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Express Bank
BNP PARIBAS GROUP

Internal Capital Adequacy Assessment Process

2023

EKSPRES BANK A/S

(BNP PARIBAS GROUP)

EKSPRES BANK		EKSPRES BANK A/S (hereafter Ekspres Bank or the Bank)
ICAAP SCOPE		GROUP Covering Ekspres Bank A/S, Ekspress Bank NUF and Express Bank Sverige Filial
SUPERVISOR	:	Danish FSA - Finanstilsynet
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REVIEWED BY	:	LOCAL VALIDATOR(S) BNP Paribas Head-Office teams: • Group Finance / Supervisory Affairs • Finance Management

1 Executive Summary

1.1 Objective of the ICAAP

The objective of this document is to present a detailed view of the Ekspres Bank Internal Capital Adequacy Assessment Process (ICAAP) based on 31 December 2023 data, in accordance with the guidelines from European Banking Authority (EBA) and the guidelines issued by the Danish Financial Supervisory Authority (FSA).

The aim of the ICAAP is to assess the adequacy of the capital held by Ekspres Bank ("the bank") to cover, under a going concern assumption, the risks generated by Ekspres Bank commercial activities, on the basis of an internal assessment of these risks. The process is conducted on the banks prudential banking perimeter.

The ICAAP document was reviewed by Ekspres Bank's CFO, CRO and CEO and, analysed for consistency with Group principles only, by BNP Paribas Personal Finance Supervisory Affairs team.

The ICAAP is addressed to the banks Management, the bank´s Board of Directors and to the Danish FSA.

Scope

The ICAAP process covers the three entities of Ekspres Bank:

- Ekspres Bank A/S
- Ekspress Bank NUF
- Express Bank Sverige Filial

BNP Paribas Personal Finance owns 100% of shares of Ekspres Bank.

Purpose

This report considers BNP Paribas internal guidance on Capital Adequacy Assessment, which is promoted and fully applicable to its entities. This guidance is updated every year to consider all BNP Paribas supervisors feedback.

This report also answers to the request of fulfilling the Duty of Disclosure set out in the Annex 2 to the Danish Executive Order on Capital Adequacy; cf. Executive Order no. 2155 of 3 December 2020 and the Danish Financial Business Act FIL. The principle of proportionality means that the ICAAP framework and methodology should take into consideration the belonging of Ekspres Bank to the BNP Paribas Group, be adapted to the size of Ekspres Bank, and the complexity of its activities.

1.2 Risk Identification

As a prerequisite to the ICAAP, the bank has implemented a comprehensive risk identification process. In particular, based on its own assessment, the following categories of risk are considered in the ICAAP of the bank:

- Risk types defined by the Basel regulation – Pillar 1 risks – namely credit risk, market risk, and operational risk
- Risk types identified through the banks risk identification process and captured in the internal risk taxonomy – Pillar 2 risks – credit risk, risk related to growth in business volume, interest rate risk, liquidity risk, operational risk etc.

For each of the aforementioned risk types, the Internal Capital requirement assessment and aggregation presents the underlying risk strategy and management processes of Ekspres Bank, and presents in this context, the banks assessment of the sufficiency of Pillar 1 and Pillar 2 capital requirements.

1.2.1 Credit risk

Risk of loss due to the non-performance of incoming payments by debtors or counter parties, besides what is covered in Pillar I.

Credit Risk is Ekspres Bank's biggest risk area, consequently a large part of the solvency need is related to it. Therefore, Ekspres Bank is also largely focusing on this particular risk area. The main part of the allocated capital within the credit risk area can be explained by the fact that the bank has made additional provisions for customers having financial problems, even though Ekspres Bank has no large customers (>2% of the capital base).

Adjusted loan repayment ability is the initial estimated repayment ability stress tested by reducing the net booked value with additional 15% for category 1 and 2 clients (clients which have shown vulnerability) and 3% on category 3 and 4, due to no current indications of vulnerability. Any additional credit reservation, not covered by Pillar I within each category or the NPE-backstop, is added to the solvency requirements as an add-on.

1.2.2 Operational risk

Operational Risk is defined as the risk resulting from the inadequacy or failure of internal processes, or from external events, that resulted, could result or could have resulted in a loss, a gain or an opportunity cost.

This definition applies to the internal processes of all the bank's departments and of their support functions, as well as to the internal processes of Group Functions.

The external events mentioned in this definition include those of human or natural origin.

1.2.3 Market Risk

Market risk consists of: interest risk, credit spread risk, share risk and currency exchanges risk.

The Board of Directors does not allow the bank to have a trading book. The bank only has limited equity investments and no active trading is allowed. Only strategic equity investments can be made after specific approval by the Board of Directors. It is also the bank's strategy to fund each branch separately in branch's functional currency and thus reducing the FX risk. No bond trading is allowed and HQLA can only be secured through reverse repo or through securities lending deals. It is the bank's strategy to reduce the interest exposure, and it is not permitted to actively increase the interest rate risk through market trades. The Executive Board has the authorisation to enter in hedging agreements (such as swaps and caps) in order to reduce the interest rate risk.

1.2.4 IRRBB

Ekspres Bank is subject to some Interest Rate Risk in its Banking Book due to discrepancies in interest rate indexes on which loans and deposits / borrowings are indexed. The interest rate that Ekspres Bank receives on loans and pays on deposits/borrowings may be fixed or indexed on various reference rates and on various tenors. Hence, when interest rates evolve, the interest expense paid on deposits and other liabilities on the one hand and the interest income received on loans and other assets on the other hand do not necessarily vary in the same way, generating variability on earnings. This risk is named Interest Rate Risk in the Banking Book (IRRBB).

1.2.5 Liquidity Risk

Liquidity risk occurs when Ekspres Bank cannot fulfil payment obligations in time. Ekspres Bank must calculate the additional cost for accessing market funding in a stressed situation. Ekspres Bank has a Credit Line Agreement with the parent company.

In case of liquidity shortfall the bank has access to additional funding resource provided by the parent entity in local currencies (DKK, SEK or NOK).

Ekspres Bank has assessed the amount of capital to be set aside in order to cover the liquidity risk in a stress situation where Ekspres Bank cannot have access to funding resources from the parent entity:

- No further access to funding resource from the parent entity
- Reduction of funding needs via cease of loan origination activities in Direct, Resale and Broker business, however since the Bank has reduced activity here due to the new strategic plan with the partial stop for granting of new loans the effect will be limited
- Stress on Deposit outflow in Sweden Branch
- Additional funding sourced in local market with additional cost (+350bps)

1.2.6 Income Risk

Income risk is defined as the risk that the basic income (BI) cannot act as the first buffer to cover credit losses.

Basic Income is defined as earnings before write-off's on loans, rate adjustments and result of capital interests, compared to loans and guarantees.

The solvency guidelines states that if Ekspres Bank's forecasted Basic Income is less than 1 percent of loans and guarantees, the bank needs to allocate additional capital in order to be able to absorb future credit losses.

- For BI > 1: No add on
- For 0 < BI < 1: (outstanding loans + guarantees) x (1 – BI) / 100
- For BI < 0: (outstanding loans + guarantees) x 1 / 100

The assessment is based on the expected future income.

1.2.7 Capital to cover growth

In 2023 Ekspres Bank saw modest growth in Sweden and Norway measured in local currency, and a decline in the Danish loan balance. Ekspres Bank expects negative growth in all three countries due to the strategic plan including the partial stop for granting of new loans. Therefore neither the annual nor the expected growth is exceeding 10% and no additional capital need is included for the individual solvency requirement as per 31 December 2023. The assessment is performed on actuals as well as forecasted data based on the budget figures approved by the Board of Directors of the bank.

1.2.8 Leverage ratio

Risk of excessive gearing means risk as a result of Ekspres Bank's vulnerability due to leverage, or possible leverage that may require unforeseen corrective measures in the bank's business plan, including emergency sales of assets that could result in losses or adjustments in the value of the remaining assets.

The leverage expresses the relative size of Ekspres Bank's assets, off-balance sheet items and contingent liabilities paid or pledged as collateral, commitments, derivatives or repurchase agreements compared to the bank's core capital.

1.2.9 Regulatory Maturity of capital instruments

The FSA Guidelines state that with less than 1 year to maturity of capital instruments the bank needs to assess if it will have challenges renewing the needed instrument.

In order to asses if Ekspres Bank is having a sufficient capital base the capital instruments available are analysed. When the instruments are less than 5 years to maturity, the value of which the subordinated loan can be included in the capital base for coverage of the capital requirements reduces. In case of maturity of under 5 years of supplementary capital, Ekspres Bank assesses whether an additional capital add-on should be added.

1.2.10 Any additional capital buffer due to regulatory requirements

Any additional capital buffer due to regulatory requirements are covering the minimum capital ratio of 8% in Pillar 1, according to Section 124 - 2 (1) of the Financial Business Act as well as any other additional capital buffer that Ekspres Bank may be required to hold.

If the assessment of the individual solvency requirement is below the FSA requirement, the difference between the internally calculated requirement and the FSA requirement is included under statutory requirement category.

1.3 Capital adequacy assessment

The banks overall Internal Capital Adequacy Assessment framework is structured around the following components:

1.3.1 A regulatory capital framework

The bank has implemented “Guideline on Adequate Capital Base and Solvency Needs for Credit Institutions” issued by the Danish FSA. The bank is using the solvency need model published by the Association for banks in Denmark “Lokale Pengeinstitutter” (LOPI), and wants to remain compliant at all time with regulatory expectations at a given reporting date as well as with a forward-looking perspective, i.e. sustaining its strategy. This regulatory compliance objective represents as such a key consideration for capital adequacy assessment purposes.

Summary of regulatory capital & solvency ratios - Ekspres Bank

Ekspres Bank (DKK 000)	2023	2023/2022	2022
TOTAL REGULATORY CAPITAL	**3.591.751**	**137%**	**2.619.542**
TIER 1 CAPITAL of which	3.091.750	146%	2.121.545
- Common Equity Tier 1	2.925.615	150%	1.944.608
- Additional Tier 1 Capital	166.135	94%	176.937
TIER 2 CAPITAL	500.001	100%	497.997
TOTAL CAPITAL REQUIREMENT	**2.140.085**	**114%**	**1.881.730**
PILLAR I	925.747	98%	940.024
PILLAR II	671.637	139%	481.762
CAPITAL CONSERVATION BUFFER	289.296	98%	293.757
COUNTERCYCLICAL BUFFER	253.405	152%	166.187
TOTAL RISK WEIGHTED ASSETS	**11.571.842**	**98%**	**11.750.294**
COMMON EQUITY TIER 1 RATIO	25,28%	**153%**	16,55%
TIER 1 CAPITAL RATIO	26,72%	**148%**	18,06%
TOTAL CAPITAL RATIO	31,04%	**139%**	22,29%

As of 31.12.2023, the regulatory capital requirements applicable to Ekspres Bank are the following:

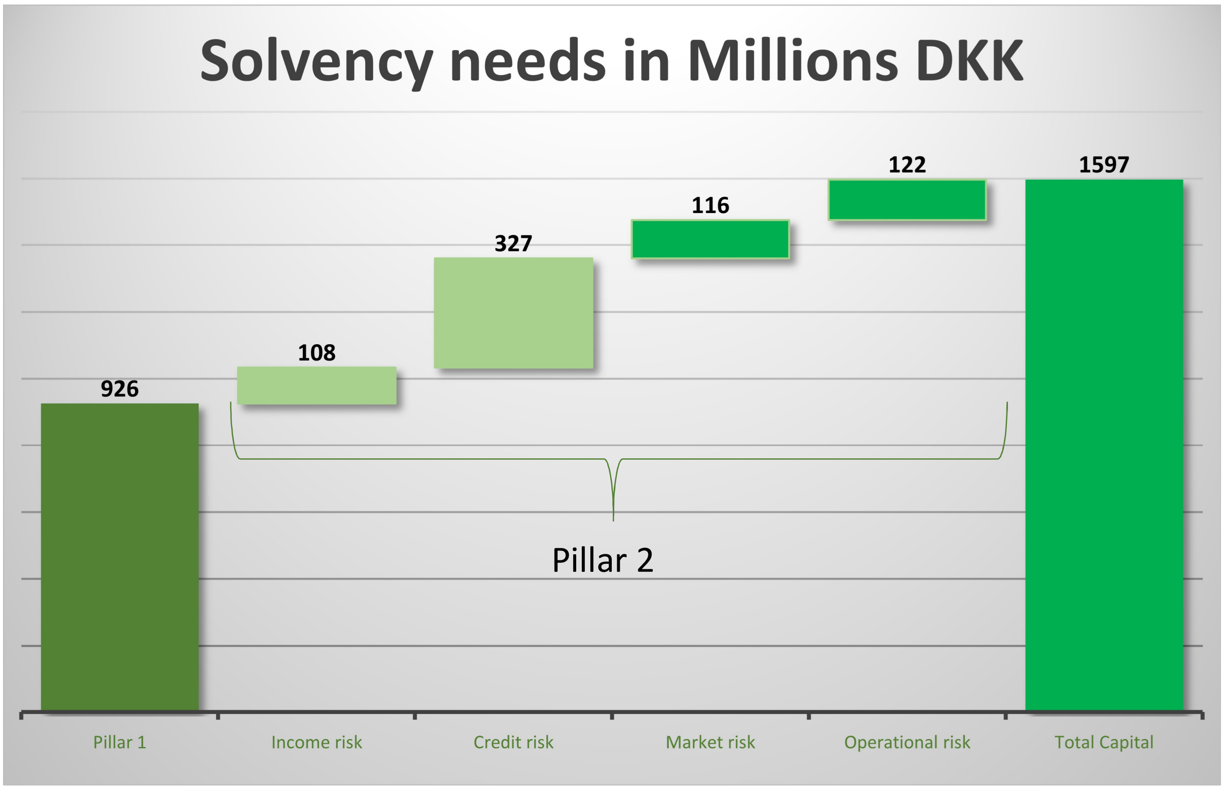
- The minimum Common Equity ratio is 4,5%
- The minimum Tier 1 ratio is 6,0%
- The minimum total capital ratio is 8,0%
- The Capital Conservation Buffer is 2,5%
- The current weighted countercyclical capital buffer is 2,19%
  - In Denmark the countercyclical capital buffer is currently 2,5% since 31 March 2023
  - In Norway the countercyclical capital buffer is currently 2,5% since 31 March 2023
  - In Sweden the countercyclical capital buffer is currently 2,0% since 21 June 2023

The assessment conducted by Ekspres Bank reached the conclusion that:

- Ekspres Bank holds sufficient regulatory capital to comply with its regulatory capital expectations, including the CET1 ratio constraint arising from the Pillar 2 capital requirements decision (25,28% as at 31 December 2023) and the total capital ratio constraint
- Ekspres Bank holds sufficient capital to cover its risks evaluated through the 8+ methodology

1.3.2 An internal capital analysis, the 8+ methodology

In accordance with the Guidelines issued by the Danish FSA (Guideline no. 10055 of 15 December 2023), Ekspres Bank has adopted the required 8+ methodology for assessing the capital adequacy. The 8+ methodology assumes that all normal risks are covered by the Pillar 1 requirement of 8%. In addition banks are required to assess to what extent they have additional risks and the necessity of an additional capital requirement (Pillar 2). The Danish FSA has issued guidance on the calculation methods to be applied when quantifying the Pillar 2 risks. The 8+ methodology is applied and reported for Ekspres Bank.



The banks own funds as of 31 December 2023 were 3.592 mDKK, which means Ekspres Bank was adequately capitalised.

Following an extended strenuous period, the bank initiated a strategic review covering both an internal and external review as well as considering a range of market aspects, which resulted in the Board of Directors deciding on January 23rd 2024 to suspend granting operations in Denmark, Norway and Sweden, and initiate a partial stop of the granting process for loans. All other activities of the bank and obligations will remain, including the opening of deposit accounts and the implementation of the new deposit platform.

The bank calculates a total solvency need of 13,8% based on internal calculations, of which part of the requirements are set by the Danish FSA based on the findings during their inspections.

1.4 Conclusions as approved by appropriate governance

The banks ICAAP relies on a close risk-by-risk monitoring of capital adequacy, within the regulatory perspective and the internal perspective, in actual and forward-looking views. The 2023 ICAAP concludes that Ekspres Bank is adequately capitalised both within the regulatory and the internal perspectives, and that no additional capital is needed above the already calculated regulatory capital requirement.

Furthermore, the bank ICAAP concludes that considering the strength of the business model and the strict risk culture developed across the whole BNP Paribas Group, the bank is adequately capitalised and is in a capacity to sustain its strategy.

The ICAAP report and its resulting outcomes were validated by the Board of Directors on April 8th, 2024.