Risk Report 2013

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.

Information given in this Risk Report concerns the year 2013 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.

1.1 ICAAP Report and Risk Report

Under Danish law Saxo Bank must publish the result of the Internal capital adequacy assessment process (ICAAP). The unaudited ICAAP report end year 2013 is available at
www.saxoworld.com/investorrelations, and covers both Saxo Bank and Saxo Group.

This ICAAP report complies together with this risk report the requirements in of the Danish executive order on capital adequacy, cf. Annex 20. The ICAAP report end year 2013, named "ICAAP Q4 2013", must be regarded as an annex to this risk report.

1.2 New regulation and assumptions primo 2014

The fourth editions of the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) were approved by the EU Council of Ministers end of June 2013 and are applicable from 2014. CRD IV and CRR require Saxo Bank Group to monitor and report new capital requirements and buffers. The Group will be required to set aside more and better capital as a cushion against hard times.

The CRR introduces the first single set of prudential rules for banks across the EU. It applies directly to all banks in EU member states. It should help to ensure that the Basel III international standards for bank capital adequacy are fully respected in all EU member states. EU Banks will be supervised by EU member states' competent authorities, in collaboration with the European Banking Authority (EBA), whose supervisory powers will be expanded.

Furthermore, the Group will also be required to hold a "capital conservation buffer" to absorb losses and protect the capital, and a "countercyclical capital buffer" to ensure that in times of economic growth, the Group accumulates a sufficient capital base to enable it to continue supplying a stable supply of credit in stress periods. In Denmark the "capital conservation buffer" is phased in from 2016 and the "countercyclical capital buffer" from 2015. In addition, member states may require additional buffers.

The final implementation of CRD IV in Danish legislation is delayed including some of the Danish Member State's transition rules and will first be effective end of March 2014. In addition some of the regulation standards from EBA are also delayed.

The Risk Report figurs named primo 2014 is based on the new regulation and draft transition rules from DFSA issued in December 2013 and draft regulation standards from EBA. The corresponding change in ICAAP calculations is disclosed in the ICAAP Q4 2013 Report.

The estimated impact primo 2014 may change due to final Danish regulation and transition rules and final regulation standards from EBA especially due to pending final standards regarding Prudent Valuation Adjustments in Core tier 1 Capital.

Hellerup, March 2014

Saxo Bank

1 Scope

The information in this report 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 2013. 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 activities. The Board Instructions determine the risk limits for market, credit, operational 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 an implemented risk management framework. The on-going monitoring and control of the risks is delegated to the Bank's and the Group's Risk Director and carried out in the Risk Management department.

Saxo Bank’s and Saxo Group’s risk organization will be improved in 2014. The changes include two new risk committees; a Board Risk Committee, which will decide on general principles for managing and monitoring risk and a Management Risk Committee, which will ensure that the Group’s risk management structure is robust and well-functioning. These changes will ensure that risk management will be embedded in the Group, cascaded from the top and increased transparency of responsibility and accountability.

During the year, the Board of Directors monitors and adjusts the Bank's and the Group's overall risk parameters for market risks such as foreign exchange, equities, commodities and interest related products as well as credit risks such as margin levels and counterpart exposure limits, in response to changes in market conditions and trading volumes. The Board of Directors approves specified thresholds for each type of risk.

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 of loss due to counterparties of the Bank and Group fail to fulfil their agreed 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

Leverage risk: The risk of loss resulting fom to high leverage

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, equities, commodities and interest rates. Market risk arises from handling the client flow in the market maker functions or from proprietary positions in the Group’s treasury activities.

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 Group’s 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, subsidiaries and Treasury. The limits are monitored by the Risk Management Department and utilisation is reported back to the Board of Directors.

Market Risk Metrics

The Group operates its trading and investment business using the Group's online investment trading platforms. This entails a trade execution flow which allows for market-making functions in selected instruments. Other traded instruments supported by the Group are offered on a hedged basis.

The market risk of the Group is quantified and monitored against a number of exposure, loss and Value-at-Risk limits.

Exposure and loss limit utilisations are monitored on an ongoing basis and reported at five minute intervals, while Value-at-Risk limit utilisation is evaluated on an end-of-day basis.

Exposure limits are both set according to the underlying asset class, and also on a more granular level differentiating between different risk profiles within a single asset class.

Exposure limits on foreign exchange are segmented into more granular levels based on instruments characteristics such as market availability, liquidity and volatility. On 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 both for market 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.

Loss limits are set on a single day basis and on a five day rolling basis, and relative to the underlying asset class and exposure mandate.

The Value-at-Risk (VaR) is the estimated loss that potentially could arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR limit framework used by the Group is based upon a 95% confidence and assumes a 1 day holding period. The VaR model used is based on Monte Carlo simulations to account for non-linear instruments. VaR is deemed to be a good basis for comparing and monitoring risk across different asset classes. However, the model is based on certain assumptions that should be noted:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for highly illiquid markets
- A 95% confidence level does not reflect losses that may occur beyond this level
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios

To supplement VaR a stress testing framework is implemented. Based on the most important risk factors in terms of exposures and VaR contributors, a number of stress tests have been constructed to determine the Group’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.

The VaR position is dependent on the Group’s exposure (limits) and the conditions in the market place. The VaR positions at 31 December 2013 are in general representative for the VaR development during 2013. Any fluctuations in VaR were mainly due to changing market conditions, as exposure limits were held steady through 2013.

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 operate 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 have implemented 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 credit losses. The Bank and the Group are 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 credit risk increases if market movements are exceptional, significant and incur within a short timeframe. The risk is monitored on a real-time basis, both automatically and manually, with the execution of risk-mitigating intervention in due time to avoid credit loss situations. Monitoring controls are in place to mitigate concentration risk which could increase credit risk.

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 have 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 endure settlement risk when trades are not matched in CLS but have to be gross settled against a given counterpart.

Interest bearing assets

Credit risk arises as a result of Saxo Bank's and Saxo Group's placements of funds with credit institutions or in bills and bonds.

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.

Credit risk exposure

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

2.2.1 Credit Exposure relating to lending activities

Lending activities comprise loan and advances at amortised cost and related off-balance items that involve credit risk. Loans and advances at amortised cost include receivables from investment brokers, trading clients and lending clients.

Credit exposure and credit concentration risk based on sector and industry relating to lending activities is managed and monitored on an ongoing basis in accordance with the credit policy.

The Group’s credit granting is based on insight into the client’s financial position as well as continuous monitoring of the development in the client’s financial situation in order to assess whether the conditions for the credit granting have changed.

Collateral held against lending activities

An essential element of the Group´s credit policy is to reduce risk in the loan portfolio by requiring collateral. The Group continuously assesses the value of the current market value of the collaterals. For the most common types of collateral the Group has its own valuation models that estimate the value. For collateral types where no valuation models exist, the valuation is done manually. The value of the collateral is assessed at the current estimated market value including a haircut. Haircut is an estimation of the cost that would occur at a forced sale. For property the haircut depends on property type, condition, location etc.

Credit exposure relating to counterparty and investing activities

Credit exposure due to counterparty and investing activities comprises receivables from credit institutions and central banks, derivative financial instruments with positive fair value and bonds.

Counterparties consist of financial institutions such as banks, brokers, clearing houses etc, which are part of the Group's daily financial trading or investment activities. The Group's credit granting is based on insight into the counterparty's financial position as well as continuous monitoring of the counterparties' financial state in order to assess whether the conditions for the credit granting have changed.

The rating of counterparties and bonds is based on Standard & Poor's rating methodology or equivalent rating.

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. Further, operational risk has no material upside in terms of return/income generation, which means that the Group cannot in general expect a higher 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 an economically reasonable extent.

Operational risk covers the risk of direct or indirect loss resulting from inadequate or failed internal processes, human errors, errors in IT-systems, or as a consequence of external events. The definition includes legal and compliance risk, but excludes business and reputational risk.

Objective

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

Furthermore, the attitude and approach of the Saxo Bank's and Saxo Group's employees are crucial for successful operational risk management. Saxo Bank and Saxo Group aim to build a strong operational risk culture using awareness tools. The awareness approach ensures that all employees have relevant and sufficient knowledge of operational risks related to their tasks and any precautionary measures necessary to prevent such risks from arising. Saxo Bank and Saxo Group promote a culture which strives to continuously improve working processes with an awareness of the associated operational risks.

2.3.1 Operational Risk Management Framework

Saxo Bank and Saxo Group have established an operational risk management framework and take the necessary 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

The mapping of the Group's operational risk landscape is based on historical data and internal risk self-assessments. The following techniques for collecting operational risk events are used and documented, and they form the basis for a consistent examination of the Group's exposures related to operational risk:

- All losses above a certain limit arising from operational risk events are collected and registered in an error register on a daily basis. Potential losses and near miss events are also captured in the error register.
- Operational risk self-assessments are conducted across the 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.

The Group further uses additional sources of data, such as employee surveys and external event data, challenge and ensure the completeness of the operational risk landscape.

Assessment

The assessment includes a systematic evaluation of risk events in terms of likelihood and impact based on expected loss frequency and expected loss on average. Each risk event is evaluated in light of implemented mitigating measures/controls. Control failures, where applicable, are captured and evaluated. In addition the Bank and Group assess the extreme loss (the highest loss that the actual event could have resulted in) for each event, given worst-case operating conditions.

To determine the Group's capital requirements in the context of operational risk, the content of the risk register with insurance effect is used as input to the calculations. The calculation is based on Monte Carlo simulation which 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 operational risks:

- **Insurance coverage:** Insurance coverage is used to ensure appropriate protection 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. These are regularly reviewed, updated and tested.

- **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 impact or a direct and indirect loss 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, enabling the Board of Directors to make 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.

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

2.4 Liquidity Risk

The Group operates with a liquidity pool available at all times in the form of unencumbered, highly liquid securities and cash instruments to address the estimated potential cash needs during a liquidity crisis. The Group acknowledges the value of flexibility and the balance between the counterparty risks associated with holding cash during a liquidity crisis, and the importance of being liquid during the first period of a liquidity crisis.

Objective

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

- Saxo Bank and Saxo Group have 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 continue 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 at least 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 cash-like 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 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, which 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. A part of this is used to service the Group's lending book as well as the Group's margin trading. Secondary funding sources are loans, credit facilities, REPOs and accumulated earnings. The Group does not need nor require to obtain external funding in the normal course of business.

In a general market crisis or specific bank crisis, the Group can access liquidity through a reallocation of its investments to demand deposits and/or halt business growth to such an extent that collateral placed with business partners, which consists mainly of short term, highly liquid Government debt securities, are available.

Liquidity - Regulatory requirements

In addition to the regulatory capital requirement Saxo Group is subject to regulatory liquidity requirements. The liquidity shall amount to no less than:

- 15% 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% 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

The Group met the regulatory liquidity requirements throughout the year 2013. The regulatory liquidity requirement for the Group including the 50% additional requirement was DKK 4.51 billion (2012: DKK 3.81 billion). The Group's liquidity as of 31 December 2013 to cover this requirement was DKK 12.50 billion (2012: DKK 12.03 billion).

In addition the Danish Financial Supervisory Authority expects all Danish banks to hold a "funding-ratio" below 1. The "funding-ratio" is loans divided by the sum of deposits, subordinated debt and equity.

The "funding-ratio" for the Group as of 31 December 2013 was 0.088 (2012: 0.085).

Liquidity – Future regulatory requirements

CRD IV and CRR require the Group to monitor and report a short-term Liquidity Coverage Ratio (LCR), and a long-term Net Stable Funding Ratio (NSFR). In Denmark, LCR will be phased in as a new liquidity requirement, i.e. a gradual phasing-in of 60% of the full requirement in 2015 to 100% in 2018.

The Group expects the LCR requirement to be more restrictive than the current Danish regulation due to expected higher liquidity requirements on investment bank activities which is the Group´s core business. The Group is monitoring the final regulation and interpretations closely and has taken action based on the estimated impact on the future liquidity regulation.

2.5 Leverage Risk

CRD IV and CRR require the Group to report and monitor their leverage ratios. From 2014, leverage ratios will be assessed under Pillar II (ICAAP requirement). ICAAP is discolused in the ICAAP Q¤ 2013 report.

2.6 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.

2.7 Other Risk

Other risk covers strategy risk, and risk not included in the previous categories. Methodologies for assessing capital requirement vary depending on the underlying risk event type.

3 Capital base

3.1 Regulation end 2013

Saxo Bank A/S and Saxo Bank 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. Financial subsidiaries in and outside Denmark must comply with Danish or local capital requirements. The ICAAP is determined in accordance with the Danish guidelines.

The Bank and the Group reports each month in regards to the capital requirements to the Danish Financial Supervisory Authority.

As of 31 December 2013, the capital base for the Group was DKK 2.04 billion after inclusion of of the total comprehensive income for the year, compared with DKK 1.71 billion as of 31 December 2012. The change in the capital base is mainly due to increase in Core tier 1 capital.

The Group met the regulatory capital requirements throughout the year 2013.

Saxo Bank's base capital end 2013 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.

3.2 Regulation primo 2014 and assumptions

The Fourth editions of the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) were approved by the EU Council of Ministers end of June 2013 and applicable from 2014.

Danish legislation implementing CRD IV is delayed and expected to become effective end of March 2014. In addition some of the regulation standards from the European Banking Authority EBA are also delayed.

Based on draft regulation and draft transition rules issued from Danish FSA and EBA the estimated effect on the total capital (capital base) is expected to be minor beginning of January 2014. All external subordinated debt issued by the Group in the capital calculation does not fulfill the requirements in CRR. None of the subordinated debt will be eligible for inclusion in the capital calculations from end of 2017 and will stepwise be reduced from beginning of 2014 to end of 2017 based on CRR and Danish transition rules.

The estimated impact beginning of January 2014 may change due to final Danish regulation and transition rules and final regulation standards from EBA especially due to pending final standards regarding Prudent Valuation Adjustments in Core tier 1 Capital.

The estimated effect on the Banks and the Group's ICAAP calculations are disclosed in the ICAAP Q4 2013 report.

3.3 Statement of Capital Saxo Bank Group

The statement of Capital base for Saxo Bank Group in tables 1 provide specifications of the capital base including Core Tier 1 capital and Tier 1 capital and a comparison of the expected effects of the new capital regulations that took effect 1. January 2014 *based on the listed assumptions*.

Table 1: Statement of Capital base for Saxo Group

Capital Base **DKK 1,000** **Saxo Bank Group**	**2013** **Annual Report** **Q4**	**2014** **Plan** **Primo**
Shareholders' equity start of year ex. minority	**3,321.8**	**3,458.0**
Net income ex. minority	159.5	0.0
Accumulated other comprehensive income	(19.6)	0.0
Change in CET1 Capital	(3.7)	0.0
Revalutation reserve	(57.4)	0.0
CET1 capital from subsidiaries	205.3	166.1
Cash Flow Hedge Reserves	0.0	37.7
Goodwill including associates	(1,135.3)	(1,135.3)
Intangible assets	(959.1)	(959.1)
Deferred tax liabilities ass.to other intangible assets	215.9	215.9
Deferred tax asset that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(140.6)	(4.5)
Defined benefit pension fund assets	0.0	(12.7)
AVA adjustment (based on EBA draft model)	0.0	(21.7)
CET1/Core Tier 1 Capital	**1,586.8**	**1,744.4**
T1 capital from subsidiaries	105.5	94.0
Fairvalue adj. of cash flow hedge	37.7	0.0
Part of interest in associated companies (50 %)	(62.0)	0.0
Core Capital/Tier 1 Capital	**1,668.0**	**1,838.4**
Subordinated loans after solvency deduction	354.4	256.5
T2 capital from subsidiaries	21.9	34.7
Valuation reserves	57.4	0.0
Part of interest in associated companies (50 %)	(62.0)	0.0
Capital Base	**2,039.7**	**2,129.6**

3.4 Statement of Capital Saxo Bank

The statement of Capital base for Saxo Bank Group in tables 1 provide specifications of the capital base including Core Tier 1 capital and Tier 1 capital and a comparison of the expected effects of the new capital regulations that took effect 1. January 2014 *based on the listed assumptions*.

Table 2: Statement of Capital base for Saxo Bank A/S

Capital Base DKK 1,000 Saxo Bank A/S	**2013 Annual Report Q4**	**2014 Plan Primo**
Shareholders' equity start of year	**3,334.3**	**3,458.0**
Net income	151.9	0.0
Accumulated other comprehensive income	(19.6)	0.0
Change in CET1 Capital	(8.6)	0.0
Revalutation reserve	0.0	0.0
CET1 capital from subsidiaries		
Cash Flow Hedge Reserves	0.0	0.0
Goodwill including associates	(1,125.1)	(1,125.1)
Intangible assets	(989.2)	(989.2)
Deferred tax liabilities ass.to other intangible assets	230.2	230.2
Deferred tax asset that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(16.3)	0.0
Defined benefit pension fund assets	0.0	0.0
AVA adjustment (based on EBA draft model)		(9.4)
CET1/Core Tier 1 Capital	**1,557.6**	**1,573.9**
T1 capital subsidiaries		
Fairvalue adj. of cash flow hedge	0.0	0.0
Part of interest in associated companies (50 %)	(62.0)	0.0
Core Capital/Tier 1 Capital	**1,495.7**	**1,573.9**
Subordinated loans after solvency deduction	354.4	256.5
T2 capital subsidiaries		
Valuation reserves	0.0	0.0
Part of interest in associated companies (50 %)	(62.0)	0.0
Capital Base	**1,788.0**	**1,830.4**

3.5 Items included in the capital statements

The following sections provide a further explanation of what is included in each item in the capital base for Saxo Bank Group and Saxo Bank.

Shareholder's equity start of year excluding minority interest

This item includes the share capital and retained earnings, but excludes minority interest.

Net income

Net income includes income from both mother and subsidiaries for the period.

Accumulated other comprehensive income

Accumulated other comprehensive income for the period from both mother and subsidiaries.

Change in CET1 capital

These changes include acquisitions, share-based payments, increase in share capital and treasury shares.

Revaluation reserve

The revaluation reserve comprises revaluations of domicile properties after the recognition of deferred tax. The fair value of the domicile properties is determined by applying an asset return model based on observable prices and other valuation prices. The full value in end of 2013 is deducted from the equity and added to T2. According to the new regulation, from 2014, the revaluation reserve shall be included in CET1.

Cash Flow Hedge Reserves

With the new regulations, the cash flow hedge reserves move from AT1 into CET1.

Subordinated loans after solvency deduction

This item included subordinated debt issued by Saxo Bank. Before maturity the book value ins Saxo Bank and Saxo Bank Group end 2013 amounts to around 410m. The maturity deduction relates to one subordinated loan with a remaining maturity less than three years on the old regulation end 2013.

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.

None of the subordinated loans fulfill the new regulation but will be grandfathered on transitions rules in CRR. The loans decrease linearly because they are both maturity deducted daily the last five years and transition rules are applied. The limit (applicable percentage) in the Danish transition rules in draft does not reduce the maturity deducted amount.

CET1, T1 and T2 Capital from subsidiaries

The new regulation introduces a new way to account for external capital issued from subsidiaries and how much the Group can account for of the CET1, AT1 and T2 capital of the subsidiary that is attributable to parties other than those included in the prudential scope of consolidation.

Table 3 presents the difference of how capital from the subsidiary Saxo Privatbank is recognized, between the new and old regulations. *Final version of the danish transition rules and regulatory guidelines from Danish FSA or EBA might have an effect on the results presented below.*

Table 3: Recognition of Capital from Saxo Privatbank in Saxo Group

Recognition of Capital from Saxo Privatbank in Saxo Group

	Old Regulation		**New regulation**	
	Includes	DKK mio	Includes	Expected (DKK mio)
CET1	Guaranteed Capital, based on Group book value	205.3	Consolidated model based on surplus capital in Saxo Privatbank	166.1
AT1	Hybrid Capital based on Group book value	105.5	Consolidated model based on surplus capital in Saxo Privatbank	93.9
T2	Subordinated debt, based on Group book value but adjusted wrt. Maturity	21.9	Consolidated model based on surplus capital in Saxo Privatbank	34.7
	Sum	**332.7**		**294.8**

CET1: 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 47 of the Executive Order on calculation of Capital Base end 2013 where the recognised value is the Group's balance sheet value, 204.4m of the above 205.3m.

In addtion CET1 consists of a minor mionority of the share capital in Saxo Privatbank, 0.9m of the above 205.3m.

AT1: 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 between 24 November 2012 and 23 November 2014 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 47 of the Executive Order on calculation of Capital Base end 2013 where the recognised value is the Group's balance sheet value, 105.5m.

T2: Subordinated debt before maturity deduction from subsidiaries consist of DKK 87.7m in Group book value issued by the subsidiary Saxo Privatbank. The maturity deduction relates to subordinated debt with a remaining maturity less than three years on the old regulation end 2013.

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

From 2014 all T2 capital is maturity deduced the last five year on daily basis.

Goodwill including associates

Goodwill, including goodwill in associates is deducted from the capital in the same manner as according to the old rules.

Intangible assets

Intangible assets other than goodwill are deducted from the capital in the same manner as according to the old rules. These include Work in progress, Software, Customer Contracts, Developed Software and other.

Deferred tax liabilities ass.to other intangible assets

Deferred tax liabilities related to intangible assets. These would be extinguished if the intangible assets became impaired or were derecognized. This is presented in the same way as the year before, according to the old rules.

Deferred tax assets that rely on future profitability and do not arise from temporary differences

According to the new regulation, deferred tax assets are divided into three groups depending on whether they rely on future profitability and whether they arise from temporary differences. In the old regulation, this deduction consisted of a sum of all deferred tax assets that rely on future profitability, including also tax assets that arise due to subsidiaries that are not in the same jurisdiction. With the new regulation, deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, excluding the tax assets that arise in subsidiaries that are not in the same jurisdiction as the Group, are deducted fully.

Deferred tax assets that rely on future profitability and arise from temporary differences

The deduction due to deferred tax assets that rely on future profitability and arise from temporary differences is subject to two thresholds, namely a 10% threshold of the CET1 base and secondly one in combination with sum of CET1 instruments of financial sector entities where the institution has a significant investment.

Additional Valuation Adjustment

According to CRR (Article 34 and 105) all balance sheet items measured at fair value, including both trading book and banking book, are subject to specified standards for prudent valuation. These cover uncertainties regarding input factors, such as mark-to-market, model risk and valuation of less liquid positions. The adjustments should be applied to determine a prudent value that achieves an appropriate degree of certainty with regard to the dynamic nature of trading book positions, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of fair valued positions.

CET1 instruments of financial sector entities where the institution does not have a significant investment
There is an additional deduction based on a threshold, which is related to CET1 instruments of financial sector entities where the institution does not have a significant investment. This is a simple threshold of 10% of a CET1 base.

Defined benefit pension fund assets
There is a deduction on benefit pension fund assets.

Fair value adj. of cash flow hedge
With the new regulation this amounts moves from AT1 to CET1.

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.

The calculation of the ICAAP result is based on an internal process during which management assesses the overall risks. The ICAAP is updated regularly as capital requirements are subject to change due to changes in the business as well as risks and controls, both internally and externally.

The ICAAP is determined in accordance with the Danish FSA's new Pillar I+ guideline, which became effective as of end 2012.

Table 3 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 4: 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
Core Tier 1 Capital	1,586,754	1,557,629
Tier 1 Capital	1,667,997	1,495,660
Capital Base	2,039,720	1,788,041
Risk Weighted Assets		
Market Risk	1,969,405	1,515,489
Credit Risk	4,243,142	3,779,772
Operational Risk	6,342,880	4,625,954
Total Risk Weighted Assets	12,555,427	9,921,215
Ratios		
Core Tier 1 Capital Ratio	12.6%	15.7%
Tier 1 Capital Ratio (Core Capital Ratio)	13.3%	15.1%
Solvency Ratio	16.2%	18.0%
Minimum Capital Requirement (8%)	**1,004,434**	**793,697**

As of 31 December 2013, the Saxo Group's ICAAP result showed a capital requirement of 12.4% of risk weighted items, equivalent to DKK 1.558.8 million.

As of 31 December 2013, the Saxo Bank's ICAAP result showed a capital requirement of 11.95% of risk weighted items, equivalent to DKK 1.185 million.

4 Risk Weighted Assets – 2014

Changes from old to new regulation

The increase in credit risk is primarily due to changes in the capital calculations where some exposures are moved from capital deductions to RWA. Secondary from CVA adjustment (addition to counterparty risk). The increase in market risk is due to additional requirements on options.

The change in operational risk is the normal primo change (not regulatory change). Calculations end 2013 are based on income in 2010, 2011 and 2012 annual reports, and primo 2014 are based on income in 2011, 2012 and 2013 annual reports.

Saxo Bank Group

Primo 2014 the risk-weighted assets calculated using the CRR method (new regulation), totalled at 13,310m. The capital requirement is 8%, equal to an overall capital requirement of 1,064.9m. The capital contribution in each of the main risk categories were as follows; Credit risk: 409.1m, Market risk: 173.6m and Operational risk: 482.2m.

Saxo Bank A/S

Primo 2014 the risk-weighted assets calculated using the CRR method (new regulation), totalled at 10,285m. The capital requirement is 8%, equal to an overall capital requirement of 822.8m. The capital contribution in each of the main risk categories were as follows; Credit risk: 348.0m, Market risk: 137.2m and Operational risk: 337.5m.

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 use standardised approaches cf. the Danish executive order on capital adequacy, to calculate the Risk Weighted Assets for all four types of market risk.

Table 5: 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**
Interest Rate Risk	817,700	487,470
Share Price Risk	416,400	399,353
Commodity Risk	57,900	57,908
Foreign-Exchange Risk	677,405	570,758
Total	**1,969,405**	**1,515,489**
Minimum Capital Requirement (8%)		
Interest Rate Risk	65,416	38,998
Share Price Risk	33,312	31,948
Commodity Risk	4,632	4,633
Foreign-Exchange Risk	54,192	45,661
Total	**157,552**	**121,239**

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 use 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 use 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 6: Credit risk, risk weighted assets and minimum capital requirement

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

Risk Weighted Assets (DKK 1,000)	**Saxo Bank Group**	**Saxo Bank**
Central governments and central banks	0	0
Institutions	529,255	317,753
Corporates	1,628,697	3,124,771
Retail	1,045,960	0
Exposures secured by real estate	47,715	0
Exposures in default	7,228	0
Exposures without counterparty	990,187	337,248
Group impairment	-5,900	0
Total	**4,243,142**	**3,779,772**
Minimum Capital Requirement (8%)		
Central governments and central banks	0	0
Institutions	42,340	25,420
Corporates	130,296	249,982
Retail	83,677	0
Exposures secured by real estate	3,817	0
Exposures in default	578	0
Exposures without counterparty	79,215	26,980
Group impairment	-472	0
Total	**339,451**	**302,382**

Exposures related to institutions

Exposures relate 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 relate 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 7: Risk weighted assets, average 2013

Risk weighted assets regarding credit risk are divided into exposure classes, average 2013.

Risk Weighted Assets (DKK 1.000)	**SAXO BANK GROUP**	**SAXO BANK**
Central governments and central banks	0	0
Institutions	451,471	253,673
Corporates	1,417,260	3,183,956
Retail	1,096,886	0
Exposures secured by real estate	42,865	0
Exposures in default	36,243	0
Exposures without counterparty	1,239,552	359,167
Group impairment	-4,585	0
Total	**4,279,691**	**3,796,795**

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 credit value adjustment and impairment charges on loans and receivables.

In the annual report 2013 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 8: 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
Denmark	94,099	429
Other EU countries	33,210	33,210
Other	9,488	9,488
Total	**136,797**	**43,126**

Table 9: Impairment changes 2013
Impairment changes in 2013.

Impairment (DKK 1.000)	Saxo Bank Group	Saxo Bank
Accumulated impairment, start year	187,248	93,050
Foreign-exchange adjustments, 2013	0	0
Impairment, 2013	26,796	1,572
Reversal of impairments, 2013	(9,204)	(51,495)
Other changes, 2013	2,798	0
Loss written off, 2013	(70,841)	0
Accumulated impairment, end year	**136,797**	**43,127**

6.1.2 Credit adjustment on open derivatives

The Bank and the Group has open CFD contracts with clients where credit adjustments are included in the fair value measurement of the derivatives. At 31 December 2013 the market value open CFD contracts with clients with insufficient collateral were credit adjusted 250m (negative impact). The credit adjustment is based on the placed collateral and an estimate of the clients creditworthiness. The clients are per agreements obliged to provide further collateral and have done that regularly both in 2013 and 2014.

In addtion a credit risk buffer is added to the ICAAP Q4 2013.

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 are included in the calculation.

Table 10: Derivatives, positive market value and netting

Market Value (DKK 1.000)	Saxo Bank Group and Saxo Bank A/S
Positive Market Value	5,724,944
Netting and collateral offset	-4,991,885
Net current position	733,059

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

The risk weighted assets for counterparty risk for Saxo Bank and Saxo Group are respectively 272 million and 273 million. The 8 % minimum requirement is then DKK 21.8 million and DKK 21.9 million.

6.3 Credit risk mitigation methods

When calculating credit risk Saxo Bank and the Saxo Group use 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 use cash deposits and listed bonds and shares as financial collateral where cash deposit represents the majority of the value of the total credit risk mitigation. The value of the credit risk mitigation is 4,507m.

Credit risk mitigation comes largely from the exposure class corporates and lowers the risk weighted assets for credit risk (4,664m) including netting about 160m. In addition the Group also has a minor mitigation from Saxo Privatbank.

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 three-year average is calculated on the basis of the figures from the last three years annual reports. The calculation of the basic indicator throughout 2013 consists of accounts from the financial statement 2010-2012. Risk Weighted Assets for the Group are adjusted by backward consolidation of acquired banks in 2010.

Table 11: Risk weighted assets, Operational risk

Risk weighted assets and minimum capital requirement regarding operational risk.

Operational Risk (DKK 1,000)	Saxo Bank Group	Saxo Bank
Risk Weighted Assets	6,342,880	4,625,954
8% minimum capital requirement	507,430	370,076

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 the intent of trading. 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 are measured according to the equity method, investments are 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 that are credit institutions are deducted in the Capital base. This results in the capital requirement not being very sensitive to the valuation of the exposures.

Profit and loss impact in 2013 of these equities is immaterial.

Table 12: Value of exposures in equities outside the trading book
Value of exposures outside the trading book divided into equities and associates.

Value of exposures 2013 (DKK 1.000)	Saxo Bank Group	Saxo Bank
Equities	0	0
Associates	326,071	325,227
Total	**326,071**	**325,227**
Hereof deducted in the Capital Base	307,132	307,132

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 13: 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
EUR	-1,026	-1,026
DKK	-34,295	0
Total	**-35,321**	**-1,026**

10 Annex: ICAAP report end year 2013

The ICAAP report end December 2013 is published in March 2014, and is available at www.saxoworld.com/investorrelations.