

## Netfonds - capital requirement and risk (ICAAP)

The following is a description of the capital adequacy situation in Netfonds, on a consolidated basis and for each subsidiary on a stand alone basis. The group consist of Netfonds Holding ASA with the two 100% owned subsidiaries Netfonds Bank AS and Netfonds Livsforsikring AS. The Board of Directors believes that the Netfonds has sufficient capital to cover risk. Once every year the capital adequacy situation is controlled by an independant organization. Netfonds group has no plans for further growth which would require additional capital to cover new risk. Netfonds Holding ASA was demerged in May 2014 and the equity capital was reduced with 50 million NOK.

The following tables give a specification of identified risk and compares this with the level of equity capital to cover the risk. A description of identified risk is included in the notes to the tables:

<b>Netfonds Holding ASA Konsern (mill NOK)</b>	<b>Note</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>3/2014</b>	<b>6/2014</b>
Counterparty risk surplus funds in Nef Holding	1	3,2	0,4	3,5	2,2	2,2	2,2
Counterparty risk surplus funds in Netfonds Bank	1	9,8	25,3	21,6	14,0	21,5	33,8
Operational risk in Netfonds Holding ASA	2	0,0	0,2	0,2	0,4	0,4	0,4
Operational risk in Netfonds Bank AS	2	11,0	13,7	10,3	9,0	8,1	8,1
Credit risk in Netfonds Bank AS	3	0,6	0,5	1,2	0,4	1,6	0,9
Capital requirement for fixed assets	4	0,9	0,9	0,8	0,9	0,9	0,9
Market risk in life insurance	5	0,1	4,3	2,1	3,1	3,1	4,1
Capital requirement in life insurance - unspecified	5	4,8	0,7	3,0	4,6	4,6	3,4
Operational risk in life insurance	6	0,2	0,2	0,2	0,3	0,3	0,3
Insurance risk	7	0,0	0,0	0,0	0,0	0,0	0,0
Total risk / minimum required capital (Tier 1)	Sum	30,6	46,2	42,9	34,9	42,7	54,1
Concentration risk	8	10,0	5,0	5,0	3,0	3,0	3,0
Sum internally assessed risk	Sum	40,6	51,2	47,9	37,9	45,7	57,1
Required extra buffer capital in banks - 4,5%	11				13,6	18,1	24,6
Total requirement for equity capital		40,6	51,2	47,9	51,5	63,8	81,7
Equity capital	9	221,9	231,6	242,3	234,8	234,8	203,0
Surplus of equity capital		181,3	180,4	194,4	183,3	171,0	121,3
Minimum equity capital according to law		66,4	66,7	66,9	71,0	71,0	71,0
Capital coverage in %	10	44 %	36 %	40 %	50 %	41 %	28 %
Minimum capital coverage in %		8,0 %	8,0 %	8,0 %	8,0 %	8,0 %	8,0 %

<b>Netfonds Bank AS (mill NOK)</b>	<b>Note</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>3/2014</b>	<b>6/2014</b>
Counterparty risk surplus funds in Netfonds Bank	1	9,8	25,3	21,6	14,0	21,5	33,8
Operational risk in Netfonds Bank AS	2	11,0	10,7	10,1	9,0	8,1	8,1
Credit risk in Netfonds Bank AS	3	0,6	0,5	1,2	0,4	1,6	0,9
Capital requirement for fixed assets	4	0,9	0,9	0,8	0,9	0,9	0,9
Total risk / minimum required capital (Tier 1)	Sum	22,3	37,4	33,7	24,3	32,1	43,7
Concentration risk	8	10,0	5,0	5,0	3,0	3,0	3,0
Sum internally assessed risk	Sum	32,3	42,4	38,7	27,3	35,1	46,7
Required extra buffer capital in banks - 4,5%	11				13,6	18,1	24,6
Total requirement for equity capital		32,3	42,4	38,7	40,9	53,2	71,3
Equity capital	9	147,1	142,4	131,0	145,8	145,8	145,8
Surplus of equity capital		114,8	100,0	92,3	104,9	92,6	74,5
Minimum equity capital according to law		41,0	41,0	41,0	41,0	41,0	41,0
Capital coverage in %	10	36 %	27 %	27 %	43 %	33 %	25 %

<b>Netfonds Livsforsikring AS (mill NOK)</b>	<b>Note</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>3/2014</b>	<b>6/2014</b>
Market risk in life insurance	5	0,1	4,3	2,1	3,1	3,1	4,1
Capital requirement in life insurance - unspecified	5	4,8	0,7	3,0	4,5	4,6	3,4
Operational risk in life insurance	6	0,2	0,2	0,2	0,3	0,3	0,3
Insurance risk	7	0,0	0,0	0,0	0,0	0,0	0,0
Total risk / minimum required capital (Tier 1)	Sum	5,1	5,2	5,3	7,9	8,0	7,8
Sum internally assessed risk	Sum	5,1	5,2	5,3	7,9	8,0	7,8
Equity		46,1	41,4	43,7	46,0	46,0	47,9
Surplus of equity capital		41,0	36,2	38,4	38,1	38,0	40,1
Minimum equity capital according to law		25,4	25,7	25,9	30,0	30,0	30,0
Capital coverage in %	10	72 %	64 %	66 %	47 %	46 %	49 %

## Notes - Description of identified risk and calculation of capital requirements:

### Note 1

Counterparty risk is incurred on surplus liquid funds invested in interest bearing papers and in term deposit accounts with other credit institutions. The risk weight varies between 20 and 100%. The capital requirement is 8%.

### Note 2

Operational risk is estimated to 15% of net average interest margin and commissions over the last three years. Netfonds has established a disaster recovery site in case of a major incident. A number of administrative routines are established to reduce risk of fraud and mistakes. All incidents are registered and analyzed.

### Note 3

Netfonds Bank is financing their clients purchases of securities. The borrowers mortgage their portfolios as security for the loans. Netfonds will sell the borrowers portfolio if the security for the loan becomes insufficient. The credit risk is calculated as the loss likely to be incurred by Netfonds if the value of the mortgaged portfolio falls by 22% during the course of one day.

### Note 4

Fixed assets have a weight of 100% and a capital requirement of 8%.

### Note 5

Market risk and other asset risk in life insurance are calculated according to the requirements of the The Supervisory Authority of Norway. The market risk is considered to be equal to 20-30% of the value of the investments in equities and the likely loss of value of investments in bonds due to a 2% shift in the interest rate curve. The risk on «other assets» in life insurance is specific to Norway, and is shown on a separate line, as the company has no such other assets.

### Note 6

Operational risk in life insurance is calculated according to the requirements of the The Supervisory Authority of Norway as 25% of the fixed costs of the company.

According to regulations of 22/12 2006 a norwegian life insurance company is obliged to have own capital to cover 8% of 20% of the clients portfolios and 4% of the clients cash deposits. In addition the company is obliged to have capital to cover 8% of its own total weighted assets. Part of this capital requirement is meant to cover market risk, which is shown on a separate line, see note 5.

### Note 7

Life insurance risk is low because Netfonds only offer life insurance on 1% of the insurance savings.

### Note 8

The bank has concentration risk when securities held as mortgage for loans cannot be sold in time to avoid losses. The bank monitors potential loss on each security if the market price falls by 50% and 100%. Client portfolios with concentration risk are to a lesser extent accepted as security for loans.

### Note 9

Total eligible capital consists of the following:

Netfonds Holding ASA consolidated (mill NOK)	2010	2011	2012	2013	2014
Book value of equity	224,0	234,7	246,2	238,1	206,2
Intangible items	0,0	-1,6	-2,1	-2,0	-1,9
Prepaid pensions on behalf of employees	-2,1	-1,5	-1,8	-1,3	-1,3
<b>Tier 1 capital (Equity)</b>	<b>221,9</b>	<b>231,6</b>	<b>242,3</b>	<b>234,8</b>	<b>203,0</b>
Tier 2 capital (hybrid capital)	0,0	0,0	0,0	0,0	0,0
<b>Total eligible capital</b>	<b>Sum 221,9</b>	<b>231,6</b>	<b>242,3</b>	<b>234,8</b>	<b>203,0</b>

Netfonds Holding ASA was demerged in May 2014 and the equity capital was reduced with 50 million NOK.

### Note 10

Capital adequacy ratio is calculated as:  
Total eligible capital / Internally assessed risk \* 8%

### Note 11

With effect from December 31st 2013 Norwegian banks are required to hold an extra 4,5% buffer of own capital. It is calculated as 4,5% of total weighted assets.