



Express Bank

BNP PARIBAS GROUP 

Internal Capital Adequacy Assessment Process

2024

EKSPRES BANK A/S

(BNP PARIBAS GROUP)

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|-------------------------|---|
| 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 |
| REFERENCE PERIOD | : 31 December 2024 |

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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 provide a detailed view of Ekspres Bank's Internal Capital Adequacy Assessment Process (ICAAP) for 2025 based on 31 December 2024 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 the bank's activities, on the basis of an internal assessment of these risks. The process is conducted on the bank's prudential banking perimeter.

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

Scope

The ICAAP process is performed on a consolidated basis. As of closing date, Ekspres Bank's prudential scope of consolidation is the three entities:

- 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 the Danish FSA to prepare an ICAAP report, as required by 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.

This document takes into account the principle of proportionality, implying 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 the risk identification, 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 bank's 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 5. *Internal Capital requirement assessment and aggregation* presents the underlying risk strategy and management processes of Ekspres Bank, and

presents in this context, the bank's assessment of the sufficiency of Pillar 1 and Pillar 2 capital requirements.

1.2.1 Credit risk

The 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 customer engagements (>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 2c clients (clients which have shown vulnerability) and 3% on category 2b, 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
- 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 bank can adjust for extraordinary circumstances.

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 $0 < BI < 1$: $(\text{outstanding loans} + \text{guarantees}) \times (1 - BI) / 100$
- For $BI < 0$: $(\text{outstanding loans} + \text{guarantees}) \times 1 / 100$

The assessment is based on the expected future income. A prudent approach should be applied when the volatility in the expected future income is high, or if the realised basic income in recent years has turned out lower than forecasted. The Danish FSA gives a suggestion in the solvency guidelines to deduct the largest of the negative difference between realised and forecasted basic income from the expected basic income in the coming year.

1.2.7 Capital to cover growth

In line with expectations, Ekspres Banks saw declining loan balances in all three countries in 2024. The bank expects negative growth in all three countries as all granting has ceased by end of 2024 following the runoff decision. 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 2024. 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.

The FSA considers a leverage ratio below 7% to be an indicator for increased risk. The FSA states that for a non SIFI-bank in which the leverage ratio is above 10% and stays above leverage ratio requirements in a hard stress scenario, the risk of excessive leverage risk is considered insignificant.

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 assess 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 bank's overall Internal Capital Adequacy Assessment framework is structured around the following components:

- The capital requirement in the regulatory perspective
- The capital requirement in the internal perspective (the 8+ methodology)
- The forward-looking capital planning process

The capital requirement in the regulatory perspective

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

Summary of regulatory capital & solvency ratios - Ekspres Bank

| Ekspres Bank (DKK 000) | 2024 | 2024/2023 | 2023 |
|-----------------------------------|------------------|-------------|-------------------|
| TOTAL REGULATORY CAPITAL | 3.093.255 | 86% | 3.591.751 |
| TIER 1 CAPITAL of which | 2.679.917 | 87% | 3.091.750 |
| - Common Equity Tier 1 | 2.679.917 | 92% | 2.925.615 |
| - Additional Tier 1 Capital | 0 | 0% | 166.135 |
| TIER 2 CAPITAL | 413.338 | 83% | 500.001 |
| | | | |
| TOTAL CAPITAL REQUIREMENT | 2.081.197 | 66% | 3.136.439 |
| PILLAR I | 679.450 | 73% | 925.747 |
| PILLAR II | 340.107 | 51% | 671.637 |
| CAPITAL CONSERVATION BUFFER | 212.328 | 73% | 289.296 |
| COUNTERCYCLICAL BUFFER | 186.501 | 74% | 253.405 |
| ADDITIONAL COMPANY BUFFER | 662.811 | 67% | 996.354 |
| | | | |
| TOTAL RISK WEIGHTED ASSETS | 8.493.122 | 73% | 11.571.842 |
| | | | |
| COMMON EQUITY TIER 1 RATIO | 31,55% | 125% | 25,28% |
| TIER 1 CAPITAL RATIO | 31,55% | 118% | 26,72% |
| TOTAL CAPITAL RATIO | 36,42% | 117% | 31,04% |

As of 31.12.2024, 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 2,20%
 - 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

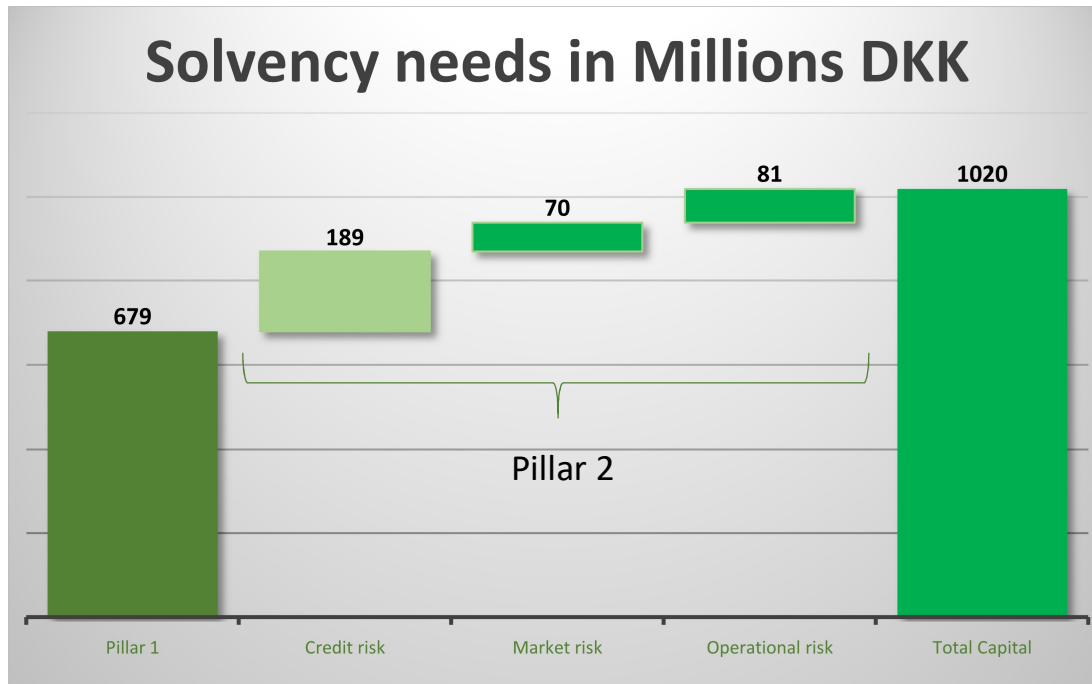
The assessment conducted by the bank reached the conclusion that:

- 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 (31,55% as at 31 December 2024) and the total capital ratio constraint
- Ekspres Bank holds sufficient capital to cover its risks evaluated through the 8+ methodology

The capital requirement in the internal perspective (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 8+ methodology for assessing the bank's capital adequacy. The 8+ methodology assumes that all normal risks are covered by the Pillar 1 requirement of 8%, and that banks in addition, are required to assess to what extent they have additional risks, and whether these

risks imply 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.



As of 31 December 2024 the bank's own funds were 3.093 mDKK which implies that the bank was adequately capitalised.

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 2024 ICAAP concludes that 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's ICAAP concludes that considering the current 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 February 27th, 2025.