Pillar 3 Quarterly Report Q1/2022

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 31 March 2022.

This BIL Group Quarterly Pillar 3 report is divided into four sections:

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

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 and quarterly Pillar III reports) are available on the Bank's website: https://www.bil.com/fr/groupe-bil/documentation/Pages/donnees-financieres.aspx

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)

	31/03/2022	31/12/2021
	T	T-1
Available capital (amounts)		
Common Equity Tier 1 (CET1)	1,431	1,447
Fully loaded ECL accounting model	1,416	1,423
Tier 1	1,606	1,622
Fully loaded ECL accounting model Tier 1	1,591	1,598
Total capital	1,847	1,859
Fully loaded ECL accounting model total capital	1,832	1,835
Risk-weighted assets (amounts)		
Total risk-weighted assets (RWA)	10,245	10,165
Fully Loaded Total risk-weighted assets (RWA)	10,239	10,153
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	13.97%	14.24%
Fully loaded ECL accounting model Common Equity Tier 1 (%)	13.83%	14.01%
Tier 1 ratio (%)	15.68%	15.96%
Fully loaded ECL accounting model Tier 1 ratio (%)	15.54%	15.74%
Total capital ratio (%)	18.03%	18.29%
Fully loaded ECL accounting model total capital ratio (%)	17.89%	18.07%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
Countercyclical buffer requirement (%)	0.36%	0.36%
Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%
Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.36%	3.36%
CET1 available after meeting the bank's minimum capital requirements (%)	10.61%	10.88%
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure	31,500	32,816
Fully Loaded Total Basel III leverage ratio exposure measure	31,485	32,792
Basel III leverage ratio (%) (row 2 / row 13)	5.10%	4.94%
Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	5.05%	4.87%
Liquidity Coverage Ratio		
Total HQLA	10,526	10,314
Total net cash outflow	7,288	7,276
LCR ratio (%)	144%	142%
Net Stable Funding Ratio		
Total available stable funding	20,949	20,882
Total required stable funding	16,875	16,510
NSFR ratio	124%	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 30 March 2022 is presented 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	0.36%
Minimum requirement for Pillar 2 Requirement	1.125%
	8.98%

At the end of Q1 2022, the Bank's CET1 ratio stood at 13.97%, with the total capital ratio at 18.03%, 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
			31/03/2022	31/12/2021	31/03/2022
	1	Credit risk (excluding CCR and IRB equity)	8,676	8,506	694
Article 438(c)(d)	2	Of which the standardised approach	2,499	1,699	200
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	1,329	2,037	106
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	4,848	4,770	388
Article 438(d)	5	Equity IRB under the simple risk-weighted approach or the IMA	502	519	40
Article 107 Article 438(c)(d)	6	CCR	78	148	6
Article 438(c)(d)	7	Of which mark to market	16	60	1
Article 438(c)(d)	8	Of which original exposure			
Article 438(c)(d)	9	Of which the standardised approach	49	71	4
	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	13	18	1
Article 438(e)	13	Settlement risk			
Article 449 (o)(i)	14	Securitisation exposures in the banking book (after the cap)	2	3	0,2
	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	2	3	0,2
Article 438(e)	19	Market risk	26	23	2
	20	Of which the standardised approach	26	23	2
	21	Of which IMA			
Article 438(e)	22	Large exposures			
Article 438(f)	23	Operational risk	954	954	76
	24	Of which basic indicator approach			
	25	Of which standardised approach	954	954	76
	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	6	11	0,5
	30	**Total**	**10,245**	**10,165**	**820**

The Bank's RWA totaled EUR 10.24 billion as of 30 March 2022, compared to EUR 10.16 billion at 31 December 2021. The overall increase of about EUR 80 million mainly reflects increases in credit RWA (EUR 170 million, excluding CCR and IRB equity). CCR RWA decreased by about 70 million due to the reduction of exposures in repo/reverse repo. Market RWA slightly decreased by about EUR 2 million, and operational RWA remained unchanged from Q4 2021 to Q1 2022.

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 18 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 Q2 2021, BIL's recalibrated leverage ratio requirement reached to 3.09%.

As mentioned in Table KM1 (Section One), BIL Group' leverage ratio was 5.10 % as of Q1 2022 (transitional), moderately increased compared to 4.94 % as of Q4 2021. The variation was attributable particularly to a decrease in total leverage ratio exposure (4%) while the Tier 1 equity remained stable. Without the central bank exposure exemption, the leverage ratio amounted to 4.47% (transitional)

The leverage ratio disclosure templates are (in EUR million):

[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.

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

(in EUR million)		Amounts in EUR million (Fully Phased-in)	Amounts in EUR million (Transitional)
1	Total assets as per published financial statements	33,402	33,402
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation		
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)		
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-4,433	-4,433
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)		
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting		
7	Adjustment for eligible cash pooling transactions		
8	Adjustment for derivative financial instruments	286	286
9	Adjustment for securities financing transactions (SFTs)	73	73
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,664	2,664
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-495	-480
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)		
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)		
12	Other adjustments	-13	-13
13	Total exposure measure	31,485	31,500

LR2 - LEVERAGE RATIO COMMON DISCLOSURE

(in EUR million)		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, but including collateral)	33,059	33,059
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework		
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5	(General credit risk adjustments to on-balance sheet items)	-81	-81
6	(Asset amounts deducted in determining Tier 1 capital)	-495	-480
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	32,482	32,497
DERIVATIVE EXPOSURES			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	362	362
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach		
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	334	334
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach		
EU-9b	Exposure determined under Original Exposure Method		
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)		
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)		
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)		
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	Total derivatives exposures	697	697

SECURITIES FINANCING TRANSACTION (SFT) EXPOSURES			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	46	46
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	Counterparty credit risk exposure for SFT assets	27	27
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR		
17	Agent transaction exposures		
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)		
18	**Total securities financing transaction exposures**	**73**	**73**
OTHER OFF-BALANCE SHEET EXPOSURES			
19	Off-balance sheet exposures at gross notional amount	2,726	2,726
20	(Adjustments for conversion to credit equivalent amounts)		
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	-10	-10
22	**Off-balance sheet exposures**	**2,715**	**2,715**
EXCLUDED EXPOSURES			
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)		
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))		
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)		
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)		
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))		
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-51	-51
EU-22g	(Excluded excess collateral deposited at triparty agents)		
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)		
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)		
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)		
EU-22k	**(Total exempted exposures)**	**-51**	**-51**
CAPITAL AND TOTAL EXPOSURE MEASURE			
23	Tier 1 capital	1,590	1,606
24	**Total exposure measure**	**35,918**	**35,933**
LEVERAGE RATIO			
25	Leverage ratio (%)	4.43%	4.47%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)		
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5,05%	5.10%
26	Regulatory minimum leverage ratio requirement (%)	3.09%	3.09%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)		
EU-26b	of which: to be made up of CET1 capital		
27	Leverage ratio buffer requirement (%)		
EU-27a	Overall leverage ratio requirement (%)		
CHOICE ON TRANSITIONAL ARRANGEMENTS AND RELEVANT EXPOSURES			
EU-27b	Choice on transitional arrangements for the definition of the capital measure		

DISCLOSURE OF MEAN VALUES	
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)

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:	33,059
EU-2	Trading book exposures	51
EU-3	Banking book exposures, of which:	33,007
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	11,638
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,071
EU-7	Institutions	2,643
EU-8	Secured by mortgages of immovable properties	8,062
EU-9	Retail exposures	3,320
EU-10	Corporate	5,023
EU-11	Exposures in default	329
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	919

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 Q4 2021 and Q1 2022.

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]

	RWA amounts	Capital requirements
Credit Risk RWAs (ADV+STD +TIT with CCR) as at the end of the previous reporting period (31/12/2021)	9,158	732
Total adjustments from Standardised Approach (with CCR)	**848**	**67**
Adjustment from Asset size	-37	-2
Adjustment from Model updates		
Adjustment from Methodology and policy	885	70
Banks perimeter in Standard approach	885	70
Adjustment from Other	-0,25	-0,02
Total adjustments from IRB – Advanced Approach (with CCR)	**-760**	**-60**
Adjustment from Asset size	-71	-5
Adjustment from Asset quality	-97	-7
Adjustment from Model updates	-591	-47
Adjustment from Methodology and policy		
Adjustment from Acquisitions and disposals		
Adjsutment from Foreign exchange movements		
Adjustment from Other	-0,11	-0,01
Total adjustments from CVA	**-4**	**-0,38**
Total adjustments from Securitisation	**-0,14**	**-0,01**
Total adjustments from FTA new management overlay	**-5**	**-0,41**
RWAs as at the end of the reporting period (31/03/2022)	9,264	741

[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 global 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 during Q1 2022 and Q2 2022:

- The different teams (Risk, Finance, Strategy, Financial Markets) have worked on the 2022 ECB climate risk Stress Testing Exercise. In this context the Bank has received a dedicated report the 6 July 2022 and the ECB has published the global outcomes of the exercise the 8 July 2022. A more deep-dive view will be given in the semi-annual Pillar III report
- The assessment of the Carbon Footprint is on-going with the first outcomes expected mid-July 2022. It will enable notably the greenhouse gas accounting of the financed emissions for 2021 for the loan book, the investment portfolio and the participations
- The Bank has also exchanged and communicated with the ECB regarding the climate risk framework. The ECB will revert back in August 2022 to the Bank with a first assessment of this framework linked to the compliance with the principles embedded in the ECB climate risk guidance (Published in November 2020). This assessment will be included in the Bank's SREP score
- After the set-up of an environmental risk cartography in January 2022, the Risk teams have worked on the social and governance risk cartography which will be disclosed in the semi-annual Pillar III report
- Finally, the different strategic targets regarding ESG features are currently designed to be submitted to the Management Body in Q3/Q4 2022

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 first part of year 2022 in this international crisis context. 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