Pillar 3 Quarterly Report Q1/2020

BIL
1856

BANQUE INTERNATIONALE À LUXEMBOURG

Contents

List of acronyms

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

Regulatory tables and templates[1]

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

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

Introduction

This document provides additional information on the risk management of Banque Internationale à Luxembourg (referred to below as "BIL" or "the Bank") as of 31st March 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).

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)	3/31/2020	12/31/2019	9/30/2019	6/30/2019	3/31/2019
		T	T-1	T-2	T-3	T-4
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	1,098	1,065	1,013	1,006	956
1a	Fully loaded ECL accounting model	1,098	1,065	1,013	1,006	956
2	Tier 1	1,273	1,240	1,163	1,156	1,106
2a	Fully loaded ECL accounting model Tier 1	1,273	1,240	1,163	1,156	1,106
3	Total capital	1,414	1,379	1,304	1,294	1,245
3a	Fully loaded ECL accounting model total capital	1,414	1,379	1,304	1,294	1,245
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	9,126	8,543	8,432	8,576	8,377
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	12.03%	12.47%	12.01%	11.73%	11.41%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	12.03%	12.47%	12.01%	11.73%	11.41%
6	Tier 1 ratio (%)	13.94%	14.52%	13.79%	13.48%	13.20%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.94%	14.52%	13.79%	13.48%	13.20%
7	Total capital ratio (%)	15.49%	16.15%	15.47%	15.09%	14.86%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.49%	16.15%	15.47%	15.09%	14.86%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.22%	0.09%	0.08%	0.04%	0.03%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.50%	0.50%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.22%	3.09%	3.08%	3.04%	3.03%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.81%	9.38%	8.93%	8.70%	8.38%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	31,967	30,412	29,278	28,812	28,068
14	Basel III leverage ratio (%) (row 2 / row 13)	3.98%	4.08%	3.97%	4.01%	3.94%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	3.98%	4.08%	3.97%	4.01%	3.94%
Liquidity Coverage Ratio						
15	Total HQLA	6,242	6,343	5,294	4,892	5,410
16	Total net cash outflow	3,805	4,547	4,201	3,395	3,653
17	LCR ratio (%)	164.04%	139.48%	126.03%	144.09%	148.09%
Net Stable Funding Ratio						
18	Total available stable funding	18,793	17,757	17,355	17,311	17,302
19	Total required stable funding	16,585	16,014	16,237	15,917	15,582
20	NSFR ratio	113.31%	110.89%	106.89%	108.76%	111.04%

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 31 March 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	0.22%
Minimum requirement for Pillar 2 Requirement	1.75%
	9.47%

At the end of Q1 2020, the Bank's CET1 ratio stood at 12.03%, with the total capital ratio at 15.49%, as detailed in the previous section (Table KM1).

2.1. Regulatory capital adequacy (Pillar I)

Risk-Weighted Assets (RWA)

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

TABLE EU OV1 – OVERVIEW OF RWA				
(in EUR million)		RWAs		Minimum capital requirements
		31/03/2020 (T)	31/12/2019 (T-1)	31/03/2020 (T)
1	Credit risk (excluding CCR and IRB equity)	**7,894.83**	**7,258.79**	**631.59**
2	Of which the standardised approach	1,550.29	1,392.85	124.02
3	Of which the foundation IRB (FIRB) approach			
4	Of which the advanced IRB (A-IRB) approach	6,344.54	5,865.94	507.56
5	Equity IRB under the simple risk-weighted approach or the IMA	**138.81**	**190.40**	**11.10**
6	CCR	**76.75**	**79.51**	**6.14**
7	Of which mark to market	58.96	57.13	4.72
8	Of which original exposure			
9	Of which the standardised approach			
10	Of which internal model method (IMM)			
11	Of which risk exposure amount for contributions to the default fund of a CCP			
12	Of which CVA	17.80	22.38	1.42
13	Settlement risk			
14	Securitisation exposures in the banking book (after the cap)	**9.91**	**13.70**	**0.79**
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	9.91	13.70	0.79
19	Market risk	**53.76**	**48.88**	**4.30**
20	Of which the standardised approach	53.76	48.88	4.30
21	Of which IMA			
22	Large exposures			
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			
27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
28	Floor adjustment			
29	**TOTAL**	**9,125.76**	**8,542.98**	**730.06**

The Bank's RWA totaled EUR 9.13 billion as of 31 March 2020, compared to EUR 8.54 billion at 31 December 2019. The overall increase of EUR 582 million mainly reflects increases in credit RWA (EUR +636 million). Market RWA slightly increased by EUR 4.88 million, and operational RWA remained unchanged from end of last year to Q1.

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 the transitional arrangements[1].

As mentioned in Table KM1 (Section One), BIL group's leverage ratio stood at 3.98% as of 31 March 2020, slightly below the End-December 2019 level of 4.08%. The change is attributed to a lower increase in Tier 1 capital (+2.6%), compared to the increase in Total Leverage Exposure (+6.5%)[2].

To be more specific, in the denominator[3] (Total Leverage Exposure), "on-balance sheet exposures" (Excl. Security Financing Transactions (SFT) & Derivatives) accounted for an absolute major portion (91% in Q1 2020), which increased +5.8%, arriving to 29.4 billion compared to the last quarter. In comparison with Q4 2019, the "SFT leverage ratio exposure" moved up to 1.05 billion (an increase of 8.7%), accounting for 3.2% of the Total Leverage Exposure. "Derivatives exposures" plunged -32.7%, and "Off-balance sheet exposure" decreased by -0.9%.

Additionally, the Leverage Ratio Exposure of "Institutions" and "Exposures treated as sovereigns" increased sharply +17.4% and +16.0% respectively, compared to Q4 2019. The amount of "Other assets belonging to trading book" remains on the low level, reaching 82 million in Q1 2020, against 42 million in Q4 2019 (almost doubled).

The leverage ratio disclosure templates are:

LR1 – SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

(in EUR million)		**Amounts**
1	Total assets	29,725.91
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0.00
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0.00
4	Adjustments for derivative financial instruments	30.59
5	Adjustments for securities financing transactions "SFTs"	1,051.17
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,727.61
7	Other adjustments	-568.50
8	**Total leverage ratio exposure**	**31,398.28**

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

[2] The calculation of percentage takes the total leverage exposure amount before adjustment (total amount before '(-) Asset amount deducted - Tier 1' adjustment), while in the KM1 Table (line 13), the amount is after the adjustment.

[3] Idem.

LR2 - LEVERAGE RATIO COMMON DISCLOSURE

(in EUR million)		Amounts
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	29,383.62
2	(Asset amounts deducted in determining Tier 1 capital)	-427.67
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**28,955.95**
	DERIVATIVE EXPOSURES	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	82.60
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	149.45
EU-5a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**232.05**
	SECURITIES FINANCING TRANSACTION EXPOSURES	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,025.50
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	25.67
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**1,051.17**
	OTHER OFF-BALANCE SHEET EXPOSURES	
17	Off-balance sheet exposures at gross notional amount	1,727.61
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,727.61**
	EXEMPTED EXPOSURES IN ACCORDANCE WITH CRR ARTICLE 429 (7) AND (14) (ON AND OFF BALANCE SHEET)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
	CAPITAL AND TOTAL EXPOSURES	
20	**Tier 1 capital**	**1,272.52**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**31,966.78**
	LEVERAGE RATIO	
22	**Leverage ratio**	**3.98%**
	CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNIZED FIDUCIARY ITEMS	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

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

(in EUR million)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	29,383.62
EU-2	Trading book exposures	89.44
EU-3	Banking book exposures, of which:	29,294.18
EU-4	Covered bonds	0.00
EU-5	Exposures treated as sovereigns	9,257.20
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	650.81
EU-7	Institutions	3,637.06
EU-8	Secured by mortgages of immovable properties	7,124.44
EU-9	Retail exposures	2,626.27
EU-10	Corporate	5,009.32
EU-11	Exposures in default	362.45
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	626.63

3. Credit risk

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

3.1 RWA flow statements of credit risk exposures

According to Article 438 (d) of Regulation (EU) No 575/2013 (CRR), the following table provides a flow statement explaining changes in the credit RWA between Q4 2019 and Q1 2020.

The main changes over the period are related to the regulatory add-on of New Definition of Default (NDD) model.

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

(in EUR million)		RWA amounts	Capital requirements
31/12/2019	Credit Risk RWAs (ADV+STD+TIT with CCR) as at the end of the previous reporting period	7,542.40	603.39
1	Total adjustments from Standardised Approach (with CCR)	158.17	12.65
1.1	Adjustment from Asset size	179.25	14.34
1.2	Adjustment from Asset quality	-20.91	-1.67
1.3	Adjustment from Other	-0.17	-0.01
2	Total adjustments from Advanced Approach (with CCR)	428.11	34.25
2.1	Adjustment from Asset size	-68.56	-5.48
2.2	Adjustment from Asset quality	30.27	2.42
2.3	Adjustment from Model updates	469.57	37.57
2.3.1	*Add-on NDD*	*469.57*	*37.57*
2.4	*Adjustment from Methodology and policy*	-	-
2.5	*Adjustment from Acquisitions and disposals*	-	-
2.6	Adjsutment from Foreign exchange movements	-	-
2.7	Adjustment from Other	-3.16	-0.25
3	Total adjustments from Credit Valuation Adjustment (CVA)	-4.58	-0.37
4	Total adjustments from Securitisation	-3.79	-0.30
31/03/2020	Credit Risk RWAs (ADV+STD+TIT with CCR) as at the end of the reporting period	8,120.30	649.62

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

4. Focus on COVID-19 situation

In view of the COVID-19 pandemic and the protective measures announced by the Luxembourgish Government, the Bank has taken measures to protect the safety and health of employees and clients, whilst ensuring its business continuity. These measures include restricting business trips, splitting teams between different buildings, additional hygiene measures and remote working.

- As one of the major banks in Luxembourg, BIL is supporting Government and Central Bank's actions and remains accessible to all retail, private and corporate clients. Financing facilities is available to clients to minimize the negative effect of the economic slowdown on their activities;
- The adverse macroeconomic outlook will impact all market participants, businesses and the banking industry. As a result, the Bank is expecting an impact on BIL's 2020 financials with lower revenues and higher costs of risk;
- The Bank capital and liquidity positions remain solid with buffers in excess of regulatory requirements;
- With the support of the two main shareholders of the Bank: Legend Holdings and the State of Luxembourg, the Management closely monitors the situation, while further deploying the Create Together 2025 Strategy, aiming at the sustainable growth.

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