Pillar 3 Report 2021

BIL 1856

BANQUE INTERNATIONALE À LUXEMBOURG

Contents

List of acronyms

ABS	Asset-backed security
AFR	Available Financial Resources
A-FOU	Advanced Foundation
A-IRBA	Advanced Internal Rating-Based Approach
ALCO	Asset Liability Committee
ALM	Asset and Liability Management
ASF	Available Stable Funding
AT1	Additional Tier 1 capital
BACC	Board Audit and Compliance Committee
BCL	Banque Centrale de Luxembourg
BCP	Business Continuity Plan
BoD	Board of Directors
BRC	Board Risk Committee
BRNC	Board Remuneration & Nomination Committee
BRNC-N	Board Remuneration and Nominations Committee sitting in nomination matters
BRRD	Banking Recovery and Resolution Directive
BSP	BIL Structured Product
CAR	Compliance, Audit and Risk
CarCo	Compliance, Audit and Risk Committee
CAS	Capital Adequacy Statement
CBA	Collective Bargaining Agreement
CBS	Core Banking System
CC	Crisis Committee
CCF	Credit Conversion Factor
CCO	Chief Compliance Officer
CCP	Central Counterparty

CDS	Credit Data Science
CCR	Counterparty Credit Risk
CEO	Chief Executive Officer
CFP	Contingency Funding Plan
CoCo bond	Contingent Convertible bond
COR	Operational Risk Correspondents
CoRep	Common solvency ratio Reporting
CPR	Conditional Prepayment Rate
CRCR	Credit Risk Calculation & Reporting
CRCU	Credit Risk Control Unit
CRD	Capital Requirement Directive
CRMU	Credit Risk Management Unit
CRM	Credit Risk Mitigant
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSRD	Corporate Sustainability Reporting Directive
CSSF	Commission de Surveillance du Secteur Financier
CTO	Chief Transformation Officer
CVA	Credit Valuation Adjustment
DR	Default Rates
DRP	Disaster Recovery Plan
DTA	Deferred Tax Asset
EAD	Exposure At Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions

ECAP	Economic Capital
ECB	European Central Bank
ECL	Expected Credit Loss
EFRM	Enterprise and Financial Risk Management
EL	Expected Loss
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European union
EUR	EURO
EV	Economic Value
EVE	Economic Value of Equity
FinRep	Financial Reporting
FRM	Financial Risk Management
FRMD	Financial Risk Management Datamart
FOREX	Foreign Exchange
FVTOCI	Financial investment at fair Value Through OCI
GIP	Gestion Intensive et Particulière
GL22	Go Live 2022
GMRA	Global Master Repurchase Agreement
GMSLA	Global Master Securities Lending Agreement
GRI	Global Reporting Initiative
HQLA	High Quality Liquid Assets
(U)HNWI	(Ultra) high net worth individuals
HO	Head Office
HR	Human Resources
HTC(S)	Hold to Collect (and Sell)

ICAAP	Internal Capital Adequacy Assessment Process
ICC	Internal Control Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal Model Method
IMVU	Internal Model Validation Unit
IR	Interest Rate
IRB	Internal Rating Based Model
IRBA	Internal Rating Based Approach
IRBF	Internal Rating Based Foundation
IRRBB	Interest Rate Risk in the Banking Book
IRS	Internal Rating Systems
ISDA	International Swap and Derivative Association
ISRC	ICT & Security Risks Committee
IT	Information Technology
ITS	Implementing Technical Standards
JST	Joint Supervisory Team
KPI	Key Performance Indicator
LAS	Liquidity Adequacy Statement
LCR	Liquidity Coverage Ratio
LDP	Low Default
LR	Leverage ratio
LGD	Loss Given Default
LiST	ECB 2019 Sensitivity Analysis of Liquidity Risk
M	million/Million
MB	Management Board

MBS	Mortgage Backed Security
MCRE	Maximum Credit Risk Exposure
MEP	Media Exposed
MidCorp	Middle Corporate
MMB	Member of the Management Board
MOC	Monthly Operational Committee
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRT	Material Risk Takers
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne
NCA	National Competent Authorities
NFRD	Non-Financial Reporting Initiative
NII	Net Interest Income
NMD	Non-Maturing Deposits'
NPC	New Products Committee
NPE	Non-Performing exposures
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet
OCI	Other Comprehensive Income
OCR	Overall Capital Requirement
ORC	Operational Risk Committee
ORM	Operational Risk Management
OTC	Over-the-counter
PCC	People, Culture and Communication
PD	Probability of Default
PEP	Politically Exposed
PM	Products and Markets

PSD II	Payment Services Directive II (EU/2015/2366)
P&L	Profit and Loss
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
QCCP	Qualified Central Counterparty
QMFU	Quality Management Follow-Up
QIS	Quantitative Impact Study
RAF	Risk Appetite Framework
RAROC	Risk Adjusted Return on Equity
RAS	Risk Appetite Statement
RCSA	Risk Control Self-Assessment
REA	Risk Weighted Exposure Amount
RPsC	Risk Policy Sub-Committee
RSF	Required Stable Funding
RWA	Risk Weighted Assets
SA-CCR	Standardized Approach for Counterparty Credit Risk
SASB	Sustainability Accounting Standards Board
SFDR	Sustainable Finance Disclosure Regulation
SFT	Securities Financing Transaction
SC	Security Committee
SICS	Sustainable Industry Classification System
SLA	Service Level Agreement
SME	Small and Medium Enterprise
SNB	Swiss National Bank
SSM	Single Supervisory Mechanism
SPPI	Solely Payments of Principal and Interests

SRB	Single Resolution Board
SRM	Single Resolution Mechanism
STE	Short Term Exercise
SVI	Sector Vulnerability Index
TOM	Target Operating Model
VaR	Value at Risk
WAL	Weighted Average Life
WIR	Weekly Incident Report

EBA tables and templates[1]

The content of the EBA qualitative tables are included in this report.

Templates	Reference	Name	CRR articles	Format	Frequency
1	EU OVA	Institution risk management approach	Article 435 (1)	Flexible	Annual
2	EU CRA	General qualitative information about credit risk	Article 435 (1)	Flexible	Annual
3	EU CCRA	Qualitative disclosure requirements related to CCR	Article 435 (1)	Flexible	Annual
4	EU MRA	Qualitative disclosure requirements related to market risk	Article 435 (1)	Flexible	Annual
5	EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Article 436 (b)	Flexible	Annual
6	EU CRB-A	Additional disclosure related to the credit quality of assets	Article 442 (a)-(b)	Flexible	Annual
7	EU CRC	Qualitative disclosure requirements related to CRM techniques	Article 453 (a) - (e)	Flexible	Annual
8	EU CRD	Qualitative disclosure requirements on institutions' use of external credit ratings under the standardized approach for credit risk	Article 444 (a) - (d)	Flexible	Annual
9	EU CRE	Qualitative disclosure requirements related to IRB models	Article 452 (a) - (c)	Flexible	Annual
10	EU MRB	Qualitative disclosure requirements for institutions using the IMA	Article 455	N/A	N/A

List of EBA quantitative templates presented throughout this document.

Templates	Reference	Name	CRR articles	Reference
1	EU KM1	Main prudential solvency and liquidity ratio	Article 433 (a) (preferring article 447)	Quarterly
2	EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Article 436 (b)	Annual
3	EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Article 436 (b)	Annual
4	EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Article 436 (b)	Annual
5	EU OV1	Overview of RWAs	Article 438 (c)-(f)	Quarterly / Semi- annual / Annual
6	EU CR10	IRB (specialized lending and equities)	Article 153 (5) or 155 (2), Article 438	Semi-annual/Annual
7	EU INS1	Non-deducted participations in insurance undertakings	Article 438 (c)-(d) & article 49 (1)	Semi-annual/Annual
8	EU CRB-B	Total and average net amount of exposures	Article 442 (c)	Annual
9	EU CRB-C	Geographical breakdown of exposures	Article 442 (d)	Annual
10	EU CRB-D	Concentration of exposures by industry or counterparty types	Article 442 (e)	Annual
11	EU CRB-E	Maturity of exposures	Article 442 (f)	Annual
12	EU CR1-A	Credit quality of exposures by exposure class and instrument	Article 442 (g)-(h)	Semi-annual/Annual
13	EU CR1-B	Credit quality of exposures by industry or counterparty types	Article 442 (g)	Semi-annual/Annual
14	EU CR1-C	Credit quality of exposures by geography	Article 442 (g)	Semi-annual/Annual
15	EU CR1-D	Ageing of past-due exposures	Article 442 (g)	Semi-annual/Annual
16	EU CR1-E	Non-performing and forborne exposures	Article 442 (g)-(i)	Semi-annual/Annual
17	EU CR2-A	Changes in the stock of general and specific credit risk adjustments	Article 442 (i)	Semi-annual/Annual
18	EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Article 442 (i)	Semi-annual/Annual

[1] In accordance with the EBA publications of which: EBA/GL/2016/11, version 2, and EBA/ITS/2020/04.

19	EU CR3	CRM techniques – Overview	Article 453 (f) - (g)	Semi-annual/Annual
20	EU CR4	Credit risk exposure and CRM effects	Article 453 (f) - (g)	Semi-annual/Annual
21	EU CR5	Standardized approach	Article 444 (e)	Semi-annual/Annual
22	EU CR6	Qualitative disclosure requirements related to IRB models	Article 452 (e) - (h)	Semi-annual/Annual
23	EU CR7	Effect on the RWAs of credit derivatives used as CRM techniques	Article 453 (g)	N/A
24	EU CR8	RWA flow statements of credit risk exposures under the IRB approach	Article 438 (d) & Article 92 (3)	Quarterly / Semi- annual / Annual
25	EU CR9	IRB approach – Back testing of PD per exposure class	Article 452 (i)	Annual
26	EU CCR1	Analysis of CCR exposure by approach	Article 439 (e), (f), (i) & article 92 (3)	Semi-annual/Annual
27	EU CCR2	CVA capital charge	Article 439 (e) - (f)	Semi-annual/Annual
28	EU CCR8	Exposures to CCPs	Article 439 (e) - (f)	Semi-annual/Annual
29	EU CCR3	Standardized approach – CCR exposures by regulatory portfolio and risk	Article 444 (e)	Semi-annual/Annual
30	EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	Article 452 (e)	Semi-annual/Annual
31	EU CCR7	RWA flow statements of CCR exposures under the IMM	Article 92 (3) - (4) & Article 438 (d)	N/A
32	EU CCR5-A	Impact of netting and collateral held on exposure values	Article 439 (e)	Semi-annual/Annual
33	EU CCR5-B	Composition of collateral for exposures to CCR	Article 439 (e)	Semi-annual/Annual
34	EU CCR6	Credit derivatives exposures	Article 439 (g) - (h)	N/A
35	EU MR1	Market risk under the standardized approach	Article 445	Semi-annual/Annual
36	EU MR2-A	Market risk under the IMA	Article 455 (e)	N/A
37	EU MR2-B	RWA flow statements of market risk exposures under the IMA	Article 455 (e)	N/A
38	EU MR3	IMA values for trading portfolios	Article 455 (d)	N/A
39	EU MR4	Comparison of VaR estimates with gains/losses	Article 455 (g)	N/A

Foreword

Banque Internationale à Luxembourg (hereafter "BIL" or "the Bank") is a banking group located in Luxembourg at 69, route d'Esch, L-2953 Luxembourg and counts about 1.850 employees. It is the ultimate parent company of BIL Group. BIL is present in the financial centre of Luxembourg, Zurich, Hong Kong and Beijing.

This report meets the consolidated disclosure requirements related to the Part Eight of the Regulation (EU) No 575/2013, known as the Capital Requirements Regulation (CRR) on the one hand, and to the Circular CSSF 14/583 and the CSSF Regulation 1803, which are the transpositions of the CRR into national law on the other hand, thereby satisfying the regulatory prudential framework applicable to credit institutions. The Guidelines on Disclosure Requirements under the Part Eight of the Regulation (EU) No 575/2013 (EBA/GL/2016/11 and EBA/ITS/2020/04), and the corresponding Circular CSSF 17/673 on the adoption of the European Banking Authority (EBA) Guidelines, and the final Guidelines on Disclosure of Non-Performing and Forborne Exposures (EBA/GL/2018/10) of December 2018 are also taken into account.

Unless otherwise stated, the figures disclosed in this report are expressed in millions of euros. Data are provided at a consolidated level, including subsidiaries and branches of BIL Group.

In addition to this document, the annual report is available on the BIL's website (https://www.bil.com/fr/groupe-bil/documentation/Pages/donnees-financieres.aspx)

Introduction

This BIL Group's Pillar 3 disclosure report is divided into eight sections and two appendices, as follows:

- The first section describes the structure and functioning of the risk organisation and governance;
- The second section covers the capital management and capital adequacy;
- The third section is dedicated to the credit risk management;
- The fourth section describes the methodological procedures for the management of market risk while disclosing the Bank's corresponding risk profile;
- The fifth and sixth sections present the operational risk and the information security & business continuity frameworks and related key risk figures;
- The seventh section is dedicated to the remuneration policy;
- The eight section relates to the ESG risk framework.

It should be noted that BIL also publishes its Pillar 3 report on a semi-annual and quarterly basis.

1. Risk Management

1.1. Risk Management

The risk management function is primarily based on the following principles:

- The risk control function shall ensure that all business units anticipate, identify, assess, measure, monitor, manage and duly report all the risks to which the institution is or may be exposed. It shall carry out its tasks continuously and without delay. It shall be a central element of the internal governance and organisation of the institution dedicated to limiting risks. It shall inform and advise the supervisory body and assist the Management Board, propose improvements in the risk management framework and actively participate in the decision-making processes, ensuring that appropriate attention is given to risk considerations. The ultimate responsibility for the decisions regarding risks shall remain, however, with the business units which take the risks and, finally, with the Management Board and supervisory body;
- The risk function provides the Management Body (the Board of Directors assisted by the Board Risk Committee and the Management Board) and all other relevant stakeholders with a comprehensive, objective and relevant overview of risks;
- The risk control function shall ensure that the internal risk objectives and limits are robust and compatible with the regulatory framework, the internal strategies and policies, the activities, and the organisational and operational structure of the institution. It shall monitor compliance with these objectives and limits, propose appropriate remedial measures in case of breach, ensure compliance with the escalation procedure in case of significant breach and ensure that the breaches are remedied as soon as possible;
- The risk framework is compliant with banking regulation requirements by submitting regular reports to the supervisory bodies, taking part in regulatory discussions, and analysing and implementing all new requirements related to risk management.

As a general principle, the internal risk functions of each BIL entity report to the appropriate risk functions at BIL Head Office level, from both a hierarchical and a functional perspective for branches and from a functional perspective for subsidiaries.

1.2. Risk Organisation and Governance

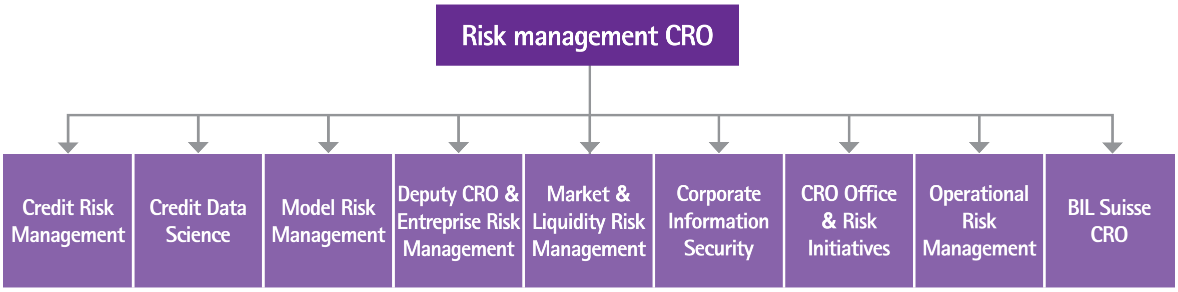
BIL Group's risk management framework is based on a clear organisational structure with a transparent decision-making process that facilitates prudent management of risks.

The Bank's risk management model is based on the following principles:

- Independence of the risk function from the business (three lines of defence model);
- Collective decision-making process in order to challenge the different opinions and views;
- Precise policies and procedures detailing risk limits, responsibilities, monitoring and reporting of risks across the Group;
- Central control, whereby all departments, subsidiaries and branches report both organisational and technical matters to Risk Management at BIL's Head office;
- Considering the proportionality principle, implementation of the same risk monitoring and data control system in all entities of BIL Group.

1.2.1. Organisation

In order to support a sound risk management framework and to develop an integrated risk culture, the Bank has set up an effective risk management organisation that is consistent with its activities and encompasses the relevant risks associated with its activities. The risk management function has been designed to support the Bank in achieving its defined objectives under the BIL strategy and regulatory requirements.



The Chief Risk Officer (CRO) is responsible for the risk management framework, challenge and oversight of the risks taken by the business and for providing any relevant information on risks to the Management Board, thereby enabling the management of the bank's overall risk profile.

To achieve its goals and objectives, the Bank has strengthened its workforce in 2021 and made some changes in the risk management organization from the previous year:
- In November 2021, Christophe Durenne joined the Risk department as Deputy Chief Risk Officer of the group. In addition to his deputy role, he was also granted the direct responsibility for the Enterprises Risk Management (ERM) department;
- Split of the Enterprise and Financial Risk Management department (EFRM) into two distinct departments: the Financial Risk Management (FRM) function led by Loïc Tamisier was re-named Market and Liquidity Risk Management (MLRM) and reports directly to the CRO. The team is divided into four sub-teams covering Financial Markets Monitoring, Interest Rate Risk in the Banking Book (IRRBB), Liquidity Risk and Market Data & Risk Engineering. The Enterprise Risk Management (ERM) department keeps the same scope with a growing focus on ESG risk management. The team has been divided into three sub-teams namely ERM Quantitative team, ERM Transversal team and ERM Project Office;
- The loans services department was moved to the CTO;
- The Credit Risk Calculation & Reporting (CRCR) team was moved from the Model Risk Management team to a newly created team called Finance & Risk (F&R) Factory within the Finance department (please refer to specific section below);
- The Risk Initiatives team was moved from the Model Risk Management team to the CRO Office team;
- The Security Risk Prevention team was moved from the Corporate Information Security team to the CTO business line in 2021;
- Reinforcement of the Credit Risk Management (CRM) department: a deputy head of Credit Risk Management was designed to lead a new team called CRM Coordination to cover mainly projects and the management of regulatory and audit recommendations of the department;
- F&R Factory: In line with BCBS 239 and in order to de-risk the go-live of T24 (new core banking system), the Bank has implemented during 2021 a new common Finance and Risk database called RFO Master (based upon the Moody's tool Risk Foundation) as a golden source for all finance and risk data. Along with the ambition to have a unique database for the Finance & Risk departments, it was necessary to guarantee the operability of this data warehouse. In this context, the Bank decided in March 2021 to create a dedicated team under the Finance department, named Finance & Risk Factory (F&R Factory) after a Target Operating Model (TOM) analysis. The F&R Factory was set up to centralise data controls with the Data Office, to coordinate the reconciliation and corrections during the fast close with the Accounting department, to control the quality of the credit risk reporting under its responsibility (e.g. CoRep, FinRep, leverage ratio, large exposures and internal credit risk reporting) and to work closely with the Risk Management department.

The specific units are described in further details hereafter.

Credit Risk Management

This unit is composed of different sub-teams:

- **The Banks & Countries, Private Banking Analysis** team is in charge of the assessment and the monitoring of the credit risk related to bank and sovereign counterparties on one side and private banking counterparties on the other side;
- **The Corporate Analysis** team is in charge of the assessment and the monitoring of the credit risk related to corporate and institutional counterparties, including providing support for complex files to the other teams;
- **The Retail, Midcorp, Real Estate Analysis** team is in charge of the assessment and the monitoring of retail and midcorp (SME) counterparties and for the real estate specialised lending counterparties (property developments and professional real estate investments);
- **Gestion Intensive et Préventive** (GIP – Risk Identification and Workout Unit) identifies and manages credit files showing early signs of difficulties and proactively propose in collaboration with business lines specific action plans to mitigate the identified risks and assist front-office teams in managing complex non-performing exposures requiring thorough negotiations of forbearance solutions in order to minimise the potential losses for the Bank in case of default of a counterparty;
- **The team Credit Support** has been renamed to Credit Risk Support & Real Estate Appraisal and Advisory (CRS&REAA) and all tasks connected to credit risk related reports required by the supervisory authorities have been transferred to the newly established team CRM Coordination. CRS & REAA is responsible for defining and updating credit policies and procedures as well as the Credit Guide Charter (CGC), preparing real estate market reports for the Bank's Senior Management and providing support to the other CRM teams regarding the processing of regulatory and audit recommendations. It also aims to provide support on decisions about principles and methodologies relating to credit risk (e.g. approval of model validation reports) and to give advice on risks topics requiring transversal opinions and on issues of regulatory monitoring as well as on stress testing results. In 2021, the Credit Support team was strengthened with the addition of several analysts and a qualified real estate valuation expert certified by RICS. As result, the team has developed new additional responsibilities for all real estate market and valuation related matters, i.e. providing market valuations for real estate assets serving as collateral or serving as contact for external valuation experts.

The three first analysis teams are in charge of the segmentation of BIL counterparties in line with regulatory requirements and the assignment of internal ratings for their respective counterparties.

Credit Data Science

The Credit Data Science team is in charge of the development and maintenance of all the models related to credit risk quantification in the context of:

- The credit risk management and monitoring;
- The computation of regulatory capital requirements (Pillar 1);
- The general and specific provisioning calculation according to IFRS 9; and
- The forecasting of the risk parameters used in the stress testing process.

It also manages the consistency of the internal rating system integration within the credit risk management process and policies of the Bank.

This team is composed of three different sub-teams:

- **The IRBA team** is in charge of the development of internal models for the Credit Risk parameters related to the Pillar 1 capital calculation and the monitoring of these parameters, according to the relevant regulatory guidelines;
- **The IFRS9 team** is in charge of all modelling activities related to the new accounting standard IFRS9, in particular the development and maintenance of the ECL model;
- **The IT Risk Data Management team** is responsible of coordinating transverse projects involving other BIL stakeholders such as core banking IT and advanced analytics. The IRDM team is also supporting the IRBA and IFRS9 teams on ad hoc projects.

Model Risk Management

The team is composed of three units:

- **The Internal Validation team** aims to monitor the robustness and soundness of BIL's risk and valuation modelling landscape by validating all the BIL risk quantification models under Pillar 1, IFRS 9, BIL risk quantification under Pillar 2 and more generally all models that could have a direct impact on the profitability, the solvency and the liquidity of the Bank. The unit is responsible for independently verifying that models proposed for use by model owners are fit for purpose through the whole model lifecycle, and that the associated model risks are appropriately identified and mitigated. In order to do so, Internal Validation has explicit authority and independence to provide effective challenge to related stakeholders, presenting issues and highlighting deficiencies. The key aspects of models validated by the internal validation unit include model design, data quality, model implementation, and model performance, and use tests;

- **The Model Governance team** is in charge of overseeing compliance with the Model Risk Management Framework of the Bank. This unit ensures the documentation is in place for each model, that the model inventory and issue tracking tool is maintained and updated regularly and provides challenge where appropriate to the model owners and developers. Moreover, the Model Governance unit is responsible for organising the model risk committees by preparing agendas, writing minutes, and archiving documents. The unit is the central repository for all charters and policies related to the Model Risk Management Framework;
- **Rating Systems Control** contributes to the quality control of the internal rating system of the bank, in order to secure the credit risk calculation quality.

Enterprise Risk Management

The Enterprise Risk Management (ERM) team has a key role in the Risk Management department for maintaining and developing the Group Risk Appetite principles. The ERM team works on the embedment of the group strategy within its risk management approach through the deployment and monitoring of the various components of the SSM. ERM has close interlinkages with the top management and the regulatory bodies and is also involved in all major bank transversal projects.

To cover the wide range of ERM topics and SSM requirements, the team has been divided in three sub-teams (i) ERM Quantitative team, (ii) ERM Transversal team and (iii) ERM Project Office. The main tasks of ERM are based on (i) the analysis of the business model of the Bank through its Risk Appetite and Risk Cartography; (ii) the establishment of a framework for risk governance; (iii) the deployment of an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP); (iv) the reinforcement of the Capital and Liquidity planning and modelling approach and (v) a transversal stress testing device.

- Beyond these interlinked tasks tackled by all the teams, the Quantitative team works on (i) the development and deployment of the quantitative and functional model approaches in line with regulatory requirements, (ii) periodic monitor and reporting on the underlying risk models of ECAP (iii) conduct model back testing and stress testing analysis, (iv) maintain dataset and support other departments and (iv) risk return (RAROC) calculation;
- In line with these requirements, the Transversal team works on (i) the review and development of the risk policy framework, in particular the Global Risk Charter (GRC), (ii) the production and coordination of all the Bank's cross-functional reports such as the Pillar III Report, the Annual Report and the Long Form Report, (iii) the production of the quarterly Risk Dashboard and (iv) the establishment of the BIL Recovery Plan and the deployment of the Resolution Planning activities;
- The ERM Project Office team has been set up to tackle upcoming regulatory challenges on ESG and reinforce the ESG risk management framework for BIL Group. The team has joined the ESG Project Team of the Sustainability Program. This program has been launched in order to integrate ESG consideration into BIL's strategy and supports the transformation of BIL's product and service offer in the ESG context.

Market and Liquidity Risk Management

The department is in charge of the charters, policies and guidelines definitions and their application on financial market activities (banking book including ALM, Trading, Liquidity and Collateral Management). Moreover, this department is responsible for identifying, analysing, monitoring and reporting on risks and results on these topics at BIL Group level. Furthermore, MLRM is functionally responsible for the main tools (Kondor+ and Bloomberg), the interfaces of the Dealing Room and the Financial Risk Management Datamart (FRMD). MLRM is also fully involved in the GL22 project. MLRM is composed of four different teams, as described below:

- **The Market Data Management & Risk Engineering team** is in charge of:
  - Implementing regulatory projects related to market risks;
  - Ensuring the operational management of the Dealing Room and MLRM tools and implementing the valuation models for the positions of the Bank (and some specific clients) in order to optimise the risk and capital level of the Bank;
  - Setting up the evolutions or new activities of the Dealing Room;
  - Developing, producing and monitoring some regulatory indicators related to market risk in connection with FRTB;
  - Performing the middle-office controls (consistency and fraud risk);
  - Designing and maintaining the business intelligence tools (FRMD);
  - Generating the MiFID APA reporting;
  - Managing the definition and the availability of the market data for the Bank;
  - Implementing new software solutions and testing GL22 developments at MLRM level.
- **The Financial Markets Monitoring team** is in charge of:
  - Identifying and monitoring market risks linked to the trading room activities;
  - Monitoring of the collateral management activity;
  - Monitoring and controlling the levels of risk and capital consumption of the trading book in line with the bank's risk appetite statement;
  - Informing and alerting the Bank's Management of the risks to which BIL Group is exposed.

- **The Liquidity Risk Management team** is in charge of:
  - Implementing the liquidity regulatory standards by defining the technical and functional policies and guidelines;
  - Developing, producing and monitoring the liquidity regulatory indicators (LCR, NSFR and ALMM) and the Liquidity Stress Tests;
  - Ensuring an appropriate level of liquidity in line with the Bank's risk appetite statement regarding liquidity risk;
  - Informing and alerting the Bank's Management of the liquidity risks to which BIL Group is exposed.
- **The Interest Rate in the Banking Book (IRRBB) Management team** is in charge of:
  - Implementing the IRRBB regulatory standards by defining the technical and functional policies and guidelines;
  - Developing, producing, monitoring and reporting of the IRRBB indicators (EVE, NII) and the interest rate gap of the Bank;
  - Ensuring an appropriate level of interest rate risk in line with the bank's risk appetite statement.

Information Security and Business Continuity

The department is in charge of:
- Analysing and monitoring ICT & Security Risks;
- Defining the required measures to be implemented on ICT & Security domains;
- Controlling the effectiveness of the deployed ICT & Security measures.

This team chairs the ICT & Security Risk Committee with the following responsibilities:
- Oversee the ICT & Security risks (as defined in the ICT & Security Risk Management charter) linked to the use of information technologies by BIL and that of its Group entities;
- Oversee the ICT & Security controls in place to mitigate the ICT & Security risks;
- Take a position on the risks the key stakeholders have identified and analysed in order to provide adequate protection to BIL's Information and IT assets;
- Monitor ICT and Security incidents and oversee the actions taken to address the causes of the incidents;
- Monitor that the implementation and the support of a global Business Continuity Plan respects the strategy defined by the BIL Management Board.

Remarks:
- The Security Risk Prevention team has been moved to the CTO business line in 2021;
- The Business Continuity team establishes and maintains the continuity plan (Business Continuity Plan), its alignment with the IT Recovery Plan (Disaster Recovery Plan) and performs an annual review of the Business Impact Analysis with the business lines in order to maintain an up-to-date continuity plan set out in the Business Continuity and Crisis Management Charter.

CRO Office & Risk Initiatives

The department was created in 2020 to cope with the increasing number of transversal topics at Risk Management level. The aim of the CRO Office is to act as a facilitator and a coordinator for these topics requiring multiple contributions within Risk Management.

Transversal topics covered by the CRO Office include:
- Management of the Risk Initiatives team;
- Monitoring of Risk Management projects;
- JST and Internal Audit Recommendations monitoring;
- Group Entities oversight for Risk Management;
- Drafting replies and action plans to ECB decision letters on specific points of attention and OSI;
- Budget coordination and consolidation;
- Any other topic requiring coordination among Risk Management Teams.

Risk Management is set up in order to cope with the various regulatory, enhancements or strategic projects. The Risk Initiatives team is responsible to review that (i) the solutions design and deliveries fit Risk Management requirements and processes with a transversal forward looking assessment, (ii) a proper and continuous communication within and outside Risk Management is established, (iii) a consolidated tracking of status/budgets of the projects including their respective deliverables/milestones is provided in a timely manner.

Operational Risk Management

The department deals with operational risk management and insurance and reinsurance through two specialised teams:
- The Operational Risk (OR) team is in charge of:
  - Develop and monitor the operational risk event collection (operational incidents), analyse the incidents and ensure appropriate action is taken to remedy the causes of the incidents;

- Coordinate a reliable oversight (reviewing and challenging) of the Risk and Control Self-Assessment exercise performed by BIL Business lines and departments, subsidiaries & branches (RCSA);
- Review if a dedicated system of control and actions is in place to ensure an adequate operational risk exposure (internal fraud, external fraud, processes, systems, products, etc.) in line with the risk appetite as defined by the Bank;
- Minimising the Bank's operational risk exposure by taking part in the new products process and by accompanying projects and by participating in the assessment of major third-party providers in the context of outsourcing activities.

- The Insurance & Reinsurance team is in charge of:
  - The establishment and regular updating of the insurance program (BIL and employee coverage) within the Bank and its subsidiaries / branches;
  - A centralised management of insurance policies and claims within the Bank and its subsidiaries, acting as a single contact for both brokers and the insured;
  - Developing a comprehensive approach by ensuring the adequacy of the policy and insurance device including the own reinsurance company of BIL (captive) for risk analysis.

1.2.2. Roles and Responsibilities of the Committees

With respect to BIL's risk management framework, **the Board of Directors (BoD)** is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/appetite and the risk management framework.

According to CSSF circular 12/552 as amended, the BoD makes a critical assessment of the internal governance mechanisms. This assessment may be prepared by dedicated internal committees and may be based on information received from the Management Board or on the results of the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the summary reports of the internal control functions which the Board of Directors is called upon to approve or on any other information the BoD requests from business and control functions.

The BoD is ultimately responsible for the oversight of BIL's risk management and, as part of the RAF, defines general principles, responsibilities and processes. BIL's group risk management framework relies on a robust governance allowing a prudent and sound management of risks, in compliance with the strategies and guiding principles laid down by the BoD.

With respect to the RAF, the BoD:

- Approves BIL's Risk Appetite Statement (RAS) in line with the Bank's short- and medium-term strategy, business and capital plans, risk capacity as well as compensation programs;
- Holds the CEO and other senior management accountable to effectively implement the risk management framework for effective risk management in line with the set risk appetite and for the integrity of the risk appetite, including the timely identification, management and escalation of breaches in risk limits and of material risk exposures;
- Includes an assessment of risk appetite in its strategic discussions including decisions regarding mergers, acquisitions, growth in business lines or products, budget forecasting among others;
- Regularly reviews and monitors the actual risk profile and risk limits in line with the defined Risk Appetite;
- Define the appropriate mechanisms to allow Senior Management to act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures, in particular those that are close to or exceed the approved RAS or risk limits.

The BoD is assisted on risk-related matters by a specialised committee (i.e. the Board Risk Committee) which is responsible for proposing BIL Group's risk policy to the Board of Directors. This committee supervises BIL's activities with regards to its risk profile and makes positive recommendations to the Board of Directors with regards to the level of global limits for the main risk exposures.

The Board Risk Committee in particular:

- Reviews and recommends changes to BIL's group risk management framework, the global risk limits (included in the RAS) and capital allocation;
- Reviews BIL's group risk exposure, risk profile defined in the RAS, and related adequacy with the Bank's risk appetite (including capital adequacy) and other key risk management matters on a group-wide basis while prescribing global limits for the Bank's main risk exposures;
- Reviews, assesses and discusses with the external auditor and supervisors any significant risk or exposure and relevant risk assessments, if the need arises;
- Reports regularly to the Board of Directors and makes recommendations with respect to any of the above or other risk-related matters.

The Executive Committee (ExCo) is an enlarged committee composed of the CEO and the Management Board as well as designated heads of support functions and business lines. The Chief Compliance Officer as well as the Chief Internal Auditor are permanent invitees to the ExCo. The ExCo exercises its duties under the supervision of the Board. The role and responsibilities of the ExCo are further defined in the Terms of Reference of the ExCo/MB and in the Articles of Association and applicable laws.

Management committees stand and receive their mandates from the Management Board within a precise scope. They facilitate the development and implementation of sound corporate governance and decision-making practices. Their responsibilities and roles, their memberships and other rules defining their working practices are described in a specific form (Terms of Reference). At least one member of the Management Board is part of each management committee. These management committees may make decisions related to the overall risk process within their defined scope of action.

Committee	Topics
Internal Control Committee	The Internal Control Committee is mandated by the Management Board to strengthen the cooperation between the 3 lines of defence through coordination of the activities of each Internal Control function and decision on transversal issues related to Internal Control.
Credit Risk Committees	Commitments Committee: this committee is mandated by the Management Board to grant and decide for BIL on (i) all commitments exceeding EUR 3,500,000 and up to EUR 100,000,000, (ii) certain loans meeting special criteria. A sub-committee deals with specific risk policy matters. Credit Committee: this committee is mandated by the Management Board to grant and decide on (i) all commitments between EUR 1,000,000 or EUR 1,500,000 (depending on the product / business line) and EUR 3,500,000 and (ii) some loans that meet specific criteria. Employee Credit Committee: this committee is mandated by the Management Board to decide for BIL and its domestic subsidiaries on all employee commitments regardless of their level. Default Committee: this committee is mandated by the Management Board to analyze and decide on difficult or potentially difficult cases, and review summary reports on deteriorating debt.
ALM Committee	This committee is mandated by the Management Board to decide on the structural positioning of the BIL group balance sheet in terms of rates, foreign exchange and liquidity.
ICT & Security Risk Committee	The ICT & Security Risk Committee (ISRC) is mandated by the Management Board to oversee the ICT & Security risks, controls and incidents linked to BIL's use of information technologies and that of its subsidiaries.
New Products Committee	This committee is mandated by the Management Board (i) to address the development and take decisions on new products/services, including changes to existing ones, while checking the relevance of the underlying business case against the Bank strategy and, (ii) to monitor products/services manufactured and/or distributed by BIL.
Disciplinary Committee	This committee is mandated by the Management Board with the purpose that disciplinary measures taken at the encounter of employees in case of fraud, significant non-respect of internal policies and procedures and serious behavioural misconduct are fair and balanced.
Crisis Committee	A Crisis Committee may be set up to address and manage crisis situations (liquidity, funding, capital, BCP scenarios).
Project Portfolio Management Committee	This committee is mandated by the Management Board to manage the Bank's strategic project investment.
ICAC International Client Acceptance Committee	This committee is mandated by the Management Board to: • Discuss and decide the acceptance of Political Exposed Persons (PEP), Media Exposed Persons (MEP) and Ultra High Net Worth Individuals (UHNWI) clients within BIL Group; • Review PEP/MEP/UHNWI client situation on a regular basis
Go-Live 2022 Management Committee	This committee gathers all relevant program / business / control & support function representatives and takes decision in relation to GL22 scope management, business simplification, change & rollout management and changes to the Bank's operating model.

Discussions and decisions related to risk management are also governed by **additional internal committees**. These committees allow among others, that the processes set up for the Bank's risk management framework is in line with regulatory requirements and that the corresponding tools are used in an appropriate way.

- The Model Risk Committee addresses the following subjects: managing all subject matter in relation to models and model risk including but not limited to methodology, backtesting, validation, implementation, model change, model inventory and audit recommendations;
- The Operational Risk Committee is responsible for defining a reliable framework ensuring an efficient monitoring of the Bank's operational risk exposures and to manage all subjects in relation with operational risks such as incident management.

Responsibility for Risk Management across all "Lines of Defence"

At BIL, all employees are jointly responsible for an effective risk management according to the three lines of defence model. In this sense, the front office as the first line of defence plays an active role for BIL's risk management so that the control and support function as second line of defence assumes a role of challenge versus the first line of defence activities. There is a clear governance with an independent oversight function (first and second line) for risks and each risk has a dedicated owner. Furthermore, Internal Audit plays an important role for the Bank's risk management as third line of defence in reviewing and challenging the work performed by the first two lines of defence. Beyond that, BIL is in regular exchange with the Bank's external auditors, representing an additional fourth line of defence.

1.2.3. Risk Charter and Policies

The risk management framework is governed by an integrated set of charters and policies. BIL internal policies and procedures are necessary to comply with regulatory requirements and must be aligned with BIL Group's charters.

All charters, policies and procedures are stored centrally. Charters are reviewed at a frequency consistent with regulatory requirements (annually or other frequency). Policies and procedures are reviewed on at least a three-yearly basis.

1.2.4. Agenda of BRC's meetings

The BRC reviews and recommends to the BoD the risk management framework of the BIL Group including but not limited to:

- The risk governance structure, including the Risk Dashboard, the Risk Appetite Statement and the Risk Appetite Framework;
- The BIL group risk charters and other risk-related charters: review the design and implementation of risk charters, policies, guidelines and procedures for monitoring their adequacy and effectiveness;
- The BIL group risk appetite: recommends for annual approval by the BoD the risk appetite and tolerance;
- The risk management strategy in relation with the business strategy and business model of the BIL Group: the BRC provides oversight and advice in relation to current and future strategy, including determination of risk appetite, corresponding limits and tolerance; and the BRC reviews due diligence analysis or reports with regard to proposed strategic transactions, such as acquisitions or divestitures;
- The organisation of the risk management activities of the BIL Group: the BRC reviews the design and implementation of risk management activities and that adequate resources (funding, staff and technologies) are directed towards risk management within the bank;
- The risk awareness: the BRC promotes a risk awareness culture within the bank.

2. Own funds and capital adequacy

The aim of capital management is to guarantee BIL's solvency and sustain its profitability, while ensuring compliance with internal capital objectives and capital regulatory requirements. The Bank's ratios exceed the required levels.

BIL monitors its solvency using rules and ratios issued by the Basel Committee on Banking Supervision and the European Capital Requirements Directive.

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

As at 31 December 2021, the breakdown of prudential capital requirement is the following:[1]

Capital Requirement	31/12/2021	31/12/2020
Minimum requirements (Pillar 1): CET1	4.50%	4.50%
Pillar 2 requirement: CET1	0.98%	0.98%
Combined buffer requirement	3.36%	3.18%
of which capital conservation buffer	*2.50%*	*2.50%*
of which O-SII buffer	*0.50%*	*0.50%*
of which countercyclical capital buffer	*0.36%*	*0.18%*
OVERALL CET1 CAPITAL REQUIREMENT	**8.85%**	**8.67%**
Minimum requirements (Pillar 1): Tier 1	6.00%	6.00%
Pillar 2 requirement: Tier 1	1.31%	1.31%
Combined buffer requirement	3.36%	3.18%
OVERALL TIER 1 CAPITAL REQUIREMENT	**10.68%**	**10.49%**
Minimum requirements (Pillar 1): Total capital	8.00%	8.00%
Pillar 2 requirement: Total capital	1.75%	1.75%
Combined buffer requirement	3.36%	3.18%
OVERALL TOTAL CAPITAL REQUIREMENT	**13.11%**	**12.93%**

At 31 December 2021, the CET1 ratio of the Bank stands at 14.15%[2] (with a numerator at EUR 1,447million), the Tier 1 ratio 15.86% (with a numerator at EUR 1,662 million) and a Total Capital ratio (TCR) of 18.18% (with a numerator at EUR 1,859 million).

The supervisory authorities (ECB and CSSF) require BIL to disclosure the calculation of capital necessary for the performance of its activities in accordance with the prudential banking regulations, on the one hand, and in accordance with the prudential regulations on financial conglomerates on the other hand.

BIL has complied with all regulatory capital rules for all periods reported.

[1] Starting in 2020, the P2R takes into account the application of the Article 104a of the CRD (Directive (EU) 2019/878 amending Directive 20013/36/EU) where the P2R (1.75%) shall be met with a minimum level of CET1 capital for 56.25% and a minimum level of T1 capital for 75%.

[2] To note that the 2021 end of year CET1 ratio has been reviewed due to the implementation of Life Insurance ("Branche 23") as eligible collateral: The proforma impact is about a decrease of EUR 64 M of Credit Risk RWA leading to a 21Q4 reviewed CET1 ratio of 14.24% (from 14.15% without the inclusion). It is also applied to the TCR (from 18.18% without the inclusion to 18.29% with the inclusion).

Please find below the KM1 table which presents the main prudential solvency and liquidity ratio

	31/12/2021	31/12/2020
Available capital (amounts)		
Common Equity Tier 1 (CET1)	1,447	1,239
Fully loaded ECL accounting model	1,423	1,206
Tier 1	1,622	1,414
Fully loaded ECL accounting model Tier 1	1,598	1,381
Total capital	1,859	1,545
Fully loaded ECL accounting model total capital	1,835	1,512
Risk-weighted assets (amounts)		
Total risk-weighted assets (RWA)	10,229	9,381
Fully Loaded Total risk-weighted assets (RWA)	10,217	9,366
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	14.15%	13.20%
Fully loaded ECL accounting model Common Equity Tier 1 (%)	13.93%	12.88%
Tier 1 ratio (%)	15.86%	15.07%
Fully loaded ECL accounting model Tier 1 ratio (%)	15.64%	14.74%
Total capital ratio (%)	18.18%	16.47%
Fully loaded ECL accounting model total capital ratio (%)	17.96%	16.15%
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%	0.18%
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%	3.18%
CET1 available after meeting the bank's minimum capital requirements (%)	10.79%	10.02%
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure	32.816	32.943
Fully Loaded Total Basel III leverage ratio exposure measure	32.792	32.910
Basel III leverage ratio (%) (row 2 / row 13)	4.94%	4.29%
Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	4.87%	4.20%
Liquidity Coverage Ratio		
Total HQLA	10,314	7,283
Total net cash outflow	7,276	4,190
LCR ratio (%)	142%	174%
Net Stable Funding Ratio		
Total available stable funding	20,882	19,280
Total required stable funding	16,510	16,109
NSFR ratio	126%	120%

Following the migration to a new system, the data cleansing, the in depth review of data mapping and the results validation through a parallel run have allowed to improve the RWA calculation. These improvements trigger a one-off increase of RWA of EUR 126 million and affect negatively BIL's CET1 ratio by roughly 20 bp on end of 2020 data. The table KM1 includes the restated version of the Solvency ratio.

2.1. Regulatory capital adequacy (Pillar I)

2.1.1. Accounting and regulatory equity

This section provides information about the linkage between the carrying values presented in the financial statements and the regulatory exposures of the Bank. As requested by the CRR, the following table provides a breakdown of the balance sheet into the risk frameworks used to calculate the regulatory capital requirements.

TABLE EU LI1 - DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND THE MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(in EUR million)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balance at central banks and demand deposits	5,989	5,989	5,989	-	-	-	-
Financial assets held for trading	24	24	-	-	-	24	-
Financial investments measured at FV	1,138	1,138	1,138	-	-	-	54
Loans and advances to credit institutions	737	737	400	338	-	-	-
Loans and advances to customers	16,346	16,346	16,346	-	-	-	-
Financial investments measured at amortised cost	7,383	7,383	7,383	-	15	-	-
Derivatives	132	132	-104	235	-	-	-
Fair value revaluation of portfolios hedged against interest rate risk	0	0	0	-	-	-	-
Investments in associates	1	1	1	-	-	-	-
Investment property	31	31	31	-	-	-	8
Property, plant and equipment	108	108	108	-	-	-	-
Intangible fixed assets and goodwill	306	306	52	-	-	-	253
Current tax assets	1	1	1	-	-	-	-
Deferred tax assets	163	163	30	-	-	-	133
Other assets	86	86	70	-	-	-	17
Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-
Total assets	**32,446**	**32,446**	**31,445**	**573**	**15**	**24**	**465**

TABLE EU LI1 – DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND THE MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(in EUR million)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Amounts due to credit institutions	4,104	4,104	-	-	-	-	4,104
Amounts due to customers	20,688	20,688	-	-	-	-	20,688
Other financial liabilities	23	23	-	-	-	-	23
Financial liabilities measured at fair value through profit or loss	1,467	1,467	-	-	-	-	1,467
Derivatives	351	351	-	-	-	-	351
Fair value revaluation of portfolios hedged against interest rate risk	0	0	-	-	-	-	0
Debt securities	3,200	3,200	-	-	-	-	3,200
Subordinated debts	237	237	-	-	-	-	237
Provisions and other obligations	54	54	-	-	-	-	54
Current tax liabilities	1	1	-	-	-	-	1
Deferred tax liabilities	10	10	-	-	-	-	10
Other liabilities	208	208	-	-	-	-	208
Liabilities included in disposal groups held for sale	-	-	-	-	-	-	-
Subscribed capital	146	146	-	-	-	-	146
Additional paid-in-capital	761	761	-	-	-	-	761
Treasury shares	-	-	-	-	-	-	-
Other equity instruments	174	174	-	-	-	-	174
Reserves and retained earnings	709	709	-	-	-	-	709
Net income for the year	135	135	-	-	-	-	135
Gains and losses not recognised in the consolidated statement of income	176	176	-	-	-	-	176
Total liabilities	**32,446**	**32,446**	**-**	**-**	**-**	**-**	**32,446**

The following table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. The carrying amount of financial Instruments shall include impairments whereas for the regulatory calculation, only the exposures in standardised approach include impairments. Commitments related to securities given in collateral (repos) or securities lent are off-balance sheet information. Regulatory exposures also include the reverse repo.

TABLE EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

	(in EUR million)		Items subject to			
		Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**32,446**	**31,445**	**573**	**15**	**24**
2	Liabilities carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	24	-	-	-	24
3	Total net amount under the regulatory scope of consolidation	32,421	31,445	573	15	-
4	Off-balance-sheet amounts	5,443	5,443	-	-	-
5	Differences in valuations	690	365	325	-	-1
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	264	264	-	-	-
8	Differences due to prudential filters	-465	-465	-	-	-
9	Reverse repos	338	-	338	-	-
10	**Exposures amounts considered for regulatory purposes**	**38,691**	**37,053**	**1,235**	**15**	**-1**

The scope of prudential consolidation does not differ from the accounting scope of consolidation as reported in the financial statements (provided in BIL Group's annual report).

TABLE EU LI3 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity Method	Neither consolidated nor deducted	Deducted	
Europay Luxembourg SC	Equity Method		X			Other entity type
BIL Fund & Corporate Services SA	Full Consolidation	X				Investment firm
IB Finance SA	Full Consolidation	X				Other entity type
Société Luxembourgeoise de Leasing – BIL Lease SA	Full Consolidation	X				Immaterial leasing company
BIL Reinsurance SA	Full Consolidation		X			Insurance undertaking
BIL Manage Invest SA	Full Consolidation	X				Investment firm
Belair House SA	Full Consolidation	X				Investment firm
Société du 25 juillet 2013 SA	Full Consolidation	X				Other entity type
Banque Internationale à Luxembourg (Suisse) SA	Full Consolidation	X				Credit Institution
Banque Internationale à Luxembourg SA (BIL)	Full Consolidation	X				Credit Institution
BIL Wealth Management Ltd	Full Consolidation	X				Other entity type

SHAREHOLDERS' EQUITY	31/12/2020		31/12/2021	
(in EUR million)	**Accounting scope of consolidation**	**CRR scope of consolidation**	**Accounting scope of consolidation**	**CRR scope of consolidation**
Subscribed capital	146.11	146.11	146.11	146.11
Additional paid-in capital	760.53	760.53	760.53	760.53
Treasury shares	-	-	0	0
Other equity instruments	173.59	173.59	174.08	174.08
Reserves and retained earnings	617.49	617.49	709.18	709.18
Other reserves	*198.49*	*198.49*	*242.08*	*242.08*
Retained earnings	*419.00*	*419.00*	*467.09*	*467.09*
Net income for the year	101.36	101.36	135.45	135.45
CORE SHAREHOLDERS' EQUITY	**1,799,078,002**	**1,799,078,002**	**1,925,341,867**	**1,925,341,867**
Gains and losses not recognised in the consolidated statement of income	40,844,739	40,844,739	176,203,863	176,203,863
Financial instruments at FV through OCI	*64,168,148*	*64,168,148*	*196,346,769*	*196,346,769*
Other reserves	*(23,323,409)*	*(23,323,409)*	*(20,142,906)*	*(20,142,906)*
GROUP EQUITY	**1,839,92**	**1,839,92**	**2,101.55**	**2,101.55**
Non-controlling interests	-	-	0	0
TOTAL SHAREHOLDERS' EQUITY	**1,839,92**	**1,839,92**	**2,101.55**	**2,101,55**

As at end-2021, shareholders' equity increased by EUR 262 million (+14%). This increase is mainly due to the 2021 net profit of EUR 135 million and the increase of the fair value through OCI from 64 million in 2020 to 196 million in 2021.

2.1.2. Regulatory capital

According to the Basel III rules and the phasing-out of some prudential filters, the Bank's regulatory capital consists of:

CET 1 capital: capital instruments, share premiums, retained earnings, including partial current year profit (in accordance with article 26 (2) of Regulation 575/2013 in conjunction with commission regulated delegation EU 241/2014 and ECB decision ECB/2015/4), foreign currency translation adjustment less intangible assets, defined benefit pension fund and deferred tax assets that rely on future probability;

Tier 1 capital: CET 1 capital and Additional Tier 1 capital. The AT1 capital is represented by the issue of EUR 175 million of Fixed Rate Resettable Callable Additional Tier 1 Capital Notes at rate of 5.250%, on 14 November, 2019;

Tier 2 capital: eligible portion of subordinated long-term debt.

The following table details the transitional own funds disclosure in accordance with Annex VI of the Regulation (EU) No 1423/2013:

Common Equity Tier 1 capital: Instruments and Reserves		(a) Amount At Disclosure Date	(b) Regulation (EU) No 575/2013 Article Reference	(c) Amounts Subject to Pre-Regulation (EU) no 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) 575/2013
1	Capital instruments and the related share premium accounts	906.6	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
	of which: Instrument type 1	906.6	EBA list 26 (3)	N/A
2	Retained earnings	709.2	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	168.4	26 (1)	N/A
3a	Funds for general banking risk		26 (1) (f)	N/A
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	N/A
	Public sector capital injections grandfathered until 1 January 2018		483 (2)	N/A
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	113.9	26 (2)	N/A
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,898.1**		**N/A**
Common Equity Tier 1 capital : regulatory adjustments				
7	Additional value adjustments (negative amount)	-56.4	34, 105	N/A
8	Intangible assets (net of related tax liability) (negative amount)	-253.50	36 (1) (b), 37, 472 (4)	N/A
9	Empty set in the EU			N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-132.9	36 (1) (c), 38, 472 (5)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	-1.0	33 (a)	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	-14.5	36 (1) (d), 40, 159, 472 (6)	N/A
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-0.0	33 (1) (b) (c)	N/A
15	Defined-benefit pension fund assets (negative amount)	-16.9	36 (1) (e), 41, 472 (7)	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)	N/A

17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	N/A
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	N/A
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	N/A
20	Empty set in the EU			N/A
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	N/A
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	N/A
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	N/A
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	N/A
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	N/A
22	Amount exceeding the 15% threshold (negative amount)		48 (1)	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	N/A
24	Inclusion in Common Equity Tier 1 capital of transitory prescriptions of the article 473bis of the EU Regulation 2017/2395 (as modified by the EU Regulation 2020/873)	24.2	473 bis	N/A
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	N/A
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			N/A
	Of which: ... filter for unrealised loss 1		467	N/A
	Of which: ... filter for unrealised loss 2		467	N/A
	Of which: ... filter for unrealised gain 1		468	N/A
	Of which: ... filter for unrealised gain 2		468	N/A
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)	N/A
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-451.0**		**N/A**
29	**Common Equity Tier 1 (CET1) capital**	**1,447.11**		**N/A**
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	175	51, 52	N/A
31	of which: classified as equity under applicable accounting standards			N/A
32	of which: classified as liabilities under applicable accounting standards	175		N/A
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	N/A
	Public sector capital injections grandfathered until 1 January 2018		483 (3)	N/A

34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	N/A
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)	N/A
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**175**		**N/A**
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	N/A
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	N/A
39	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	N/A
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	N/A
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			N/A
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	N/A
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)	N/A
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre CRR		467, 468, 481	N/A
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	N/A
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**			**N/A**
44	**Additional Tier 1 (AT1) capital**	**175**		**N/A**
45	**Tier 1 capital (T1=CET1+AT1)**	**1,622.11**		**N/A**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	237.13	62, 63	N/A
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	N/A
	Public sector capital injections grandfathered until 1 January 2018		483 (4)	N/A
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 and 34) issued by subsidiaries and held by third parties		87, 88, 480	N/A
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)	N/A
50	Credit risk adjustments		62 (c) & (d)	N/A
51	**Tier 2 (T2) capital before regulatory adjustments**	**237.13**		**N/A**
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	N/A
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	N/A
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	N/A

54a	Of which new holdings not subject to transitional arrangements			N/A
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements			N/A
55	Direct and indirect synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79, 477 (4)	N/A
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			N/A
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	N/A
	Of which items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses, etc			N/A
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)	N/A
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc			N/A
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR		467, 468, 481	N/A
	Of which: ... possible filter for unrealised losses		467	N/A
	Of which: ... possible filter for unrealised gains		468	N/A
	Of which:...		481	N/A
57	**Total regulatory adjustments to Tier 2 (T2) capital**			**N/A**
58	**Tier 2 (T2) capital**	**237.13**		**N/A**
59	**Total capital (TC=T1+T2)**	**1,859.24**		**N/A**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			N/A
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	N/A
	Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) ©, 475 (4) (b)	N/A
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	N/A
60	**Total risk weighted assets**	**10,228.07**		**N/A**
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**14.15%**	**92 (2) (a), 465**	**N/A**
62	**Tier 1 (as a percentage of risk exposure amount)**	**15.86%**	**92 (2) (b), 465**	**N/A**
63	**Total capital (as a percentage of risk exposure amount)**	**18.18%**	**92 (2) (c)**	**N/A**
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)**	**3.36%**	**CRD 128, 129, 140**	**N/A**
65	**of which: capital conservation buffer requirement**	**2.50%**		**N/A**

66	**of which: countercyclical buffer requirement**	**0.36%**		**N/A**
67	**of which: systemic risk buffer requirement**	**0.00%**		**N/A**
67a	**of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer**	**0.50%**	**CRD 131**	**N/A**
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**8.66%**	**CRD 128**	**N/A**
69	[non relevant in EU regulation]			
70	[non relevant in EU regulation]			
71	[non relevant in EU regulation]			
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3.8	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	N/A
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	26.1	36 (1) (i), 45, 48, 470, 472 (11)	N/A
74	Empty set in the EU			N/A
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	30.4	36 (1) (c), 38, 48, 470, 472 (5)	N/A
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardized approach (prior to the application of the cap)		62	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach		62	N/A
78	Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	N/A
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) & (5)	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	N/A
84	Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	N/A

Reconciliation between Regulatory Capital and Shareholders' equity as per Consolidated Financial Statements, as required by Annex I of the Regulation (EU) No 2021/637:

Solvency Ratios (in EUR)	31/12/2021	References to 2021 Financial Statements	Comments
Subscribed capital	146,108,270	Consolidated balance sheet	
Share premium	760,527,961	Consolidated balance sheet	
Reserves and retained earnings	709,178,093	Consolidated balance sheet	
Eligible Net Income included in regulatory capital	113,900,000	Consolidated balance sheet	The ECB published on February 4, 2015, its decision ECB/2015/4 referring to the condition under which credit institutions are permitted to include interim or year-end profits in Common Equity Tier 1 capital in accordance with Art. 26(2) of Regulation EU 575/2013 and in conjunction with commission regulated delegation EU 241/2014.
Gains and losses not recognised in the consolidated statement of income	176,203,863	Consolidated balance sheet	
Regulatory and transitional adjustments[1]	(458,803,619)	cf hereunder	
TOTAL CET1	**1,447,114,568**		
Additional Tier 1 instrument (issued on November 14, 2019)	175,000,000	Consolidated balance sheet	Notional amount is taken into consideration.
TOTAL Tier 1	**1,622,114,568**		
Subordinated liabilities	237,127,186	Note 8.6 of the consolidated fiinancial statements	
TOTAL CAPITAL	**1,859,241,754**		

[1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1**	**31/12/2021**		
Goodwill and intangible assets	(253,452,221)	Note 7.11 of the consolidated fiinancial statements	Difference due to prudential treatment of sofware assets - Application of Art. 36(b) of Regulation EU 575/2013.
Deferred tax assets that rely on future probability	(132,899,628)	Note 9.2 of the consolidated fiinancial statements	Difference due to application of Art. 38 (3) of Regulation EU 575/2013.
Fair value reserves related to gains or losses cash flow hedges	(1,032,736)	Note 9.1.12 of the consolidated fiinancial statements	
Gains or losses on liabilities at fair value resulting from own credit risk	(3,853)	Note 12.2.7 of the consolidated fiinancial statements	
Additional Value Adjustment	(56,440,503)		Information not disclosed in the consolidated financial statements - Application of Art. 34 of Regulation EU 575/2013,
Defined benefit pension fund assets	(16,886,000)	Note 7.13 of the consolidated fiinancial statements	
Transional provisions related to IFRS 9	24,235,357		Information not disclosed in the consolidated financial statements - Application of Art. 473bis of Regulation EU 2017/2395 as modified by Regulation EU 2020/873.
IRB shortfall	(1,751,282)		Information not disclosed in the consolidated financial statements.
Unrealized gains on investment properties	(6,080,170)	Note 7.10 of the consolidated fiinancial statements	
Other Regulatory adjustments	(14,492,582)		Insufficient coverage for non-performing exposures and Irrevocable Payment Commitment filter.
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1	**(458,803,619)**		

AVAILABLE DISTRIBUTABLE ITEMS AS AT END OF 2021

BIL Group figures – in EUR	31/12/2021
Number of shares	2,087,261
Total Equity	2,101,545,730
DISTRIBUTABLE RESERVES[1] (AVAILABLE DISTRIBUTABLE ITEMS)	715,845,929

Nature	Balance	Reason for exclusion
Subscribed Capital	146,108,270	Art 72-1 Law August 10, 1915
Share Premium	760,527,961	Art 72-1 Law August 10, 1915
Treasury shares (-)	-	Own shares
Other equity instruments	174,081,292	AT1 instrument issued on November 2019
Statutory Reserves	14,610,827	Art 72-1 Law August 10, 1915 & art 30 of BIL's articles of association
Untaxed unavailable reserves	-	Art 49-5 Law August 10, 1915
Reserves	149,410,185	
Consolidation Reserves	82,231,978	CSSF Regulation 14-02 art3 § (1) b
Retained earnings	467,093,248	
Realized gains/losses on equities	-4,168,145	
2021 Income	135,446,251	
Of which revaluation Bourse de Luxembourg net	*26,255,628*	*CSSF Regulation 14-02 art3 § (1) b*
Of which revaluation investment properties net	*5,679,982*	*CSSF Regulation 14-02 art3 § (1) b*
Non realised performance - Debt instruments - Gross	12,253,131	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Debt Instruments - Transfer to deferred tax	-3,055,931	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Equity & var. rev. instr. - Gross	183,840,911	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Equity & var. rev. instr. - Transfer to deferred tax	3,308,658	CSSF Regulation 14-02 art3 § (1) b
Hedging reserve - CF Hedges - Gross	1,375,881	CSSF Regulation 14-02 art3 § (1) b
Hedging reserve - CF Hedges - Transfer to Deferred Tax	-343,145	CSSF Regulation 14-02 art3 § (1) b
Net FX investment Hedge - Gross	-	CSSF Regulation 14-02 art3 § (1) b
Net FX investment Hedge - Transfer to Deferred Tax	-	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Associates	-	CSSF Regulation 14-02 art3 § (1) b
Reserve SORIE	-12,269,071	CSSF Regulation 14-02 art3 § (1) b
Reserve SORIE - Transfer to Deferred tax	2,090,575	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Translation reserve (Consolidation)	-17,328,429	CSSF Regulation 14-02 art3 § (1) b
Non realised performance - Lands and Buildings	6,327,430	CSSF Regulation 14-02 art3 § (1) b
Own Credit Risk	3,853	CSSF Regulation 14-02 art3 § (1) b
TOTAL EQUITY	2,101,545,730	

[1] based on the law of 10 August 1915, CSSF regulation 14-02 and the company articles of association.

2.1.3. Overview of RWAs

In accordance with Article 138 (c) to (f) in the CRR, the following table presents the RWA and regulatory capital requirements broken down by risk types and model approaches compared to the previous year-end. The capital requirement amounts are obtained by applying 8% to the corresponding weighted risks.

RWA AS AT END OF 2021 (IN MILLION EUR)

(in EUR million)			RWAs		Minimum capital requirements
			31/12/2021	31/12/2020	31/12/2021
	1	Credit risk (excluding CCR and IRB equity)	**8,570**	**7,944**	**686**
Article 438(c)(d)	2	Of which the standardised approach	1,724	1,496	138
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	2,037	2,089	163
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	4,809	4,358	385
Article 438(d)	5	Equity IRB under the simple risk-weighted approach or the IMA	519	274	41
Article 107 Article 438(c)(d)	6	CCR	**148**	**147**	**12**
Article 438(c)(d)	7	Of which mark to market	60	54	5
Article 438(c)(d)	8	Of which original exposure			-
	9	Of which the standardised approach	71	71	6
	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	18	22	1
Article 438(e)	13	Settlement risk			-
Article 449 (o)(i)	14	Securitisation exposures in the banking book (after the cap)	**3**	**7**	**0**
	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	3	7	0
Article 438(e)	19	Market risk	**23**	**31**	**2**
	20	Of which the standardised approach	23	31	2
	21	Of which IMA			-
Article 438(e)	22	Large exposures			-
Article 438(f)	23	Operational risk	**954**	**963**	**76**
	24	Of which basic indicator approach			-
	25	Of which standardised approach	954	963	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 with the new management overlay	11	16	1
	30	**Total**	**10,228**	**9,381**	**818**

The Bank's total RWAs amounted to EUR 10.2 billion as of 31 December 2021, compared to EUR 9.4 billion as of 31 December 2020[1].

The overall increase of EUR 0.8 billion mainly reflects increases in credit risk RWA. This increase is explained by (i) methodological changes notably regarding the SA-CCR approach deployment (CRR II) and the switch to the Standard approach for Sovereign counterparts, (ii) the increase of the market value of the participations in banking book and, (iii) by the net production of loans.

The RWA for others risks (Operational and Market risks) are subject to moderate changes. Market Risk RWA decreased by EUR 8 million, reaching to EUR 23 million; and Operational Risk RWA decreased from EUR 963 million to EUR 954 million in 2021.

2.1.3.1. Weighted risks

The Bank is compliant since its application with the Basel III framework to calculate its capital requirements with respect to credit, market, operational and counterparty risk, and to publish its solvency ratios.

For credit risk, in 2021 BIL Group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on the SME and Retail counterparties for the assessment of its Risk-Weighted Assets (RWA). Regarding the Institutions[2] and Large Corporates exposures, the Bank applies the Foundation approach. For the Sovereign related exposures, the Bank applies the Standard approach .

For Market Risk, the Bank has adopted the Standardised method; this choice is based on the Bank's very moderate trading activity, whose sole purpose is to assist BIL's customers by providing the best service for the purchase or sale of bonds, foreign currencies, equities and structured products. The Standardised method is also used for the calculation of the weighted operational risks of the Bank

2.1.4. Equity exposures in the banking book

To comply with the last paragraph of Article 438, the following table shows Risk-Weighted Exposure Amounts (REA), in accordance with the Article 155(2) regarding equity exposures using the simple risk-weighted approach.

TABLE EU CR10 - IRB (EQUITY)

(in EUR million)	EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH					
Categories	**On-balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	41.79	-	**190%**	**41.79**	**79.40**	**0.33**
Exchange-traded equity exposures	-	-	290%	-	-	-
Other equity exposures	2.76	-	370%	2.76	10.23	0.07
TOTAL	**44.56**	**-**		**44.56**	**89.63**	**0.40**

2.1.5. Countercyclical capital buffer disclosure template

In accordance with Article 440 (a) and (b) in the CRR, the following tables disclose the amount of the Bank's specific countercyclical buffer as well as the geographical distribution of credit exposures relevant for its calculation in the standard format as set out in Commission Delegated Regulation (EU) 2015/1555.

2.1.5.1. Institution specific countercyclical capital buffer

The following table shows an overview of the Bank's countercyclical exposure and buffer requirements (in EUR million):

TOTAL RISK EXPOSURE AMOUNT	**10,228**
Institution specific countercyclical buffer rate	0.36%
Institution specific countercyclical buffer requirement	36.82

[1] Following the migration to a new system, the data cleansing, the in depth review of data mapping and the results validation through a parallel run have allowed to improve the RWA calculation. These improvements trigger a one-off increase of RWA of EUR 126 million and affect negatively BIL's CET1 ratio by roughly 20 bp on end of 2020 data.

[2] To note that in March 2022, the Bank switches from the Foundation approach to the Standard approach regarding Institution counterparties.

The final bank-specific buffer add-on rate (i.e. the weighted average of countercyclical capital buffer rates in jurisdictions to which the Bank has private sector credit exposures) applies to bank-wide total RWA (including credit, market, and operational risk). Countercyclical capital buffer rates are determined by Basel Committee member jurisdictions.

As per 31 December 2021, the institution-specific countercyclical capital buffer stood at 0.36%. The notable increase compared to last year (0.18%) is mainly due to the fact that Luxembourg is requiring lenders to hold a countercyclical capital buffer of 0.50% of their risk-weighted assets by January 2021, up from 0.25%.

2.1.5.2. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

TEMPLATE FOR DISCLOSURE OF INFORMATION IN RELATION TO THE COMPLIANCE OF INSTITUTIONS WITH THE REQUIREMENT FOR A COUNTERCYCLICAL BUFFER

0.00			General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
(in EUR million)			exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
			010	020	030	040	050	060	070	080	090	100	110	120
010	**Breakdown by country**													
	Albania	AL	0.00	0.09			0.00		0.00	0.00	0.00	0.00	0.000%	
	Algeria	DZ	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Andorra	AD	0.00	1.81	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
	Angola	AO	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Anguilla	AI	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Antigua And Barbuda	AG	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Argentina	AR	0.00	1.46	0.00	0.00	0.00		0.04	0.00	0.00	0.04	0.005%	
	Armenia	AM	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Australia	AU	0.01	0.31	0.00	0.00	3.45		0.01	0.00	0.06	0.06	0.009%	
	Austria	AT	0.00	66.69			0.00		1.81	0.00	0.00	1.81	0.270%	
	Aruba	AW	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Azerbaijan	AZ	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Barbados	BB	0.00	0.02			0.00		0.00	0.00	0.00	-	0.000%	
	Burkina	BF	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Bahamas	BS	0.00	1.70	0.00	0.00	0.00		0.01	0.00	0.00	0.01	0.002%	
	Bahrain	BH	0.00	2.64			0.00		0.01	0.00	0.00	0.01	0.002%	
	Benin	BJ	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Saint-Barthelemy	BL	0.00	0.06			0.00		0.00	0.00	0.00	0.00	0.000%	
	BRUNEI DARUSSALAM	BN	0.01	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Belarus	BY	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Belgium	BE	13.93	583.99	1.47	0.02	0.00		17.67	0.12	0.00	17.79	2.646%	0%
	Belize	BZ	0.00	7.70	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
	Bermuda	BM	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
	Bolivia	BO	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Bosnia And Herzegovina	BA	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Brazil	BR	0.00	0.11			0.00		0.02	0.00	0.00	0.02	0.003%	
	Bulgaria	BG	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	0.5%
	Burundi	BI	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Cambodia	KH	0.00	0.14			0.00		0.00	0.00	0.00	-	0.000%	
	Cameroon	CM	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
	Canada	CA	0.01	2.54			0.00		0.15	0.00	0.00	0.15	0.023%	
	Cape Verde	CV	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	

ROW		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
(in EUR million)		exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
Cayman Islands	KY	29.62	10.11	0.00	0.00	0.00		2.66	0.00	0.00	2.66	0.396%	
Chile	CL	0.00	0.14			0.00		0.00	0.00	0.00	0.00	0.000%	
China	CN	18.19	9.42	0.00	0.04	0.00		1.53	0.00	0.00	1.53	0.228%	
Colombia	CO	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Congo	CG	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	-	0.000%	
Congo, Democratic Republic	CD	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	-	0.000%	
Cook Island	CK	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Costa Rica	CR	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Côte D'Ivoire	CI	0.00	0.01			0.00		0.00	0.00	0.00	0.00	0.000%	
Croatia	HR	0.00	0.45			0.00		0.00	0.00	0.00	0.00	0.000%	
Cuba	CU	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Curaçao	CW	0.00	0.21			0.00		0.00	0.00	0.00	-	0.000%	
Cyprus	CY	0.66	34.22	0.19	0.00	0.00		3.60	0.02	0.00	3.62	0.538%	
Czech Republic	CZ	0.00	3.56	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	0.5%
Denmark	DK	0.02	10.13	0.00	0.01	0.00		0.10	0.00	0.00	0.10	0.015%	0%
Dominican Republic	DO	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Dominica	DM	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Ecuador	EC	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Egypt	EG	0.00	0.19	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Estonia	EE	0.00	1.42			0.00		0.01	0.00	0.00	0.01	0.002%	
Eritrea	ER	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Ethiopia	ET	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Finland	FI	1.08	18.25			0.00		1.55	0.00	0.00	1.55	0.230%	
Faroe Islands	FO	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
France (Including Dom-Tom)	FR	165.90	1304.01	0.00	0.00	2.78		60.03	0.00	0.04	60.08	8.936%	0%
Gabon	GA	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Gambia	GM	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Georgia	GE	0.00	1.55			0.00		0.02	0.00	0.00	0.02	0.002%	
Germany	DE	27.19	472.57	0.00	0.01	0.00		24.68	0.00	0.00	24.68	3.672%	0%
Ghana	GH	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	-	0.000%	
Gibraltar	GI	2.38	7.74	0.00	0.00	0.00		0.20	0.00	0.00	0.20	0.029%	
Guadeloupe	GP	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Greece	GR	0.00	1.95	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.001%	
Grenada	GD										-	0.000%	

ROW		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
(in EUR million)		exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
Guernesey	GG	0.12	4.61	0.00	0.00	0.00		0.12	0.00	0.00	0.12	0.018%	
Guatemala	GT	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Guinea	GN	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Guinea-Bissau	GW	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Hong Kong	HK	48.05	127.85	0.00	0.00	0.00		7.67	0.00	0.00	7.67	1.141%	1%
Haiti	HT	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Hungary	HU	0.00	0.41	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Iceland	IS	0.00	0.04			0.00		0.00	0.00	0.00	0.00	0.000%	0%
India	IN	0.00	0.04			0.00		0.00	0.00	0.00	0.00	0.000%	
Indonesia	ID	0.00	0.01	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Iran, Islamic Republic Of	IR	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Iraq	IQ	0.00	0.00			0.00		0.00	0.00	0.00	-	0.000%	
Ireland	IE	0.00	28.09	0.00	0.00	0.00		4.12	0.00	0.00	4.12	0.612%	0%
Isle Of Man	IM	0.00	0.05			0.00		0.01	0.00	0.00	0.01	0.001%	
Israel	IL	0.00	8.05	0.00	0.00	0.00		0.02	0.00	0.00	0.02	0.004%	
Italy	IT	5.45	26.05	0.00	0.01	0.00		1.32	0.00	0.00	1.32	0.196%	
Japan	JP	0.01	0.62	0.00	0.00	0.00		0.01	0.00	0.00	0.01	0.002%	
Jersey	JE	15.28	0.03			0.00		1.22	0.00	0.00	1.22	0.182%	
Jordan	JO	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Kazakstan	KZ	0.00	0.05			0.00		0.00	0.00	0.00	0.00	0.000%	
Kenya	KE	0.00	0.18			0.00		0.00	0.00	0.00	0.00	0.001%	
Korea, Republic Of	KR	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Kuwait	KW	0.00	1.35			0.00		0.12	0.00	0.00	0.12	0.018%	
Kyrgyzstan	KG	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Lao People's Democratic Republic	LA	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Latvia	LV	0.00	0.02	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Lebanon	LB	0.00	1.72			0.00		0.00	0.00	0.00	0.00	0.000%	
Liberia	LR	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Libyan Arab Jamahiriya	LY	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Liechtenstein	LI	0.00	31.50	0.00	0.00	0.00		0.21	0.00	0.00	0.21	0.032%	
Lithuania	LT	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	0%
Luxembourg	LU	1198.69	13834.82	2.31	7.50	0.00		471.53	0.46	0.00	471.99	70.207%	0.5%

ROW		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
(in EUR million)		exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
Macau	MO	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Macedonia, Former Yugoslav Rep.	MK	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Madagascar	MG	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Malaysia	MY	0.00	1.25			0.00		0.01	0.00	0.00	0.01	0.001%	
Myanmar	MM	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Mali	ML	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Malta	MT	5.02	24.29	0.00	0.00	0.00		0.76	0.00	0.00	0.76	0.113%	
Marshall Islands	MH	7.90	3.74			0.00		0.76	0.00	0.00	0.76	0.113%	
Mauritius	MU	0.00	4.72	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Malawi	MW	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Mexico	MX	0.00	0.01	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Moldova, Republic Of	MD	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Monaco	MC	0.01	175.97	0.00	0.00	0.00		2.92	0.00	0.00	2.92	0.435%	
Montenegro	ME	0.00	0.03			0.00		0.00	0.00	0.00	0.00	0.000%	
Morocco	MA	0.00	2.57			0.00		0.06	0.00	0.00	0.06	0.009%	
Namibia	NA	0.00	0.48			0.00		0.00	0.00	0.00	0.00	0.000%	
Nicaragua	NI	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Nepal	NP	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Netherlands	NL	21.55	191.80	0.00	0.00	0.00		8.69	0.00	0.00	8.69	1.292%	
New Zealand	NZ	0.00	0.01			0.00		0.00	0.00	0.00	0.00	0.000%	
Niger	NE	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Nigeria	NG	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Norway	NO	0.01	23.72	0.54	0.73	0.00		0.15	0.06	0.00	0.21	0.032%	1%
Oman	OM	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
OTHER	OTHER	32.07	0.48	0.00	0.00	0.00		2.46	0.00	0.00	2.46	0.365%	
Pakistan	PK	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Panama	PA	0.13	22.36	0.00	0.00	0.00		0.15	0.00	0.00	0.15	0.022%	
French Polynesia	PF	0.00	0.02			0.00					0.00	0.000%	
Paraguay	PY	0.00	0.04			0.00		0.00	0.00	0.00	0.00	0.000%	
Peru	PE	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Philippines	PH	0.00	0.08			0.00		0.00	0.00	0.00	0.00	0.000%	
Poland	PL	0.00	22.18			0.00		0.36	0.00	0.00	0.36	0.053%	
Portugal	PT	0.00	24.48	0.00	0.00	0.00		0.66	0.00	0.00	0.66	0.099%	
Qatar	QA	0.00	326.36			0.00		8.61	0.00	0.00	8.61	1.281%	

Own funds and capital adequacy

ROW		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
(in EUR million)		exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
Romania	RO	0.00	0.11			0.00		0.00	0.00	0.00	0.00	0.000%	
Russian Federation	RU	0.00	18.96	0.00	0.00	0.00		0.26	0.00	0.00	0.26	0.038%	
Rwanda	RW	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Saint Kitts And Nevis	KN	0.00	0.02			0.00		0.00	0.00	0.00	0.00	0.000%	
Saint Lucia	LC	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Saint Vincent And The Grenadines	VC	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
San Marino	SM	0.00	0.01			0.00		0.00	0.00	0.00	0.00	0.000%	
Saudi Arabia	SA	0.00	33.56	0.00	0.00	0.00		1.92	0.00	0.00	1.92	0.286%	
Senegal	SN	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Serbia	RS	0.00	0.01			0.00		0.00	0.00	0.00	0.00	0.000%	
Seychelles	SC	0.00	18.18			0.00		0.53	0.00	0.00	0.53	0.079%	
Sierra Leone	SL	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Singapore	SG	0.00	35.03	0.00	0.00	0.00		1.78	0.00	0.00	1.78	0.264%	
Slovakia	SK	0.00	0.06	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	1%
Suriname	SR	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Slovenia	SI	0.00	0.02			0.00		0.00	0.00	0.00	0.00	0.000%	
South Africa	ZA	0.00	2.73			0.00		0.00	0.00	0.00	0.00	0.000%	
Spain	ES	19.54	58.75	0.00	0.00	8.50		2.60	0.00	0.14	2.74	0.408%	
Sri Lanka	LK	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Sweden	SE	0.32	98.98	0.00	0.02	0.00		2.18	0.00	0.00	2.18	0.325%	0%
Switzerland	CH	25.33	225.52	0.00	0.00	0.00		6.09	0.00	0.00	6.09	0.905%	
Syrian Arab Republic	SY	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Taiwan	TW	0.00	2.21	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
Thailand	TH	0.00	7.01	0.00	0.04	0.00		0.08	0.00	0.00	0.08	0.012%	
Tajikistan	TJ	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Togo	TG	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Tunisia	TN	0.00	0.75			0.00		0.16	0.00	0.00	0.16	0.024%	
Turkey	TR	0.00	13.17			0.00		0.51	0.00	0.00	0.51	0.076%	
Tanzania, United Republic of	TZ	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
Ukraine	UA	0.00	1.64	0.00	0.00	0.00		0.10	0.00	0.00	0.10	0.014%	

Own funds and capital adequacy

ROW (in EUR million)			General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
			exposure value SA	exposure value IRB	Sum of long and short positions for SA exposures	Exposure for internal models	exposure value SA	exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
	United Arab Emirates	AE	0.53	83.61	0.00	0.00	0.00		1.72	0.00	0.00	1.72	0.256%	
	United Kingdom (Not Norm.Isd/Man)	GB	7.77	438.21	0.00	241.84	0.00		12.85	1.94	0.00	14.80	2.201%	0%
	Uganda	UG	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	United States	US	29.48	11.08	0.00	0.00	0.00		2.54	0.00	0.00	2.54	0.378%	
	Uruguay	UY	0.00	0.47			0.00		0.00	0.00	0.00	0.00	0.000%	
	Uzbekistan	UZ	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Venezuela	VE	0.00	0.06	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.000%	
	Viet Nam	VN	0.00	0.73			0.00		0.00	0.00	0.00	0.00	0.001%	
	Virgin Islands, British	VG	19.26	179.77	0.03	0.00	0.00		10.03	0.00	0.00	10.03	1.492%	
	Samoa	WS	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Zambia	ZM	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	Zimbabwe	ZW	0.00	0.00			0.00		0.00	0.00	0.00	0.00	0.000%	
	TOTAL		**1,695.50**	**18,665.97**	**4.55**	**250.23**	**14.74**	**-**	**669.43**	**2.61**	**0.24**	**672.28**	**100%**	

010	Total credit risk exposure amount	9221.68
020	Institution specific countercyclical buffer rate	0.363%
030	Institution specific countercyclical buffer requirement for credit risk	33.45

2.2. Non-deducted participations in financial sector entities

The Bank hereby discloses the information required by Article 438(c) and (d) on exposures that are risk-weighted in accordance with Part Three, Title II, Chapter 2 or Chapter 3. The Bank specifies information regarding non-deducted risk-weighted participations, in the case it is allowed (in accordance with Article 49(1) of the CRR) to not deduct their holdings of own funds instruments of a financial sector entity where the institution has a significant investment in this kind of assets.

TEMPLATE FOR DISCLOSURE OF INFORMATION IN RELATION TO THE COMPLIANCE OF INSTITUTIONS WITH THE REQUIREMENT FOR A COUNTERCYCLICAL BUFFER

(in EUR million)	VALUE
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighted)	3.32
TOTAL RWAs	**10.27**

2.3. Leverage ratio

The leverage ratio (LR) is introduced by the Basel Committee to serve as a simple, transparent and non-risk based ratio to complete the existing risk-based capital requirements.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage and having to exceed a minimum of 3%.

While the capital measure for the leverage ratio is the Tier 1 capital taking into account transitional arrangements, the total exposure measure corresponds to the sum of the following exposures: (a) on-balance sheet exposures; (b) derivative exposures; (c) Securities Financing Transaction (SFT) exposures; and (d) off-balance sheet (OBS) items.

As at December 2021, BIL Group's leverage ratio amounted to 4.87% (fully phased-in definition), showing a slight increase compared to the year-end 2020 level of 4.32%.

According to Article 500 of Quick Fix, until 31 March 2022, the Bank could exclude from its total exposure measure the following exposures to Eurosystem central banks:
(1) coins and banknotes constituting legal currency in the jurisdiction of the central bank;
(2) assets representing claims on the central bank, including reserves held at the central bank.

Here is the summary table of Leverage Ratio before/after exempting the corresponding exposure of EUR 2.39 billion to Luxembourg Central Bank

Before exemption of BCL exposure			
	Leverage Ratio Exposure	Tier 1 Capital	Leverage Ratio
Fully phased-in definition	35,180.31	1,597.88	4.54%
Transitional definition	35,204.54	1,622.11	4.61%
After exemption of BCL exposure			
	Leverage Ratio Exposure	Tier 1 Capital	Leverage Ratio
Fully phased-in definition	32,791.87	1,597.88	4.87%
Transitional definition	32,816.10	1,622.11	4,94%

The evolution of this ratio compared to year-end 2020 can be explained as follows:
- By the increase of the numerator: +15.7% increase of Tier 1 capital (i.e. increase of CET1 capital);
- By a higher total leverage ratio exposure (denominator): +10.1%. In the denominator (Total Leverage Exposure), on-balance sheet exposures (excluding SFT and Derivatives) accounted for a large majority (91.7% in Q4 2021) which were subject to a +6.4% increase compared to last year. Derivatives exposures increased by 53.1% and off-balance exposures increased by +34.9% with a small weight (7.3%) in the total exposure. Starting from Q2 2019, the leverage ratio exposure of Securities Financing Transactions (SFT) started to be included in the denominator following the regulator's requirement. As of Q4 2021, SFT exposures reached EUR 469.58 million, equating to 1.3% of the total leverage ratio exposure.

The Bank takes into account the leverage ratio in its capital and financial planning to review if its forecasted commercial growth is consistent with this requirement. The Bank also actively manages its balance sheet size through its Treasury and ALM desks by limiting interbank transactions. The leverage ratio is discussed on a regular basis at Management Board level as it is part of the Bank's Risk Appetite framework (with trigger and limit above the minimum requirement).

The Official Journal (OJ) of European Union published on 15 February 2016 the Commission Implementing Regulation (EU) 2016/200 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions (according to Regulation (EU) No 575/2013 of the European Parliament and of the Council).

In this regard, the leverage ratio disclosure templates are included to this publication.

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	324.46	324.46
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))	(2,388.44)	(2,388.44)
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	347.59	347.59
9	Adjustment for securities financing transactions (SFTs)	469.58	469.58
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,523.72	2,523.72
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(483.04)	(458.80)
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	(123.25)	(123.25)
13	Total exposure measure	32,791.87	32,816.10

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)	32,268.69	32,268.69
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)	(77.76)	(77.76)
6	(Asset amounts deducted in determining Tier 1 capital)	(483.04)	(458.80)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	31,707.90	31,732.13
DERIVATIVE EXPOSURES			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	134.61	134.61
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	344.51	344.51
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	479.12	479.12

SECURITIES FINANCING TRANSACTION (SFT) EXPOSURES			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	447.07	447.07
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	22.51	22.51
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**	**469.58**	**469.58**
OTHER OFF-BALANCE SHEET EXPOSURES			
19	Off-balance sheet exposures at gross notional amount	2,581.40	2,581.40
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated associated with off-balance sheet exposures)	(10.94)	(10.94)
22	**Off-balance sheet exposures**	**2,570.46**	**2,570.46**
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)	(46.74)	(46.74)
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)**	**(46.74)**	**(46.74)**
CAPITAL AND TOTAL EXPOSURE MEASURE			
23	Tier 1 capital	1,597.88	1,622.11
24	**Total exposure measure**	**35,180.31**	**35,204.54**
LEVERAGE RATIO			
25	Leverage ratio (%)	4.54%	4.61%
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) (%)	4.87%	4.94%
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 LRSPL: 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:	32,268.69
EU-2	Trading book exposures	19.27
EU-3	Banking book exposures, of which:	32,249.42
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	10,884.00
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,145.39
EU-7	Institutions	2,836.27
EU-8	Secured by mortgages of immovable properties	7,937.15
EU-9	Retail exposures	3,351.93
EU-10	Corporate	5,030.64
EU-11	Exposures in default	377.09
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	686.96

2.4. Internal Capital Adequacy Assessment Process (Pillar II)

2.4.1. ICAAP Framework

2.4.1.1. Definition of the ICAAP

Article 73 of the 2013/36/EU Directive defines the Internal Capital Adequacy Assessment Process (ICAAP) as a set of *"[...] sound, effective and comprehensive strategies and processes to assess and maintain on an on-going basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed".*

ICAAP is an internal process allowing BIL Group to hold the internal capital it deems appropriate to cover all the risks to which it is or could be exposed as a result of its Business Model and Strategy Plan, this being framed by its Risk Appetite and its risk bearing capacity.

In line with the above mentioned article, the Circular CSSF 07/301 (as amended) specifies the object, the scope and the implementation of the ICAAP for credit institutions incorporated under Luxembourg law, the EBA final guidelines (EBA/GL/2016/10) and the 2018 ECB ICAAP guides on the collection of information related to the ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP)[1]. These guidelines define a common approach and specify what information regarding ICAAP and ILAAP competent authorities should collect from institutions to perform their assessments of the ICAAP and ILAAP frameworks as well as the reliability of capital and liquidity estimates in a consistent manner.

The following chapters are a summary of the main elements regarding the Pillar II framework.

2.4.1.2. Purpose of the ICAAP

For the BoD, the main purpose of the ICAAP is to proactively make a strategic assessment of the Bank's capital (and liquidity situation as these notions are clearly nested) requirements and adequacy considering its strategies, the Bank's business model and current situation. Further, the ICAAP also establishes the capital required for economic purposes and helps identifying the Bank's sources of capital to meet these objectives.

One of the benefits of the ICAAP includes enhanced corporate governance and improved risk assessment within banks, and thereby increases the stability of the overall financial system. It also helps to maintain capital levels in accordance with the Bank's strategy, risk profile, governance structures and internal risk management systems.

For Senior Management, another important purpose of the ICAAP is to inform the BoD on the on-going assessment of the Bank's risk profile (current and forward-looking), risk appetite, strategic model, and capital adequacy. It also includes the documentation as to how the Bank intends to manage these risks, and how current and future capital is necessary to meet its plan.

2.4.1.3. ICAAP Components

BIL Group's ICAAP is based on the following building blocks:
- Risk appetite framework (RAF);
- Risk Identification and Cartography;
- Capital Structure Analysis;
- Risk Assessment;
- Capital Adequacy process;
- Stress testing; and
- Business Integration.

Risk appetite framework (RAF)

a. Process

While defining the Bank's strategic priorities, it appears necessary to gauge the changes the related strategic initiatives will have on the risk profile and the risk bearing capacity while (re)defining (new) boundaries of its Risk Appetite.

[1] In Article 86 of Directive 2013/36/EU (CRD IV) and circular CSSF 20/759 lies the concept of ILAAP (Internal Liquidity Adequacy Assessment Process): "ILAAP refers to the process of the identification, measurement, management and monitoring of liquidity implemented by the institution".

b. Definition

In line with the principles developed in the FSB guidelines ("Principles for an Effective Risk Appetite Framework, November 2013"), BIL's Risk Appetite Statement (RAS) designs in written form the aggregate level and types of risks that BIL is willing to accept, or to avoid, in order to achieve its business model and strategic objectives. It includes qualitative statements as well as quantitative measures expressed relative to different axes (e.g. solvency, earnings, liquidity). It also addresses also more difficult to quantify risks such as reputation and operational risks, etc.

The RAS provides BIL with an objective and measurable view of whether or not the Bank is within its risk appetite boundaries related to the overall strategic objectives and the key current and future risks applicable to the Bank.

Amongst other features, BIL's RAS:
- Is easy to communicate;
- Is directly linked to the Bank's strategy;
- Addresses the material risks in a holistic fashion under both normal and stressed market and macroeconomic conditions;
- Sets clear boundaries and expectations by establishing quantitative limits in order to determine for each material risk, the maximum level of risk the Bank is willing to accept, and finally;
- Sets the overall tone for the approach to risk taking.

c. Governance and risk mitigation

The Risk Management department:
- Reviews that all risks are under control by identifying, measuring, assessing, mitigating and monitoring them on an on- going basis: Global risk policies and procedures define the framework for controlling all types of risks by describing the methods used and the defined limits, as well as the escalation procedures;
- Analyses that the risk limits are compatible with the strategy, the business model and the structure of the Bank through an effective risk appetite framework, which defines the level of risk the institution is willing to take in order to achieve its strategic and financial objectives;
- Ensures compliance with banking regulatory requirements by submitting regular reports to the supervisory bodies, participating in regulatory discussions and analysing all new requirements related to Risk Management that affect the Bank's activities (i.e. regulatory watch).

Amongst its missions, the BoD is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/appetite and the Risk Management framework. Under the framework set by the RAS, the BoD:
- Approves BIL's Risk Appetite Statement and reviews if it remains consistent with the short and medium term strategy, business and capital plans, risk capacity as well as compensation programs;
- Holds the CEO and other Senior Management accountable for the integrity of the risk appetite, including the timely identification, management and escalation of breaches in risk limits and of material risk exposures;
- Includes an assessment of risk appetite in its strategic discussions including decisions regarding mergers, acquisitions, growth in business lines or products, budget forecasting, etc.;
- Regularly reviews and monitors the actual risk profile and risk limits against the agreed levels, and discusses about appropriate actions are taken regarding "breaches" in risk limits (e.g. there are mechanisms allowing Senior Management can act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures, in particular those that are close to or exceed the approved risk appetite statement or risk limits).

The BoD can be supported in these different tasks by dedicated specialised committees. As mentioned in the Section "Roles and responsibilities of the committees", one of these committees is the Board Risk Committee (BRC).

These principles concerning the Risk Appetite Statement are translated in the escalation procedure:
- When it is applicable within the Risk Appetite Statement, a traffic light approach – based on Triggers and Limits – is adopted building on different levels of the chosen key metrics;
- The limits constitute boundaries requiring immediate escalation to the BoD, BIL has also implemented a complementary escalation mechanism for the breach of the trigger indicators, in order to potentially deploy appropriate actions in a timely manner;
- Moreover, all changes impacting materially the chosen key metrics between two consecutive periods are discussed and analysed by the Management Board, within the BRC and finally reported to the BoD.

d. 2021 Risk Appetite Statement evolution

A review of the BIL's Risk Appetite framework has been realised in 2021 in line with the definition of the Bank's strategy. The strategy brings some additional risks. However, it does not change significantly the risk profile of the Bank, it represents an evolution. The statements made for the five pillars remain:

- **Capital Adequacy:** Whilst the set-up of the different priorities defined for each business line maintain sufficient capital to support the Bank's risk profile, in both normal and crisis periods, and to maintain sound long-term credit ratings;
- **Earnings stability:** Generate a sustainable return on capital above the Bank's cost of capital together with achieving the Bank's strategy targets (including dividend payment);
- **Liquidity:** Maintain a strong liquidity position allowing the bank to deploy the different aspects of its strategy;
- **Reputation:** Maintain a strong reputation in targeted markets through focusing on relevant and innovative financial ser- vices which allow to achieve excellence and fair, dedicated value propositions;
- **Operational Effectiveness:** Focus on operational efficiency through:
  - Encompassing collaborative behaviours and preventing "silo-thinking";
  - Achieving service level optimization; and
  - Improving the current set-up.

e. 2021 Risk Appetite Statement situation

BIL Group's updated Risk Appetite Framework includes, as described above indicators to fit with the Bank's risk profile and comply with new regulatory requirements. The table below shows an extract of the main solvency and liquidity indicators and their evolutions between the year-end 2020 and 2021:

Risk Appetite Framework	2020	2021	Internal limit
CET1 ratio	13.20%	14.15%	11.10%
Total Capital ratio	16.47%	18.18%	11.45%
Leverage ratio	4.42%	4.94%	3.30%
AFR/ECAP	128%	134%	105%
LCR	173%	142%	110%
NSFR	121%	127%	104%
ROE	8%	9.2%	6%

Risk Appetite figures above, as of 31 December, 2021 attest of the sound situation of BIL Group, according to solvency, liquidity and profitability axes.

f. Risk identification and cartography

According to Circular CSSF 07/301 (as amended), the Bank shall, "in order to determine its internal capital requirements for risks, […] first identify the risks to which it is exposed. The permanent and total internal capital adequacy requires this identification to refer to all the risks to which the institution is or might be exposed. This is the comprehensive nature of the ICAAP."

BIL Group's risk cartography aims at complying with this principle. In line with the ICAAP, the risk cartography must be (i) exhaustive, (ii) cover the risks to which the Bank is or might be exposed, and (iii) be forward-looking to take into account the future developments which may affect its internal capital adequacy and risk management framework.

The risk identification cycle conducted internally is based on a four-steps process comprising:

- The establishment/update of a risk glossary;
- The identification of the Bank's risks in accordance with this glossary;
- The assessment of the identified risks materiality;

The formalization of the Bank's risk cartography.

Risk Taxonomy

The risk taxonomy is an exhaustive list of risks the Bank is or might be exposed to because of its activities and overall environment. It serves as a basis for successful risks identification and assessment process as it allows business lines to appropriately identify, map and classify risk scenarios into appropriate risk categories and (sub) risk types. The risk taxonomy incorporates both top-down and bottom-up approaches, as it includes (sub) risk types (connected to relevant scenarios) defined by Risk Management Function (top-down) or identified and added by business lines (bottom-up approach). Newly added (sub) risk types shall be approved by the relevant committees to be included into the risk taxonomy.

BIL Group's risk taxonomy is based on nine main categories, detailed hereafter; their definitions are drawn from banking supervision and non-banking organizations (e.g. BIS, EBA, ECB, CSSF, EU parliament, OECD, etc.), commonly admitted market practices, and risk definitions previously used by BIL :

- **Credit Risks:** Potential that a bank, borrower, or counterparty will fail to meet its obligations in accordance with agreed terms;
- **Market and Asset Liability Management (ALM) Risks:** (i) Market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices. (ii) Asset Liability Management (ALM) risk stems from risk of losses inherent in the mismatch positions of the balance sheet. It is a risk associated with an ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an organization's financial objectives;
- **Pension Fund Risk:** Risk associated with pension funds that arises from inappropriate valuation methods and assumptions;
- **Operational Risks:** Operational risks are risks of losses due to breaches, errors, interruptions, and/or damages caused by inadequate and/or failure from internal processes, people, systems or external events. The definition provided in Basel II also includes legal risk as part of operational risks;
- **Information Communication and Technology (ICT) Risks:** Information Communication and Technology (ICT) risks are risks associated with ICT systems and services which are defined as the following: (i) ICT systems are defined as ICT set-up as part of a mechanism or an interconnecting network that support the operations of an institution. (ii) ICT services are defined as services provided by ICT systems to one or more internal or external users. Examples include data entry, data storage, data processing and reporting services, but also monitoring, business and decision support services.
- **Compliance Risks:** Compliance risks are defined as the risks of losses that an institution may suffer as a result of the failure to conduct its business in accordance with the rules in force including laws, regulations, circulars governing access to financial sector and conduct of business activities of banks and/or professionals of the financial sector and their professional obligations. Internal codes of conduct and ethics, codes of professional bodies and financial markets (stock markets or other regulated markets) shall also be taken into account;
- **Legal Risk:** Legal risk can arise from the necessity that the group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where the group conducts its business. It is the possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences;
- **Tax Risk:** Tax risk is defined as possible unforeseen financial losses caused by the introduction of new tax type changes in tax rules and regulations. Tax risk can also be defined as uncertainty about the interpretation of tax law in relation to particular transactions and the business's view;
- **Enterprise Risks:** Enterprise risks are defined as risks associated in a process that enables management to effectively deal with uncertainty, opportunity, and enhancing the capacity to build stakeholder value. Enterprise risks management includes aligning the entity's risk appetite and strategies, enhancing the rigor of the entity's risk-response decisions, reducing the frequency and severity of operational surprises and losses, etc.

Risk Identification

In compliance with regulatory requirements stipulated in Principle 4 of the ICLAAP guidelines on risk identification and assessment published in November 2018 (with subsequent report published in August 2020) - the Risk Identification and Assessment Process needs to be conducted at least on an annual basis.

The risk identification and assessment framework is a key component for the BIL Group to successfully perform its internal capital and liquidity adequacy assessments and to apprehend the risk appetite of the Bank/Group. In a more specific context, Risk Identification and Assessment Process can help the BIL Group identify and assess its risks, including the material ones, under both economic and normative perspectives. This process encompasses both Financial Risks ("FRs") and Non-Financial Risks ("NFRs") and leverages on scenario analysis concept, relying also on subject matter experts' opinion and facts. Scenario analysis is a forward-looking method used to identify, analyse and measure a range of potential scenarios. Scenario analysis is particularly useful to identify and evaluate risks in particular pertaining low frequency and high severity ("tail scenarios").

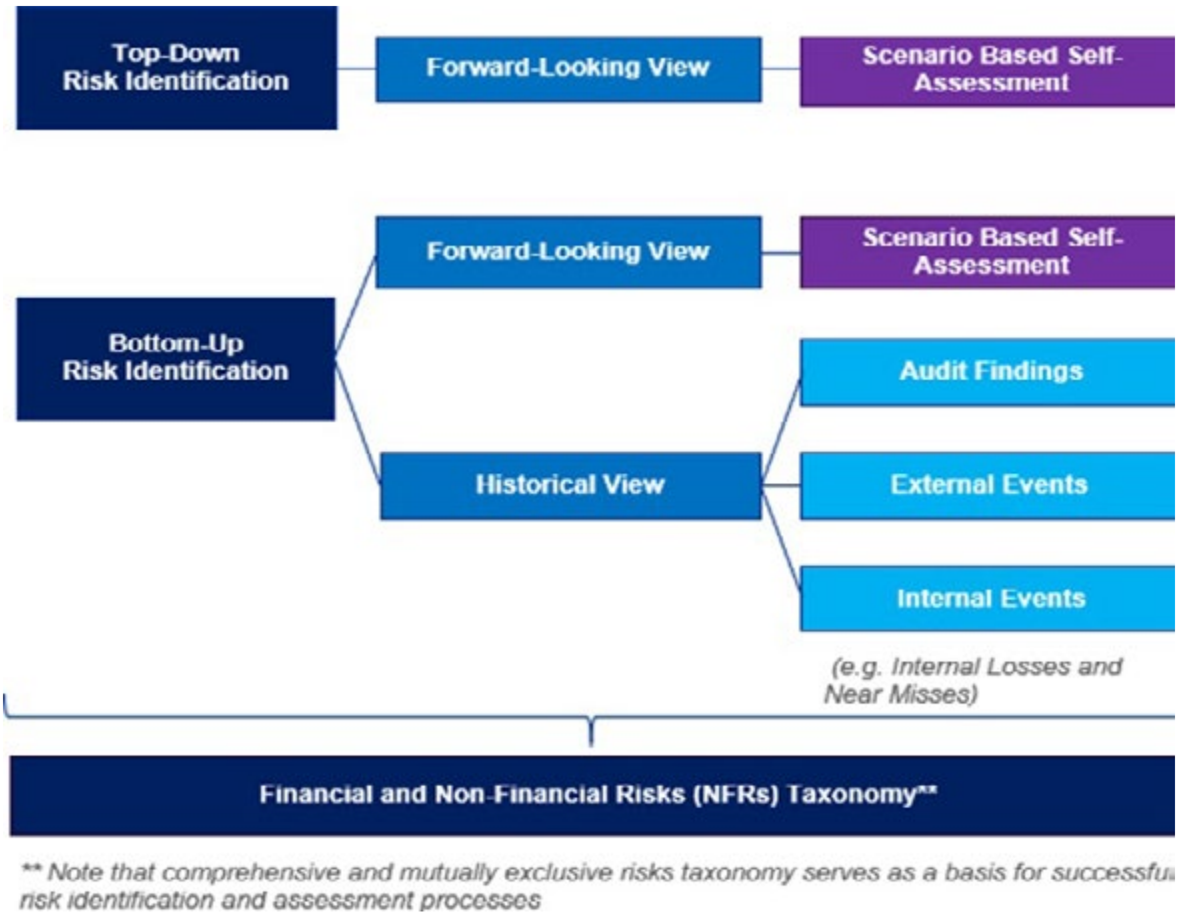
Identification and assessment processes have been carried out using a questionnaire approach sent to carefully chosen experts and using a harmonized approach with the risk and control self-assessment exercise at the level of the Bank.

The starting point for risk identification process consists in the identification of the specific scenarios the Selected Expert's business line is exposed to, following a forward-looking perspective and having in mind both tail and non-tail scenarios that could affect the working environment. This identification process combines two approaches:

- Top-down: the approach relies on ERM and ORM expertise in the pre-identification of the specific scenarios each business line is exposed to;
- Bottom-up: the Selected Experts play an active role in the identification of additional scenarios (if any) that could affect the Group from their own perspective.

Both top-down an bottom-up approaches incorporate strong forward-looking aspects that are reflected in the risk assessment. Historical view (Audit findings, External or Internal events) are also considered.

FIGURE 1: RISK IDENTIFICATION APPROACHES



Selected Experts go through the list of scenarios (and also provides additional scenarios) and determine whether a scenario is relevant to her/his function; the experts then need to identify associated business processes and subsequent risk categories and sub-risk types tied to each scenario. When selecting associated risk categories and risk types, experts must refer to the detailed definitions provided in the Risks Taxonomy.

FIGURE 2: RISK IDENTIFICATION STEPS

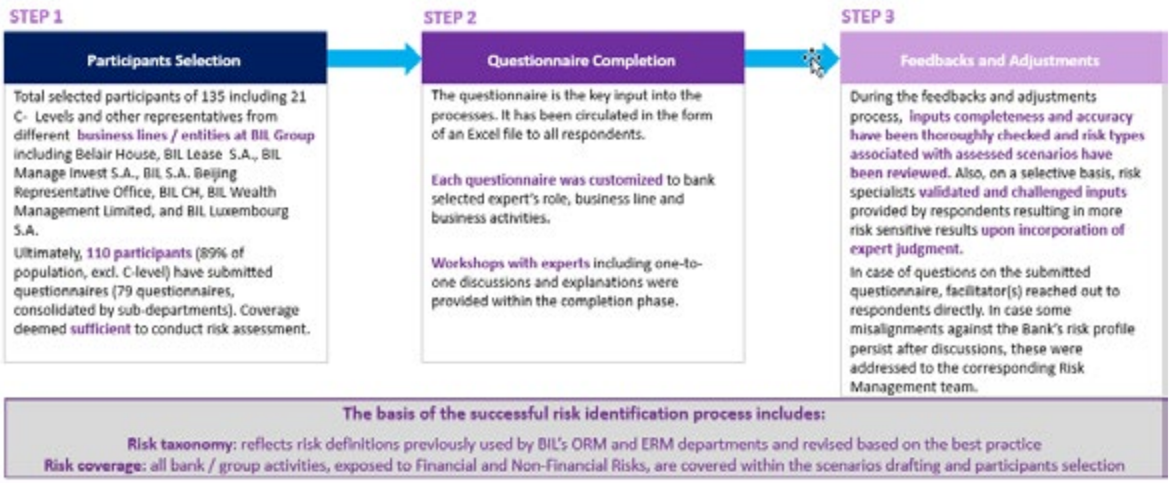
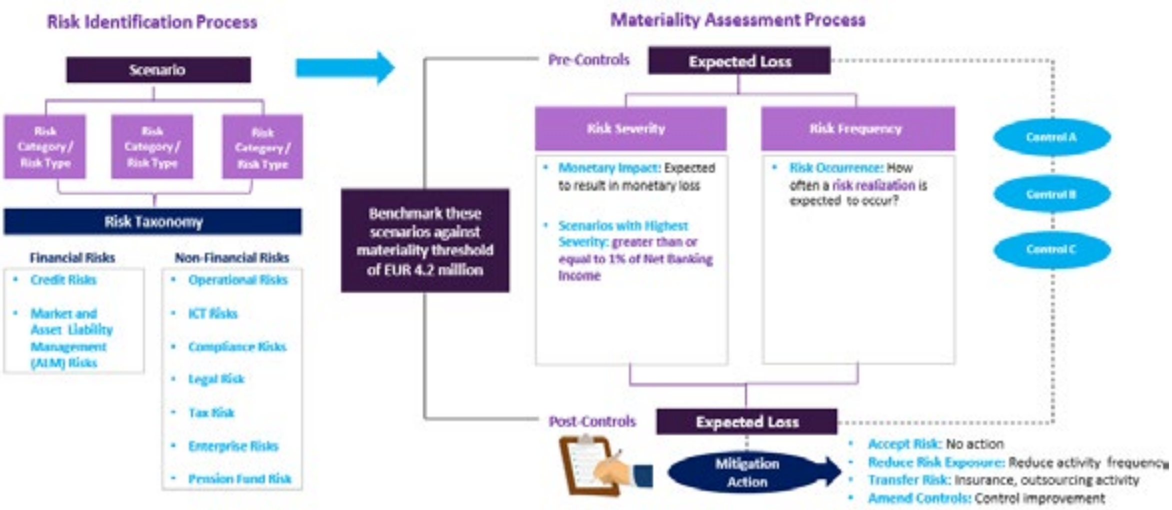


FIGURE 3: MATERIALITY ASSESSMENT PROCESS



Risk Assessment

Once the risk identification process is completed, selected experts must assess all the pertinent scenarios on four aspects:

- Assessment of inherent risk;
- Assessment of controls;
- Assessment of residual risk;
- Mitigation plans.

Formally:

Inherent risk score-Total control score=Residual risk score

with:

Inherent risk score=Likelihood ×Severity

Total control score=Control Design score ×Control Effectiveness score

and:

Likelihood=Frequency of Risk occurrence ×Frequency of Risk exposure

Practically, on the questionnaire, experts perform an assessment on both dimensions of risk likelihood (risk occurrence: 'how often a risk realization is expected to occur?'; risk exposure: 'how often the underlying activity of an identified risk is expected to occur?'), and severity (both monetary and non-monetary). The product of both gives the inherent, or 'gross', risk.

Controls are mechanisms already implemented to lower the level of risk. Experts are required to provide a brief description of those and score their design and effectiveness.

The Residual score (or 'net' risk), is also assessed by the experts in terms of frequency (post-control) and severity (post-control). It is, by definition, lower than (or equal to) inherent risk.

Mitigation plans are sets of planned / suggested actions that a business line will implement to further lower the residual risk. In this sense, mitigation actions reflect concrete risk strategies against the critical risk. Experts are required to provide a brief description of mitigation plans. They may propose to amend existing controls, transfer a risk, reduce risk exposure, or accept a risk.

Risk Materiality

Materiality threshold is set by the Management Bodies. The threshold is used to define which (sub) risk types are considered material. Current threshold, to which the expected loss of any given risk is compared, for the year 2021 is:

Materiality threshold=max {3 M€; 0.75% NBI}

To obtain the more granular information to be presented to and considered by the senior management, the materiality level can be further broken down into the 'high' and 'medium' levels by applying the relevant threshold (for 2021-year assessment the threshold of EUR 10 M has been applied to determine the 'high' and 'medium' levels of materiality).

If deemed necessary, quantitative information can be supplemented with Judgement-Based method. Key criteria to consider can include the following:

- Relevant topics on risk management within the banking industry, identified through an industry scouting and benchmarking analysis (e.g. top risks highlighted by specialized industry white papers, high severe incidents appeared on the most influential newspapers, etc.);
- Regulatory priorities and/or findings (e.g. new or upcoming regulation potentially impacting the risk profile of the Group, key risk management priorities disclosed by the authorities, findings from the regulator addressed to the Group during the latest inspections, etc.);
- Scenarios identified with important non-monetary impacts (i.e. no Euro amount available in severity data points);
- Additional selection of the black swan scenarios (i.e. scenarios with low frequency and high severity that are fallen below materiality threshold);
- Supporting evidence / figures, provided by the Internal Control Functions and / or directly by the Selected Experts within the regular internal and / or external reporting. As an example, qualitative reviews could be performed according to the results of the Stress Testing exercises, the Risk Dashboards, the reports discussed within ALM Committee, etc.

2021 Risk Cartography

The ICAAP relies on the Risk Cartography established under both approaches: "gross risk approach' and "net risk approach",

- The 'gross risk approach' determines the list of material risks that should be covered by internal capital allocations (or document the justification for the absence of capital). It corresponds to the level of risk exposure faced by the Bank without considering specific mitigants and techniques designed to mitigate the underlying risks;
- The "net risk approach" provides an additional dimension in the internal risk identification that is essential to the Management Bodies in their assessment and formulation of the risk strategy. It reflects net risk exposures after controls, mitigation and hedging.

2022 Net Risk Identification

	High	Medium	Low
Credit Risks	• Solvency Risk	• Concentration Risk	• Country Risk • Securitization Risk • Residual / Recovery Risk • Settlement Risk • Counterparty Risk
Market & ALM Risk		• Credit Spread Risk • Balance Sheet Price Risk • Funding Risk	• Option Risk (IRRBB) • Currency Risk • Commodity Risk • Inflation Risk • Behavioral Risk • Intraday Liquidity Risk • Liquidity Currency Risk • Volatility Risk • Interest Rate Risk • Gap Risk (IRRBB) • Basis Risk (IRRBB) • Liquidity Risk
Operational Risks		• Execution, Delivery and Process Management Risk • External Fraud Risk • Employment Practice & Workplace Safety Risk (Human Capital Risk)	• Internal Fraud Risk • Employment Practice & Workplace Safety Risk (Key-Man Risk) • Damage to Physical Assets Risk • Clients, Products and Business Practices Risk
Enterprise Risks	• Model Risk	• (Strategic) Business Risk • Social Risk • Reputational Risk	• Governance Risk • (Strategic) Non-Business Risk • Outsourcing and Third Party Risk • Subsidiary Oversight Risk
ICT Risk	• ICT Data Integrity Risk	• ICT Availability and Continuity Risk • ICT Security Risk	• ICT Change Risk
Compliance Risks		• Regulatory Risk • Data Protection Risk • Financial Crime Risk • Investors Protection Risk	
Legal Risk			• Legal risk
Tax Risk			• Tax risk
Pension Fund Risk			• Longevity Risk

2021 Net Risk Identification

	High	Medium	Low
Credit Risk	• Solvency	• Country risk • Concentration risk • Residual/Recovery risk	• Counterparty • Settlement
Market & ALM Risk		• Balance sheet price risk • Volatility risk • Credit spread risk • Funding risk	• Interest rate (sub-risks) • Currency • Behavioral • Liquidity • Intraday liquidity • Liquidity currency
Operational Risk		• Unauthorized activity and internal fraud • External fraud • Clients, products and business practices • Business disruption and systems failures • Execution, delivery and process management	• Damage to assets
Enterprise Risk	• Model • Compliance	• Business • Strategic • HR • Legal • Reputation • Regulatory • Social • Entity oversight • Conduct	
ICT Outsourcing & Third party Risk	• Outsourcing • Third party management	• Cyber security risk	

2.4.2. Capital Adequacy process

Capital adequacy process

The capital adequacy process mainly links the Economic Capital requirements with the Bank's Available Financial Resources (AFR) in order to allocate sufficient capital considering the Bank risk profile.

The following section summarises:
- The AFR calculation;
- The Economic Capital assessment; and
- The Pillar I and Pillar II capital adequacy.

Available Financial Resources

Definition

The AFR represent the loss absorbing financial capacity and availability over a given time horizon (one year for BIL Group). AFR are materialised by the available financial capacity to cover the incurred risks and absorb the losses.

Core principles

Principle 1: Permanent, loss absorbing and available resources.
The bases of the AFR measure are BIL Group's CET1 ratio but with some adjustments to have an economic view of the Bank's available resources and to respect the second principle.

Principle 2: Consistency with Economic Capital.
ECAP is a measure of the Bank's unexpected losses. According to this, AFR do not aim at absorbing the existing incurred losses for which provisions have been booked. Example: The current P&L is not filtered for the AFR, contrary to CET1.

Principle 3: Continuity of operations.
Any resource should comply with a going concern scenario, meaning that the Bank is not looking for a measure in a resolution scenario.

Principle 4: Solidarity between the different constituents within the group.
Minority interests are considered making part of the available financial resources (up to a certain level in line with current Basel III understanding).

AFR as of end 2021

According to these principles and in line with the Basel III requirements, the Bank's AFR are adjusted according to economic considerations in order to ensure consistency with the key principles of the ECAP measure.

As at 31 December 2021, the BIL Group AFR amounted to EUR 1,823 M (the figures are in million euro).

BIL GROUP AFR	2021 Actuals	2020 Actuals	*Delta*
RESOURCES			
Core equity	907	907	
Retained earnings	467	419	
OCI	176	41	
Other reserves (P&L included)	165	242	
TOTAL	**1 715**	**1 608**	*106*
DEDUCTIONS			
Intangible & goodwill	-253	-203	
Full deduction DTA Netting with DTL	-133	-154	
TOTAL	**-386**	**-357**	*-30*
UCG on FVOCI Equities after haircut	138	38	
PLM Book Value	53	55	
PLM Market Value	270	220	
PLM MV after haircut 25%		165	
PLM MV double haircut of 20%	172		
UCG on real estate PLM after haircut	119	111	
UCG on investment property	6	6	
UCG on investment property after haircut 25%		5	
UCG on Investment Property after double haircut of 20%	4		
UCG on Investment Property after haircut	4	5	
UCG	**261**	**154**	*107*
Financial investments measured at amortised cost (HTC)	**93**	**119**	*-26*
AT1	**141**	**175**	*-34*
TOTAL AFR	**1 823**	**1 700**	*124*

Economic Capital framework

In the context of BIL Group, ECAP can be defined as the amount of capital that would be necessary to cover the unexpected risks inherent in the Bank's activities in order to take into account the continuity of its business over a given time period with a certain interval, corresponding to a long- term rating of A- over a one-year horizon. The process for quantifying economic capital is based on the following two steps:

- Measurement of risk capital by type of risk, on the basis of dedicated statistical methods, whereby each risk is individually assessed;
- Obtain a global ECAP figure and its reallocation to the various levels of risk (entities, business lines, etc.).

As at 31 December 2021, with a level of confidence of 99.90% and a horizon of 1 year BIL Group's economic capital amounted to EUR 1,360 M allocated to different risks as presented in the table below.

Risk Type	Approach	2020 YE		2021 YE		Variations			
		Risk Capital (EUR million)	Economic Capital (EUR million)	Risk Capital (EUR million)	Economic Capital (EUR million)	*Risk Capital*		*Economic Capital*	
Credit Risk	IRBaEco	558,44	424,09	555,22	463,88	-3,21	-0,6%	39,80	9,4%
	Concentration Add-on	96,06	72,95	89,21	74,53	-6,85	-7,1%	1,58	2,2%
	Guarantee and Resolution Funds	60,85	46,21	69,15	57,77	8,29	13,6%	11,56	25,0%
	CVA	1,73	1,31	1,43	1,19	-0,30	-17,3%	-0,12	-9,0%
Price Risk	VaR Banking & Real Estate	77,52	58,87	155,09	102,43	77,57	100,1%	43,56	74,0%
Interest Rate Risk	VaR Banking & Trading	52,42	39,81	55,63	42,61	3,21	6,1%	2,80	7,0%
Spread Risk	VaR Banking & Trading	563,30	427,78	465,65	356,63	-97,64	-17,3%	-71,15	-16,6%
Currency Risk	VaR limit	6,00	4,56	9,96	9,96	3,96	66,0%	5,41	118,6%
Funding Risk	Stress scenario	26,03	19,76	18,59	18,59	-7,44	-28,6%	-1,18	-6,0%
Behavioral Risk	Statistical approach	11,95	9,07	9,32	9,32	-2,62	-22,0%	0,25	2,8%
Operational Risk	Enhanced standardized approach	89,09	67,66	78,99	78,99	-10,09	-11,3%	11,34	16,8%
Pension Funds Risks	Credit Risk	3,25	2,47	3,33	2,78	0,08	2,5%	0,32	12,8%
	Credit Spread Risk	9,14	6,94	10,70	8,19	1,56	17,0%	1,25	18,0%
	Price Risk	18,16	13,79	11,79	6,92	-6,36	-35,1%	-6,87	-49,8%
	Interest Rate Risk	11,26	8,55	7,81	5,98	-3,45	-30,6%	-2,57	-30,1%
Business Risk	Statistical approach	55,61	42,23	57,14	57,14	1,53	2,8%	14,91	35,3%
Model Risk	Model risk add-on	104,76	79,56	63,52	63,52	-41,24	-39,4%	-16,04	-20,2%
TOTAL		1745,55	1325,60	1662,54	1360,45	-83,01	-4,8%	34,85	2,6%
Diversification rate		24,06%		18,17%					

Capital Adequacy

BIL Group's capital adequacy is represented in the following table (EUR M):

At 2021 year-end, the ratio of economic capital resources to economic capital consumption (AFR/ECAP) had reached the level of 134%:

Risk Category	Risk Type	ECAP
Credit	Credit Risk	464
	Concentration Risk	75
	Other Credit Risks	62
Market and ALM	Price Risk	109
	Interest Rate Risk	49
	Spread Risk	365
	Currency Risk	10
	Funding Risk	19
	Behavioural Risk	9
Operational	Operational Risk	79
Enterprise Risk	Business Risk	57
	Model Risk	64
TOTAL ECAP		**1,360**
Available Financial Resources (AFR)		**1,823**
AFR/ECAP ratio		**134%**

2.4.3. Capital & Liquidity Planning

One of the main objectives of the ICAAP is to ensure the Bank has and will have sufficient capital and liquidity to support its business model and strategy on the long-run, under both normal and adverse circumstances.

Following this, Capital & Liquidity Planning can be defined as a tool allowing the Bank's Management to assess whether its capital and liquidity buffers levels (together with its funding structure) are adequate to support the strategy, taking into account various scenarios in a forward-looking perspective.

2.4.4. Stress testing

BIL sets up a Stress Testing Charter aiming at providing common organizational requirements, methodologies and processes for the performance of stress testing at BIL as part of our Risk Management Framework, when conducting both regulatory and internal stress testing exercises. The Charter outlines the principles for an effective, transversal and consistent management of stress testing at BIL. These principles are aligned with the best market practices and compliant with the regulatory requirements.

The Stress Testing Program covers the following information regarding each stress testing exercise:

- The stress test category: Recovery Plan Stress Test, EU wide Stress Tests, Pillar I Stress Tests, Pillar II Stress Tests and others:
  - Recovery Plan Stress Tests: this category includes any stress testing exercise that is performed in the course of the development or maintenance of BIL's group Recovery Plan;
  - EU wide Stress Tests: The CRD IV requires competent authorities to carry out appropriate supervisory stress tests on institutions they supervise, to facilitate the review and evaluation process (CRD IV Title VII, Chapter 2, Section III – in particular Article 100). This sets the legitimation for EU wide stress testing exercises such as the 2021 EBA/ECB stress test or the 2022 ECB Climate Risk Stress Testing Exercise. This category covers all such stress testing exercises that may be required from BIL's group to be performed;
  - Pillar I Stress Tests: This category includes any stress testing exercise that is performed to assess the adequacy of internal models (A-IRB, Foundation and Slotting approaches) developed and used for the quantification of minimum capital requirements under Pillar I. The requirements for such stress testing exercises are set in the CRR;
  - Pillar II Stress Tests: Within this category, the Bank includes all stress testing exercises that are performed in the course of the ICAAP and ILAAP. As one of the main objectives of the ICAAP/ILAAP is to analyse if the Bank has sufficient capital and funding to support its business model and strategy on the long-run under both normal and adverse circumstances, the Bank is required to perform stress tests within its ICAAP/ILAAP;
  - Other Stress Tests: This category summarizes any stress testing exercise that does not fit in the categories described above but are required from a regulatory or business perspectives. This may include specific stress testing exercises such as: Market Risk Stress Tests, IRRBB Stress Tests, Liquidity Stress Test, etc.

2.5. Comparison of institution's own funds, and capital and leverage ratios

In line with the EBA Guidelines on uniform disclosures under the proposed draft Article 473a, paragraph Eight, of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9, the Bank discloses each metric's value corresponding to the reporting period end. In the table below, regulatory own funds, risk-based capital ratios and leverage ratio are compared to the same metrics.

OWN FUNDS, CAPITAL AND LEVERAGE RATIOS UNDER IFRS 9/ANALOGOUS ECLS TRANSITIONAL ARRANGEMENTS COMPARED TO FULLY LOADED IFRS 9/ANALOGOUS ECLS

(in EUR million)	31/12/2021	31/12/2020
AVAILABLE CAPITAL (AMOUNTS)		
Common Equity Tier 1 (CET1) capital	1,447,114,568	1,238,738,648
Common Equity Tier 1 (CET1) capital as if IFRS9 transitional arrangements were not applied	1,422,879,211	1,205,877,470
Tier 1 capital	1,622,114,568	1,413,738,648
Tier 1 capital as if IFRS9 transitional arrangements were not applied	1,597,879,211	1,380,877,470
Total capital	1,859,241,754	1,545,334,666
Total capital as if IFRS9 transitional arrangements were not applied	1,835,006,397	1,512,473,488
RISK-WEIGHTED ASSETS (AMOUNTS)		
Total risk-weighted assets	10,228,619,586	9,381,123,814
Total risk-weighted assets as if IFRS9 transitional arrangements were not applied	10,217,495,898	9,365,550,651
CAPITAL RATIO		
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.15%	13.20%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS9 transitional arrangements were not applied	13.93%	12.88%
Tier 1 (as a percentage of risk exposure amount)	15.86%	15.07%
Tier 1 (as a percentage of risk exposure amount) as if IFRS9 transitional arrangements were not applied	15.64%	14.74%
Total capital (as a percentage of risk exposure amount)	18.18%	16.47%
Total capital (as a percentage of risk exposure amount) as if IFRS9 transitional arrangements were not applied	17.96%	16.15%
LEVERAGE RATIO		
Leverage ratio total exposure measure	32,816,102,424	32,943,110,328
Leverage ratio total exposure measure as if IFRS9 transitional arrangements were not applied	32,791,867,067	32,910,249,150
Leverage ratio	4.94%	4.29%
Leverage ratio as if IFRS9 transitional arrangements were not applied	4.87%	4.20%

Following the migration to a new system, the data cleansing, the in depth review of data mapping and the results validation through a parallel run have allowed to improve the RWA calculation. These improvements trigger a one-off increase of RWA of EUR 126 million and affect negatively BIL's CET1 ratio by roughly 20 bp on end of 2020 data. The table KM1 includes the restated version of the Solvency ratio.

2.6. Minimum Requirement for own funds and Eligible Liabilities (MREL)

Where the bail-in tool is envisaged as part of the resolution plan under the Bank Recovery and Resolution Directive (BRRD), the resolution authorities will require banks to raise and hold the capital resources (Eligible Liabilities) that will be either written-down or converted into equity ("bailed-in") as part of the resolution. MREL is the amount of the bail-inable liabilities that banks have to maintain as per their resolution plan. For 2021, the SRB has requested that BIL fulfil two MREL ratios: There are calculated (i) as the amount of own funds and eligible liabilities expressed as a percentage of the Total RWA (MREL RWA) and, (ii) as the amount of own funds and eligible liabilities expressed as a percentage of the Total exposures of the Leverage ratio (MREL TEM). At the end of 2021, the respective values of these two ratios versus their requirements are (rounded):
- MREL RWA: 50% versus a requirement of 21%
- MREL TEM: 17% versus a requirement of 6%

During the last quarter of 2021, BIL received from the SRB the main features regarding the Resolution Plan. The SRB highlighted the continued positive commitment from BIL towards delivering solutions to remedy any impediments and meeting the core resolvability conditions. In 2022, some matters are particularly discussed with the SRB of which:
- Liquidity and funding in resolution;
- MIS capabilities for valuation data;
- Bail-in operationalisation (bail-in playbooks and MIS capabilities for bail-in data);
- Drafting of a Business Reorganisation Plan that maintains profitability and business continuity post bail-in;
- Continuing priorities from 2021 to 2022 and beyond, including in the fields of operational continuity and access to FMIs.

3. Credit risk

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

3.1. Credit risk governance

3.1.1. Organisation

Please refer to the section 1.2.1 Organisation.

3.1.2. Policy

The BIL Group's Risk Management department has established a general policy and procedural framework in line with the Bank's Risk Appetite. This framework guides the analysis, decision-making and monitoring of credit risk. The Risk Management department manages the loan issuance process by chairing credit and risk committees and by delegating within the limits set by the Bank's internal governance. As part of its monitoring tasks, the Credit Risk Management unit supervises changes in the credit risks with regards to the Bank's credit portfolio by analysing loan applications and reviewing counterparties' ratings. The Risk Management department also draws up and implements the policy on provisions, participates to the Default Committee which decides on specific provisions, and assesses default cases.

3.1.3. Committees

BIL Group's Risk Management department oversees the Bank's credit risk, under the supervision of the Management Board and dedicated committees.

The Risk Policy Sub-Committee defines the general risk policies, as well as specific credit policies in different areas or for certain types of counterparty, and sets the rules for granting loans, supervising counterparties' ratings and monitoring exposures. The Risk Policy Sub-Committee validates all changes in procedures or risk policies, principles and calculation methods referring to risk.

In order to streamline the decision-making process, the Management Board delegates its decision-making authority to credit committees or joint powers. This delegation is based on specific rules, depending on the counterparty's category, rating level and credit risk exposure. The BoD remains the ultimate decision-making body for the largest loan applications or those presenting a level of risk deemed to be significant. The Credit Risk Management department carries out an independent analysis of each credit application presented to the credit committees, including the counterparty's rating, and stating the main risk indicators; it also carries out a qualitative analysis of the envisaged transaction.

3.1.4. Scope and nature of credit risk reporting

The Credit Risk Reporting team is responsible for producing regulatory reports and internal reports which facilitate the Management to effectively assess the risks within the decision-making process and to provide the necessary information to the supervisor.

The main reports compiled are the following:
- Regulatory reporting (COREP, Large exposures, Past Dues, Leverage ratio, Credit risk information for the FINREP);
- External, on demand or periodical credit risk reporting (EBA, CSSF, ECB, Rating agencies);
- Internal credit risk reporting (Residential mortgages follow-up, monitoring of Land Acquisition, Development and Construction (ADC) and Income Producing Real Estate (IPRE) exposures);
- Quarterly Credit Risk Dashboards;
- Risk-Weighted Assets projections within the context of planned investments;
- Monitoring of large exposures.

3.1.5. Risk measurement

Credit risk measurement is primarily based on internal systems introduced and developed within the Basel framework. Each counterparty is assigned an internal rating by credit risk analysts, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk borne by the counterparty, expressed by means of an internal rating scale. Rating assessment is a key factor in the loan issuance process. Ratings are reviewed at least once a year, making it possible to identify counterparties requiring the close attention of the Default Committee.

To manage the general credit risk profile and limit concentration of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable level for each one. Limits by economic sector and by product may also be imposed by the Risk Management department. The latter actively monitors limits, which it can reduce at any time, in light of changes in related risks. The Risk Management department may freeze specific limits at any time in order to take the latest events into account.

Metrics

The metrics used to measure risk exposure may differ from accounting metrics. We could mention the following ones:

(1) Gross carrying amount: The accounting value before any allowance/impairments and CRM techniques are not taken into consideration. In the context of IFRS9, it refers to amortised cost of financial assets, before adjusting for any loss allowance;

(2) Net value of exposure: This metric corresponds to the amortised cost or EAD before applying a credit conversion factor (CCF), after deducting specific provision, financial collateral (e.g. security type collateral and cash) and netting agreement effect. Physical collateral such as commercial real estate and residential real estate are out of scope.

(3) The credit risk exposure measure known as Exposure-At-Default (EAD), which is used for the calculation of regulatory capital requirements includes (a) current and potential future exposures, and (b) credit risk mitigants (CRM) covering those exposures (under the form of netting agreements, financial collateral for derivatives and repo exposures, and guarantees for others).

3.1.6. Credit Risk Rating Process

Credit Risk Management is responsible for determining the risk rating based on the results of the Bank's credit analytical model (i.e. the Internal Rating Systems (IRS)).

For the retail models, the rating process is daily and is fully automated (behavioural scores).

For the non-retail models, for example the Corporate exposures, the rating process is semi-automated with qualitative ratios estimated by the analysts and the model output can be overridden.

Real estate exposures falling under Specialised Lending Exposures are rated using a Slotting Criteria model, with given specific risk-weighted factors and qualitative and quantitative factors ratios estimated by the analysts as per EU Regulation 575/2013

For these models, the rating assignment process is fully documented so as to provide the analysts a robust framework for the estimation of the qualitative ratios.

These ratings must be evaluated at least once a year at the time of annual review of the borrower's credit and more frequently should there be a change in creditworthiness during the year.

The development and maintenance of the rating models used by the Bank, their ongoing review, enhancement and calibration is the responsibility of Credit Data Science (CDS) and their validation is the responsibility of the Model Risk management team.

3.2. Credit risk exposure

Several metrics will be used throughout this report to express different views on the Bank's risk exposures.

3.2.1. Total and average amount of credit exposure by exposure classes

In the application of Article 442 (c) in the CRR, this table represents the year-end total and annual average exposure ex- pressed in net values.

This metric corresponds to the amortised cost or EAD before applying a credit conversion factor (CCF), after deducting specific provision, financial collateral (e.g. security type collateral and cash) and netting agreement effect. Physical collateral such as commercial real estate and residential real estate are out of scope.

The year-end total exposure includes figures obtained using both the Standardised approach and advanced methods. The average credit exposure is computed as the average of the net exposure values observed at the end of each quarter of the year 2021.

TABLE EU CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

	(in EUR million)	Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	-	-
2	Institutions	2,012	2,166
3	Corporates	7,451	7,537
4	*Of which: Specialised lending*	*2,938*	*2,861*
5	*Of which: SMEs*	*1,690*	*1,630*
6	Retail	12,790	12,710
7	Secured by real estate property	8,224	8,343
8	SMEs	194	224
9	Non-SMEs	8,030	8,119
10	Qualifying revolving	-	-
11	Other retail	4,566	4,367
12	SMEs	372	362
13	Non-SMEs	4,193	4,006
14	Equity	205	197
15	Other non-affected	-	-
16	**Total IRB approach**	**22,458**	**22,610**
17	Central governments or central banks	8,849	6,987
18	Regional governments or local authorities	3,378	3,305
19	Public sector entities	352	318
20	Multilateral development banks	230	217
21	International organisations	205	206
22	Institutions	224	192
23	Corporates	1,993	1,775
24	*Of which: SMEs*	*668*	*595*
25	Retail	18	16
26	*Of which: SMEs*	-	-
27	Secured by mortgages on immovable property	97	84
28	*Of which: SMEs*	*85*	*78*
29	Exposures in default	14	16
30	Items associated with particularly high risk	3	10
31	Covered bonds	-	-
32	Claims on institutions and corporates with a short-term credit assessment	2	2
33	Collective investments undertakings	-	-
34	Equity exposures	26	27
35	Other exposures	455	439
36	**TOTAL STANDARDISED APPROACH**	**15,847**	**13,593**
37	**TOTAL**	**38,305**	**36,203**

3.2.2. Geographical breakdown of credit exposures

In the application of Article 442 (d) of the CRR, the table below shows the total exposure expressed in terms of net value broken down by exposure classes and geographic areas at year-end 2021. The geographical distribution is based on the legal residence of the counterparty or issuer. It comprises figures obtained using both the Standardised and the Advanced methods.

TABLE EU CRB-C – GEOGRAPHICAL BREAKDOWN OF EXPOSURES

(in EUR million)	**Europe**	*Of which: Luxembourg*	*Of which: France*	*Of which: Switzerland*	*Of which: Belgium*	*Of which: Germany*	**United States and Canada**	**South and Central America**	**Asia**	**Other geographical areas**	TOTAL
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	**-**
Institutions	1,710	300	365	39	222	429	184	-	3	115	**2,012**
Corporates	7,097	5,307	432	46	188	353	7	-	334	13	**7,451**
Retail	12,150	9,591	858	176	397	161	9	27	351	252	**12,790**
Equity	198	185	0	12	1	-	4	0	-	4	**205**
Total IRB approach	21,155	15,383	1,656	273	808	943	204	27	688	383	**22,458**
Central governments or central banks	8,467	4,069	299	2,465	840	47	229	-	153	-	**8,849**
Regional governments or local authorities	2,830	69	862	22	774	494	548	-	-	-	**3,378**
Public sector entities	352	65	281	-	-	6	-	-	-	-	**352**
Multilateral development banks	14	14	-	-	-	-	-	-	-	217	**230**
International organisations	-	-	-	-	-	-	-	-	-	205	**205**
Institutions	224	1	-	-	-	224	-	-	-	-	**224**
Corporates	1,713	1,248	226	27	18	26	25	-	157	105	**2,000**
Retail	12	12	-	-	0	-	-	-	0	-	**12**
Secured by mortgages on immovable property	92	68	24	-	-	-	4	-	-	1	**97**
Exposures in default	14	6	2	-	-	5	-	-	0	0	**14**
Items associated with particularly high risk	3	3	-	-	-	-	-	-	-	-	**3**
Covered bonds											**-**
Claims on institutions and corporates with a short-term credit assessment	2	2	0	-	-	-	-	-	-	-	**2**
Collective investments undertakings											**-**
Equity exposures	26	26	-	-	-	-	-	-	-	-	**26**
Other exposures	448	444	0	0	1	-	0	-	0	7	**455**
Total standardised approach	**14,197**	**6,026**	**1,694**	**2,513**	**1,632**	**803**	**806**	**-**	**310**	**534**	15,847
TOTAL	**35,352**	**21,409**	**3,350**	**2,786**	**2,440**	**1,745**	**1,010**	**27**	**998**	**917**	38,305

As at 31 December 2021, the Bank's exposure was mainly concentrated in Europe (92%, 35 billion) with 56% of the total exposure in Luxembourg, 8,7% in France, 7,3% in Switzerland, 6,4% in Belgium and 4,6% in Germany:

- Corporate activity is concentrated in Luxembourg (71,2%);
- Retail activity is concentrated in Luxembourg (75%).

3.2.3. Exposure breakdown by industry sector

In the application of Article 442 (e) of the CRR, the table below shows the net value of exposure broken down by exposure class and industry at year-end 2021. The industry classification is based on NACE codes (NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) is a European industry standard classification system for classifying business activities). It comprises figures obtained using both the Standardised and the Advanced methods.

(in EUR million)	Agriculture. foresty and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication
Central governments or central banks	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-	-	-
Corporates	20	0	723	161	10	1,861	419	126	274	89
Retail	151	5	221	12	5	471	459	142	299	272
Equity	-	-	-	-	-	-	-	149	-	1
Total IRB approach	**171**	**6**	**944**	**173**	**15**	**2,332**	**878**	**418**	**573**	**361**
Central governments or central banks	-	-	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-		-	-
Public sector entities	-	-	-	-	-	-	-	1	-	15
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-	-	-
Corporates	1	-	76	32	18	325	17		32	10
Retail	-	-	1	-	-	3	1	-	-	-
Secured by mortgages on immovable property	-	-	1	-	-	5	2	-	1	-
Exposures in default	-	-	-	-	-	-	1	4	-	-
Items associated with particularly high risk	-	-	-	-	-	3	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Total standardised approach	**1**	**-**	**78**	**32**	**18**	**335**	**21**	**4**	**33**	**24**
TOTAL	**172**	**6**	**1,022**	**205**	**32**	**2,667**	**898**	**422**	**606**	**385**

(in EUR million)	Financial and insurance activities	Real estate activities	Professional. scientific and technical activities	Administrative and support service activities	Public administration and defence. compulsory social security	Education	Human health services and social work activities	Arts. entertainment and recreation	Other services	TOTAL
Central governments or central banks	-	-	-	-	-	-	-	-	-	-
Institutions	1,981	-	-	-	-	-	-	-	30	2,012
Corporates	1,726	1,693	183	65	-	-	53	2	48	7,451
Retail	6,963	1,329	851	145	397	198	577	105	188	12,790
Equity	45	-	-	1	-	-	-	-	9	205
Total IRB approach	**10,715**	**3,022**	**1,034**	**211**	**397**	**198**	**630**	**107**	**275**	**22,458**
Central governments or central banks	5,881	-	-	-	2,967	-	-	-	-	8,849
Regional governments or local authorities	-	12	-	-	3,187	-	-	1	178	3,378
Public sector entities	52	-	-	4	130	-	99	-	51	352
Multilateral development banks	117	-	-	-	113	-	-	-	-	230
International organisations	-	-	-	-	205	-	-	-	-	205
Institutions	224	-	-	-	-	-	-	-	-	224
Corporates	1,223	235	15	-	-	1	10	-	6	2,000
Retail	-	-	-	-	-	0	1	2	4	12
Secured by mortgages on immovable property	20	56	-	-	-	-	1	-	11	97
Exposures in default	3	4	1	-	-	-	-	-	-	14
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	3
Covered bonds	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	2	-	-	-	-	-	-	-	-	2
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-
Equity exposures	26	-	-	-	-	-	-	-	-	26
Other exposures	3	-	-	-	-	-	-	-	452	455
Total standardised approach	**7,551**	**307**	**16**	**5**	**6,603**	**2**	**111**	**3**	**703**	**15,847**
TOTAL	**18,267**	**3,329**	**1,050**	**216**	**7,000**	**200**	**740**	**110**	**978**	**38,305**

As at 31 December 2021, the sectors "Financial and insurances activities" and "Public administration" represented the highest exposures with respectively 47.69% and 18.27% of the total exposures.

3.2.4. Exposure breakdown by residual maturity

In the application of Article 442 (f) of the CRR, the table below shows the net value of exposure broken down by exposure classes and residual maturities at year-end 2021. It comprises figures obtained using both the Standardised and the Advanced methods.

	NEXT EXPOSURE VALUE					
(in EUR million)	On demand	≤1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	TOTAL
Central governments or central banks		-	-	-	-	-
Institutions		438	795	336	443	2,012
Corporates		1,669	2,961	2,652	169	7,451
Retail		1,180	1,607	9,123	880	12,790
Equity		-	-	-	205	205
Total IRB approach		**3,287**	**5,362**	**12,111**	**1,697**	**22,458**
Central governments or central banks		3,757	1,075	1,159	2,858	8,849
Regional governments or local authorities		206	1,065	2,103	4	3,378
Public sector entities		91	74	187	0	352
Multilateral development banks		31	93	105	1	230
International organisations		123	42	39	-	205
Institutions		16	39	168	0	224
Corporates		758	502	449	290	2,000
Retail		6	2	3	1	12
Secured by mortgages on immovable property		2	10	85	-	97
Exposures in default		0	0	8	6	14
Items associated with particularly high risk		2	1	-	1	3
Covered bonds		-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment		0	-	-	2	2
Collective investments undertakings		-	-	-	-	-
Equity exposures		-	-	-	26	26
Other exposures		0	6	6	443	455
Total standardised approach		**4,994**	**2,910**	**4,312**	**3,631**	**15,847**
TOTAL		**8,280**	**8,272**	**16,424**	**5,328**	**38,305**

This table shows that about 43% of the total risk exposure does not exceed five years.

Over the longer term, 43% of the total risk exposure exceeds five years. This represents long-term bonds to central governments and central banks, retail banking mortgage activity and the financing of the real estate and construction sector.

Exposures classified as "no defined maturity" represent 14% of the total exposure and are essentially composed of debits accounts for the corporate and retail exposure class and Nostro accounts with central banks for the Central Governments and Central Banks exposure class.

3.2.5. Credit quality of exposures

In the application of Article 442 (g) of the CRR, the tables below provide a breakdown of defaulted and non-defaulted exposures by regulatory exposure classes and industries respectively. It comprises figures obtained using both the Standardised and the Advanced methods.

The Bank books specific credit risk adjustment and general credit risk adjustment.

(in EUR million)	Gross carrying value of Defaulted exposures	Gross carrying value of Non-defaulted exposures	Specific credit risk adjustments	General credit risk adjustments	Accumulated write-offs	Credit risk adjustement charges of the period	Net values (a+b-c-d)
Central governments or central banks	**-**	**-**	**-**	**-**			**-**
Institutions	**-**	**2,012**	**-**	**-0**			**2,012**
Corporates	**204**	**7,388**	**-76**	**-65**	**-7.21**		**7,451**
Of which: Specialised lending	*140*	*1,611*	*-53*	*-7*			*1,690*
Of which: SMEs	*9*	*2,972*	*-4*	*-39*	*- 4.92*		*2,938*
Of which: Others	*55*	*2,806*	*-19*	*-19*	*-2.29*		*2,822*
Retail	360	12,545	-105	-11	-15.29		12,790
Secured by real estate property	114	8,119	-5	-3	-7.32		8,224
SMEs	12	183	-1	-0	-0.33		194
Non-SMEs	102	7,935	-4	-3	-6.99		8,030
Qualifying revolving	-	-	-	-			-
Other retail	247	4,426	-100	-8	-7.96		4,566
SMEs	21	363	-10	-1	-3.65		372
Non-SMEs	226	4,064	-89	-7	-4.32		4,193
Equity	4	202	-	-			205
Total IRB approach	**567**	**22,147**	**-181**	**-76**	**-22.50**		**22,458**
Central governments or central banks	-	8,851	-2,39	-0.07			8,849
Regional governments or local authorities	-	3,379	-	-1.01			3,378
Public sector entities	-	353	-	-1.42			352
Multilateral development banks	-	231	-0,82	-0.07			230
International organisations	-	205	-	-			205
Institutions	-	224	-	-0.01			224
Corporates	-	2,002	-	-8.64	-0.00		1,993
Of which: SMEs	-	*671*	-	*-2.86*			*668*
Retail	-	18	-	-0.08			18
Of which: SMEs	-	-	-	-			-
Secured by mortgages on immovable property	-	98	-	-1.29			97
Of which: SMEs	-	*87*	-	*-1.24*			*85*
Exposures in default	68	1	-54,58	-	-3.63		14
Items associated with particularly high risk	0	3	-	-0.01			3
Covered bonds	-	-	-	-			-
Claims on institutions and corporates with a short-term credit assessment	-	2	-	-			2
Collective investments undertakings	-	-	-	-			-
Equity exposures	-	26	-	-			26
Other exposures	-	455	-	-0,09			455
Total standardised approach	**68**	**15,849**	**-58**	**-13**	**-3,63**		**15,847**
TOTAL	**636**	**37,996**	**-238**	**-89**	**-26,13**		**38,305**
Of which: Loans	569	18,875	-215	-75	-26,13		19,153
Of which: Debt securities	22	8 228	-18	3			8,230
Of which: Off-balance-sheet exposures	38	5,405	-5	-11			5,427

TABLE EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY

(in EUR million)	Gross carrying value of Defaulted exposures	Gross carrying value of Non-defaulted exposures	Specific credit risk adjustments	General credit risk adjustments	Accumulated write-offs	Credit risk adjustement charges of the period	Net values (a+b-c-d)
Agriculture, foresty and fishing	2	171	-0	-1			172
Mining and quarrying	0	6	-0	-0			6
Manufacturing	14	1,015	-2	-5			1,022
Electricity, gas, steam and air conditioning supply	29	200	-24	-1			205
Water supply	0	32	-0	-0			32
Construction	17	2,674	-6	-17			2,667
Wholesale and retail trade	26	888	-11	-4			898
Transport and storage	11	416	-4	-1			422
Accommodation and food service activities	58	556	-3	-5			606
Information and communication	15	379	-8	-1			385
Financial and insurance activities	256	18,143	-112	-16			18,270
Real estate activities	120	3,268	-28	-31			3,329
Professional, scientific and technical activities	51	1,029	-27	-3			1,050
Administrative and support service activities	16	207	-7	-0			216
Public administration and defence, compulsory social security	2	7,001	-2	-1			7,000
Education	2	198	-0	-0			200
Human health services and social work activities	10	732	-1	-1			740
Arts, entertainment and recreation	5	107	-2	-0			110
Other services	2	988	-0	-0			990

3.2.6. Credit quality of exposures by geographical area

In the application of Article 442 (h) of the CRR, the table below provides a breakdown of defaulted and non-defaulted exposures by geographical areas. It comprises figures obtained using both the Standardised and the Advanced methods. The geographical distribution is based on the legal residence of the counterparty or issuer.

TABLE EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

	Gross carrying value of		Specific credit risk adjustments	General credit risk adjustments	Accumulated write-offs	Credit risk adjustement charges of the period	Net values
(in EUR million)	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Europe	590	35,061	-201.18	-85.87			35,364
Of which: Luxembourg	349	21,238	-114.63	-63.21			21,409
Of which: France	125	3,293	-53.2	-12.62			3,353
Of which: Switzerland	14	2,780	-7.7	-0.28			2,786
Of which: Belgium	15	2,428	-2.03	-1.49			2,440
Of which: Germany	29	1,738	-18.57	-3.71			1,745
United States and Canada	0	1,011	-0.05	-0.54			1,010
South and Central America	0	27	-0.01	-0.01			27
Asia	5	994	-0.12	-1.15			998
Other geographical areas	41	918	-36.92	-1.13			920
TOTAL	**636**	**38,011**	**-238**	**-89**			**38,319**

3.3. Forbearance, impairment, past due and provisions

3.3.1. Definitions

BIL records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and is evidencing (i) a decline in expected cash flows and, (ii) an impact on estimated future cash flows that can be reliably estimated.

3.3.1.1. Financial assets measured at amortised cost

First, BIL assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Determination of the impairment

- Specific individual impairments: If an objective evidence exists individually on a significant asset classified as loans or other receivables or financial assets classified as held-to-maturity, the amount of impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated future cash flows being the present value of estimated future cash flows;
- Collective impairments for mass products: If the objective evidence is identified individually for insignificant assets or collectively for a group of assets with similar risk characteristics, specific impairments are recorded on these identified group of assets;
- Collective impairments: Collective provisions are calculated for counterparties for which no objective evidence of impairment exist but for which the Bank knows that from a statistical point of view, losses may have occurred unless such losses have not been identified yet.

We shall mention that a credit-impaired exposure is assigned to the Stage 3 under IFRS 9. According to the definition, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes notably observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as default or past due event;
- The creditor(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired.

In addition, the Bank will also consider the levels of and trends in delinquencies for similar financial assets. In order to adopt a prudent approach, the Bank considers all individual factors as a trigger event.

Accounting treatment of the impairment

BIL recognizes changes in the amount of impairment losses in the consolidated statement of income and reports them as «Impairment on loans and provisions for credit commitments». The impaired potential losses are reversed through the consolidated statement of income if the increase in fair value relates objectively to an event occurring after the impairment was recognised.

When an asset is determined by Management to be uncollectable, the outstanding specific impairment is reversed via the consolidated statement of income under the heading «Impairment on loans and provisions for credit commitments» and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

3.3.1.2. Held to collect and sale (HTCS)

BIL recognizes the impairment of HTCS assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

- Quoted equities: The potential need of impairment is analysed based on an impairment test which consists of identifying cases where the net carrying amount is higher than the net present value;
- Unquoted equities: The potential need of impairment on participations is reviewed based on a comparison between the purchase cost and the estimated fair value obtained through the latest annual accounts available of the entity (for consolidated participations) and/or any other information that can help evaluating the participation such as latest securities exchanges, internal memorandum on valuation, (for non-consolidated participations);
- Quoted/unquoted bonds: The potential need of impairment is analysed based on:
  - The same impairment test described for the quoted equities above and, in some cases;
  - An impairment test based on the evolution of the fair value referring to the credit spread.
- Private equity instruments: the potential need of impairment is analysed based on:
  - The net asset value reported by the fund/company; and
  - A utility value calculated by the Credit Risk department.

Accounting treatment of the impairment

When HTCS financial assets are impaired, the OCI reserve is recycled and these impaired potential losses are reported in the consolidated statement of income as «Net income on investments». Additional decline in fair value is recorded under the same heading for equity securities.

When an impaired potential loss has been recognised on bonds, any subsequent decline in fair value is recognised under «Net income on investments» (if there is objective evidence of impairment). In all other cases, changes in fair value are recognised in «Other comprehensive income».

Impairments on equity securities cannot be reversed in the statement of income due to later recovery of quoted prices.

3.3.1.3. Past due

For the purposes of the application of point (b) of Article 178(1) of Regulation (EU) No 575/2013, where any amount of principal, interest or fee has not been paid at the date it was due, the Bank recognises this as the credit obligation past due. Where the credit arrangement explicitly allows the obligor to change the schedule, suspend or postpone the payments under certain conditions and the obligor acts within the rights granted in the contract, the changed, suspended or postponed instalments are not considered past due, and the counting of days past due is based on the new schedule once it is specified, according to Articles 178(1) and (3) of Regulation (EU) No 575/2013. Unauthorised overdraft amounts are also considered as past due amounts.

Past due amounts are monitored:

- At the level of each exposure for a day to day monitoring and the triggering of IFRS 9 stage 2
- At the level of each obligor and/or joint obligor for the counting of material days past due and the triggering of default. The past due amount at the level of an obligor is the sum of all amounts past due that are related to any credit obligation of the obligor to the Bank, or any of its subsidiaries.

Technical past due situations are not considered as default in accordance with Article 178 of Regulation (EU) No 575/2013. A technical past due situation is considered to have occurred in any of the following cases:

- Where the Bank identifies that the defaulted status was a result of data or system error, including manual errors of standardised processes but excluding wrong credit decisions;
- Where the Bank identifies that the defaulted status was a result of the non-execution, defective or late execution of the payment transaction ordered by the obligor or where there is evidence that the payment was unsuccessful due to the failure of the payment system.
- Where due to the nature of the transaction there is a time lag between the receipt of the payment by an institution and the allocation of that payment to the relevant account, so that the payment was made before the 90 days and the crediting in the client's account took place after the 90 days past due.

Technical defaults should not be considered as default and should be excluded from the reference data set of defaulted exposures for the purpose of estimation of risk parameters.

3.3.1.4. Default definition

Default is defined as the inability of a borrower or guarantor to meet obligations vis-à-vis one or more creditors at a given moment or on a lasting basis. The Bank must include all products and positions that are potentially at risk. Default is defined in the Basel II in the Article 178 of the CRR as follows:

"A default is considered to have occurred with regard to a particular obligor, when either or both of the two following events have taken place.
- The Bank considers that the obligor is unlikely to pay its credit obligations to the Banking group in full, without recourse by the Bank to actions such as realizing security (if held);
- The obligor is past due more than 90 days on any material credit obligation to the Bank group.".

The EBA guidelines on the application of the definition of default (referred to as New Definition of Default – NDD) and the Commission delegated regulation 2018/171 specify the new materiality thresholds for past due amounts:
- The absolute thresholds are set to € 100 for retail exposures and € 500 for non-retail exposures.
- The relative component is a limit in terms of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor for BIL Headquarter, its parent undertaking or any of its subsidiaries excluding equity exposures and is set at 1 %.

	Retail[1]	Non-retail*		
Materiality of the overdraft to start counting dpd	RET[1] and PME_RET	Sovereign, Institutions and Banks	Pub sat. and collect.	Other non retail
Absolute threshold Relative threshold (to on-balance)	First cent	First cent		
Materiality of the overdraft to trigger a default	100€ and 1% of total asset	500€ AND 1% of total asset		
Number of days to trigger a default	90	90		

Both absolute and relative thresholds must be exceeded to consider that the overdraft amount is material (according to Article 178 CRR).

3.3.2. Ageing of accounting past due

The following table provides an ageing analysis of past due exposures at year-end 2021.

TABLE EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

	Gross carrying values		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Loans	56	58	128
Debt securities	-	-	-
TOTAL EXPOSURES	**56**	**58**	**128**

[1] Retail and non-Retail classification according to prudential / CRR rules.

3.3.3. Information on forborne exposure and non-performing loans

Forborne exposures

BIL closely monitors its forborne exposures, notably in line with EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting their financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan or waivers on financial covenants attesting to the debtor's actual or future difficulties.

More specifically in order to comply with the regulatory standards, BIL Group has implemented the necessary framework for the whole forbearance process covering:

- The list of forbearance measures;
- The granting process of these short and long term forbearance measures;
- The duties in respect with forbearance measures;
- The probation periods; and
- The monitoring process.

For all counterparties, dedicated analyses are carried out at single credit file level in order to identify those that should be classified as forborne according to the regulatory definition. Forborne exposures consist of a significant increase of credit risk triggering at least a stage 2 provision according to IFRS 9 regulation.

As in end 2021, BIL Group's forborne exposures amounted to EUR 901 m (EUR 609 m forborne performing and EUR 292 m forborne non performing).

Non-performing exposures

According to EBA definition, non-performing exposures satisfying either or both of the following criteria:

- Material exposures which are more than 90 days past-due, even if the obligor is not in default;
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

The 2018 EBA guidelines on management of non-performing and forborne exposures require to apply the same materiality thresholds and unlikely to pay trigger for the purpose of default and non performing management.

Exposures in respect of which a default (CRR) is considered to have occurred and exposures that have been found impaired (IFRS) are always considered as non-performing exposures.

Regulations regarding the minimum loss coverage have been published with respect to NPEs, the most significant of which are:

- ECB supervisory expectations to deal with the NPEs stock through provisioning;
- ECB Guidance on non-performing loans for credit institutions, published in March 2017: Calendars with quantitative supervisory expectations for the provisioning of this type of exposure are established in the addendum to this guidance, published in March 2018. Applicable to exposures originating before 26 April 2019 and which have been converted into NPE from 1 April 2018 and their non-compliance might imply a higher Pillar 2 charge;
- Amendment of the CRR through Regulation 2019/630 as regards minimum loss coverage for non-performing exposures (prudential backstop), published in April 2019. This regulation includes calendars of quantitative requirements for the minimum provisioning of NPEs. It applies to NPEs originating after 26 April 2019 and their non-compliance would cause CET1 deduction of the entities. On 20 May 2019, the new regulatory package was approved, which consisted of Regulation 2019/876 (CRR II) and the Directive 2019/878 (CRD V).

Covid-19 context

Since early in 2020, BIL regularly re-examines the classification of its outstanding loans under moratorium extended in response to the Covid-19 crisis, on the basis of (i) regulatory texts and guidance provided by the EBA and (ii) changes in the situation of the counterparties concerned.

TABLE EU CR1-E - NON-PERFORMING AND FORBORNE EXPOSURES

	Gross carrying value of performing and non-performing exposures						
		Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			
					Of which defaulted	Of which impaired	Of which forborne
Debt securities	8,257	-	-	22	22	22	-
Loans and advances	17,381	47	594	594	590	593	292
Off-balance-sheet exposures	4,565	-	33	45	29	41	15

	Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	On performing exposures		On non-performing		On non-performing exposures	Of which forborne exposures
		Of which forborne		Of which forborne		
Debt securities	-3	-	-18	-	4	-
Loans and advances	-75	-17	-223	-81	347	745
Off-balance-sheet exposures	-11	-2	-2	0	-	-

3.3.4. Changes in the stock of specific credit risk adjustments

In the application of Article 442 (i) of the CRR, the following table identifies the changes in the Bank's stock of specific credit risk adjustments held against loans and debt securities that are defaulted or impaired. The Bank makes a specific adjustment for credit risk justified by its perception of a significant deterioration in credit quality since it originally accepted the risk.

TABLE EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

(In EUR million)	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
At 30 June 2021	237.09	76.76
Increases due to amounts set aside for estimated loan losses during the period	23.17	6.43
Decreases due to amounts set aside for estimated loan losses during the period		
Decreases due to amounts taken against accumulated credit risk adjustment	-13.07	
Transfers between credit risk adjustment		5.50
Impact of exchange rate differences	2.10	
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	-7.14	
At 31 December 2021	**226.20**	**88.69**
Recoveries on credit risk adjustments recorded directly to the statements of profit and loss		
Specific credit risk adjustments directly recorded to the statement of profit and loss	-15.94	

3.3.5. Changes in the stock of defaulted and impaired loans and debt securities

In the application of Article 442 (i) of the CRR, the following table identifies the changes in the Bank's stock of defaulted and impaired loans and debt securities for the year 2021.

TABLE EU CR2-B – CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES

(In EUR million)	Gross carrying value defaulted exposures
At 30 June 2021	756
Loans and debt securities that have defaulted or impaired since the last reporting period	54
Returned to non-defaulted status	-130
Amounts written off	-26
Other changes	-10
At 31 December 2021	**664**

3.3.6. IFRS 9 provisioning

In July 2014, the International Accounting Standards Board (IASB) published a new accounting framework, International Financial Reporting Standard 9 (or IFRS 9), aiming at replacing the former one, International Accounting Standard 39 (or IAS 39), with an effective implementation date fixed on 1 January 2018. That new standard is structured around three phases:
- The classification and measurement of financial instruments;
- The impairment of financial instruments; and
- The hedge accounting. BIL's IFRS 9 implementation is described in three successive phases:

Phase 1 – Classification and measurement of financial instruments

Classification refers on how both financial assets and liabilities are accounted for in financial statements and, in particular, on how they are measured on an on-going basis. While there are no major changes as regards financial liabilities, IFRS 9 has introduced a new approach for the classification of financial assets according to their cash-flow characteristics and the business model under which an asset is held.

The assessment of contractual cash-flows aims at identifying whether these are "SPPI compliant", meaning that they correspond solely to the payment of principal and interests on the outstanding amount. Also, by considering the existing Bank's business models, IFRS 9 leads to measure financial assets in three distinct ways:

- Financial assets measured at amortised cost, when the business model is to collect cash flows;
- Financial assets measured at fair value through other comprehensive income, when the business model consists in collecting cash-flows and in selling the underlying assets;
- Financial assets measured at fair value through profit or loss, including notably:
  - Derivatives held for trading activities and assets that the Bank intends to sell immediately or in the near term;
  - Non-trading financial assets for which the underlying business model is to collect cash-flows, or to collect and sell, but which do not pass the SPPI test.

The Bank's exposures are classified into two main portfolios:
- The first portfolio contains the dealing room exposures, notably the Investment Portfolio. The latter is split into two sub-portfolios which follow two different business models:
  - A portfolio of financial assets aiming at collecting contractual cash-flows ("Hold to Collect" or HTC business model);
  - A business model based on collecting contractual cash-flows and selling financial assets ("Hold to Collect and Sell" or HTC&S business model).

- The second portfolio concerns the loans activity: the objective of the Bank is mainly to only hold loans to collect contractual cash-flows and not to sell them (HTC model).

These portfolios were reviewed to satisfy the IFRS 9 requirements in terms of classification and measurement. In particular, all products (bonds, interbank exposures and loans) passed the SPPI test and the BIL's core banking system was adjusted accordingly with a dedicated chart of accounts.

In parallel, the Bank has established relevant procedures and has reviewed the loans granting process with the new production that is entirely SPPI compliant.

The Bank's business models were validated by the Management Board, the Board Strategy Committee and the Board of Directors in line with the BIL's strategy. The Bank has also established an appropriate framework to deal with any potential future change in its business models.

Phase 2 – Impairment of financial instruments

In addition to Pillar I models which focus on unexpected credit losses (via minimum regulatory capital ratios), IFRS 9 defines principles for measuring Expected Credit Losses (ECL). Under this new accounting standard, the Bank is required to incorporate forward-looking information in its provisioning practices, notably by relating credit risk parameters – e.g. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) – with macro financial indicators that are projected considering several representative scenarios.

Practically, BIL has decided to retain three macroeconomic scenarios: a baseline situation having the higher likelihood of occurrence (60%) and two alternative ones describing different business cycle dynamics with the same probability of realization (20%) – typically, an upside (resp. a downside) scenario where the economic outlook is more (resp. less) favourable than in the baseline one. These macro scenarios strongly influence the projection of PD parameters over time, as well as collateral valuation in the case of mortgage loans

ECL can be measured over either a 12-month or a lifetime horizon, depending on the credit risk evaluation of a given exposure. More specifically, this relies on the so-called IFRS 9 Staging process which consists in classifying financial instruments in three distinct stages according to both qualitative and quantitative credit risk factors :

- **Stage 1 (12-month ECL):** The financial asset is performing and it has not experienced a significant increase in credit risk since its origination;
- **Stage 2 (Lifetime ECL)**: The financial asset is not in default, but it is subject to either:
  - A significant increase in credit risk;
  - Forbearance measures but it maintains a performing status;
  - A past due event which is higher than 30 days.
- **Stage 3 (Lifetime ECL)**: The financial asset is subject to either:
  - Forbearance measures together with having a non-performing status;
  - A defaulted or pre- litigation status.

Phase 3 – Hedge accounting

IFRS 9 introduces a reformed model for hedge accounting with enhanced risk management disclosures. While the IFRS9 hedge accounting disclosures will be applicable in any case; the standard gives the choice of either retaining IAS39 accounting policies for hedging purposes or switching to IFRS 9 hedge accounting. This choice remains until a formal standard on macro hedging will be issued. At this stage, the Bank retains the IAS 39 accounting policy requirements for hedging purposes.

3.3.7. Credit Quality

The credit quality of forborne exposures, on credit quality of performing and non-performing exposures by past due days, on performing and non-performing exposures and related provisions and on collateral obtained by taking possession and execution processes are presented in the templates 1, 3, 4 and 9 as presented in EBA/GL/2018/10.

- Template 1: Credit quality of forborne exposures
- Template 3: Credit quality of performing and non-performing exposures by past due days
- Template 4: Performing and non-performing exposures and related provisions.
- Template 9: Collateral obtained by taking possession and execution processes.

These templates correspond to the information in the FINREP:

- IFRS9_F19_Forborne_exp.Total
- IFRS9_F18_Perf_and_NPE.Total
- IFRS9_F13_Coll_R_Continued.Total: 13.2.1 Collateral obtained
- Remark: As the tables are very huge, we propose to include in a separate accompanying document of the Pillar 3 report (excel file: 2021 FINREP)

3.4. Credit risk mitigation

3.4.1. Description of the main types of credit risk mitigants (CRM)

Basel regulation recognises three main types of CRM:
- Collateral;
- Guarantees and credit derivatives;
- Netting agreements (applicable to on-balance sheet and off-balance sheet netting agreements).

Main types of collateral

Collateral is represented by financial products or physical assets used to hedge exposures. BIL Group manages a wide range of collateral types. From a regulatory point of view, three main categories of collateral exist:
- Pledges of financial assets – cash, blocked accounts, term deposits, insurance contracts, bonds and equity portfolios, etc.;
- Pledges of real estate (residential mortgages, commercial mortgages);
- Pledges of commercial assets (e.g. transfer of receivables).

Main types of guarantee

Guarantees refer to personal guarantees, first demand guarantees and support commitments.

Main types of netting agreements

A netting agreement is a technique for mitigating credit risk. Banks have legally enforceable netting agreements for on-balance sheet exposures (loans and deposits) and off-balance sheet exposures (derivatives) for which they may calculate capital requirements on the basis of net credit exposures subject to specific regulatory conditions.

3.4.2. Policies and processes

Collateral and Guarantees/Credit Derivatives

Within BIL, managing the CRM involves the following tasks:
- Analysis of the eligibility of all CRM under the standardised and advanced approaches;
- Collateral valuation in mark-to-market, on a regular basis;
- Description of all CRM characteristics in BIL Group's risk systems, such as:
  - Mortgage-rank, amount and maturity;
  - Financial collateral – valuation frequency and holding period;
  - Guarantees/credit derivatives – identification of the guarantor, analysis of the legal mandatory conditions, check as to whether the credit derivative covers restructuring clauses;
  - Security portfolio: description of each security.
- Periodic review of the descriptive data.

At an operational level, different IT tools are used to manage collateral. These IT tools are used to record any relevant data needed to identify collateral characteristics, eligibility criteria and estimated value, in accordance with the Basel framework.

Main types of guarantor

Guarantees that BIL received are mostly given by bank counterparties. The Bank does not have credit derivatives exposures.

On – and off – balance sheet netting

Remark: To note that for regulatory purposes, BIL Group does not make use of netting between assets and liabilities regarding loans and deposits of the same counterparty.

Internal policies document the eligibility criteria and minimum requirements that netting agreements need to fulfil in order to be recognised for regulatory purposes under the Basel framework.

Appropriate internal procedures and minimum requirements have been implemented in the internal risk management process.

Information about market or credit risk concentrations

Concentration risk is related to a concentration of collateral in one issuer, country, industry or market. As a result, credit deterioration might have a significant impact on the overall value of collateral held by the Bank to mitigate its credit exposure.

An important part of BIL's credit portfolio is linked to the Luxembourgish real estate market. In order to mitigate this risk, most of its credit risk mitigants are linked to mortgage loans.

Mortgages

As a major Luxembourg-based bank, BIL makes a substantial contribution to the financing of local projects involving both residential and commercial real estate. As such, it is inevitably dependent on the effect Luxembourg's economic growth may have on the large amount of mortgages it takes as collateral for loans granted.

However, the Bank has strong governance and specific guidelines in place in order to adequately cover the risks involved in the granting of loans to its retail and corporate customers and to diversify the range of collateral it takes as a guarantee. This involves the approval of commitment/credit committees based on credit applications proposed by front officers, for which credit analysts give their opinion. This opinion takes into account the quality of the debtor through its rating, revenues, indebtedness level and repayment capacity, as well as the quality of the assets pledged as collateral for which a conservative loan-to-value ratio is assigned.

The Bank as well as the national regulator are well aware of this exposure and carefully monitor the concentration risk through regular reports and monitoring of limits on real estate exposure.

Financial collateral

Among its range of services to wealthy customers, the Bank proposes Lombard loans and Investment lines of credit. These are granted against the pledge of eligible financial assets for which cover values are assigned by the Credit Risk team reflecting the quality, liquidity and volatility of the underlying collateral. As part of their contractual obligations and in order to limit the concentration risk within individual portfolios, customers using these kinds of facilities must not only maintain adequate cover values for their loans at all times, but are also required to comply with an obligation of diversification of their collateral portfolios.

Exposure and collateral values are continuously monitored regarding the proper application of these instructions, and margin calls or close-out procedures are enforced when the market value of collateral falls below a predefined trigger level.

3.4.3. Basel III treatment

BIL Group recognises the mitigation impact of netting agreements (subject to eligibility conditions), by applying the netting effect of these agreements to the calculation of the EAD used to compute its Risk-Weighted Assets.

For guarantees and credit derivatives, BIL recognises the impact by substituting the PD, LGD and risk weight formula of the guarantor to those of the borrower (i.e. the exposure is considered to be directly to the guarantor) if the risk weight of the guarantor is lower than the risk weight of the borrower.

For collateral (both financial and physical), BIL methodology relating to eligible CRM is based on the Basel III approach:

- Standardised exposures:
  - Eligible CRM (after regulatory haircuts) are directly taken into account when calculating the EAD (deduction).
- A-IRB approach exposures – Two methodologies may be applied:
  - CRM are incorporated into the calculation of the LGD based on internal loss data and A-IRB approach model calculations;
  - CRM are not incorporated into the LGD computed by the model. The impact of each individual CRM is taken into account in the LGD according to each transaction.

3.4.4. Overview of credit risk mitigation techniques

In the application of Article 453 (f) and (g) of the CRR, this table provides an overview of the exposure value covered by Basel III eligible CRM (after regulatory haircuts) and includes all collateral and financial guarantees used as credit risk mitigants for all secured exposures, irrespective of whether the standardised approach or IRB approach is used for RWA calculations. This table also includes the carrying amounts of the total population which are in default. Exposures unsecured represent the carrying amount of credit risk exposures (net of credit risk adjustments) that do not benefit from a credit risk mitigation technique, regardless of whether this technique is recognised in the CRR. Exposures secured (column b here under) represent the carrying amount of exposures that have at least one CRM mechanism (collateral, financial guarantees) associated with them.

TABLE EU CR3 – CRM TECHNIQUES – OVERVIEW

(In EUR million)	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by guarantees	Exposures secured by credit derivatives
Total loans	9,400	9,290	9,037	253	-
Total debt securities	7,190	1,042	-	1,042	-
Total exposures	16,590	10,332	9,037	1,296	-
Of which defaulted	*248*	*146*	*146*	-	-

The Bank does not have any credit derivatives as credit risk mitigants.

3.5. Standardised approach

3.5.1. Introduction

As previously stated, BIL Group uses the A-IRB approach to calculate its regulatory capital requirements. Nevertheless, the Bank applies the Standardised approach for some portfolios corresponding to cases specifically authorised by regulation such as:
- Small business units with non-material exposures;
- Portfolios without enough data to build a sound model;
- Portfolios for which BIL has adopted a phased roll-out of the A-IRB approach.

As requested by the supervisory authorities, more than 85% of the exposures are treated under the A-IRB approach.

3.5.2. External credit assessment institutions

The Standardised approach provides weighted risk figures based on external ratings given by External Credit Assessment Institutions (ECAI's) as indicated in the CRR. In order to apply the Standardised approach for risk-weighted exposure, BIL Group uses external ratings assigned by the following rating agencies: Standard & Poor's and Moody's.

The rating used for regulatory capital calculation is the lower of the two ratings. If no external rating is available, the Standardised approach provides specific risk weights defined by the regulator (depending on the counterparty type).

Credit rating agencies and credit quality step under the standardised approach:

Standard & Poor's	Moody's	Regulatory credit quality step
AAA to AA-	Aaa to Aa3	1
A+ to A-	A1 to A3	2
BBB+ to BBB-	Baa1 to Baa3	3
BB+ to BB-	Ba1 to Ba3	4
B+ to B-	B1 to B3	5
CCC+ and below	Caa and below	6

As presented in the Table EU CR4 below in the following section 3.5.3, the standardised risk-weighted exposures are broken down by the following regulatory assets:
- Central governments and central banks;
- Regional governments or local authorities;
- Public sector entities;
- Multilateral development banks;
- International organisations;
- Institutions;
- Corporates;
- Retail;
- Exposures secured by mortgages on immovable property;
- Exposures in the form of units or shares in collective investment undertakings;
- Equity;
- Other items.

Under the Standardised approach, BIL uses credit quality steps to calculate the RWAs associated with non-counterparty credit risk exposures. Each rated exposure in the Standardised approach portfolio is assigned to one of six credit quality steps. The credit quality steps map to the rating of the major rating agencies, as shown in the table above. Each credit quality step is as- sociated with a particular risk-weighting. Each exposure is multiplied by the appropriate risk weighting to calculate the relevant RWA amount.

3.5.3. Standardised approach – exposures by asset classes and risk weights

EXPOSURE NET OF VALUE ADJUSTMENTS AND PROVISIONS.

(In EUR million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
Exposure classes						
Central governments or central banks	7,878.92	89.39	8,659.95	40.19	91.71	0.01
Regional government or local authority	2,938.30	45.30	3,332.32	22.54	146.99	0.04
Public sector entities	683.14	57.85	345.71	3.78	15.14	0.04
Multilateral development banks	216.25	-	223.97	0.16	-	-
International organisations	201.00	-	201.00	-	-	-
Institutions	20.95	0.21	0.43	0.04	9.04	19.39
Corporates	1,266.63	887.66	940.45	165.33	1,086.44	0.98
Retail	5.29	6.88	5.21	1.42	4.85	0.73
Secured by mortgages on immovable property	98.17	-	87.65	-	78.15	0.89
Exposures in default	13.46	1.65	13.46	0.51	15.61	1.12
Exposures associated with particularly high risk	3.04	0.15	3.04	0.15	4.79	1.50
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	1.98	-	0.02	-	0.09	4.72
Collective investment undertakings	-	-	-	-	-	-
Equity	25.55	-	25.55	-	63.88	2.50
Other items	461.97	1.83	452.15	0.54	220.34	0.49
TOTAL	**13,814.65**	**1,090.92**	**14,290.90**	**234.66**	**1,737.02**	**0.12**

3.5.4. Standardised approach – exposures by asset classes and risk weights

In the application of Article 444 (e), the following table shows the exposure-at-default before and after conversion factor and risk mitigation broken down by exposure classes and risk weights, under the Standardised approach. Exposures subject to the counterparty credit risk and securitisation risk framework are excluded from this template

TABLE EU CR5 – STANDARDISED APPROACH

(In EUR million)	Risk weight															Total	Of which unrated
Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**	**Deducted**		
Central governments or central banks	8,586				84						30					8,700	229
Regional government or local authorities	2,620				735											3,355	
Public sector entities	274				76											349	
Multilateral development banks	224															224	
International organisations	201															201	
Institutions	-				0	-										0	
Corporates	21				0	10			1,069		5					1,106	1,095
Retail	-							7								7	7
Secured by mortgages on immovable property	-					10			78							88	88
Exposure in default	-								11	3						14	
Exposures associated with particularly high risk										3						3	3
Covered bonds																-	
Institutions and corporates with a short-term credit assessment	-				-	-											
Collective investment undertakings																-	
Equity											26					26	26
Other items	232								220							453	10
TOTAL	**12,159**	**–**	**–**		**895**	**20**	**–**	**7**	**1,377**	**7**	**61**	**–**	**–**	**–**	**–**	**14,526**	**1,458**

3.6. Advanced Internal Ratings Based approach (A-IRB)

The exposure data included in the quantitative disclosures is that used for calculating the Bank's regulatory capital requirements. In what follows and unless otherwise stated, exposures will thus be expressed in terms of Exposure-at-Default (EAD).

3.6.1. Competent authority's acceptance of the approach

In a letter sent on 21st December, 2007 by the former Belgian regulator (the Banking, Finance and Insurance Commission), Dexia SA was authorised to use the advanced internal rating-based (A-IRB) approach for the calculation and reporting of its capital requirements for credit risk from 1 January 2008.

This acceptance was applicable to all entities and subsidiaries consolidated within the Dexia group, which are established in a member state of the European Union and are subject to the Capital Requirement Directive, which included BIL. Following its former holding company's dismantlement, BIL group has decided to keep the A-IRB approach for the assessment of the credit risk related to its main counterparties, as agreed in 2012 with the Luxemburgish supervisor (CSSF).

3.6.2. Model management and global governance

3.6.2.1. Parameters

Internal rating systems have been set up to evaluate the three Basel credit risk parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type to which the Advanced method is applicable, a set of three models, one for each parameter, has been or will be developed as part of the roll-out plan.

The PD models estimate the one-year probability of default of given obligors. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between the rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back-testing, when necessary. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) up to a maximum of 17 non-default classes. In addition, each scale has been attributed two internal default classes (named D1 and D2).

The LGD models estimate the ultimate loss incurred on a facility of a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on different factors such as the product type.

CCF models estimate the portion of off-balance sheet commitments that would be drawn before a counterparty goes into default.

In addition to the calculation of the regulatory risk-weighted assets, internal estimates of Basel parameters are increasingly used within BIL group in the decision-making process, credit risk management and monitoring, as well as provisioning assessment.

3.6.2.2. Segmentation and principles used for estimating the PD, LGD and CCF

BIL group uses a wide range of models to estimate PD and LGD parameters in respect of the following types of counterparty.

Risk weights are calculated using either:
- the PD/LGD parameters retrieved from the A-IRB or F-IRB approach or;
- the supervisory risk weights approach for specialized lending or;
- the supervisory risk weights approach for the exposures under the standardized approach.

Segmentation

Sovereigns

The scope of the model encompasses sovereign counterparties, defined as central governments, central banks and all deb- tors whose liabilities are guaranteed irrevocably and unconditionally by central governments or central banks.

In addition, in-depth analysis of some public sector counterparties shows that they share the same credit risk as the "master" counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently attributed the same PD and LGD as their "master" counterparties. It has to be noticed that since the reporting date as of November 2020, the Sovereign exposures are treated according to the Standardized approach.

Banks

The scope of the model encompasses worldwide bank counterparties, defined as legal entities that have banking activities as their usual profession. Banking activities consist of the receipt of funds from the public, credit operations and putting these funds at customers' disposal, or managing means of payment. Bank status requires a banking license granted by the supervisory authority. It has to be noticed that since the reporting date as of November 2020, the Bank exposures are treated according to the Foundation approach. Kindly note that a regulatory approval has been received in January 2022 in order to revert this portfolio to the Standardized approach. The first reporting date including this reversion will be March 2022.

Corporates

Three models have been designed for corporate and mid-corporate counterparties:

- Corporates
  The scope of the model encompasses worldwide corporate counterparties. BIL defines a corporate as a private or a publicly traded company with total annual revenue higher than 50 million (250 million if Belgium and Luxembourg companies) or belonging to a group with total annual revenue higher than 50 million that is not a bank, a financial institution, an insurer or a public/private satellite. It has to be noticed that since the reporting date as of November 2020, the Corporate exposures are treated according to the Foundation approach.

- Mid-corporates
  This model is approved in accordance with the A-IRB approach for mid-corporates from Belgium and Luxembourg. BIL defines a mid-corporate as a private company with total revenue lower than 50 million (250 million if Belgium and Luxembourg companies) and belonging to a group with consolidated total revenue lower than 50 million and with total assets higher than 2 million that is not a bank, a financial institution, an insurer or a public/private satellite.

- Corporate real estate exposures classified as Real Estate Specialized Lending Exposures
  Within the corporate exposure class, real estate exposures identified as specialized lending exposures as defined in art. 147 (8) CRR are subject to a risk assessment according to the Supervisory Slotting Approach. In 2019, BIL obtained regulatory approval from the European Central Bank to use the Supervisory Slotting Approach to assign the risk weights and calculate the expected loss (EL) to specialized lending real estate exposures under art. 153 (1) CRR

The Bank's loans defined as IRB subclass "Specialized real estate financing" loans such as Income-Producing Real Estate (IPRE) and Land Acquisition, Development and Construction (ADC) are reported under the Foundation IRBA, but regulatory risk weights are applied using the so called 'supervisory slotting criteria' approach as defined by Article 153 CRR. Under this approach, a number of prescribed factors (financial strength, political and legal environment, asset and transaction characteristics, strength of sponsor, security package) are weighted to produce an overall model score which is then map- ped to one of four supervisory risk grades – Strong, Good, Satisfactory and Weak – with a separate grade for defaulted borrowers. This model does not use PD and LGDs to calculate capital, instead it uses the risk weights and expected loss values prescribed by the regulator.

Retail

- Retail – Individuals
  These models are applied to retail customers (individuals). Individuals are defined as retail counterparties not engaged in a self-employed activity or a liberal profession (i.e. doctors, lawyers, etc.) and are not linked to the activity of a legal entity.

- Retail – Small professionals
  These models are applied to small professional retail customers defined as individuals engaged in a self-employed activity or a liberal profession, or small companies generating revenue lower than a certain threshold (EUR 0.25 million).

- Retail – Small companies
  These models are applied to small companies that are defined as companies generating revenue lower than a certain threshold (0.25 million), but which are still considered as retail counterparties based on certain criteria (i.e. not considered as mid-corporate or corporate counterparties). However, where these companies have a credit exposure higher than 1 million, they will be considered as non-retail counterparties from a regulatory reporting point of view.

Equity and securitization transactions

No internal model has been developed specifically for equity or securitization transactions.

Main principles used for estimating the PD, LGD and CCF

Main principles used for estimating the PD

<table>
<tr><th>Types of counterparty</th><th>Through-the-cycle models</th><th>Time series used</th><th>Internal/ external data</th></tr>
<tr><td>Sovereigns</td><td>Standardized approach.</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Banks</td><td>Standardized approach.</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Corporates</td><td rowspan="3">Models are forward looking and through the cycle. They are designed to be optimally discriminative over the long term. The through-the-cycle aspect of the rating is also addressed in a long term average PD.</td><td>> 10 years</td><td>Internal + External</td></tr>
<tr><td>Mid-corporates</td><td>> 10 years</td><td>Internal</td></tr>
<tr><td>Retail</td><td>> 10 years</td><td>Internal</td></tr>
<tr><td>Equity</td><td>Mix of single risk weight and PD/LGD approach.</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Securitisation</td><td>Standardized approach.</td><td>N/A</td><td>N/A</td></tr>
</table>

Main principles used for estimating the LGD

Types of counterparty	Main hypotheses	Time series used	Internal/ external data
Sovereigns	Standardized approach.	N/A	N/A
Banks	Standardized approach (Q1 2022).	N/A	N/A
Corporates	Foundation approach.	N/A	N/A
Retail and Mid-corporates	The retail LGD model is based on statistical estimates of prior LGD and haircuts to compute LGD in line with the comprehensive CRM technique as part of the A-IRB approach.	> 10 years for Mid-corporates > 10 years for Retail	Internal
Equity	Mix of single risk weight and PD/LGD approach.	N/A	N/A
Securitisation	Standardized approach.	N/A	N/A

Main principles used for estimating the CCF

Regarding CCF models, a roll-out plan has been communicated to the regulators in the beginning of 2019 in order to develop the corresponding internal models. Currently, BIL Group has developed an internal CCF model regarding the parameter to apply on the Retail population. This model has been validated by the JST in August 2017 and is in application in the calculation of the regulatory risk-weighted assets since September 2017.

3.6.2.3. Model management process and internal governance

BIL has reviewed its internal model management process and internal governance in 2017 in order to allow the introduction, monitoring, maintenance and progressive development of the A-IRB framework in an adequate scaled and skilled way. This is reflected in a well-defined process, which is described below.

Credit Risk Control Unit

The Credit Risk Control Units (CRCUs), as the first line of defence of BIL, ensure the proper application of the IRB Approach within the Bank. They are responsible, among others, for the development of rating systems and their ongoing monitoring.

In the current organization of the Risk Management function, the CRCUs which make up the credit risk control function are identified with the following departments: Credit Data Science; Rating Systems Control; F&R Factory; and Model Governance.

Pursuant to the Article 190 of CRR, the CRCU is responsible for the design, implementation, oversight, and the performance of all models, as defined within the Model Risk Management Framework of BIL group. It regularly produces and analyses re- ports on the output of the internal rating systems. The roles and responsibilities of each component of CRCU are as follow:

- **Credit Data Science**, which is in charge of the development and performance monitoring of the Basel III Pillar I approach and IFRS9 models for Credit Risk. Particularly, this team:
  - Actively participates in the design or selection, implementation and validation of models used in the rating process;
  - Monitors model performance over time, and initiates model improvement requests;
  - Executes back testing of the models and proposes first conclusions to the Internal Validation team;
  - Regularly performs analysis of the risk parameters (e.g. distribution of exposures among rating classes, average probability of default, expected losses) of different asset class portfolio. Such analysis should be progressively refined to take into account of the changes in the internal rating system and the external environment;
  - Ongoing reviews models used in the rating process; and
  - Documents and reports any changes to the rating process including the reasons for the changes to the Internal Validation team and to the Model Risk Committee for approval.
- **Rating Systems Control Unit**, which is responsible for operational quality control and regulations for data and processes related to Basel risk parameters. Particularly, this team:
  - Ensures that the data used by the models be accurate, complete, appropriate, and consistent according to defined materiality threshold;
  - Ensures models are used according to their respective model scope and the model user procedures;
  - Issues and follows recommendation about the model usage; and
  - Generates summary reports to the Rating Committee on the model usage.
- **F&R Factory Unit**, which has been created since the 1st of March 2021 and it integrates the former Credit Risk Calculation & Reporting team. This F&R Factory Unit is under the responsibility of Finance and its main responsibility is to ensure the quality of the Risk and Finance data as well as the efficiency of the regulatory reporting production. Particularly, this team:
  - Designs a unique and operational source of F&R data around the common database (RFO Master) and the satellites (calculation engines);
  - Centralizes the quality checks which are today in several teams;
  - Centralizes the corrections in one single place;
  - Accelerates or avoids needed reconciliations;
  - Manages the evolution of the repository (new product, new regulation);
  - Manages the transition BLS (current core banking System) to T24 (target core banking system);
  - Integrates subsidiaries (BIL Group perimeter);
  - Reporting and contribution for regulatory reporting and internal reporting.
- **Model Governance Unit**, which is in charge of overseeing compliance with the Model Risk Management Framework of the Bank. Particularly, this team:
  - Oversees the governance of the CRCU by monitoring if CRCU is performing in compliance with the Model Risk Management policies and procedures as well as any Applicable Laws or Regulations;
  - Oversees models used in the rating process;
  - Co-operates with other teams or units to ensure a complete set of documentation is maintained by the CRCU, including any changes to the rating process, criteria or individual rating parameters; and
  - Implements the outsourcing policy regarding certain functions of CRCU as stated in the Article 190 (3) of CRR.

Internal Validation Unit

The Internal Validation team aims to ensure the robustness and soundness of the internal rating systems by validating all the BIL risk quantification models. The unit is responsible for independently verifying that models proposed for use by model owners are fit for purpose through the whole model lifecycle, and that the associated model risks are appropriately identified and mitigated. In order to do so, Internal Validation has explicit authority and independence to provide effective challenging to related stakeholders, presenting issues and highlighting deficiencies. The key aspects of models validated by the internal validation unit include model design, data quality, model implementation, and model performance.

Credit Risk Management Unit

The credit risk analysts are the main users of the IRS; they are responsible for correct segmentation of counterparties and for the assessment and monitoring of credit risk. Specifically, regarding the model management framework, CRMU is in charge of assessing the ratings of the Bank's counterparties (i.e. PD) as well as their corresponding exposure facility type (i.e. LGD and CCF) and of documenting these results in the context of the loan approval process (i.e. mention on the "Credit Decision Sheet").

As a key member of the Default Committee, GIP is actively involved in default decisions and monitoring.

Moreover, credit analysts bring qualitative input to the model development stage and during backtesting and stress testing exercises.

Audit

As part of its audit plan for the Bank, the Internal Audit function reviews whether the Bank's control systems for internal ratings and related parameters are sufficiently robust.

The main objective of the review is to ensure compliance with the legal and regulatory requirements related to the credit risk modelling framework and the effective assessment and management of all risks/weaknesses. In particular, internal audit may review Credit Risk Quality Control Unit activities, ensuring that the oversight process is properly managed.

3.6.2.4. Committees

Several committees have been designed to consolidate the credit risk model management framework and to provide adequate follow-up and decisions.

Model Risk Committee

The Model Risk Committee (MRC) manages all subject matter in relation with model and model risks including but not limited to: methodology, back-testing, validation, implementation, model change, model inventory and audit recommendations.

The scope of the Committee is further defined by the definition of models within BIL group (refer to the Model Risk Management Framework) and as such includes all risk quantification models. If necessary, it will also discuss other points such as significant variation in RWA.

Consequently, the Model Risk Committee (MRC) copes with all topics in relation to Pillar I and II models, as well as IFRS9 models. It oversees the lifecycle of each model: methodology, back-testing, validation, implementation, as well as the model change and model inventory.

In particular, the MRC:
- approves the validation of model performance reports;
- initiates the new model development (change) or model update (extension) request;
- approves the new model development (change) or model update (extension) request;
- approves the new model development (change) or model update (extension) implementation;
- follows up the implementation of internal audit and regulator recommendations;
- informs Risk Policy Sub-Committee (RPsC) on model development.

Risk Policy Sub-Committee

The Risk Policy Sub-Committee (RPsC) is responsible for the implementation and maintenance of risk governance within the Bank. The RPsC validates all changed in procedures or risk policies, principles and calculation methods referred to risk.

In relation to the Model Risk, the RPsC:
- Ensures the comprehensiveness and the consistency of the policies and procedures related to model risk concerns. In particular, approves the following policies:
  - Model Extension and Change Policy
  - Back-testing Policy or Model Validation Policy
  - A-IRB PD Modelling Policy
  - A-IRB LGD Modelling Policy
  - CCF Retail Model/ Modelling Policy
- Gives the final approval in case of new internal model or material model changes and extensions on existing models be- fore sending the notification to JST.

Default Committee

For BIL and its main subsidiaries and branches, this committee examines each case of default, classifies it (distinguishing between "true default" and "technical default"), assigns counterparties default level D1 or D2 according to general default indicators and parameters specific to each customer segment, and may decide on the reclassification as a non-default counterparty.

3.6.2.5. Model management process

The lifecycle of a model can be summarized as follows:

Model Development or Change

Model Development or Model Change is the starting point of a model's lifecycle:
- Model development occurs after a need for a new model has been identified by either the model user or the MRC.
- Model change occurs when the performance of the existing model is degraded, or other changes have occurred that bring into question the appropriateness of the current model's outputs.

Model Development and Model Change are similar processes, and both are performed by the model developer. The model developer, with the help of the model user, establishes the requirements for the model (model specifications) and proceeds to secure appropriate data for model construction. The construction of a model consists of the construction of a prototype which allows different aspects of the model to be tested. The model developer ensures that the model is constructed to agreed specifications and in compliance with regulations.

Model development guidelines specify details of modelling practices for different types of models.

Model Validation

Model Validation is a control that reviews all characteristics of the model in order to provide assurance that the model is adequate for its intended use by challenging both quantitative and qualitative aspects of the model. In addition to both qualitative and quantitative characteristics of the model, Model Validation investigates also the environment in which the model was developed and in which it will operate. This includes data that the model is based on data that it will consume in its operation, regulatory compliance of the model, and adequacy of the model output for the intended business purpose. Finally, model validation also ensures that the model has been appropriately documented and that the documentation is up-to-date. Details of the model validation approach are specified in the Model Validation Policy.

Model Validation depth, i.e. the level of detail that is reviewed, may vary depending on whether a new model is being reviewed or just a change in an existing model. Model validation depth may also vary according to the materiality of the change in the model or according to the overall materiality of the model for BIL (model tiering). Degrees of the depth of validation and of model tiering are described in the Model Validation Policy.

The result of a model validation is a recommendation to the MRC to approve or not to approve the model for implementation and use. Next to the recommendation for approval, other recommendations of varying severity can be made to model stakeholders regarding changes to the model that need to be made before use or at a later point in time. Details of validation results and recommendation severity are described in the Model Validation Policy.

At BIL Group, model validation is performed by the Internal Validation department.

Model Implementation

Once the model has been validated, it is generally transferred to an appropriate technical team which implements it for use in an operational environment. The implementation is usually done within appropriate systems of the BIL computing infrastructure.

Implementation of the model is supervised by the model developer as it is the testing of the model implementation that ensures the correctness of the implementation. The model developer also ensures proper documentation of the implementation and testing.

Model validation also opines on the correctness of the implementation by reviewing implementation documentation and test results. Model validation may also conduct or request additional tests on the implementation of the model.

Approval of the model implementation for use in production is given by the MRC based on test reports and the reviewed by model validation.

The Model Implementation policy outlines and describes the control activities applied during the implementation of a new model or a change in an existing one.

Model Use and Monitoring

The model is used to manage risk in business decisions, as an input to other processes within BIL, and to produce internal and external reports.

Next to the use of the model, model monitoring is performed based on a pre-specified frequency. Model monitoring is a pre-determined and validated set of performance tests that are performed to ensure that the model is still adequately performing. For each model, the model monitoring methodology is described in the model documentation at the time of the development of the model and validated during model validation.

A key part of model monitoring is the analysis of outcomes, i.e. backtesting. Backtesting is performed according to a validated approach for each model when there is sufficient and appropriate data. Backtesting can be performed for model components as well as entire models.

Periodic Validation

A periodic validation is similar to a regular model validation. It is performed on existing models with a pre-defined frequency, after the model monitoring has been performed. The periodic validation focuses primarily on the current performance of the model by reviewing model monitoring results and performing additional tests as needed.

The result of the periodic validation consists of a recommendation to the MRC to keep the model in production or to change or re-develop the model based on the observed model performance and/or other changes that may have happened.

Performance Assessment

The assessment of model performance is made in the MRC based on periodic validation results and input from other stakeholders. Generally, the MRC can decide to:
a) Keep the existing model in production.
b) Apply changes to the model.
c) Re-develop the model.
d) Take another remedial action.

Model Inventory

The model inventory is a tool used to track the current status of each model in the model lifecycle as well as to store the history of past and present models' evolution through steps in the model lifecycle. The model inventory also stores relevant documentation from different steps in the model lifecycle.

The inventory also contains additional information about each model, such as its owner, developer, users, classification, purpose, etc.

Details on the operation of the Model Inventory are specified in the Model Inventory Procedure document.

Model Monitoring and Annual Review of Estimates

In order to ensure that the model provides the same level of performance over time, three types of controls are performed. The three types of controls are known as: quantitative validation, qualitative validation, and internal audit review and they are briefly described in the sections below:

Quantitative Validation

Quantitative validation of a model consists of performing a set of tests, which aim to monitor the consistency of the model's output over time. Quantitative controls include, but are not limited to:

- A representativeness analysis to identify potential difference between dataset used to calibrate model and the current population to which the model is applied;
- A benchmarking analysis by comparing model outputs and estimates with other benchmarks;
- Back-testing exercises completed by comparing the expected model output with observed outcome over time;
- The stability of the inputs and the stability of the output's population;
- An analysis of the predictive power of the model.

Model Validation and Backtesting policies provide a description of the controls to be applied during the quantitative validation.

Qualitative Validation

Qualitative validation consists of the operational validation of the model. This function aims to ensure the reliability of the inputs involved in the modelling process. Qualitative validation includes:

- Documentation: procedures are in place, assumptions are described, expert judgment is identified, models are registered in the inventory;
- Input Data and Model usage are aligned with model assumptions;
- Data are available and up-to-dated, missing data are limited, and data quality remains satisfactory;
- The methodology remains relevant with current market practices; and,
- The model's technical implementation satisfies all current business;
- The model remains compliant with new or changed regulatory requirement.

Model Validation and Backtesting policies describe the controls to apply for the qualitative validation.

Internal Audit Review

Internal Audit Review consists of assessing the model's compliance with BIL's internal business requirements and external regulatory requirements. It focuses on:

- Model documentation and its adherence to BIL's model development lifecycle;
- Model validation reports and its compliance with the Model Validation Policy;
- Model governance and its compliance with the Bank expectations and applicable regulatory requirements (especially the independence of the validation function).

Those controls are discussed during the MRC and the Model monitoring can lead to the recalibration or the review of the methodology if the model is not aligned with expected levels of performance. In this case, the model status of the current version will move to the Maintenance Phase to allow for the development of a new version of the model.

In addition to the performance tests applied during the methodological and model design stages, an impact analysis is performed to assess the materiality of the model evolution and to inform internal and external stakeholders (i.e. internal management, regulators and other stakeholders…), as required.

Business integration of internal estimates

Internal estimates of Basel parameters are increasingly used within BIL group and cover a large number of applications in addition to the calculation of the regulatory capital requirements. They are notably used in the following areas:

Decision-making process

Basel III parameters are the key elements considered by the Credit Committee in assessing the opportunity to accept or reject a transaction. Basel II parameters are thus integrated into the credit files to assess credit proposals.

Credit risk management and monitoring

Basel III parameters are actively used for the individual monitoring of distressed transactions and counterparties by the Default Committee.

The counterparty internal ratings, the LGD, the level of expected loss and the risk-weighted assets are the key Basel III parameters used for internal reports or specific analysis, with the aim of improving credit risk management best practices.

3.6.2.6. Model approval process

In the context of the Capital Requirement Regulation, the use of internal models for the assessment of the Risk-Weighted Assets may require preliminary approval by the competent Authority before effective implementation of one of the following cases:

- A new model is developed for a specific portfolio (Methodology and Model Design);
- An existing model is extended to a specific portfolio ("Methodology and Model Design" or "Model Maintenance" stage of the Model Lifecycle);
- Changes are applied to an existing model covering a specific portfolio ("Model Maintenance" stage of the Model Life-cycle).

For the first case, the permission of the competent authority is systematically required.

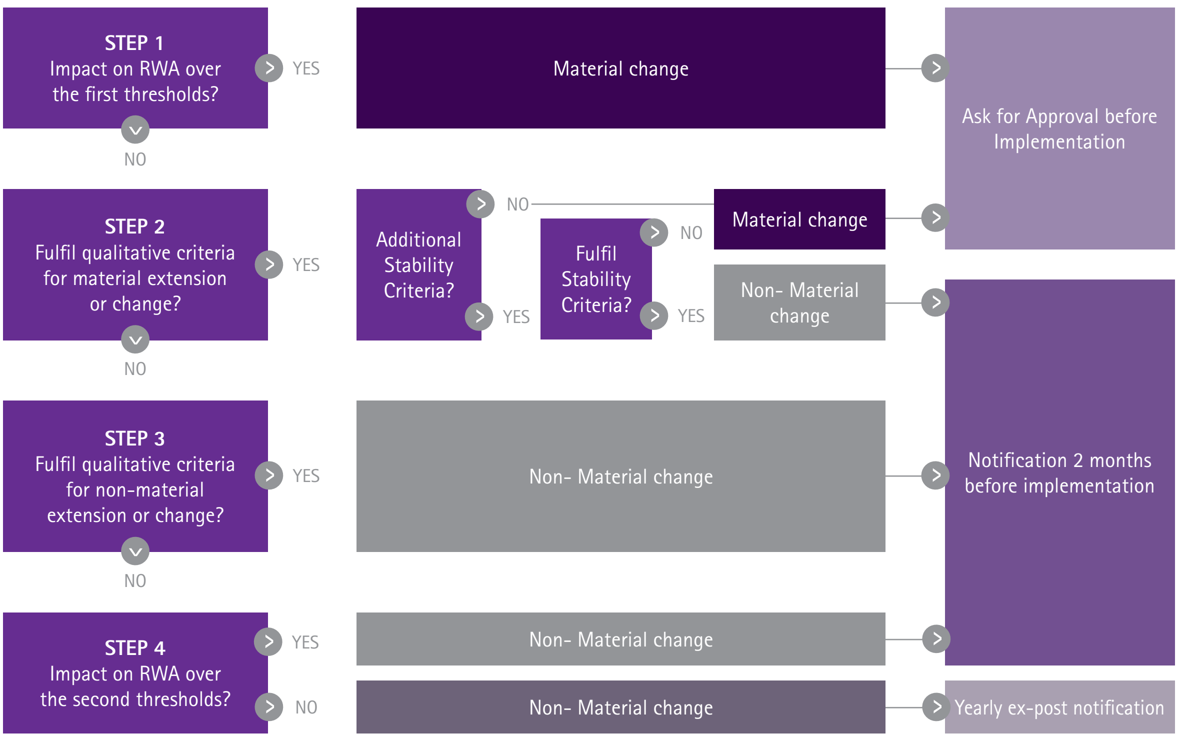
However, in the two other cases, the Bank is required to apply for permission, whenever it intends to implement any material extension and change to its internal approaches for credit risk.

The model changes are sorted into three categories:

- Material changes and extensions need to be approved by the Joint Supervisory Team ('JST') before their implementation;
- Non-material changes and extensions, fulfilling a set of qualitative and quantitative criteria, need to be notified to the JST at least two months before their implementation, but do not require an approval;
- Minor changes and extensions can be consolidated and notified to the Authority on an annual or quarterly basis.

The assessment of the materiality of the extensions or changes within the Internal Ratings Based Approach ('IRBA') relies on the Commission Delegated Regulation (EU) n°529/2014 and the Final Draft RTS on assessment methodology for IRBA. The assessment is also based on the ECB TRIM Guide which provides additional information on the interpretation and application of the existing legal framework.

The rules defined below represent the classification as a four-step process of both quantitative and qualitative criteria regarding the assessment of the materiality:



The materiality is firstly assessed quantitatively:

- Extensions or changes are considered as material when the overall Risk-Weighted Asset of BIL group decreases of more than 1.5% or when Risk-Weighted Asset related to the range of application of a considered IRS decreases of more than 15%;
- Extensions or changes are considered as not material but should be notified before implementation when the Risk-Weighted Asset related to the range of application of a considered IRS decreases of more than 5% and less than 15%;
- Other impacts on Risk-Weighted Assets should be notified after implementation.

In addition to those quantitative criteria, qualitative criteria should also be considered to assess the materiality of changes and/or extensions of internal approaches.

In fact, if the first step concludes the RWA impacts are below the thresholds, then the Bank shall make a qualitative assessment of the model change as a second step. The qualitative criteria to be applied depends on the model change type:

- Changes related to the range of application (such as additional business unit, or new type of product);
- Changes related to the methodology of rating systems (such as changes in the default definition or in the rating methodology for IRB systems).

The materiality and the classification of changes and/or extensions are discussed during the MRC which states in which category the change should be classified. According to this, the appropriate communication stream with the regulatory authority is then applied.

3.6.3. Credit risk models performance

Regarding the latest model approvals:

- The Retail CCF model has been reviewed and approved by the regulators with a multiplicative add-on of 1.10 (i.e. +10%), and currently in production since September 2017.
- The Bank LGD model has been reviewed and approved by the regulators with a multiplicative add-on of 1.20 (i.e.+20%), capped at 100%, and currently in production since October 2018.
- The Supervisory Slotting Approach for real estate specialized lending (June 2019),
- No new internal credit risk model approval in 2020.
- No new internal credit risk model approval in 2021.

According to BIL credit risk model governance, the Credit Data Science Unit includes an ongoing reviewing process which aims to control that the expected level of performance of the credit risk models is ensured over time. This control is performed on a yearly basis and regards all risk models under the scope of the A-IRB approach. This control consists in a backtesting. Its primary purpose is to ensure the adequacy of the regulatory capital of the Bank with the credit risks it is exposed to. Since the capital adequacy relies on internally estimated credit risk factors (i.e. PD, LGD and EAD/CCF), the Bank has to provide evidences that its risk assessment is accurate or at least sufficiently conservative.

A second purpose of backtesting is the evaluation of the predictive power of the rating system and its evolution overtime to early detect its reduced performance. Reduced performance of the rating system as decision making tool may expose the Bank to model risk by impacting the risk assessments of the defined risk buckets and reduce the Bank's profitability. The performance is tracked by analysing the ability to predict default and losses, to discriminate between high and low risks, and by analysing the stability of IRS results.

According to this, the backtesting consists mainly in comparing calibrated and actual levels of risk parameters.

Especially, the calibrated PD is compared to the observed default rates, and the estimated LGD to (1 minus loss recovery rate) for the part of the portfolio for which BIL has experienced default. Therefore, BIL has experienced a limited number of defaults for a part of its portfolio (i.e. Low Default Portfolio, LDP). This regards Banks and Corporates segments. As kind of a reminder, the Sovereign exposures are no more treated under the A-IRB approach, but under the Standardized approach, meaning that no PD/LGD backtesting exercise has been performed in 2021 for this type of exposures. Regarding the Bank exposures in Foundation approach, no PD backtesting exercise has been performed in 2021 as an homologation file has been sent to ECB in order to revert this portfolio to the Standardized approach (reversion approved in January 2022). Finally, the performance assessment of the models related to the LDP relies on external data due to the absence or the insufficient number of experienced losses.

The results of the last backtesting have not highlighted major issues regarding the conservativeness of the calibrated levels of PD. For the LGD parameters, it has to be reminded that the Corporate exposures are no more treated under the A-IRB approach, but under the Foundation approach, meaning that no backtesting has been performed in 2021 for the LGD parameter.

However, given the implementation of the New Default Definition in October 2019, all the credit models will be reviewed. As part of the Credit Data Science agenda, the Retail models (PD, LGD and CCF) remodelling effort has started in 2019 and finished in 2020, with the internal validation and audit performed during the first semester of 2021. The Internal Model Investigation (IMI) has started in November 2021 and is planned to be finalized for second semester of 2022 with the draft assessment report. Finally, the Small Corporate, Mid Corporate and Corporate new PD models will be develop in 2022 and the Small Corporate and Mid Corporate new CCF model has been developed in 2021 until first quarter of 2022.

Retail and Small corporate PD models:

The PD of the Retail and Small Corporate rating models has been calibrated with internal experienced defaults. As a consequence, the resulting PD and default rates (i.e. DR) are very close over the considered period, especially for Retail model which relies on a large portfolio and on which the global average observed default rate (2013-2020) is lower than the average regulatory PD. However, the last backtesting performed for the Retail portfolio on the two first available years compliant with the New Default Definition data in production (cohort of November 2019 and November 2020 with defaults measured over the next 12 months, thus up to November 2020 and up to November 2021) presents a lack of conservatism of the current PD values. Indeed, the regulatory PDs are not conservative compared to the observed default rates. Following TRIM mission and the implementation of the New Default Definition, a new PD model on the Retail population has been developed by the CDS team in 2020.

Moreover, the gap between PD and DR for Small corporate is more conservative, as the default rates are lower than the PD values. As a result, the backtesting demonstrates that the calibration of PD is statistically conservative for this portfolio.

Finally, it has to be noted that a recalibration of the PD values for the Small corporate model has been performed in 2021 by taking into account the New Default Definition data. These new PD values have been implemented in production in July 2021.

Corporate and Bank PD model:

Due to the absence or the limited number of experienced defaults, the PD of the Corporate and Bank rating models have been calibrated with external data. Especially, they rely on default data provided by the external rating agency Moody's. The performance of these PD models is assessed both with internal default and external defaults. Internal rating scale is mapped with the rating scales of the rating agency and the calibrated PD are tested with default rates provided by this agency.

It has to be reminded that regarding the Bank PD model, no backtesting has been performed in 2021, due to the fact that an homologation file has been sent to ECB in order to revert this portfolio to the standardized approach. This reversion has been approved in January 2022 and it will be implemented as of March 2022 reporting date.

With regards to the Corporate PD model, the default rates are assessed over the 2013-2019 period on the BIL portfolio (cohort definition, with defaults measured over the next 12 months, thus up to end 2020). The results of the related backtest have demonstrated that the PD of these models is conservatively calibrated. It has been observed however some default rates higher than the calibrated PD, especially in 2017, 2018 and 2019 for Corporate exposures. In fact, the default rate of corporate is higher than the PD while only one default has been observed in 2017 as well as in 2018, but six in 2019 (due to the Covid-19 crisis). Despite these default rates higher than expected, the statistical tests of the backtesting indicate that from 'BBB-' to 'BB-', the long run average of default rates are higher than the regulatory PD, explained by the high default rates in 2017, 2018 and 2019. However, it has to be noticed that the p-values of tests should be cautiously interpreted as the number of obligors by rating is very low (the 'BB-' rating concerns 5 obligors in average by year) and the yearly number of defaults is between 0 and 3. However, by considering the global portfolio, the p-values of tests indicates that the regulatory PD is conservative.

Finally, it has to be noted that a recalibration of the PD values for the Corporate model has been performed in 2021 by taking into account the New Default Definition data. These new PD values have been implemented in production in July 2021.

Mid Corporate PD model:

With regards to the Mid Corporate PD model, the default rates are assessed over the 2013-2019 period on the BIL portfolio (cohort definition, with defaults measured over the next 12 months, thus up to end 2020). The results of the related backtests have demonstrated that the PD of these models is conservatively calibrated. It has been observed however some default rates higher than the calibrated PD, especially in 2013, 2014 and 2019. Despite these default rates higher than expected, the statistical tests of the backtesting have demonstrated that the PD are conservatively calibrated for the considered years and for the considered period.

Finally, it has to be noted that a recalibration of the PD values for the Mid Corporate model has been performed in 2021 by taking into account the New Default Definition data. These new PD values have been implemented in production in July 2021.

The following table shows the average PD and average default rates, as follows:

Cohort Years	Retail		Small Corp		Mid Corp		Corporate	
	PD%	DR%	PD%	DR%	PD%	DR%	PD%	DR%
2013	0.67	0.66	10.43	4.62	4.65	2.28	2.35	0.00
2014	0.65	0.62	8.27	4.36	3.99	1.60	1.99	0.00
2015	0.67	0.68	9.61	4.67	3.96	1.27	2.63	0.00
2016	0.69	0.69	9.97	4.84	3.87	0.89	1.17	0.00
2017	0.66	0.58	8.98	3.22	3.85	0.34	2.01	0.92
2018			8.33	3.29	3.62	0.00	1.33	0.86
2019	1.48	1.56	6.92	3.36	3.74	2.08	0.88	5.69
2020	1.36	1.11	Backtesting ongoing		Backtesting ongoing		Backtesting ongoing	
Average	0.74	0.71	8.79	4.05	3.95	1.21	1.77	1.07
Cohort Period	*2013-2020*		*2013-2019*		*2013-2019*		*2013-2019*	

The following table contains the average of the calibrated LGD and the average of the observed LGD for the retail and small & mid corporates by year of default. The data source used corresponds to the new Loss DataBase developed by the CDS team in 2020, which takes into account the new default definition requirements as well as the EBA guidelines on PD and LGD estimation. As a result, the observed LGD is calculated in this new Loss DataBase for each defaulted facility as a ratio of the economic loss to the outstanding amount of the credit obligation at the moment of default. The loss calculation is performed with the use of the discounted cash flows. The discount rate is the 3-months EURIBOR as at the default date increased by an (5%-points) add-on. Finally, the table below reports the closed defaults, i.e. by considering the closed facilities (closed , cured and complete open facilities for which the time in default is greater than the maximum time in default retained).

The backtesting results have not highlighted calibration weaknesses particularly for the Retail facilities as well as for the Small and Mid-Corporate facilities, as the observed LGD is globally lower than the calibrated level of LGD.

It has to be noticed that a new Retail LGD model and a new Small and Mid-Corporate LGD model have been developed in 2020 (and beginning of 2021) based on the new Loss DataBase in order to take into account the new DoD requirements, as well as the EBA guidelines on PD and LGD estimation, on LGD estimates for an economic downturn, Expected Loss Best Estimate and LGD in-default.

Years	Retail		Small & Mid Corp	
	LGD%	LR%	LGD%	LR%
2013	34.62	9.24	13.44	18.16
2014	35.10	8.30	13.52	10.84
2015	33.69	9.57	13.11	7.67
2016	33.77	7.54	13.30	8.08
2017	34.33	5.42	13.48	1.88
2018	37.40	4.13	14.69	1.79
2019	36.01	4.00	14.02	10.20
2020	35.82	1.47	13.65	13.38
2021	41.64	5.41	14.51	0.25
Average	35.87	8.59	13.49	11.09
Cohort Period	*2008-2021*		*2008-2021*	

Regarding the Low Default Portfolio, no backtesting has been performed in 2021 due to the fact that the Sovereigns and Bank exposures are treated under the Standardized approach and the Corporates exposures under the Foundation approach.

Real Estate Specialized Lending Exposures under Supervisory Slotting Criteria:
Specialized lending exposures include exposures to property developers (Land Acquisition, Development and Construction - ADC as well as Financial Completion Guarantees) and to professional real estate investors (Income-Producing Real Estate - IPRE).

Risk Category	Remaining Maturity	Risk Weight
Strong (1)	< 2.5 years	50%
	≥ 2.5 years	70%
Good (2)	< 2.5 years	70%
	≥ 2.5 years	90%
Satisfactory (3)	< 2.5 years	115%
	≥ 2.5 years	115%
Weak (4)	< 2.5 years	250%
	≥ 2.5 years	250%
In default (5)	< 2.5 years	0%[1]

A first backtesting has been performed in 2021 based on the reporting dates from 2019/12 to 2020/12. It is observed that no default occurred, meaning that the calibration test has not been performed and is postponed to the next backtesting. Consequently no calibration issue has been raised. Moreover, the observation of overrides, which is part of the discrimination assessment, is considered as immaterial. Finally, the final rating distribution is very stable on the overall population and the stability is considered as satisfactory. As a result, the performance of the Slotting model is considered as satisfactory.

3.6.4. Backtesting of probability of default (PD) per exposure class

The following tables provide the information on the backtesting of PD and compare, by exposure class and internal grade as of end of December 2021, the PD with the actual default rates. The backtesting data aims at validating the reliability of PD calculations. The results demonstrate that overall the current PD levels over different exposure classes and internal grades are sufficiently conservative. Kindly note that the exposure class "Central Governments and Central Banks" has been removed as this portfolio is treated under the standardized approach since 11/2020.

[1] Cat. 5: Exposures categorised as 'default' do not attract a risk weighting but instead are treated as EL deductions at a rate of 50% of the exposure value.

BACKTESTING OF PROBABILITY OF DEFAULT (PD) PER EXPOSURE CLASS ON A-IRB APPROACH:

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
Total IRBA	0.00 to <0.15	AAA+ to A-	1,882.29	0.09%	0.08%	41,807	39,947	101	2	0.24%	0.42%
	0.15 to <0.25	BBB+	301.18	0.23%	0.23%	2,374	2,233	9	0	0.38%	0.30%
	0.25 to <0.50	BBB	1,834.20	0.34%	0.32%	18,408	16,805	46	0	0.25%	0.39%
	0.50 to <0.75	BBB-	3,245.01	0.65%	0.65%	18,229	16,692	121	6	0.66%	1.15%
	0.75 to <2.5	BB+ to BB	2,381.72	1.99%	1.99%	10,688	8,714	78	0	0.73%	1.30%
	2.5 to <10	BB- to B	3,012.27	4.63%	4.52%	13,565	11,214	225	1	1.66%	2.94%
	10 to <100	B- to CCC	694.22	16.79%	16.05%	3,591	3,156	279	0	7.80%	11.07%
	100 (Default)	D	464.38	100.00%	100.00%	4,142	3,683	0	235	0.00%	0.00%
	SUBTOTAL		**13,815.27**	**5.77%**	**4.95%**	**112,804**	**102,444**	**859**	**244**	**0.79%**	**1.48%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – CORPORATE SME	0.00 to <0.15	AAA+ to A-	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.22%
	0.15 to <0.25	BBB+	0.81	0.23%	0.23%	2	10	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	62.30	0.38%	0.38%	0	72	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	104.60	0.64%	0.65%	22	101	0	0	0.00%	2.29%
	0.75 to <2.5	BB+ to BB	310.49	1.97%	1.99%	456	397	1	0	0.22%	1.99%
	2.5 to <10	BB- to B	517.48	4.40%	4.40%	294	414	3	0	1.02%	3.66%
	10 to <100	B- to CCC	160.21	16.86%	18.47%	102	131	2	0	1.98%	8.09%
	100 (Default)	D	99.28	100.00%	100.00%	57	51	0	3	0.00%	0.00%
	SUBTOTAL		**1,255.17**	**12.43%**	**8.70%**	**933**	**1,176**	**6**	**3**	**0.69%**	**3.08%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – CORPORATE OTHER	0.00 to <0.15	AAA+ to A-	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.06%
	0.25 to <0.50	BBB	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.46%
	0.50 to <0.75	BBB-	48.22	0.66%	0.66%	0	7	0	0	0.00%	1.38%
	0.75 to <2.5	BB+ to BB	95.18	1.85%	1.73%	35	25	0	0	0.00%	0.99%
	2.5 to <10	BB- to B	100.10	3.98%	4.11%	40	35	1	0	2.50%	1.66%
	10 to <100	B- to CCC	0.76	10.43%	16.08%	3	4	0	0	0.00%	2.07%
	100 (Default)	D	6.50	100.00%	100.00%	0	1	0	0	0.00%	0.00%
	SUBTOTAL		**250.77**	**5.04%**	**4.94%**	**78**	**72**	**1**	**0**	**1.28%**	**1.41%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – RETAIL SECURED BY REAL ESTATE – SME	0.00 to <0.15	AAA+ to A-	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	0.91	0.23%	0.23%	2	3	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	6.24	0.38%	0.38%	0	22	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	13.67	0.61%	0.61%	63	35	0	0	0.00%	3.64%
	0.75 to <2.5	BB+ to BB	48.47	2.15%	2.14%	202	131	1	0	0.50%	1.16%
	2.5 to <10	BB- to B	63.64	4.47%	4.55%	269	167	2	0	0.74%	2.32%
	10 to <100	B- to CCC	50.24	20.87%	19.13%	170	105	4	0	2.37%	9.82%
	100 (Default)	D	11.61	100.00%	100.00%	44	25	0	0	0.00%	0.00%
	SUBTOTAL		**194.78**	**13.39%**	**11.44%**	**750**	**488**	**7**	**0**	**0.99%**	**4.53%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – RETAIL SECURED BY REAL ESTATE – NON SME	0.00 to <0.15	AAA+ to A-	1,371.66	0.09%	0.09%	5,172	5,437	6	0	0.12%	0.22%
	0.15 to <0.25	BBB+	230.62	0.23%	0.23%	476	468	2	0	0.42%	0.46%
	0.25 to <0.50	BBB	1,215.63	0.34%	0.34%	3,244	3,298	1	0	0.03%	0.27%
	0.50 to <0.75	BBB-	2,591.12	0.65%	0.65%	4,705	5,175	7	0	0.15%	0.55%
	0.75 to <2.5	BB+ to BB	1,029.37	1.95%	1.95%	2,098	1,873	5	0	0.24%	1.14%
	2.5 to <10	BB- to B	1,190.57	4.71%	4.70%	2,657	2,355	18	0	0.68%	2.61%
	10 to <100	B- to CCC	305.09	15.99%	15.89%	531	560	15	0	2.82%	9.02%
	100 (Default)	D	101.98	100.00%	100.00%	408	269	0	3	0.00%	0.00%
	SUBTOTAL		**8,036.05**	**3.11%**	**2.86%**	**19,291**	**19,435**	**54**	**3**	**0.29%**	**1.15%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – RETAIL OTHER SME	0.00 to <0.15	AAA+ to A-	0.19	0.06%	0.06%	15	20	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	3.47	0.23%	0.23%	323	350	0	0	0.00%	0.18%
	0.25 to <0.50	BBB	16.92	0.38%	0.38%	0	127	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	38.62	0.61%	0.64%	1,059	1,031	24	2	2.27%	3.50%
	0.75 to <2.5	BB+ to BB	101.28	2.14%	2.00%	1,959	1,636	16	0	0.82%	1.13%
	2.5 to <10	BB- to B	109.24	5.37%	4.91%	1,470	1,490	23	0	1.56%	2.48%
	10 to <100	B- to CCC	48.88	18.84%	18.13%	836	531	50	0	6.01%	10.55%
	100 (Default)	D	20.66	100.00%	100.00%	618	582	0	65	0.00%	0.00%
	SUBTOTAL		**339.26**	**11.26%**	**13.73%**	**6,280**	**5,767**	**113**	**67**	**2.00%**	**3.88%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBA – RETAIL OTHER NON SME	0.00 to <0.15	AAA+ to A-	510.44	0.09%	0.08%	36,620	34,490	95	2	0.26%	0.45%
	0.15 to <0.25	BBB+	65.38	0.23%	0.23%	1,571	1,402	7	0	0.45%	0.28%
	0.25 to <0.50	BBB	533.11	0.34%	0.31%	15,164	13,286	45	0	0.30%	0.42%
	0.50 to <0.75	BBB-	448.77	0.64%	0.65%	12,380	10,343	90	4	0.73%	1.13%
	0.75 to <2.5	BB+ to BB	796.93	2.02%	2.01%	5,938	4,652	55	0	0.93%	1.33%
	2.5 to <10	BB- to B	1,031.24	4.65%	4.39%	8,835	6,753	178	1	2.02%	3.11%
	10 to <100	B- to CCC	129.03	16.30%	15.15%	1,949	1,825	208	0	10.72%	12.41%
	100 (Default)	D	224.36	100.00%	100.00%	3,015	2,755	0	164	0.00%	0.00%
	SUBTOTAL		**3,739.25**	**8.42%**	**4.71%**	**85,472**	**75,506**	**678**	**171**	**0.82%**	**1.36%**

BACKTESTING OF PROBABILITY OF DEFAULT (PD) PER EXPOSURE CLASS ON F-IRB APPROACH:

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
TOTAL IRBF	0.00 to <0.15	AAA+ to A-	2,369.69	0.08%	0.08%	141	135	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	469.43	0.22%	0.22%	35	16	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	629.31	0.36%	0.33%	38	34	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	0.00	0.00%	0.00%	41	0	0	0	0.00%	0.00%
	0.75 to <2.5	BB+ to BB	481.30	0.87%	0.90%	25	55	1	0	4.00%	0.50%
	2.5 to <10	BB- to B	312.36	4.32%	4.46%	20	22	0	0	0.00%	0.00%
	10 to <100	B- to CCC	9.49	19.88%	32.74%	53	53	0	0	0.00%	0.00%
	100 (Default)	D	84.22	100.00%	100.00%	9	7	0	2	0.00%	0.00%
	SUBTOTAL		**4,355.80**	**2.50%**	**8.10%**	**362**	**322**	**1**	**2**	**0.28%**	**0.04%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBF – INSTITUTION	0.00 to <0.15	AAA+ to A-	1,378.89	0.08%	0.08%	120	79	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	404.40	0.22%	0.22%	21	12	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	49.01	0.41%	0.41%	12	4	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	0.00	0.00%	0.00%	8	0	0	0	0.00%	0.00%
	0.75 to <2.5	BB+ to BB	60.17	0.86%	1.05%	5	9	0	0	0.00%	0.00%
	2.5 to <10	BB- to B	0.74	3.22%	3.22%	3	2	0	0	0.00%	0.00%
	10 to <100	B- to CCC	2.02	37.04%	37.04%	45	42	0	0	0.00%	0.00%
	100 (Default)	D	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	SUBTOTAL		**1,895.22**	**0.18%**	**10.69%**	**214**	**148**	**0**	**0**	**0.00%**	**0.00%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBF – CORPORATE SME	0.00 to <0.15	AAA+ to A-	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	0.00	0.00%	0.00%	1	0	0	0	0.00%	0.00%
	0.75 to <2.5	BB+ to BB	14.53	0.84%	0.84%	0	2	0	0	0.00%	0.00%
	2.5 to <10	BB- to B	138.60	4.40%	4.40%	0	1	0	0	0.00%	0.00%
	10 to <100	B- to CCC	0.00	0.00%	0.00%	0	0	0	0	0.00%	0.00%
	100 (Default)	D	36.19	100.00%	100.00%	0	1	0	1	0.00%	0.00%
	SUBTOTAL		**189.32**	**22.40%**	**26.52%**	**1**	**4**	**0**	**1**	**0.00%**	**0.00%**

Exposure class	PD range	External rating	EAD	Weighted average pd (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Observed average default rate (%)	Average historical annual default rate(%)
						End of previous year	End of the year				
IRBF – CORPORATE OTHER	0.00 to <0.15	AAA+ to A-	990.80	0.09%	0.08%	21	56	0	0	0.00%	0.00%
	0.15 to <0.25	BBB+	65.04	0.22%	0.22%	14	4	0	0	0.00%	0.00%
	0.25 to <0.50	BBB	580.30	0.36%	0.32%	26	30	0	0	0.00%	0.00%
	0.50 to <0.75	BBB-	0.00	0.00%	0.00%	32	0	0	0	0.00%	0.00%
	0.75 to <2.5	BB+ to BB	406.60	0.88%	0.88%	20	44	1	0	5.00%	0.62%
	2.5 to <10	BB- to B	173.02	4.26%	4.59%	17	19	0	0	0.00%	0.00%
	10 to <100	B- to CCC	7.47	15.24%	16.32%	8	11	0	0	0.00%	0.00%
	100 (Default)	D	48.03	100.00%	100.00%	9	6	0	1	0.00%	0.00%
	SUBTOTAL		**2,271.27**	**2.78%**	**5.41%**	**147**	**170**	**1**	**1**	**0.72%**	**0.09%**

3.6.5. Credit risk exposures by exposure class and PD range

In the application of Article 452 (d-g) in the CRR, the following tables provide the main parameters used for the calculation of capital requirements for IRB models and show the exposure classes according to PD grades.

Please note that Corporates-Specialized Lending exposure class is not reported here. For Specialized Lending Incoming Producing Real Estate (IPRE) and Land Acquisition, Development and Construction (ADC) exposures, even though they are treated under slotting methodology which falls into category of A-IRB Approach, they don't have PD or LGD data, and supervisory slotting risk weights are applied. The EAD and RWA of Specialized Lending exposure as of 31 December 2021 are EUR 2,158.8 million and EUR 1,774.8 million respectively.

Additionally, Equity – Simple Risk Weight Approach exposure is also treated under A-IRB Approach, while risk weights (190%, 290% and 370%) are applied and PD or LGD data are not available. This type of exposure has EUR 69.3 million EAD and EUR 205.96 million RWA in the end of year 2021.

TABLE EU CR6 – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO IRB MODELS

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central Governments and Central Banks	0.00 to <0.15	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	0.15 to <0.25	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	0.25 to <0.50	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	0.50 to <0.75	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	0.75 to <2.50	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	2.50 to <10.00	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	10.00 to <100.00	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	100 (default)	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00	0.00%	0.00	0.00
	SUBTOTAL	**0.00**	**0.00**	**0%**	**0.00**	**0.00%**	**0.00**	**0.0%**	**0.00**	**0.00**	**0.00%**	**0.00**	**0.00**

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions	0.00 to <0.15	1,599.68	139.11	98%	1,275.80	0.08%	75.00	45.0%	2.50	374.33	29.34%	0.33	0.00
	0.15 to <0.25	395.10	2.96	100%	396.24	0.22%	11.00	45.0%	2.50	72.11	18.20%	0.10	0.00
	0.25 to <0.50	42.16	2.00	99%	43.05	0.41%	3.00	45.0%	2.50	33.01	76.69%	0.08	0.00
	0.050 to <0.75	-	-	0%	0.00	0.00%	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00
	0.75 to <2.50	57.92	1.94	99%	58.95	0.86%	8.00	27.0%	0.00	27.11	45.99%	0.09	0.00
	2.50 to <10.00	-	1.20	50%	0.60	3.22%	1.00	0,0%	2.50	1.13	187.87%	0.01	0.00
	10.00 to <100.00	247.72	3.34	80%	1.74	37.04%	40.00	33.8%	0.00	4.61	264.53%	0.25	0.00
	100 (default)	-	-	0%	0.00	0.00%	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00
	SUBTOTAL	**2,342.57**	**150.54**		**1,776.38**					**512.30**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates – SME	0.00 to <0.15	0.00	0.00										
	0.15 to <0.25	0.71	0.10	100%	0.81	0.23%	10.00	17.1%	1.00	0.11		0.00	0.00
	0.25 to <0.50	48.83	20.40	95%	62.30	0.38%	72.00	3.1%	0.00	2.24		0.01	0.00
	0.050 to <0.75	61.30	63.46	91%	104.60	0.64%	101.00	12.0%	3.30	23.05		0.08	0.00
	0.75 to <2.50	245.13	196.11	92%	325.02	1.91%	399.00	9.0%	0.00	57.78		0.49	0.00
	2.50 to <10.00	563.55	254.66	95%	656.08	4.40%	414.00	12.3%	0.00	225.87		3.61	0.00
	10.00 to <100.00	140.39	28.17	99%	160.19	16.86%	131.00	5.0%	3.79	35.78		1.55	0.00
	100 (default)	136.12	22.25	98%	135.47	100.00%	52.00	17.5%	0.00	62.05		43.76	43.75
	SUBTOTAL	**1,196.04**	**585.15**		**1,444.47**					**406.88**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates – Other	0.00 to <0.15	903.15	92.77	99%	936.44	0.09%	51.00	45.0%	2.50	318.95		0.35	0.00
	0.15 to <0.25	64.91	-	100%	64.91	0.22%	2.00	45.0%	0.00	45.11		0.06	0.00
	0.25 to <0.50	314.54	16.56	99%	304.13	0.31%	29.00	45.0%	0.00	221.60		0.42	0.00
	0.050 to <0.75	29.67	43.15	90%	48.22	0.66%	7.00	7.8%	4.05	9.71		0.02	0.00
	0.75 to <2.50	388.23	285.77	93%	501.66	1.06%	69.00	35.0%	0.00	457.38		1.59	0.00
	2.50 to <10.00	223.17	154.67	91%	273.09	4.16%	54.00	32.9%	0.00	378.97		3.82	0.00
	10.00 to <100.00	7.92	4.19	98%	8.16	14.80%	10.00	41.9%	2.73	22.08		0.52	0.00
	100 (default)	60.55	1.62	99%	54.53	100.00%	7.00	39.7%	0.00	4.06		18.85	18.85
	SUBTOTAL	**1,992.13**	**598.72**		**2,191.14**					**1,457.86**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by immovable property SME	0.00 to <0.15	0.00	0.00										
	0.15 to <0.25	0.03	0.01	100%	0.91	0.23%	3.00	16.8%	0.00	0.09		0.00	0.00
	0.25 to <0.50	6.09	0.15	100%	6.24	0.38%	22.00	11.1%	0.00	0.38		0.00	0.00
	0.050 to <0.75	10.04	3.63	100%	13.67	0.61%	35.00	11.3%	0.00	1.86		0.01	0.00
	0.75 to <2.50	42.12	6.35	100%	48.47	2.15%	131.00	11.6%	4.28	11.29		0.12	0.00
	2.50 to <10.00	59.48	4.17	100%	63.64	4.47%	167.00	12.0%	0.00	26.66		0.34	0.00
	10.00 to <100.00	48.48	1.82	100%	50.24	20.87%	105.00	11.1%	0.00	38.25		1.14	0.00
	100 (default)	11.26	0.34	100%	11.61	100.00%	25.00	0.3%	0.00	7.25		0.54	0.54
	SUBTOTAL	**177.49**	**16.47**		**194.78**					**85.79**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by immovable property non-SME	0.00 to <0.15	1,177.66	194.01	100%	1,371.66	0.09%	5,437.00	10.4%	0.00	37.94		0.14	0.00
	0.15 to <0.25	210.25	20.37	100%	230.62	0.23%	468.00	10.6%	0.00	12.79		0.06	0.00
	0.25 to <0.50	1,112.35	103.29	100%	1,215.63	0.34%	3,298.00	10.5%	0.00	88.19		0.43	0.00
	0.050 to <0.75	2,398.45	193.02	100%	2,591.12	0.65%	5,175.00	10.6%	0.00	302.28		1.79	0.00
	0.75 to <2.50	974.23	56.17	100%	1,029.37	1.95%	1,873.00	10.9%	0.00	247.59		2.18	0.00
	2.50 to <10.00	1,096.00	94.57	100%	1,190.57	4.71%	2,355.00	10.9%	0.00	481.56		6.08	0.00
	10.00 to <100.00	292.74	12.39	100%	305.09	15.99%	560.00	10.8%	0.00	197.39		5.24	0.00
	100 (default)	99.95	2.03	100%	101.98	100.00%	269.00	0.2%	0.00	63.74		4.26	4.26
	SUBTOTAL	**7,361.63**	**675.84**		**8,036.05**					**1,431.49**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other SME	0.00 to <0.15	0.10	0.10	100%	0.19	0.06%	20.00	17.9%	0.00	0.01		0.00	0.00
	0.15 to <0.25	1.60	1.87	100%	3.47	0.23%	350.00	17.2%	1.05	0.37		0.00	0.00
	0.25 to <0.50	11.66	9.32	89%	16.92	0.38%	127.00	12.5%	0.00	1.27			
	0.050 to <0.75	14.11	29.77	95%	38.54	0.61%	1,029.00	15.4%	2.91	6.58		0.04	0.00
	0.75 to <2.50	67.07	56.55	92%	101.13	2.14%	1,636.00	12.9%	2.04	18.27		0.28	0.00
	2.50 to <10.00	77.71	50.53	93%	109.24	5.37%	1,490.00	13.3%	0.00	24.61		0.76	0.00
	10.00 to <100.00	38.12	14.99	97%	48.88	18.84%	531.00	14.5%	1.81	18.27		1.34	0.00
	100 (default)	21.41	1.62	99%	20.66	100.00%	582.00	15.3%	0.00	12.91		9.54	9.54
	SUBTOTAL	**231.78**	**164.75**		**339.03**					**82.29**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other non-SME	0.00 to <0.15	294.16	368.26	91%	510.22	0.09%	34,485.00	10.0%	0.00	15.91		0.05	0.00
	0.15 to <0.25	43.61	30.75	95%	65.37	0.23%	1,401.00	10.0%	0.00	4.06		0.02	0.00
	0.25 to <0.50	450.76	143.86	96%	533.01	0.34%	13,283.00	12.2%	0.00	49.99		0.22	0.00
	0.050 to <0.75	373.93	109.77	97%	448.25	0.64%	10,342.00	12.1%	0.00	60.68		0.35	0.00
	0.75 to <2.50	693.52	234.67	95%	794.73	2.02%	4,585.00	22.4%	0.00	278.12		3.68	0.00
	2.50 to <10.00	927.36	232.71	96%	1,030.45	4.65%	8,835.00	10.7%	0.00	214.46		5.16	0.00
	10.00 to <100.00	113.23	43.32	94%	129.03	16.30%	1,825.00	14.1%	0.00	48.30		2.74	0.00
	100 (default)	213.64	8.50	100%	220.73	100.00%	2,754.00	14.7%	0.00	137.95		89.49	89.49
	SUBTOTAL	**3,110.20**	**1,171.84**		**3,731.78**					**809.46**			

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligators	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Equity - PD/LGD APPROACH*	0.00 to <0.15	0.00	0.00										
	0.15 to <0.25	0.00	0.00										
	0.25 to <0.50	0.00	0.00										
	0.050 to <0.75	0.00	0.00										
	0.75 to <2.50	153.02	0.00	100%	153.02	1.26%	6.00	90.0%	5.00	428.61		1.74	0.00
	2.50 to <10.00	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00		0.00	0.00
	10.00 to <100.00	0.07	0.00	100%	0.07	14.06%	2.00	90.0%	0.00	0.33		0.01	0.00
	100 (default)	0.00	0.00	0%	0.00	0.00%	0.00	0.0%	0.00	0.00		0.00	0.00
	SUBTOTAL	**153.10**	**0.00**		**153.10**								

3.6.6. Foreseen material model changes

According to the EU Regulation (CRR), EBA Guideline, ECB Process Guidance, BIL has implemented the New Definition of Default (NDD). BIL has worked on the construction of the NDD covering the internal rating systems and performed a gap and impact analysis between the currently implemented and the NDD. The implementation of the NDD in the core banking system has been performed in October 2019, with ECB's approval.

As the result of the adoption of this New Definition of Default, a series of changes are ongoing for the Bank's databases and models as listed below for the main projects:
- The Internal Model Investigation (IMI) has started in November 2021 for the approval of the new Retail models developed in 2019/2020 (PD Retail, CCF Retail, LGD Retail for performing and defaulted exposures),
- The new CCF Mid Corporate model is finalized and has been sent to the Internal Validation Unit in May 2022,
- The new PD Mid Corporate model is in a development stage and is planned to be sent to the Internal Validation Unit for end of 2022,
- The new PD Corporate model is in a development stage and is planned to be sent to the Internal Validation Unit for end of 2022.

3.6.7. RWA flow statements of credit risk exposures

In the application of Article 438 (d), the following table provides a flow statement explaining variations in the credit RWAs between year-end 2018 and 2019, Standardised (STD), Advanced (A-IRB) and Securitization (TIT) are all included.

The main variation over the period is mostly explained by the slotting approach, internal models (PD floor for Sovereign), New Definition of Default and asset quality (rating).

TABLE EU CR8 - RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE IRB APPROACH

(In EUR million)	RWA amounts	Capital requirements
Credit Risk RWAs (ADV+STD +TIT with CCR) as at the end of the previous reporting period (31/12/2020)	8,365.85	669.27
Total adjustments from Standardised Approach (with CCR)	**235.10**	**18.81**
Adjustment from Asset size	235.10	18.81
Adjustment from Model updates	-	-
Adjustment from Methodology and policy	-	-
Total adjustments from IRB - Advanced Approach (with CCR)	**662.13**	**52.97**
Adjustment from Asset size	412.96	33.04
Adjustment from Asset quality	157.38	12.59
Adjustment from Model updates	25.21	2.02
Add-on NDD	*13.35*	*1.07*
Add-on Foundation Corporate +20%	*11.86*	*0.95*
Adjustment from Methodology and policy	72.46	5.80
Real estate's collaterals for exposures treated in IRB-Foundation	*-12.16*	*-0.97*
RWA formula changed from Corporates to SME due to a turnover below 50 mn threshold	*-54.94*	*-4.40*
Treatment of residential and commercial real estate coverage	*139.56*	*11.16*
Adjustment from Acquisitions and disposals	-	-
Adjsutment from Foreign exchange movements	-	-
Adjustment from Other	-5.88	-0.47
Total adjustments from CVA	**-3.73**	**-0.30**
Total adjustments from Securitisation	**-4.26**	**-0.34**
Total adjustments from FTA new management overlay	**-4.45**	**-0.36**
RWAs as at the end of the reporting period (31/12/2021)	**9,250.64**	**740.05**

3.7. Counterparty credit risk

3.7.1. Management of counterparty risk

A counterparty risk attached to derivatives exists in all over-the-counter (OTC) transactions such as interest rate swaps, foreign exchange swaps, inflation or commodity swaps and credit default swaps.

All OTC transactions are monitored within the credit limits that are set for each individual counterparty, and are subject to the general delegation rules. Sub-limits may be put in place for each type of product. Credit limits granted to Banking counterparties are first analysed by the credit risk Banks & Countries analysis team and then proposed to the Board committee for decision. These limits are annually reviewed by the Board committee.

Derivatives

In order to reduce counterparty risk, derivatives transactions are traded with counterparties with whom BIL has master agreement (ISDA/CSA). It takes into account the general rules and procedures set out in the credit risk policies of the Bank. Collateral postings for derivative contracts are regulated by the terms and rules stipulated in the CSA negotiated with the counterparty. The CSA to master agreements provides for rating dependent triggers (called thresholds), where addition collateral has to be pledged if a party's rating is downgraded.

Remark: The valuations and the margin calls of the deals under CSA are calculated daily.

In case of derivative contracts cleared by a Central Counterparty (CCP) (in the respect of the EMIR Regulation), the valuation and the margin call are managed by the CCP. MLRM daily checks its own Marked-to-Market (MtM) with those of the CCP. These trades are daily revaluated MtM which leads to margin calls or to margin delivery from or to the counterparty ac- cording to the advantage or disadvantage for the Bank of the deals MtM included in the ISDA/CSA contract. The collaterals are in cash.

Repo/reverse repos

All repo/reverse repo are dealt with counterparties under GMRA. In case of bilateral repo or reverse repo, MLRM manages the margin call (mainly in cash) on a daily basis. The valuations are calculated daily.

Tripartite repo/reverse repo are managed by Clearstream, Euroclear and SIX, based on defined baskets that correspond to BIL's risk profile. The margin calls are daily.

Securities lending

Securities lending are traded with counterparties with whom BIL has also collateral agreement called Global Master Securities Lending Agreement (GMSLA).

Global procedure

Currently, exchanged collateral is cash. Within EMIR regulation, it is forecasted to treat non-cash collateral. This will be taken into account in the collateral management rules.

As reminder, Market and Liquidity Risk Management (MLRM) process is designed in order that the risk incurred by positions on the Dealing room are identified, measured, monitored, mitigated, supervised and reported. The approach allows that risks on the balance sheet of the Bank (both Trading and Banking prudential books) are correctly managed and are in line with BIL's strategy, objectives, requirements and risk appetite. MLRM daily checks the existence of a contract for each counterparty that concluded a derivative with BIL. Likewise, the collateral management activity is framed by procedures that clearly detail the escalation process in case of dispute with a counterparty.

Collateral in case of a downgrade in the Bank's credit rating

A higher amount of collateral may be provided to the counterparties in case of a downgrade in the Bank's credit rating, either because of rating dependent contractual clauses in CSA and GMRA or because of the increase in CVA of the counterparties toward the Bank.

In the active CSA (VM CSA) negotiated by the Bank, there is no contractual clauses that could potentially lead to additional margin delivery in case of a downgrade, as:
- The vast majority (95%) of the CSA do not include any thresholds (the fraction of exposure not covered by margin call in a given direction);
- The Minimum Transfer Amount (MTA) is not rating dependent.

Regarding the active GMRA, the impact would be very limited as:

- The Thresholds are all equal to 0;
- Only one agreement contains a rating dependant MTA for which the actual level is low (EUR 0.2 M); a downgrade by one notch will lead to a MTA level of EUR 0.1 M.

To assess the additional margin delivery caused by a potential increase in CVA level of the counterparties, a simulated Debit Value Adjustment (DVA) of the Bank has been computed over 2021 (on a quarterly basis), under different downgrade magnitude scenarios. The results are presented below:

in EUR K	DVA impact –downgrade in credit rating		
	–1 notch	–2 notch	–3 notch
Maximum	-165.4	-401.8	-929.8
Average	-156.2	-379.4	-877.2

According to this assessment, in the event of a downgrade in the Bank's credit rating by one notch, an additional collateral amount of EUR 0.156 M in average would have to be pledged (worst case scenario in 2021).

From a liquidity perspective, these amounts of additional margin delivery are very limited compared to the usual collateral net deposit levels:

- The net cash collateral deposits (CSA, GMRA and CCP) as of 31/12/2021 is of EUR 336 M;
- The average absolute net 30-day collateral flow realised during the preceding 24 months is EUR 33 M.

Remark: The Bank's credit ratings have been very stable over the last years.

3.7.2. Analysis of CCR exposures by model approach

In the application of Article 439 (f) in the CRR, the following table shows the methods used for calculating the regulatory requirements for CCR exposure including the main parameters for each method. Exposures relevant for CVA charges and exposures cleared through a CCP are excluded but are presented separately in the following tables.

As displayed, the Bank uses the mark-to-market methods to measure the exposure value of instruments subject to capital requirements for CCR.

TABLE EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

(In EUR million)	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		77.86	46.57			124.43	61.81
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total							

3.7.3. CVA capital charge

In the application of Article 439 (f) in the CRR, the following table provides the exposure value and risk exposure amount of transactions subject to capital requirements for credit valuation adjustment. The Standardised approach is used to calculate the CVA capital charge.

TABLE EU CCR2 – CVA CAPITAL CHARGE

	(In EUR million)	Exposure value	RWAs
1	Total portfolios subject to the advanced method		
2	(i) VaR component (including the 3x multiplier)		
3	(ii) SVaR component (including the 3x multiplier)		
4	All portfolios subject to the standardised method	108.58	17.84
EU4	Based on the original exposure method		
5	**TOTAL SUBJECT TO THE CVA CAPITAL CHARGE**	**108.58**	**17.84**

3.7.4. Exposures to CCP

The table below presents an overview of exposures and capital requirements to central counterparties arising from transaction with CCP

TABLE EU CCR8 – EXPOSURES TO CCPS

(In EUR million)	EAD post CRM	RWAs
Exposures to QCCPs (total)	223.57	8.94
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	223.57	8.94
(i) OTC derivatives	223.57	8.94
(ii) Exchange-traded derivatives		
(iii) SFTS		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Funded default fund contributions		
Alternative calculation of own funds requirements for exposures		
Exposures to non-QCCPs (total)	462.00	121.59
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	462.00	121.59
(i) OTC derivatives	124.43	61.81
(ii) Exchange-traded derivatives		
(iii) SFTS	337.58	59.78
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Funded default fund contributions		
Unfunded default fund contributions		

3.7.5. Standardised approach – CCR exposures by exposure class and risk weight

In the application of Article 444 (e) in the CRR, the following table provides the counterparty credit risk exposures under the Standardised approach broken down by risk weights and regulatory exposure classes. "Unrated" includes all exposures for which a credit assessment by a nominated ECAI is not available and they therefore receive the standard risk weight according to their exposure classes as described in the CRR.

TABLE EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK

(In EUR million) Exposure classes	Risk weight				Total	Of which unrated
	4%	20%	50%	100%		
Institutions	223.57	0.01			223.57	-
Corporates				4.40	4.40	-
Short Term			0.15		0.15	-
Other items						-
TOTAL	223.57	0.01	0.15	4.40	228.13	-

3.7.6. IRB approach – CCR exposures by exposure class and risk weight

In the application of Article 444 (e) in the CRR, the following table provides the counterparty credit risk exposures under the IRB approach broken down by exposure classes and PD scale.

TABLE EU CCR4 – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	103.09	0.1%	21.00	45.0%	1.30	28.89	28.02%
	0.15 to <0.25	8.16	0.2%	5.00	0.0%	2.50	5.87	71.90%
	0.25 to <0.50	5.96	0.4%	3.00	0.0%	2.50	5.84	98.01%
	0.50 to <0.75	-	0.0%	0.00	0.0%	-	0.00	0.00%
	0.75 to <2.50	1.21	1.2%	2.00	45.0%	2.50	1.38	113.67%
	2.50 to <10.00	0.14	3.2%	1.00	45.0%	2.50	0.21	154.09%
	10.00 to <100.00	0.27	37.0%	3.00	0.0%	2.50	0.87	315.84%
	100 (default)	-	0.0%	0.00	0.0%	-	0.00	0.00%
	SUBTOTAL	**118.84**	**0.2%**	**35.00**	**39.6%**	**1.46**	**43.05**	**36.23%**

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates – SME	0.00 to <0.15	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	0.15 to <0.25	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	0.25 to <0.50	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	0.50 to <0.75	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	0.75 to <2.50	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	2.50 to <10.00	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	10.00 to <100.00	0.02	14.1%	1.00	13.1%	1.00	0.04	51.68%
	100 (default)	0.00	0.0%	0.00	0.0%	0.00	0.00	0.00%
	SUBTOTAL	**0.02**	**14.1%**	**1.00**	**13.1%**	**1.00**	**0.04**	**51.68%**

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates – Other	0.00 to <0.15	54.36	0.1%	13.00	45.0%	2.50	22.92	42.16%
	0.15 to <0.25	0.13	0.2%	4.00	0.0%	2.50	0.09	71.90%
	0.25 to <0.50	276.18	0.4%	3.00	45.0%	0.50	47.50	17.20%
	0.50 to <0.75	-	0.0%	0.00	0.0%	0.00	0.00	0.00%
	0.75 to <2.50	0.11	1.4%	4.00	29.5%	1.78	0.09	78.08%
	2.50 to <10.00	0.03	4.4%	1.00	45.0%	2.50	0.06	193.11%
	10.00 to <100.00	0.08	14.0%	5.00	45.0%	2.50	0.22	291.23%
	100 (default)	-	0.0%	0.00	0.0%	0.00	0.00	0.00%
	SUBTOTAL	**330.89**	**0.4%**	**30.00**	**45.0%**	**0.83**	**70.89**	**21.42%**

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail – Other SME	0.00 to <0.15	-	0.0%	0.00	0.0%	0	0.00	0.00%
	0.15 to <0.25	-	0.0%	0.00	0.0%	0	0.00	0.00%
	0.25 to <0.50	-	0.0%	0.00	0.0%	0	0.00	0.00%
	0.50 to <0.75	0.08	0.7%	3.00	17.2%	1.00	0.02	19.92%
	0.75 to <2.50	0.14	2.4%	1.00	13.1%	-	0.02	17.10%
	2.50 to <10.00	-	0.0%	0.00	0.0%	-	0.00	0.00%
	10.00 to <100.00	-	0.0%	0.00	0.0%	0	0.00	0.00%
	100 (default)	-	0.0%	0.00	0.0%	0	0.00	0.00%
	SUBTOTAL	**0.23**	**0.0%**	**4.00**	**0.0%**	**–**	**0.04**	**18.13%**

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail – Other non SME	0.00 to <0.15	0.22	0.1%	10.00	13.3%	-	0.01	4.31%
	0.15 to <0.25	0.01	0.2%	2.00	17.2%	-	0.00	10.69%
	0.25 to <0.50	0.10	0.3%	7.00	13.3%	-	0.01	10.30%
	0.50 to <0.75	0.51	0.7%	3.00	13.3%	-	0.08	15.53%
	0.75 to <2.50	2.20	2.1%	107.00	13.3%	-	0.53	24.20%
	2.50 to <10.00	0.80	4.7%	25.00	13.3%	-	0.22	27.26%
	10.00 to <100.00	-	0.0%	0.00	0.0%	-	0.00	0.00%
	100 (default)	3.63	100.0%	1.00	13.3%	-	2.27	62.50%
	SUBTOTAL	**7.47**	**49.7%**	**155.00**	**13.3%**	**–**	**3.12**	**41.75%**

3.7.7. Impact of netting and collateral held on exposure value for derivatives and SFTs

In the application of Article 439 (e) in the CRR, the following tables present information on counterparty credit risk exposure and the impact of netting and collateral held as well as the composition of collateral used in both derivatives transactions and Securities Financing Transactions (SFT).

The first table below provides the gross positive fair values before any credit risk mitigation, the impact of legally enforceable master netting agreements as well as further reduction of the CCR exposure due to eligible collateral received.

TABLE EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

(In EUR million)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	216.07	87.60	128.47	37.81	90.66
SFTS	2,581.01	2,180.40	400.61	233.53	167.08
TOTAL	**2,797.08**	**2,268.00**	**529.08**	**271.34**	**257.74**

(In EUR million)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	137.87	-	137.87	-	137.87
SFTS	1,614.51	1,276.88	337.63	201.45	136.17
TOTAL	**1,752.38**	**1,276.88**	**475.50**	**201.45**	**274.05**

The second table discloses a breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivatives and SFT.

TABLE EU CCR5-B -COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
(In EUR million)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	-		613.81		0.03	1.12
Bonds	-				201.42	
Equity Securities	-				-	
Mutual Fund	-				-	
TOTAL	**-**		**613.81**		**201.45**	**1.12**

3.7.8. Management of the Wrong-Way Risk

Wrong-way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty. At the Bank level, the derivatives transactions are mainly concluded to cover the rate risk (interest rate risk hedging to the fixed rate bonds portfolio) and structured products issued by the Bank. The derivative exposures are collaterised by cash and margin call are performed daily.

3.7.9. Credit derivatives

BIL does not use credit derivatives for the management of its counterparty risk.

3.8. Exposure in equities not included in the trading book

This section provides accounting policies and valuation methods applied to equity instruments. In addition, information is provided on the amounts of these equity instruments that are not included in the trading book.

3.8.1. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market prices on an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions.

The valuation model should take into account all factors that market participants would consider when pricing the financial instrument. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities measured at fair value are categorised into one of the three fair value hierarchy levels

The following definitions used by the Bank for the hierarchy levels are in line with IFRS 13 rules:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets and liabilities;
- Level 2: Valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3: Valuation techniques for which significant inputs are not based on observable market data.

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes. The use of market prices quoted on an active market for identical instruments with no adjustments qualifies for inclusion in Level 1 within the IFRS 13 fair value hierarchy, contrary to the use of quoted prices on inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Financial instruments for which no quoted market prices are available on an active market are valued by means of valuation techniques. The models used by the Bank range from standard market models (discount models) to in-house developed valuation models. In order for a fair value to qualify for Level 2 inclusion, observable market data should mainly be used. The market information incorporated in the Bank's valuation models is either directly observable data (prices) or indirectly observable data (spreads), and or own assumptions about unobservable market data. Fair value measurements that rely significantly on own assumptions qualify for Level 3 disclosure.

3.8.2. Equity exposures by type of asset and calculation process

The following table shows the amount of exposure to equities included in the banking book broken down by accounting class and level at year-end 2021.

It provides an analysis of the fair value of financial instruments measured at fair value after their initial recognition, grouped in three levels from 1 to 3, according to the degree of observability of the fair value.

(in EUR)	31/12/21			
	Level 1	Level 2	Level 3	Total
Financial assets at FV through OCI - equities	0	169,915	240,168,807	240,338,722
Financial assets mandatorily at FV through PL - equities	0	41,341,521	3,219,241	44,560,763
TOTAL	**0**	**41,511,436**	**243,388,049**	**284,899,485**

3.8.3. Equity portfolio

31 December 2021, the Bank had an equity portfolio in the non-trading book at fair-value (FV) through other comprehen-sive income of EUR 240 million.

Financial assets at FV through OCI – equities (in EUR)	31/12/21		
	Carrying Amount	of which at cost	of which fair valued
Operational Participations	34,989,230	0	34,989,230
Other	2,444,770	0	2,444,770
Private Equities	0	0	0
Strategic Participations	202,904,722	0	202,904,722
TOTAL	**240,338,722**	**0**	**240,338,722**

The Bank had also at 31 December 2021 an equity portfolio in the non-trading book at fair-value (FV) through P&L of EUR 44 million.

Financial assets mandatorily at FV through PL – equities (in EUR)	31/12/21		
	Acquisition cost	Fair Value Adjustment	Carrying Amount
Investment Funds	38,708,860	5,851,902	44,560,763
Private Equities	0	0	0
TOTAL	**38,708,860**	**5,851,902**	**44,560,763**

3.8.4. Gains or losses on equity

3.8.4.1. Realised gains or losses arising from sales and liquidations

The following table shows the cumulative realised gains or losses arising from sales or liquidations, impairments allowances and write-backs in 2020 and 2021.

(in EUR)	2020	2021
Financial assets at FV through OCI - equities	(358,936)	10,828
Financial assets mandatorily at FV through PL - equities	(1,531,310)	387,055
TOTAL	**(1,890,246)**	**397,883**

3.8.4.2. Unrealised gains or losses included in own funds

The total unrealised gains or losses related to equity instruments amounted to 138 million as at 31 December 2021.

(in EUR)	2020	2021
Financial assets at FV through OCI - equities	24,437,966	135,418,841
Financial assets mandatorily at FV through PL - equities	1,804,358	3,342,304
TOTAL	**26,242,323**	**138,761,145**

3.9. Securitisation exposures

3.9.1. Introduction: Theoretical considerations on securitisation

The following disclosures refer to traditional securitisations held in the banking book and regulatory capital on these exposures calculated according to the Basel III standardised approaches to securitisation exposures.

BIL's role in the securitisation process is that of investor since it has about EUR 14.74 million of asset-backed securities (ABS) on a total portfolio of EUR 7.6 billion.

A traditional securitisation is a financial transaction or mechanism that takes the credit risk associated with an exposure or pool of exposures and divides it up into transferable tranches with the following characteristics:

a) Payments in the transaction or mechanism are dependent upon the performance of the securitised exposure or pool of exposures;

b) The subordination of tranches determines the distribution of losses during the life of the transaction or mechanism. A distinction is made between the Equity tranche (first-loss tranche), which is the riskier tranche, the Mezzanine tranche and the senior tranche. The senior tranche will be defined as BIL solely bought ABS with such a tranching.

The senior tranche can be defined as any tranche that is neither a first-loss nor a mezzanine tranche. Within the senior tranches, the super senior tranche is the top tranche in the priority of payments, without taking into account for these purposes any amounts owed under interest rate or currency derivatives, brokerage charges or similar payments.

3.9.2. Management of the bank's securitisation activity

The only activity in securitisation is done through investments in the banking book of the Bank. The Bank has no role of originator or sponsor of securitised deal.

To invest in securitised assets, the Bank complies to the strict investment guidelines that were approved by the Board of Directors. These guidelines stipulate that:

- Exposures on securitised assets could not exceed 10% of total size of portfolio;
- The Weighted Average Life (WAL) of each exposure must not exceed 5-year at the time of the trade;
- The evolution of the WAL must be followed on a monthly basis. If the WAL exceeds 5-year during the life of the issue, a specific investment committee is organised to make a decision on the future of the exposure;
- For any securitised asset in the portfolio, the portfolio manager will review the trustee reports once it is published and communicate it to the Credit Risk department;
- In the case the portfolio manager is uncomfortable with the published figures due to a weak performance of the pool, he will present the situation to the Investment Committee, which decides whether the exposure has to be sold or to be monitored further.

In 2021, the Bank did not invest in securitised products. On 31 December 2021, the total EAD for securitised products amounted to 14.74 million for 3 positions

3.9.3. Securitisation accounting policies

Currently, the Bank does not own any securitisation for which it would be originator/initiator.

Indeed, the Bank owns securitisations (ABS, MBS etc.) that it has acquired and not originated. These types of securitisation are classified in the portfolio of the Bank as Fair-Value-Through-OCI (FVTOCI) securities.

The Bank recognizes FVTOCI securities initially at fair value plus transaction costs.

Interest is recognised based on the effective interest-rate method and recorded under «Net interest income». The Bank subsequently measures FVTOCI financial assets at fair value.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as FVTOCI are recognised within equity, under the heading «Gains and losses not recognised in the consolidated statement of income». When securities are disposed of, or impaired, BIL recycles the related accumulated fair value adjustments in the consolidated statement of income as «Net income on investments».

BIL assesses on a forward-looking basis the associated expected credit losses ("ECL"). Impairment losses and releases are recorded as an adjustment of the financial asset's gross carrying value.

BIL recognises changes in ECL in the consolidated statement of income by recycling the OCI reserve and reports them as "Impairment on financial instruments and provisions for credit commitments".

3.9.4. Breakdown of securitisation exposures

The following table shows the securitisation breakdown by weighted risk in the banking book at year-end 2021:

	EAD (Standard)	RWA
Traditional securitisations	<= 20% RW	<= 20% RW
RMBS	14.74	2.95
TOTAL	**14.74**	**2.95**

4. Market risk

Market risk is the risk of losses resulting from adverse movements of market risk parameters (notably the interest rate risk, the spread risk, the equity price risk, the foreign exchange risk and the liquidity risk):

- The interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationships;
- The spread risk is the risk of a reduction in market value of an instrument due to changes in the credit quality of the debtor / counterparty;
- The risk associated with the equity price represents the risk arising from the reduction in value of the Bank's equity positions;
- The foreign exchange risk represents the potential decrease in value due to currency exchange rate movements;
- Liquidity risk measures BIL's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates.

4.1. Market risk governance

4.1.1. Organisation

Please refer to the 1.2.1 Organisation part of the report.

4.1.2. Policy and committees

In order to manage market and ALM risks in an efficient manner, BIL Group has defined a framework based on:

- An exhaustive risk measurement approach, which is an important part of BIL's risk profile monitoring and control process;
- A sound set of policies, procedures and limits governing risk-taking;
- As a core principle, the system of limits must be consistent with the overall risk measurement (including risk appetite) and management process and it must be proportionate to the capital position. These limits are set for the largest panel of risks as possible;
- An efficient risk management structure for identifying, measuring, monitoring, controlling and reporting risks: BIL's development of a general risk management framework is suited to the type of challenges it faces. This approach offers an assurance that market risks have been managed in accordance with BIL's objectives and strategy, within its overall risk appetite.

The Market & Liquidity Risk Management (MLRM) department oversees market risk under the supervision of the Executive Committee and specialised risk committees. Based on its global risk management approach, MLRM is responsible for identifying, analysing, monitoring and reporting risks and results (including the valuation of assets) associated with financial market activities at BIL and BIL Group level. The MLRM team is in charge of the charters, policies and guidelines definition and their application on financial market activities (Banking (of which ALM) Trading and Liquidity). Moreover, MLRM is the functional responsible of the main tools (Kondor+, Bloomberg), interfaces of the Dealing Room and the MLRM Datamart (FRMD).

The ALM Committee (ALCO) decides on the structural balance sheet positioning regarding the interest rates, foreign exchange and liquidity. It defines and revises market risk limits. Additionally, MLRM, in its day-to-day activity, is supported by two additional committees: Monthly Operational Committee (MOC) and New Products Committee (NPC). MLRM is a permanent member of the ALCO and the MOC.

The unit takes part in some projects involving the Dealing Room which require financial expertise and a global knowledge of the Bank on specific matters such as IFRS, Basel III, EMIR, MIFID, etc. due-diligence and ECB/EBA stress tests exercises.

Finally, MLRM is fully involved and takes an active part in the BIL transformation plan at several level, especially with the migration of a new Kondor+ interfaced with the new CBS (core banking system) planned in 2023.

4.1.3. Market risk reporting

Each desk of trading is covered by a set of appropriate reports. Financial instruments in a trading book are purchased or sold to facilitate trading for the Bank's customers, to profit from trading spreads between the bid and the ask prices, or to hedge against various types of risks. Financial instruments in the banking book are held for medium and long term period or until maturity.

The Financial Markets department is organised by activity and desk:

- Banking book: Treasury, Investment Portfolio, ALM and Long Term Funding;
- Trading book: Markets and Execution (Flow Management).

Each desk has specific access to the front-office system. Each book in the tool has a specific setting: banking or trading, but not both. All the settings of the front-office system are under the responsibility of MLRM. A Trading dealer cannot access to the Banking books and a Banking dealer cannot access to trading books. Trading dealers have not access to products like Loans & Deposits and so, they cannot take interbank positions (deposit for example) to reduce their exposures. The creation of a new book is submitted to an ad-hoc committee.

BIL's MLRM department and BIL's entities have the responsibility of implementing the Global Market and Trading Policy.

4.1.3.1. Trading Scope – FOREX

The different products are summarised in the table below (with n.a. meaning non-authorised transaction):

TRADING (close / open positions)	Luxembourg	Switzerland
FX Spot	open	close
FX Forward	open	close
FX Swap	open	close
FX Option (plain vanilla)	open	close
Non-deliverable forward	open	close
Non-deliverable options	close	n.a
Spot transactions on precious metals: gold, silver, platinum	open	close

The underlying scheme includes a global view on the composition and structure of the market risk management framework. This framework has been conceived in such a way as to be commensurate with the type of risks inherent to the different business poles of the Trading prudential activity.

Target MLRM framework	FX Spot Forward NDF	FX Option
VaR (IR & FX)	x	x
P&L – triggers	x	x
Stop Loss	x	x
Nominal limits	x	n.a
Greeks	n.a	x
Authorised maturity	x	x
Authorised currency	x	x

Triggers are calculated comparing the highest year-to-date (YTD) P&L and the current YTD P&L:
- Trigger 1: 25% of VaR, corresponding to 50% of the Trigger 3;
- Trigger 2: 37.5% of VaR, corresponding to 75% of the Trigger 3;
- Trigger 3: 50% of VaR.

The" stop loss" level is reached when the annual loss on the P&L reaches 65% of the VaR limit.

The FOREX position of BIL Luxembourg is managed in real time in Kondor+ (from Finastra).

MLRM produces on a daily basis reports whose objective is to:
- Measures the FOREX risk and P&L;
- Analyses and explains FOREX risks and P&L evolution;
- Monitors exposures versus limits;
- Produces reports with a view on VaR, sensitivity, P&L and Mark-to-Market, for each FOREX instrument.

4.1.3.2. Flow Management (Fixed income)

The product framework of the Fixed Income perimeter is detailed in the table below (n/a meaning non-authorised transaction):

	BIL LU	BIL CH	Constraints
Bonds		Position (YES) – Back-to-Back (BtB)	
ABS – MBS – Convertible	BtB		
Danish Mortgage bonds	YES	BtB with Lux	Liquid-Market Price
Other	YES		
Interest Rate Swap		For hedging purpose	
Plain Vanilla	YES	n/a	
Future Medium/Long Term			
Germany 2Y-5Y-10Y	YES	n/a	
Italian 3Y-10Y	YES	n/a	
France 3Y	YES	n/a	
US 5Y-10Y	YES	n/a	
AUD 3Y-10Y	YES	n/a	

The different types of limit are established and it is summarised in the table below:

	IR VaR	P&L Triggers	IR Sensitvity	Spread Sensitivity	Nominal	Holding Period	Stress Test	Greeks
Fixed Income	X	X	X	X	X	X	X	X

Remark:
- Regarding the negative evolution of the P/L, a system of early warning signals and limits is set and based on risk indicators (VaR and sensitivity).
- The BIL Structured Products come from the potential sell-back of client's positions.

MLRM produces on a daily basis reports whose objective is to:
- Analyse and explain fixed income risks and P&L evolution;
- Monitor exposures versus limits;
- Present a view on VaR, sensitivity, P&L, Mark-to-Market, holding period (by product and rating).

4.1.3.3. Execution

The product framework of the Execution activity is detailed in the table below:

BROKERAGE FUNDS & EQUITIES			
	BIL LU	BIL CH	Constraints
		Position (YES) – Back-to-Back (BtB)	
Equity		BtB with Lux	
Fund			
ETF + Warrant			
Mini Futures	BtB		
Option (plain vanilla)		BtB with LUX	
Futures			

The Execution team – in cooperation with IT and Back-Office Securities Departments processes the BIL client orders to different brokers, stock exchanges, Transfer Agents and funds promoters.

It should be noted that, neither BIL Luxembourg nor BIL Suisse, are allowed to take positions in equities (no trading).

4.1.3.4. Distribution & Structuring

During the primary period, the structured products presents a risk from the lack of client interest for the issue.

MLRM produces on a daily basis the reports which document:
- The level of the positions during the primary period. For a new issue, the position must be sold entirely. If it is not the case, the position will be either transferred to the secondary book or be unwound.

4.1.4. Risk measurement

Depending on the activities and the classifications of the books, the following methods are used to the financial risks:
- Mainly for the trading books and Treasury, BIL has implemented a historical Value-at-Risk (VaR). The VaR is the estimation of the maximum loss which may incurred on a portfolio in x days at a certain confidence level. The VaR is a Risk Appetite Statement's metric.
- The VaR is supplemented by a backtesting (BT). The BT gauges the accuracy of the VaR's model by comparing the predicted losses from calculated VaR with the actual losses realised at the end of the specified time horizon;
- Both for Banking and Trading books, BIL has implemented stress testing framework. Stress testing (also extreme scenario) allows to simulate exceptionally unfavourable market conditions such as crisis or stock market crashes for example. The study makes it possible to determine potential losses in extreme conditions that VaR or sensitivities cannot capture;
- The sensitivities measure the movement of an instrument or portfolio resulting from a variation in a risk factor (1% or 1 bp). This is used for interest rate risk and spread risk. For the spread risk, the variation of the risk factor is 1 bp. The method is applied on both trading and banking books; the IRRBB EVE and NII are part of the Risk Appetite Statement;
- The nominal measure is a simple method of limiting exposure to market risk. In general, it represents a maximum position of assets in currency;
- The Greeks measures are used mainly for FOREX and structured products positions;
- In order to limit the market risk of an activity, maturity are a complementary measure to certain others;
- The holding periods are implemented for some trading books activities. Even the CRR does not impose a specific detention period for trading activities, the article 103(a) however indicates that: "the institution shall have, for position / instrument or a portfolio, a trading strategy clearly documented and validated by the Board, which indicate the estimated holding period";
- Specific KPIs about the fraud risk allow to detect inappropriate prices, time dealing or movement at the dealing room level.

[1] BIL currently uses a historical VaR (99%, 10 days)
[2] BIL currently uses a hypothetical backtesting

4.1.5. Governance of limits[1]

Allocated limits

BIL's market limits are governed by the delegation principles approved by the BoD specifying the competence levels required to approve limits and overdrafts. The approval of limits is based on the following escalation structure. Above those thresholds, the new limit request process is triggered.

Type of limits/triggers		BIL Group	BIL/Entity	Business Line[2]	DESK[3]
RAF	Definition	BoD HO			
	Temporary Increase[5] (not possible for regulatory limits)				
BUSINESS	Definition	BoD HO	BoD HO	MB HO	MB HO
	Temporary Increase[5]			MB HO or ALCO HO[4]	ALCO HO

The principle of allocated limits is the same for regulatory and business limits. Limits derived from the regulatory limits are at the discretion of the Bank.

The level of the limits / triggers are based on:
- A strong business case;
- The risk appetite;
- The regulatory texts.

Limits and triggers are defined by Risk Management.

[1] This responds to the Article 435(1)(b) of the qualitative "Table EU MRA – Qualitative disclosure requirements related to market risk"
[2] Business Line: Banking Book ,Trading
[3] Desk: ALM, Treasury, Forex, etc.
[4] If entity or business line limit < 10% BIL Group or BIL entity or business line:
- The head-office ALCO is the approving instance for that limit
- Else, the agreement of head-office management is required
[5] Temporary increases are not authorized for up to 3 months:
- with an impact of less than 10% for BIL Groupe limits and
- less that 25% for business line and desk limits

Overdraft limits

Temporary overdraft is allowed for up to 3 months with an impact of less than 25% for business line and desk limits.

In case of overdraft:
An exceeding report must be drawn up jointly by the entity's Risk and Front Office. The Risk Department describes the overdraft and sets out the exposure to risk and the effects on revaluations. The Front Office proposes a solution. That report is filed by the Risk Department and forms part of the escalation process.

Any overdraft of the limits is notified on the same day in reports for the Front Office and for the Management Board.

Triggers

Triggers are defined as the alerts identifying deterioration in the value, P&L or the Other Comprehensive Income (OCI[1]) reserve of an activity. Any substantial loss recorded at entity or Financial Markets level is therefore automatically preceded by activation of a trigger at a lower threshold.

Depending on the risk measurement and limits defined for the activity, triggers are expressed as a percentage of the VaR limits, the upper sensitivity/scenario limits or the budgets.

There are several levels of triggers, depending on the levels of losses. Those levels may be defined in terms of either a business line or a desk.

The standard trigger thresholds are:
- Trigger 1: 50%;
- Trigger 2: 75%;
- Trigger 3: 100% of the limit indicator but may be varied depending on the characteristics of the business line or the specific desk in order to best reflect the Financial Risk Management for that line or desk in the best way.

Triggers are applied to the Banking and Trading books.

Calculation methods:
Triggers are activated as the result of a variation in the P&L over one year. The trigger calculation is based on the highest level of the P&L during the year. The aim is thus to monitor any negative change in the P&L over the year.

Trigger = P&LMax – P&LD

The P&L Max level which is used as the basis of calculating the triggers is reset daily and is compared with the P&L for the day (P&LD).

The triggers activating a stoppage of activity (Stop Loss) are measured on the basis of the yearly P&L for the day.

Stop_Loss = P&LD

Depending on the activity, if there is no VaR, an estimated figure is proposed based on the sensitivity/scenario.

Procedures relating to triggers:
Any trigger activation, threshold resetting and any activity stopping as the result of trigger activation must follow a precise and rigorous procedure

Trigger activation:
The responsibility level increases with the trigger level and the area in which the trigger overdraft occurs.

[1] The Other Comprehensive Income reserve (OCI Reserve) comes from financial investment that are booked in Held to Collect & Sales, meaning neither held for trading, nor held to maturity. Gains or losses from revaluation of the asset are put through a reserve in shareholder's equity except to the extent that any losses are assessed as being permanent, and the asset is therefore impaired, or if the asset is sold or otherwise disposed of. If the asset is impaired, sold or otherwise disposed of, the revaluation gains or loss implicit in the transaction is recognized as a revenue or expense.
[2] Economic Capital is defined as 4 times the VaR limit (and represents the 1 year horizon VaR).

RAF: Escalation in case of limits / triggers overdrafts:

Type of limit / Triggers	BIL Group	BIL / Entity	Business Line[1]	Desk[2]
RAF	BoD HO			

If a RAF limit is exceeded:

- MLRM drafts an exceeding report as soon as the limit excess occurs;
- MLRM notifies and sends the exceeding report to the CRO;
- The CRO informs the BRC;
- The CRO informs the JST;
- The head of MLRM informs the ALCO members;
- The exceeding report is presented to the next ALCO anyway

If a RAF trigger is exceeded:

- MLRM drafts an exceeding report as soon as the trigger excess occurs;
- MLRM notifies and sends the exceeding report to the CRO;
- The CRO informs the BRC;
- The CRO informs the JST;
- The head of MLRM informs the ALCO members;
- The exceeding report is presented to the next ALCO anyway.

Business escalation in case of limits / triggers overdrafts:

The business triggers are linked to the business activity in terms of P&L, value, VaR, stress-tests etc. They are considered as an alert and should allow a set of decisions – if the business estimate it is necessary – to avoid reaching the limits.

Depending on the risk measures and limits defined for an activity, triggers are expressed as a percentage of VaR limits, sensitivities / scenarios limits or budgets.

It can exist several level of triggers for an activity, depending on the level of losses.

A stop loss is an exceptional trigger which leads to the stop of the activity (the Bank takes its losses). That stoppage is not automatic and the decision must be taken by the MB.

Stoppage of the activity:

When a stop loss trigger is reached, the Management Board decides whether the activity is to be stopped or continued. There are a number of exceptions to a stoppage of activity as the result of a stop loss being triggered (exceptional market conditions, etc.). The Management Board takes the conditions into account when making its decision.

All the levels of triggers are described in the Trading, IRRBB and Liquidity policies.

If a business trigger is exceeded:

- MLRM drafts an exceeding report as soon as the limit excess occurs;
- Depending on the table below, the CRO should be informed:
  - BIL Group and BIL Entity: trigger 1 / 2 / 3
  - Business line, trigger 2 / 3[3]
  - Desk, trigger 3
- The CRO informs the BRC in case of trigger 3 (BIL Group, BIL / Entity / Business line);

- The CRO informs the JST if the trigger is part of the regulatory texts or obligations (e.g. Liquidity Recovery Plan);

Depending on the trigger level and perimeter, (BIL Group, BIL / Entity, Business Line T2 & T3, desk T3), the ALCO members are informed of the breach and the exceeding report is presented to the next ALCO anyway. If the trigger is linked to RAF indicators, the Management Body is alerted.

[1] Business Line: IRRBB, Trading.
[2] Desk: ALM, Treasury, FOREX, etc.
[3] Several level of triggers are defined, based on the P&L or the value-at-risk. They are detailed in the ad-hoc risks policies

FIGURE: ESCALATION STRUCTURE OF LIMITS OVERDRAFTS

Business Trigger Level	BIL Group	BIL / Entity	Business Line	Desk
1	HO P&M	HO P&M	HO P&M	HO Desk
2	ALCO	ALCO	ALCO	HO P&M
3	MB	MB	MB	ALCO

Depending of the activities[3], some of them have no trigger and are directly submitted to limits.

Type of limit / Triggers	BIL Group	BIL / Entity	Business Line[1]	Desk[2]
ESCALATION	MB	MB	MB	ALCO

If a business limit is exceeded:

- MLRM drafts an exceeding report as soon as the limit excess occurs;
- MLRM notifies and sends the exceeding report to the CRO;
- The CRO informs the BRC;
- The CRO informs the JST if the trigger is part of the regulatory texts or obligations;
- The head of MLRM informs the ALCO members;
- The exceeding report is presented to the next ALCO anyway.

Specific features of limits

VaR and other measures:

Under the circumstance that there is a VaR limit in combination with other limits, and the latter may govern the same risk in a different context, both of them must be respected.

Limit currencies:

Limits are expressed in €. When there is a sharp variation in the exchange rate, the limits should be reviewed.

Review of limits:

BIL's consolidated limits and limits by entity must be reviewed at least once a year in accordance with the approval process described in section 6.2 (governance of limits).

[1] Business Line: IRRBB, Trading.
[2] Desk: ALM, Treasury, FOREX, etc.
[3] Please refer to IRRBB, Trading or Liquidity policies.

4.2. Market risk exposure

4.2.1. Financial Market

The VaR used for financial markets' activities (trading book) is disclosed in the table below. The average Value at Risk was EUR 0.17 million in 2021, compared with quasi the same amount in average in 2020: EUR 0.16 million in 2020.

VaR (10 days 99%) (in EUR million)		2020							
		IR & FX (trading and banking)				EQT trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.17	0.14	0.16	0.16	0.01	0.00	0.00	0.00
	Maximum	0.29	0.21	0.65	0.52	0.07	0.01	0.00	0.02
Global	Average	0.17							
	Maximum	0.65							
	End of period	0.03							
	Limit	**2.00**							

VaR (10 days 99%) (in EUR million)		2021							
		IR & FX (trading and banking)				EQT trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.17	0.16	0.18	0.17	0.00	0.00	0.00	0.00
	Maximum	0.53	0.46	0.63	0.44	0.01	0.00	0.00	0.00
Global	Average	0.17							
	Maximum	0.63							
	End of period	0.09							
	Limit	**2.00**							

The Treasury activity is monitored daily through sensitivity limits, based on a +100bp parallel shift. The Treasury sensitivity limit has been downsized from EUR -20M to EUR -9M, reflecting the lower exposure on the Treasury book observed recently and expected in the upcoming year.

As at December 31, 2021, the Treasury sensitivity was EUR 4.4 million compared with EUR 3.39 million in 2020.

Sensitivity +1% (in EUR million)	2020			
	Treasury			
	Q1	Q2	Q3	Q4
End of period	0.48	2.64	5.14	3.39
Limit	-20.00			

Sensitivity +1% (in EUR million)	2021			
	Treasury			
	Q1	Q2	Q3	Q4
End of period	5.96	3.11	3.71	4.40
Limit	-9.00			

4.2.2. Asset & Liability Management (ALM)

Asset and Liability Management (ALM) in general terms is referred to as an on-going process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

The ALM function scope covers both a prudential component (management of all possible risks, rules and regulations), and an optimization role (management of funding costs and generating results on balance sheet position), within the limits of compliance (implementation and monitoring with internal rules and regulatory set of rules). ALM intervenes in these issues of current business activities but is also consulted to organic development and external acquisition to analyse and validate the funding terms options, conditions of the projects and any risks (i.e., funding issues in local currencies).

The Management Board mandates the Asset & Liability Committee (ALCO) to decide on the structural positioning of the Bank's balance sheet in terms of rates, foreign exchange and liquidity. The ALCO has the central purpose of attaining goals defined by the short- and long-term strategic plans.

The ALM programs focus traditionally on interest rate risk and liquidity risk because they represent the most prominent risks affecting the organization balance-sheet (as they require coordination between assets and liabilities). MLRM is responsible for controlling, measuring and monitoring the ALM activity at mother company's and legal entities' levels.

These tasks are organised on a daily basis for operational and mark-to-market aspects including the daily analyses of potential frauds or abnormal transactions.

Regulatory reports are produced on a monthly basis. The following balance sheet risk figures are calculated and communicated to the ALM Department for presentation to the ALCO.

The limits are monitored by Market and Liquidity Risk Management. In case of a breach, the ALM Committee is warned and potentially takes the following decisions:
- Either to ratify the breach until further notice or until a specific event or date (in case of technical overdraft or rapid resolution);
- Or to charge the ALM Department to take countermeasures to regularize the situation.

Market and Liquidity Risk Management also challenges on a monthly basis the "Rate ALM result" calculated by the ALM Department. P&L and Financial investment at Fair Value Through OCI (FVTOCI) triggers are also monitored on this occasion. When figures are validated, Financial Risk Management informs Finance and the "Rate ALM result" can be reported to the Management Board.

Finally, Market and Liquidity Risk Management is responsible on an ad-hoc basis for:
- Following-up specific risk;
- Defining risk calculation methodologies and ensuring their consistency;
- Ensuring compliance with market and counterparty limits;
- Keeping guidelines and policies up-to-date at Financial Markets and Bank (for liquidity) levels.

As at 31 December 2021, the ALM sensitivity[1] amounted to EUR 9.8 million (vs EUR -1.4 million as at end 2020).

Over 2021, the ALM department managed its rate position so that it is neutral as possible regarding parallel shocks (meaning in a range of – 25 million to + 25 million)

The limit of interest-rate sensitivity for a 100 bp parallel shift is EUR -90 million[2] as at 31 December 2021 (EUR 119 million as at 2020 year-end).

4.2.3. Investment portfolio

The purpose of this portfolio is both to earn a reasonable risk adjusted return, and to serve as a liquidity reserve for the Bank notably regarding the Liquidity Coverage Ratio

The interest rate risk of the Investment Portfolio is transferred and managed by the Treasury department or by the ALM department, depending on various criteria (i.e. maturity, sector, etc.).

MLRM monitors on a monthly basis:
- The duration;
- The liquidity aspects (Central banks eligibility limits, LCR eligibility limits);
- The geographical breakdown (global view and PIIGS exposure);
- The currency limits;
- The asset type (global, securitization assets);
- Type of issue and coupon type;
- The average rating and rating limits;
- Concentration limits (individual exposure, individual exposure by rating bucket).

[1] Sensitivity (+1 %), consolidated ALM perimeter (own funds excluded
[2] The +100bp parallel shift limit is set in relation with the regulatory IRRBB limits.

The sensitivity of the portfolio is dispatching between the ALM and the Treasury departments. Concerning the Treasury, the risk figures are calculated on a daily basis while it is on a monthly basis for the ALM.

The investment portfolio had a total nominal exposure of EUR 7.6 billion as at 31 December 2021 (against EUR 7.9 billion as at 31 December 2020). Following IFRS 9 introduction, most of the bonds are classified in the "Hold-to-Collect"(HTC) portfolio measured at amortised cost: EUR 6.8 billion as at 31 December 2021 (EUR 7 billion as at 31 December 2020). The remaining part is classified in the "Hold-to-Collect and Sell" (HTC&S) portfolio measured at fair value through OCI: EUR 0.8 billion as at 31 December 2021 (EUR 0.9 billion as at December 31, 2020).

The fair value sensitivity of the HTC&S portfolio to a one basis point widening of the spread (booked in the OCI reserve), was 0.3 EUR million as at December 31, 2021 (EUR 0.3 million per basis point as at December 31, 2020).

Investment portfolio FVTOCI (in EUR million)	**Notional amount**		**Rate bpv**		**Spread bpv**	
	31/12/2020	**31/12/2021**	**31/12/2020**	**31/12/2021**	**31/12/2020**	**31/12/2021**
Treasury	229	152	0.00	0.00	-0.07	-0.08
ALM	720	650	-0.01	-0.01	-0.25	-0.17

4.2.4. Backtesting

The backtesting measures the accuracy of the VaR model by comparing the predicted losses from calculated VaR with the actual losses realised at the end of the specified time horizon. There are two methods:

- Hypothetical backtesting is carried out daily based on the fixed positions of two days before (D-2) and then, it compares the profits and losses with the market data from changes between two days before (D-2) and the day before (D-1). That difference is then compared with the VaR (99%, 1D) for the previous day. BIL has adopted this method;

- Actual backtesting uses the same method, but compares the results of actual days' trading with the VaR (99%, 1D). It is based on the actual P&L for the day and therefore, the day's purchases/sales and any costs and commission.

An exception occurs when the calculated P&L exceeds the VaR (99%, 1D).

In 2021, the hypothetical backtesting calculated on the trading portfolio revealed 2 downward backtesting exceptions following market data variations:

- Increase in EUR/USD exchange rate impacting FX options 21/06/2021;
- Increase in EUR/GBP exchange rate impacting FX options 09/09/2021;

4.2.5. Systems and controls

On a daily basis, MLRM calculates, analyses and reports on the risks and results at a consolidated level.

All market activities are backed by specific charters and policies describing the objectives, the authorised products, sensitivity, VaR and/or outstanding limits, etc.

The systems and controls established inside the Bank are described in various procedures with a comprehensive framework that is in place to support those who are responsible for managing market risks.

4.3. Liquidity risk

BIL's approach to liquidity management aims to verify that it will always have sufficient liquidity when due, under both normal and stressed conditions, to meet payment obligations in a timely manner and at acceptable costs.

The Head-Office (HO), the branches and the subsidiaries are each responsible for meeting their own liquidity needs in coordination with the HO. HO acts as the lender of the last resort.

The main actor of the liquidity management is the Banking Book Management Department, which encompasses the Treasury, the ALM, the Long-Term Funding and the Investment Portfolio departments. This department is part of Financial Markets.

The responsibility for monitoring liquidity lies with MLRM.

The liquidity management process is based upon covering funding requirements with available liquidity reserves. Funding requirements are assessed carefully, dynamically and comprehensively by taking the existing and planned on- and off-balance sheet asset and liability transactions into consideration. Reserves are constituted with assets eligible for refinancing with the central banks to which BIL has access (Banque Centrale du Luxembourg (BCL) and Swiss National Bank (SNB)).

Regular information channels have been established for Management Bodies to manage the liquidity on a continuing way:

- A daily report ("Daily Liquidity Dashboard" that groups the LCR and the projection of liquidity needs up to 5 days) is sent to the Financial Markets teams, the CRO and the Head of Financial Markets;
- A weekly report ("Liquidity Risk Stress Test" that compares the liquidity reserves to liquidity needs up to 12 months according 3 scenarios) is sent to the CEO, the CRO, the ALM Committee members, the Risk Management, the Treasury and ALM teams. This weekly report has been completed with a USD stress over 12 months in 2021. On an annual basis, a reverse stress test is produced.

These reports are sent to the Treasury, ALM and Investment Portfolio departments, which are in charge of the liquidity management.

In parallel, the Contingency Funding Plan (CFP) groups information to respond to severe disruptions to a bank's ability to fund some or all of its activities in a timely manner and at a reasonable cost. A robust CFP contains clear policies and procedures that will enable the Management to make timely and well-informed decisions, execute contingency measures rapidly and proficiently, and communicate effectively to implement the plan efficiently, including:

- A set of recovery options;
- Clear allocation of roles and responsibilities, including the authority to invoke the CFP;
- Names and contact details of members of the team responsible for implementing the CFP;
- Designation of alternates for key roles.

An analysis of the balance sheet development (e.g. customer deposits) is also presented and commented during the ALM Committee meetings.

In accordance with the regulation[1], BIL is submitted to the Internal Liquidity Adequacy Assessment Process (ILAAP).

The ILAAP thus contains all the qualitative and quantitative information necessary to underpin the Risk Appetite, including the description of the systems, processes and methodology to measure and manage Liquidity and Funding Risks. BIL will produce, at least once per year, a clear and formal statement on its liquidity adequacy, supported by an analysis of ILAAP outcomes and approved and signed by the Management Board. The Bank integrates ILAAP outcomes regarding the evolution of material risks and indicators into their internal reporting at an appropriate frequency (ALM Committee, the Risk Dashboard, etc.).

Finally, the Bank produces the Liquidity Adequacy Statement ("LAS"). The purpose of this document is to address a re- quest from the ECB, as stated in a letter (7 February 2019) entitled as the "Technical implementation of the EBA Guidelines on ICAAP and ILAAP information collected for SREP purposes", to produce a concise statement about the view of the Management Bodies with regards to the institution's capital adequacy, supported by the analysis of the ILAAP set-up and results.

4.3.1. Main reference documents

The reference documents to monitor the Liquidity and the Funding management framework of BIL Group are detailed in:

- The Liquidity Risk Policy, which defines the normative and organizational framework governing the Liquidity Management activity line within the Bank;
- The Fund Transfer Pricing Charter, which is an important tool in the management of the Bank's balance sheet structure and in the measurement of risk adjusted profitability taking into account liquidity spread, maturity transformation and interest rate;
- The Contingency Funding Plan (CFP), as already mentioned above, which is the set of policies, procedures and action plans for responding to severe disruption. The CFP is activated immediately after the breaches happened to the indica- tors inside the Liquidity Risk Appetite Statement (RAS). The CFP is in line with the Recovery Plan of the Bank.

[1] Article 86 of Directive 2013/36/EU (CRD IV), Guidelines on ICAAP and ILAAP information collected for SREP purposes" (EBA/GL/2016/10).

4.3.2. Concentration of funding and liquidity source

BIL uses differentiated funding sources as at 31 December 2021 of which:

Concentration of funding by product type					
Product Name	Carrying amount received	Amount covered by a Deposit Guarantee Scheme in accordance with Directive 2014/49/EU or an equivalent deposit guarantee scheme in a third country	Amount not covered by a Deposit Guarantee Scheme in accordance with Directive 2014/49/EU or an equivalent deposit guarantee scheme in a third country	Weighted average original maturity	Weighted average residual maturity
PRODUCTS GREATER THAN 1% OF TOTAL LIABILITIES					
RETAIL FUNDING	**10,450,311,471**	**4,468,855,594**	**5,981,455,877**	**145**	**90**
of which sight deposits	*6,519,936,703*	*2,807,728,058*	*3,712,208,645*		
of which term deposits not withdrawable within the following 30 d.	*179,131,465*	*0*	*179,131,465*	*467*	*157*
of which term deposits withdrawable within the following 30 d.	*21,235,188*	*0*	*21,235,188*	*26*	*24*
Savings accounts					
with a notice period for withdrawal greater than 30 d.	0	0	0	0	0
without a notice period for withdrawal greater than 30 d.	2,962,588,238	1,661,127,536	1,301,460,702	1	1
WHOLESALE FUNDING					
Unsecured wholesale funding	16,579,074,597	102,515,439	16,476,559,157	697	457
of which loans and deposits from financial customers	*5,623,565,144*		*5,623,565,144*	*133*	*72*
of which loans and deposits from non financial customers	*6,620,472,376*	*102,515,439*	*6,517,956,937*	*189*	*83*
Secured wholesale funding	2,827,680,115	0	2,827,680,115	690	681
of which SFTs	*638,346,548*	*0*	*638,346,548*	*92*	*62*

4.3.3. Risk measurement

The internal liquidity management framework includes indicators enabling the assessment of BIL's resilience to liquidity risk. These indicators include liquidity ratios and liquidity gaps; the latter compares liquidity reserves with liquidity needs. These ratios are sent to the CSSF and to the ECB, on a daily and a weekly basis respectively.

4.3.4. Risk exposure

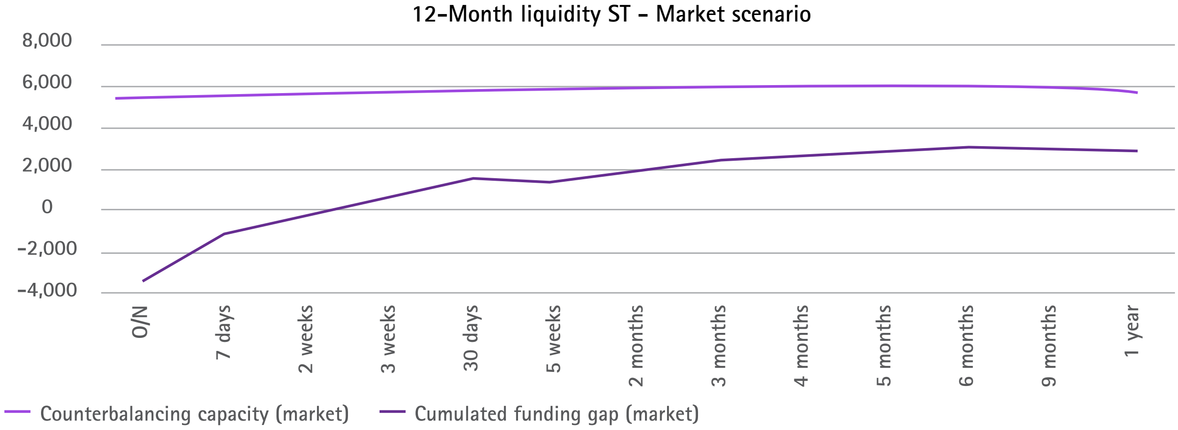
Each day, a liquidity report containing the liquidity projection up to five days and a daily estimated LCR solo is sent to the Chief Risk Officer, the Chief Financial Officer, the ALM and Treasury teams.

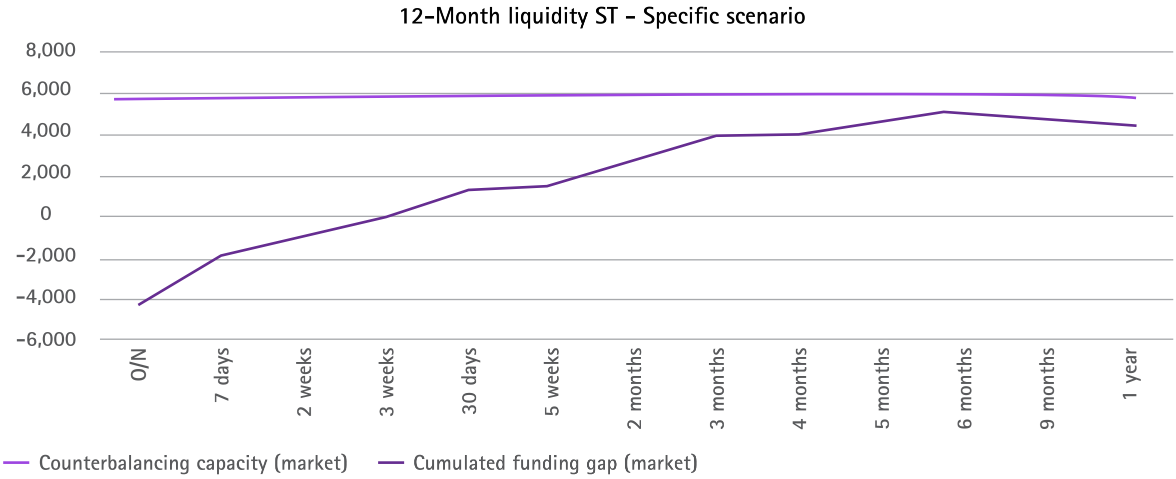
In addition, a weekly stress liquidity report is sent to the Chief Executive Officer, the Chief Risk Officer, the Head of Financial Markets, the ALM Committee members, the Risk Management, the ALM and Treasury teams. The liquidity risk is captured through three scenarios which are considered as an early warning indicator for the LCR evolution within the next 12 months:

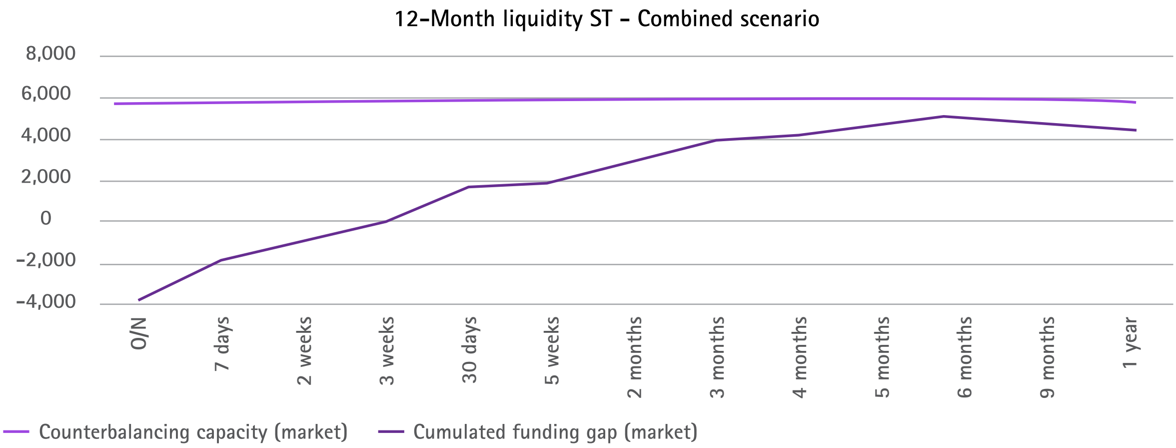
- Market-wide scenario, which focuses on a depreciation of the Bank's assets and additional margin calls taking into account of the of adverse market conditions;
- Idiosyncratic scenario, which highlights a loss of confidence from BIL's counterparties;
- Combined scenario, which is a mix of the two previous scenarios.

EUR million		Market-Wide			Idiosyncratic			Idiosyncratic		
31/12/2021		Cumulated funding gap	Cumulated buffer	Ratio	Cumulated funding gap	Cumulated buffer	Ratio	Cumulated funding gap	Cumulated buffer	Ratio
HORIZON	3-month	1,421	5,044	355%	3,176	5,090	160%	3,552	5,044	142%
	6-month	1,618	4,962	307%	3,929	5,028	128%	4,083	4,962	122%
	12-month	1,795	4,463	249%	3,697	4,491	121%	3,533	4,463	126%

The chart below presents the results of the stress test:







The stress results are presented to the ALCO with the other main liquidity indicators (e.g. LCR, NSFR, variation customer deposits, etc.).

In addition to the Management Board, this report is sent weekly to the ECB.

Part of the Bank's excess cash is invested in the Investment Portfolio as a liquidity buffer. This portfolio is mainly composed of central bank-eligible bonds, which are also compliant with the Basel III package requirements, i.e. the . the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Reverse stress testing

The reverse stress testing is a tool for the Bank that allows to explore and identify the circumstances that might cause a pre-defined outcome at which BIL Group can be considered as failing or likely to fail. This stress makes also reference to the EBA definition.

Identified risk factors	Risk factor sensitivity to	Impact after 12 months (EUR million)
• Retail – Term deposit • Retail – Sight deposit • Non-Financial and Others – Term deposit • Non-Financial and Others – Sight deposit	Increase of the monthly outflow rate with 1%	-15 **-552** -50 **-276**
• Retail – Term loans • Non-Financial and Others – Term Loans	Decrease of Monthly rollover rate with 1%	+40 +47
• Committed facilities	Increase of the monthly outflow rate with 1%	-34
• Credit Concentration	Default of Top 3	-142
• Funding Concentration	Outflow of Top 3	-1,177
Buffer – Counterbalancing capacity • Interest Rate sensitivity • Credit spread sensitivity • USD buffer • Rating	 Increase of 1% Increase of 1% USD Buffer not anymore eligible Downgrade of 3 notches	 -38 -375 -465 -25
Collateral amount • Market stress • Outflows from non-HQLA	 Covid stress Non-HQLA Haircut to 50%	 -200 -355
Currency Liquidity Position • Liquidity position in USD • Liquidity position in CHF	Limited FX market on cash position	 -465 -268
BIL Suisse Liquidity Position	Intragroup transaction limited to 100 million	-313

The calibration of the reverse stress test begins with an analysis of the risk factors and the sensitivity of the net liquidity position to each individual risk factors. The following table discloses the outcome of this analysis for the main identified risk factors. From the identified risk factors and associated liquidity sensitivities, three scenarios will be calibrated with the following narratives:

Loss of confidence

The Bank faces to a loss confidence with huge (to be calibrated) outflows from retail and non-financial depositors (in addition to the outflow of three main funding contributors).

Credit risk stress

A credit risk scenario arises in the financial market with the default of top 3 financial credit exposures. Consequently, the credit spreads sharply increase, and the equity market drops (impacting the amount the collateral). Additional outflows on deposits are calibrated until that the net liquidity positions breaches.

USD Market

After a geopolitical event, the access on the USD market is closed; the buffer denominated in USD is not anymore eligible; the credit spreads and the interest rates increase while the equity market drops.

After the review of the risk factors by the head of Treasury, the stress on non-HQLA securities is not anymore part of any stress scenario because the collateral swaps will be not prolonged in 2022.

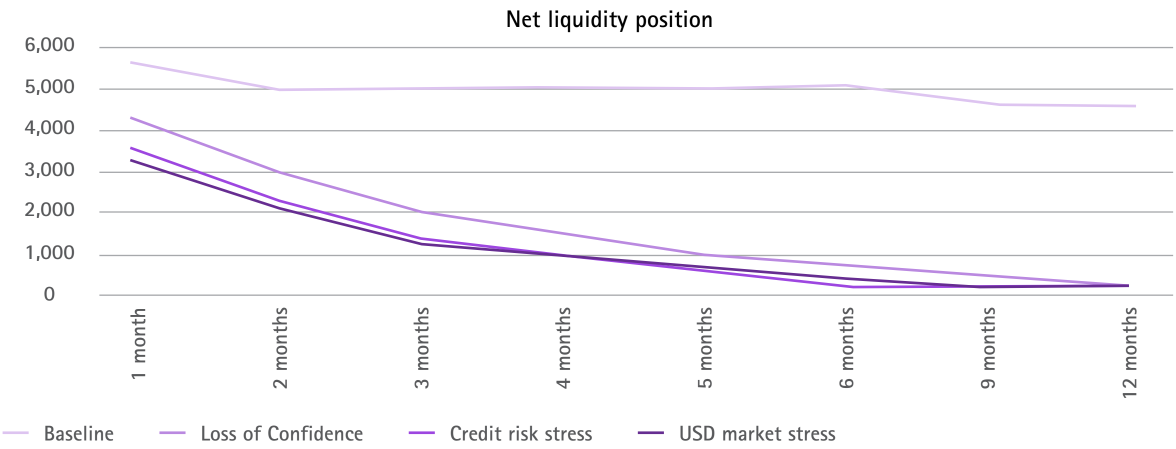
For each scenario, the outflow rates of deposits coming from retail and non-financial counterparties are calibrated to breach the net liquidity position on the 12-month horizon. As an additional stress, some committed lines are also drawn. In order to counterbalance the impact of the outflow, the volume of non-financial loans is reduced while the market share on retail loans is preserved. As a reminder, the outflow rate for the Credit and Financial institutions deposits is 100% while their term loans are not rolled over (underlying assumption of the baseline scenario).

The following table summarizes the outcome of the calibration step:

		Loss of confidence	Stress on credit risk	Stress on USD market
Retail - Term deposit	Yearly Average Outflow rate	16%	13%	11%
Retail - Sight deposit	Cumulated Outflow rate after 12 months	**23%**	**19%**	**16%**
Non-Financial - Term deposit	Yearly Average Outflow rate	22%	24%	25%
Non-Financial - Sight deposit	Cumulated Outflow rate after 12 months	**33%**	**35%**	**36%**
Retail - Term Loans	Yearly Average Roll-over rate	100%	100%	100%
Non-Financial - Term Loans	Yearly Average Roll-over rate	92%	77%	84%
Facilities	Cumulated Outflow rate after 12 months	0%	10%	10%

Within a stressed environment, the liquidity position of the Bank starts to be at-risk if the Bank observes that, **together**, the cumulated retail outflow rate **is higher than 15%** and the cumulated non-financial outflow rate **is higher than 30%**.

After calibration of the outflow rates, the reverse stress scenarios are fully designed and the evolution of the evolution of the net liquidity position can be estimated as disclosed in the following chart:



The two following tables detail the evolution of liquidity indicator over the next 12 month. The first table focus on the net liquidity indicator (amount expressed in EUR million) and the second one provides the internal liquidity ratio (with a limit of 105%):

Net Liquidity Position	1 month	2 months	3 months	4 months	5 months	6 months	9 months	12 months
Baseline	5,558	5,080	5,056	5,058	5,019	5,057	4,719	4,736
Loss of Confidence	4,363	3,001	2,282	1,723	1,065	524	148	-50
Credit risk stress	3,624	2,409	1,741	1,219	632	130	-34	-50
USD market stress	3,363	2,223	1,618	1,165	671	273	4	-50

Liquidity ratio	1 month	2 months	3 months	4 months	5 months	6 months	9 months	12 months
Baseline								
Loss of Confidence		248%	182%	152%	127%	112%	103%	99%
Credit risk stress		207%	159%	135%	116%	103%	99%	99%
USD market stress		219%	166%	140%	120%	107%	100%	99%

Under the baseline scenario (where all financial deposit are not renewed), the liquidity position decreases from 5.5 EUR billion to 4.7 EUR billion. Under the reverse stress scenario, the liquidity position sharply decreases to less than 200 million over 6 months. At this stage, the liquidity ratio reaches the limit of the risk appetite; the Bank has still three months to restore its liquidity position before to be out of cash. However, the final outflow putting the net liquidity position in red is quite small (less than 200 million).

In the light of the reverse stress test exercise, a review of the regular liquidity stress tests will be performed and notably encompass:
- An assessment of additional relevant reverse stress tests risk factors that are not yet captured in liquidity stress tests;
- An assessment of a change in the calibration of several risk factors already captured in the liquidity stress tests, based on the sensitivity analysis performed within the reverse stress testing framework.

4.3.5. Liquidity Coverage Ratio

As the main short-term liquidity reference indicator, the LCR requires the Bank to hold sufficient High-Quality Liquid Assets (HQLA) to cover its total net cash outflows over 30 days. The methodology of the ratio is compliant with the CRR (Delegated Act based on art. 462 of the CRR).

It is worth mentioning that the LCR has an impact on the asset structure as well as the funding profile of the Bank. LCR forecasts therefore become an integral part of the decision-making process of the Management Bodies.

(in EUR million)	31/12/2020	31/12/2021
Stock of HQLA	7.28	10.30
Net Cash Outflows	4.19	7.28
LCR ratio	174%	142%
Regulatory limit	100%	
Internal limit	110%	
Trigger	115%	

BIL's liquidity situation remained solid throughout 2021 notwithstanding the ongoing uncertainties due to the COVID-19 pandemic. While maintaining a cautious and proactive approach in managing its liquidity position, the BIL Group worked on the optimization of its funding costs leading to a deliberately decreasing LCR (on a consolidated basis) from 174% to 142% between end of December 2020 and December 2021.

The LCR excess liquidity remained slightly above EUR 3 billion (same level as at the end of December 2020), supported by the new production of long-term debt issued by the bank, amounting to EUR 1.8 billion in 2021 and the increase in deposits (sight and term deposits with a residual maturity greater than 30 days) from retail counterparties. The investment portfolio purchases have been concentrated on HQLA eligible securities, LCR level 1 securities representing nearly 70% of the total investment portfolio as at December 31, 2021.

The overall excess liquidity of BIL placed at central banks increased strongly from EUR 3.7 billion on average in 2020 to EUR 4.6 billion in 2021.

In order to lengthen the maturity profile, BIL reimbursed anticipatively two former TLTRO III tranches for a total amount of EUR 700 million and took up simultaneously the same amount in the September 2021 tender. BIL also participated in the last TLTRO III operation conducted in December 2021. BIL's combined outstanding in TLTRO III has been prudently increased from EUR 1.5 billion to EUR 2.2 billion in the context of a very uncertain macroeconomic environment with the objective of continuing to provide intermediated financing to our customers. The Bank currently utilize around 67% of its theoretical allowance in line with global market price.

For further details, please refer to the hereafter table elaborated in line with the circular CSSF 18/676 on LCR disclosure.

EU LIQ1: LCR DISCLOSURE TEMPLATE AND THE TEMPLATE ON QUALITATIVE INFORMATION ON THE LCR (ANNEX II) WHICH COMPLEMENTS ARTICLE 435(1)(F) OF REGULATION (EU) NO 575/2013

	Scope of consolidation (consolidated)								
	Currency and units (EUR million)	Total unweighted value				Total weighted value			
	Quarter ending on (DD Month YYY)	31 March 2021	30 June 2021	30 September 2021	31 December 2021	31 March 2021	30 June 2021	30 September 2021	31 December 2021
	Number of data points used in the calculation of averages	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
	HIGH-QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)					**7,812.11**	**8,688.74**	**9,384.89**	**10,205.83**
	CASH-OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	9,321.86	9,429.11	9,516.54	9,611.89	988.60	991.54	989.83	986.77
3	*Stable deposits*	3,679.29	3,751.51	3,813.94	3,862.22	183.96	187.58	190.70	193.11
4	*Less stable deposits*	5,641.46	5,676.72	5,686.94	5,687.28	804.64	803.96	799.13	793.66
5	Unsecured wholesale funding	8,223.77	8,122.55	8,129.15	8,263.38	5,722.42	5,621.17	5,588.56	5737.52
6	*Operational deposits and deposits in networks of cooperative banks*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	*Non-operational deposits (all counterparties)*	8,196.17	8,091.02	8,104.79	8,233.32	5,694.81	5,589.64	5,564.20	5,707.46
8	*Unsecured debt*	27.61	31.53	24.36	30.06	27.61	31.53	24.36	30.06
9	Secured wholesale funding					42.90	43.36	42.37	18.57
10	Additional requirements	3,282.13	3,318.57	3,280.79	3,316.33	592.34	606.86	585.08	573.76
11	*Outflows related to derivative exposures and other collateral requirements*	219.78	222.58	216.08	208.80	219.78	222.58	216.08	208.80
12	*Outflows related to loss of funding on debt products*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	*Credit and liquidity facilities*	3,062.35	3,095.99	3,064.71	3,107.53	372.57	384.27	369.00	364.97
14	Other contractual funding obligations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15	Other contingent funding obligations	1,081.32	1,067.99	1,117.67	1155.44	10.18	10.68	11.18	11.55
16	**TOTAL CASH OUTFLOWS**					**7,356.44**	**7,273.61**	**7,217.02**	**7,328.17**
	CASH-INFLOWS								
17	Secured lending (e.g. reverse repos)	7,853,088,273	5,703,205,61	4,197,876,362	5,990,885,762	919,555,853	-	-	1,113,444,307
18	Inflows from fully performing exposures	2,149.58	1,498.87	1,005.61	392.36	2,073.85	1,430.52	928.05	292.57
19	Other cash inflows	2,054.30	2,001.05	1,884.74	1,635.34	438.12	428.40	405.37	354.54
EU-19a	Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies					-	-	-	-
EU-19b	Excess inflows from a related specialized credit institution					-	-	-	-
20	**TOTAL CASH INFLOWS**	**4,211.73**	**3,505.63**	**2,894.55**	**2,033.69**	**2,512.88**	**1,858.92**	**1,333.42**	**648.22**
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	**4,211.73**	**3,505.63**	**2,894.55**	**2,033.69**	**2,512.88**	**1,858.92**	**1,333.42**	**648.22**
21	**LIQUIDITY BUFFER**					**7,812.11**	**8,688.74**	**9,384.89**	**10,205.83**
22	**TOTAL NET CASH OUTFLOWS**					**4,843.56**	**5,414.69**	**5,883.60**	**6,679.96**
23	**LIQUIDITY COVERAGE RATIO (%)**					163.47%	163.19%	162.07%	153.15%

Qualitative information on LCR, which complements the LCR quantitative disclosure template above:

Concentration of funding and liquidity sources	**Please refer to the dedicated section in "4.3.2. Concentration of funding and liquidity source"**
Gross derivative exposures	• Derivative assets , gross variation margin received : 23.8 Million (Partially margined) and 1.50 million (Un-margined Netting sets(NS)); • Derivative liabilities, gross of variation margin received:-179.9 million (Fully margined),-74.1 million (Partially margined) and 3.2 million (Un-margined Netting sets (NS)).
Currency mismatch in the LCR	The only relevant currency is USD. The consolidated LCR USD ratio is about 54%. Please note that it is in line with a SREP obligation, BIL closely monitors its LCR in USD.
A description of the degree of centralisation of liquidity management and interaction between the Group's units	The degree of centralisation of BIL's liquidity management is high. The Luxembourg Head Office offers quotation, deposit and funding services to our branches and subsidiaries, and acts as lender of last resort for BIL Switzerland. The Swiss unit has a limited treasury activity and could potentially trade in the market outside the BIL Group. However, given the current environment with a declining interbank market, it concludes most of its deals with the Head Office as well. Furthermore, both entities hold their Nostro accounts with BIL Luxembourg, in addition to a Nostro account with their respective central bank. The interaction between the different entities is governed by a SLA.
Other items in the LCR calculation that are not captured in the LCR disclosure template but the institution considers relevant for its liquidity profile	N/A

4.3.6. Net Stable Funding Ratio

The NSFR, reflecting the long-term liquidity position of an institution, requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress. Pending the official EU calibration of the NSFR, the calculations are based on Basel III calibration included in the Quantitative Impact Study (QIS) and reported in the Short-Term Exercise (STE).

in EUR billion	**2020[1]**	**2021**
Available Stable Funding (ASF)	19.28	20.82
Required Stable Funding (RSF)	16.11	16.44
NSFR ratio	120%	127%
Trigger	106%	
Limit	104%	

The NSFR has risen significantly last year from 120% to 127%. This variation is mainly driven by the issuance of debt securities, source of stable funding, which have been partially invested in deposits at the central banks, resulting in higher increase in the ASF than in the RSF. To a lesser extent, two methodological changes linked to the entry into force of CRR II regulation in June 2021 have contributed to reducing the RSF amount:

- RSF CRR factor of 0% for liquid assets unencumbered or encumbered for a residual maturity of less than six months (instead of RSF Basel Factor of 5%);
- Deduction of variation margin posted if eligible HQLA Level 1 into the calculation of RSF from derivative assets.

[1] The NSFR as at December 31, 2020 was based on Basel III calibration

4.3.7. Asset encumbrance

Since 2016, the Bank has set up a report of key metrics and a limit regarding asset encumbrance which is based on data of regulatory reporting. The following metrics have been selected to provide key information:

- Level of asset encumbrance;
- Credit quality of unencumbered debt securities;
- Sources of encumbrance;
- Contingent encumbrance.

A reference to the LCR classification has been added in the section "Credit quality of unencumbered debt securities" in order to give complementary information about the quality of unencumbered assets.

The European Asset Encumbrance ratio[1] is calculated and presented in the internal report presented during ALM Committee and BRC and sent quarterly to the CSSF and the JST. A reference to the LCR classification has been added to the section "Credit quality of unencumbered debt securities" in order to provide additional information on the quality of unencumbered assets. The asset encumbrance ratio is defined as equal to the encumbered assets of an institution and the collateral received by the institution and reused divided by the total assets of the institution, including the total collateral received by the institution. Therefore, the formula is:

$$AE\% = \frac{\textbf{Total encumbered assets + Total collateral received re-used}}{\textbf{Total assets + Total collateral received available for encumbrance}}$$

This ratio measures the asset encumbrance of credit institutions in Europe in a harmonised way. The overall weighted average encumbrance ratio calculated and published regularly by the EBA[2] (for example 27.8% in Q4 2020) is an available benchmark. By comparison, BIL's ratio is around 12% and reflects a low/moderate level of asset encumbrance compared to other institutions. It is worth mentioning that the limit in the Risk Appetite Framework is set at a level of 20%.

(in EUR million)	**31/12/2020**	**31/12/2021**
Level of asset encumbrance		
Encumbered assets	3,625	3,420
Collateral received re-used	212	192
Total amount	3,837	3,612
Ratio[2]	**12%**	**11%**
Limit	**25%**	**25%**
Credit quality of unencumbered debt securities[3]		
Step 1 (AAA to AA-)	3,644	2,824
of which eligible as LA for LCR	*3,592*	*2,799*
Step 2 (A+ to A-)	1,691	1,632
of which eligible as LA for LCR	*1,476*	*1,409*
Step 3 (BBB+ to BBB-)	781	559
of which eligible as LA for LCR	*758*	*544*
Non-rated securities	597	505
of which eligible as LA for LCR	*43*	*0*
Total amount	***6,712***	***5,519***
of which eligible as LA for LCR	***5,869***	***4,752***
Sources of encumbrance		
OTC Derivatives	643	351
Repurchase agreements	2,161	2,799
Collateral swaps	854	439
Securities Lending	7	0
Central Bank Reserves	201	0
Total amount	**3,866**	**3,589**
Contingent encumbrance[4]		
OTC Derivatives	186	110
Repurchase agreements	647	837
Collateral swaps	253	135
Securities Lending	2	0
Total amount	**1,087**	**1,082**

[1] Commission Implementing Regulation (EU) No 2015/79, Paragraphs 9-11 of Annex III.
[2] EBA Report on asset Encumbrance, July 2021.
[3] Assets and collateral received available for encumbrance.
[4] Additional amount of encumbered assets resulting from a decrease by 30% of the fair value encumbered assets.

Market Risk

The disclosure requirements in Article 443 of the CRR are specified in the EBA Guidelines on the disclosure of encumbered and unencumbered assets (the EBA Guidelines 2014/03). The required information is provided in the tables hereafter:

- The encumbered and unencumbered assets in carrying and in fair value amounts is categorised by broad asset type (Template A);
- Collateral received by the institution, by broad product type (Template B);
- Carrying amount of encumbered assets/collateral received and associated liabilities (Template C).
- It should be noted that in term of narrative description of the situation, we could highlight these elements: (i) The exposure value used for the purposes of disclosure are the values submitted to the supervisor in the quarterly FINREP report on Asset Encumbrance. As specified by the EBA, the exposure values disclosed corresponds to a median value of the quarterly data of the reporting year. And, (ii) As of December 31, 2021, EUR 3.1 billion of BIL Group's balance sheet assets are encumbered and the asset encumbrance ratio is around 11%. The annual variation of the ratio is mainly explained by the decrease of various sources of encumbrance (collateral swaps and OTC derivatives by EUR 0.7 billion and encumbrance for the Central Bank reserve by EUR 0.2 billion following a methodological change) which exceeds the increase related to the participation in the ECB's Targeted Long-Term Refinancing Operations (TLTRO) for an amount of EUR 0.7 billion. Key sources of encumbrance are TLTRO, collateral swaps and repos.

TEMPLATE EU AE1 – ENCUMBERED AND UNENCUMBERED ASSETS

		Carrying amount of encumbered assets			Fair value of encumbered assets		Carrying amount of non-encumbered assets			Fair value of non-encumbered assets	
			of which: issued by other entities of the group	*of which: notionally eligible EHQLA and HQLA eligible*		*of which: notionally eligible EHQLA and HQLA eligible*		*of which: issued by other entities of the group*	*of which: notionally eligible EHQLA and HQLA eligible*		*of which: notionally eligible EHQLA and HQLA eligible*
		010	020	030	040	050	060	070	080	090	100
010	**Assets of the reporting institution**	**3,098,354,448**		***2,045,582,554***			**28,652,522,426**		**4,833,447,670**		
020	Loans on demand	0		*0*			5,242,042,074		*0*		
030	Equity instruments	0		*0*	0	*0*	201,068,704		*0*	*200,958,483*	*0*
040	Debt securities	2,640,540,077		*2,045,582,554*	2,691,515,683	*2,094,094,253*	5,855,255,557		*4,833,447,670*	*5,918,937,274*	*4,868,487,568*
050	*of which: covered bonds*	*177,658,484*		*177,658,484*	*178,863,832*	*178,863,832*	*380,613,106*		*364,606,918*	*382,721,276*	*366,715,087*
060	*of which: asset-backed securities*	*20,182,454*		*0*	*20,216,345*	*0*	*8,542,898*		*0*	*8,536,950*	*0*
070	*of which: issued by general governments*	*1,568,869,578*		*1,563,164,885*	*1,603,370,289*	*1,597,638,216*	*3,933,771,385*		*3,772,976,577*	*3,979,754,618*	*3,801,109,972*
080	*of which: issued by financial corporations*	*933,032,511*		*364,773,358*	*937,597,913*	*367,049,378*	*1,317,401,979*		*804,529,050*	*1,326,656,540*	*809,988,559*
090	*of which: issued by non-financial corporations*	*143,885,127*		*111,339,946*	*144,620,365*	*112,071,166*	*569,905,905*		*245,381,563*	*576,640,146*	*247,383,022*
100	Loans and advances other than loans on demand	415,727,310		0			16,397,940,934		0		
110	*of which: mortgage loans*	*0*		*0*			*11,245,255,870*		*0*		
120	Other assets	0		*0*			951,008,863		*0*		

TEMPLATE EU AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

		Fair value of encumbered collateral re own debt securities issued			Fair value of collateral received or own debt securities issued available for encumbrance			Fair value of collateral received or own debt securities issued available for encumbrance
			of which: issued by other entities of the group	*of which: notionally eligible EHQLA and HQLA eligible*		*of which: issued by other entities of the group*	*of which: notionally eligible EHQLA and HQLA eligible*	
		010	020	030	040	050	060	070
130	**Collateral received by the reporting institution**	194,746,187		*0*	410,329,489		*369,529,634*	11,134,704,705
140	Loans on demand	0		*0*	0		*0*	0
150	Equity instruments	0		*0*	0		*0*	0
160	Debt securities	194,746,187		*0*	369,529,634		*369,529,634*	235,462,119
170	*of which: covered bonds*	*0*		*0*	*0*		*0*	*0*
180	*of which: asset-backed securities*	*0*		*0*	*0*		*0*	*0*
190	*of which: issued by general governments*	*0*		*0*	*167,865,614*		*167,865,614*	*0*
200	*of which: issued by financial corporations*	*194,746,187*		*0*	*201,664,020*		*201,664,020*	*88,524,463*
210	*of which: issued by non-financial corporations*	*0*		*0*	*0*		*0*	*146,937,656*
220	Loans and advances other than loans on demand	0		*0*	40,799,855		*0*	0
230	Other collateral received	0		*0*	0		*0*	10,901,914,034
240	**Own debt securities issued other than own covered bonds or ABSs**	0		0	23,862,974		0	0
250	**TOTAL ASSETS, COLLATERAL RECEIVED & OWN DEBT SEC ISSUED**	3,320,083,968		0				

TEMPLATE EU AE3 - SOURCES OF ENCUMBRANCE

		Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered		
			of which: from other entities of the group		*of which: collateral received re-used*	*of which: own debt securities encumbered*
		010	020	030	040	050
010	**Carrying amount of selected financial liabilities**	**2,560,002,723**		**2,573,353,816**		
020	Derivatives	363,651,276		415,727,310	0	0
030	of which: Over-The-Counter	361,859,581		409,037,156	0	0
040	Deposits	2,121,746,294		2,115,539,445		
050	Repurchase agreements	528,535,167		520,947,949	0	0
060	of which: central banks	0		0		
070	Collateralised deposits other than repurchase agreements	1,526,854,214		1,526,854,214	194,746,187	0
080	of which: central banks	1,526,854,214		1,526,854,214		
090	Debt securities issued	0		0		
100	of which: covered bonds issued	0		0		
110	of which: asset-backed securities issued	0		0		
120	**Other sources of encumbrance**	**561,668,308**		**564,070,178**		
130	Nominal of loan commitments received	0		0		
140	Nominal of financial guarantees received	0		0		
150	Fair value of securities borrowed with non-cash-collateral	561,668,308		564,070,178		
160	Other	0		0		
170	**TOTAL SOURCES OF ENCUMBRANCE**	**3,301,291,908**		**3,320,083,968**		

4.4. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) refers to the current or prospective risk to a Bank's capital and its earnings, arising from the impact of adverse movements in interest rates on its banking book.

The reference document for the IRRBB framework is the IRRBB Policy, validated by the ALM Committee. The document covers the key topics of the Regulation:

- Regulatory context;
- Scope;
- Methodology (accounting reconciliation, Economic Value (EVE) / Net Interest Income (NII), products specificities, stress scenario); and
- Governance (frequency, limits and triggers for EVE and NII).
- The drafting of this policy allows BIL to manage the IRRBB in compliance with the current regulatory framework.

Two complementary methods measure the impacts of changes on the IRRBB: Section 4.4.1: changes in economic values and changes in expected earnings (earnings based measures, Section 4.4.2)

The IRRBB strategy of BIL is part of the overall Bank strategy and is steered by the ALCO as the emanation of the Management Body. BIL's risk appetite for IRRBB is notably expressed in relation with the total capital (and T1 capital) for economic value and in relation with the CET1 for earnings. The Bank is assessing the optional risk and strives to reduce its natural commercial gap and basis risk.

4.4.1. Monitoring of Economic Value of Equity

BIL defines its EVE measure as the measure of changes in the net present value of all interest rate sensitive instruments (over the remaining life for the fixed rate instruments or over their next repricing date for floating rate instruments) resulting from interest rate movements. The EVE measurement is defined by the difference of the current EVE and expected EVE under an alternative scenario.

In accordance with the principle 8 of BCBS and the EBA 2018 Guidelines on IRRBB, BIL discloses the measurement of EVE variation with the following basis:

- The EVE measurement is a scenario-base measurement and the scenario is an instantaneous shock to the current yield curves:
- The EVE measurement is a calculation assuming a run-off balance sheet;
- The EV measure is calculated at the most granular level (deal by deal);
- All positions from interest rate sensitive instruments are taken into account;
- For EVE exposures purposes, the instruments with unconditional cash flows are neither renewed nor extended after their maturity date and the instruments with conditional cash flows are amortised according to a central scenario;
- For the supervisory outlier tests, the non-interest-bearing assets and liabilities are excluded of the EVE measurement. The other EVE measurement takes into account all non-interest-bearing including the capital. The additional Tier 1 and 2 instruments with a call date are part of the EVE measure until their next call date. The Tier 2 instruments without any call dates are part of the EVE measure until their contractual date;
- The change in the present value of the commercial assets and the liabilities is measured based on their respective rate transfer pricing (RTP), assuming a discount factor based on a risk-free yield curve;
- The change in the present value of the financial instruments is measured based on their full cash flows, assuming a discount factor based on a risk-free yield curve;
- The EVE measure does not depend on the accounting rules.

Definition of EVE limits:

The Bank defined a set of limits in accordance with the BCBS standards[11] and EBA 2018 guidelines. Depending on the type of scenarios (regulatory or internal shocks), specific set of triggers and limits were defined in million EUR (based on the budget projections from 2021 to 2025):

Perimeter		EVE measure (EUR)		Regulatory Limit	Limit	Trigger
BIL Group and BIL Luxembourg	Banking book	SOT (+/-200bp)	-309	20% of total capital	-180	-148
		BCBS scenarios	-212	15% of Tier 1	-180	-148
		Expert scenarios	n/a	n/a	-180	-148
	ALM book	+/-100 bp parallel shift	n/a	n/a	-90	-74
	Treasury book	+/-100 bp parallel shift	n/a	n/a	-9	n/a
	OCI book	+/-100 bp parallel shift	n/a	n/a	-35	n/a

Frequency of the calculation

The Bank computes the EVE at least on a quarterly basis. The results are presented to the ALM Committee. The figures are included in the Risk Appetite Summary.

4.4.2. Monitoring of Net Interest Income

The earnings risk is the difference between expected earnings under a base scenario and expected earnings under an alternative scenario (more adverse or more stressed)

In accordance with the BCBS and EBA standards, the Bank adopts the following principles to measure the earnings risk:

- The earnings risk is calculated assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new ones with identical features, with regard to the amount, repricing period and spread components;
- The earnings risk is limited to the interest income and expenses. The impact of interest rate on the market value of instruments that are measured either through P&L or through OCI are not taken into account in the earnings risk;
- The earnings risk is measured before tax;
- The earnings risk includes expected cash flows arising from all interest rate-sensitive instruments and products in the banking book;
- The non-interest-bearing assets and liabilities are excluded from the calculation measuring the earnings risk;
- The earnings risk takes into account the effectiveness of hedging relationship;
- The earnings measures and associated risk are not limited to the Rate Transfer Pricing (RTP) but include also the Liquidity Transfer pricing (LTP) and the commercial margin;
- The treatment of options (automatic and behavioural) is dependent on the specific interest rate scenario.;
- The earnings risk should be measured over a horizon greater or equal to 1 year (currently 1 year). The variation of NII is disclosed as the difference in the future interest income over a rolling of 12-months period.

Definition of NII limits:

Unlike the economic value, the Basel Committee and the ECB do not define a limit for the net interest income. The definition and the calibration of the limits and the triggers is a specific decision to each financial institution, but institutions should articulate their risk appetite for IRRBB in term of earning risk[2].

BIL applies the regulatory +/- 200bp parallel shock scenarios to gauge its net interest income resilience.

	2020		2021	
	-200bp	+200bp	-200bp	+200bp
EUR million	-26	98	-19	106
Trigger[3]	-40		-70	
Limit[3]	-60		-80	

1 Basel Committee on Banking Supervision – Standards – Interest rate risk in the banking book– April 2016.

2 Interest rate risk in the Banking book, standard, April 2016 and EBA/GL/2015/08 EBA guidelines on the management of interest rate risk arising from non-trading activities.

3 In case of negative results.

The slight variation regarding the +200bp outcome is mainly driven by the increase in the non-maturing core deposits balance. The asymmetry observed between the outcome of each scenario is the result of the combination of regulatory (no more than -1% in the case of a negative rate), contractual (loans) and discretionary floors (some current account or savings accounts).

Furthermore, as response to JST recommendation, BIL Switzerland has been included in the perimeter of the NII stress test.

Frequency of the calculation:

The Bank computes the NII on a quarterly basis for the next 12 months. The results are presented to the ALM Committee and the Management Body through the RAF, especially the Risk Dashboard.

4.4.3. Products specificities

4.4.3.1. Modelling of non-maturing deposits (NMD)

BIL developed a model that reflects the principles stated in the IRRBB BIL documentation and EBA guidelines. The model covers customer's current and savings accounts (in EUR and USD) of BIL Luxembourg for a balance of EUR 16.1 billion of deposits modelled at end December 2021. The dataset is built at account level, on a monthly basis with historical dataset starting from January 2009. Data collection encompasses qualitative and quantitative variables.

The modelling elements of core deposits are defined as stable deposits minus the absolute value of NMD volume volatility multiplied by the NMD sensitivity to interest rates, less a conservative haircut for model risk. Stable deposits are instead obtained using a Value-at-Risk approach, with a NMD volatility based on the absolute value of historical VaR.

The model methodology has been reviewed in the last year to address the JST recommendations on the Bank NMD model. A first NMD segmentation has been defined based on the currency and the Basel categories. Depositors are split between Retails and wholesale categories. Physical persons and legal entities with assets below EUR 1 Million are classified as Retail, while Wholesale accounts have amount above 1 Million. The Retail category is then split between transactional and non-transactional according to the number of outflow operations. Retail accounts with 2 or more outflows in a month are classified as Retail transactional, while accounts below this threshold are flagged as Retail non-transactional.

Core deposits volume determination has been modified to take the level of the client rates into account. More specifically, the core deposits volume sensitivity has been explained with respect to the spread between market interest rates and the client rates.

The approach to estimate the average maturity of core deposits category has been revised to be more in line with industry practices. In fact, the new method assumes that average maturity follows an exponential decay (or lifetime survival) rate approach, as supported by empirical evidence from the bank historical dataset. The slotting methodology is amended accordingly to show a convexity in the core deposits maturities aligned with the output of the NMD model.

Following the JST feedback in regards to the methodology, the Bank has further enhanced the methodology in order to capture by the maturity of the core deposits the actual repricing behaviour of the NMDs. In that respect, the segmentation is being refined and an additional layer is being designed based on the nature of the deposit and of the depositor. The methodology of the average maturity will be adapted to reflect BIL's commercial practices in terms of repricing.

4.4.3.2. Adjustable rate loans

Adjustable rate loans, which are discretionary rate instruments, are replicated with a 1 month repricing profile, assumption supported by a qualitative and quantitative empirical analysis.

4.4.3.3. Loan commitments

The fixed-rate mortgage loan commitments are included in the EVE calculation, based on a time to draw time of 1 month, a maturity profile derived from the new production observed during the last 6 months and the following pull-trough rates:

- 100% for offers that have been accepted by the clients;
- A conditional rate for offers that have not yet been accepted by the clients: 0% in a scenario with a decrease of long-term rates and 100% in the other scenarios.

4.4.3.4. Automatic option (floor)

The contractual floors are considered in the EVE and NII calculation and concerns floating rate notes (assets and liabilities) and commercial loans.

4.4.3.5. Prepayment

Several prepayment models have been tested such as classification models (they allow to decide for each month whether a specific mortgage will be prepaid or not) or regressive models (definition of a set of explanatory variables of the prepayment, including the main loan characteristics (outstanding amount, client's rate, time to maturity...) and training a regressive model). Another models was tested which consist in fitting a curve based on lifetime CPR estimated by vintage. In other words, loans are grouped by origination date and the cumulative prepayment rate is calculated based on the observed prepayments after origination. The latter model demonstrated the best performances and has been selected to model CPR for the purposes of IRRBB. The model has been submitted to Internal Validation in March 2022.

At this stage, the EVE and NII metrics do not incorporate any prepayment rate.

4.4.4. IRRBB Stress scenario

In addition to the supervisory outlier stress test and the pre-defined BCBS / EBA scenario, the Bank defined a set of expert scenarios to stress the earnings risk and the EVE.

4.4.4.1. EVE: IR scenario for the supervisory outlier test

The supervisory outlier test is defined as follows[1]:

- Sudden parallel +/- 200 basis point shift of the yield curve;
- BCBS standardised scenarios, capturing parallel and non-parallel gap risk:
  - Parallel shock up;
  - Parallel shock down;
  - Short rates shock up;
  - Short rates shock down;
  - Steepener shock; and,
  - Flattener shock.

The following principles are applied to each scenario:

- The shock is applied by deal (or position) and the result is first aggregated by tenor and then by currency;
- The shocks are applied for each material currency;
- The floor is applied for each material currency starting with-100 bp for the overnight maturity and an increase by 5 bp per year (eventually reaching a floor of 0% for maturities of 20 years and more).
- When calculating the aggregated EVE change for each shock scenario, the Bank adds together any negative and positive changes occurring in each currency. Positive changes are weighted by a factor of 50%.

Term	BCBS Parallel Up			BCBS Parallel Down			BCBS Steepener			BCBS Flattener			BCBS Short Rate Negative			BCBS Short Rate Positive		
	EUR	USD	CHF	EUR	USD	CHF	EUR	USD	CHF	EUR	USD	CHF	EUR	USD	CHF	EUR	USD	CHF
1M	200	200	100	-200	-200	-100	-157	-188	-94	195	233	116	-245	-294	-147	245	294	147
3M	200	200	200	-200	-200	-100	-147	-175	-86	184	220	109	-235	-282	-141	235	282	141
6M	200	200	100	-200	-200	-100	-133	-156	-75	169	201	99	-221	-265	-132	221	265	132
1Y	200	200	100	-200	-200	-100	-107	-122	-56	142	167	80	-195	-234	-117	195	234	117
2Y	200	200	100	-200	-200	-100	-63	-65	-24	98	110	49	-152	-182	-91	152	182	91
3Y	200	200	100	-200	-200	-100	-29	-21	-1	63	66	25	-118	-142	-71	118	142	71
4Y	200	200	100	-200	-200	-100	-3	14	21	36	31	6	-92	-110	-55	92	110	55
5Y	200	200	100	-200	-200	-100	18	40	36	14	5	-8	-72	-86	-43	72	86	43
6Y	200	200	100	-200	-200	-100	34	61	48	2	-16	-20	-56	-67	-33	56	67	33
7Y	200	200	100	-200	-200	-100	46	78	57	-15	-33	-29	-43	-52	-26	43	52	26
8Y	200	200	100	-200	-200	-100	56	90	65	-25	-45	-36	-34	-41	-20	34	41	20
9Y	200	200	100	-200	-200	-100	63	100	70	-33	-55	-41	-26	-32	-16	26	32	16
10Y	200	200	100	-200	-200	-100	69	108	75	-39	-63	-45	-21	-25	-12	21	25	12
15Y	200	200	100	-200	-200	-100	84	127	86	-54	-82	-56	-6	-7	-4	6	7	4
20Y	200	200	100	-200	-200	-100	88	133	89	-58	-88	-59	-2	-2	-1	2	2	1
25Y	200	200	100	-200	-200	-100	90	134	90	-59	-89	-60	0	-1	0	0	1	0

[1] According to paragraph 113 and 115 EBA/GL/2018/02

4.4.4.2. EVE: IR internal expert scenarios

In addition to the regulatory IR scenarios, the Bank applies three historical scenarios and defines three non-standard scenarios specific to BIL that are more related to the Bank's balance sheet characteristics.

Those scenarios are applied for the EVE Measure and are defined as follows:
- The sudden parallel shocks are defined in accordance with the table displayed below and are applied to all yield curves;
- The IR shocks are not floored;
- When calculating the aggregated EVE change for each shock scenario, the Bank adds together any negative and positive changes occurring in each currency.

The following table displays the sudden shocks applied for each internal expert scenario:

Term	1st Expert scenario			2nd Expert scenario			3rd Expert scenario			Parallel shock down	Parallel shock up	Equity crash 1987	Monetary crisis 1992	Financial crisis 2008
	EUR	USD	CHF	EUR	USD	CHF	EUR	USD	CHF	-100 bp	+100bp			
1M	-	-	-	-	-	-	-20	-100	-20	-100	100	-50	150	-245
3M	-	-	-	-	-	-	-20	-100	-20	-100	100	-50	147	-244
6M	-	-	-	-	-	-	-20	-100	-20	-100	100	-50	141	-242
1Y	-	-	-	-	-	-	-20	-100	-20	-100	100	-50	131	-240
2Y	25	13	25	13	6	13	-23	-95	-23	-100	100	-50	110	-223
5Y	100	50	100	50	25	50	-30	-80	-30	-100	100	-50	80	-170
7Y	80	40	80	70	35	70	-38	-68	-38	-100	100	-50	60	-138
10Y	50	25	50	100	50	100	-50	-50	-50	-100	100	-50	30	-90
15Y	45	20	45	110	55	110	-55	-50	-55	-100	100	-50	30	-90
20Y	40	20	40	120	60	120	-60	-50	-60	-100	100	-50	30	-90
25Y	40	20	40	125	60	125	-60	-50	-60	-100	100	-50	30	-90

4.4.5. IRRBB Outcomes

4.4.5.1. EVE Outcomes

The results of the **+200/-200 bp scenarios (EBA/GL/2018/02 -Article 113)** are disclosed below:

	31/12/2021 In EUR million					
	TOTAL	REGULATORY LIMIT	INTERNAL LIMIT	EUR	USD	CHF
Δ EVE under a Parallel -200 bp	13	-309	-180	30.8	-16	-1.8
Δ EVE under a Parallel +200 bp	20.1			4.9	10.7	2.3

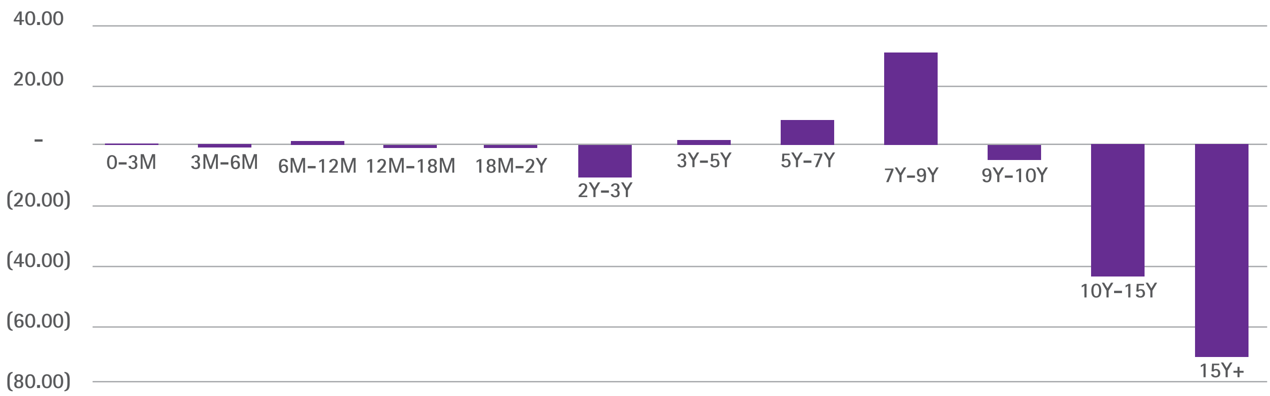
The parallel shock down shows a result of 13 M EUR, of which 30,8 M EUR for the EUR, -16 M EUR for the USD and -1,8 M EUR for the CHF. Regarding the parallel shock up, the total amount is 20,1 M EUR. This result is driven by the impact of the stress on the USD (10,7 M EUR). EUR and CHF results are positive and represents respectively 4,9M EUR and 2,3M CHF.

The results of the **BCBS standardised scenarios (EBA/GL/2018/02 – Article 114)** are disclosed below:

	31/12/2021 In EUR million					
	TOTAL	REGULATORY LIMIT	TRIGGER (15% of Tier 1)	EUR	USD	CHF
Parallel Shock Down	13	-212	-180	30.8	-16	-1.8
Parallel Shock Up	17.9			4.9	10.7	2.3
Shock Rates Shock Down	-28.5			-14.2	-11.4	-2.9
Shock Rates Shock Up	51			40.3	8.4	2.3
Steepener	-82.7			-79.9	-1.6	-1.2
Flattener	71.3			65.3	4.4	1.5

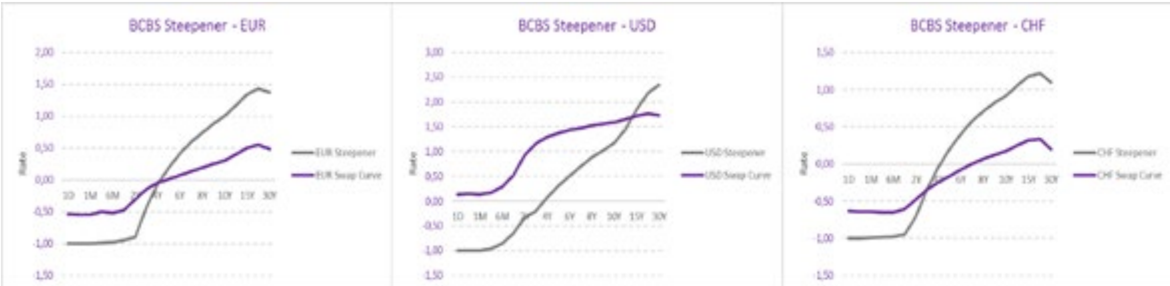
The BCBS steepener appears as the most adverse scenario (-82,7 M EUR). No trigger or limit was reached in 2021. The chart below details the distribution of the BCBS steepener for all currencies by bucket (31/12/2021).

BCBS Steepener TOTAL (EUR M)

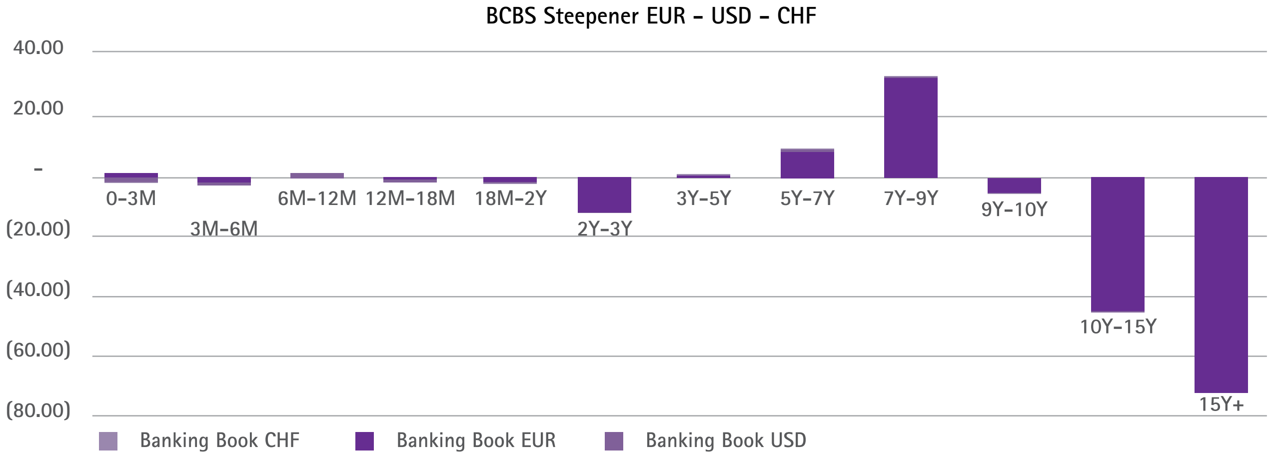


The negative impact is generated by the long term asset exposure (induced by the fixed rate mortgage loans). Unlike the parallel up scenario, this negative effect is not offset by the medium term liability excess linked to non-maturing core deposits as the steepener scenario shock size are closed to 0 for these specific buckets.

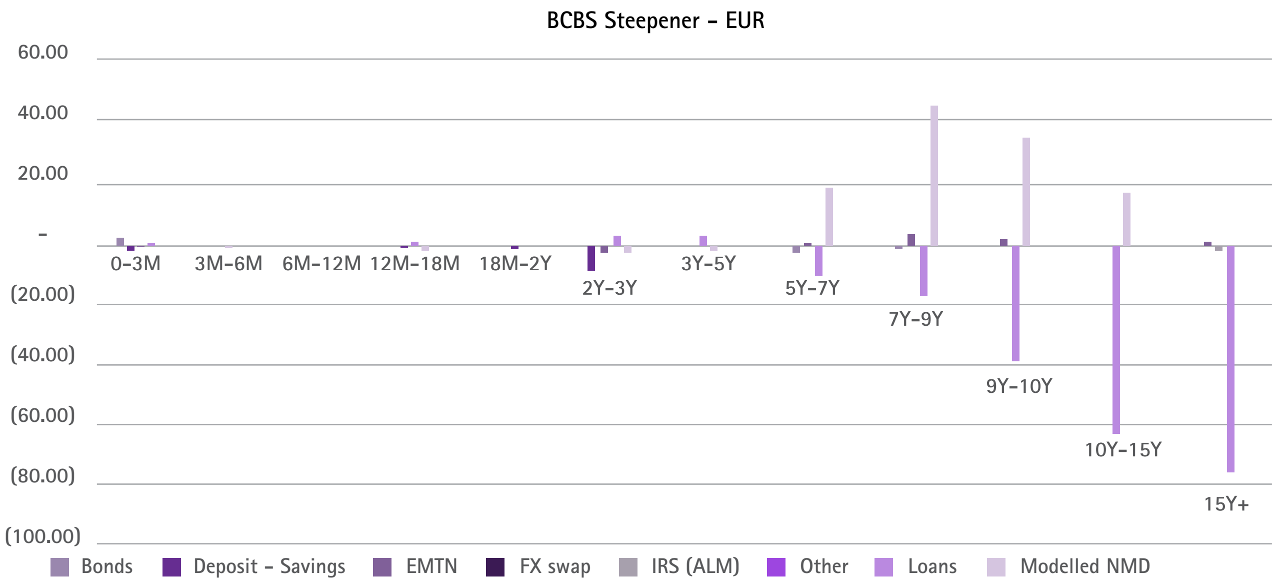
The three charts above show for each currency the swap curves and the stressed curves.



Steepener scenario results by currency:



Because of (i) the structure of the balance-sheet (only positions in EUR are long term) and the steepener scenario profile combined to the current rates level, the results is fully explained by the EUR.



4.4.5.2. NII Outcomes

	31/12/2021					
	In EUR million					
	TOTAL	INTERNAL	TRIGGER	EUR	USD	CHF
Change in the forecasted Net Interest income within 12 months under a parallel interest rate shock down	-19	-80	-70	-11	-5	-2
Change in the forecasted Net Interest income within 12 months under a parallel interest rate shock up	106			92	5	10

The table below presents the results for the three currencies that are material for BIL. The EUR remains the main contributor of the results and the main factor of variation between 2020 and 2021.

	2020		2021	
EUR million	-200bp	+200bp	-200bp	+200bp
EUR	-17	95	-11	92
USD	-6	1	-5	5
CHF	-3	2	-2	10

The main changes come from EUR, the sensitivity of which (i) decreases by EUR 6M for the -200bp scenario and (ii) decreases by EUR 3M for the +200bp scenario. Regarding the USD, the sensitivity decreases by EUR 1M for the -200bp stress and increases by EUR 4M for the +200bp. Finally, the CHF variation is a decrease by EUR 1M for the -200bp and increase by EUR 8M in the case of the +200bp

4.5. Assessment of the regulatory capital requirement

BIL no longer applies the internal VaR model to calculate its regulatory capital requirement for general interest rate risk and currency risk within trading activities.

From 2013 onward, all market risks are treated under the Basel III standardised approach. The table below presents the Bank's regulatory capital required broken down by risk type for both year-end 2020 and 2021.

TABLE EU MR1 – MARKET RISK UNDER THE STANDARDISED APPROACH

	2020		2021	
	RWAs	Capital requirements	RWAs	Capital requirements
OUTRIGHT PRODUCTS				
Interest rate risk (general and specific)	26	2	16	1
Equity risk (general and specific)	0	0	0	0
Foreign exchange risk	5	0	7	1
Commodity risk				
OPTIONS				
Simplified approach				
Delta-plus method				
Scenario approach				
Securitisation (specific risk)				
Total	**31**	**2**	**23**	**2**

5. Operational risk

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people, systems or external events. This definition includes legal risk but excludes strategic risk. It also excludes losses resulting from commercial decisions.

5.1. Operational risk governance

5.1.1. Organization

Please refer to the section "Organization" of the report.

5.1.2. Operational Risk Policy and committees

BIL Group's Operational Risk Management (ORM) framework relies on strong governance, with clearly defined roles and responsibilities.

ORM Policy

The main purpose of operational risk management (ORM) Policy is to provide details on BIL's operational risk framework encompassing Operational risk governance, Incident Management & Monitoring, Risk and Control Self-Assessment (RCSA). This policy involves the identification and regular assessment of existing operational risks and requests the implementation of measures to have an acceptably low level of risk. This is done in a preventive manner using the RCSA (Since 2021, a general Risk Assessment of Risks is carried out within the framework of the ICAAP and from which the operational risks are extracted to carry out the RCSA).

The Operational Risk Management policy was reviewed in 2020 (approved at the Internal Control Committee meeting held in August 2020) and additional information on specific topics was completed (e.g. management of border risks, new key risk indicator monitoring). Moreover, the section dedicated to the governance framework was also improved following the creation of an Operational Risk Committee (ORC).

It should be noted that the management of the Bank's risk framework also includes the transfer of part of the financial consequences of certain risks to insurance companies.

Committees

BIL's ORM framework relies on strong governance, with clearly defined roles and responsibilities.

The following committees are responsible with regards to operational risk at BIL:

- ***The Internal Control Committee (ICC)*** mandated by the Executive Committee (ExCo), is in charge of supervising operational risk management for the following points:
  - Operational incidents, major risks and root causes, follow-up on corrective/mitigating measures, RCSA results, KRI.
  - Oversee the operational risks for BIL on the existing products/services and follow-up.

- ***The Operational Risk Committee* (ORC)** The Operational Risk Committee (ORC) is a multidisciplinary business committee comprising members of the Bank's main business lines and is responsible for creating a reliable framework to monitor the Bank's operational risk exposures. This committee also manages all matters in relation to operational risks, such as incident management. Finally, the ORC acts as a forum for discussion (on operational risk matters) between the Bank's business lines and Operational Risk department.

- ***The New Product Committee (NPC)*** is a transversal committee responsible for new products/services on the basis of ideas coming from the entire bank including the Innovation & Digital Forum and for checking the relevancy of the underlying business case against the Bank strategy. The head of BIL's Group Risk Management acts as a permanent member for risk matters advises.

- ***The Monthly Operational Committee (MOC)*** under the responsibility of the Financial Markets business line, and with the participation of ORM, supervises BIL's Product& Market projects and operational risks, takes decisions in terms of tackling day-to-day problems and monitors other risks related to Product & Market Luxembourg's activities.

- **The Compliance, Audit and Risk Committee (CARco)** meets quarterly to cover aspects of compliance, audit and risk between BIL and its main IT provider. It comprises the BIL Data Protection Officer, BIL Head of Audit, BIL Head of Operational Risk Management and BIL Chief Information Security Officer and their equivalents from the Bank's main IT provider.

- ***The ICT & Security Risks Committee (ISRC)*** is mandated by the Management Board (please refer to the ICT section)

- ***The Crisis Committee (CC)*** is mandated by the Management Board to create an Operational Crisis Management Committee consisting of functions necessary for the management of any crisis; depending on the type of crisis, this committee is complemented by the heads of the entities affected. This Committee also deals with the Information Security subjects.

5.1.3. Risk reporting

The main internal reporting on Operational Risks are the following:

Report	Freq	Topics covered by internal report	Recipients	Scope
Incidents	Q	Incidents: statistics data, detailed information on incidents, KRI Actions, RCSA update, specific operational topics	Management Committee (ICC)	Group BIL
RCSA	Y	Report on risks evaluations /assessment from RCSA matrix.		
Actions	Q	Follow up of RCSA action plan.		
Insurance	Y	Renewal of Group BIL Policies	Executive Committee (Exco)	
ORM	H	Focus on ORM topics: Incidents, RCSA, KRI	Board of directors Committee (BRC)	Group BIL
WIR/QMFU/ICIC[1]	W/M	Report on IT incidents with high or critical status & on investigations performed	Operational Committee: WIR,ICIC or QMFU	BIL

Q=Quaterly / Y=Yearly / H=Half-yearly / M= Monthly / W= Weekly

Among the external reporting realized by ORM, there is:
- The main one which is dedicated to Operational losses on incidents (Corep C17) - Half-yearly report;
- Basel III QIS, which is a qualitative assessment to collect data on incidents and produced on half-yearly basis;
- Reporting on Internal & external Fraud linked to payment service providers linked (PSD II regulation). This report requested for the first time in 2019 is produced on yearly basis;
- Reporting on the Operational & Security Risks linked to payment service providers (PSD II regulation) This report requested for the first time in 2019 is produced on a yearly basis. Reporting on frauds & payment (PSD2 regulation) is produced on bi annually basis and will be monthly from January 2022.

5.1.4. Risk measurement

The operational risk framework is based on the following elements:
- Efficient data collection;
- Self-assessment of risks;
- Corrective and preventive action plans;
- Development, implementation and follow up of Key Risk Indicators.

[1] WIR: Weekly Incident Report - QMFU: Quality Management Follow Up

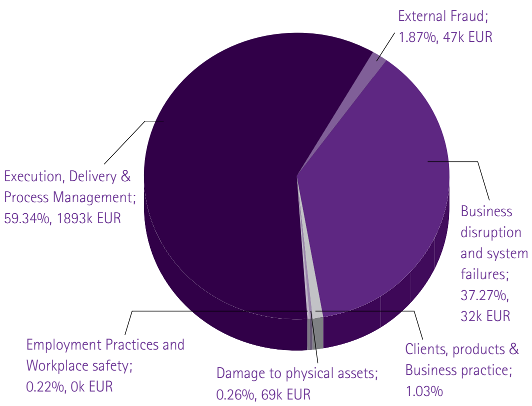
Operational risk event data collection

According to the Basel Committee, the systematic recording and monitoring of operational incidents is a fundamental aspect of risk management: “Historical data on banking losses may provide significant information for assessing the Bank’s operational risk exposure and establishing a policy to limit/ manage risk”;

Regardless of the approach used to calculate the capital, data collection is required. Having a relevant procedure in place allows the fact that BIL complies with the Basel Committee’s requirements. Recording incidents provides information used to improve the internal control system and determine the Bank’s operational risk profile;

The split of BIL Group’s gross losses for the year 2021 by risk event type is disclosed in the chart below. The total gross impact is calculated on an absolute value basis, including losses, profits and excluding recoveries. This explains possible differences with other regulatory reports which are only based on a losses point of view.

Distribution of operational incidents by event type, gross impact in EUR thousand and share in %



The Execution, Delivery & Process Management category remains the largest, in terms of incident number, but also in term of financial impact within BIL Group. Even though it is observed a reduction in the number of incidents in this category in favour of in the category “Information IT & Technology”, the financial impact stays high. The number of incidents represent 59% (vs 79%, 2020) of the total number of operational incidents declared during 2021 within BIL’s group. Half of them were due to human error and the main operational risk lies in trade entry error (incorrect data input), failure in the management of customer accounts or processing delay.

The significant increase of the total number of incidents of "Information, IT and technology" category (37%, vs 24% in 2020) is explained by the postponement of diverse IT developments. It should be noted that these IT developments have to be postponed due to the concentration of IT resources on the GL22 project, aimed at changing the central banking system on 1 January 2023. (new CBS T24). In terms of financial impact, this "Information IT & Technology" category remains as usual low.

In 2021, the Bank recorded 26 operational incidents related to External Fraud of which 84% have been stopped by the Bank (fraud attempts). Four external frauds were carried out with an actual loss of EUR 42,212. In 2021 the new category client fraud allegation shows significant near misses without financial impact for the Bank (around 2,9 million). This type of fraud does not encompass any responsibility of the Bank and record call-back of Funds requested by customers that were abused by fraudsters (e.g.: phishing or vishing targeting our customers).

It can be noticed that incidents linked to the Categories Client Products & Business Practices and Damage to Assets & Public Safety remain insignificant of the total amount of operational incidents.

Incidents reported includes also data breaches (54, vs 58 in 2020) and IT security incidents (40, vs 61 in 2020).

ORM presents an operational risk report to the ICC at the end of each quarter and an operational risk report to the BRC at the end of each semester since 2019.

Self-assessment of risks and associated controls

In 2021, the RCSA exercise performed by ORM was merged with the overall risk analysis (RSA) performed by ERM. The exercise thus becomes annual and the same methodology has been applied for risk assessment. The evolvement of the RCSA methodology strengthened in 2020 by the control identification and its impact on the inherent risks assessed, and revision of the quantification, no longer giving rise to an amount but rather the outcome of an equation between probability and severity were kept. A dedicated report on operational risks covered by the old RCSA report has been maintained alongside the ICAAP report covering all risks.

Definition and follow-up of action plans

As part of operational risk management, corrective action plans linked to major risks and events are defined and monitored.

Action plans arise from incident management and RCSA exercises to reduce and mitigate identified risks:

- **Incidents:** Following a significant incident, management has to implement action plans in order to reduce the impact and prevent new incidents;
- **RCSA:** In the event of an unacceptable risk exposure, management has to identify ad hoc action plans mitigating the identified risk.

Operational Risk RWA

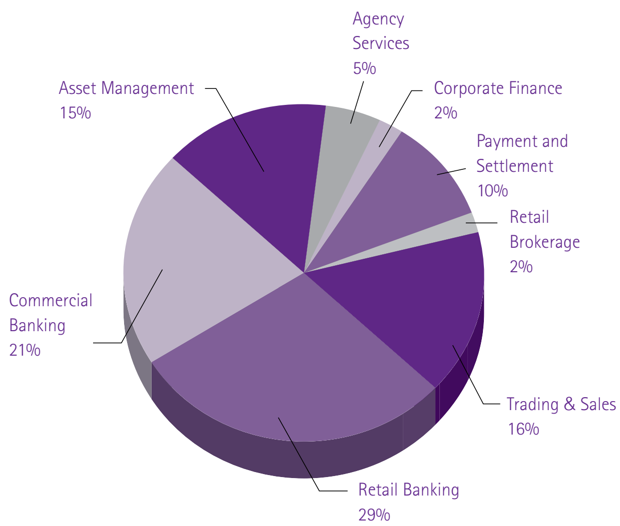
BIL Group applies the standardised approach to calculate the regulatory capital requirements for operational risk. This approach consists in applying a percentage (called the "beta factor", ranging from 12% to 18%) to an appropriate activity indicator, calculated for each of the eight business lines defined by the Basel Committee (i.e. corporate finance, commercial banking, retail banking, trading and sales, asset management, agency services, retail brokerage, payment and settlement).

The relevant indicator is defined by the regulator and is based on the operational results of the underlying business lines, using an average over the past three years.

The calculation is updated at the end of each year. The amount of operational risk-weighted assets has decreased compared with the 2020 figures (962,7 million) to 954,4 million at year-end 2021.

Banking activities (EUR million)	**Beta Factor**	**P&L**	**Capital Requirements 2021**	**Capital Requirements 2020**
Commercial Banking	15%	110.1	16.5	19.4
Retail Banking	12%	192.9	23.2	20.5
Trading and sales	18%	69.8	12.6	12.8
Corporate Finance	18%	7.8	1.4	1.2
Payment and Settlement	18%	42.8	7.7	5.4
Retail Brokerage	12%	16.0	1.9	2.2
Agency Services	15%	24.9	3.7	3.4
Asset Management	12%	98.7	11.8	12.5
TOTAL		**562.9**	**78.8**	**77.5**

The chart below presents the breakdown by business lines (according to Basel definitions) of the capital requirement for operational risk as at 31 December 2021.



6. Information Security & Business Continuity

The Information Security & Business Continuity unit is responsible for managing ICT and security risks, such as, preserving the confidentiality, integrity and availability of BIL information and information system. They analyse the risks to which BIL's information is exposed and define the IT and security objectives that must be reached to reduce these risks to an acceptable level. They control the implementation and effectiveness of the IT and security measures deployed to reach these objectives.

6.1. Information Security governance

6.1.1. Organisation

The Information Security & Business Continuity unit is composed of two different teams:

The **Security Risk Regulation team** is in charge of:
- Analysing and monitoring ICT & Security Risks;
- Defining the minimum measures to be implemented on ICT & Security domains;
- Controlling the effectiveness of the deployed ICT & Security measures.

This team chairs the Management Committee ICT & Security Risk to:
- Oversee the ICT & Security risks (as defined in the ICT & Security Risk Management charter) linked to the BIL's use of information technologies and that of its subsidiaries;
- Oversee the ICT & Security controls in place to mitigate the ICT & Security risks;
- Take a position on the risks its members have identified and analysed in order to provide adequate protection to BIL's Information and IT assets;
- Oversee the ICT and Security incidents;
- Review that the implementation and the support of a global Business Continuity Plan respects the strategy defined by the BIL Management Board.

The **Business Continuity team** establishes and maintains the continuity plan (Business Continuity Plan), its alignment with the IT Recovery Plan (Disaster Recovery Plan) and performs an annual review of Business Impact Analysis with Business Lines in order to maintain an up-to-date continuity plan set out in Business Continuity and Crisis Management Charter.

6.1.2. Policies and committees

Policies

The ICT & Security Risk Management charter **frames the management of ICT and security risks, and in particular defines**:
- The objective and scope of ICT & Security risk management;
- The high level operating model as well as roles and responsibilities across multiple lines of defence;
- The requirements for an ICT & Security risk management process for identifying, evaluating and handling these risks;
- The extension of the responsibilities of the Security Committee and rename it as ICT & Security Risks management Committee;
- The requirements for ICT & Security risk reporting that includes an annual report to the Board Risk Committee and the Board of Directors.

In 2021, the ICT & Security Risk Management charter has been slightly amended in line with the objective to get the ISO27001 certification on a section of BIL information system. The charter introduces the topic and states the responsibility for the ICT and Security committee to perform the regular management review required by this certification. No updates have been made on the governance.

The governance is fully deployed since January 2021
- New ICT & Security Risk Committee (that replaced the former Security Committee) is in place since September 2020 and occurs every two months
- ICT & Security Forum with the first lines occur every two months. During these forums each ICT domain owners share information (highlights and lowlights) and KPIs on their respective domains.

Annual presentation on ICT & Security risks is performed to the BRC.

The Business Continuity Management and Crisis Management charter defines the objectives, methodology and governance to ensure the continuity of the critical activities.

Committees

- **The ICT & Security Risks** are handled by the ICT & Security Risks Committee (ISRC). The ISRC is mandated by the Management Board to:
  - Oversee the ICT & Security risks (as defined in the ICT & Security Risk Management charter) linked to BIL's use of information technologies and that of its subsidiaries;
  - Oversee the ICT & Security controls in place to mitigate the ICT & Security risks;
  - Take a position on the risks its members have identified and analysed in order to provide adequate protection for BIL's Information and IT assets;
  - Monitor ICT and Security incidents;
  - Analyse that the implementation and the support of a global Business Continuity Plan respects the strategy defined by the BIL Management Board.
- **The Crisis Committee (CC)** is composed of the Management Board members and can decide to set up an Operational Crisis Committee (OCC), composed of different members of the functions required to manage the crisis. Depending on the nature of the crisis, this OCC is complemented by the heads of the entities concerned.

6.1.3. Risk reporting

The main reporting on ICT & Security risks are the following:

Report	Freq	Topics covered by the report	Recipients	Scope
ICT & Security Risks Dashboard	B	High or Very High Risks identified in the period, if any	Internal Management Committee (ICT & Security Risk Committee)	Group
PSD2 risks report	Y	Mandatory report on Operational and Information Security risks on payment services	CSSF	BIL
ICT & Security Risk annual reporting	Y	ICT & Security Risk annual status	BRC & BoD	Group

Y=Yearly / H=Half-yearly / B= Every two months

6.1.4. Risk measurement

Security Risk assessment and mitigation

The ICT & Security risk assessment process of BIL is composed of the following high-level activities:
- Risk identification;
- Risk analysis;
- Risk evaluation.

In order to mitigate the ICT & Security risks faced by BIL, a comprehensive repository of control baselines has been established.

Risk analysis consists in identifying and measuring the controls in place that allow to address the vulnerabilities and thus reduce the risk.

Risk evaluation is a computation of:
- The impact in case of availability, confidentiality or integrity loss;
- The likelihood of the threats;
- The coverage of vulnerabilities by security controls.

The output of the risk evaluation is a score representing the residual risk for the Bank taking into account the mitigation measures in place.

Results of the most recent analysis

The 2021 annual ICT & Security risk analysis was presented to the BRC in November 2021:
- **Among the 38 ICT & Security risks faced by BIL, 9 are still representing a high residual risk**, 26 a low residual risk and 3 a very low residual risk;
- **9 highs risks** (on a 4 level scale from Very Low to Very High) have been identified;
- 1 risk linked to the **governance of third parties** will be remediated by end Q4 2021 as part of the backlog treatment in relation with the Outsourcing Charter implementation;
- 4 **Information Security** risks that may result in data leakage, fraud or sabotage;
- From an external attack: covered by the **Cyber Security roadmap**;
- From an insider or due to a human error: **deployment of solutions** to prevent or detect data leakage, to encrypt most sensitive information and to monitor privileged access usage (also part of the Cyber Security roadmap);
- 1 risk linked to **IT assets not properly inventoried**: replacement of the inventory tool to automate part of the collection;
- 1 risk linked to **acquired applications** that may not meet IT and security requirements: recruitment of a new profile in the Information Security team that will be responsible to perform intrusion testing on applications acquired from external partners;
- 2 risks linked to data that may be inaccurate, incomplete or not consistent across the IT systems, covered by **data management initiatives**.

Definition and follow-up of action plans

All risks are subject to one or more of the following treatment actions:
- Acceptation: The risk is knowingly accepted as is and no further remediation is taken;
- Transfer: The risk is transferred to a third party (e.g. insurance);
- Avoidance: The activity or condition that gives rise to the risk is avoided. In that case, the risk no longer exists;
- Mitigation: Remediation controls are implemented to reduce the likelihood and/or the impact of the risk.

The implementation of the treatment plans is monitored and reported to the ICT & Security Risk Committee

A set of recommendations were identified to mitigate the risks identified as part of the first ICT & Security Risk analysis.

A roadmap to implement these recommendations was established with the domain representatives and presented to the ICT & Security Risk committee of September 22, 2020.

7. Remuneration Charter and practices

7.1. Key pillars

This Remuneration Charter (the "Charter") has been reviewed and approved by the BoD in June 2022. It is applicable to all entities of BIL Group.

To both reflect BIL Group's core values and comply with the regulatory requirements in terms of remuneration policies and principles, the Charter has been defined around the following pillars:

- **Maintain a sound and effective risk management framework**

The Charter and its associated practices aim at defining the remuneration within BIL Group with a view to protect the interests of BIL Group's clients, providers, employees, shareholders as well as BIL Group's financial sustainability in a long term perspective.

The Charter is also designed to support the Bank in achieving and maintaining a sound capital base.

The Charter is consistent with and promotes sound and effective risk management and does not induce excessive risk-taking. It is fully aligned with BIL Group's aim to efficiently manage conflicts of interests and promote best banking industry practices.

- **Attract and retain talent with competitive remuneration packages**

Client satisfaction and protection remain at the heart of the philosophy of BIL Group. BIL Group wishes to attract, retain and motivate highly qualified professionals in their respective domains. Therefore, BIL Group offers remuneration packages that, while in line with market practices and ESG considerations, are attractive and competitive, both in terms of amounts and structure and are gender neutral.

The remuneration components granted by BIL Group to its staff are regularly benchmarked through market studies performed by experts or external consultants, in order to verify the positioning of its remuneration packages in comparison to any given reference market. The remuneration analyses may be carried out at local or international level and aim to provide a benchmark of BIL Group's position against comparable financial institutions.

By decision of the BOD, ad hoc measures may be envisaged in certain entities of BIL Group when significant distortions are observed, with a view to enable BIL Group to attract the talent it needs and keep those already in position. Although remuneration must be kept attractive, it must respect the budgetary framework set by the BOD and not jeopardise the financial situation of BIL Group.

- **Primacy of clients' interests**

Clients have to be treated fairly and their interests are not impaired by the remuneration practices, BIL Group does not remunerate or assess the performance of its staff in a way that conflicts its duty to act in the best interest of its clients.

In the same way, when BIL Group acts as an insurance distributor, no arrangement should be made that could provide an incentive to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product which would better meet the client's needs.

- **Link between performance and remuneration**

Variable remuneration is part of the standard compensation package offered by BIL Group. To protect the interests of all stakeholders, and encourage responsible business conducts, variable remuneration must be aligned with short, mid and long-term collective and individual performance. Effective performance is therefore subject to strict assessment rules that primarily aim at preventing excessive risk-taking behaviour. This is why the BIL Group Remuneration Charter takes into account the main outcomes of the ICAAP. Moreover and more generally, BIL Group does not reward failure.

Remuneration and similar incentives shall not be solely or predominantly based on quantitative commercial criteria, and shall take into account appropriate qualitative criteria reflecting compliance, the fair treatment of clients and the quality of services provided to clients. A balance between fixed and variable components of remuneration shall be maintained at all times, so that the remuneration structure does not favour the interests of BIL Group against the interests of clients.

- **Comply with the regulatory framework**

The Charter complies with the requirements on remuneration policy and practices in the financial sector that have been defined by applicable and mandatory laws and regulations. The Charter implements requirements relating to the CRD IV and CRD V principles transposed into Luxembourg national legislation under the law of 5 April 1993 on the financial sector "LFS".

- **Foster transparency**

Transparency is a keystone of the charter. Detailed information on the charter's rules and practices is made available both internally and externally in order to aim that employees as well as stakeholders are timely and accurately informed about BIL Group's Remuneration Charter.

- **Foster environment, social and corporate governance (ESG)**

ESG considerations are embedded throughout the organization and all employees are sensitized and encouraged to uphold BIL's sustainability initiatives.

In particular, the appropriate ESG criteria and metrics are linked to the remuneration framework of all people managers and specific functions (see appendix 8,1.2 under "Efficiency and KPIs").

The remuneration charter may be adapted, as necessary, as the ESG universe evolves towards a more detailed approach.

Gender neutrality is part of the ESG considerations. The Remuneration Charter is set up with a view that gender neutrality and equal pay between men and women are upheld at every level of the organization.

BIL will monitor and benchmark equal pay between men and women, country-by-country, both overall and by categories (Identified Staff, members of the BOD (executive and non-executives), other staff.

- **Ensure group consistency**

BIL Group Remuneration Charter is applicable to all BIL entities (including subsidiaries, branches, and representation offices) in Luxembourg and abroad. In order to reach consistency throughout the group, all entities of BIL Group are requested to examine the conformity of the charter versus local specific rules and regulations and should mandatory specific local rules apply, local entities should adapt the charter accordingly. Should local regulations provide stricter rules, the later shall prevail.

BIL Group regularly carries out internal audits in Group's entities to verify compliance by such entities with the Charter.

7.2. Determination of the Identified Staff and Exclusions

BIL performs, at least on an annual basis, a detailed analysis in order to identify those staff members who, at group level, have a material impact on BIL Group's risk profile (hereafter referred to as the "Identified Staff").

BIL Group applies the guidance provided by the EBA when determining the Identified Staff. The list of Identified Staff is established every year based on the analysis of job functions and responsibilities according to the following governance:

1. Each entity is requested to identify staff members who meet the Identified Staff criteria and definition. This analysis is made based on the basis of :

   - The qualitative and quantitative criteria detailed in the Commission Delegated Regulation EU 2021/923 on the identification of categories of staff whose professional activities have a material impact on an institution's risk profile and, whenever appropriate;
   - The specific definition set forth in the context of AIFMD.

2. The analysis is combined into a consolidated Identified Staff list which is assessed at group level during an ad hoc meeting;

3. This annual process is coordinated by People, Culture and Communication (PCC) in close collaboration with Risk Management, Compliance, Audit and Secretary General Office departments;

4. The final consolidated list is reviewed by the BRNC-N and recommended by the BRNC-N to the BoD for decision and decision.

Moreover as foreseen by CRD V and provided that he/she does not have a significant impact on the risk profile of a material business unit or does not belong to a material business unit, BIL may exclude or request to exclude a staff member as Identified Staff despite him/her meeting quantitative remuneration criteria:

- Internal exemption request for staff member with a remuneration between 500.000 and 749.000 EUR: The analysis is made at Group level during an ad hoc meeting held with the Internal Control Functions (Risk Management, Compliance and Internal Audit) as well as members of the Legal department, upon presentation of a duly motivated request prepared by the relevant employing entity of the Group. The exemption request is reviewed by the BRNC-N and the Risk Committee and approved by the BOD;
- Request to the regulator for staff member with a remuneration between 750.000 and 999.999 EUR: The analysis is made at Group level during an ad hoc meeting held with the Internal Control Functions (Risk Management, Compliance and Internal Audit) as well as members of the Legal department upon presentation of a duly motivated request prepared by the relevant employing entity of the Group. The exemption request is reviewed by the BRNC-N and Risk Committee and approved by the BOD before the request for approval is sent out to the regulator.

Proportionality principle at the level of Identified Staff

The charter applies to all Identified Staff at BIL Group level.

However, as foreseen by the law of 5 April 1993 on the financial sector (as amended) , BIL may apply the remuneration requirements in a proportionate way to Identified Staff who have a less material impact on BIL Group's risk profile.

More precisely, BIL shall apply the proportionality principle to Identified Staff who have a less material impact on BIL Group's risk profile and have an annual Variable Remuneration below or equal to € 50.000 or that does not represent more than one third of the beneficiary's total annual remuneration

In this context, the following specific remuneration requirements are neutralised for the Identified Staff for whom the proportionality principle is applied:
- Requirement to pay out a part of the variable remuneration in instruments and, as a consequence, the related instrument retention obligations;
- Requirement to pay out a part of the variable remuneration through a deferral scheme and, de facto, the related ex-post risk adjustment obligations (malus).

7.3. Determination of the "Relevant Persons"

As per Commission Delegated Regulation (EU) 2017/565 of 25th April 2016 supplementing Directive 2014/65/EU, BIL Group identifies and establishes, on a regular and continuous basis, a list of relevant persons. The list is established and yearly reviewed by PCC and Compliance Departments. It is to be noted that, even before the implementation of Directive 2004/39/CE in 2007, BIL had already adopted and still maintains measures to define appropriate criteria to be used to assess the performance of relevant persons. These measures include the definition of qualitative criteria encouraging the relevant per- sons to act in the best interest of the client. In addition, organisational measures are in place, in order to that, when launching new products or services, BIL Group appropriately takes into account the remuneration policies and practices and the risks that these products or services may have in terms of conduct of business and conflicts of interests.

7.4. Performance assessment

7.4.1. Performance management system

7.4.1.1. Main characteristics of the system

BIL's performance management model, called "Feedback Process" aims at establishing continuous feedback as a main driver of collective development and continuous improvement.

BIL strongly believes that a sound feedback culture that focuses on employees' strengths and development areas and that is provided in the spirit of "growth mind-set" is a key driver to reach BIL's targets in a sustainable and risk-aware way.

BIL has defined key behaviours and key objectives that it considers to be the main drivers for individual and collective performance and against which it assesses the employees and managers on a regular basis and at least once a year.

BIL has implemented various tools and trains its staff and managers on a regular basis in order to encourage an open dialogue and continuous feedback across business lines and hierarchical levels.

7.4.1.2. The Yearly Feedback (mandatory process)

In order to formalize feedback, BIL has set the yearly feedback as a mandatory process that requires managers and employees to record feedbacks on performance in writing. The process includes the following steps:

The aim of the yearly feedback is to:
- Assess the performance of the employee against the key actions, key behaviours and key objectives identified by BIL as key drivers of sustainable success;
- Identify the strengths of the employee and recognize his or her contribution to the success of the Bank;
- Identify development areas of the employee and set up a development plan to help him or her address weaknesses;
- Discuss career evolution opportunities and appropriate development plans.
- Each will be evaluated by the people manager, respecting the following code: Purple: the employee is a true role model in this area;
- Green: the employee masters this area correctly;
- Yellow: the employee masters this area partly but still has some attention points to work on;

- Red: this area is an issue and needs to be addressed.

As outlined in the key result "Compliance, Risk and Business Ethics" it is also the aim of the feedback model to address potential issues in terms of risk management and compliance, including compliance with the Code of Conduct of the Bank. Each Internal Control Function as well as the Legal department gives its feedback and shares potential findings on every employee for the assessment year. PCC compiles the findings, monitor their appropriateness and prepares with the employee's manager the feedback to be given to the concerned employee. Should the Internal Control Functions and Legal Department raise unsatisfactory findings, PCC coordinates appropriate actions to be taken with the people manager. These actions are to be aligned with the underlying reasons for underperformance and will range from the set-up of a dedicated development plan with close follow-up to a change of role or to disciplinary actions including warning letters and/or the adjustment of the variable remuneration level.

7.4.1.3. Link between remuneration and performance

BIL Group aims to attract, retain, and motivate highly qualified professionals. BIL Group offers remuneration packages that, while in line with market practices, are competitive and attractive, both in terms of amount and structure. An important element of the employees' remuneration packages is the variable component which is strongly linked to the performance of BIL Group, the entity, the department, and the individual. If an employee is eligible for a variable remuneration, the manager confirms that the following criteria are met:

- No gross misconduct/appropriate compliance with policies, internal rules, applicable legal requirements, risks standards and procedures;
- No gross misconduct observation of the BIL Code of Ethics, company's standards which govern relationship with clients and investors and relationships with internal clients and team members;
- Appropriate performance and behaviour.

After confirmation that the conditions above are met, managers make a proposal in terms of variable remuneration, in- crease of fixed remuneration or promotion.

The variable remuneration recommendation is based on a reference amount per Hay Group. Depending on the results of the feedback model, the variable remuneration can be set:

- Above the standard level (120% to 150% of the reference amount);
- At a standard level (80% to 120% of the reference amount);
- Below the standard level (50% to 80% of the reference amount);
- At zero for a poor performance or non-respect of the above-mentioned rules.

The reward exercise is validated during a special executive committee meeting called "Promotion Board". During the Promotion Board, the variable remuneration of all the identified staff of BIL Luxembourg based entities is validated

7.5. Remuneration structure & pay out modalities

7.5.1. Description of the remuneration structure and components

The principles set out below apply to all employees of BIL Group.

However, since BIL Group is active in multiple countries, it sometimes needs to align its practices with local regulatory framework (e.g. labour, social security and tax laws, codes, rules, circulars issued by the local regulator, etc.) and with local remuneration market practices. Therefore, the structure and components of remuneration packages may slightly differ from one country to another.

The remuneration at BIL Group is structured around two pillars: fixed and variable remuneration.

Fixed remuneration

Base salary:
A portion of the total remuneration periodically received in cash. It remunerates the competencies of the staff members, is based on the role and experience of the staff members and is guaranteed irrespective of their performance. A fixed remuneration may be impacted by a Collective Bargaining Agreement (CBA) and is generally composed of the following elements:
- Monthly salary;
- Additional monthly or annual fixed premium if provided for by the employment contract or by a Collective Bargaining Agreement;
- Mandatory additional premiums provided by a CBA.

Fringe benefits:
All advantages received in kind by an employee in addition to his/her base salary (such as a company car, pension schemes and loans). These benefits are non-discretionary and do not encourage under any circumstance, excessive risk-taking.

These benefits are linked to the employees' classification in the CBA or internal grading (Hay grading) for executives, as well as the seniority within the BIL Group.

None of these benefits are linked to performance. Fringe benefits depend on each entity's remuneration structure.

Variable remuneration

A portion of the total remuneration received in cash (or cash and instruments for Identified Staff for whom proportionality cannot be applied) which is entirely at BIL Group entities' discretion and is determined on the basis of individual and collective, financial and non-financial performance criteria. In particular, it enables the interests of the employee to be aligned with those of BIL Group.

A supplementary special program has been set up for senior management key members. The senior management of BIL may participate to a Long-Term Incentive Plan ("LTIP"). The beneficiaries are selected discretionarily by Exco upon recommendation of BRNC, approved by BoD.

LTIP is a profit-sharing plan based on the issuance of two types of finite (phantom) certificates (The phantom certificates reward senior management for the value created over an extended period of 5 plus 1 year. Rewards are based on the value of the institution's equity above a hurdle value of 5% and capped at an absolute maximum value per phantom certificate.

The (phantom) certificates, issued during the year, cannot be accessed, sold, pledged as security or mortgaged in any way during a blocking period and can be redeemed before the expiration date.

Each (phantom) certificate owned by the Holder who is still under employment contract with BIL on a specific date (triggering date) will be valued at its Redemption price per (phantom) certificate. Otherwise, upon termination of employment before the triggering date, each (phantom) certificate will be valued at its Redemption price with penalty per (phantom) certificate.

7.5.2. Staff identified as Material Risk Takers (MRT)

On 31 December 2021, BIL Group has identified 112 Identified Staff.

7.5.3. Variable Remuneration principles & Upper Limits

A Variable Remuneration is allocated to staff members according to:

- The status of the employee (employee/manager/ executive) and his/her job level;
- The appraisal obtained through the performance assessment process on the basis of individual and collective, quantitative and qualitative performance criteria;
- The average presence of the employee during the year.

The proportion of variable remuneration to the fixed remuneration of the Identified Staff depends on the categories of Identified Staff, as well as to the entities or countries where the entities are located.

As a general principle, and as per the CRD IV and the requirements of article 38-6 of the LSF, the variable component shall not exceed 100% of the fixed remuneration. In order to assess the ratio, the fixed remuneration to be taken into account is the one effectively paid over a specific year and the variable remuneration related to the same performance year.

On an exceptional basis, a higher maximum level of the ratio between the fixed and variable components can be decided but will in no case exceed 200% of the fixed component. In such a case, and to comply with the applicable laws, the BoD of each entity, subject to a prior decision by the General Meeting of Shareholders of BIL, will submit to their respective shareholders a detailed recommendation describing the reasons for, and the scope of, the approval sought (incl. the number of staff concerned, their functions and the expected impact on the requirement to maintain a sound capital base). The shareholders' decision will be taken at the General Meeting.

The procedure for increasing the ratio (including the quorum and voting thresholds) as described in CRD IV, the financial sector legal framework and the EBA Guidelines, which are strictly followed. Copies of both the recommendation of the BoD to the shareholders and the shareholders' decision are provided to the regulator.

If one of BIL Group entities is located in another EU Member State which has set a lower maximum percentage, the ratios defined in the Remuneration Charter will no longer apply and the local mandatory requirements will be respected.

Upon redemption of the (phantom) certificates and based on the risk adjustment provision of the Group Remuneration Policy, BRNC assesses whether an ex post adjustment (i.e. malus provision) is required. In addition, BRNC assesses at the end of the blocking period whether the (phantom)certificates should be subject to the clawback provision as stated in the Group Remuneration policy.

7.5.4. Variable Remuneration principles for specific categories of staff

7.5.4.1. Non-executive directors in BIL Group entities

The annual General Meeting of the Shareholders of BIL decides each year on the remuneration of the Chairman, Vice-Chairman and the Members of the BoD, including the remuneration of the directors who are members of the specialised Board Committees.

Non-executive directors do not receive variable remuneration. The remuneration of non-executive directors of BIL for the exercise of their mandates, is set by the annual General Meeting of Shareholders of BIL, to the extent permitted pursuant to the applicable rules.

A director of BIL (or of a BIL Group entity) who is an employee of BIL (or of such a BIL Group entity), does not receive any remuneration for the exercise of his/her director mandate, unless such a director represents the staff.

7.5.4.2. Member of the Management Board (MMB) of BIL Group

The remuneration of a MMB is defined by the BoD, upon recommendation of the BRNC in accordance with the internal governance rules. The BRNC may if the Committee decides so, be assisted by independent external advisers (who are experts in the field of remuneration) and/or by the Risk, PCC, Compliance, Legal and Tax Departments of BIL.

In order to offer remuneration which is in line with market practice, the BRNC regularly receives a benchmarking study on the basis of which, if need be, it makes proposals to the BoD to adapt the remuneration conditions of the MMBs, including on the variable components.

In case a MMB receives a remuneration (allowances or attendance fees) for a mandate that he/she exercises in the name of or on behalf of BIL Group, this remuneration is retroceded to BIL Group.

Amount of variable remuneration

At the beginning of the year, objectives are set and a target bonus is agreed upon.

This target bonus represents a percentage of the fixed remuneration of the MMB. The variable remuneration eventually paid out may be higher or lower than the target bonus and depends on the level of achievement of the objectives.

Variable remuneration is by no means guaranteed, remains discretionary and can be set to zero by the BoD if the BIL Group/ business / individual performance targets are not met.

Drivers of variable remuneration

Variable remuneration is determined on the basis of Key Performance Indicators (KPIs) of three types, each type being assessed on the basis of quantitative or qualitative, financial or non-financial criteria:

- **Group KPIs**

These KPIs are common to all MMBs. BIL Group results determine whether and to what extend the KPIs are met. They are calculated based on of the financial indicators set by the BoD, acting upon recommendation of the BRNC.

- **Business KPIs**

The business KPIs are analysed individually with respect to the targets which have been set for the MMBs. The performance assessment depends on the manner in which the business or the support line has taken an active part in the achievement of the group targets. The performance assessment includes the monitoring of the risk elements specific to the MMB's activity line.

- **Individual KPIs**

The individual component is analysed separately with respect to the targets which have been set for the MMBs, on the basis of qualitative criteria such as management skills, the manner in which the MMB has participated in the elaboration and/or the implementation of the transformation plan for his/her entity, support line or business line, and compliance with rules, procedures and values of the BIL Group. Below a certain result in the individual assessment, the entire variable remuneration may be set to zero. This decision is made by the BoD, upon the recommendation of the BRNC.

7.5.4.3. Members of Management Boards in BIL Group entities

For members of management boards in a BIL Group entity (other than BIL S.A.), variable remuneration components will depend on business and individual KPIs. In case the performance of the entity is not satisfactory, the BRNC can decide to lower the variable remuneration. The variable remuneration is not always in direct connection with BIL Group's results.

7.5.4.4. Internal Control functions

The performance analysis and the decision on the variable remuneration are performed in all independence for the Internal Control Functions. More precisely, in order to avoid conflicts of interests, the performance indicators in the Internal Control Functions mainly consist of non-financial individual criteria and do not in any case contain financial criteria related to the entities or activities they control.

The performance is assessed on the basis of targets that are mainly qualitative and specific to the Internal Control Functions. Although there is no direct link with BIL Group's results, the variable remuneration is, per se, conditioned by the good results of BIL Group that impact on the Bonus Pool.

For the avoidance of doubt, the CRO is appraised taking into consideration the specific KPIs of the heads of the Internal Control Functions.

The remuneration components of the heads of the Internal Control Functions are defined in accordance with the TOR of the BRNC and decided by the BoD upon the BRNCs' recommendation at BIL Group level.

For the variable portion of the remuneration, the appraisal and the objectives' setting for the heads of the Internal Control Functions are prepared by the CEO, and submitted to:

- The Chairman of the Board Audit and Compliance Committee (BACC) for the Chief Internal Auditor, and the CCO in accordance with the TOR of the BACC, for his consideration, assessment and further recommendation to the BRNC, and;
- The BRNC for the CRO , in accordance with the TOR of the BRNC, for assessment and further recommendation of the BoD.

The Heads of the Internal Control Functions of BIL Luxembourg must give their consent for any significant decisions regarding the remuneration of the heads of the Internal Control Functions in all BIL Group entities.

7.5.4.5. Identified Staff for whom a Target Bonus Model may be set

Variable remuneration for all other Identified Staff is discretionary.

For some Identified Staff members, a target bonus model may be set in order to condition the pay-out of a bonus to the achievement of certain objectives.

Notwithstanding the setting of the target bonus, the variable remuneration is in no way guaranteed and its pay-out may be set to zero if the group / business / individual performance targets are not fulfilled.

7.5.4.6. Selected sales functions

For selected sales functions, a formula-based bonus may be set by a BIL Group entity for a determined period of time. The formula-based approach takes into consideration financial KPI's such as net revenues, net new assets.

An adjustment factor (reducing the formula- based bonus up to zero) may apply if the qualitative criteria are not met. Qualitative criteria for formula-based bonuses are set as follows:

- Observation of the BIL Code of Ethics;
- Compliance with policies issued by BIL, internal rules, applicable legal requirements, the risks standards and procedures of the Bank;
- Proper and on time documentation of clients and transactions;
- Proper ethical behaviour in line with the company's standards which govern relationship with clients and investors and relationships with internal clients and team members;
- All key behaviours and key results outlined in the Bank's feedback model.

A dedicated committee called "Variable Remuneration Validation Committee" (composed of the heads of the Internal Control Functions, the head of business line and the global head of PCC) decides on the compliance aspects and pay-out of the formula-based bonuses.

7.5.4.7. Selected categories of staff

BIL Group may set up retention programs for selected categories of staff whose engagement, competencies or potential are important for the Bank to retain in the short, medium or long term.

These retention programs might be dedicated to selected individuals or to groups of individuals and may have different lengths. These retention programs are limited in time and their pay-out may be bound to specific conditions.

The variable remuneration might be paid out in cash or in phantom shares.

7.5.5. Variable remuneration pay-out principles

For employees that are not Identified Staff or that are Identified Staff but under the proportionality principle, variable remuneration (discretionary, target or formula based bonus) is generally paid out in cash at the end of the 1st quarter of the year following the performance year.

7.5.6. Specific provisions

7.5.6.1. Claw-back

The payment of variable remuneration is based on the premise that, during the period when the Identified Staff member was working within BIL Group, he / she fully observed the law and the regulations specific to the relevant entity as well as the values of BIL Group.

In case fraud is observed after the award of variable remuneration, and in cases where it has been granted on the basis of intentionally erroneous information, the BoD reserves the right to claim back the part of the variable remuneration which might already have been paid, or at least to recover equivalent damages and interest, in cases where BIL might have suffered a significant loss.

BIL has the authority to reclaim any variable compensation granted. The claw-back provision is applied in case of established or proven fraud or in case of use of misleading information, if enforceable under local employment law.

7.5.6.2. Prohibitions of guaranteed variable remuneration

A variable remuneration is in no way guaranteed. In very particular circumstances, the only exception relates to the recruitment of new staff members to whom a variable remuneration might be guaranteed during the first year of employment.

7.5.6.3. Compensation and buy out from previous employment contract

In exceptional circumstances, the Identified Staff could be entitled to a one-time lump sum compensating the loss of the variable remuneration by leaving his/her previous employer.

Variable remuneration pay-out principles will apply automatically and a dedicated clause will be inserted in the employment contract.

7.5.6.4. Severance payments

Without prejudice to the application of the relevant and applicable legal and regulatory framework and agreements binding the relevant entity, payments associated with the early termination of an employment contract and/or a mandate as a MMB must reflect effective performance achieved over time and are designed not to reward failure or misconduct.

There are no so-called "Golden Parachutes" in the BIL Group's Remuneration Charter.

The BRNC decides in a consolidated manner, on termination packages for MBBs, in the event of termination of an employment and it recommends to the BoD for approval.

A severance payment will not be awarded in case of an obvious failure of BIL or of the Identified Staff pursuant to rule 169 of the EBA Guidelines. Obvious failure of Identified Staff will be assessed on a case by case basis and will notably include the situations described in the EBA Guidelines (e.g. acting contrary to BIL internal rules, values and procedures, not meeting BIL's standard of fitness and proprietary, behaviour allowing each BIL Group entity to terminate the employment contract with immediate effect).

Severance pay will not be awarded in case the employee/member of the MMB resigns. In case the employment contract is terminated by mutual consent, the potential severance payment will be considered and reviewed on a case by case basis and subject to applicable laws definition by the BRNC, and recommended to the BoD for decision.

Severance payments may be paid out in the context of a settlement agreement in order to prevent or terminate a potential or current labour dispute leading to costly and long Court procedures. Severance payments are granted in the event a Court might declare the dismissal as unfair. In order to assess whether a dismissal is likely to be declared unfair by a Court, BIL Group will (as need may be) seek the assistance of internal or external lawyers.

BIL Group will manage that it does not pay severance amounts above what is applicable under the relevant laws, regulations and CBAs or exceeding the benefits generally fixed by the relevant Courts.

A severance pay is considered by the EBA Guidelines, as variable remuneration. Severance paid to Identified Staff will thus in principle be subject to all principles described in the Remuneration Charter (e.g. deferral and payment in instruments) except for those amounts of severance payments that are mentioned in the EBA Guidelines.

7.5.6.5. Prohibition of personal hedging

It is forbidden for staff members to use personal hedge or insurance strategies linked to the remuneration or to responsibility in order to offset the impact of the ex-ante and ex-post risk alignment measures. Every Identified Staff is asked to comply which such requirement by accepting the principles laid in the Remuneration Charter.

7.6. Governance: roles and responsibilities in the design, implementation and ongoing supervision of the Remuneration Charter

7.6.1. The Board of Directors (BoD)

The BoD is responsible for the design, the review and the correct implementation of the Remuneration Charter ("Charter") compliant with the mandatory laws and regulations applicable to BIL.

In this context, the BoD acts upon recommendation of the BRNC, based on preparation and proposed amendments of the relevant Internal Control Functions (Risk Management, Compliance, Internal Audit), PCC and Secretary General departments. If needed, the BoD may seek the assistance of external remuneration specialists.

The implementation of the Charter is reviewed on a regular basis by the BRNC, which must be assisted by the Internal Control Functions or by external experts. Such an independent review will assess whether the remuneration system:

- Operates as intended; and
- Is compliant with the applicable laws.

The BOD has final decision power and responsibility regarding all aspects of the Remuneration Charter.

7.6.2. The Board of Remuneration and Nominations Committee (BRNC)

BIL operates in the financial market place giving rise to business, regulatory, financial, operational and human capital issues from many aspects of its activities. The BRNC is a BoD specialised committee and has been set up by the BoD in order to enable the smooth management and operation of all relevant nomination and remuneration matters and as part of the governance structure of BIL. The BRNC operates through two sub-meetings provided for in the BRNC TOR.

The responsibilities and the functioning of the BRNC at the level of BIL is laid down in the TOR of the BRNC. The TOR BRNC are reviewed annually by the BRNC and subsequently considered and if thought fit, approved by the BOD in compliance with the applicable laws.

The BRNC is organised in two sub-meetings:

- Sub-meeting BRNC sitting for Nominations matters;
- Sub-meeting BRNC sitting for Remuneration matters

7.6.3. The Management Board Members

Whereas the overall responsibility for the Charter is in the hands of the BoD, the Management Board of BIL SA and the Executive Committee oversee the correct operational implementation of the Charter throughout the BIL Group and the monitoring the compliance risks related to that Charter. It takes all appropriate measures to enable that the Charter is applied properly and in line with mandatory local regulations.

7.6.4. The Internal Control Functions

BIL Group Internal Control Functions actively contribute to the design, application and review of the implementation of the Charter.

7.6.4.1. Internal Audit

- Takes part, in the annual identification of the Identified Staff;
- Takes part in the annual review of the Charter in collaboration with other Control Functions and the Legal department;
- Reviews on an annual basis the practical application of the Charter within BIL Group;

- Assesses employees against the key result "Compliance, Risk and Business Ethics.

7.6.4.2. Compliance

- Takes part, in the annual identification of the Identified Staff;
- Takes part to the annual review of the Remuneration Charter monitoring that it effectively complies with regulatory requirements, in close collaboration with PCC, the other Control Functions and the Legal department;
- Communicates to the PCC Department any new regulations to be taken into account with regard to the Charter;
- Advises the BRNC and to the BOD regarding any update related to regulatory requirements;
- In collaboration with the Internal audit and Risk management, Compliance identifies and reports to the management body (both in its management and supervisory functions) any compliance risks and issues of non-compliance on the definition and application of the remuneration charter. The findings should be taken into account by the supervisory function during the approval, review procedures and oversight of the remuneration policy;
- Assesses employees against the key result "Compliance, Risk and Business Ethics".

7.6.4.3. Risk Management

- Takes part, in the annual identification of the Identified Staff;
- Takes part in the annual review of the Charter monitoring that it effectively complies with regulatory requirements. It does so in close collaboration with PCC, the other Internal Control Functions and the legal department;
- Assesses employees against the key result "Compliance, Risk and Business Ethics";
- Assists with and informs on the definition of suitable risk adjusted performance measures (including ex post adjustments), as well as with assessing how the variable remuneration structure affects the risk profile and culture of the institution;
- Validates and assesses risk adjustment data as well as be invited to attend the meetings of the remuneration committee on this matter.

7.6.5. Human Resources

The function of HR is carried out by the "People, Culture and Communication" department.

- PCC is the process owner and coordinator of the Charter definition and implementation process;
- PCC proceeds to the annual review and updates the Charter on the basis of the new regulatory requirements in collaboration with other Control Functions and adapts BIL Group procedures and processes accordingly;
- PCC informs staff and concerned parties about all changes;
- PCC coordinates the circulation of the Charter within BIL Group, follow-up on the approval by local management, keeps track of the finalised version applicable in each entity;
- PCC ensures that BIL Group entities comply with the Charter during the appraisal/reward process (coherence checks, awareness of managers, etc.);
- PCC, together with General Secretary, initiates updates especially regarding the identification of the Identified Staff;
- PCC manages the day-to-day performance assessment and pay-out processes.

7.7. Diversity and succession plan at the level of the Management Body

The Board of Directors of BIL has reviewed and approved (on 22 March 2019) the Diversity Charter to be considered by the Bank when selecting members of the Management Bodies (BoD and MB).

The purpose in establishing the Diversity Charter is to document the principles, commitments, and measurable objectives in relation to diversity upon which BIL forms and implements its nomination strategy for the Management Bodies.

In making recommendations to the BoD regarding potential director candidates, the BRNC-N sitting in nomination matters (the BRNC-N) will consider, among others, the following diversity criteria:

- Specific skills, expertise and/or experience that would complement the overall competence of the Management Body;
- Age and experience;
- Gender;
- Geographical background;
- Educational background;

- Cultural background;
- Directors elected by the staff

The quantitative objective laid down in the Diversity Charter with regard to the underrepresented women gender in the Management Bodies is to reach a minimum of three persons representing at least 5% of the total number of the Management Bodies members by the year 2020, and a minimum of five persons representing at least 10% of the total number of the Management Bodies members by the year 2024.

The BRNC-N is responsible for reviewing on a regular basis the Diversity Charter and assess on an annual basis its implementation.

Regarding the recruitment policy for the selection and appointment of the Management Bodies member(s) to fill vacancies (as further defined in the Bank's Succession Plan Charter), the assessment will consider the candidate(s) good repute, the balance of knowledge, skills, diversity, time and availability to perform his/her duties, gender, experience and the number of executive and non-executive directorships of the candidate. The BRNC-N receives the whole application file documents (e.g. fit and proper, CV etc.) providing those details on whose basis an assessment is carried out and documented in regard to a checklist "Initial Suitability Assessment". On that basis the skills, experiences and competencies are analysed and duly documented. The Management Body shall possess adequate collective knowledge, skills, and experience to be able to understand the Banks' activities, including main risks.

When a position of Management Body member(s) vacates, the members of the BRNC-N will liaise and cooperate in order to select and recommend an appropriate candidate(s) to fill the vacancy as soon as possible, taking into account the following criteria: reputation, experience, governance, independence (Board candidates), as well as individual and collective requirements. The suitability of the Management Bodies member(s) is assessed according to the EBA guidelines of 26 September 2017 (EBA/GL/2017/12).

The initial assessment of candidate(s) and the periodic assessment of members of the Management Bodies is performed in accordance with the above principles as further defined in the Bank's Succession Plan Charter, including a matrix, on which basis the actual knowledge, skills and expertise of the member of the Management Body is documented.

In 2021 one new member of the Management Board and one new member of the Board of Directors were assessed. The fit and proper exercise were positive, and the regulators' non-objection decisions were granted.

The non-executive members of the Board of Directors have considerable experience at senior level within the financial sector as well as in different fields such as economics, finance, politics, risk management, consulting and auditing. The very good balance in terms of collective knowledge, skills, complementarity and experience fosters an independent, effective and proper supervision of the management of the Bank.

The members of the Management Board have a wide and strong experience in the Banking sector and a good balance in terms of collective knowledge in the fields of economics, finance, risk management, legal affairs & corporate governance, business administration & operations and human resource management. Most members of the Management Board held senior executive or/and director positions before joining the Management Board.

The biographies of the members of the Management Bodies are available on the website of the Bank.

7.8. CRD IV mandates limitation

All members of the Management Bodies comply with the mandate limitation requirement and the time spent requirement established by CRD IV and article 38-2 of the Law of 5 April 1993 on the Financial Sector, as amended.

Upon positive recommendation by the BRNC-N, the Board concluded on 24 February 2022 that the annual assessment did not reveal any issues of potential violation of either the mandate limitation requirement or the time spent requirement. Consequently, the members of the Management Bodies are considered to have sufficient time available to perform their duties as directors of BIL.

The number of directorships as defined in CRD IV regulations held by the members of the Management Bodies is as follows (February 2022):

Board of Directors[1]:
- Mr. Luc Frieden holding two non-executive directorships;
- Mr. Peng Li holding one executive directorship;
- Mr. Marcel Leyers holding one executive directorship and one non-executive directorship;
- Mr. Maurice Lam holding three non-executive directorship;
- Ms. Jing Li holding one executive directorship;
- Mr. Charles Li holding one non-executive directorship;
- Mr. Vincent Thurmes holding two non-executive directorships;
- Mr. Pierrot Rasqué holding one non-executive directorship;
- Mr. Chris Van Aeken holding one executive directorship and two non-executive directorships;
- The staff representatives on the Board of Directors holding one non-executive directorship each.

Management Board:
- Mr. Marcel Leyers holding one executive directorship and one non-executive directorship;
- Mr. Nico Picard holding one executive directorship and one non-executive directorship;
- Mr. Helmut Glemser holding one executive directorship;
- Mr. Jeffrey Dentzer holding one executive directorship;
- Mr. Karin Scholtes holding one executive directorship;
- Mr. Bernard Mommens holding one executive directorship;

7.9. Disclosure

7.9.1. Internal disclosure

Employees of the BIL Group are informed through the Colibri intranet and/or by their hierarchy on the annual performance assessment and reward process and the main principles of the Remuneration Charter.

The discretionary nature of the variable remuneration is mentioned in the employment contracts.

BIL Group informs its staff members appropriately and timely of any amendments to the Remuneration Charter which might affect them.

7.9.2. External disclosure

As set out in article 450 (Part Eight) of EU Regulation 575/2013 on prudential requirements BIL Group complies with the aforementioned rules and that the relevant BIL Group entity makes available to the public information regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on BIL Group's risk profile (i.e. the Identified Employees).

In addition, according to (1) article 68 of the Law dated 17 June 1992 on the annual accounts and consolidated accounts of credit institutions and (2) article 22(2) (f) of the EU Directive 2011/61 on AIFM, certain remuneration data are disclosed under the respective annual accounts of BIL Group entities when required.

7.9.3. Recommendation

To respond the CRR A.450(1)(a), for BIL, there is no external consultants whose services have been used for the determination of the remuneration and Allen & Overy is solicited in respect of the matter when required.

7.10. Quantitative information

The tables below show data on remuneration for all staff and are expressed in EUR.

Information on remuneration of identified staff 31/12/2021

	Senior Management	Other Identified Staff
Members (Headcount)	**52**	**56**
TOTAL FIXED REMUNERATION (IN EUR)	**12,102,053**	**9,572,688**
Of which: fixed in cash	*12,102,053*	*9,572,688*
Of which: fixed in shares and share- linked instruments	*0*	*0*
Of which: fixed in other types instruments	*0*	*0*
TOTAL VARIABLE REMUNERATION (IN EUR)	**6,003,572**	**4,841,267**
Of which: variable in cash	*3,496,529*	*2,955,688*
Of which: variable in shares and share-linked instruments	*0*	*0*
Of which: variable in other types instruments	*2,507,042*	*1,885,579*
TOTAL AMOUNT OF VARIABLE REMUNERATION AWARDED IN YEAR N WHICH HAS BEEN DEFERRED (IN EUR)	**2,221,433**	**1,512,919**
Of which: deferred variable in cash in year N	*1,110,717*	*745,321*
Of which: deferred variable in shares and share-linked instruments in year N	*0*	*0*
Of which: deferred variable in other types of instruments in year N	*1,110,717*	*767,597*
Additional information regarding the amount of total variable remuneration		
Article 450 h(iii)CRR – total amount of outstanding deferred variable remuneration awarded in previous periods and not in year N (in EUR)	6,639,459	
Total amount of explicit ex post performance adjustment applied in year N for previously awarded remuneration (in EUR)	0	0
Number of beneficiaries of guaranteed variable remuneration (new sign-on payments)	2	2
TOTAL AMOUNT OF GUARANTEED VARIABLE REMUNERATION (NEW SIGN-ON PAYMENTS) (IN EUR)	**66,000**	**131,796**
Number of beneficiaries of severance payments	3	1
Total amount of severance payments paid in year N (in EUR)	507,559	42,082
Article 450 h(v) – Highest severance payment to a single person (in EUR)	220,099	42,082
Number of beneficiaries of contributions to discretionary pension benefits in year N	0	0
TOTAL AMOUNT OF CONTRIBUTIONS TO DISCRETIONARY PENSION BENEFITS (IN EUR) IN YEAR N	**0**	**0**
Total amount of variable remuneration awarded for multi- year periods under programmes which are not revolved annually (in EUR)	**0**	**0**

Information on remuneration for all staff

Business areas	Senior Management	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Number of members (Headcount)	52	0	498	409	867	209	19
Total remuneration (in EUR)	**18,105,625**	**0**	**39,950,010**	**52,253,511**	**71,469,674**	**19,575,659**	**1,048,741**

8. ESG Risk Framework

8.1. Background

ESG is a highly relevant topic for banks, their customers, the supervisors but more globally for the populations and the governments all around the world. The financial sector has to take its part on this ambitious roadmap for a better world. It is why the Bank decided to move forward regarding this topic beyond the fact that the ECB has given clear instructions to banks to deploy a sound and robust sustainability framework.

8.1.1. BIL Sustainability Programme

In May 2022, BIL published its Sustainability goals strategy based on four strategic pillars and 19 commitments, which have been defined from its materiality analysis, as well as its stakeholder engagement plan[1].

The reference to the strategic pillars can be found in the Sustainability Report 2021, where:

- Pillar 1 encompasses a Sustainable Governance and Strategy
- Pillar 2 develops Responsible and Sustainable Products and Services
- Pillar 3 has a view on Responsible Employer and
- Pillar 4 commits to a Positive Impact

The ambition for Pillar 1 is to define the appropriate structure of the organisation in order to be able to face the ESG (Environment, Societal, Governance) challenges and to support the Bank's long-term growth and stability.

The main key points supporting this Pillar are (i) to define a sustainability strategy and related targets, (ii) to define an ESG Governance, (iii) to integrate ESG risks and opportunities in selected functions, policies and role descriptions, and (iv) to monitor ESG risks.

8.1.2. Define a Sustainability Strategy and related targets

The definition of BIL's SustainaBILity Strategy was the first step in setting a framework for the Bank's sustainability journey. The four strategic pillars and the related commitments have been communicated internally, making sure to engage all the Bank's departments in this transformation programme, called the "Towards SustainaBILity Programme", of which the CEO is the main sponsor. The initiatives and projects linked to the programme are monitored through the Towards Sustainability Steering Committee, a cross-disciplinary committee comprising representatives from all business lines and support functions. It meets every two months, is headed by the Group Head of Sustainability and is responsible for supervising the implementation of the SustainaBILity strategy within the different lines. In 2021, the Bank had over 40 sustainability initiatives related to the four strategic pillars.

8.1.3. Define an ESG Governance

A specific governance framework defines the responsibilities for the implementation of BIL's SustainaBILity Strategy: at management level, the CEO is the sponsor of the SustainaBILity Strategy, which is a recurring item on the agenda of the Executive Committee and the Board of Directors. The Group Head of Sustainability reports, since March 2021, directly to the Executive Committee Member in charge of the Bank's Strategy, leads the sustainability team and conducts a systematic dialogue on ESG issues with key internal and external stakeholders.

8.1.4. Integrate ESG into selected functions and selected policies, processes, role descriptions

Meeting the Bank's commitments requires the involvement and awareness of all departments and employees. This is why the Bank's ambition is to make sure that ESG factors are taken into account in all its activities. In 2021, ESG considerations were already integrated into two of the Bank's key processes namely the launch and creation of new products and the project management process:

- The Products and Services Governance Policy now makes it compulsory to consider ESG factors when describing the business case/strategic fit of a new product/new activity
- The Project Inflow process now also considers ESG factors when initiating a new project at the bank

Moreover, identifying ESG factors and associated risks - also opportunities - has also become key within risk management processes and the main business activities.

This process is gradually embedded within day-to-day operations and decision-making processes. The proactive integration of ESG considerations within the bank depends

[1] https://www.bil.com/Documents/brochures/Sustainability-report-2021.pdf

above all on employees' understanding of the issues. For this reason, upskilling and reskilling key functions on ESG considerations were essential in 2021 and will continue in 2022.

8.1.5. Monitoring of ESG Risks

The main objective in 2022 and onwards is to continue to deploy an operational implementation regarding the ESG Risk framework, notably through the ESG assessment grids for BIL's counterparties. It is illustrated by the following processes:

Sustainable lending practices
As a major player in the Luxembourg market, BIL can positively contribute towards significant environmental and social externalities through its lending practices. ESG factors can have material implications for the underlying companies, assets, and projects to which the Bank lends or invests, across a range of economic sectors. It is therefore increasingly necessary to examine ESG factors when determining the quality of collateral and the environmental impact of the financed activity.

The Credit Risk Management (CRM) department is responsible for reviewing the management approach through periodic reviews of credit policies, procedures and risk appetite. Integrating ESG considerations means that practices need to evolve and a dedicated project was launched in 2021 to address the evolution of policies, procedures and metrics, aligned with the Bank's strategy and new regulatory requirements.

The Risk teams undertake regular training, especially on ESG matters in order to stay up-to-date with all developments in this area in the EU and worldwide. In 2021, the CRM team also onboarded ESG experts in order to ensure more rapid upskilling.

Loan Origination Process
EBA guidelines on loan origination and monitoring became applicable to all European credit institutions. Under those guidelines, ESG factors and associated risks now have to be integrated into lending processes.

The Loan Origination and Monitoring Policy defines the Bank's credit lending practices and governance arrangements with sound and robust lending standards. This, in turn, should guarantee that newly originated loans are of high credit quality and contribute in the future to lower levels of non-performing exposures and credit losses. This policy also aims to verify that the lending practices are aligned with consumer protection rules, respect fair treatment of consumers and now also account for ESG factors.

More concretely, it describes how ESG considerations are integrated across different areas of the value chain:

- Client acceptance criteria: new applicants must not be exposed to high physical risks, e.g. financed real estate property must not be located in regions prone to flooding
- Risk analysis: borrower assessments should include a view on the exposure to climate change, cyber security and disruptive technologies, pandemics, changes in consumer behaviour and competitive landscape, geopolitical conflicts, as well as other emerging risks, depending on the nature, size and complexity of the borrower and the financing scheme
- Lending decision: when applicable, the exposure to ESG factors will constitute an integral part of the decision making process for loan approval and extension and should be managed in a proactive way to analyse the appropriate mitigation strategies in accordance with the bank's ESG policy and risk appetite
- Credit monitoring is part of the continuous monitoring process. The Bank will check whether borrowers were (a) adversely affected by climate change risk factors, (b) a victim of a cyberattack, (c) adversely affected by a pandemic and/or social risk event, (d) highly exposed to geopolitical risks, and (e) adversely affected by changes in consumer behaviour.

8.2. ESG Risk identification

In 2021, BIL started working on the foundation of ESG risk management via a materiality analysis that identified the most important ESG factors and risks for the company. The Global Risk Cartography was supplemented with ESG features through a dedicated process, with the focus on the "E" of ESG, clearly distinguishing between physical and transition risks. The other two dimensions (Social and Governance) are currently being assessed during the first half of 2022.

In addition of these qualitative oriented assessments, BIL continues to measure its ESG impacts in 2022 using different methodologies, such as the Carbon Footprint measurement and the Sustainability Accounting Standards Board (SASB)[1] standards, which identify sustainability issues that are likely to affect the financial condition or operating performance of companies within a given economic sector.

[1] The Sustainability Accounting Standards Board (SASB) is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.

The SASB impact assessment provides management and shareholders with a tool to better understand their individual counterparties and to better understand the ESG performance of the bank's existing portfolios, or potential future portfolios, before making an investment decision. The result of the analysis will be translated into the bank's Credit Risk Appetite in order to define the bank's position on each industry, based on the level of economic vulnerability related to each one of them in addition to the level of ESG risk materiality associated with them. The objective is to embed a sectorial approach in day-to-day business.

8.2.1. ESG Global Roadmap

With the release to the ECB of a detailed roadmap for climate change related actions, many agenda items are due to be worked on over the course of 2022, including integrating climate risks into economic modelling, climate stress-testing of Banks' balance sheets, and declaration of mitigation actions to address climate risks. Finally, given the reporting requirements imposed by the Corporate Sustainability Reporting Directive (CSRD)[1] in 2024, BIL is planning to enhance its non-financial reporting, starting with the adoption of the Global Reporting Initiative (GRI) Standards for its 2022 Sustainability Report. Moreover, in 2021, the Bank already set up dedicated projects to address these new requirements as well as a global ESG governance framework with the purposes of that synergies and independences are identified and managed. These projects remain major initiatives in 2022.

8.3. ESG Risk framework : deep-dive

ESG issues, such as the threat of climate change or major changes in client behaviour, present growing areas of risk for the Bank's business activities. Integrating ESG considerations and having a responsible approach are crucial to ensuring that these risks are properly identified, assessed and mitigated in order to aim BIL's resilience and long-term stability.

8.3.1. ESG Risk Framework

The Bank Risk Management Department is progressively enhancing its ESG Risk Framework including the identification and assessment process, with the ESG risk mapping being implemented across all Bank's operations.

In terms of timeline, after the Q1 2021 Bank self-assessment, a remediation plan for the ESG Risk framework has been put in place inQ2 2021[2] in order to address the identified gaps and will be deployed covering several dimensions, such as the evaluation of ESG features on the bank's strategy, the Risk Appetite Framework, the Risk Assessment Framework and the Risk Disclosure.

8.3.2. Risk Cartography focusing on Climate and Environmental Risk

Institutions are required to assess the potential financial impact of ESG risks across different time horizons, with a comprehensive and forward-looking view. As part of a risk-based approach, it allows ESG risks to be integrated into the institution's business strategies, internal governance and risk management framework.

In this context, the Risk Cartography, identifies and provides a first high-level view of the materiality of the different risks.

In January 2022, the Global Risk Cartography that covers all the risks included in the bank's risk taxonomy was complemented and submitted to ECB with regard to ESG features, by a process focused on the "E" component of ESG.

Thus the Risk Cartography lays the groundwork for reviewing and adapting the global Bank's Risk Management framework, which will be completed by the assessment of the social and governance dimensions before the end of July 2022.

Methodology

The EBA describes in its report (EBA/REP/2021/18)[3] how ESG factors may have a positive or negative impact on the financial performance or solvency of a corporate, a sovereign or an individual counterpart. Also, ESG risks are the risks of any negative financial impact on the institution arising from the current or future impact of ESG factors on its counterparties or invested assets.

[1] On 21 April 2021, the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD).

[2] This structured project regarding ESG Risk roadmap is in place with the help of the Project Management Team and includes a vast majority of Risk teams, Strategy, Compliance, Finance, Financial Markets, HR and commercial Business lines.

[3] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

Taking into account that ESG risks can materialize through financial or non-financial risks, BIL designed a high-level assessment questionnaire, regarding the impacts of environmental risk drivers on different existing risks - financial and non-financial - defined within BIL Risk Taxonomy. Three types of information were requested from the questionnaire's respondents, in the form of a qualitative view:

- **Risk impact scoring** (what are the impacts of the environmental risk drivers on the classical risks that BIL stakeholders follow in their daily tasks: HIGH/MEDIUM/LOW)
- **Potential time horizon** of environmental risk drivers to materialize concretely on these risks and thus on Bank's activities
- **Qualitative rationale** behind these assessments

The questionnaire was sent mainly to the Group's Second Line of Defence and support function teams of which Risk, Finance, Strategy, Compliance and HR teams.

The main observations arising from the responses provided are indicated below:

- Transition risk is considered the risk category most impacting the Bank in terms of intensity, while physical risk impacts are considered low in most of the evaluations
- The potential time horizon of risk is overall identified not exceeding 5 years (except for Legal risks that can be foreseen in a longer horizon)
- The identification of the risk impacted from BIL taxonomy was crucial to differentiate different impacts but stemming from the same risk type

The detailed assessments for the most important risk categories are presented in the following Tables (respectively Table 1, Table 2 and Table 3).

Table 1. Enterprise Risk and Operational Risk

		ENTERPRISE RISK			OPERATIONAL RISK		
Risk Category	**Risk Type**	**Risk from the taxonomy which you consider that is impacted**	**Risk Impact scoring**	**Potential Time Horizon of Risk**	**Risk from the taxonomy which you consider that is impacted**	**Risk Impact scoring**	**Potential Time Horizon of Risk**
Transition Risk	Policy and Legal	Policy & Legal Risk	MEDIUM	1-3 years	N/A		
		Outsourcing and Third Party Risk	LOW	3-5 years			
	Technology	Outsourcing and Third Party Risk	MEDIUM	3-5 years	N/A		
	Market	Market & Reputational Risk	MEDIUM	1-3 years	N/A		
	Reputational	Strategic Risk (Business Risk & Reputational Risk)	MEDIUM	1-5 years	Clients products and business practice	LOW	1-3 years
Physical Risk	Acute Physical Effect	N/A			Damage to physical assets	LOW	1-2 years
	Chronic Physical Effect	Strategic Risk	MEDIUM	5-10 years	Execution delivery and process management risk	LOW	1-3 years

Note: Not Applicable (N/A) means not considered at this stage

Table 2. Credit Risk and Compliance Risk

Risk Category	Risk Type	CREDIT RISK			COMPLIANCE RISK		
		Risk from the taxonomy which you consider that is impacted	Risk Impact scoring	Potential Time Horizon of Risk	Risk from the taxonomy which you consider that is impacted	Risk Impact scoring	Potential Time Horizon of Risk
Transition Risk	Policy and Legal	Residual/Recovery Risk	MEDIUM	1-3 years	Regulatory Risk	MEDIUM	1-3 years
Transition Risk	Policy and Legal	Country Risk	LOW	1-5 years			
Transition Risk	Technology	Counterparty Risk/ Solvency Risk	MEDIUM/ HIGH	1-5 years	Data Protection Risk	N/A	
Transition Risk	Technology	Residual/Recovery Risk	LOW	1-5 years	Financial Crime Risk	LOW	1-5 years
Transition Risk	Market	N/A			Market Integrity Risk	N/A	
Transition Risk	Reputational	N/A			Investor Protection Risk	MEDIUM	1-3 years
Physical Risk	Acute Physical Effect	Residual/Recovery risk	MEDIUM	1-5 years	N/A		
Physical Risk	Chronic Physical Effect	N/A			N/A		

Note: Not Applicable (N/A) means not considered at this stage

Table 3. Market and Asset Liability Management Risk and Legal Risk

Risk Category	Risk Type	MARKET and ALM RISK			LEGAL RISK		
		Risk from the taxonomy which you consider that is impacted	Risk Impact scoring	Potential Time Horizon of Risk	Risk from the taxonomy which you consider that is impacted	Risk Impact scoring	Potential Time Horizon of Risk
Transition Risk	Policy and Legal	N/A			Policy and Legal Risk	MEDIUM	1-5 years
Transition Risk	Technology	N/A			N/A		
Transition Risk	Market	Credit Spread Risk	MEDIUM	1-3 years	Market Risk	LOW	3-10 years
Transition Risk	Market	Commodity Risk	LOW	1-3 years			
Transition Risk	Market	Inflation Risk	LOW	1-3 years			
Transition Risk	Market	Balance Sheet Price Risk	MEDIUM	1-3 years			
Transition Risk	Reputational	N/A			Reputational Risk	MEDIUM	5-20 years
Physical Risk	Acute physical Effect	Credit Spread Risk	LOW	1-5 years	Acute physical Effect	MEDIUM	Already relevant
Physical Risk	Chronic Physical Effect	Commodity Risk	LOW	1-5 years	N/A		

Note: Not Applicable (N/A) means not considered at this stage

8.3.3. Enhancement of the Risk Cartography focusing on Social and Governance dimensions

Social factors are increasingly being factored into the business strategies and operational frameworks of institutions and their counterparts, having a positive or negative impact on their financial performance[1]. They are related to the rights, well-being and interests of people and communities, and include factors such as inequality, health, inclusiveness, labour relations, workplace health and safety, human capital and communities.

Governance factors cover governance practices, including executive leadership, executive pay, audits, internal controls, tax avoidance, board independence, shareholder rights, corruption and bribery, and also the way in which companies or entities include environmental and social factors in their policies and procedures. In the context of ESG factors, we consider governance arrangements for the environmental and social factors in counterparty policies and procedures.

Various drivers of social and governance risks can be identified. Social risks can be driven by environmental risks, changes in social policy and changes in market sentiment regarding social factors.

Unlike environmental risks, there are not immediate way to classify the drivers of social risks into physical and transition risks. This is because social risks are not driven by risks that can be labelled as physical and because, compared to environmental issues, the evolution of social norms, preferences and policies is more difficult to foresee and cannot be labelled a 'transition'[2].

Similar to social risks, categorising the drivers of governance risks as physical and transition risks is not conceptually straightforward, given that they cannot be labelled as physical and given that the evolution of corporate governance frameworks or codes cannot be deemed a 'transition'. However, governance risks can be driven by a variety of risk drivers, such as the inadequate management of environmental and social issues, as well as non-compliance with corporate governance frameworks or codes.

The S & G Cartography will provide a first assessment of these risks from a double perspective: identifying factors that have an impact on the institution directly, or else determine how we are impacted by the institution's counterparties or invested assets. The Bank will complete its first version of the S&G-based ESG Risk Cartography by August 2022.

8.4. Risk management framework: focus on credit risk management

Following ECB Guide dated November 2020[3], BIL has incorporated climate-related and environmental risks as drivers of existing risk categories into their risk management framework, with a view to managing, monitoring and mitigating these risks over a sufficiently long-term horizon.

In addition, as requested by ECB guidelines, BIL is expected to identify and quantify these risks within the Bank's overall process of ensuring capital adequacy.

8.4.1. Credit Risk Management

In this respect, the CRM considered several steps towards ESG integration in the credit granting and monitoring process. As part of the Bank's Risk Appetite framework presented in the Global Risk Charter, CRM has developed a credit risk appetite by economic sector based on ESG factors along with the Sector Vulnerability Index (SVI).

BIL has defined sector limits as part of its Global Risk Appetite Framework. The Credit Risk Appetite is aligned with the Bank Strategy for 2025.

In June 2022, the Bank implemented a Credit Risk Appetite Statement, including quantitative limits per key economic sectors. The Credit Risk Appetite includes Environmental, Social and Governance (ESG) factors based on the Sustainable Accounting Standard Board[4] (SASB)'s Materiality Map.

[1] As notably referenced in the EBA Report on Management and Supervision of ESG Risk for Credit Institutions and Investment Firms, July 2021

[2] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

[3] ECB Guide on climate-related and environmental risks - Supervisory expectations relating to risk management and disclosure https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf

[4] The Sustainability Accounting Standards Board (SASB) is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.

SASB's Materiality Map identifies likely material sustainability issues on an industry-by-industry basis. The map serves as a snapshot of likely material sustainability issues. This allowed the Bank to map the NACE codes to the SICS industries (SASB Sustainable Industry Classification System) and enabled determining the ESG issues that are most probable to materially affect the financial performance of a company within an economic sector. SASB's standard-setting process is designed to surface the sustainability factors most likely to materially impact the financial condition or operating performance of companies in a given industry. As such, the standards are well-suited to serve as a valuable input to the Bank's existing approach to identifying, assessing, managing, and monitoring risks and opportunities.

Each industry had specific sustainability considerations or "disclosure topics" that identify the sustainability information that is financially material for a typical company in an industry. As a result, some sectors present more sustainability risks and opportunities that can affect company value, while others present fewer.

In order to have an ESG Materiality score by sector, total material issues identified by SASB in each sector are divided by the total general issues (26 issues).

The materiality score is then mapped to a three-level impact (low, medium or high) as per the below table:

Table 4. Materiality Scoring

ESG Materiality in %	Impact	Abbreviation	Bracket
0% ≤ ESG ≤ 25%	Low	L	25%
25% < ESG ≤ 65%	Medium	M	40%
65% < ESG ≤ 100%	High	H	35%

The materiality mapping is performed for each Environmental, Social and Governance dimension separately.

Each disclosure topic has standardised quantitative and qualitative metrics to measure its performance. Based on the set of criteria that SASB considers when evaluating the performance of each sustainability topic, the Executive Committee sets the credit strategy and defines proposals of the lending limits/credit risk appetite for each given sector taking into consideration SVI and ESG factors.

Table 5. Direction Matrix

	ESG \ SVI	Low	Medium	High
Direction Matrix	Low	Grow	Grow	Maintain
	Medium	Grow	Maintain	Reduce
	High	Maintain	Reduce	Watch

The direction matrix is the basis for the Executive Committee to set the strategy for each sector:

- **Grow**: A sector targeted for growth, in line with ECT 2025
- **Maintain**: A sector where we aim to keep the Bank's current exposures at a constant level
- **Reduce**: A sector where exposures are earmarked for reduction, at least in proportion to the overall portfolio
- **Watch**: A sector where exposures are targeted for exit within the 5-year timeframe of the Credit Risk Appetite

It is important to mention that this assessment gives a trend for the coming years. Assigning a "Reduce" or "Watch " direction to a sector does not prohibit new financing, especially for transition deals. We want to give all BIL customers the choice to accompany them in their transition.

Sector limits and limit utilization will be reported quarterly via the Credit Risk Dashboard, as presented in the tables below regarding the Credit Exposures (Table 6, Table 7, Table 8).[22]

[22] 22Q1 figures

 ESG Risk Framework

Table 6. Credit Exposures – Sector Review

		Limit					Stage 1		Stage 2		Stage 3									
Sector	SVI	Total	CIB	Retail	WM	Drawn	Drawn	Eligible Collateral	Drawn	Eligible Collateral	Drawn	Specific Provisions Q4 '21	Specific Provisions Q1 '22	Eligible Collateral	ECL Q4 '21	ECL Q1 '22	AVG PD Q4 '21	AVG PD Q1 '22	AVG Rating Q4 '21	AVG Rating Q1 '22
Automotive	M	299	236	46	18	199	136	122	57	21	7	1	1	0	1	1	2.64%	3.01%	BB-	BB-
Construction + Real Estate Activities*	M	6,032	4,784	514	735	4,848	4,100	1,576	614	579	134	33	32	51	42	48	3.04%	3.27%	BB-	BB-
Financial and Insurance Activities	L	5,546	2,853	1,099	1,594	4,413	3,886	3,057	371	882	157	76	75	12	14	14	1.76%	2.01%	BB	BB-
Horesca	H	618	375	180	63	537	258	300	236	225	44	2	2	19	6	5	4.16%	3.93%	B+	B+
Information and Communication	L	395	150	153	91	326	281	272	33	32	11	9	6	2	1	1	2.03%	1.86%	BB-	BB
Public	M	2,447	211	1,877	359	1,960	1,655	2,281	285	423	21	2	2	21	2	1	1.52%	1.63%	BB	BB
Transport	M	386	284	88	14	286	248	108	27	32	11	5	5	1	1	1	2.14%	2.70%	BB-	BB-
Wholesale and Retail Trade	M	733	494	192	48	564	481	407	62	72	22	10	10	15	4	3	2.41%	2.64%	BB-	BB-
Other	M	3,570	1,692	1,452	426	2,975	2,489	2,348	354	354	133	62	61	48	13	12	1.94%	2.04%	BB-	BB-
Undetermined - Individuals		3,016	63	2,695	258	2,629	2,191	3,057	383	539	54	15	15	49	2	2	1.57%	1.61%	BB	BB
GRAND TOTAL		23,042	**11,141**	**8,295**	**3,606**	**18,739**	**15,723**	**13,528**	**2,422**	**3,158**	**593**	**214**	**208**	**217**	**85**	**87**				

ESG Risk Framework

The vast majority of our exposures continue to be on sectors with Medium to Low economic vulnerability, such as Construction, Real Estate and Finance. The methodology of the SVI has been slightly improved, allowing for a more accurate determination of economic conditions in Luxembourg compared to the EU. The method is more discriminating and therefore captures the extremes (Highs and Lows) better.

Table 7. Credit Exposures – Credit Risk Appetite (1/2)

			Economic Vulnerability		ESG Risks Materiality				Concentration		Risk Appetite						
in €m, as at 31/03/2022	Gross Drawn Amount	Total Granted Limits	Index	RWA	E	S	G	Exposure Max(drawn;limit) Gross of collateral	%	Direction	2022			2023	2024	2025	2026
A **Main Sectors**	**13,134**	**16,456**		**5,863**				**16,456**	**71.42%**		**Trigger**	**Limit**	**Status**	**Limit**	**Limit**	**Limit**	**Limit**
Construction + Real Estate Activities[1]	4,848	6,032	M	2,703	L	L	L	6,032	26.18%	GROW	6,175	6,500		6,800	7,100	7,300	7,500
of which ADC	*1,554*	*2,230*		*1,014*				*2,230*	*9.68%*		*0*						
of which IPRE	*875*	*916*		*776*				*916*	*3.98%*		*0*						
of which Acquisition for private use	*1,102*	*1,214*		*397*				*1,214*	*5.27%*		*0*						
of which Acquisition for profesisonal use	*381*	*411*		*117*				*411*	*1.78%*		*0*						
Other types	*936*	*1,260*		*399*				*1,260*	*5.47%*		*0*						
Financial and Insurance Activities	4,413	5,546	L	1,978	L	L	L	5,546	24.07%	GROW	5,985	6,300		6,741	7,213	7,718	8,258
of which Banks	*644*	*652*		*229*				*652*	*2.83%*		*0*						
of which Institutionals	*554*	*899*		*465*				*899*	*3.90%*		*0*						
of which SCI, Holdings, SOPARFI	*1,657*	*1,981*		*858*				*1,981*	*8.60%*		*0*						
Other types	*1,558*	*2,014*		*426*				*2,014*	*8.74%*		*0*						
Wholesale and Retail Trade	564	733	M	221	M	M	L	733	3.18%	MAINTAIN	950	1,000		1,020	1,040	1,061	1,082
Horesca	537	618	H	294	M	M	L	618	2.68%	MAINTAIN	665	700		714	728	743	758
Public	1,960	2,447	M	328	L	L	L	2,447	10.62%	GROW	2,613	2,750		2,943	3,148	3,369	3,605
Information and Communication	326	395	L	96	L	M	L	395	1.71%	GROW	475	500		535	572	613	655
Transport	286	386	M	75				386	1.67%	MAINTAIN	428	450		459	468	478	487
Automotive	199	299	M	168	M	L	L	299	1.30%	MAINTAIN	333	350		357	364	371	379
B **Other – Sectors with High Vulnerability**	**170**	**201**		**113**				**201**	**0.87%**		**328**	**345**					
NACE Description																	
11 Manufacture of beverages	13	16	M	3	M	L	M	16	0.07%	MAINTAIN	19	20		20	21	21	22
13 Manufacture of textiles	7	8	M	1	L	L	L	8	0.03%	MAINTAIN	14	15		15	16	16	16
14 Manufacture of wearing apparel	2	2	H	0	L	L	L	2	0.01%	MAINTAIN	5	5		5	5	5	5
16 Manuf. of wood and of prod. of wood and cork, except. furniture; manuf. of straw and plaiting materials	55	63	M	18	L	L	L	63	0.27%	MAINTAIN	71	75		77	78	80	81
18 Printing and reproduction of recorded media	21	27	H	21	L	M	L	27	0.12%	MAINTAIN	29	30		31	31	32	32
26 Manufacture of computer, electronic and optical products	6	6	M	1	M	L	M	6	0.03%	GROW	48	50		54	57	61	66
27 Manufacture of electrical equipment	52	64	M	46	M	L	M	64	0.28%	GROW	95	100		107	114	123	131
30 Manufacture of other transport equipment	14	15	H	23	M	L	M	15	0.07%	GROW	48	50		54	57	61	66

[1] Existing utilisation limits on ADC and IPRE, included in the Construction + Real Estate limit

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Table 8. Credit Exposures – Credit Risk Appetite (2/2)

				Economic Vulnerability		ESG Risks Materiality			Concentration			Risk Appetite					
	in €m, as at 31/03/2022	Gross Drawn Amount	Total Granted Limits	Index	RWA	E	S	G	Exposure Max(drawn;limit) Gross of collateral	%	Direction	2022		2023	2024	2025	2026
C	**Other – Sectors with High ESG Risks**	**291**	**397**		**161**				**397**	**1,72%**		**529**	**557**				
	17 Manufacture of paper and paper products	0.1	0.2	M	0	H	L	L	0.2	0.00%	MAINTAIN	5	5	5	5	5	5
	19 Manufacture of coke and refined petroleum products	0.0	0.0	M	0	H	L	L	0.0	0.00%	WATCH	1	1	0	0	0	0
	20 Manufacture of chemicals and chemical products	75	85	M	37	H	L	M	85	0.37%	MAINTAIN	95	100	102	104	106	108
	22 Manufacture of rubber and plastic products	69	114	L	72	H	L	L	114	0.50%	REDUCE	119	125	100	80	64	51
	23 Manufacture of other non-metallic mineral products	26	27	H	14	H	L	L	27	0.12%	MAINTAIN	29	30	31	31	32	32
	24 Manufacture of basic metals	57	88	M	24	H	L	L	88	0.38%	MAINTAIN	95	100	102	104	106	108
	25 Manufacture of fabricated metal products, except machinery and equipment	43	58	M	9	H	L	L	58	0.25%	MAINTAIN	71	75	77	78	80	81
	5 Mining of coal and lignite	0	0	No Data	0	H	M	L	0	0.00%	WATCH	0	0	0	0	0	0
	6 Extraction of crude petroleum and natural gas	0.3	0.5	No Data	0	H	L	M	0.5	0.00%	WATCH	1	1	0	0	0	0
	7 Mining of metal ores	1.0	1.2	No Data	0	H	M	L	1.2	0.01%	MAINTAIN	5	5	5	5	5	5
	8 Other mining and quarrying	1.5	1.5	No Data	0	H	L	L	1.5	0.01%	MAINTAIN	5	5	5	5	5	5
	9 Mining support service activities	0.1	0.1	No Data	0	H	L	M	0.1	0.00%	MAINTAIN	5	5	5	5	5	5
	89 Mining and quarrying n.e.c.	0.0	0.0	No Data	0	H	L	L	0.0	0.00%	MAINTAIN	5	5	5	5	5	5
	87 Residential care activities	17.5	20.9	No Data	5	M	H	L	20.9	0.09%	GROW	95	100	107	114	123	131
D	**Other – Sectors with Low/Medium SVI or ESG**	**2,512**	**2,970**		**873**				**2,970**	**12.89%**		**3,895**	**4,100**				
	Miscellaneous	2,512	2,970	M	873				2,970	12.89%		3,895	4,100	4,387	4,694	5,023	5,374
E	**Out of Scope (Individuals)**	**2,629**	**3,016**		**460**				**3,016**	**13.09%**		**3,420**	**3,600**				
	Individuals	2,629	3,016	-	460	-	-	-	3,016	13.09%		3,420	3,600	3,852	4,122	4,410	4,719
	TOTAL	**18,737**	**23,040**		**7.470**				**23,040**	**100%**		**25,794**	**27,152**	**28,713**	**30,368**	**32,021**	**33,776**

	Drawn Amount	Granted Limit	Drawn G'tees	Granted G'tees	Utilisation Limit
ADC	1,136	1,322	576	778	1,575
IPRE	1,259	1,297	0	0	1,575

Notes on ADC and IPRE:

1. Although the vast majority of ADC and IPRE exposures can be found in Construction and Real Estate Activities, some can also be found in other sectors.
2. The existing limits on ADC and IPRE (€ 1.575m each) are utilisation limits. They should therefore be compared with Total Drawn amounts, not Total Granted Limit amounts.

Business as usual	Early warning to trigger Management involvement in advance of breach of Risk Appetite.
Trigger Breach	Breach of Risk Appetite with immediate information of Board of Directors and the assessment whether an activation of the recovery phase is needed.
Limit Breach	

The Credit RAS uses a similar approach to BIL's Sustainable and Responsible Investment Policy, leveraging ESG factors and specifically targeting some sectors for exit.

The risk assessment through the Exposure method via SASB will be supported during 2022 with the results coming from a Portfolio alignment method: the project "Carbon footprint" will provide a report on Green House Gas (GHG) Accounting. The process will estimate the financed emissions for BIL's portfolio in alignment with the GHG Protocol.

8.5. Stress testing framework

8.5.1. 2022 ECB Climate Stress Test

In the first ever exercise of its kind, the European Central Bank comprehensively assessed the state of climate-related and environmental risk management in the banking sector. As such, 112 European banks, including BIL, had to perform a self-assessment with regard to the climate change risks of their business model and strategy, governance, risk appetite, risk management, and disclosures.

The 2022 ECB Climate Risk Stress Test Exercise was prepared by the Risk Department in collaboration with different stakeholders, such as Finance and Strategy, with a submission of the different required modules of the exercise in March, April and May 2022. The Bank has particularly focused on the "granularization" of the P/L by specific sectors (through NACE code approach) considered as non-environmental friendly by the ECB and on the scope 1/2/3 assessments of its main corporate counterparties.

8.5.2. BIL ESG Stress Test Framework

More broadly, this regulatory exercise has highlighted some of the areas where the Bank needs to improve: we could mention the long-term projections of our credit risk parameters (migration matrix behaviours), the capacity to project long-term on/off balance-sheet elements including exogenous changing environments, the capacity to quantitatively address some impacts of ESG drivers on some risks such as the liquidity risks, among others.

The Risk Department teams will work on these improvements in S2 2022 and 2023.

8.6. Sustainable investment framework

8.6.1. Customer Portfolio

In 2020, BIL partnered with Candriam, an established SRI (Socially Responsible Investing) asset manager and founding member of the UN Principles for Responsible Investment. In accordance with the European Regulation (EU) 2019/2088 on sustainability related disclosure requirements in the financial services sector (SFDR), BIL publicly disclosed in March 2021 on the integration of sustainability risks. By using Candriam's proprietary ESG database, BIL obtains access to Candriam's in-house methodologies output that incorporate multiple providers and dedicated expert judgments, providing a framework from which a unified outcome can be drawn.

ESG factors and scores are derived from an assessment of what companies produce, the services they provide and how their business activities contribute to sustainability, as well as the positioning of companies vis-à-vis their stakeholders. In March 2021, BIL implemented its sustainable and responsible investment framework, articulated around an exclusion policy and an explicit and systematic integration of ESG factors in every investment analysis, process and investment decision for all advisory and discretionary products and services provided from Luxembourg[1].

Responsible investment practices are constantly developing and evolving. New risks may arise, public opinion may change, and new market standards may be introduced. BIL's sustainable investment framework will, as such, be reviewed and, if necessary, adjusted on a recurring basis to incorporate these changes. Reviewing exclusion criteria in accordance with societal trends and priorities is part of the bank's commitment.

8.6.2. Bank Investment Portfolio

The sustainable investment framework has also been applied to the Bank's portfolio and its Investment Guidelines, which were adapted in 2021. The objective of BIL group's Investment Portfolio is to generate a reasonable risk-adjusted return and to serve as a liquidity reserve for the bank. On 31 December 2021, Green, Social and Sustainable bonds accounted for 10.5% of the total portfolio, for a total amount of EUR 800 million.

[1] Details of BIL's exclusion policy, as well as BIL's ESG integration policy is available via: https://www.bil.com/ en/bil-group/documentation/Pages/sfdr.aspx

The investment portfolio has been positioned, so that by the end of 2025, at least 30% of the total portfolio will consist of Green, Social and Sustainable Bonds. By integrating high minimum proportions of Green, Social and Sustainable Bonds and prioritizing these investments, BIL encourages issuers to integrate ESG considerations into their issues while supporting the transition to sustainability.

BIL commits to building up the ESG portfolio in a step-up mode based on the following schedule:

Year-End	Minimum Share	Maximum Share
2021	10%	100%
2023	20%	100%
2025	30%	100%

8.7. ESG disclosure framework

As a Luxembourg credit institution and in order to be compliant with disclosure and transparency requirements, it is therefore important for BIL to have sound governance in place in order to aim that new regulations impacting the Bank are detected in an accurate and timely manner and their requirements implemented in a timely manner

8.7.1. The EU Action Plan

The EU has set up a dedicated Action Plan on Financing Sustainable Growth in order to increase investments that have a positive environmental and social contribution. As the topic gains momentum, the European regulator is implementing legislation that requires more transparency from banks on their sustainability impact, with the aim of aligning with the 2015 Paris agreement (COP21).

Three pieces of legislation frame banks' activities in this sense: the Sustainable Finance Disclosure Regulation[1] (SFDR), governing the development of financial products; the European Union Taxonomy[2], which aims to determine ESG activities in order to have a single reading grid; and finally, the Corporate Sustainability Reporting Directive (CSRD), which aims to make Sustainability Reporting available to the general public, thus ensuring full transparency of the various organisations' initiatives. In 2021, BIL set up dedicated projects to address the new ESG requirements.

8.7.2. EBA's binding standards on Pillar III Disclosures on ESG Risks

On January 2022, the European Banking Authority published its final draft Implementing Technical Standards (ITS) on Pillar 3 disclosures on Environmental, Social and Governance (ESG) risks.

The report requires banks to disclose information about their exposures to ESG-related risks and the actions they take to mitigate those risks. It will support institutions disclose meaningful and comparable information about how ESG-risks and vulnerabilities, and in particular climate change, may exacerbate other risks in their balance sheet. It will help institutions be transparent about how they are mitigating these risks.

The ITS on P3 disclosure on ESG risks introduce templates on quantitative disclosures, both on transition risks and physical risks, other than about mitigating actions.

Also, there are qualitative disclosures requested, aligned with the EBA Report on Management and Supervision of ESG risks. For each of the ESG topics (Environmental, Social and Governance risks) banks needs to address three aspects: on business strategy and processes, governance and risk management.

The ITS become effective per 30 June for large institutions that have securities traded on a regular market of an EU member state. Consequently, for BIL the first reporting will take place in the first quarter of 2023, based on 31 December 2022 data.

8.7.3. ESG Data Governance and Reporting

The Bank, considering the different requirements, has set up an internal ESG Data Governance Project to:

- Identify the ESG data required according to their use (stress-testing, extra-financial reporting, product assessment)
- Organize and structure ESG data: data integration and sourcing, data standardization, data mapping, data governance, data display, among others.
- Structure the selection of suitable and relevant data providers

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services.
[2] Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment.

BIL is gradually identifying its data needs. Given the rapid evolution of the market, BIL has so far chosen to adopt a pragmatic, step-by-step approach. Data needs and uses are gradually being identified and the first data providers have been selected to meet the needs in the short term.

As internal maturity increases and data needs become more precise and cross-functional, the ESG data governance project aims to set up the coherence of existing initiatives and will assess the possible move to a more global approach in terms of data provision.

Appendix 1: Declaration of the Management Bodies

Background:

After the pandemic-induced recession of 2020, 2021 saw the economy bounce back and return to pre-pandemic level, thanks to a powerful confluence of fiscal and monetary stimulus. This fast recovery came with new challenges which have become a marker of 2021: supply-chain bottlenecks, shortages of supplies and the first signs of the return of inflation. Notwithstanding massive vaccination campaigns started in early 2021 in Luxembourg, the EU and globally, the pandemic, which has impacted us during the past two years, lingers on and will most likely stay longer than expected.

In this context, agility and the capability to adapt are essential. This is true for our clients, who we strove to help stay afloat throughout the crisis, and it is also true for BIL. To be fit for the future and become the best bank for entrepreneurs in Luxembourg, BIL has embarked on a transformative 5-year strategic plan, "Create Together 2025". Rather than halt it, the pandemic showed us that our plan needed to be accelerated. The many initiatives it entails are key to build sustainable growth, to always improve our products and services and the client experience, and to make BIL an employer of choice in the many years to come. Launched during the second half of 2019, we adapted our strategic plan in 2021 to reflect this new environment and renamed it "Energise Create Together 2025".

To reflect a sound management of risk and develop an integrated risk culture, the Bank has set up an effective Risk Management organisation, in adequacy with its strategy, encompassing the relevant risks induced by its activities.

In this context, the current capital and liquidity situation allowed the Bank to navigate successfully through the economic turbulences of the year 2021. The Bank will continue to monitor 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.

The Management Bodies of BIL state that the Bank is adequately capitalised, has a sound liquidity situation and a robust profitability as presented in the table below:

Risk Appetite Framework	2020	2021	Internal Limit
CET1 ratio	13.20%	14.15%	11.10%
Total Capital ratio	16.47%	18.18%	11.45%
Leverage ratio	4.42%	4.94%	3.30%
AFR/ECAP	128%	134%	105%
LCR	173%	142%	110%
NSFR	121%	127%	104%
ROE	8%	9.2%	6%

The Pillar III report was presented and approved by BIL's Management Bodies as follows:
- The Management Board gave its approval on 15 June 2022.
- The Board of Directors approved the said report on 11 July 2022.

The Board of Directors

Luc Frieden
Chairman

Charles Q. Li
Director

Peng Li
Vice-Chairman

Maurice Lam,
Director

Jing Li
Director

Ashley Glover
Director, Staff Representative

Marcel Leyers
Director and Chief Executive Officer

Michel Scharff
Director, Staff Representative

Vincent Thurmes
Director

Marc Terzer
Director, Staff Representative

Pierrot Rasqué
Director

Claude Steffen,
Director, Staff Representative

Chris Van Aeken
Director

The Management Board

Marcel Leyers
Chairman of the Management Board and
Chief Executive Officer

Jeffrey Dentzer
Member of the Management Board

Helmut Glemser
Member of the Management Board

Karin Scholtes
Member of the Management Board

Bernard Mommens
Member of the Management Board

Nico Picard
Member of the Management Board

Appendix 2: Valuation framework

As such, the Market and Liquidity Risk Management team checks the source of prices, verifies market prices and oversees the input of valuations used in Fermat IFRS.

These checks apply to all fair-valued positions, whether or not they are in the trading portfolio. The instruments concerned are as follows:
- Bonds in the trading portfolio and hedging instruments;
- Bonds in the investment portfolio and hedging instruments;
- Structured products issued by the Bank and hedging instruments;
- Warrants;
- Derivatives used in other trading portfolios;
- Derivatives used for macro-hedging purposes.

Valuation of trading portfolio positions

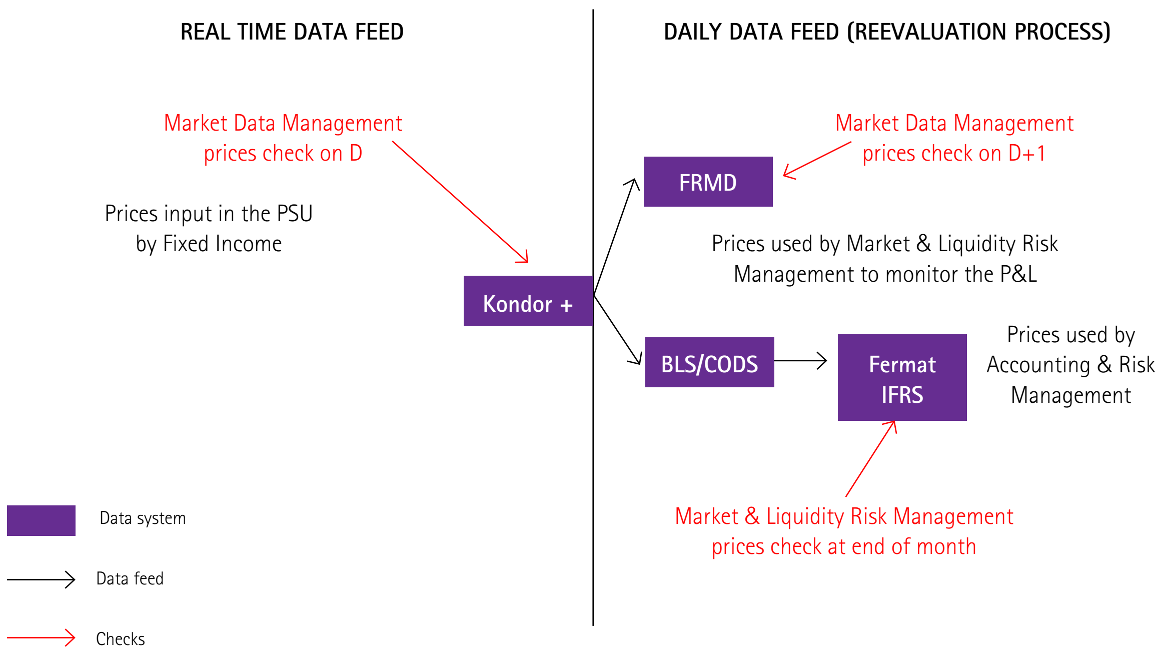
The trading portfolio comprises the following positions:
- Bonds;
- Bond futures;
- IRS.

Valuation of bonds

Bonds are traded over the counter. There is no single, directly observable market price for a given security. Bond price adjustments entered in the systems are therefore subject to specific checks by the MLRM.

Price input

Prices are input in the following manner each day:



Real-time price checks by Market Data Management

The Market Data Management team carries out a series of real-time checks on the prices shown in the PSU:

- The PSU price comparison at 2pm using the previous evening's marked to market prices is intended to foresee potential technical problems and resolve them before 5pm. Changes of more than 1% (for bid and ask prices) must be justified using information available in Bloomberg. The Fixed Income team is notified of unexplained changes by email.
- The comparison of prices entered in the PSU at 2pm against prices from the BGN generic contributor is intended to monitor the Bid/Ask spread. The list of securities for which differences exceed 1% is emailed to the Fixed Income team for verification.
- The comparison of PSU prices at 5pm with PSU prices at 2pm follows the same rationale as the comparison of prices at 2pm with the previous evening's marked to market prices.
- Marked to market prices are validated at the end of the day, based on the PSU prices at 5pm. If necessary, the Market Data Management team has the possibility of correcting the source of a price in Kondor+.

Marked to market price checks by Market Data Management

Daily changes in marked to market prices are checked on D+1, based on the marked to market prices from the previous day and the day before that, as shown in MLRMD. The Market Data Management team must justify changes of more than 1% using information available in Bloomberg. If a price is wrong, the Market Data Management team asks for the price source to be corrected in the PSU.

Monthly price checks by Market & Liquidity Risk Management

The second level of controls involves the Market & Liquidity Risk Management team checking the positions held in the trading portfolio at the end of each month.

For each position, the Market & Liquidity Risk Management team controls if the marked to market price shown in Fermat IFRS matches the price used in the Fixed Income desk's daily monitoring of P&L (source: MLRMD). The Market & Liquidity Risk Management team has the possibility of changing the marked to market price in Fermat IFRS if it is wrong.

Where a security is present in both the trading portfolio and investment portfolio on the cut-off date, the price entered for the position in the investment portfolio shall take precedence.

Valuation of bond futures and IRS

The valuations of bond futures and IRS are not checked by the Market & Liquidity Risk Management team:

- Bond futures are contracts whose market-to-market prices are observable directly as they are established on regulated markets. These prices are automatically transferred to Eikon and Bloomberg, and entered in the Bank's systems.
- Plain vanilla IRS are valued daily in Kondor+ by discounting cash flows from the contract according to the revaluation curves provided by Reuters. More specifically, the valuation of a fair-valued IRS is calculated as follows:

$$PV = \sum_{i=0}^{m} CFRi \cdot e^{-r*t} + \sum_{j=0}^{n} CFPj \cdot e^{-r*t_j}$$

Where: CFRi corresponds to the cash flow from the receiving leg in period i CFPj corresponds to the cash flow from the paying leg in period j
r is the zero coupon rate on the cash flow due date (source: Reuters)
t is the time between the due date and valuation date expressed on an annual basis

IRS valuations are transferred to the Bank's various systems.

Valuation of investment portfolio positions

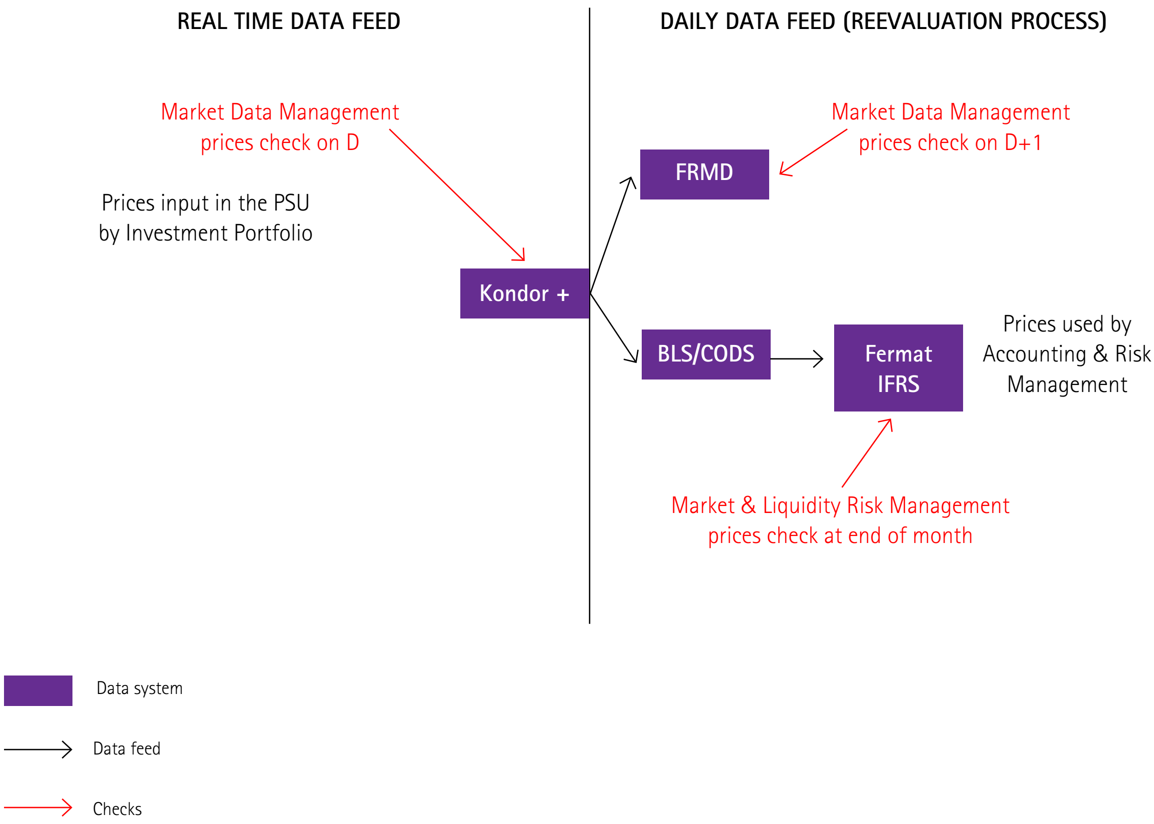
The investment portfolio comprises the following positions:

- Financial securities:
  - Bonds;
  - Commercial Pape;
  - ABS & MBS.
- IRS intended to hedge the interest rate risk on certain fixed rate bonds; this means that an IRS is required to pay the fixed rate received on the security to the counterparty (the rate of the fixed paying leg must match the security's coupon rate) and receive a floating rate plus a margin. The link between one or more positions on a security with an IRS is the hedging strategy.

Valuation of financial securities

Price input

The entry of investment portfolio security prices in the Bank's various systems follows the exact same procedure as for the price of trading portfolio securities.



Daily price checks by Market Data Management

The checks carried out by the Market Data Management team are the same as those described in paragraphs 3.1.b and 3.1.c for the trading portfolio.

Monthly price checks by Market & Liquidity Risk Management

Two types of checks are made for positions held in the investment portfolio at the end of each month.

The Market & Liquidity Risk Management team first compares the prices entered in Fermat IFRS with the bid prices from the BGN generic contributor. Several situations may arise:

- If the price difference is less than 50 bps in absolute value terms, the Fermat IFRS price is validated and no action is taken.
- If the price difference is 50 bps or more in absolute value terms, the price is corrected in Fermat IFRS using the BGN value; an email is then sent to the Investment Portfolio team requesting it to prioritise BGN as a source for the PSU.
- If no BGN price is available, a comparison with another contributor may be made. Where the contributor's price differs from that entered in Fermat IFRS (+/-50 bps), the Investment Portfolio team must be informed of this and must explain the price entered.
- A secondary analysis of the monthly change in prices is then carried out on like-for-like positions. Absolute changes ex- pressed as an absolute value of more than 75 bps, and whose PSU price source is not Bloomberg, must be explained by the Investment Portfolio team.
- For each position, the Market & Liquidity Risk Management team has the possibility of adding or correcting the price en- tered in Fermat IFRS using the Fermat-Prod application (reporting of a file that includes references to the corresponding positions and valuations).

Valuation of IRS hedges

As with IRS in the trading portfolio, IRS in the investment portfolio are valued daily in Kondor+ by discounting cash flows from the contract according to the revaluation curves provided by Reuters.

The valuations are ultimately used in Fermat IFRS.

Valuation of structured products issued by the Bank

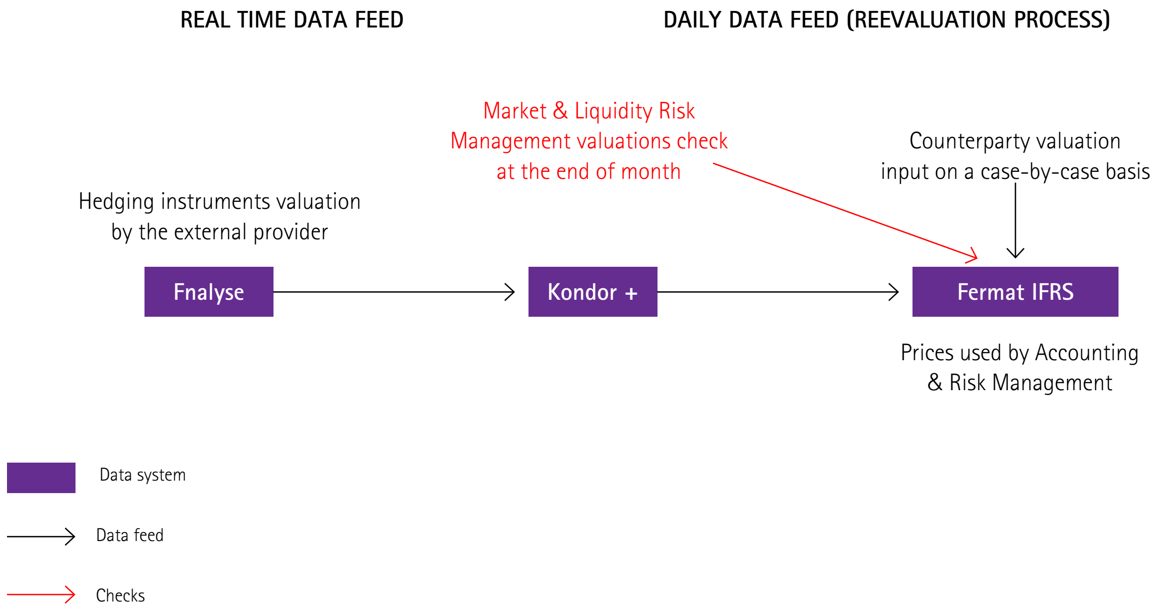
Valuation of swapped structured issues

BIL issues structured products under its own brand, aimed at:
- Meeting the investment needs of Private Banking and institutional clients (managed by the Structured Products & Equi- ties team);
- Raising long-term funds to finance the Bank's assets (managed by the Long-Term Funding team).

BIL structured issues are hedged by structured IRS agreed with external counterparties. A structured IRS has two legs:
- The structured leg, which copies the features of the issue (receiving leg);
- The floating leg, generally linked to the 3-month Euribor, plus a margin which BIL pays to the counterparty (paying leg).

Given the hedging with a derivative, the option to value the two components of the hedging relationship at their fair value is taken.

IRS hedge valuations are entered according to the following procedure:



Valuation of warrants

There are currently four types of warrant.

VLTW

VLTW are used on the Belgian market, with a maturity of 50 years. They are hedged with futures rather than with a counterparty; there is therefore no price resulting from collateral management.

At each monthly cut-off, the Market & Liquidity Risk Management team reports the prices quoted by the Structured Pro- ducts & Equities team in Fermat IFRS using the Fermat-Prod application. These prices are those quoted to the Bank's clients.

Luxembourg warrants

In this scenario, the only possible source is Finalyse; the price entered in Fermat IFRS is therefore unchanged (automatic input each day).

Belgian warrants

These are opti warrants for the Belgian market. An opti warrant plan includes two warrants:

- The first warrant, with a maturity of between 10 and 15 years, offers a minimum repayment and therefore has two parts:
  - A deposit corresponding to the minimum repayment amount and hedged through ALM;
  - An option hedged with an external counterparty;
- The second warrant, having a duration of around 1 year, is used to hedge the first warrant. It is fully hedged with an external counterparty.

As they are hedged with an external counterparty, for each warrant there is a comparison price arising from collateral management.

The Market & Liquidity Risk Management team compares this price with that quoted by the Structured Products & Equities team (price quoted to clients). The Market & Liquidity Risk Management team carries out the necessary investigations if a difference arises and reports the prices from counterparties in Fermat IFRS using the Fermat-Prod application.

Investment warrants

These warrants are fully hedged with an external counterparty. There is therefore a comparison price arising from collateral management.

The Market & Liquidity Risk Management team compares this price with that produced by the AVA module in BLS.

The same team carries out the necessary investigations if a difference arises and reports the AVA prices in Fermat IFRS using the Fermat-Prod application.

Valuation of other derivatives

Some derivatives have no hedging relationship with an asset or liability position on the balance sheet. Some are used for macro-hedging or trading.

In both cases, the valuation of derivatives is calculated daily in Kondor+ and reported to Fermat IFRS. The products in question are the following:

- Macro-hedging IRS, the valuation of which follows the methodology described in point 3.3.2.;
- FX Swaps used for cash flow management.

Foreign exchange instruments used by the FX trading desk, including FX Swaps, FX Forwards and FX Options. These are valued according to the Garman-Kohlhagen model in Kondor+.

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

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