



Express Bank

BNP PARIBAS GROUP 

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Internal Capital Adequacy Assessment Process

2021

EKSPRES BANK GROUP

(BNP PARIBAS GROUP)

EKSPRES BANK	EKSPRES BANK GROUP (hereafter Ekspres Bank)
ICAAP SCOPE	GROUP Covering Ekspres Bank A/S, Ekspres 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: <ul style="list-style-type: none">• 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 2021 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 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 Ekspres Bank prudential banking perimeter.

The ICAAP is addressed to Ekspres Bank 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 are 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, Ekspres 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 Ekspres Bank:

- Risk types defined by the Basel regulation – Pillar 1 risks – namely credit risk, market risk, and operational risk
- Risk types identified through the Ekspres Bank 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 section V. Internal Capital requirement assessment and aggregation presents the underlying risk strategy and management processes of Ekspres Bank, and presents in this context, Ekspres Bank's assessment of the sufficiency of Pillar 1 and Pillar 2 capital requirements.

1.3 Capital adequacy assessment

Ekspres Bank's overall Internal Capital Adequacy Assessment framework is structured around the following components:

1.3.1 A regulatory capital framework

Ekspres Bank has implemented "Guideline on Adequate Capital Base and Solvency Needs for Credit Institutions" issued by the Danish FSA. Ekspres Bank is using the solvency need model published by the Association for banks in Denmark "Lokale Pengeinstitutter", 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)	2021	2021/2020	2020
TOTAL REGULATORY CAPITAL	2.393.517	116%	2.061.601
TIER 1 CAPITAL of which	1.969.472	116%	1.696.601
- Common Equity Tier 1	1.783.998	117%	1.519.149
- Additional Tier 1 Capital	185.474	105%	177.452
TIER 2 CAPITAL	424.045	116%	365.000
TOTAL CAPITAL REQUIREMENT	2.246.753	116%	1.930.087
PILLAR I	976.950	104%	942.081
PILLAR II	463.306	153%	303.682
COMBINED BUFFER	318.021	100%	317.968
COMPANY BUFFER	488.475	133%	366.356
TOTAL RISK WEIGHTED ASSETS	12.211.880	104%	11.776.010
COMMON EQUITY TIER 1 RATIO	14,61%	113%	12,90%
TIER 1 CAPITAL RATIO	16,13%	112%	14,41%
TOTAL CAPITAL RATIO	19,60%	112%	17,51%

As of 31.12.2021, the regulatory capital requirement applicable to Ekspres Bank is the following:

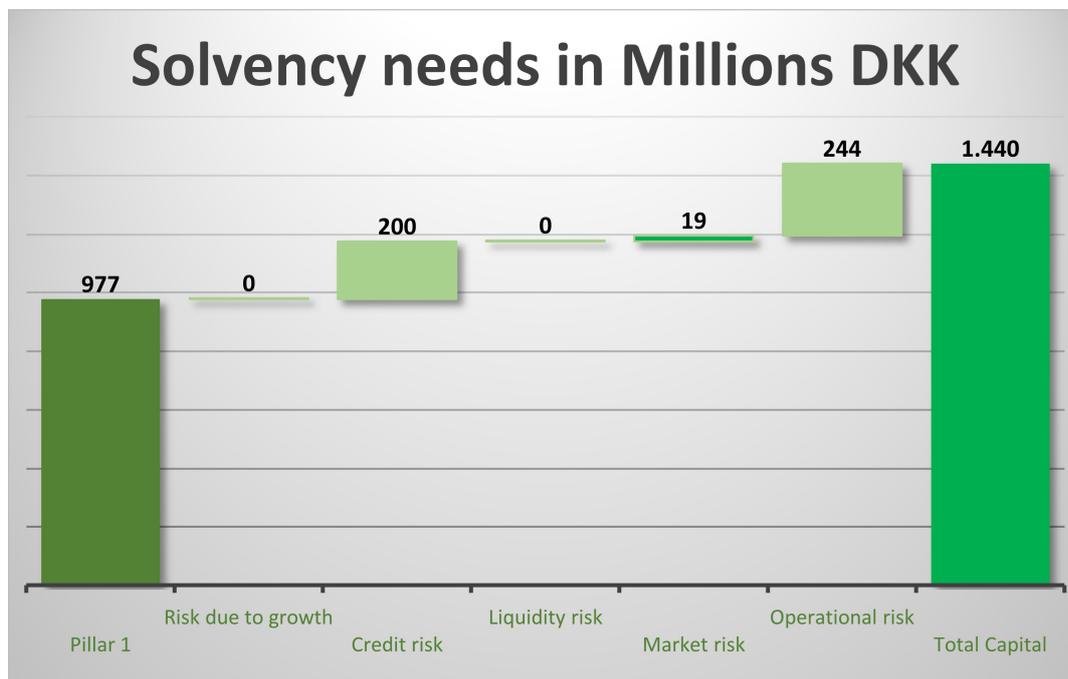
- The minimum Common Equity ratio is 4,5%
- The minimum Tier 1 ratio is 6,0%
- The minimum total capital ratio is 8,0%
- The Capital Conservation Buffer is 2,5%
- The current weighted countercyclical capital buffer is 0,1%
 - In Denmark the countercyclical capital buffer is currently 0,0%. It is set to increase to 1,0% by 30 September 2022 and to 2,0 % by the end of 2022
 - In Norway the countercyclical capital buffer is currently 1,0%. It is set to increase to 1,5% from 30 June 2022 and 2,0% by the end of 2022
 - In Sweden the countercyclical capital buffer is currently 0,0% and it is set to increase to 1,0% from 29 September 2022

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 (14,61% as at 31 December 2021) 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. 10069 of 16 December 2021), 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.



Ekspres Bank's own funds as of 31 December 2021 was 2.394 mDKK, which means Ekspres Bank was adequately capitalised.

Ekspres Bank has received a SREP letter in 2021 with the following comment from the ECB:

"Taking into consideration the conclusions set out in paragraph 3.9.1, 3.9.2, and 3.9.3.1 to 3.9.3.4, Ekspres Bank A/S shall at all times meet, on an individual basis, a total SREP capital requirement (TSCR) of 12,1% (which includes a Pillar 2 additional own funds requirement of 4,1%, to be held in the form of 56% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital (CET1 or Tier 1), as a minimum and a maximum of 25% of Tier 2 capital).

This requirement is applied from 1 March 2022."

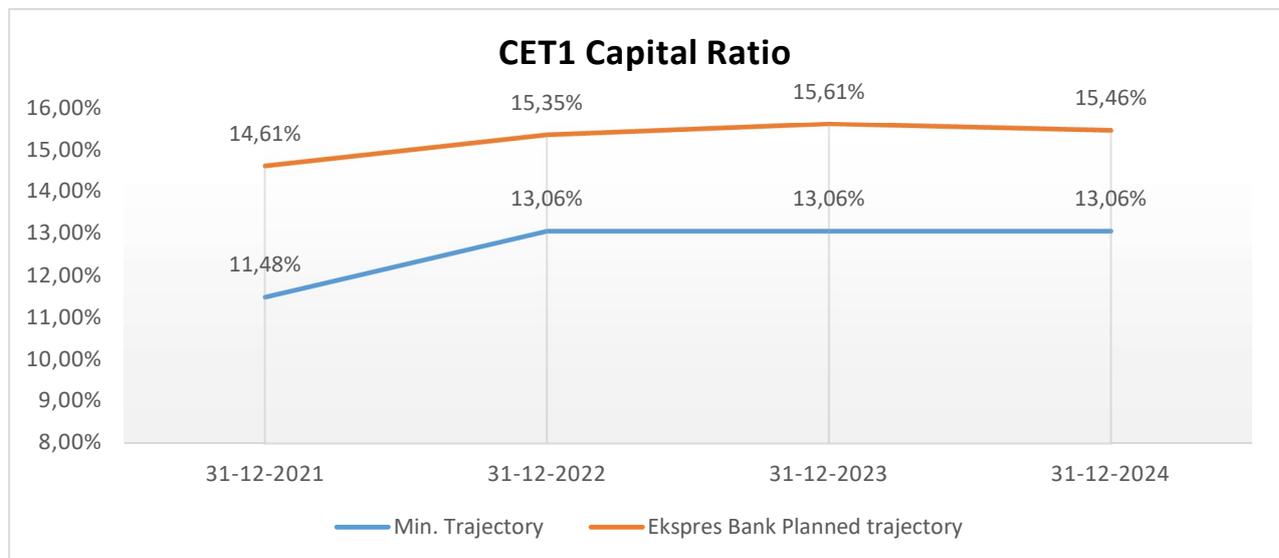
1.3.3 A forward-looking capital adequacy assessment

In addition to the assessment of the capital adequacy as at 31 December 2021, Ekspres Bank also performs, as part of its ICAAP, an assessment based on the regulatory framework with the objective to ensure that Ekspres Bank's solvency ratios remain above the regulatory capital requirement for the next 3 years.

These forward-looking requirements delineate the minimum acceptable level for Ekspres Bank's capital trajectory and are key inputs in the capital planning process.

The projection of Ekspres Bank CET1 ratio estimated in the course of the budget process over a 3-year time horizon allows the entity to conclude on its ability to respect this supervisory requirement of CET1 on an ongoing basis.

Ekspres Bank CET1 ratio planned trajectory



In the planned trajectory a capital increase of 210 mDKK and an increase in tier 2 subordinated loans of 105 mDKK is included in 2022. In 2023 a capital increase of 80 mDKK and tier 2 loan of 35 mDKK and in 2024 tier 2 loan of 25 mDKK are in the trajectory.

1.4 Conclusions as approved by appropriate governance

Ekspres Bank's 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 2021 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, Ekspres Bank's ICAAP concludes that considering the strength of the business model and the strict risk culture developed across the whole BNP Paribas Group, Ekspres Bank is adequately capitalised and is in a capacity to sustain its strategy.

In addition, the BNP Paribas Group has a general and long-lasting policy to ensure that its subsidiaries, and among them Ekspres Bank, have the necessary capital resources to meet their local regulatory requirements.

This ICAAP report and its resulting outcomes were validated by the Board of Directors on February 28th, 2022.