annually. Furthermore, the Board of Directors have established guidelines for handling the Group's liquidity risk in the instructions to the Board of Management.

Operational liquidity risk

On a contractual basis the Group has more obligations due on demand or within a short time frame than assets held by Saxo Bank and Saxo Group maturing on demand or within a short timeframe. In order to address this mismatch it is the policy of the Bank and the Group to hold a buffer at all times in cash or cashlike securities to meet any outgoing demands based on reasonable estimates. Furthermore, it is the Bank´s and the Group's policy to keep an appropriate liquidity pool available at all times to meet any other payment obligations in due time.

Liquidity stress testing

It is the policy of the Bank and the Group, to update, maintain and execute stress tests on the liquidity on an ongoing basis. The methods and scenarios are 1) client and partner funds withdrawal, 2) adverse interest rate curve shifts, 3) prepayment on any outstanding loans or credit facilities and 4) business impairment resulting in client funds growth standstill. The scenarios include both individual stress and collected aggregated adverse movements against liquidity. Through the monthly reporting to the Board of Management and the Danish FSA the assumptions and scenarios are reviewed and updated upon necessary judgment.

Structural liquidity risk

It is the policy of the Bank and the Group to operate with a viable liquidity contingency plan which outlines the chain of command in event of liquidity crisis, a precise definition of how and when a liquidity issue may arise – including scenarios of 1) client deposit withdrawals, 2) adverse interest rate curve shift, 3) funds unchanged throughout the specified period 4) other unspecified events. The contingency plan, which is continuously maintained and developed, outlines early warning signs containing threshold indicators which, upon breach, will notify the Group treasury Department, who is responsible for escalating the matter accordingly to the chain of command.

Funding sources

The primary source of funding for Saxo Bank and Saxo Group is client deposits. Only a minor part of this is used to service the Group's lending book as well as the Group's margin trading with counterparties. Secondary funding sources are loans, credit facilities, repos and accumulated earnings.

The Group does not need nor require obtain external funding in the normal course of business. This is primarily due to Saxo Bank's business model where clients who use Saxo Bank trading platforms provide deposits etc. as collateral. Saxo Bank places these deposits in liquid assets such as deposit accounts and short-term bonds.

2.4.1 Regulatory requirements

In addition to the regulatory capital requirement the Bank and the Group are subject to regulatory liquidity requirements. The liquidity shall amount to no less than:

- 15 per cent of the debt exposures that, irrespective of possible payment conditions, are the liability of the Bank to pay on demand or at notice of no more than one month, and
- 10 per cent of the total debt and guarantee exposures of the Bank, less subordinated debt that may be included in calculations of the capital base

The following may be included in calculations of liquidity:

- cash in hand,
- fully secured and liquid demand deposits with credit institutions and insurance companies, and
- equity investments of secure and easily realisable securities and credit funds not used as collateral for a loan

As of 31 December 2011, the surplus liquidity for the Group (the Bank) was 407 % (241%).

2.5 Business Risk

Business risk includes types of risk related to the macro-environment, the competitive environment within the banking industry and Saxo Bank related circumstances. Examples could be changes in the economic environment, the legislative environment, the political environment or failure of a cost intensive business project.

Objective

The Bank's business risk objective is to retain focus on external parameters and competitive conditions which may potentially influence the Bank's and the Group´s future operations.

Policy

As business risk is defined as impacts to the future ability to generate earnings, these are tested against the budgeted income.

In addition, a Black Swan function facilitates regular meetings for the purpose of discussing key elements of the Bank's current risk landscape. The goal is, together with the Bank's key managers and selected external participants, to challenge the current views on the future business environment and discuss potential alternative scenarios and relevant responses.

3 Capital base

Saxo Bank's base capital is calculated in accordance with the Danish Financial Business Act and Executive Order on calculation of Capital Base, issued by the Danish Financial Supervisory Authority.

Values recognized in the Capital base calculation are based on accounting values in accordance with the Danish executive order on financial report of credit institutions and investment companies.

The statement of Capital base in table 1 provides a specification of the capital base including Core Tier 1 capital and Tier 1 capital.

Guaranteed capital

All guaranteed capital is issued by the subsidiary Saxo Privatbank A/S (Saxo Privatbank) as part of conversion from cooperative savings bank to savings bank under section 208 (2) of the Danish Financial Business Act.

In the event of dissolution of Saxo Privatbank, guarantee injections shall be repaid before the share capital in Saxo Privatbank.

Guaranteed capital can only be redeemed by the guarantors if child saving accounts or pension accounts reach the end of their retention period or similar event before the maturity of guaranteed capital in 2015.

The entire amount is subject to transitional provision in section 41 of the Executive Order on calculation of Capital Base.

Intangible assets

Deduction includes goodwill and other intangible assets from associates. The deducted amount is reduced by the amount of associated deferred tax liabilities that would be extinguished if the intangible assets became impaired or were derecognised.

Table 1: Statement of Capital base

Capital (DKK. 1000)	SAXO BANK GROUP	SAXO BANK A/S
Total equity	3.240.030	3.222.835
Guaranteed capital	198.627	-
Intangible assets	-2.282.326	-2.220.450
Deferred tax liabilities, intangible assets	232.575	223.386
Deferred tax assets	-139.895	-190
Core Tier 1 capital	**1.249.012**	**1.225.581**
Hybrid Capital	97.815	-
Fair value adjustment of cash flow hedges	47.122	-
Investment in associates (50 %)	-37.257	-37.257
Tier 1 capital (core capital)	**1.356.692**	**1.188.324**
Subordinated debt	606.070	408.933
Subordinated debt, Maturity deduction	-108.779	-18.588
Investment in associates (50 %)	-37.257	-37.257
Capital Base	**1.816.726**	**1.541.412**

Hybrid capital

All hybrid capital is issued by the subsidiary Saxo Privatbank. All hybrid capital is granted by the Danish Government in accordance with the "Credit package agreement, January 2009".

In the event of dissolution of Saxo Privatbank, hybrid injections shall be repaid before the Guarantee capital in Saxo Privatbank.

Hybrid capital in Saxo Privatbank is redeemable from 24 November 2012 at a price of 100. Between 24 November 2012 and 23 November 2014 redemption may be carried out at a price of 100 plus interest, and from 24 November 2014 to 23 November 2015 at a price of 105. The hybrid capital may be redeemed at a price of 110 after 24 November 2015. Early redemption of Hybrid capital is subject to the approval of the Danish Financial Supervisory Authority.

The entire amount is subject to transitional provision in section 42 of the Executive Order on calculation of Capital Base.

Investment in associates (50 %)

Relate to investments in associates which are credit institutions, excluding goodwill already deducted in the item "intangible assets".

Subordinated debt

Subordinated debt before maturity deduction in Saxo Group consist of DKK 409 million issued by Saxo Bank and DKK 198 million issued by the subsidiary Saxo Privatbank. The maturity deduction relates to subordinated debt with a remaining maturity less than three years.

In the event of dissolution of Saxo Privatbank, subordinated debt injections in Saxo Privatbank shall be repaid before the Hybrid capital in Saxo Privatbank.

In the event of dissolution of Saxo Bank, subordinated debt injections in Saxo Bank shall be repaid before the share capital in Saxo Bank.

Early redemption of subordinated debt is subject to the approval of the Danish Financial Supervisory Authority.

4 Capital requirements

Saxo Bank and the Saxo Group must hold a capital base at least equal to the current ICAAP level as determined by the Board of Directors. This ICAAP level cannot be less than the minimum regulatory requirement equal to 8% of risk weighted assets.

Table 2 provides a specification of minimum capital requirements, risk weighted assets and Core Tier 1 capital ratio, Tier 1 capital ratio (core capital ratio), and Solvency ratio.

Table 2: Minimum capital requirements, risk weighted assets and ratios

Regulatory capital, total minimum capital requirement, risk weighted assets and related ratios.

Regulatory capital (DKK 1.000)	**SAXO BANK GROUP**	**SAXO BANK A/S**
Core Tier 1 capital	1.249.012	1.225.581
Tier 1 capital (core capital)	1.356.692	1.188.324
Capital Base	1.816.726	1.541.412
Risk Weighted Assets		
Market risk	3.460.562	3.155.555
Credit risk	3.930.694	4.001.046
Operational risk	5.177.818	3.926.953
Total Risk Weighted Assets	12.569.074	11.083.554
Ratios		
Core Tier 1 capital ratio	9.9 %	11.1 %
Tier 1 capital ratio	10.8 %	10.7 %
Solvency ratio	14.5 %	13.9 %
Minimum Capital requirement (8%)	**1.005.526**	**886.684**

As of 31 December 2011, the Saxo Group´s ICAAP result showed a capital requirement of 11.2% of risk weighted items, equivalent to DKK 1.412 million. Thus, with a capital base of DKK 1.817 million, the capital buffer was DKK 405 million. This level of ICAAP corresponds to the ICAAP report published the fourth quarter 2011. This ICAAP report, named "ICAAP Q3 2011" is available at www.saxoworld.com/investorrelations.

As of 31 December 2011, the Saxo Bank´s ICAAP result showed a capital requirement of 9.0% of risk weighted items, equivalent to DKK 1.002 million. Thus, with a capital base of DKK 1.541 million, the capital buffer was DKK 539 million.

The ICAAP report end December 2011 is publish in March 2012, and is available at www.saxoworld.com/investorrelations.

5 Risk Weighted Assets, Market risk

The Risk Weighted Assets related to Market Risk consist of

- Interest rate risk regarding positions in the trading book
- Share price risk regarding positions in the trading book
- Commodity risk regarding all commodity positions excluding gold positions
- Foreign-exchange risk regarding all foreign-exchange positions including gold positions

The trading book consist of all positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged.

Saxo Bank and Saxo bank Group uses standardised approaches cf. the Danish executive order on capital adequacy, to calculate the Risk Weighted Assets for all four types of market risk.

Table 3: Market Risk, Risk weighted assets and minimum capital requirement

Risk weighed assets and minimum capital requirement per market risk types.

Risk Weighted Assets (DKK 1.000)	**SAXO BANK GROUP**	**SAXO BANK A/S**
Interest rate risk	470.216	208.603
Share price risk	325.028	297.074
Commodity risk	44.933	44.933
Foreign-exchange risk	2.620.385	2.604.945
Total	**3.460.562**	**3.155.555**
Minimum capital requirement (8 %)		
Interest rate risk	37.617	16.528
Share price risk	26.002	23.766
Commodity risk	3.595	3.595
Foreign-exchange risk	209.631	208.396
Total	**276.845**	**252.284**

Share price risk

Saxo Bank and Saxo Group uses the Standardised Approach, cf. the Danish executive order on capital adequacy, Annex 12, to calculate the Risk Weighted Assets for Share price risk. Under the Standardised Approach, the Risk Weighted Assets is the sum of

- Specific risk, 100 % of the sum of all net long positions and net short positions
- General risk, 100 % of the sum of all net positions

Foreign-exchange Risk

Saxo Bank and Saxo Group uses the Standardised Approach "Indicator 1", cf. the Danish executive order on capital adequacy, Annex 14, to calculate the Risk Weighted Assets for Foreign-exchange Risk. Under the "Indicator 1" Approach, the Risk Weighted Assets is the higher of:

- The sum of all net short positions in each currency other than the reporting currency and the net short position in gold converted at spot rates into the reporting currency
- The sum of all net long positions in each currency other than the reporting currency and the net long position in gold converted at spot rates into the reporting currency

Commodity Risk

Saxo Bank and Saxo Group uses the Simplified Approach, cf. the Danish executive order on capital adequacy, Annex 13, to calculate the Risk Weighted Assets for Commodity Risk. Under the Simplified Approach, the Risk Weighted Assets is the sum of the Risk Weighted Assets for each commodity calculated as the sum of

- 187.5 % of the net position, long or short, multiplied by the spot price for the commodity and
- 37.5 % of the gross position, long plus short, multiplied by the spot price for the commodity.

6 Risk Weighted Assets, Credit risk

Saxo Bank and Saxo Group uses the Standardised Approach, cf. the Danish executive order on capital adequacy, Annex 3, to calculate the Risk Weighted Assets for credit risk. Counterparty risk related to exposures in derivatives is included in the calculation of risk weighted assets for credit risk. Counterparty risk is described in section 6.2.

All exposure related to claims or contingent claims is included in the calculation of the risk weighted assets for credit risk unless the following exposures

- exposures deducted when calculating the Capital case,
- exposures included in the calculation of market risk related to share price risk and interest rate risk (positions in the trading book)

Each exposure is assigned to exposure classes where each exposure class has different risk weights.

Table 4: Credit risk, risk weighted assets and minimum capital requirement

Risk weighted assets regarding credit risk is divided into exposure classes.

Risk Weighted Assets (DK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Central governments and central banks	0	0
Institutions	671.666	259.211
Corporates	951.958	3.612.374
Retail	1.173.122	0
Exposures secured by real estate	39.364	0
Exposures in default	12.498	0
Exposures without counterparty	1.084.903	129.461
Group impairment	-2.817	0
Total	**3.930.694**	**4.001.046**
Minim capital requirement (8 %)		
Central governments and central banks	0	0
Institutions	53.733	20.737
Corporates	76.157	288.990
Retail	93.850	0
Exposures secured by real estate	3.149	0
Exposures in default	1.000	0
Exposures without counterparty	86.792	10.357
Group impairment	-225	0
Total	**314.456**	**320.084**

Exposures related to institutions

Exposures relates primarily to short-term exposure to other institutions as part of the Saxo Group's general banking operations. The geographical distribution reflects the Bank´s and the Group´s activities.

Exposures related to corporates

Exposures in the Saxo Group relates to corporates, and exposures not fulfilling the requirements to the exposure classes "retail" and "exposures secured by real estate".

The higher exposure in Saxo Bank is due to investments in subsidiaries in and outside Denmark and internal loans eliminated on Saxo Group Level.

These exposures on Saxo Group level are primarily related to Danish exposures with longer maturities, and relates to different industries, and none is especially significant.

Exposures in retail, exposure secured by real estate and exposures in default

These exposures are primarily related to Danish retail exposures with longer maturities.

Exposures without counterparty

These exposures are primarily related to tangible assets in Denmark. The higher exposure in Saxo Group is primary due to Group headquarters in Denmark.

Table 5: Risk weighted assets, average 2011

Risk weighted assets regarding credit risk is divided into exposure classes, average 2011.

Risk Weighted Assets (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Central governments and central banks	0	0
Institutions	813.825	370.118
Corporates	1.036.960	2.841.258
Retail	1.138.621	0
Exposures secured by real estate	43.976	0
Exposures in default	21.789	0
Exposures without counterparty	1.037.405	213.665
Group impairment	-4.048	0
Total	**4.088.527**	**3.425.040**

6.1 Credit risk

Saxo Bank complies with the Danish executive order on financial reports of credit institutions and investment companies as regards the financial definitions of non-performing debts and defaulted claims and impaired debts. Against this background reference is made to sections 51 – 54 of the Danish executive order on financial reports of credit institutions and investment companies etc. concerning methods used for value adjustment and impairment charges on loans and receivables.

In the annual report 2001 the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Calculation of the Capital base and the risk weighted assets on Saxo bank Group level is based on the Danish executive order on financial reports of credit institutions and investment companies.

6.1.1 Impairment

If objective evidence of impairment of a loan, an advance or amount receivable exists the Bank and 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. Significant loans, advances and amounts due are tested individually for impairment at the end of each reporting period.

Loans and advances (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 advances with similar credit characteristics. The loans and advances are divided into portfolios based on current ratings. Collective impairment is calculated as the difference between the carrying amount of the loans and advances of the portfolio and the present value of expected future cash flows.

Impairments relate to different industries, and none is especially significant.

Table 6: Accumulated impairment, geographical distribution

Accumulated impairment divided into Denmark, other EU countries and other countries.

Accumulated impairment (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Denmark	105.761	0
Other EU countries	26.830	26.824
Other countries	50.732	50.732
Total	**178.813**	**77.556**

Table 7: impairment changes 2011

Impairment changes in 2011.

Impairment (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Accumulated impairment, start year	144.524	66.584
Foreign-exchange adjustments, 2011	-669	-669
Impairment, 2011	99.696	53.212
Reversal impairment, 2011	-50.265	-19.539
Other changes, 2011	-1.231	0
Finally lost, 2011	-8.732	-22.026
Accumulated impairment, end year	**183.323**	**77.556**

6.2 Counterparty risk

Saxo Bank uses the Mark-to-Market Method for counterparty risks to calculate the risk weighted assets for counterparty risk for derivative financial instruments. The mark-to-market Method used is covered by the definition in Annex 16 of the Danish executive order on capital adequacy.

The calculation is based on the market value of contracts having a positive market value and the principals of all contracts multiplied with a principal weight. Saxo Bank uses the calculation in Annex 16 of the Danish executive order on capital adequacy, item 87, where netting agreements is included in the calculation.

Table 8: Derivatives, positive market value and netting

Market value (DKK 1.000)	SAXO BANK GROUP
Positive market value	4.982.196
Netting and collateral offset	-4.543.672
Net current exposure	**438.524**

Most of the net current exposure on Saxo Group level relates to Saxo Bank and the exposure class "institutions".

The risk weighted assets for Saxo Bank and Saxo Group is 137 million and 133 million. The 8 % minimum requirement is then DKK 11.0 million and DKK 10.6 million.

6.3 Credit risk mitigation methods

When calculating credit risk Saxo Bank and the Saxo Group uses credit risk mitigation in the form of the expanded method for financial collateral (Financial Collateral Comprehensive Method), in accordance with the definitions of the Executive Order in Annex 7.

The credit risk exposure including counterparty risk exposure is reduced by the value of the financial collateral after adjustment regarding maturity mismatches and currency mismatches.

Saxo Bank and the Saxo Group uses cash deposit and listed bonds and shares as financial collateral where cash deposit represents the majority of the value of the total credit risk mitigation.

Table 9 specifies the value of credit risk mitigation.

Table 9: Value of credit risk mitigation and risk weighted assets before credit risk mitigation

Value of credit risk mitigation divided into exposure classes. The value indicates the effect on the calculated risk weighted assets using credit risk mitigation.

Value, mitigation (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Corporates	2.343.084	2.334.403
Retail	14.399	
Total	**2.357.483**	**2.334.403**
Exposure before mitigation		
Corporates	3.295.042	5.946.777
Retail	1.187.521	0
Total	**4.482.563**	**5.946.777**

7 Risk Weighted Assets, Operational risk

Saxo Bank uses the Basic Indicator Approach, cf. the Danish executive order on capital adequacy, Annex 18, to calculate the Risk Weighted Assets for operational risks. Under the Basic Indicator Approach, the Risk Weighted Assets for operational risk is equal to (15/8) % of the average over three years of the following accounting related items:

- Net interest, fees and commissions
- Price and exchange rate adjustments
- Other income

The tree-year average is calculated on the basis of the figures from the last three years annual reports. The calculation of the basic indicator throughout 2011 consists of accounts from the financial statement 2008-2010. Risk Weighted Assets for the Group is adjusted by backward consolidation of acquired banks in 2008-2010.

Table 10: Risk weighted assets, Operational risk

Risk weighted assets and minim capital requirement regarding operational risk.

Operational Risk (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Risk weighted assets	5.177.818	3.926.953
8 % minimum capital requirement	414.225	314.156

8 Equities etc. outside the trading book

Shares, which are not included in the trading book, are the shares that Saxo Bank and the Saxo Group did not acquire with a trading intent. The shares are divided into exposures in industrials, other shares and shares in associates.

The Bank's portfolio of industrial shares consists of acquired shares in strategic business partners in the financial sector with the objective of supporting the Bank's business. The value of the shares is adjusted via the income statement when new information is available which supports the case for a changed valuation.

Furthermore, Saxo Bank and the Saxo Group have a very small portion of other shares acquired. Valuation is based on the last known transaction, and adjustments of the carrying amount of the shares in these companies are also taken via the income statement. Shares in associates is measured according to the equity method, investments being measured at the proportionate share of the net asset value of the associates at the balance sheet date including purchase price allocations on initial recognition.

Goodwill and investments in associates which are credit institutions is deducted in the Capital base. The capital requirement is then not very sensitive to the valuation of the exposures.

P/L impact in 2011 of these equities is immaterial. The total investment has grown during 2011, primarily due to acquisition of an associate.

Table 11: Value of exposures in equities outside the trading book

Value of exposures outside the trading book divided into equities and associates.

Value of exposures 2011 (DK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
Equities	66.061	13.649
Associates	287.949	286.910
Total	**354.010**	**300.559**
Hereof deducted in the Capital Base	269.828	269.828

9 Interest rate risk outside the trading book

Saxo Bank's and Saxo Group´s interest rate risk on positions outside the trading book mainly arises from the interest rate risk in short term bonds held for liquidity purposes, loans, deposits, subordinated debt and other debt.

The interest rate risk outside the trading book is calculated every quarter.

Table 12: Interest rate risk outside the trading book

Interest rate risk is calculated by a shift in the interest rate curve with one percentage point.

Interest rate risk (DKK 1.000)	SAXO BANK GROUP	SAXO BANK A/S
EUR	14.918	14.918
DKK	-33.284	0
Total	**-18.366**	**14.918**

10 Annex: ICAAP report end year 2011

The ICAAP report end December 2011 is publish in March 2012, and is available at www.saxoworld.com/investorrelations.