Pillar 3 Quarterly Report Q3/2021

BANQUE INTERNATIONALE À LUXEMBOURG

Contents

List of acronyms

A-IRB	Advanced Internal Rating-Based
AT1	Additional Tier 1 capital
BCBS	Basel Committee on Banking Supervision
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CET1	Common Equity Tier One
CCR	Counterparty Credit Risk
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
EBA	European Banking Authority
ECL	Expected Credit Loss
ESG	Environmental, Social and Governance
F-IRB	Foundation Internal Rating-Based
HQLA	High Quality Liquid Asset
IAA	Internal Assessment Approach
IMA	Internal Model Approach
IMM	Internal Model Method
IRB	Internal Rating-Based
LCR	Liquidity Coverage Ratio
LR	Leverage Ratio
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institutions
PAI	Principal Adverse Impact
PD	Probability of Default

Q	Quarter
RWA	Risk-Weighted Assets
SFA	Supervisory Formula Approach
SFDR	The Sustainable Finance Disclosure Regulation
SFT	Securities Financing Transactions

Regulatory tables and templates[1]

Reference	Name	Regulation (EU) No 575/2013 (CRR)	Section of the report
KM1	Key metrics (at consolidated group level)	Article 447 (a) to (g) and point (b) of Article 438	Section 1
OV1	Overview of RWA	Article 438 (c)-(f)	Section 2.1
LR1	Summary comparison of accounting assets vs the leverage ratio exposure measure	Article 451 (1)(b) of the CRR	Section 2.2
LR2	Leverage ratio common disclosure template	/ (CRR2 provisions)	Section 2.2
CR8	RWA flow statements of credit risk exposures	Article 438 (d) & Article 92 (3)	Section 3.1
CCR7	RWA flow statements of CCR exposures under the IMM	Article 92 (3) - (4) & Article 438 (d)	N/A. The Bank does not use the IMM approach.
MR3	IMA values for trading portfolios	Article 455 (d)	N/A. The Bank uses the standardized approach.

[1] In accordance with EBA/GL/2016/11, version 2, Final report "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" and the BCBS standards published in March 2017: "Pillar 3 disclosure requirements – consolidated and enhanced framework"

Introduction

This document provides additional information on the risk management of Banque Internationale à Luxembourg (BIL Group) referred to below as "BIL" or "the Bank" as of 30th September 2021.

This BIL group Quarterly Pillar 3 report is divided into three sections:

- Key prudential metrics
- Capital management and capital adequacy
- Credit risk management and a breakdown of the Bank's credit risk exposures

Unless otherwise stated, the figures shown in this Report are reported in millions of euros.

Data is provided at a consolidated level, including BIL group subsidiaries and branches.

In addition to this document, all Pillar III Reports and Annual Reports (including semi-annual reports) are available on the Bank's website (www.bil.com).

1. Key prudential metrics

The table below provides a comprehensive view of key prudential metrics by quarter covering the Bank's available capital (including buffer requirements and ratios), its risk-weighted assets (RWA), leverage ratio (LR), liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

TABLE KM1: KEY METRICS (AT CONSOLIDATED GROUP LEVEL)

(in EUR million)		30/09/2021	30/06/2021
		T	T-1
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	1,346	1,335
1a	Fully loaded ECL accounting model	1,321	1,316
2	Tier 1	1,521	1,510
2a	Fully loaded ECL accounting model Tier 1	1,496	1,491
3	Total capital	1,658	1,644
3a	Fully loaded ECL accounting model total capital	1,633	1,624
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	9,808	10,160
4a	Fully Loaded Total risk-weighted assets (RWA)	9,797	10,149
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	13.73%	13.14%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	13.48%	12.97%
6	Tier 1 ratio (%)	15.51%	14.87%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	15.27%	14.69%
7	Total capital ratio (%)	16.91%	16.18%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.67%	16.01%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.35%	0.34%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.35%	3.34%
12	CET1 available after meeting the bank's minimum capital requirements (%)	10.38%	9.84%
	Basel III leverage ratio		
13	Total Basel III leverage ratio exposure measure	31,843	32,574
13a	Fully Loaded Total Basel III leverage ratio exposure measure	31,818	32,554
14	Basel III leverage ratio (%) (row 2 / row 13)	4.78%	4.64%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	4.70%	4.58%
	Liquidity Coverage Ratio		
15	Total HQLA	10,522	9,902
16	Total net cash outflow	6,813	6,460
17	LCR ratio (%)	154%	153%
	Net Stable Funding Ratio		
18	Total available stable funding	19,886	20,270
19	Total required stable funding	15,562	16,140
20	NSFR ratio	127%	126%

2. Own funds and capital adequacy

The aim of capital management is to ensure BIL achieves its solvency and long-term profitability targets, while complying with regulatory capital requirements. The Bank's ratios exceed the regulatory requirements, thereby reflecting a sound solvency situation.

The ratios (Common Equity Tier 1 capital ratio, Tier 1 capital ratio and total capital ratio) compare the amount of eligible regulatory capital in each category with BIL group's total weighted risks.

The prudential capital requirement breakdown as of 30th September 2021 is shown below:

Capital components	Amount
Minimum requirement for Core CET1 requirement	4.50%
Minimum requirement for conservation buffer	2.50%
Minimum requirement for O-SII buffer	0.50%
Minimum requirement for countercyclical buffer	0.35%
Minimum requirement for Pillar 2 Requirement	1.75%
	9.60%

At the end of Q3 2021, the Bank's CET1 ratio stood at 13.73%, with the total capital ratio at 16.91%, as detailed in the previous section (Table KM1).

2.1. Regulatory capital adequacy (Pillar I)

Risk-Weighted Assets (RWA)

In accordance with Article 138(c)-(f) of Regulation (EU) No 575/2013 (CRR), the following table presents the RWA and regulatory capital requirements broken down by risk type and model approach compared to the previous reporting period, on a quarterly basis.

TABLE EU OV1 – OVERVIEW OF RWA

(in EUR million)			RWAs		Minimum capital requirements
			30/09/2021 (T)	**30/06/2021 (T-1)**	**30/09/2021 (T)**
	1	Credit risk (excluding CCR and IRB equity)	**8,138.64**	**8,468.44**	**651.09**
Article 438(c)(d)	2	Of which the standardised approach	1,426.58	1,351.57	114.13
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	2,176.09	2,446.63	174.09
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	4,535.97	4,670.24	362.88
Article 438(d)	5	equity IRB under the simple risk-weighted approach or the IMA	**474.20**	**481.46**	**37.94**
Article 107 Article 438(c)(d)	6	CCR	**192.81**	**202.46**	**15.42**
Article 438(c)(d)	7	Of which mark to market	56.46	57.86	4.52
Article 438(c)(d)	8	Of which original exposure			
	9	Of which the standardised approach	109.94	124.85	8.79
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP			
Article 438(c)(d)	12	Of which CVA	26.41	19.74	2.11
Article 438(e)	13	Settlement risk			
Article 449 (o)(i)	14	Securitisation exposures in the banking book (after the cap)	**6.65**	**7.11**	**0.53**
	15	Of which IRB approach			
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which the standardised approach	6.65	7.11	0.53
Article 438(e)	19	Market risk	**21.72**	**26.76**	**1.74**
	20	Of which the standardised approach	21.72	26.76	1.74
	21	Of which IMA			
Article 438(e)	22	Large exposures			
Article 438(f)	23	Operational risk	**962.70**	**962.70**	**77.02**
	24	Of which basic indicator approach			
	25	Of which standardised approach	962.70	962.70	77.02
	26	Of which advanced measurement approach			
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
Article 500	28	Floor adjustment			
	29	FTA with the new management overlay	**11.12**	**11.12**	**0.89**
	30	**Total**	**9,807.83**	**10,160.05**	**784.63**

The Bank's RWA totaled EUR 9.8 billion as of 30th September 2021, compared to EUR 10.16 billion at 30th June 2021. The overall decrease of EUR 352.22 million mainly reflects decreases in credit RWA (EUR -329.79 million, excluding CCR and IRB equity). Market RWA slightly decreased by EUR 5.04 million, and operational RWA remained unchanged from Q2 2021 to Q3 2021.

2.2. Leverage ratio

The Basel 3/CRD 4 Regulation introduced the leverage ratio, whose main objective is to serve as a complementary measure to the risk-based capital requirement. It is defined as the capital measure divided by the exposure measure (total exposure). The capital measure for the leverage ratio is Tier 1 capital, taking into account both the fully phase-in and transitional arrangements[1].

The minimum level of leverage ratio was previously confirmed to be 3%. However in accordance to the section 5 of ECB's press release on 18th June 2021, only the central bank exposures newly accumulated since the beginning of the pandemic (end-2019) effectively benefit from this leverage ratio relief. A bank which decides to exclude central bank exposures from its total exposure measure needs to recalibrate its 3% leverage ratio requirement, meaning its leverage ratio requirement won't be 3% anymore but a bit higher. As of Q3 2021, BIL's recalibrated leverage ratio requirement reached to 3.09%.

As mentioned in Table KM1 (Section One), BIL group' leverage ratio was 4,70% as of Q3 2021 (fully phased in), moderately increased compared to 4,58% as of Q2 2021. The variation was attributable particularly to a decrease in total leverage ratio exposure (-2,3%) while the tier 1 equity remained stable. The central bank exposure exemption from total leverage ratio exposure increased 33,6% (from 1.6 billion to 2.1 billion) and this big deduction led to a lower amount of denominator.

To be more specific, in the denominator[2] (Total Leverage Ratio Exposure), on-balance sheet exposures (Excl. SFT & Derivatives) accounted for an absolute major portion (91,1% in Q3 2021) which increased 0,4% compared to last quarter. The LR exposure of 'Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns' class increased moderately (+6,3%) compared to Q2 2021. Derivatives exposures didn't witness a big evolution (+0,3%) and Off-balance sheet exposure decreased -2,8% accordingly. Compared to the last quarter, the SFT LR exposure decreased -34,6% .

The leverage ratio disclosure templates are:

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		Fully Phased in EUR million	Transitional In EUR million
1	Total assets as per published financial statements	31,516	31,516
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 «CRR»)		
4	Adjustments for derivative financial instruments	335	335
5	Adjustments for securities financing transactions "SFTs"	464	464
6	Exposures exempted in accordance with Article 429 (14) of the CRR	- 75	- 75
EU-6b	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2,090	2,090
7	Other adjustments	- 405	- 380
8	**TOTAL LEVERAGE RATIO EXPOSURE**	**31,818**	**31,843**

[1] The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework, as defined in paragraphs 49 to 96 of the Basel III framework, taking account of the transitional arrangements. The Basel Committee is using the transition period to monitor banks' leverage ratio data on a semi-annual basis to assess whether the proposed design and calibration of a minimum Tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business model.

[2] Idem.

LR2 - LEVERAGE RATIO COMMON DISCLOSURE

		Amounts in EUR million (Fully Phased-in)	Amounts in EUR million (Transitional)
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	31,386	31,386
2	(Asset amounts deducted in determining Tier 1 capital)	- 412	- 387
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**30,974**	**30,999**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	133	131
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	339	399
EU-5a	Exposure determined under Original Exposure Method		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of lines 4 to 10)**	**472**	**472**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	444	444
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets	20	20
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**464**	**464**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,139	2,139
18	(Adjustments for conversion to credit equivalent amounts)		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**2,139**	**2,139**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	- 2,065	- 2,065
	Other exemptions (on balance/off balance general provision; guaranteed parts of exposures arising from export credits)	-125	-125

		Amounts in EUR million (Fully Phased-in)	Amounts in EUR million (Transitional)
	Capital and total exposures		
20	**Tier 1 capital**	**1,496**	**1,521**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**31,818**	**31,843**
	Leverage ratio		
22	**Leverage ratio**	**4,70%**	**4,78%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure		
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013		

TABLE LRS: SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	31,386
EU-2	Trading book exposures	51
EU-3	Banking book exposures, of which:	31,335
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	10,314
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,046
EU-7	Institutions	2,911
EU-8	Secured by mortgages of immovable properties	8,490
EU-9	Retail exposures	2,632
EU-10	Corporate	4,830
EU-11	Exposures in default	441
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	671

3. Credit risk

Credit risk represents the potential loss (reduction in value of an asset or payment default) that BIL may incur because of a deterioration in the solvency of any counterparty.

3.1 RWA flow statements of credit risk exposures

According to Article 438 (d) of Regulation (EU) No 575/2013 (CRR), the following table provides a flow statement explaining changes in the credit RWA between Q3 2021 and Q2 2021.

The main changes over the period are related to the decreased asset size.

AMENDED TABLE EU CR8 – RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE STANDARD AND IRB APPROACH[1]

(in EUR million)		a	b
		RWA amounts	Capital requirements
30/06/2021	CREDIT RISK RWAS AS AT THE END OF THE PREVIOUS REPORTING PERIOD	9,159.48	732.76
1	**Total adjustments from Standardised Approach (with CCR)**	**74,58**	**5,97**
1.1	Adjustment from Asset size	74,58	5,97
2	**Total adjustments from Advanced Approach (with CCR)**	**- 428,17**	**- 34.25**
2.1	Adjustment from Asset size	- 344,64	- 27.57
2.2	Adjustment from Asset quality	- 8,25	- 0.66
2.3	Adjustment from Model updates		
2.4	Adjustment from Methodology and policy	- 67,10	- 5,37
2.4.1	Real estate's collaterals for exposures treated in IRB-Foundation	- 12,16	- 0,97
2.4.2	RWA formula changed from Corporates to SME due to a turnover below 50 mn threshold	- 54,94	- 4,40
2.5	Adjustment from Acquisitions and disposals		
2.6	Adjustment from Foreign exchange movements		
2.7	Adjustment from Other	- 8,17	- 0,65
3	**Total adjustments from Credit Valuation Adjustment (CVA)**	**6,66**	**0,53**
4	**Total adjustments from Securitisation**	**- 0,46**	**- 0,04**
5	**Total adjustments from FTA new management overlay**		
30/09/2021	RWAS AS AT THE END OF THE REPORTING PERIOD	8,812.30	704.98

[1] This ECB template has been amended to include further details of quarterly changes for all categories of credit risk RWA.

4. Focus on ESG framework

General background: ESG relates to all environmental, social and governance considerations that play a role in a company's ability to execute their business strategy, track performance and create value for the bank and its stakeholders. Sustainability is a complex topic and requires a multidimensional approach. Therefore, the Bank has launched in 2021 a 5-pillar program to deal with ethical questions, environmental and climate issues, responsible products, social responsibility considerations and financial risk management. Indeed, the banks are expected to play an important role in supporting local and international goals and to facilitate the transition to a green or low carbon economy. Specifically, on Risk matters, it should be mentioned the following realisations:

- In February, a gap analysis and a self-assessment have been realised regarding the 2020 ECB Climate Risk Guide. Following this self-assessment, a remediation plan has been set up covering several dimensions as the strategy, the risk appetite, the risk assessment framework, or the disclosure. This plan will be deployed until 2024. The main works related to this plan during the third quarter were carried out on (i) The realisation of the Risk Cartography notably with the inclusion of ESG risk features in an improved process, (ii) The preparation to the participation on the 2022 ECB Climate Risk Stress Test. Due to the specific nature of these kinds of scenarios (data, long-term horizon and non-constant balance-sheet), The Risk teams are currently preparing the exercise with different BIL stakeholders as Finance or Strategy and, (ii) The design of an overarching risk governance related to ESG risk matters (finalisation expected at the end of Q4 2021)

5. Conclusion

Considering an economic environment that raises several challenges for the banking sector, the Bank has committed to support the national economy and its businesses and as a key player in Luxembourg, coordinated its efforts with other Luxembourgish banks.

In this context, the current capital and liquidity situation allowed the Bank to navigate successfully through the year 2021. The Bank will continue to ensure that it has sufficient financial resources to cover all relevant risks and will be able to maintain continuity of its operations on an ongoing basis, as well as to sustainably execute its business strategy.

Banque Internationale à Luxembourg SA

69, route d'Esch
L-2953 Luxembourg
RCS Luxembourg B-6307
T: (+352) 4590 -1
F: (+352) 4590-2010

www.bil.com

BIL 1856

BANQUE
INTERNATIONALE
À LUXEMBOURG