

**Pillar 3  
Quarterly  
Report  
Q3/2020**



BANQUE  
INTERNATIONALE  
À LUXEMBOURG



# Contents

|  |    |
|--|----|
| List of acronyms                                 | 4  |
| Regulatory tables and templates                  | 5  |
| Introduction                                     | 6  |
| 1. Key prudential metrics                        | 7  |
| 2. Own funds and capital adequacy                | 8  |
| 2.1 Regulatory capital adequacy (Pillar I)       | 8  |
| 2.2 Leverage ratio                               | 10 |
| 3. Credit risk                                   | 13 |
| 3.1 RWA flow statements of credit risk exposures | 13 |
| 4. Final remarks                                 | 14 |



# List of acronyms

|               |   |
|---------------|---|
| <b>A-IRB</b>  | Advanced Internal Rating-Based            |
| <b>AT1</b>    | Additional Tier 1 capital                 |
| <b>BCBS</b>   | Basel Committee on Banking Supervision    |
| <b>CCP</b>    | Central Counterparty                      |
| <b>CCR</b>    | Counterparty Credit Risk                  |
| <b>CET1</b>   | Common Equity Tier One                    |
| <b>CRR</b>    | Capital Requirements Regulation           |
| <b>CVA</b>    | Credit Valuation Adjustment               |
| <b>EAD</b>    | Exposure At Default                       |
| <b>EBA</b>    | European Banking Authority                |
| <b>ECL</b>    | Expected Credit Loss                      |
| <b>F-AIRB</b> | Foundation Internal Rating Approach       |
| <b>HQLA</b>   | High Quality Liquid Asset                 |
| <b>IAA</b>    | Internal Assessment Approach              |
| <b>IMA</b>    | Internal Model Approach                   |
| <b>IMM</b>    | Internal Model Method                     |
| <b>IRB</b>    | Internal Rating-Based                     |
| <b>LCR</b>    | Liquidity Coverage Ratio                  |
| <b>LR</b>     | Leverage Ratio                            |
| <b>NSFR</b>   | Net Stable Funding Ratio                  |
| <b>O-SII</b>  | Other Systemically Important Institutions |
| <b>PD</b>     | Probability of Default                    |
| <b>Q</b>      | Quarter                                   |
| <b>RWA</b>    | Risk-Weighted Assets                      |
| <b>SFA</b>    | Supervisory Formula Approach              |
| <b>SFT</b>    | Securities Financing Transactions         |

# Regulatory tables and templates<sup>1</sup>

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

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



# Introduction

This document provides additional information on the risk management of Banque Internationale à Luxembourg (referred to below as "BIL" or "the Bank") as of 30th September 2020.

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

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

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

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

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

# 1. Key prudential metrics

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

TABLE KM1: KEY METRICS (AT CONSOLIDATED GROUP LEVEL)

| (in EUR million)  |   | 30/09/2020 |
|---|---|------------|
| <b>Available capital (amounts)</b>                                |   |            |
| 1   | Common Equity Tier 1 (CET1)   | 1,162      |
| 1a  | Fully loaded ECL accounting model   | 1,145      |
| 2   | Tier 1  | 1,337      |
| 2a  | Fully loaded ECL accounting model Tier 1  | 1,320      |
| 3   | Total capital   | 1,472      |
| 3a  | Fully loaded ECL accounting model total capital                                   | 1,455      |
| <b>Risk-weighted assets (amounts)</b>                             |   |            |
| 4   | Total risk-weighted assets (RWA)  | 9,083      |
| 4a  | Fully Loaded Total risk-weighted assets (RWA)                                     | 9,074      |
| <b>Risk-based capital ratios as a percentage of RWA</b>           |   |            |
| 5   | Common Equity Tier 1 ratio (%)  | 12.79%     |
| 5a  | Fully loaded ECL accounting model Common Equity Tier 1 (%)                        | 12.62%     |
| 6   | Tier 1 ratio (%)  | 14.72%     |
| 6a  | Fully loaded ECL accounting model Tier 1 ratio (%)                                | 14.54%     |
| 7   | Total capital ratio (%)   | 16.21%     |
| 7a  | Fully loaded ECL accounting model total capital ratio (%)                         | 16.04%     |
| <b>Additional CET1 buffer requirements as a percentage of RWA</b> |   |            |
| 8   | Capital conservation buffer requirement (2.5% from 2019) (%)                      | 2.50%      |
| 9   | Countercyclical buffer requirement (%)  | 0.18%      |
| 10  | Bank G-SIB and/or D-SIB additional requirements (%)                               | 0.50%      |
| 11  | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)      | 3.18%      |
| 12  | CET1 available after meeting the bank's minimum capital requirements (%)          | 9.61%      |
| <b>Basel III leverage ratio</b>                                   |   |            |
| 13  | Total Basel III leverage ratio exposure measure                                   | 33,016     |
| 13a   | Fully Loaded Total Basel III leverage ratio exposure measure                      | 32,999     |
| 14  | Basel III leverage ratio (%) (row 2 / row 13)                                     | 4.05%      |
| 14a   | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13a) | 4.00%      |
| <b>Liquidity Coverage Ratio</b>                                   |   |            |
| 15  | Total HQLA  | 8,752      |
| 16  | Total net cash outflow  | 5,401      |
| 17  | LCR ratio (%)   | 162%       |
| <b>Net Stable Funding Ratio</b>                                   |   |            |
| 18  | Total available stable funding  | 20,012     |
| 19  | Total required stable funding   | 17,425     |
| 20  | NSFR ratio  | 115%       |

## 2. Own funds and capital adequacy

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

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

The prudential capital requirement breakdown as of 30 September 2020 is shown below:

| Capital components                             | Amount       |
|--|--------------|
| Minimum requirement for Core CET1 requirement  | 4.50%        |
| Minimum requirement for conservation buffer    | 2.50%        |
| Minimum requirement for O-SII buffer           | 0.50%        |
| Minimum requirement for countercyclical buffer | 0.18%        |
| Minimum requirement for Pillar 2 Requirement   | 1.75%        |
|  | <b>9.34%</b> |

At the end of the third quarter of 2020, the Bank's CET1 ratio stood at 12.79% (12.62% as a fully loaded version), with the total capital ratio at 16.21% (16.04% as a fully loaded version), as detailed in the previous section (Table KM1).

### 2.1. Regulatory capital adequacy (Pillar I)

#### Risk-Weighted Assets (RWA)

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



TABLE EU OV1 – OVERVIEW OF RWA

| (in EUR million)                                |   | RWAs            |                  | Minimum capital requirements |
|---|---|-----------------|------------------|------------------------------|
|   |   | 30/09/2020 (T)  | 30/06/2020 (T-1) | 30/09/2020 (T)               |
| 1   | Credit risk (excluding CCR and IRB equity)                                      | 7,851.17        | 7,677.52         | 628.09                       |
| Article 438(c)(d)                               | 2 Of which the standardised approach  | 1,362.90        | 1,390.29         | 109.03                       |
| Article 438(c)(d)                               | 3 Of which the foundation IRB (FIRB) approach                                   |                 |                  |                              |
| Article 438(c)(d)                               | 4 Of which the advanced IRB (A-IRB) approach                                    | 6,488.26        | 6,287.23         | 519.06                       |
| Article 438(d)                                  | 5 Equity IRB under the simple risk-weighted approach or the IMA                 | 144.69          | 142.14           | 11.58                        |
| Article 107<br>Article 438(c)(d)"               | 6 CCR   | 84.78           | 81.24            | 6.78                         |
| Article 438(c)(d)                               | 7 Of which mark to market   | 62.58           | 58.00            | 5.01                         |
| Article 438(c)(d)                               | 8 Of which original exposure  |                 |                  |                              |
|   | 9 Of which the standardised approach  |                 |                  |                              |
|   | 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   | 22.20           | 23.25            | 1.78                         |
| Article 438(e)                                  | 13 Settlement risk  |                 |                  |                              |
| Article 449 (o)(i)                              | 14 Securitisation exposures in the banking book (after the cap)                 | 7.80            | 9.02             | 0.62                         |
|   | 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   | 7.80            | 9.02             | 0.62                         |
| Article 438(e)                                  | 19 Market risk  | 42.58           | 56.74            | 3.41                         |
|   | 20 Of which the standardised approach   | 42.58           | 56.74            | 3.41                         |
|   | 21 Of which IMA   |                 |                  |                              |
| Article 438(e)                                  | 22 Large exposures  |                 |                  |                              |
| Article 438(f)                                  | 23 Operational risk   | 951.70          | 951.70           | 76.14                        |
|   | 24 Of which basic indicator approach  |                 |                  |                              |
|   | 25 Of which standardised approach   | 951.70          | 951.70           | 76.14                        |
|   | 26 Of which advanced measurement approach                                       |                 |                  |                              |
| Article 437(2),<br>Article 48 and<br>Article 60 | 27 Amounts below the thresholds for deduction (subject to 250% risk weight)     |                 |                  |                              |
| Article 500                                     | 28 Floor adjustment   |                 |                  |                              |
| 29  | <b>TOTAL</b>  | <b>9,082.72</b> | <b>8,918.37</b>  | <b>726.62</b>                |

The Bank's RWA totaled EUR 9.08 billion as of 30 September 2020, compared to EUR 8.92 billion at 30 June 2020. The overall increase of EUR 165 million mainly reflects increase in credit RWA. Market RWA has decreased slightly by EUR 14.16 million, and operational RWA remained unchanged from last quarter.

## 2.2. Leverage ratio

The Basel III leverage ratio is defined as the capital measure divided by the exposure measure (total exposure). This ratio is expressed as a percentage and must exceed a minimum of 3%. The capital measure for the leverage ratio is Tier 1 capital taking into account transitional arrangements<sup>1</sup>.

As mentioned in Table KM1 (section one), BIL Group's leverage ratio (IFRS 9 fully loaded view) stood at 4.0% as of 30 September 2020, below the end-June 2020 level of 4.11%. The change is attributable to a lower increase in Tier 1 capital (+0.3%) compared to the increase in total leverage exposure (+3.0%).

In denominator (Total Leverage Exposure), on-balance sheet exposures (Excl. SFT & Derivatives) accounted for an absolute major portion (91% in Q3 2020) which increased +3.7%, arriving to 30 billion compared to last quarter. The exposure of 'Exposures treated as sovereigns' class increased sharply (+10.1%) compared to Q2 2020. Additionally, 'Exposure in default' amount increased 39.3%, reaching 489.8 million in Q3 2020. Derivatives exposures plunged -7.4% and Off-balance sheet exposure decreased -0.3% accordingly. Compared to the last quarter, the SFT exposure decreased by -8.5%.

The leverage ratio disclosure templates are:

### LR1 – SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

| (in EUR million) |   | <b>Amounts</b>   |
|------------------|---|------------------|
| <b>1</b>         | Total assets  | 30,828.00        |
| <b>2</b>         | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation  | 0.00             |
| <b>3</b>         | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR") | 0.00             |
| <b>4</b>         | Adjustments for derivative financial instruments  | 77.58            |
| <b>5</b>         | Adjustments for securities financing transactions "SFTs"  | 879.73           |
| <b>6</b>         | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)  | 1,841.24         |
| <b>7</b>         | Other adjustments   | -627.65          |
| <b>8</b>         | <b>Total leverage ratio exposure</b>  | <b>32,998.89</b> |

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

## LR2 – LEVERAGE RATIO COMMON DISCLOSURE

| (in EUR million)   |  | Amounts          |
|--|--|------------------|
| <b>ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)</b>                                   |  |                  |
| 1  | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)  | 30,427.60        |
| 2  | (Asset amounts deducted in determining Tier 1 capital)   | -417.10          |
| <b>3</b>   | <b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>                            | <b>30,010.49</b> |
| <b>DERIVATIVE EXPOSURES</b>  |  |                  |
| 4  | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)                                     | 66.33            |
| 5  | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)  | 177.82           |
| EU-5a  | Exposure determined under Original Exposure Method   | 0.00             |
| 6  | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework    | 0.00             |
| 7  | (Deductions of receivables assets for cash variation margin provided in derivatives transactions)  | 0.00             |
| 8  | (Exempted CCP leg of client-cleared trade exposures)   | 0.00             |
| 9  | Adjusted effective notional amount of written credit derivatives   | 0.00             |
| 10   | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)   | 0.00             |
| <b>11</b>  | <b>Total derivative exposures (sum of lines 4 to 10)</b>   | <b>244.15</b>    |
| <b>SECURITIES FINANCING TRANSACTION EXPOSURES</b>  |  |                  |
| 12   | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions   | 877.57           |
| 13   | (Netted amounts of cash payables and cash receivables of gross SFT assets)   | 0.00             |
| 14   | Counterparty credit risk exposure for SFT assets   | 25.44            |
| EU-14a   | Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013            | 0.00             |
| 15   | Agent transaction exposures  | 0.00             |
| EU-15a   | (Exempted CCP leg of client-cleared SFT exposure)  | 0.00             |
| <b>16</b>  | <b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>   | <b>903.01</b>    |
| <b>OTHER OFF-BALANCE SHEET EXPOSURES</b>   |  |                  |
| 17   | Off-balance sheet exposures at gross notional amount   | 1,841.24         |
| 18   | (Adjustments for conversion to credit equivalent amounts)  | 0.00             |
| <b>19</b>  | <b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>   | <b>1,841.24</b>  |
| <b>EXEMPTED EXPOSURES IN ACCORDANCE WITH CRR ARTICLE 429 (7) AND (14) (ON AND OFF BALANCE SHEET)</b> |  |                  |
| EU-19a   | (Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0.00             |
| EU-19b   | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))                           | 0.00             |
| <b>CAPITAL AND TOTAL EXPOSURES</b>   |  |                  |
| <b>20</b>  | <b>Tier 1 capital</b>  | <b>1,319.77</b>  |
| <b>21</b>  | <b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>  | <b>32,998.89</b> |
| <b>LEVERAGE RATIO</b>  |  |                  |
| <b>22</b>  | <b>Leverage ratio</b>  | <b>0,04</b>      |
| <b>CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS</b>                |  |                  |
| EU-23  | Choice on transitional arrangements for the definition of the capital measure  | Transitional     |
| EU-24  | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013                                     |                  |

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

| (in EUR million) |  | CRR leverage ratio exposures |
|------------------|--|------------------------------|
| <b>EU-1</b>      | <b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b> | <b>30,427.60</b>             |
| <b>EU-2</b>      | Trading book exposures   | 53.75                        |
| <b>EU-3</b>      | Banking book exposures, of which:  | 30,373.84                    |
| <b>EU-4</b>      | Covered bonds  | 0.00                         |
| <b>EU-5</b>      | Exposures treated as sovereigns  | 9,790.59                     |
| <b>EU-6</b>      | Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns    | 768.91                       |
| <b>EU-7</b>      | Institutions   | 3,671.78                     |
| <b>EU-8</b>      | Secured by mortgages of immovable properties   | 7,484.69                     |
| <b>EU-9</b>      | Retail exposures   | 2,605.14                     |
| <b>EU-10</b>     | Corporate  | 4,972.36                     |
| <b>EU-11</b>     | Exposures in default   | 489.83                       |
| <b>EU-12</b>     | Other exposures (eg equity, securitisations, and other non-credit obligation assets)                     | 590.55                       |

## 3. Credit risk

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

### 3.1 RWA flow statements of credit risk exposures

According to Article 438 (d) of Regulation (EU) No 575/2013 (CRR), the following table provides a flow statement explaining changes in the credit RWA between Q3 2020 and Q2 2020.

The main changes over the period relate to organic business growth.

AMENDED TABLE EU CR8 – RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE STANDARD AND IRB APPROACH<sup>1</sup>

| (in EUR million) |  | RWA<br>amounts | Capital<br>requirements |
|------------------|--|----------------|-------------------------|
| 30/06/2020       | Credit Risk RWAs (ADV+STD+TIT with CCR) as at the end of the previous reporting period | 7.909.92       | 632.79                  |
| 1                | Total adjustments from Standardised Approach (with CCR)                                | -25.98         | -2.08                   |
| 1.1              | Adjustment from Asset size   | -24.06         | -1.92                   |
| 1.2              | Adjustment from Model updates  | -1.93          | -0.15                   |
| 2                | Total adjustments from Advanced Approach (with CCR)                                    | 206.76         | 16.54                   |
| 2.1              | Adjustment from Asset size   | 133.39         | 10.67                   |
| 2.2              | Adjustment from Asset quality  | 62.29          | 4.98                    |
| 2.3              | Adjustment from Model updates  | 4.90           | 0.39                    |
| 2.3.1            | Add-on NDD   | 4.90           | 0.39                    |
| 2.4              | Adjustment from Methodology and policy   | -              | -                       |
| 2.5              | Adjustment from Acquisitions and disposals   | -              | -                       |
| 2.6              | Adjustment from Foreign exchange movements   | -              | -                       |
| 2.7              | Adjustment from Other  | 6.19           | 0.50                    |
| 2.7.1            | RWA CET1 ADD-BACK (FTA)  | 8.77           | 0.70                    |
| 2.7.2            | Other  | -2.58          | -0.21                   |
| 3                | Total adjustments from Credit Valuation Adjustment (CVA)                               | -1.05          | -0.08                   |
| 4                | Total adjustments from Securitisation  | -1.22          | -0.10                   |
| 30/09/2020       | RWAs as at the end of the reporting period   | 8.088.44       | 647.07                  |

<sup>1</sup> This ECB template has been amended to include further details of quarterly changes for all categories of credit risk RWA.



## 4. Final remarks

As highlighted by capital and liquidity indicators, the financial situation of the Bank remains solid. Nevertheless, due to the COVID-19 uncertainty, specific follow-up points have been put in place notably regarding the Credit Risk and the Liquidity Risk.



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