



**RISK REPORT 2010**  
**SAXO BANK A/S**

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## Introduction

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

Saxo Bank A/S has decided to publish the information on the Bank's website. Some of the information is a reproduction of information given in the Bank's Annual Report for 2010.

The information given in this Risk Report concerns the year 2010 unless otherwise stated. The information has not been audited by the Bank's external or internal auditors.

Hellerup, March 2011

Saxo Bank A/S

## 1 Objectives and risk policies

Saxo Bank's overall risk framework has been established by the Board of Directors through instructions and policies that set the scope for Saxo Bank'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 the Bank's 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 Risk Director and centralised in the risk management department.

During the year, the Board of Directors monitors the Bank'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 is 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 of the Bank fail 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

## 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 arises from handling the client flow in the market maker function or from inventory positions in the trading organisation.

### Objective

The Bank's objective within market risk is to ensure that risk taking approved by the Board of Directors is complied with, monitored and reported.

### Policy

The Board of Directors has approved the Bank'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 Bank 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 ongoing 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 characteristics such as market availability, liquidity and volatility. On foreign exchange options limits are 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 Bank 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 Bank 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.

## **Credit Risk**

Credit risk is defined as the risk that the counterparties of the Bank fail to fulfil their agreed obligations.

### **Objectives**

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

### **Policy**

Saxo Bank operates 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 thus diversification of the Bank's activities. Furthermore, the credit policy addresses acceptable 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 has set individual limits of authority. An internal credit evaluation is performed and daily monitoring is performed on issued lines. A periodic line evaluation review is performed to monitor and follow up on issued lines. All lines are re-evaluated at least once a year.

The credit risk due to counterparties' losses on margin trading risk is monitored on a real-time basis, both automatically and manually, with the execution of risk mitigative intervention in due time to avoid any credit loss situation occurring.

The Bank is exposed to four main sources of credit and counterparty risks as described below.

#### **1. Margin sufficiency**

The first type of credit risk arises as a result of losses sustained by the counterparties 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 any credit loss situations.

#### **2. Credit lines**

The second type of credit risk arises as a result of credit lines offered to certain counterparties subject to an individual credit assessment. The credit assessment is carried out in the Bank's credit risk management function.

### 3. Interest bearing assets

The third type of credit risk arises as a result of the Bank's placement of funds with credit institutions or in short-term securities and bonds.

### 4. Settlement risk

Settlement risk is the risk that Saxo Bank delivers one leg of a transaction but the counterparty fails to meet its obligation. Saxo Bank has entered into settlement agreements to mitigate settlement risk on foreign exchange trading. This includes give-up agreements with the Bank's *Prime Brokers* (PBs) and *Continuous Linked Settlements* (CLS). Even so, the Bank occasionally endures settlement risk when trades are not matched in CLS but have to be gross settled against a given counterparty.

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 developed by the Bank.

## Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems from internal and external events.

### Objective

The Bank's operational risk objective is to limit losses related thereto considering the costs involved.

### Policy

The Bank evaluates its exposure and establishes processes for managing operational risk. This includes an evaluation of rare events that could cause significant losses, also-called a "Black Swan" event.

Saxo Bank's operational risk management framework consists of five key components: Risk Identification, Risk Analysis, Risk Evaluation, Risk Responses, and Monitor, Report & Review.

### 1. Risk Identification

The aim of risk identification is to identify the Bank's potential risk exposures. This includes:

- Risk collection: Ensures that potential risk events are gathered within the Bank
- Risk categorisation: Ensures that risk events are classified under required categories

- Risk assessment: Evaluates risks in terms of likelihood and impact

Risk events are gathered through interviews and input from external experts, after which they are documented and maintained in the Bank's risk register. This risk register contains, amongst other things, the expected likelihood, expected impact and worst case impact of each identified risk event.

## **2. Risk Analysis**

The contents of the risk register are analysed through analytical approaches including scenario analyses and 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 (average of events greater than Value-at-Risk) with a one year horizon. Assumptions are made on confidence levels as well as on the correlation between the various events.

## **3. Risk Evaluation**

The outcome of the risk analysis is discussed in workshops with various stakeholders within the Bank. The aim of these workshops is to validate and challenge the outcomes. The individual stakeholders have the opportunity to question, accept or reject the outcomes. If a stakeholder questions the outcomes, further investigation or revision of the applied methodology is carried out. Furthermore, the stakeholders have the opportunity to challenge the validity and relevance of the appropriate stress scenarios and propose new scenarios.

## **4. Risk Responses**

To address risks each material risk is assigned to the appropriate entity within the Bank. The response to a risk is based on its criticality and on the cause identified during the risk identification process. In general, risks are:

- Eliminated
- Mitigated
- Transferred
- Retained

In some cases, combined actions are taken to address an issue. For example, the residual risk after implementing a control can be covered by insurance.

## **5. Monitor, Report and Review**

The monitoring process assists in the early detection and correction of errors and the prevention or reduction of the potential impact of a loss event. Wherever relevant and possible, business units report operational errors and related losses on a daily basis. Operational errors or incidents are captured in a



central loss register. Systems for recording and reporting operational risks have been developed by the Bank.

## **Liquidity Risk**

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

### **Objective**

The Bank's liquidity risk objective is to ensure the availability of adequate capital and liquidity to enable the Bank to meet obligations as they fall due.

### **Policy**

The Board of Directors has adopted a policy for managing the Bank's liquidity risk. The Bank monitors the liquidity risk on a regular basis and aims to maintain positive and stable funding. The risk management focuses on both short-term and long-term liquidity risk, and employs a policy of excess cash placement in short term bonds with relatively low risk and high liquidity, securing the Bank's ability to meet obligations as they fall due. The Bank monitors its daily liquidity reserves as well as the duration of collateral placement. This monitoring is handled by external as well as internal systems developed by the Bank. Furthermore, the Bank's ability to meet its obligations is strengthened by the fact that the Bank's primary business does not involve lending but mainly consists in facilitating investment opportunities for customers.

## **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 future operations.

### **Policy**

The key potential market risks are identified, assessed and discussed as part of the ICAAP process using the same likelihood and impact scale as applied in the assessment of operational, legal and compliance risks. Systems for recording and reporting of business risks have been developed by the Bank.

The result of the assessment is subsequently analysed using a number of analytical approaches, including scenario analyses and Monte Carlo simulations.

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.

## 2 Scope

Information is disclosed under Pillar III and, as a consequence thereof, the Danish executive order on capital adequacy and covers Saxo Bank A/S, Philip Heymans Allé 15, DK-2900 Hellerup, company registration no. 15 73 12 49.

### 3 Base capital

Saxo Bank A/S's base capital is calculated in accordance with the Danish Financial Business Act and the guidelines on completion of reporting forms for the calculation of solvency, base capital and risk weighted items for banks, mortgage banks, investment companies and investment management companies, issued by the Danish Financial Supervisory Authority.

| Calculation of core and base capital                | 2010             | 2009             |
|---|------------------|------------------|
|   | DKK'000          | DKK'000          |
| <b>Equity</b>                                       |                  |                  |
| Share capital                                       | 66,547           | 66,513           |
| Equity method reserve                               | 729,324          | 368,811          |
| Retained earnings                                   | 2,074,286        | 1,889,659        |
| <b>Total equity</b>                                 | <b>2,870,157</b> | <b>2,324,983</b> |
| <b>Primary deductions in core capital</b>           |                  |                  |
| Intangible assets                                   | (1,617,098)      | (1,123,606)      |
| Deferred tax assets                                 | (428)            | (406)            |
| <b>Core capital after primary deductions</b>        | <b>1,252,631</b> | <b>1,200,971</b> |
| Investments in associates                           | (70,291)         | (46,767)         |
| Subordinated capital contributions after deductions | 354,058          | 372,075          |
| <b>Base capital</b>                                 | <b>1,536,398</b> | <b>1,526,279</b> |

## 4 Solvency requirement and adequate base capital

Saxo Bank A/S is comprised by the Danish Financial Business Act, section 124(2) no. 1, according to which the solvency requirement is calculated.

The following table shows the Bank's risk weighted exposures and the minimum capital requirement of 8% derived therefrom, broken down by exposure category.

| Calculation of solvency at 31.12.2010                                      | Risk weighted items | Capital requirement (8% of the exposure) |
|--|---------------------|--|
|  | DKK'000             | DKK'000                                  |
| <b>Risk weighted items under the standard method for credit risk</b>       |                     |  |
| Exposures against institutions, cf. section 4(1)                           | 394,656             | 31,572                                   |
| Exposures against business enterprises etc.                                | 2,201,112           | 176,089                                  |
| Other exposures  | 178,108             | 14,249                                   |
| <b>Total risk weighted items under the standard method for credit risk</b> | <b>2,773,876</b>    | <b>221,910</b>                           |
| <b>Risk weighted items under the standard method for market risk</b>       |                     |  |
| Debt instruments   | 1,787,211           | 142,977                                  |
| Shares   | 266,322             | 21,306                                   |
| Foreign exchange risk  | 1,780,327           | 142,426                                  |
| Commodity risk   | 148,924             | 11,914                                   |
| <b>Total risk weighted items under the standard method for market risk</b> | <b>3,982,784</b>    | <b>318,623</b>                           |
| <b>Risk weighted items subject to operational risk</b>                     |                     |  |
| Basic indicator method   | 3,233,319           | 258,666                                  |
| <b>Total risk weighted items subject to operational risk</b>               | <b>3,233,319</b>    | <b>258,666</b>                           |
| <b>Total weighted items</b>  | <b>9,989,979</b>    | <b>799,199</b>                           |
| <b>Core capital ratio</b>  | 12.5%               |  |
| <b>Solvency ratio</b>  | 15.4%               |  |
| Statutory solvency requirement   | 8.0%                |  |

## 5 – 10 Individual solvency need and individual solvency requirement

The objective of the Bank's capital management is to ensure that the Bank has adequate capital at all times to cover the risks associated with its activities. The framework of the Bank's capital management is based on Pillar I and Pillar II of the Danish executive order on capital adequacy. Pillar I includes rules governing the calculation of the capital requirement, and Pillar II describes the framework of the Bank's internal process for assessing and calculating the solvency need as well as supervision thereof.

### 5 Description of methods for calculating adequate base capital and solvency need

Saxo Bank's procedure for calculating adequate base capital comprises four steps:

Step 1: Capital requirement according to Pillar I

Step 2: Risk self-assessment

Step 3: Stress testing

Step 4: Capital adequacy determination

#### **Capital requirements according to Pillar I**

The first step is the calculation of the capital requirements according to the Danish executive order on capital adequacy, Pillar I.

Saxo Bank uses the following methods to calculate risk weighted assets for the three types of risk:

- Credit risk: standard method
- Market risk: standard method
- Operational risk: basic indicator method

Saxo Bank does not take diversification into account, and the capital requirements for each risk category are added up.

**Risk self-assessment**

The second step is assessment of the actual risks to which the Bank is exposed. Various risk types are examined and divided into large risk categories as shown in the table below.

**Categorisation of risk types**

| Risk types  | Credit risk | Market risk | Operational Risk | Business Risk | Liquidity Risk |
|---|-------------|-------------|------------------|---------------|----------------|
| General   | √           | √           | √                | √             | √              |
| Earnings  |             |             |                  | √             |                |
| Growth  |             |             |                  | √             |                |
| Credit risks                                      | √           |             |                  |               |                |
| Market risks                                      |             | √           |                  |               |                |
| Concentration risks                               | √           | √           |                  | √             |                |
| Group risks                                       | √           | √           | √                | √             |                |
| Liquidity risks                                   |             |             |                  |               | √              |
| Operational risks                                 |             |             | √                |               |                |
| Control risks                                     |             |             | √                |               |                |
| Size of business                                  |             |             |                  | √             |                |
| Settlement risks                                  | √           |             | √                |               |                |
| Strategic risks                                   |             |             |                  | √             |                |
| Reputational risks                                |             |             | √                | √             |                |
| Interest rate risks outside the trading portfolio |             | √           |                  |               |                |
| External risks                                    | √           |             | √                | √             |                |
| Other risks                                       | √           |             |                  | √             |                |
| Stress tests                                      | √           | √           | √                | √             | √              |

Different methods are used to assess the Bank's capital needs in each of the overall categories as described under section 7.

## Stress testing

The third step estimates the capital and earnings effects of stress test scenarios regardless of the previous capital adequacy levels. The stress tests are performed as an alternative method of calculating the Bank's adequate base capital.

Stress tests are developed on the basis of the risk register. One or more stress scenarios are used in the five overall risk categories, comprising one or more events from the register in the applicable risk category. Furthermore, Saxo Bank uses a number of combined stress scenarios combining multiple events across risk categories. One of the combined events entails a highly unlikely chain of events in order to ensure the utmost degree of stress. Wherever applicable, the stress test also takes account of insurance coverage.

The stress scenarios are updated and reviewed at least once a year according to changes in the market and economic environment.

## Capital planning

Part of the determination of the Bank's adequate base capital involves planning future capital needs in relation to the business environment, growth and strategic plans in the years to come. This process is used to assess potential major changes to the risk profile, and hence future solvency needs. These could be changes in the business strategy or the competitive landscape, significant increases in traded volumes, fundamental changes in market conditions, changes in the internal organisation, M&A activity, material changes in statutory requirements or introductions of new products. These inputs are used in the decision-making process by the Board of Directors and management.

# 6 Adequate base capital and solvency needs

## Capital adequacy determination

To determine the appropriate level of capital, the results of the three steps are compared (cf. section 5) – both in nominal terms and as percentages. For steps 2 and 3, the percentage is determined by using the risk weighted assets calculated in step 1 as the denominator. The largest percentage is then the minimum statutory requirement for the solvency level at which the Bank is to operate.

Saxo Bank A/S's solvency needs by risk areas

| Area                 | Adequate base capital | Solvency needs |
|----------------------|-----------------------|----------------|
|                      | <i>DKK'000</i>        | %              |
| Market risks         | 52,922                | 0.53           |
| Credit risks         | 381,600               | 3.82           |
| Operational risks    | 262,454               | 2.63           |
| Other risks / events | 20,000                | 0.20           |
| <b>Total</b>         | <b>716,976</b>        | <b>7.18</b>    |

Saxo Bank A/S's excess cover / capital position

|                                       |                |
|---------------------------------------|----------------|
|                                       | <i>DKK'000</i> |
| Base capital after deductions         | 1,536,398      |
| Adequate base capital                 | 716,976        |
|                                       | %              |
| Solvency ratio                        | 15.38          |
| Solvency needs                        | 7.18           |
| Excess solvency cover as a percentage | 8.20           |

## 7 Comments on specifications for the calculation under section 6

### Market risk

Market risk is calculated by using the Bank's internal market risk model. The model is a Monte Carlo based VaR model which uses an exponentially weighted moving average to estimate expected shortfall. The model uses a 99.97% confidence level with a one-day time horizon in the foreign exchange markets, and a two-day time horizon for products traded on an exchange since most of the exposure can be eliminated within one or two days, respectively. The model uses full diversification between the risk factors in the trading portfolio. To reflect the Bank's risk appetite the most recent monthly and weekly averages are compared, and the largest average is chosen as being representative of the Bank's market risk.

### Credit Risk

To assess the credit risk to which the Bank is exposed, the Bank's various counterparties are assessed, after which the counterparty risk is determined. The risk is assessed by means of loss probabilities based on own data as well as evaluations by recognised rating agencies wherever possible. The credit risk on guarantees received and other credit items is assessed in the same manner.

This information is used as input to the Bank's credit risk model. This model uses the Monte Carlo simulation with one million scenarios run on the basis of the assumed loss probabilities and an estimated correlation between the losses of 30%. In this way the loss distribution for the credit risk is arrived at. The Bank uses expected shortfall with a confidence level of 99.9% with a one-year time horizon.



Furthermore, the credit risk outside the trading portfolio is added, including tangible fixed assets and off-balance sheet items, cf. the standard method according to Pillar I.

### **Operational Risk**

The Bank's operational risk including compliance and legal risks are identified by using an interview process, which, in cooperation with the parties involved, determines the probability and impact of events. The Bank also uses external data sources to identify potential risk factors and to challenge the Bank's risk scenario. External risk experts help the Bank perform this assessment. To determine the capital need, the Bank uses a Monte Carlo model to simulate various loss scenarios. One million scenarios are run based on the assumed loss probabilities. The Bank uses expected shortfall with a confidence level of 99.9% and a one-year time horizon.

### **Business Risk**

Potential business risks are identified by the Bank's management. The results are subsequently analysed using a Monte Carlo model, in which the setting of the impact degree is based on the assumption that the events occur once every 25 years. The Bank uses expected shortfall with a confidence level of 99.9%.

Business risks are defined as a fall in the Bank's future earnings or an increase in costs. To the extent the events cannot be absorbed by budgeted income, the amount of adequate capital needed to cover the calculated risk is determined.

### **Liquidity Risk**

Liquidity risk is determined as the increased cost of raising capital in a highly illiquid market. Saxo Bank has set the liquidity risk on the basis of scenarios with a liquidity shortage in the Bank.

To the extent the events cannot be absorbed by budgeted income, adequate capital will be calculated to cover the risk.

### **Buffer**

Saxo Bank includes a buffer to take account of increased trading activity and growth. The buffer also covers all other risks under Pillar II.

## 8 Information on adequate base capital and solvency need is based on statutory requirements

The Bank's adequate base capital and solvency need are not set on the basis of statutory requirements.

## 9 Base capital after deductions and solvency ratio

The Bank's base capital is DKK 1,536,398 thousand as at 31 December 2010.

The Bank's solvency is 15.4 % as at 31 December 2010.

## 10 Addition to adequate base capital and solvency need as a result of statutory requirements

The Bank has made no addition as a result of statutory requirements.

## 11 Counterparty risk – derivative financial instruments

Saxo Bank A/S uses the market value method for counterparty risks to calculate the size and risk weighting of the exposures for derivative financial instruments. The market value method used is covered by the definition in Annex 17 of the Danish executive order on capital adequacy and for derivatives forming part of the trading portfolio.

When the market value method is used, the market value of contracts having a positive market value and the principals of all contracts are included in the capital adequacy calculation. The market value of the contracts is included by the weights applicable to the residual term of the contracts concerned and the weight applicable to the counterparties concerned.

Most of the Bank's customers are trading against the provision of collateral. Customers trading on credit and without any collateral follow the Bank's credit granting process. Both kinds are included in the Bank's ongoing statement of customer exposures. Exposure against financial counterparties is calculated in accordance with the weighting principles of the Danish executive order on capital adequacy. This exposure is included in the Bank's statement of large exposures.

The following table shows credit risks on derivative financial instruments as used in the calculation of the solvency ratio in the Annual Report for 2010.

| Credit risks on derivative financial instruments | 31.12.2010     |
|--|----------------|
| DKK'000  |                |
| Counterparty 0%                                  | -              |
| Counterparty 20%                                 | 104,348        |
| Counterparty 75%                                 | -              |
| Counterparty 100%                                | 26,504         |
| Counterparty 150%                                | -              |
| <b>Total</b>                                     | <b>130,852</b> |

## 12 Credit and dilution risk

Saxo Bank A/S 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.

The total value of exposures subject to credit risk after impairment is DKK 2,773,876 thousand.

The year end and average values of exposures by category are set out in the table below.

| Year end and average weights for exposures for 2010 | 31.12.2010       | Av. 2010         |
|---|------------------|------------------|
| DKK'000   |                  |                  |
| Exposures against institutions, cf. section 4(1)    | 394,656          | 346,300          |
| Exposures against business enterprises etc.         | 2,201,112        | 1,865,560        |
| Other exposures                                     | 178,108          | 200,692          |
| <b>Total</b>  | <b>2,773,876</b> | <b>2,412,552</b> |

Distribution of the credit categories by industry before weighting and before deductions for collateral giving rise to downwards weighting.

| Statement at 31 December 2010                            | Central governments or central banks | Institutions     | Business enterprises | Retail customers | Exposures secured by mortgage on real property | Exposures subject to arrears or overdrafts | Other exposures  |
|--|--------------------------------------|------------------|----------------------|------------------|--|--|------------------|
| DKK'000  |                                      |                  |                      |                  |  |  |                  |
| Public sector  | 3,631,443                            | -                | -                    | -                | -  | -  | -                |
| Agriculture, hunting, forestry and fisheries             | -                                    | -                | -                    | -                | -  | -  | -                |
| Manufacturing industries and extraction of raw materials | -                                    | -                | -                    | -                | -  | -  | -                |
| Energy supply  | -                                    | -                | -                    | -                | -  | -  | -                |
| Building and construction                                | -                                    | -                | 11                   | -                | -  | -  | -                |
| Trade  | -                                    | -                | 180                  | -                | -  | -  | -                |
| Transport, hotels & restaurants                          | -                                    | -                | -                    | -                | -  | -  | -                |
| Information & communications                             | -                                    | -                | -                    | -                | -  | -  | -                |
| Finance and insurance                                    | -                                    | 2,914,060        | 1,145,783            | -                | -  | 22   | 2,232,184        |
| Real property  | -                                    | -                | 437                  | -                | -  | -  | -                |
| Other industries   | -                                    | -                | 14,805               | -                | -  | 2  | -                |
| <b>Total business sector</b>                             | <b>3,631,443</b>                     | <b>2,914,060</b> | <b>1,161,216</b>     | <b>-</b>         | <b>-</b>                                       | <b>24</b>                                  | <b>2,232,184</b> |
| Private customers  | -                                    | -                | -                    | 7,691            | -  | -  | -                |
| <b>Total</b>   | <b>3,631,443</b>                     | <b>2,914,060</b> | <b>1,161,216</b>     | <b>7,691</b>     | <b>-</b>                                       | <b>24</b>                                  | <b>2,232,184</b> |
| <b>Total</b>   |                                      |                  |                      |                  |  |  | <b>9,946,618</b> |

Please note that the figures cannot be directly extracted from Saxo Bank A/S's Annual Report because the above statement includes components other than the Bank's loan and guarantee portfolio.

Geographical distribution of the credit categories before weighting and before deductions for collateral, which give rise to downward weighting.

| Statement at 31 December 2010 | Central Governments or central banks | Institutions     | Business enterprises | Retail customers | Exposures secured by mortgage on real property | Exposures subject to arrears or overdrafts | Other exposures  |
|-------------------------------|--------------------------------------|------------------|----------------------|------------------|--|--|------------------|
| DKK'000                       |                                      |                  |                      |                  |  |  |                  |
| Denmark                       | 100,945                              | 565,701          | 378,917              | 3,627            | -  | 24   | 89,258           |
| Europe                        | 3,530,498                            | 1,245,627        | 440,571              | 178              | -  | -  | 1,298            |
| USA                           | -                                    | 421,127          | 4,017                | -                | -  | -  | -                |
| Australia                     | -                                    | 500,697          | 45,698               | 3,386            | -  | -  | -                |
| Asia                          | -                                    | 122,702          | 79,187               | -                | -  | -  | 19,833           |
| Other                         | -                                    | 58,206           | 212,826              | 500              | -  | -  | 2,121,795        |
| <b>Total</b>                  | <b>3,631,443</b>                     | <b>2,914,060</b> | <b>1,161,216</b>     | <b>7,691</b>     | <b>-</b>                                       | <b>24</b>                                  | <b>2,232,184</b> |
| <b>Total</b>                  |                                      |                  |                      |                  |  |  | <b>9,946,618</b> |

Distribution of the residual terms of the credit exposures – before weighting and before deductions for collateral, which give rise to downward weighting.

| Statement at 31 December 2010                  | Demand           | 0 – 3 months     | 3 months – 1 year | 1 – 5 years   | Over 5 years | Total            |
|--|------------------|------------------|-------------------|---------------|--------------|------------------|
| DKK'000  |                  |                  |                   |               |              |                  |
| Central governments or central banks           | 3,631,443        | -                | -                 | -             | -            | 3,631,443        |
| Institutions                                   | 1,357,749        | 1,170,356        | 327,225           | 58,730        | -            | 2,914,060        |
| Business enterprises                           | 404,515          | 582,396          | 162,835           | 11,470        | -            | 1,161,216        |
| Retail customers                               | 7,691            | -                | -                 | -             | -            | 7,691            |
| Exposures secured by mortgage on real property | -                | -                | -                 | -             | -            | -                |
| Exposures subject to arrears or overdrafts     | 24               | -                | -                 | -             | -            | 24               |
| Other exposures                                | 2,232,184        | -                | -                 | -             | -            | 2,232,184        |
| <b>Total</b>                                   | <b>7,633,606</b> | <b>1,752,752</b> | <b>490,060</b>    | <b>70,200</b> | <b>-</b>     | <b>9,946,618</b> |

Please note that the figures cannot be directly extracted from Saxo Bank A/S's Annual Report because the above statement includes components other than the Bank's loan and guarantee portfolio.

Loan and guarantee debtors subject to impairment charges/provisions are calculated in accordance with the definition in section 52(3) of the Danish executive order on the presentation of financial statements as regards impaired claims.

| Statement at 31 December 2010                            | Loan and guarantee debtors subject to impairment charges/provisions |               | Impairment charges / provisions at year-end | Expensed amounts relating to value adjustments and impairment charges in 2010 |
|--|---|---------------|---|---|
|  | Distressed claims   | Impaired      |   |   |
| DKK'000  |   |               |   |   |
| Public sector  | -   | -             | -   | -   |
| Agriculture, hunting, forestry and fisheries             | -   | -             | -   | -   |
| Manufacturing industries and extraction of raw materials | -   | -             | -   | -   |
| Energy supply  | -   | -             | -   | -   |
| Building and construction                                | -   | 11            | -   | -   |
| Trade  | -   | 182           | 2   | 1   |
| Transport, hotels & restaurants                          | -   | -             | -   | -   |
| Information & communications                             | -   | -             | -   | -   |
| Finance and insurance                                    | -   | 12,501        | 12,479                                      | 4,590   |
| Real property  | -   | 437           | 27  | 10  |
| Other industries   | -   | 380           | 378   | 139   |
| <b>Total business sector</b>                             | <b>-</b>  | <b>13,511</b> | <b>12,886</b>                               | <b>4,740</b>  |
| Private customers  | -   | 4,845         | 4,843                                       | 1,781   |
| <b>Total</b>   | <b>-</b>  | <b>18,356</b> | <b>17,729</b>                               | <b>6,521</b>  |

Geographical distribution of loan and guarantee debtors subject to impairment charges/provisions in accordance with section 52(3) has been omitted because the total provision is insignificant and the impairment charges are widely spread geographically, giving no indication of geographical risks.

Movements of distressed claims as a result of value adjustments and impairment charges.

| Statement for 2010  | Individual impairment charges/<br>provisions |                      | Collective impairment charges/<br>provisions |                      |
|---|--|----------------------|--|----------------------|
|   | Loans etc.                                   | Guarantee<br>debtors | Loans etc.                                   | Guarantee<br>debtors |
| DKK'000   |  |                      |  |                      |
| Accumulated impairment charges/provisions at beginning of year  | 11,788                                       | -                    | -  | -                    |
| Movements during the year :   |  |                      |  |                      |
| Foreign exchange rate adjustments   | -  | -                    | -  | -                    |
| Impairment charges/provisions during the year   | 6,133  | -                    | -  | -                    |
| Reversal of impairment charges/provisions made in previous years  | (192)  | -                    | -  | -                    |
| Other movements   | -  | -                    | -  | -                    |
| Value adjustment of assets acquired   | -  | -                    | -  | -                    |
| Final loss (written off) previously subject to individual impairment charges/provisions   | -  | -                    | -  | -                    |
| <b>Accumulated impairment charges/provisions at year-end</b>  | <b>17,729</b>                                | -                    | -  | -                    |
| The total of loans and receivables subject to individual impairment charges/provisions (calculated before impairment charges /provisions) | 18,356                                       | -                    | -  | -                    |

In 2010, Saxo Bank A/S reported a total loss of DKK 580 thousand, which was subject to no previous individual impairment charges/provisions.

At the end of 2010, Saxo Bank A/S had receivables of DKK 139 million from credit institutions, which have been written down by DKK 43.3 million (2009: DKK 43.3 million).

## 13 Credit rating agencies

Saxo Bank A/S uses the standard method for calculating credit risk. Data from credit rating agencies are not included in the calculation of the solvency requirement, cf. section 4.

## 14 Information about calculation of credit risk under the IRB method

Saxo Bank A/S does not use the IRB method.

## 15 Market risk

The Danish executive order on capital adequacy requires the bank to disclose the solvency requirements for a number of risks, which are calculated under the market risk area.

The following table shows the solvency requirements relating to the market risks of Saxo Bank A/S.

| Risk weighted items according to the standard method for market risk              | Risk weighted items | Capital requirement (8% of the exposure) |
|---|---------------------|--|
| DKK'000   |                     |  |
| Debt instruments  | 1,787,211           | 142,977                                  |
| Equities  | 266,322             | 21,306                                   |
| Foreign exchange rate risk  | 1,780,327           | 142,426                                  |
| Commodity risk  | 148,924             | 11,914                                   |
| <b>Total risk weighted items according to the standard method for market risk</b> | <b>3,982,784</b>    | <b>318,623</b>                           |

## 16 Information about internal models (VaR models)

Saxo Bank A/S does not use internal VaR models when calculating risks, and, consequently, this also applies to the Group's Capital Adequacy Statement.

## 17 Operational risk

The Danish executive order on capital adequacy prescribes hedging of operational risks by banks. Operational risk means the risk of loss arising from inadequate or insufficient internal procedures, human errors and system errors or as a result of external events, including legal risks.

Saxo Bank A/S uses the basic indicator method, cf. the Danish executive order on capital adequacy, Annex 18, to calculate the capital requirement for operational risks. This means that the capital requirement for operational risks is calculated at 15 per cent of average "core income" for the most recent three years. The core income is the total of net interest income and non-interest related net income.

As mentioned in section 4, the Bank's operational risk amounts to DKK 3,233,319 thousand. The solvency requirement for operational risk at 31 December 2010 is DKK 258,666 thousand.

## 18 Exposures in equities etc. which are not included in the trading portfolio

Shares, which are not included in the trading portfolio, are the shares that Saxo Bank A/S 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 object of supporting the Bank's business. The value of the shares is adjusted via the income statement when fresh information is available which supports the case for a changed valuation.

Furthermore, Saxo Bank A/S has a small portion of other shares. 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 include Saxo Bank A/S's stakes in EuroInvestor.com (41%) and Banco Best (25%). The value thereof 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.

| Saxo Bank A/S's portfolio of equities | Exposure 31.12. 2010 | Impact on operations in 2010 |
|---------------------------------------|----------------------|------------------------------|
| DKK'000                               |                      |                              |
| Type:                                 |                      |                              |
| Industrial shares                     | 3,460                | 227                          |
| Other shares                          | 5,567                | (112)                        |
|                                       | <b>9,027</b>         | <b>115</b>                   |
| Investments in associates             | 254,099              | 10,555                       |
| <b>Total</b>                          | <b>263,126</b>       | <b>10,670</b>                |



## 19 Exposures to interest rate risks on positions which are outside the trading portfolio

Saxo Bank A/S' interest rate risk on positions outside the trading portfolio mainly arises from the interest rate risk on fixed-rate assets (bonds) and fixed-rate liabilities (debt to credit institutions),

The interest rate risk is calculated every quarter.

| Interest rate risk on positions outside the trading portfolio     | Exposure 31.12.2010 |
|---|---------------------|
| DKK'000   |                     |
| Interest rate risk on bonds not included in the trading portfolio | 41,047              |
| Interest rate risk on loans not included in the trading portfolio | (1,025)             |
| <b>Total</b>  | <b>40,022</b>       |

## 20 Information about securitisations

Saxo Bank A/S does not use securitisations.

## 21 Information about credit risk calculations in IRB institutions

Saxo Bank A/S is not an IRB institution.

## 22 Information about credit risk mitigation methods

When calculating counterparty risk Saxo Bank A/S uses netting and credit risk mitigation in the form of the expanded method for financial collateral.

The Danish executive order on capital adequacy, Annex 7, clauses 57-60, states the financial collateral that the Bank may use when employing the expanded credit risk mitigation method. In accordance with the definitions of the Executive Order in Annex 7, the financial collateral can be divided into four main categories:

- Cash deposits
- Debt instruments
- Shares
- Investment units

Collateral provided is weighted downwards, cf. the rates given by the Danish Financial Supervisory Authority.

The Bank does not apply netting, whether on or off the balance sheet.

The following table shows the exposure categories which contain collateral cover. Collateral cover is fully adjusted.

| <b>Collateral cover by exposure category</b> | <b>Exposure 31.12.2010</b> |
|--|----------------------------|
| DKK'000                                      |                            |
| Exposures against business enterprises etc.  | 1,729,091                  |
| <b>Total</b>                                 | <b>1,729,091</b>           |

## 23 Information about advanced measuring methods to calculate operational risk

Saxo Bank A/S uses the basis indicator method, so this section is not relevant.