

**Pillar 3  
Quarterly  
Report  
Q3/2019**



BANQUE  
INTERNATIONALE  
À LUXEMBOURG



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# 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>FIRR</b>	Foundation Internal Rating-Based
<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 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.

<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 30 September 2019.

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).

(in EUR million)		30/09/2019	30/06/2019	31/03/2019	31/12/2018	30/09/2018
		T	T-1	T-2	T-3	T-4
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	1,013	1,006	956	967	908
1a	Fully loaded ECL accounting model	1,013	1,006	956	967	908
2	Tier 1	1,163	1,156	1,106	1,117	1,058
2a	Fully loaded ECL accounting model Tier 1	1,163	1,156	1,106	1,117	1,058
3	Total capital	1,304	1,294	1,245	1,255	1,195
3a	Fully loaded ECL accounting model total capital	1,304	1,294	1,245	1,255	1,195
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	8,432	8,576	8,377	8,034	8,035
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	12.01%	11.73%	11.41%	12.04%	11.31%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	12.01%	11.73%	11.41%	12.04%	11.31%
6	Tier 1 ratio (%)	13.79%	13.48%	13.20%	13.91%	13.17%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.79%	13.48%	13.20%	13.91%	13.17%
7	Total capital ratio (%)	15.47%	15.09%	14.86%	15.62%	14.87%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.47%	15.09%	14.86%	15.62%	14.87%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.08%	0.04%	0.03%	0.04%	0.01%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.38%	0.38%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.08%	3.04%	3.03%	2.92%	2.89%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.93%	8.70%	8.38%	9.13%	8.42%
<b>Basel III leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure	29,278	28,812	28,068	26,834	26,449
14	Basel III leverage ratio (%) (row 2 / row 13)	3.97%	4.01%	3.94%	4.16%	4.00%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)	3.97%	4.01%	3.94%	4.16%	4.00%
<b>Liquidity Coverage Ratio</b>						
15	Total HQLA	5,294	4,892	5,410	4,421	3,924
16	Total net cash outflow	4,201	3,395	3,653	3,304	2,846
17	LCR ratio (%)	126.03%	144.09%	148.09%	133.81%	137.90%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	17,355	17,311	17,302	16,246	16,221
19	Total required stable funding	16,237	15,917	15,582	15,005	14,993
20	NSFR ratio	106.89%	108.76%	111.04%	108.27%	108.19%

## 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 2019 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	0.5%
Minimum requirement for countercyclical buffer	0.08%
Minimum requirement for Pillar 2 Requirement	1.75%
	<b>9.33%</b>

At the end of the third quarter of 2019, the Bank's CET1 ratio stood at 12.01%, with the total capital ratio at 15.47%, 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	
		30/09/2019 (T)	30/06/2019 (T-1)	30/09/2019 (T)	
	1	Credit risk (excluding CCR and IRB equity)	7,171.45	7,385.89	573.72
Article 438(c)(d)	2	Of which the standardised approach	1,545.30	2,841.36	123.62
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	5,626.15	4,544.53	450.09
Article 438(d)	5	Equity IRB under the simple risk-weighted approach or the IMA	215.27	174.79	17.22
"Article 107 Article 438(c)(d)"	6	CCR	137.76	83.71	11.02
Article 438(c)(d)	7	Of which mark to market	112.55	60.89	9.00
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	25.21	22.82	2.02
Article 438(e)	13	Settlement risk			
Article 449 (o)(i)	14	Securitisation exposures in the banking book (after the cap)	16.21	19.29	1.30
	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	16.21	19.29	1.30
Article 438(e)	19	Market risk	55.04	76.23	4.40
	20	Of which the standardised approach	55.04	76.23	4.40
	21	Of which IMA			
Article 438(e)	22	Large exposures			
Article 438(f)	23	Operational risk	836.58	836.58	66.93
	24	Of which basic indicator approach			
	25	Of which standardised approach	836,58	836.58	66.93
	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	<b>TOTAL</b>	<b>8,432.31</b>	<b>8,576.47</b>	<b>674.58</b>

The Bank's RWA totaled EUR 8.43 billion as of 30 September 2019, compared to EUR 8.58 billion at 30 June 2019. The overall decrease of EUR 144 million mainly reflects decreases in credit RWA (EUR -125 million). Market RWA decreased by EUR 21 million, and operational RWA remained unchanged from Q2 to Q3.

## 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 stood at 3.97% as of 30 September 2019, slightly below the end-June 2019 level of 4.01%. The change is attributable to a lower increase in Tier 1 capital (+0.5%) compared to the increase in total leverage exposure (+1.6%).

The leverage ratio disclosure templates are:

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

	Amounts in EUR million	
1	Total assets	27,271.77
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(8.78)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	(29.20)
5	Adjustments for securities financing transactions "SFTs"	965.13
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,719.92
7	Other adjustments	(641.25)
8	Total leverage ratio exposure	29,277.59

<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

		Amounts in EUR million
<b>ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	26,651.82
2	(Asset amounts deducted in determining Tier 1 capital)	(417.89)
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>26,233.93</b>
<b>DERIVATIVE EXPOSURES</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	116.82
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	241.79
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	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>358.61</b>
<b>SECURITIES FINANCING TRANSACTION EXPOSURES</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	945.59
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	19.54
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	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>965.13</b>
<b>OTHER OFF-BALANCE SHEET EXPOSURES</b>		
17	Off-balance sheet exposures at gross notional amount	1,719.92
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Other off-balance sheet exposures (sum of lines 17 to 18)	1,719.92
<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))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
<b>CAPITAL AND TOTAL EXPOSURES</b>		
20	Tier 1 capital	1,162.52
21	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>29,277.59</b>
<b>LEVERAGE RATIO</b>		
22	Leverage ratio	0.04
<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)

		CRR leverage ratio exposures
<b>EU-1</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>26,651.82</b>
<b>EU-2</b>	Trading book exposures	38.33
<b>EU-3</b>	Banking book exposures, of which:	26,613.49
<b>EU-4</b>	Covered bonds	31.24
<b>EU-5</b>	Exposures treated as sovereigns	7,032.48
<b>EU-6</b>	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	538.68
<b>EU-7</b>	Institutions	3,109.57
<b>EU-8</b>	Secured by mortgages of immovable properties	6,716.57
<b>EU-9</b>	Retail exposures	2,807.17
<b>EU-10</b>	Corporate	5,075.56
<b>EU-11</b>	Exposures in default	456.29
<b>EU-12</b>	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	845.93

## 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 Q2 2019 and Q3 2019.

The main changes over the period relate to updates in the Bank's models.

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

(in EUR million)		RWA amounts	Capital requirements
30/06/2019	Credit Risk RWAs as at the end of the previous reporting period	7,641	611
1	Total adjustments from Standardised Approach	(1,296)	(104)
1.1	Adjustment from Asset size	143	11
1.2	Adjustment from Model updates (real estate from Standard to Slotting/Advanced)	(1,440)	(115)
2	Total adjustments from Advanced Approach	1,122	90
2.1	Adjustment from Asset size	43	3
2.2	Adjustment from Asset quality		
2.3	Adjustment from Model updates	1,052	84
2.3.1	Slotting approach methodology change	880	70
2.3.2	Add-on of Corp/Mid Corp defaulted exposures	104	8
2.3.3	PD floor 1bps for Sovereign exposures	68	5
2.4	Adjustment from Methodology and policy		
2.5	Adjustment from Acquisitions and disposals		
2.6	Adjustment from Foreign exchange movements	28	2
2.7	Adjustment from Other		
3.	Total adjustments from Counterparty Credit Risk (CCR)	54	4
4.	Total adjustments from Credit Valuation Adjustment (CVA)	(2)	0
5.	Total adjustments from Securitisation	(3)	0
30/09/2019	RWAs as at the end of the reporting period	7,515	601

<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

No additional significant information was identified by the end of the quarter regarding the change in the Bank's risk profile and the information required to be disclosed to market participants to convey a fair picture of the risk profile.



**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](http://www.bil.com)

