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Ekspres Bank 

Ekspres Bank 

Internal Capital Adequacy Assessment Process

2018

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

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) for 2019 based on 31 December 2018 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 given the risks borne based on 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

During 2018, the Swedish daughter company SevenDay Finans AB was merged into Express Bank Sverige Filial.

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

Ekspres Bank belongs to Retail Banking & Services division and International Financial Services (IFS) sub-division of BNP Paribas Group organisation.

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 take into account all BNP Paribas supervisors feedbacks.

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 295 of 27 March 2014 and the Danish Financial Business Act FIL.

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 as material by Ekspres Bank:

- Risk types defined by the Basel regulation – Pillar 1 risks – namely credit risk, market risk (IRRBB) 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, liquidity risk and operational risk.

For each of the aforementioned risk types, the section IV. 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 A/S

Ekspres Bank A/S (DKK 000)	2018	2018/2017	2017
TOTAL REGULATORY CAPITAL	1.981.062	206%	962.087
TIER 1 CAPITAL of which	1.691.062	252%	672.087
- Common Equity Tier 1	1.502.704	224%	672.087
- Additional Tier 1 Capital	188.358		0
TIER 2 CAPITAL	290.000	100%	290.000
TOTAL CAPITAL REQUIREMENT	1.552.890	217%	717.132
PILLAR I	748.797	202%	370.450
PILLAR II	224.640	170%	132.001
COMBINED BUFFER	298.654	394%	75.762
INTERNAL BUFFER	280.799	202%	138.919
TOTAL RISK WEIGHTED ASSETS	9.359.966	202%	4.630.621
COMMON EQUITY TIER 1 RATIO	16,05%	111%	14,51%
TIER 1 CAPITAL RATIO	18,07%	124%	14,51%
TOTAL CAPITAL RATIO	21,17%	102%	20,78%

In 2017, the regulatory requirement for the Swedish daughter company is not included in Ekspres Bank A/S.

Reminder

- The minimum Common Equity ratio is 4,5%
- The minimum Tier 1 ratio is 6%
- The minimum total capital ratio is 8%
- The Capital Conservation Buffer is 1,875%
- The Countercyclical capital buffer is 1,32 %, Denmark is 0% (fixed quarterly), Norway 2% and Sweden 2%

The assessment conducted by Ekspres Bank reached the conclusion that:

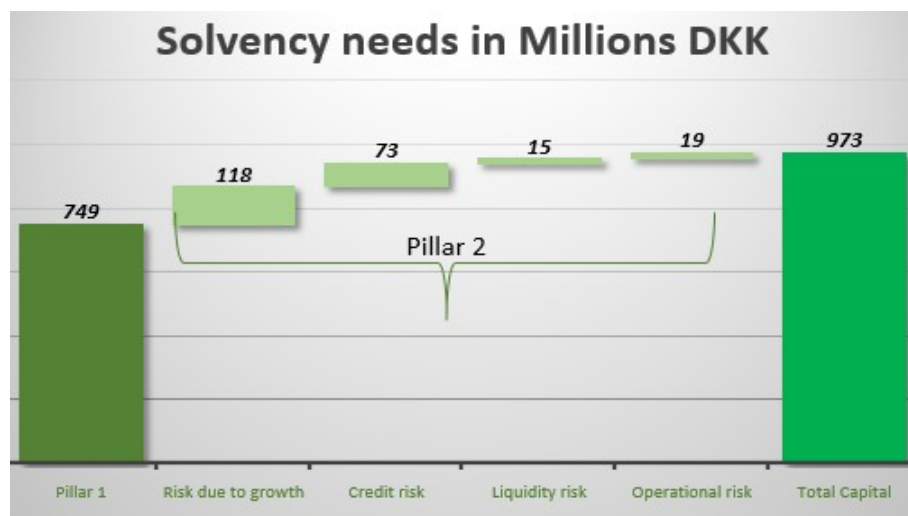
- Ekspres Bank holds sufficient regulatory capital to comply with its regulatory capital expectations, including the CET1 ratio constraint arising from the Pillar 2 capital

requirements decision (16,05% as at 31 December 2018) 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 (VEJ nr. 10038 of 05. December 2018), 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 A/S.



This confirms that, as of 31 December 2018, Ekspres Bank was adequately capitalised.

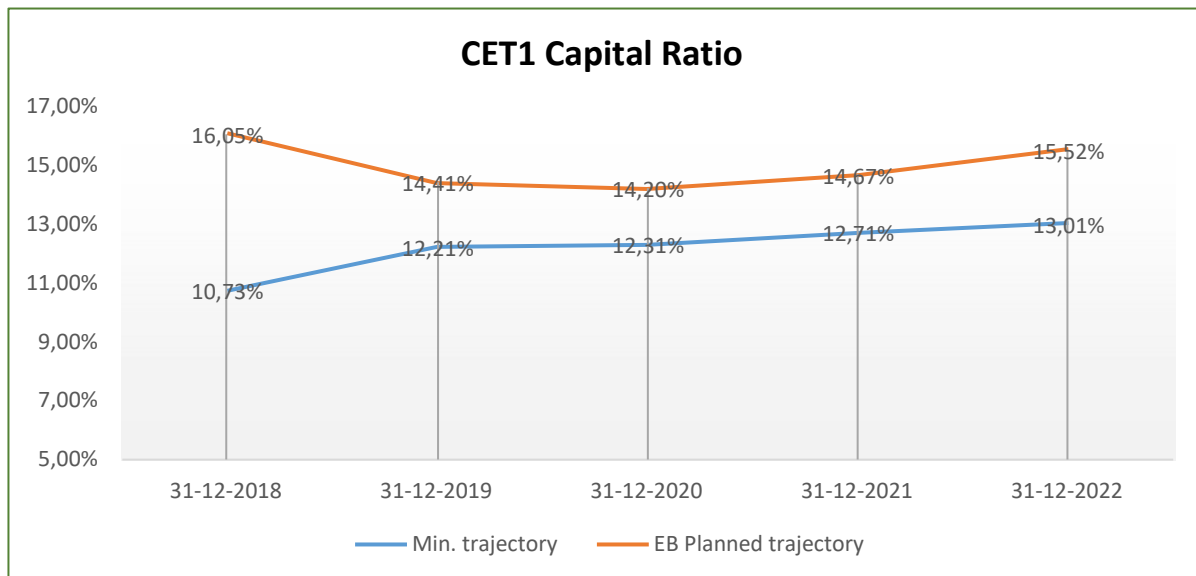
Ekspres Bank has received a SREP letter in 2018 with the following comment from the ECB: “No own funds requirements, liquidity requirements or qualitative requirements are imposed to Ekspres Bank A/S.” Nevertheless, Ekspres Bank has performed an internal capital analysis, in line with the Guidelines from the Danish FSA (VEJ nr. 10038 of 05. December 2018), resulting in an internal assessment of Pillar 2 requirement of 225 MDKK.

1.3.3 A forward looking assessment of the regulatory capital planning

In addition to the assessment of the capital adequacy as at 31 December 2018, Ekspres Bank also performs, as part of its ICAAP, an assessment of its capacity to sustain its strategy and respect the regulatory requirements on an ongoing basis over a 3 years horizon.

These forward-looking requirements delineate the minimum acceptable level for Ekspres Banks 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


1.4 Conclusions as approved by appropriate governance

Ekspres Banks processes include a close monitoring of capital adequacy to the risks, in actual, and forward looking, including analysis of evolutions per risk.

Ekspres Banks ICAAP concludes that considering the strength of the business model and the strict risk culture developed across the whole 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 26th, 2019.