Pillar 3
Risk Report
2015

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INTERNATIONALE
À LUXEMBOURG

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Introduction

Since the end of 2014 important strategic initiatives have been undertaken at a group-wide level, impacting thus naturally BIL group's corporate structure and risk profile. All those initiatives have been carefully followed by the Bank's Risk Management department whose main objective is to guide their implementation by ensuring, on an ongoing basis, that the related risks are under control and compatible with the institution's risk appetite.

The ongoing implementation of new regulatory requirements together with the participation to the first supervisory review exercise conducted under the Single Supervisory Mechanism constituted the main Risk Management challenges faced by the institution during the year.

Key events of the year 2015 influencing BIL group's risk profile

Banque Internationale à Luxembourg SA is a long-established multi-business bank in a rapidly-changing sector. In order to equip itself with a focused vision and identity in the years leading up to 2020, BIL has developed a new corporate strategy after a thorough consideration of its priorities, its goals and the means necessary in order to achieve them. This strategy called "BIL2020", was launched in April 2015 and aims at defining the strategic priorities of the Bank over the next five years. The positive financial results announced for 2015 confirm that the implementation of the BIL2020 strategic intent is well under way.

The rationale of this process is to reflect the Bank's capacity and ability to adapt to the fast-paced changes the banking sector is experiencing in a highly regulated environment. BIL will seek to reinforce its position by putting a greater focus on providing relevant and adapted value propositions in order to meet the needs of a diverse clientele, both in Luxembourg and in a clearly defined number of international markets. BIL2020 is intended to allow the Bank to continue to uphold its reputation and strive for excellence as part of its overall goals. This effort will be reinforced by BIL2020's strong emphasis on innovation and technology.

The Bank has received positive evaluations of its new strategy from international rating agencies. Moody's long-term senior debt and deposits ratings of BIL have been upgraded by one notch from 'Baa1' to 'A3'. Moody's stated that this upgrade is due to the strength and stability of BIL's core commercial franchises, as well as its sound financial fundamentals. Standard & Poor's also upgraded its outlook for BIL from "negative" to "stable", while maintaining the A- rating (long-term senior debt).

As part of the BIL2020 Strategy, the Bank initiated a review of its international presence, with the aim of ensuring that it is ideally-positioned internationally to better serve its target markets.

This review concluded that the operations in Singapore, where the Bank has been active since 1982, did not achieve the critical mass necessary for efficient and sustainable operations in Asia, given the immense competition in the region. Therefore BIL decided to end its presence in Singapore.

BIL's decision to close its BIL Belgium branch was accompanied by the signature of a partnership agreement with the Puilaetco Dewaay Private Bankers bank, a subsidiary of KBL, which is also owned by Precision Capital. The arrangement gives BIL access to a booking centre in Belgium and allows it to continue serving clients and new prospects living in Belgium who wish to keep their assets in that country.

A highlight of the year was the merger of the private banking business of KBL (Switzerland) Ltd. into Banque Internationale à Luxembourg (Suisse) SA. This transaction has allowed BIL to strengthen its presence in Switzerland, where it has been an active player for 30 years.

In a development at year's end, BIL announced that it would set up a physical presence in Sweden, where a representative office was opened in January 2016.

No strategic change in the status of the Dubai location is currently considered in line with the wish to reinforce the close economic ties between Luxembourg and the United Arab Emirates.

Main regulatory changes occurred in 2015

In 2015, BIL continued to invest time and resources in making sure that it is and will always be compliant with regulatory standards.

In the context of the Banking Union and following the setting up on 4 November 2014 of the Single Supervisory Mechanism (SSM), the Bank has been subject this year to its first supervisory review exercise under the European Central Bank (ECB). All along this year, regular meetings on various regulatory, governance and risk issues were held with the Bank's Joint Supervisory Team (JST). Topics addressed during these meetings covered both general themes (e.g. Internal governance, Internal Capital Adequacy Assessment Process [ICAAP]) while others were related to more specific issues (e.g. Liquidity Risk).

Along with the evolution of the supervisory practices, the ongoing implementation of both CRR (Regulation 575/2013/UE) and CRD IV requirements remained one of the most challenging tasks undertaken by the Risk Management department.

In January, delegated Regulation 2015/61/UE on Liquidity Coverage Ratio (LCR) and delegated Regulation 2015/62/UE on Leverage Ratio have been published in the Official Journal of the European Union implying convergence of the Bank's practices towards new standards. Subsequently, the European Banking Authority (EBA) published in June 2015 Implementing Technical Standards (ITS), submitted to the approval of the European Commission, related to the supervisory reporting of both LR and LCR. The implementation of the corresponding reports was part of the tasks undertaken at BIL group's level.

On 23 July 2015 the CRD IV has been transposed into Luxembourg law implying for the Bank to disclose for the first time its semi-annual Pillar 3 report.

The Directive 2014/59/UE, also called Bank Recovery and Resolution Directive (BRRD), has been fully implemented into Luxembourg law in December. In this context, the Bank has already participated to several exercises required by its supervisors in 2015.

Among others, the Bank's first Recovery Plan has been submitted to and approved by its Board of Directors. As a reminder, this exercise aims at ensuring that the Bank is well prepared to meet the challenges that may arise from potential future crises through several possible scenarios. Moreover and when it comes to the resolution side of the BRRD, the Bank has participated, through its response to CSSF Circular 15/610 requirement, to an ad-hoc exercise aiming at collecting information for the set-up of its Resolution Plan and the calculation of the Minimum Requirements for own funds and Eligible Liabilities (MREL). Furthermore, a few meetings were held along the year with the Bank's Resolution Authorities on these topics.

Finally, it is also worth noting that BIL group has also participated to various ad-hoc regulatory exercises among which EBA's Transparency Exercise, the Quantitative Impact Study (QIS) on the Definition of Default or the EIOPA stress test on pension funds.

BIL group Pillar 3 Disclosures

On an annual and semi-annual basis, BIL group publishes a Pillar 3 disclosure report in order to meet the obligations established in Part Eight of the Regulation (EU) No 575/2013, broadly known as the Capital Requirements Regulation (CRR), on disclosure requirements by institutions. This report also aims at complying with the Circular CSSF 14/583 and the CSSF regulation 14-01, which are the transpositions of the CRR (EU 575/2013) into national law. This particular regulation, along with these Luxembourg circulars set the regulatory prudential framework applicable to credit institutions.

The aim of this report is to help banks improve their risk disclosures in order to restore investor confidence and enhance market discipline. BIL group considers the publication of this report to be a major step forward in improving the transparency of banks' risk profiles.

BIL group has taken note of the recommendations issued by the Joint Supervisory Team to improve the transparency of the information published in this year's Pillar 3 report.

Structure

BIL group's Pillar 3 disclosure report is divided into six sections and seven appendices.

The first section covers the Bank's capital management and capital adequacy. The second section describes the structure and functioning of BIL group's risk organisation and governance. The third section is dedicated to the credit risk management and deals with the organisation, the methodological procedures and the detailed breakdowns of the Bank's credit risk exposures. The fourth section describes methodological procedures for the management of market risk while disclosing the Bank's corresponding risk profile. The fifth section presents the operational risk framework and related key risk figures. Finally, the last section discloses information relating to remuneration policy and practices.

The appendices include two glossaries of relevant terms to facilitate understanding of the report.

General comment

Unless otherwise stated, the figures disclosed in this report are expressed in millions euro.

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

Certain figures in this report may not tally exactly due to rounding.

1. Own funds and capital adequacy

The aim of capital management is to guarantee BIL's solvency and maximise its profitability, while ensuring compliance with internal capital objectives and capital regulatory requirements. The Bank's ratios comfortably exceed the required levels, thereby reflecting its ability to reply to the new Basel III requirements.

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. From a regulatory point of view, these ratios should always comply with the existing regulation and should amount to a minimum of 7% for the CET1 ratio, and 10.5% for the total capital ratio.

As at 31 December 2015, the Bank had a CET1 ratio of 13.04% and a total capital ratio of 16.07%.

The supervisory bodies (ECB and CSSF) require BIL to disclose 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 did comply with all regulatory capital rules for all periods reported.

In line with CRR requirement, the Bank also discloses in this section information related to its leverage ratio. At the end of the year, the ratio reached a level of 3.92%, comfortably above the minimum level set at of 3%.

1.1 Regulatory capital adequacy (Pillar 1)

1.1.1 Accounting and regulatory equity

In line with the regulatory requirements, BIL has limited the scope of the Pillar 3 report to its banking activities. Therefore, the scope of consolidation differs from the scope of consolidation of the financial statements (as provided in BIL group's annual report).

The difference between the accounting methods and the prudential methods, as at 31 December 2015, is limited to the reinsurance related company, BIL Reinsurance, which is accounted for by the equity method for prudential purposes, instead of full consolidation for accounting purposes. The corresponding difference is not material.

	31/12/14		31/12/15	
	Financial statements	Regulatory purposes	Financial statements	Regulatory purposes
Total shareholders' equity	**1,230**	**1,230**	**1,218**	**1,218**
of which Core equity	*1,085*	*1,085*	*1,157*	*1,157*
of which Gains and Losses not recognised in the statement of income	*145*	*145*	*61*	*61*
Non-controlling interests	0	0	0	0
of which Core equity	*0*	*0*	*0*	*0*
of which Gains and Losses not recognised in the statement of income	*0*	*0*	*0*	*0*
Discretionary participation features of insurance contracts	0	0	0	0
TOTAL	**1,230**	**1,230**	**1,218**[1]	**1,218**

Notes:

- Comments on regulatory requirements are described in note 6 of the Risk Management Report published in the 2015 annual report.
- For regulatory purposes, insurance companies are accounted for by the equity method. Therefore, non-controlling interests differ from those published in the financial statements. Discretionary participation features relate only to insurance companies.
- Calculation of jubilee premium provision has been reviewed in order to correctly reflect the final cost of the benefits. The impact has been integrated retrospectively on 2014 figures

[1] The equity method is now applied for Europay Luxembourg SC and Société de Bourse de Luxembourg SA which were previously considered as immaterial. The Bank considers that the application of the equity method regarding these companies provides a more adequate information.

As at end-2015, shareholder's equity decreased by 12 million (-1%). This decrease was mainly due to the dividend (55 million) paid in April 2015 and to a 100 million change of the revaluation reserves on assets available for sale (of which 67 million related to the sale of Luxempart) compensated by the 2015 net profit of 134 million.

1.1.2 Regulatory capital

According to the Basel III rules and the phasing-out of some prudential filters, the Bank's regulatory capital consists of:
- Common Equity Tier One (CET1) capital: Capital instruments, share premiums, retained earnings not including current year profit, foreign currency translation adjustment less intangible assets, defined benefit pension fund, own shares and deferred tax assets that rely on future probability;
- Tier 1 capital: CET1 capital and Additional Tier 1 capital (AT1). The AT1 capital is represented by the issue of 150 million Contingent Convertible bond (CoCo) on 30 June 2014;
- Tier 2 capital: Eligible portion of subordinated long-term debt and IRB excess of provisions.

The Bank's Common Equity Tier 1 (CET1) capital evolution since end 2014 is mainly explained by the decrease of the consolidation reserves item which is partially compensated by the integration of a part of the profits of the current financial year.

The decrease observed on total own funds is due to both the evolution of the CET1 capital and the amortisation and prepayment of subordinated loans of Tier 2 capital.

Please refer to appendix 2 for transitional own funds disclosure template and appendix 3 for Capital instruments' main features template. With regard to both the low materiality of Tier 2 capital compared to the total own funds of the Bank and the fact that those capital instruments are close to their maturity date, the Bank decided not to disclose the full terms and conditions of its Tier 2 capital.

1.1.3 Regulatory capital adequacy

The following tables show the weighted risks and capital requirements for each type of risk at year-end 2014 and year-end 2015. The capital requirement amounts have been obtained by applying 8% to the corresponding weighted risks.

Type of Risk	Basel III Treatment	Segmentation	31/12/14 Risk Weighted Assets	31/12/14 Capital Requirements	31/12/15 Risk Weighted Assets	31/12/15 Capital Requirements
Credit Risk	STANDARDISED	Central Governments and Central Banks	0	0	50	4
		Corporates	727	58	802	64
		Covered Bonds	6	0	2	0
		Institutions	1	0	24	2
		Multilateral Development Banks (MDB)	0	0	0	0
		Public Sector Entities	26	2	32	3
		Regional Goverment and Local Authorities (RGLA)	35	3	35	3
		Secured by mortgages on immovable property	295	24	286	23
		Short Term Exposures	2	0	0	0
		Securitisation	20	2	56	4
		Other items	291	23	338	27
		Exposure in default	29	2	14	1
		Equity	11	1	14	1
		Items associated with particularly high risk	45	4	45	4
		SUB TOTAL	**1,487**	**119**	**1,700**	**136**
	ADVANCED	Central Governments and Central Banks	425	34	373	30
		Corporates - Other	725	58	1,027	82
		Corporates - Specialised Lending[1]	4	0	0	0
		Corporates - SME	230	18	143	11
		Institutions	276	22	423	34
		Retail - Other SME	20	2	29	2
		Retail - Other NON SME	250	20	254	20
		Retail secured by mortgages on immovable property SME	17	1	36	3
		Retail secured by mortgages on immovable property non SME	683	55	701	56
		Other non credit obligation assets	1	0	0	0
		Equity	23	2	16	1
		SUB TOTAL	**2,653**	**212**	**3,003**	**240**
	CREDIT VALUATION ADJUSTMENT	**CVA**	**38**	**3**	**25**	**2**
		SUB TOTAL	**4,178**	**334**	**4,728**	**378**
Market Risk	STANDARDISED	Interest Rate Risk / Trade debt instruments	70	6	71	6
		Position Risk on equities	49	4	0	0
		Foreign Exchange Risk	17	1	26	2
		SUB TOTAL	**136**	**11**	**97**	**8**
Operational Rik	**STANDARDISED**		**692**	**55**	**764**	**61**
TOTAL			**5,006**	**400**	**5,589**	**447**

The total RWA amounts to 5,589 million as at year-end 2015. An explanation on its evolution is given hereafter.

[1] Considering the low materiality of the specialised Lending exposures, these exposures have been treated under the Standardised Approach since the second half of 2015, with the approval of the regulator.

1.1.3.1 Weighted risks

Since 1 January 2008, the Bank has used the Basel framework – through its different evolutions – to calculate its capital requirements with respect to credit, market and operational risk, and to publish its solvency ratios.

For credit risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. Sovereigns, Banks, Corporate, SMEs and Retail) for the assessment of its risk weighted assets (RWA). When it comes to 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 relating to 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.

At the end of 2015, the Bank's total RWAs amounted to 5.6 billion, as compared with the 5 billion as at end 2014.

On the credit risk side, the overall increase observed in 2015 (+0.56 billion), is explained by the increase on fixed and roll-over terms advances mainly on Corporate and on new investments in the investment portfolio.

While operational risk RWAs increased by 72 million in 2015, partially explained by higher average revenues on the Bank's investment portfolio, the Market Risk RWAs decreased by 39 million, principally explained by a decrease of the equity portfolio.

(in EUR million)	31/12/14	31/12/15	Variation
Weighted credit risks	4,140	4,703	14%
Weighted market risks	136	97	(29%)
Weighted operational risks	692	764	10%
Weighted CVA risks	38	25	(34%)
TOTAL WEIGHTED RISKS	**5,006**	**5,589**	**12%**

1.1.3.2 Capital Adequacy ratios

(in EUR million)	31/12/14	31/12/15
Common Equity Tier 1 Capital (CET1)	765	729
Additional Tier One Capital	150	150
Total Own funds	979	898
Risk Weighted Assets	5,006	5,589
Common Equity Tier 1 Capital Ratio (CET 1%)	15.28%	13.04%
TOTAL CAPITAL RATIO	**19.56%**	**16.07%**

Lower own funds (numerator) and higher risk weighted assets (denominator) both lead to a decrease of the Bank's capital ratios in 2015. Nevertheless, the Bank keeps showing strong capital ratios which are above the regulatory requirements.

1.2 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 account of the 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; d) off-balance sheet (OBS) items.

At the end of the year, BIL group's leverage ratio amounted to 3.92%. This comfortable level is explained by the Bank's limited use of derivatives and securities financing transactions. The composition of BIL group's exposure reflects its business model, based on a commercial orientation.

The evolution of this ratio compared to year-end 2014 can be explained as follows:

- On one hand, by the decrease of the numerator: decrease of CET1 capital combined to an increase of regulatory adjustments also impacting downwards the CET1 capital.
- On the other hand, by the increase of the denominator: increase of the other assets category namely loans and securities available for sale and loans and advances to customers.

The Bank takes into account the leverage ratio in its capital and financial planning to ensure that 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 operations (unsecured or secured) that could deteriorate its leverage ratio. The leverage ratio is discussed on a regular basis at top management level as it is part of the Bank's Risk Appetite framework (with an early trigger above the minimum requirement).

With regards to disclosure of the leverage ratio for institutions, the Official Journal of European Union (OJEU) published on 15 February 2016 the Commission implementing regulation EU 2016/200.

In this regard, the leverage ratio disclosures templates in appendix 4 are made pursuant to this publication.

1.3 Internal capital adequacy Assessment Process - Pillar 2

1.3.1 ICAAP Framework

1.3.1.1 Definition of the ICAAP

Article 73 of Directive 2013/36/EU defines the ICAAP as a set of "[...] sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing 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".

In line with the article mentioned above, the Circular CSSF 07/301 (as amended by Circulars CSSF 08/338, CSSF 09/403, CSSF 11/506 and CSSF 13/568) specifies the object, the scope and the implementation of the ICAAP for credit institutions incorporated under Luxembourg law.

ICAAP is an internal instrument, which shall allow BIL group to hold the internal capital it deems appropriate in order 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.

Under the ICAAP, BIL group is required to identify all the relevant risk types it is or could be exposed, to quantify them using its own methods and to maintain adequate capital to back them. This capital must be of sufficient quantity and quality to absorb losses that may arise with certain probability and frequency.

The ICAAP shall fully reflect all the risks to which the consolidated entity (i.e. BIL, its subsidiaries and branches) is or could be exposed, according to its business model and strategy, as well as the economic and regulatory environment under which the Bank operates or could come to operate. The ICAAP shall therefore not only take into account the current situation of the Bank but shall definitively be forward-looking in order to ensure the internal capital adequacy on an on-going basis.

In order to achieve this objective, ICAAP must be anchored within BIL group's decision-making processes, its business and risk strategies and its risk management and control processes. This requires the ICAAP to be, amongst others things, an integral part of BIL's limit systems and internal reporting frameworks, especially due to the fact that it is a system of forward-looking strategies and processes.

1.3.1.2 Purpose of the ICAAP

The main purpose of the ICAAP is, for the Board of Directors, to proactively make a strategic assessment of its capital (and liquidity situation as these notions are clearly nested[1]) 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 its planned sources of capital to meet these objectives.

One of the benefits of the ICAAP includes greater 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.

1.3.1.3 ICAAP Components

BIL group's ICAAP is based on the following building blocks:

i. Risk appetite framework (RAF)

a. Process

Three years after regaining its independence, BIL found necessary to equip itself with a clear vision and identity leading up to 2020. Over the last several months, various working groups have focused on defining the Bank's strategic priorities, as well as its goals and the means to achieve them, in order to create a roadmap for the next five years: The BIL2020 project.

While defining the Bank's strategic priorities, its appears necessary to think about the changes the related initiatives will have on the institution's customer and risk profile, risk bearing capacity as thus the boundaries of its Risk Appetite.

[1] The ICAAP gives a high level view of the Liquidity and Funding Risk situation of the Bank.
A more detailed view will be given by the ILAAP (Internal Liquidity Assessment and Adequacy Process) which is the counterpart or the "little brother" of the ICAAP

b. Definition

In line with the principles developed in the FSB guideline ("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 should also address more difficulties to quantify risks such as reputation and operational risk etc.

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

Amongst others features, BIL's RAS (i) Is easy to communicate, (ii) Is directly linked to the financial institution's strategy, (iii) Addresses our material risks in a holistic fashion under both normal and stressed market and macroeconomic conditions, i.e. where applicable, subject to scenario and stress testing to ensure that we understand what events might push the Bank outside its risk appetite and/or risk capacity, (iv) Sets clear boundaries and expectations by establishing quantitative limits in order to determine for each material risk, and overall, the maximum level the Bank is willing to accept and finally, (v) Sets the overall tone for our approach to risk taking.

c. Governance

Amongst its missions, 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. Under the framework set by the RAS, the BoD:

- Approves BIL's Risk Appetite Statement and ensures it remains consistent with our 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 and monitors them to ensure appropriate action is taken regarding "breaches" in risk limits (e.g. there are mechanisms in place to ensure 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 helped in these different tasks by dedicated Committees. One of these Committees is the Board Risk Committee (BRC):

- The BRC is responsible for proposing to the BoD BIL's group risk policy. This Committee also ensures that BIL's activities are consistent with its risk profile defined in the Risk Appetite Statement while establishing global limits for the Bank's main risk exposures;
- Moreover, and among its roles, the BRC reviews and recommends changes to BIL group's Risk Management framework and the global risk limits, included in the Risk Appetite Statement, to the BoD.

These previously mentioned principles concerning the Risk Appetite Statement are notably translated in the escalation procedure:

- Where 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;
- Whilst Limits constitute boundaries requiring immediate escalation to the Board of Directors, BIL has also implemented a complementary escalation mechanism for the breach of the Trigger indicators in order to ensure that appropriate actions are taken timely;
- 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;
- Finally, The Board may take disciplinary actions in case it has been shown that an excessive risk has been taken.

d. 2015 Risk Appetite Statement evolution

The BIL2020 Strategy brought some additional risks of limited amount and time. Indeed, BIL2020 does not change in an important way the risk profile of the Bank, it represents more an evolution than a revolution. The statements made for the 5 pillars remain valid and achievable:

- Capital Adequacy: Within 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 ensure maintenance of a long term A- credit rating;
- 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 (e.g. growth of focused Wealth Management segments, investing in new sectors etc.);
- Reputation: Maintain a strong reputation in targeted markets through focusing on relevant and innovative financial services which allow to achieve excellence and fair, dedicated value propositions;
- Operational Effectiveness: Focus on operational efficiency through (i) Encompassing collaborative behaviours and breaking "silo-thinking", (ii) Achieving service level optimization and (iii) Improving our current set-up.

e. 2015 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. Please find here below an extract of the main solvency, profitability and liquidity indicators and their evolutions between the 2014 and 2015 year-end:

Category	Indicators	12/2014	12/2015
1. Capital Adequacy	Basel III CET 1	15.28%	13.04%
	AFR/ECAP (Pillar 1I ratio)	134%	135%
	Basel III Total Capital ratio	19.56%	16.07%
	Leverage ratio	4.56%	3.92%
2. Earnings Stability	Return on Equity	15.51%	16.23%
3. Liquidity	LCR	136%	119%
	NSFR	113%	110%

Table 1: Extract of key indicators of the Risk Appetite Dashboard as of 2015 year-end

Risk Appetite figures as of 31 December 2015 attest of the sound situation of BIL group according to solvency, profitability, liquidity effectiveness axes. It is worth mentioning that no limit and trigger breach have been observed.

ii. Risk identification and cartography

Principles

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 fulfilling this principle. As a natural step of the ICAAP, the risk cartography to be established must be (i) Exhaustive, (ii) Cover the risks to which the Bank is or might be exposed, and (iii) Be forward-looking in order 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 formalisation of the Bank's risk cartography.

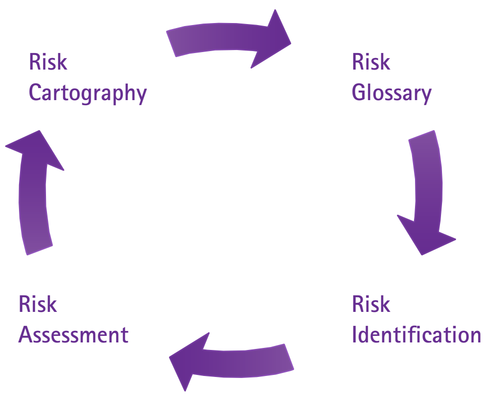


Figure 1: Risk identification steps

– Risk Glossary

The risk glossary is an exhaustive list of risks the Bank is or might be exposed to as a consequence of its activities and overall environment. This list summarises the definitions commonly agreed at the Bank's level and is strongly inspired by the regulatory references (e.g. CRR, CRD IV) and the common admitted market practices.practices. by the regulatory references (e.g. CRR, CRD IV) and the common admitted market practices.

BIL group's risk glossary is based on four main categories (i.e. Credit Risks, Market and ALM Risks, Operational and Outsourcing Risks, Enterprise Risks) detailed hereafter:

Credit Risks	Solvency Risk
	Country Risk
	Credit Spread Risk
	Securitisation Risk
	Residual/recovery Risk
	Settlement Risk
	Concentration Risk
	Counterparty Risk
Operational and Outsourcing Risks	Unauthorised activity and Internal fraud Risk
	External fraud Risk
	Employment practices and workplace safety Risk
	Clients, products and business practices Risk
	Damage to assets Risk
	Business disruption and systems failures Risk
	Outsourcing Risk
	Execution, delivery and process management Risk
Market & ALM Risks	Interest rate Risk
	Price Risk
	Currency Risk
	Commodity Risk
	Inflation Risk
	Liquidity Risk
	Funding Risk
	Basis Risk
	Behavioural Risk
Entreprise Risks	Business Risk
	Strategic Risk
	Pension Risk
	Model Risk
	Human resources and Remuneration Risks
	Legal and Compliance Risks
	Reputation Risk
	Social and Environmental Risk

Table 2: Mapping between main risks and sub-risks

It is important to mention that, relating to the EBA SREP Guideline ("EBA-GL-2014-13 - December 2013"), some analyses have been conducted to close the gap between the current Risk Glossary (and more globally with the Risk Cartography) and the EBA Guideline. The outcomes of these analyses will be subject to review during this year and subsequent impacts will be included in our Risk assessment when deemed appropriate[1]. It is particularly the case with IT Risk (specifically with Cyber-Crime Risk and ICT Risk), Conduct Risk and Outsourcing Risk. The other risks, which are (i) Dilution Risk, (ii) Specialised Lending Risk, (iii) The global Interest Rate Risk[2] of which Repricing Risk, Yield curve Risk, Basis Risk and Option Risk, (iv) FX Lending Risk (could be classified in Credit or Market Risk), (v) Structural FX Risk, (vi) Insurance Risk, will be subject to further analyses and review during this year and subsequent impacts will be included in our Risk assessment when deemed appropriate.

– Risk Identification

The second step of the cartography process consists in identifying the main risks the Bank is or might be exposed to according to its current and planned activities and the expected evolution of its business environment. According to this, specific analyses are then internally conducted and aim at answering the following question: For a given risk type, are the Bank, its business lines and entities subject to that risk?

The core elements that form the basis of the risk identification process are summarised hereafter:

- Current Risk tools developed specifically for the ICAAP purpose. Those tools ensure that the Bank has an up-to-date view of its risks: (i) The Bank's previous aggregated risk cartography, (ii) The Outcome of the previous ICAAP, (iii) The more detailed ECAP map, detailing for each entity and business line the Economic Capital requirements identified for each risk type and updated on a quarterly basis;
- Moreover, the Risk Cartography uses also the other ongoing follow-up of the Bank's activities realised by the different departments of the Risk Management units and formalised, amongst others, through the various risk reports (e.g. Market Risk reports and Credit Risk reports), the complementary assessments realised by the internal control functions (i.e. Internal Audit Cartography, Compliance report, Risk Control Self-Assessment (RCSA) etc.), and the Financial Planning assumptions and results;
- More globally, the Risk Cartography is based on the risk identification implied by the Bank's Strategy and Business Model (BIL2020);
- Finally, findings and issues highlighted by the regulators through their supervisory exercises (e.g. Comprehensive Assessment and SREP) and views on the evolution of the Bank's environments (e.g. legal, regulatory, market and political expectations) allows for the objectification of the risk identification.

[1] Beside the ICAAP, the impacts of some risks will be assessed through the 2016 ECB SREP SSM Stress Tests (e.g. Conduct Risk).
[2] As mentioned in the BIL answer to the JST recommendations (JST letter dated January 5, 2016) on the ICAAP topic, a dedicated review and development will be done in 2016 on this matter.

– Risk Materialty

The materiality of each identified risk is based on its nature, in light of the Bank's activities, and the overall impact its materialisation has or could have on BIL group's viability.

The overall risk assessment is based on the effective materiality and the mitigation techniques the Bank has put in place in order to prevent its occurrence or reduce its impacts.

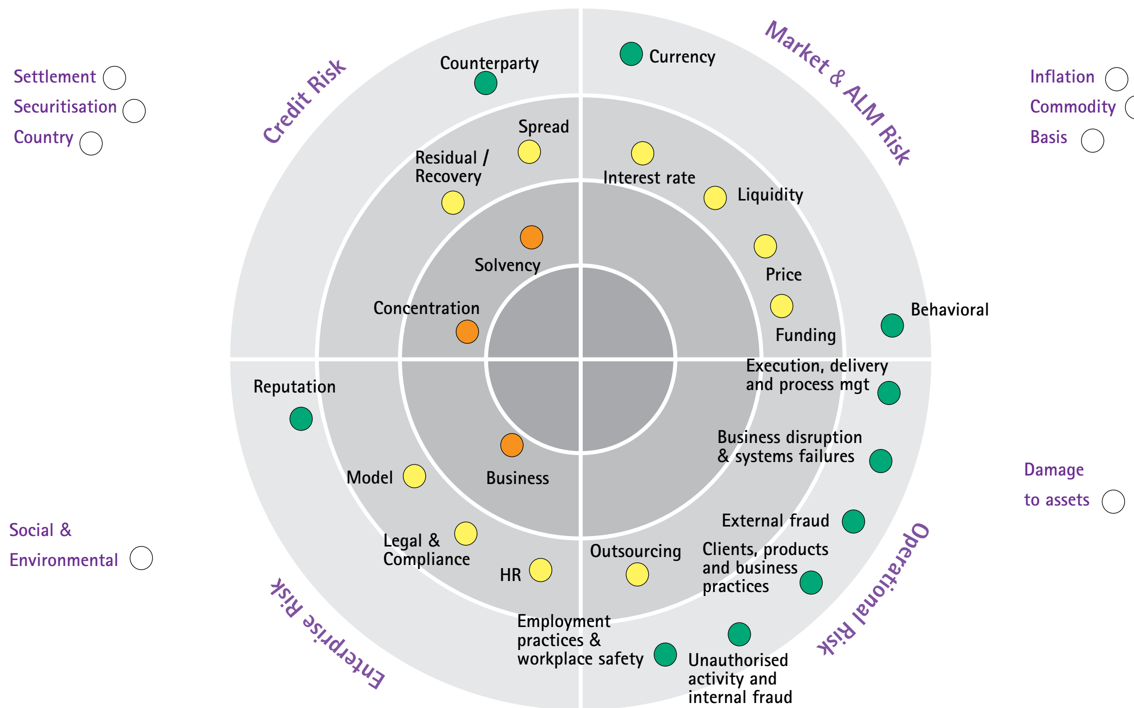
Depending on its materiality and its nature, the risk identified will then be covered by economic capital, when deemed necessary, or apprehended through the establishment of dedicated internal governance, process and procedures.

Whenever risks could strongly affect the achievement of the Bank's business objectives, reputation, create liquidity pressure, impact capital and/or revenues or lead to regulatory compliance issues, they are considered as material.

A severity level (i.e. High, Significant, Medium, Low and Immaterial) is finally applied to each risk identified allowing thus to draw BIL group's risk cartography.

– Risk Cartography

The 2015 Cartography process has led to the following Risk Radar:



Note (1) : Pension risk is assessed, then rebalanced through Credit isk, Price risk and Interest rate risk.

Non material Risk ○ Low Risk ●

Medium Risk ● Significant Risk ●

Note (2) : The Center of the Risk radar would be assigned to High Risk ●

Figure 2: Risk Cartography segmented by main risks

iii. Risk Assessment

The risk assessment process carried out by the Bank is performed in coherence with the Risk identification and cartography process. One of the main components of risk assessment is Economic Capital (ECAP).

Economic capital can be seen as the methods or practices allowing banks to consistently assess risk and attribute capital to cover the economic effects of risk-taking activities. Economic capital is defined as the potential deviation between the group's economic value and its expected value, with a given confidence interval and time horizon.

Economic capital aims at summarising in one single figure the unexpected losses of the Bank regarding the risks facing by its different activities and entities.

iv. Capital Adequacy Process

The capital adequacy process mainly links the economic capital requirements with the Bank's Available Financial Resources (AFR) that represent the loss absorbing financial capacity and availability over a one-year horizon. These AFR are materialised by the available financial capacity to cover the incurred risks and absorb the losses. For details, please refer to the section Capital Adequacy.

v. 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 is adequate to support its strategy, taking into account various scenarios in a forward-looking perspective.

1.3.2 Capital Adequacy

The following section summarises (i) the Available Financial Resources calculation, (ii) the Economic Capital assessment and (iii) the Pillar 1 and Pillar 2 capital adequacy.

1.3.2.1 Available Financial Resources

Definition

Available Financial Resources (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; 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).

1.3.2.2 AFR as of end 2015

According to those principles, the Bank's AFR are based on the own funds, in line with Basel III requirements, and are adjusted according to economic considerations in order to ensure consistency with the key principles of the measure. As of 31 December 2015, BIL group Available Financial Resources amounted to EUR 1,032 million.

BIL GROUP AFR	2014 YE	2015 YE	*Delta*
Resources			
Core equity	848.07	848.07	*0.00*
Retained earnings & Reserves (P&L included)	131.65	188.36	*56.71*
AFS Bonds	103.93	77.40	*(26.53)*
AT1 (CoCo bonds)	150.00	150.00	*0.00*
TOTAL	**1,233.65**	**1,263.83**	***30.18***
Deductions			
Intangible & goodwill	(66.34)	(95.08)	*(28.74)*
Full deduction DTA Netting with DTL	(276.09)	(257.77)	*18.33*
TOTAL	**(342.43)**	**(352.85)**	***(10.42)***
UCG on AFS Equity after haircut 25%	12.38	8.90	*(3.48)*
UCG on real estate PLM after haircut 25%	112.50	112.05	*(0.45)*
TOTAL	**124.88**	**120.95**	***(3.92)***
TOTAL AFR	**1,016.10**	**1,031.94**	***15.84***

Each time, a methodological or a perimeter change is deployed for ECAP, an assessment of the corresponding impact on AFR is realised commonly with Finance and Risk departments and the change is taken into account in the AFR calculation.

1.3.2.3 Economic Capital

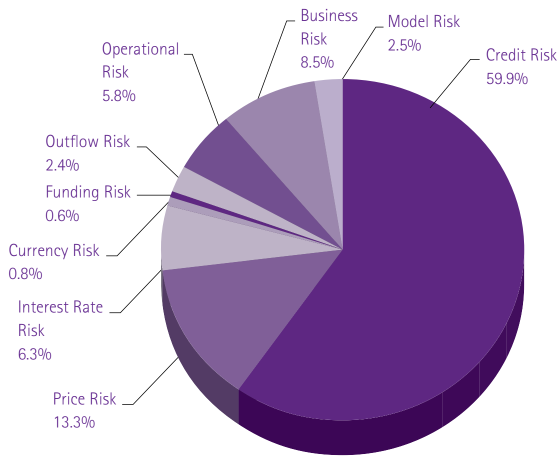
In the context of BIL group, ECAP can be defined as the amount of capital that would be necessary to cover the unexpected risks inherent in the Bank's activities and thus ensure the continuity of its business over a given time period with a certain level of confidence. ECAP could thus be interpreted as the worst-case loss the Bank's shareholders could face with a 99.93% confidence 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 (RC) by type of risk, on the basis of dedicated statistical methods. Each risk is thus individually assessed,
- Aggregation based on an inter-risk diversification matrix to obtain a global ECAP figure and its reallocation to the various levels of risk (entities, business lines, etc.).

Firstly, an ECAP engine allows to aggregate the risk capital estimated for each risk and then allocate it to all risk levels (entities, business lines, etc.). This tool is based on the Markowitz approach: the total estimated capital is diversified using a calibrated correlation matrix.

As at 31 December 2015, BIL group's economic capital amounted to EUR 765 million, allocated according to the following structure:



1.3.2.4 Capital Adequacy

BIL group's capital adequacy is represented in the following table (in EUR million):

Risk Category	Risk Type	Pillar 1	Pillar 2
Credit	Credit Risk	376	290
	Spread Risk		147
	Concentration Risk		21
CVA		**2**	**2**
Market	Price Risk	8	102
	Interest Rate Risk		48
	Currency Risk		6
	Funding Risk		4
Operational	Operational Risk	61	44
Behavioral	Behavioral Risk	-	18
Enterprise Risk	Business Risk	-	65
	Model Risk	-	19
TOTAL CAPITAL REQUIREMENTS		**447**	**766**
Capital Supplies		**898**	**1,032**
AFR/ECAP Ratio		**201%**	**135%**

As of 2015 year-end, the ratio of economic capital resources to economic capital consumption (AFR/ECAP) had reached the level of 135%.

2. Risk Management

2.1 Risk management responsibilities

The responsibilities of BIL group's Risk Management department can be summarised as follows:

- To ensure that all risks are under control by identifying, measuring, assessing, mitigating and monitoring them on an ongoing 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 in place;
- To provide the Authorised Management, the Board Risk Committee and the Board of Directors with a comprehensive, objective and relevant overview of the risks;
- To ensure that the risk limits are compatible with the Bank's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Bank is willing to take in order to achieve its strategic and financial goals;
- To ensure compliance with banking regulation requirements by submitting regular reports to the supervisory bodies, taking part in regulatory discussions and analysing all new requirements related to Risk Management that could affect the regulatory monitoring of Bank's activities.

2.2 Risk organisation and governance

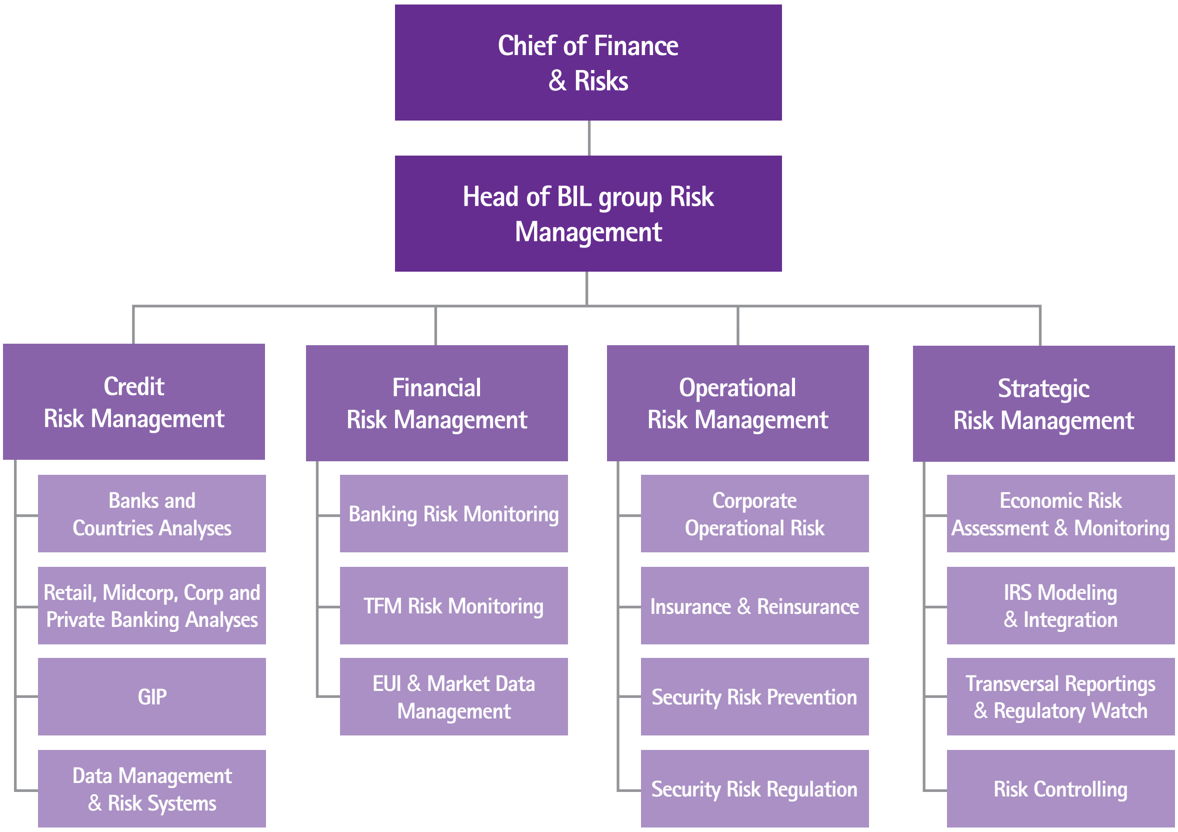
BIL group's risk management framework is based on a clear organisational structure with a transparent decision-making process that facilitates prudent management of risks.

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

- Independence of the risk function with respect to the business,
- Collegial decision-making to ensure that opinions are challenged,
- Precise policies and procedures detailing limits of risk, responsibilities, monitoring and reporting of risks taken by the Bank,
- Central control, whereby all departments, subsidiaries and branches report both organisational related and technical matters to Risk Management at BIL's Head office,
- Implementation of the same risk monitoring and data control system in all entities of BIL group.

2.2.1 Organisation

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 activities, encompassing the relevant risks induced by its activities:



At the Management Board level, the overall Risk Management framework remains under the Chief Risk Officer (CRO)'s responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the capture and management of the Bank's overall risk profile.

The CRO delegates the day-to-day supervision of the department to the Head of BIL group Risk Management.

In terms of organisation, BIL group's Risk Management department is based on four specific units described hereafter.

Credit risk management

The Credit Risk department is in charge of defining credit risk policies and guidelines, analysing and assessing credit risks borne by the Bank's counterparties, monitoring the corresponding credit risk portfolio and calculating the related RWA (see section 3.1.1 relating to the credit risk organisation for further details).

Financial risk management

The Financial Risk Management department is in charge of defining policies and guidelines, identifying, analysing, monitoring and reporting on risks and results related to the Bank's financial market activities (see section 4.1.1 relating to the financial risk organisation for further details).

Operational risk management

The Operational Risk department covers the management of operational risks such as Corporate Operational Risk, Insurance/Reinsurance activities and Security Risk Prevention and Regulation (see section 5.1.1 relating to the operating risk organisation for further details).

Strategic risk management

The Strategic Risk Management department deals with all the activities related to the modelling and monitoring of the Bank's group-wide risks. This department also sets up and coordinates the production of regulatory reports such as the ICAAP and Pillar 3 Disclosure reports.

2.2.2 Governance

Each of the departments described above ensures that the CRO and Management Board have an accurate understanding of every type of risks within the Bank, and are aware of major issues concerning sources of risk. Each of these departments is involved in risk governance and is responsible for defining policies, guidelines and procedures encompassing risks within its scope.

The Management Board ensures that risk taking and risk management standards fit with the principles and targets set by the Board of Directors. The existence of risk management committees does not relieve the Board of Directors or the Management Board of the general supervision of the Bank's operations and risks. They have very specific remits and help with developing and implementing good governance and decision-making practices.

The Board Risk Committee is a specialised committee supporting the Board of Directors on subjects related to risk. Among its roles, the Board Risk Committee reviews and recommends to the Board of Directors changes to BIL group's Risk Management framework and the global risk limits of capital allocation. It reviews global risk exposure, major risk management issues and capital adequacy requirements. Moreover, this committee reviews, assesses and discusses any significant risk or exposure and relevant risk assessments with the independent auditor on an annual basis; it reports to the Board of Directors on a regular basis and makes recommendations on any of the above matters, or other ones when deemed necessary.

Other specific risk committees are constituted and receive their mandate from the Management Board within a precise and defined scope. They facilitate the development and implementation of sound practices of governance and decision-making. These committees are described in more detail below.

2.2.2.1 Responsibilities of the Risk Committees

Topics	Committee
Overall responsibility for the administration and governance of the Bank. Decision/Approval on strategic topics related to risk management	Board of Directors
Overseeing risk issues and policy arising from the Bank's business activities and assisting the Board of Directors in matters of risk policy and risk review	Board Risk Committee
Responsible for the efficient, sound and prudent daily management of operations of the Bank and related risks. Implementation and management of a strong, adequate and efficient risk policy.	Management Board
Decision/Approval of procedures and risk policies in the scope of risk management	Risk Policy Committee
Decision/Approval of credit engagements	Commitments Committee Lending Committee Employee Loans Committee
Decision/Approval on defaults or provisioning	Default Committee
Decision on Market limits	ALM Committee
Funding and Liquidity Crisis Management	Contingency Funding and Liquidity Committee
Decision/approval of new products, and on operational risk matters	New Products and Operational Risk Committee
Strategic and transversal subjects common to Risk and Finance departments (Governance, Risk Appetite, Risk Cartography, Economic Capital, Stress Tests, Transversal Reporting, Follow-up of BIL group branches/subsidiaries risks, Regulatory Watch, Recovery Plan etc.)	Strategic Risk Committee
Information security	Security Committee
Crisis management	Crisis Committee

2.2.2.2 Risk policies, guidelines and procedures

The risk management framework is also governed by an integrated set of policies, guidelines and procedures. These documents establish uniform methodologies and terminologies used within BIL group's risk management. They clarify risk identification, assessment and monitoring processes and facilitate the setting up of a sound and efficient risk management framework.

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

The Credit Risk department is composed of the following teams:

- **Banks & Countries Analyses Team and Retail; Midcorporate; Corporate and Private Banking Analysis Team**
  While the "Banks & Countries Analyses" team is in charge of the assessment and the monitoring of the risk related to the banks and sovereign counterparts, the "Retail Midcorp, Corp and Private Banking Analyses" team is in charge of that for the retail, corporate and institutional counterparts. Both of them are in charge of assigning internal ratings to BIL counterparties, but also of monitoring the corresponding portfolio;

- **GIP (Gestion intensive et particulière)**
  This team actively manages and monitors the assets deemed to be "sensitive" by a proactive approach, in order to minimise the potential losses for the Bank in case of default of a counterparty;

- **Data Management & Risk Systems**
  Data Management & Risk Systems teams are in charge of the development and maintenance of the data and risk systems used for the calculation of the credit risk capital requirements and the corresponding regulatory reportings. These teams are also responsible for the production of regulatory and internal reports related to Credit Risk such as the COREP, Large Exposures and covers ad-hoc requests from regulatory authorities.

Furthermore, some of the Strategic Risk Management teams are involved in the calculation of the capital requirements for credit risk:

- **IRS (Internal Rating Systems) Modeling & Integration**
  This team is in charge of the modelling of the Bank's internal rating systems (developed within the A-IRB framework) and their subsequent integration within the businesses. its mandate also comprises the follow-up of key credit risk indicators (e.g. Non-Performing loans, Provisioning) as well as the realisation of the Bank's credit risk related stress-tests;

- **Risk Controlling**
  This team aims at validating the adequacy and performance of the Bank's internal credit risk models (Model Validation), while ensuring their correct use by the credit risk teams (e.g. use-test requirements, data homogenisation within the systems (Rating Systems Quality Control).

3.1.2 Policy

BIL group's Risk Management department has established a general policy and procedure framework in line with the Bank's risk appetite. This framework guides the management of credit risk from an analysis, decision-making and risk monitoring perspective. The Risk Management department manages the loan issuance process by delegating, within the limits set by the Bank's internal governance, and by chairing credit and risk committees. As part of its monitoring tasks, the Credit Risk Management unit supervises changes in the Bank's portfolios' credit risks by regularly analysing loan applications and reviewing counterparties' ratings. The Risk Management department also draws up and implements the policy on provisions, 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 Committee defines the general risk policies, as well as specific credit policy in different areas or for certain types of counterparty, and sets up the rules for granting loans, supervising counterparties' ratings and monitoring exposures. The Risk Policy 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 Board of Directors 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 application presented to the credit committees, including determining the counterparty's rating, and stating the main risk indicators; it also carries out a qualitative analysis of the transaction.

Alongside supervision of the issuance process, various committees are tasked with overseeing specific risks:

- The Default Committee identifies and tracks counterparties in default, in accordance with Basel regulations, by applying the rules in force at BIL, determines the amount of allocated specific provisions and monitors the risk cost. The same committee supervises assets deemed to be "sensitive" and placed under surveillance by being filed as "Special Mention" or put on "Watchlists";

- The Rating Committee ensures that the internal rating systems are correctly applied and that rating processes meet pre-defined standards;

- The Internal Rating Systems Performance Committee ensures the monitoring of BIL's internal rating systems' performance through time (i.e. backtesting, benchmarking, model validation) and discusses all the strategic choices related to this matter (e.g. new model development, material changes etc.).

3.1.4 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.

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).

Moreover, BIL has defined an internal measure compliant with IFRS 7 norms, known as maximum credit risk exposure (MCRE) in order to compare figures published in the annual financial statements. This metric corresponds to the EAD with a credit conversion factor (CCF) of 100%, after deduction of specific provisions and financial collateral (netting agreements).

3.2 Credit risk exposure

Credit risk exposure refers to the Bank's internal concept of maximum credit risk exposure (MCRE):
- The net carrying value of balance sheet assets other than derivative products (i.e. the carrying value after deduction of specific provisions);
- The mark-to-market valuation of derivative products;
- The total off-balance sheet commitments. The total commitment corresponds to unused lines of liquidity or to the maximum amount that BIL is obliged to honour under guarantees issued to third parties.

The substitution principle applies where the credit risk exposure is guaranteed by a third party with a lower risk weighting. Therefore, counterparties presented hereafter are final counterparties, i.e. after taking into account any eligible guarantees.

As of 31 December 2015, the Bank's total credit risk exposure amounted to 22,698 million, namely 8% above the end 2014 level. This increase is observed on exposures both under IRB and Standardised approach, respectively for 1,411 million and 253 million.

The main credit risk classes composing the total exposure were the Retail (32.4%), Central Governments and Central Banks (24.5%) and Institutions (11.7%)

For exposures under IRB approach, this increase is mainly explained by 762 million on Institutions, 229 million on Central Governments and Central Banks and 448 million on retail exposures of which 316 million on counterparties secured by mortgages on immovable property.

For exposures under standardised approach, the increase is driven, on one hand, by new securitisation and corporates exposures respectively for 180 million and 152 million and, on the other hand, by a slight decrease of Public Sector Entities and Covered bonds exposures respectively for 48 million and 41 million.

Several metrics will be used throughout this report to express different views on the Bank's risk exposures. The following table can be used as a reminder of the global exposure, broken down by regulatory method and by measure of risk:

(in EUR million)	MCRE	EAD	RWA
ADV	19,117	20,168	3,003
STD	3,581	3,384	1,700
TOTAL	**22,698**	**23,552**	**4,703**

3.2.1 Exposure breakdown by asset class at year-end and average exposure

This table represents the year-end total and annual average exposure expressed in MCRE.

The year-end total exposure includes figures obtained using both the standardised approach and advanced methods. The average exposure is computed as the monthly average of the individual asset class exposures

IRB approach	2014 Year-end exposure	2014 Average exposure	2015 Year-end exposure	2015 Average exposure
Central Governments and Central Banks	5,322.34	5,823.80	5,551.71	5,322.46
Corporates - Other	1,694.12	1,326.89	1,740.55	1,823.31
Corporates - SME	1,867.76	1,946.89	1,801.35	1,832.05
Corporates - Specialised Lending	5.02	10.76	-	3.54
Equity	12.01	30.92	5.65	5.56
Institutions	1,891.28	2,432.55	2,653.24	2,856.62
Retail - Other non-SME	2,466.65	3,277.88	2,507.09	2,522.42
Retail - Other SME	154.98	347.17	246.55	206.97
Retail secured by mortgages on immovable property non SME	4,204.37	3,396.79	4,456.28	4,302.41
Retail secured by mortgages on immovable property SME	81.58	26.06	145.88	103.36
Other non credit obligation assets	5.59	4.40	8.66	5.53
Total IRB approach	**17,705.72**	**18,624.11**	**19,116.97**	**18,984.24**
Standardised approach				
Collective Investment Undertakings	-	1.06	-	-
Corporates	826.88	742.27	978.86	907.51
Covered Bonds	67.31	70.48	26.46	27.02
Equity	4.95	7.37	5.84	5.95
Items associated with particularly high risk	30.02	43.96	30.13	30.98
Institutions	2.03	5.36	4.91	5.36
Multilateral Development Banks	95.20	87.04	94.78	95.23
Other items	369.90	438.45	427.53	420.83
Exposure in default	19.35	12.58	12.87	16.22
Public Sector Entities	143.72	118.51	95.77	148.49
Regional Governments And Local Authorities	175.00	63.32	176.47	496.05
Secured by mortgages on immovable property	390.38	395.19	374.99	392.13
Short-Term Exposures	7.78	23.17	-	9.25
Central Governments and Central Banks	1,095.12	962.20	1,071.69	970.66
Securitisation	100.09	13.63	280.59	173.79
Total Standardised approach	**3,327.73**	**2,984.60**	**3,580.88**	**3,699.47**
TOTAL	**21,033.45**	**21,608.71**	**22,697.85**	**22,683.71**

The main significant difference between the average and the year-end exposures for the year 2015 is notable among exposures to Regional Governments and Local Authorities. This difference is explained by a decrease of loans and advances granted to these counterparties.

The increase on counterparties associated with very low risk such as Central Governments and Central Banks under the IRB approach is mainly explained by the purchase of bonds and loans granted. It is worth nothing that this increase is partially offset by a decrease of tax assets due to the closing of our branch in Singapore.

The increase on Institutions under IRB approach is partially explained by the repo and reverse repo activities and the increase of the Bank's investment portfolio.

The increase on retail counterparties secured by mortgages on immovable property under the IRB approach is explained by the granting of mortgages loans which are secured by mortgages on immovable property.

The increase in Corporates exposures under the standardised approach exposures is mainly driven by facilities granted.

New exposures in securitisation increased the year-end 2015 exposure by 180 million.

3.2.2 Exposure breakdown by asset class and geographic area

The table below shows the total exposure expressed in terms of MCRE broken down by exposure class and geographic area at year-end 2015. It comprises figures obtained using both the standardised and the advanced methods.

IRB approach	**Eurozone**	**Rest of Europe**	**US & Canada**	**Rest of the World**	**TOTAL EXPOSURE**
Central Governments and Central Banks	4,195.49	914.18	325.33	116.71	5,551.71
Corporates - Other	1,620.80	33.68	44.23	41.85	1,740.55
Corporates - SME	1,792.33	4.23	-	4.80	1,801.35
Equity	5.62	0.03	-	-	5.65
Institutions	1,232.21	697.34	188.69	535.00	2,653.24
Retail - Other non-SME	2,163.43	303.16	7.29	33.21	2,507.09
Retail - Other SME	245.70	0.52	0.00	0.34	246.55
Retail secured by mortgages on immovable property non SME	4,373.98	71.96	2.53	7.81	4,456.28
Retail secured by mortgages on immovable property SME	145.88	-	-	-	145.88
Other non credit obligation assets	8.66	-	-	-	8.66
Total IRB approach	**15,784.10**	**2,025.10**	**568.06**	**739.72**	**19,116.97**
Standardised approach					
Corporates	881.00	13.27	0.34	84.24	978.86
Covered Bonds	26.46	-	-	-	26.46
Equity	5.66	0.18	-	-	5.84
Items associated with particularly high risk	28.44	1.39	0.30	0.01	30.13
Institutions	3.03	0.02	1.83	0.03	4.91
Multilateral Development Banks	-	94.78	-	-	94.78
Other items	392.93	34.29	-	0.31	427.53
Exposure in default	12.87	-	-	0.00	12.87
Public Sector Entities	95.05	0.72	-	-	95.77
Regional Governments And Local Authorities	176.47	-	-	-	176.47
Secured by mortgages on immovable property	374.30	-	-	0.69	374.99
Central Governments and Central Banks	644.65	427.04	-	-	1,071.69
Securitisation	224.57	23.27	-	32.75	280.59
Total Standardised approach	**2,865.42**	**594.97**	**2.47**	**118.02**	**3,580.88**
TOTAL	**18,649.52**	**2,620.07**	**570.53**	**857.73**	**22,697.85**

As at 31 December 2015, the Bank's exposure was mainly concentrated in Europe (93.7%, 21.26 billion) and especially in the Eurozone (82.1%), with 49.3% of the total exposure in Luxembourg, 11.2% in France, 6.3% in Belgium and 4.9% in Germany.

- Corporate activity is concentrated in Luxembourg (71.8%).
- Retail activity is concentrated in Luxembourg (76.3%) and its neighbouring countries (9.2% in France, 4% in Belgium and 2.7% in Germany).
- Regarding the Central Governments and Central Banks exposures, the main counterparties of the Bank are the Swiss National Bank, Luxembourg and the Central Bank of Luxembourg, Belgium, France and the European Financial Stability Facility Fund.

The increase in Central Governments and Central Banks exposures is mainly explained by the purchase of bonds in the United States as well as loans granted in the Eurozone and mainly in Luxembourg. It is worth nothing that this increase is partially offset by a decrease of tax assets due to the closing of our branch in Singapore.

The change in *Corporates* exposures under the standardised approach is due to facilities granted in local markets.

The increase on retail counterparties secured by mortgages on immovable property under the IRB approach is explained by the granting of mortgages loans mainly in Luxembourg.

The increase of exposures located in the United States and Canada is explained by the Bank's purchase of US Treasury bonds. This investment decision was motivated by the ALM committee in order to benefit from higher interest margin and more liquid assets.

The exposures to the rest of the world decreased by 89.7 million compared to year-end 2014, which is explained by the fact that there is no exposure left on Singaporean governments at year-end 2015. Note that the Bank closed its branch in Singapore in November 2015.

3.2.3 Exposure breakdown by asset class and obligor grade

The table below shows the total exposure (expressed in terms of MCRE) broken down by exposure class and obligor grade at year-end 2015. It comprises figures obtained using both the standardised and the advanced methods.

IRB approach	AAA+ to AA-	A+ to BBB-	Non Investment Grade	Non-Rated	Default	TOTAL EXPOSURE
Central Governments and Central Banks	4,318.22	1,232.89	-	0.60	-	5,551.71
Corporates - Other	48.17	1,234.54	445.01	1.35	11.48	1,740.55
Corporates - SME	-	602.45	1,150.04	3.55	45.32	1,801.35
Equity	-	0.00	0.39	5.27	-	5.65
Institutions	763.19	1,789.67	85.82	14.56	-	2,653.24
Retail - Other non-SME	24.67	1,085.87	1,264.19	-	132.36	2,507.09
Retail - Other SME	-	48.23	192.11	1.15	5.07	246.55
Retail secured by mortgages on immovable property non SME	-	2,627.74	1,681.49	-	147.05	4,456.28
Retail secured by mortgages on immovable property SME	-	28.88	114.78	-	2.23	145.88
Other non credit obligation assets	4.82	0.37	-	3.46	-	8.66
Total IRB approach	**5,159.08**	**8,650.63**	**4,933.82**	**29.93**	**343.51**	**19,116.97**
Standardised approach						
Corporates	0.23	225.26	46.68	706.69	-	978.86
Covered Bonds	-	26.46	-	-	-	26.46
Equity	-	0.58	0.00	5.26	-	5.84
Items associated with particularly high risk	-	0.32	8.40	21.42	-	30.13
Institutions	-	2.78	0.16	1.97	-	4.91
Multilateral Development Banks	94.78	-	-	-	-	94.78
Other items	38.65	-	0.00	388.88	-	427.53
Exposure in default	-	-	-	-	12.87	12.87
Public Sector Entities	-	18.81	-	76.96	-	95.77
Regional Governments And Local Authorities	5.00	-	-	171.47	-	176.47
Secured by mortgages on immovable property	-	26.65	-	348.34	-	374.99
Central Governments and Central Banks	682.35	92.32	-	297.02	-	1,071.69
Securitisation	-	-	-	280.59	-	280.59
Total Standardised approach	**821.01**	**393.16**	**55.24**	**2,298.59**	**12.87**	**3,580.88**
TOTAL EXPOSURE	**5,980.10**	**9,043.79**	**4,989.06**	**2,328.53**	**356.38**	**22,697.85**

As at 31 December 2015, 66.2% of the exposure was classified as investment grade, compared with 65.5% in 2014. Focusing on these investment grade exposures, the most notable increases concern the segments Institutions and Central Governments and Central Banks.

The non-investment grade exposure representing 21.9% of the total credit risk exposure is mainly composed of mid-corporate and retail exposures.

As of 31 December 2015, Not Rated exposures (NR) represent 10.3% of the total exposure. It is worth mentioning that the majority of these exposures are treated under the standardised approach (98.7% of NR exposures). The increase of 446 million among the non-rated exposures is mainly due to an increase of 180 million of securitisation exposures, 151.3 million of corporate exposures and 97.6 million of Regional Governments And Local Authorities, under the standardised approach.

3.2.4 Exposure breakdown by asset class and economic sector

The table below shows the total exposure (expressed in terms of MCRE) broken down by exposure class and economic sector at year-end 2015.

It comprises figures obtained using both the standardised and the advanced methods.

				SERVICES												
IRB approach	Industry	Construction	Trade-Tourisme	Transportation and storage	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence-compulsory social security	Human health and social work activities	Arts, entertainment and recreation	Other service activities	Other Services	Others	TOTAL EXPOSURE
Central Governments and Central Banks	-	-	-	-	-	1,191.01	-	-	-	4,359.65	-	0.51	-	0.01	0.54	5,551.71
Corporates - Other	720.71	77.37	208.61	164.39	44.71	315.47	51.89	54.02	13.61		28.96	20.54	0.08	0.00	40.21	1,740.55
Corporates - SME	217.63	515.86	204.79	38.71	26.49	160.94	522.63	39.78	32.50	-	21.99	11.46	1.28	0.19	7.11	1,801.35
Equity	-	-	-	-	0.00	0.03	-	0.03	0.39	-	-	-	5.21	-	-	5.65
Institutions	-	-	-	-	-	2,651.55	-	-	-	-	-	-	-	-	1.69	2,653.24
Retail - Other non-SME	78.19	93.51	100.56	10.84	21.56	691.63	209.23	126.41	8.86	4.56	86.65	31.67	12.77	11.16	1,019.51	2,507.09
Retail - Other SME	23.69	42.92	85.17	10.30	12.25	5.79	16.84	20.19	14.04	-	6.24	1.47	6.50	1.15	-	246.55
Retail secured by mortgages on immovable property non SME	117.33	168.55	207.64	23.40	27.94	637.55	477.75	145.66	21.53	19.99	160.44	18.71	19.73	18.03	2,392.02	4,456.28
Retail secured by mortgages on immovable property SME	4.21	29.10	25.19	1.22	3.12	1.45	60.55	5.88	5.13	-	5.72	2.31	1.67	0.33	-	145.88
Other non credit obligation assets	-	-	-	-	-	5.23	-	-	-	-	-	-	-	-	3.43	8.66
Total IRB approach	**1,161.77**	**927.30**	**831.95**	**248.86**	**136.06**	**5,660.66**	**1,338.89**	**391.97**	**96.06**	**4,384.20**	**310.00**	**86.65**	**47.24**	**30.88**	**3,464.49**	**19,116.97**
Standardised approach																
Corporates	168.01	240.87	3.72	17.44	0.27	303.77	222.21	8.27	2.68	-	6.62	-	2.67	1.89	0.44	978.86
Covered Bonds	-	-	-	-	-	26.46	-	-	-	-	-	-	-	-	-	26.46
Equity	-	-	-	-	-	0.99	0.00	-	-	-	-	-	4.84	-	-	5.84
Items associated with particularly high risk	-	-	-	8.07	0.32	20.90	0.00	-	0.32	-	-	-	0.52	-	0.00	30.13
Institutions	-	-	-	-	-	4.89	-	-	-	-	-	-	-	-	0.02	4.91
Multilateral Development Banks	-	-	-	-	-	94.78	-	-	-	-	-	-	-	-	-	94.78
Other items	0.14	0.13	0.18	0.25	0.25	39.24	0.99	0.02	0.23	0.33	2.10	2.12	1.88	0.19	379.48	427.53
Exposure in default	-	0.83	0.14	-	-	0.02	11.88	-	-	-	-	-	0.00	-	-	12.87
Public Sector Entities	0.01	-	-	0.02	25.03	-	-	0.01	-	12.10	30.98	-	6.28	0.07	21.28	95.77
Regional Governments And Local Authorities	-	-	-	-	-	-	-	-	-	161.18	-	-	-	-	15.29	176.47
Secured by mortgages on immovable property	9.56	75.95	1.64	-	-	67.85	196.04	13.82	-	-	8.16	0.48	1.39	0.04	0.07	374.99
Central Governments and Central Banks	-	-	-	-	-	0.91	-	-	12.53	542.54	86.65	-	-	427.04	2.02	1,071.69
Securitisation	-	-	-	-	-	91.82	-	-	-	-	-	-	79.10	-	109.66	280.59
Total Standardised approach	**177.72**	**317.77**	**5.67**	**25.78**	**25.86**	**651.63**	**431.12**	**22.12**	**15.76**	**716.15**	**134.50**	**2.59**	**96.69**	**429.24**	**528.27**	**3,580.88**
TOTAL EXPOSURE	1,339.49	1,245.07	837.62	274.64	161.92	6,312.29	1,770.01	414.09	111.82	5,100.34	444.50	89.24	143.92	460.12	3,992.76	22,697.85

As of 2015 year-end, the sectors "Financial and insurances activities" and "Public administration" represented the highest exposures with respectively 27.8% and 22.5% of the total exposures.

BIL continues to invest in low RWA cost counterparties like in Central Governments or strong Financial institutions.

3.2.5 Exposure breakdown by asset class and residual maturity

The table below shows the total exposure (expressed in terms of MCRE) broken down by exposure class and residual maturity at year-end 2015.

It comprises figures obtained using both the standardised and the advanced methods.

IRB approach	Less than 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	No definited maturity	TOTAL EXPOSURE
Central Governments and Central Banks	398.34	335.72	442.85	481.00	2,738.53	1,155.28	5,551.71
Corporates - Other	125.81	225.80	575.53	294.45	413.12	105.84	1,740.55
Corporates - SME	58.36	144.86	99.23	104.95	965.53	428.43	1,801.35
Equity	-	-	-	-	5.65	-	5.65
Institutions	271.46	329.72	895.02	401.23	266.69	489.12	2,653.24
Retail - Other non-SME	248.94	266.80	271.42	289.98	763.84	666.12	2,507.09
Retail - Other SME	9.51	38.02	51.36	44.31	43.09	60.27	246.55
Retail secured by mortgages on immovable property non SME	40.48	55.19	161.91	87.17	3,952.35	159.18	4,456.28
Retail secured by mortgages on immovable property SME	1.88	6.04	9.45	6.79	97.96	23.76	145.88
Other non credit obligation assets	-	-	-	-	-	8.66	8.66
Total IRB approach	**1,154.78**	**1,402.15**	**2,506.76**	**1,709.88**	**9,246.76**	**3,096.64**	**19,116.97**
Standardised approach							
Corporates	64.22	60.03	69.97	84.39	387.61	312.63	978.86
Covered Bonds	-	-	-	15.07	11.39	-	26.46
Equity	-	-	-	-	5.84	-	5.84
Items associated with particularly high risk	-	-	-	-	30.13	-	30.13
Institutions	0.06	0.05	0.11	-	0.05	4.65	4.91
Multilateral Development Banks	-	-	-	-	94.78	-	94.78
Other items	0.32	1.41	4.30	3.29	3.71	414.49	427.53
Exposure in default	0.03	0.50	-	-	0.65	11.69	12.87
Public Sector Entities	11.06	2.03	21.40	0.01	60.31	0.97	95.77
Regional Governments And Local Authorities	16.50	5.99	36.61	52.84	64.53	-	176.47
Secured by mortgages on immovable property	0.83	13.88	9.80	26.30	318.37	5.81	374.99
Central Governments and Central Banks	-	11.50	215.57	67.87	740.67	36.08	1,071.69
Securitisation	-	-	-	21.22	259.37	-	280.59
Total Standardised approach	**93.02**	**95.39**	**357.76**	**270.99**	**1,977.41**	**786.32**	**3,580.88**
TOTAL EXPOSURE	**1,247.80**	**1,497.53**	**2,864.52**	**1,980.86**	**11,224.17**	**3,882.96**	**22,697.85**

This table shows that 33.4% of the total risk exposure does not exceed five years, and 5.5% of it is of very short term, below three months.

Over the longer term, 49.5% 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 17.1% of the total exposure and are essentially composed of:

- Facilities for the corporate and retail exposure class (mainly for the financing of the real estate and construction sector);
- Nostri accounts with central banks (the Swiss National Bank and the Central Bank of Luxembourg) for the Central Governments and Central Banks exposure class.

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 (a) a decline in expected cash flows and (b) an impact on estimated future cash flows that can be reliably estimated.

3.3.1.1 Financial assets measured at amortised cost

BIL first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets is 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.
- Specific 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 is 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 those losses have not yet been identified.

The Bank considers the following events as impairment triggers according to IAS 39:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
  - National or local economic conditions that correlate with defaults on the assets in the group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

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 consider all individual factor as a trigger event.

Accounting treatment of the impairment

BIL recognises 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 impairment 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 Available-for-sale financial assets

BIL recognises the impairment of available-for-sale (AFS) 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 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 (i) the same impairment test described for the quoted equities above and, in some cases, (ii) 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 (i) the net asset value of reported by the fund/company, and (ii) an utility value calculated by the Credit Risk department.

Accounting treatment of the impairment

When AFS financial assets are impaired, the AFS reserve is recycled and these impairment 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 impairment 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.

3.3.2 Information on forborne exposure

BIL monitors closely its forborne exposures, in line with the definition stated in the publication of the Official Journal of the European Union dated February 2015.

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. 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 its 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.

Once those criteria are met, the credit files are flagged as being restructured and are added to a list closely followed by the team "Gestion Intensive et Particulière".

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (i) identifying the criteria leading to the forborne classification, (ii) classifying the Bank's existing exposures between the forborne and non-forborne ones and (iii) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files level in order to identify those that should be classified as forborne according to the regulatory definition. The granting of forbearance measure is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

For credit files in forbearance and in case of early repayment, the costs related to these transactions are either borne by the debtor (in one shot or spread over the term of the new loan) or recognised directly in the Bank's profit and loss.

As at end 2015, BIL group's forborne exposures amounted to 296.4 million including 7.9 million as given banking guarantees. This stock increase observed since end 2014 (197 million as at December 2014) can partially be explained by the fact that files once detected as forborne remain at least in a forbearance status during a probation period of 3 years.

3.3.3 Information on non-performing exposures

According to EBA definition, non-performing exposures correspond to files classified in default, or in pre-litigation (past due period > 90 days) or all files from counterparties whose pre-litigated exposure represent at least 20% of their total exposure.

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.

The global non-performing exposures ratio reached 3.79% at the end of 2015 [1].

3.3.4 Impaired and past due exposures by large category of product

The following table shows the amount of past due exposures and the specifically impaired exposures at year-end 2015.

In EUR million	Past-due but not impaired assets				
Loans and advances (at amortised cost)	**<= 90 days**	**> 90 days <= 180 days**	**> 180 days**	**Carrying amount of individually impaired financial assets**	**Guarantees held for past-due or individually impaired assets and debt instruments**
Institutions	0	0.01	0	-	0
Retail	76.65	37.61	68.48	83.58	167.43
Corporate	138.97	22.64	90.63	261.24	366.83
TOTAL	**215.62**	**60.26**	**159.11**	**344.83**	**534.26**

Neither the AFS nor the HTM portfolios contained past due or impaired assets.

[1] FINREP source

3.3.5 Impaired and past due exposures by geographic area

The following table shows the amount of past due credit risk exposures broken down by geographical area.

	31/12/14					
	Past due financial assets (not impaired)			Past due financial assets (impaired)		
	< = 90 days	> 90 days	Total	< = 90 days	> 90 days	Total
Eurozone	150.43	210.07	360.5	3.62	141.15	144.78
Rest of Europe	1.93	5.25	7.18	0.3	30.08	30.38
Rest of the world	0.86	8.42	9.28	0	100.51	100.51
US & Canada	0.02	0.02	0.04	0	0.02	0.02
TOTAL	**153.25**	**223.75**	**377**	**3.92**	**271.76**	**275.68**

	31/12/15					
	Past due financial assets (not impaired)			Past due financial assets (impaired)		
	< = 90 days	> 90 days	Total	< = 90 days	> 90 days	Total
Eurozone	212.95	210.32	423.27	6.82	169.49	176.31
Rest of Europe	1.47	4.67	6.14	0	21.02	21.02
Rest of the world	1.19	4.35	5.54	0	103.75	103.75
US & Canada	0.01	0.03	0.04	0	0.35	0.35
TOTAL	**215.62**	**219.37**	**434.99**	**6.82**	**294.61**	**301.43**

3.3.6 Provisions for impaired exposures to credit risk by type of asset

The following table shows the amount of provisions for impaired exposures to credit risk broken down by type of asset at year-end 2015 and for comparison at year-end 2014.

In EUR million	As at 31/12/14	Utilisation	Allowances	Write-backs	Other adjustments	As at 31/12/15	Recoveries recorded directly in profit and loss
Specific allowances for financial assets individually assessed for impairment	**(276.94)**	**14.64**	**(38.99)**	**19.37**	**(13.07)**	**(295.00)**	**2.83**
Loans and advances to customers	(256.01)	12.38	(38.60)	19.37	(11.99)	(274.84)	2.83
Corporates	*(201.06)*	*8.84*	*(26.65)*	*9.93*	*(11.11)*	*(220.06)*	*2.83*
Retail	*(54.95)*	*3.55*	*(11.95)*	*9.44*	*(0.87)*	*(54.79)*	*0.00*
Financial assets available for sale	(20.93)	2.26	(0.40)	0.00	(1.09)	(20.15)	0.00
of which equities and other variable-income instruments	*(20.93)*	*2.26*	*(0.40)*	*0.00*	*(1.09)*	*(20.15)*	*0.00*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(26.53)**	**0.00**	**(3.32)**	**1.29**	**(0.02)**	**(28.58)**	**0.00**
TOTAL	**(303.47)**	**14.64**	**(42.31)**	**20.66**	**(13.10)**	**(323.58)**	**2.83**

The other adjustments correspond to exchange rate variations over the period affecting provisions recognised in other currencies as well as the deconsolidation of entities

3.4 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).

3.4.1 Competent authority's acceptance of the approach

In a letter sent on 21 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 includes 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 regulator (CSSF).

3.4.2 Model management and global governance

3.4.2.1 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 backtesting, when applicable. 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, the level of subordination or the rating of the counterparty.

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.

3.4.2.2 Segmentation and principles used for estimating the PD, LGD and CCF

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

Segmentation

Sovereigns

The scope of the model encompasses sovereign counterparties, defined as central governments, central banks and all debtors 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.

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 licence granted by the supervisory authority.

Corporates

Two 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.

- 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.

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 (0.25 million).

- Retail – Small companies
  These models are applied to small companies that are defined as companies generating revenue higher 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 securitisation transactions

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

Main principles used for estimating the PD, LGD and CCF

Main principles used for estimating the PD

Types of counterparty	Through-the-cycle models	Time series used	Internal/ external data
Sovereigns	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 conservative calibration of the PD.	> 10 years	External
Banks		> 10 years	External
Corporates		> 10 years	Internal + external
Mid-corporates		6 years	External + internal
Retail		> 5 years	Internal
Equity	Mix of single risk weight and PD/LGD approach.	N/A	N/A
Securitisation	Standardised approach.	N/A	N/A

Main principles used for estimating the LGD

Types of counterparty	Main hypotheses	Time series used	Internal/ external data
Sovereigns	Expert score function based on Fitch country loss risk methodology and internal expert knowledge to distinguish between high and low loss risk.	> 10 years	Internal + external
Banks	Statistical model derived from the LGD corporate model which includes additional risk factors specific to banking counterparties (country of residence, business profile, etc.).	> 10 years	Internal + external
Corporates	Statistical model based on external rating agencies loss data. The LGD is based on counterparty rating, exposure seniority level, geographic region and macroeconomic factors.	> 10 years	Internal + external
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.	> 5 years	Internal
Equity	Mix of single risk weight and PD/LGD approach.	N/A	N/A
Securitisation	Standardised 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 2015 in order to develop the corresponding internal models. Currently, BIL group uses CCF defined under the Foundation approach.

3.4.2.3 Model management process and internal governance

BIL has set up an internal organisation adequately scaled and skilled to allow the introduction, monitoring, maintenance and progressive development of the A-IRB framework. This is reflected in a well-defined process, which is described below.

Credit Risk Control Unit (CRCU)

The Credit Risk Control Unit (CRCU) is responsible for the oversight of the IRS and for the proper application of the current framework. The CRCU is run by the Risk Controlling team. CRCU activities fall into two main categories:

- Model validation, which is aimed at controlling the adequacy of rating models to the level of risk the Bank is exposed to. In particular, this team:
  - Controls the consistency of the assumptions and methodological choices made during the model development steps of the model lifecycle;
  - Performs backtesting and/or benchmarking on a regular basis and at least annually to control model performance as well as the appropriateness and soundness of the model assumptions over time;
  - Ensures that the rating models have been properly implemented and that appropriate testing has been carried out.

- Rating systems quality control, which is aimed at ensuring that the ratings allocated are consistent with the internal rating procedures. In particular, this team ensures:
  - The accuracy of data used in the rating process;
  - That rules on which the rating models are based are adhered to;
  - That the ratings and the related data are properly disseminated within the different internal systems;
  - That overrides are clearly justified and documented.

Model Management Unit (MMU)

The Model Management Unit (MMU) is run by the IRS Modelling and Integration team. This team is responsible for the development, the implementation and the management of all the rating models under the scope of the current framework.

Credit Risk Management Unit (CRMU)

The Credit Risk Management Unit (CRMU) is run by the Country and Bank Analysis team and the Retail, Mid-Corp, Corp and Private Bank Analysis team. The Credit Risk Management department and, more precisely, the credit risk analysts are the main users of the IRS; they are responsible 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 "Fiche de Décision Crédit").

As a key member of the Default Committee, this unit 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 Control Unit activities, ensuring that the oversight process is properly managed.audit may review Credit Risk Control Unit activities, ensuring that the oversight process is properly managed.

3.4.2.4 Committees

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

Internal Rating System Performance Committee (IRSPC)

The Internal Rating System Performance Committee (IRSPC) looks after all matters related to the regulatory Basel III Pillar 1 credit rating models and corresponding rating tools.

Rating Committee (RC)

The objective of the Rating Committee is to discuss and make decisions about the following topics:
- Rating methodology;
- Rating system framework;
- Rating process reviews.

Risk Policy Committee (RPC)

The Risk Policy Committee (RPC) is responsible for the implementation and the maintenance of the risk governance framework within the Bank. In particular, the RPC is tasked with ensuring that the policies and procedures related to risk concerns are comprehensive and consistent.

Default Committee

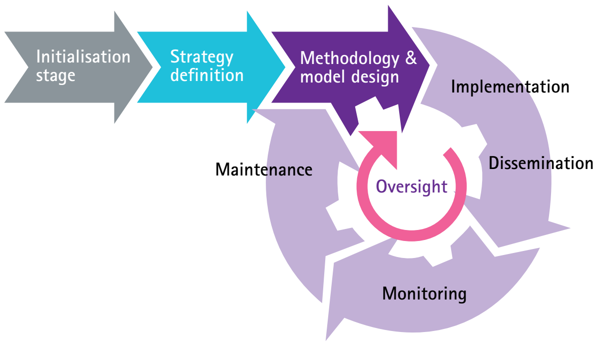
For BIL and its main subsidiaries and branches, this committee examines each case of default, classifies it (distinguishing between "true default" and "technical default"), assigns counterparties default level D1 or D2 according to general default indicators and parameters specific to each customer segment,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

Escalation Committee

When cases are discussed during IRSPC meetings, disagreements may arise between the MMU, CRCU or CRMU, leaving the case without decision. These cases are then submitted to Escalation Committee for a final decision.

3.4.2.5 Model management process

The lifecycle of a model can be summarised as follows:



Initialisation stage

The scope of credit risk models is supposed to be modified in accordance with business changes; new models or model changes could thus be required over time.

New model development requests are submitted to the IRSPC, which centralises and documents them and takes a decision on their relevance.

If the decision is to develop a model, the change request is handled by the MMU.

Strategy definition

Once the IRSPC has decided that a new model should be developed or reviewed, a pre-analysis is performed by the MMU.

Based on the results of this analysis, a strategy will be proposed by the MMU and submitted to the IRSPC. At this stage, validation of the strategy is required. Depending on the prescribed strategy, the CRCU and/or Model Validation team should provide their opinion.

Methodology and model design

The MMU is responsible for the definition and the implementation of the approach used for the model design. The model choice is left to the discretion of the MMU.

At the end of this stage, a model vetting review should be performed prior to the internal implementation of the new model. Model vetting consists of a detailed review of the model methodology, the modelling assumptions and the data and programmes on which the model is based. This review is under the responsibility of CRCU, which can conduct the review itself or delegate it externally.

Implementation and dissemination

Once the methodology of the model has been validated, its technical implementation is performed. The technical implementation is based on a business requirement definition (BRD) which is defined by or under the responsibility of the MMU. Acceptance of the rating tool should be validated by the IRSPC.

Model monitoring

In order to ensure that the model provides the same level of performance over time, two sets of controls are performed. One regards the ability of the model to provide accurate and conservative predictions, while the other is aimed at ensuring the reliability of the rating and the related data.

Quantitative validation

The quantitative validation of a rating model consists of performing a set of tests (i.e. backtesting).

In addition, a benchmarking analysis can be performed to compare internal estimates with figures across banks and/or with external benchmarks (e.g. external ratings, vendor models, or models developed by supervisory authorities).

Quantitative validation is performed once the year by the CRCU (Model Validation team) and their results are assessed by the IRSPC. A set of recommendations will be drafted if issues are identified. The conclusion of the backtesting can lead to a recalibration or review of the model if its performance does not reach the expected level.

In this case, the model review follows the same steps as those of the development of a new model (methodology and model design/implementation and dissemination/model monitoring).

Backtesting

The primary purpose of credit risk model backtesting is to ensure the adequacy of the Bank's regulatory capital with regard to the credit risks to which it is exposed. Since capital adequacy relies on internally estimated credit risk factors (PD, LGD and EAD), the Bank has to provide evidence 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 the assessment of its capacity to detect reduced performance at an early stage. Reduced performance of the rating system as a decision-making tool may expose the Bank to model risk by impacting the risk assessment of the defined risk buckets, and consequently reduce the Bank's profitability. The performance is tracked by analysing the ability to predict defaults and losses, by discriminating between high and low risk, and by analysing the stability of IRS results.

The backtesting process relies on three kinds of assessment:

- **Calibration:** calibration is used to assess the accuracy of the risk factor estimate. In the context of rating systems, it denotes the mapping of the probability of default (PD) to the rating grades. A rating system is well calibrated if the estimated PDs deviate only marginally from the actual default rates. The predicted LGD or CCF is compared to the actual loss rate or proportion of used facilities respectively.

- **Discriminatory power:** the discrimination of rating systems denotes their ex-ante capability to identify borrowers that are in danger of defaulting. Thus, a rating system with maximum power would be able to predict all borrowers that subsequently default. In practice, however, such perfect rating systems do not exist. A rating system is said to have high discriminatory power if default rates are distributed and ordered consistently across the rating scale and if these default rates are significantly different. The 'good' grades subsequently turn out to contain only a small percentage of defaulters and a large percentage of non-defaulters, with the opposite applying to the 'poor' grades.

- **Stability:** the stability analysis concerns the population and its data characteristics, and the assumptions used to design the model. Its purpose is to ensure that the model inputs remain consistent with the original model specifications, that the economic environment or the changes in the Bank's activity do not affect the performance of the model, and that the possible drift of the model output distribution is not explained by a change of the model behaviour or population.

Prior to the dismantling of Dexia group, the backtesting of models was performed by its Modelling team. In view of the size and particular characteristics of the BIL credit portfolio, backtesting approaches have been reviewed and tailored to BIL concerns, especially the limited volume of internal data. BIL-specific backtesting was applied for the first time in 2013.

On the whole, the results of backtesting performed on the BIL portfolio are in line with the results of previous backtesting exercises performed by Dexia group. The calibration of risk parameters appears as globally conservative for the main portion of the credit portfolio.

Stress testing

Pillar 1 stress tests are defined within the Basel requirement framework. They provide an assessment of the risk parameter levels (weighted risk, expected loss and realised loss) and the related deviations during periods of stress.

The different stress tests impact either the quality of the portfolio as a whole or the risk parameters. They are organised as follows:

- **Sensitivity stress tests:** the sensitivity of the weighted risks and expected and realised losses in relation to changes in explanatory risk parameters (PD, LGD, CCF);
- **Scenario stress tests:** the impact of unlikely but plausible scenarios on the weighted risks and expected and realised losses. These scenarios can be macroeconomic or expert-based and are checked via the benchmarking of the hypotheses when possible.

Sensitivity tests and scenario-based stress tests are performed for the main internal rating systems (IRS).

Quality control

Quality control consists of the operational validation of the IRS. It is aimed at ensuring the reliability of the ratings and the data involved in the rating process. In particular, quality control encompasses:

- Rating process oversight,
- Rating dissemination through the Bank's different systems, by ensuring that the ratings are recorded and updated consistently and according to the expected frequency,
- Default and loss management.

Quality control reviews are performed once a year, or more frequently if required, and their results are discussed at meetings of the Rating Committee. In the event of problems or anomalies, recommendations are issued or corrective measures are requested.

Model maintenance

Model management is an iterative process used to ensure the consistency and the objectivity of risk assessments over time. The process may be improved or updated.

The MMU is in charge of collecting the change requests and providing an opinion regarding the relevance and the feasibility of the demand. The change requests (including the rationale for the request, the possible ways of fulfilling the request, the benefit that the request would bring versus the expected cost) are discussed during meetings of the IRSPC, which decides whether or not to proceed with the request.

Model management oversight and validation process

Model management oversight relies on a set of controls and validations throughout the model management process. The table below summarises the steps for this oversight process.

Oversight	Description	Owner	Decision-maker	Frequency
Model development and update decision	All new model developments or model updates have to be validated on the basis of a documented request.	Member of IRSPC	IRSPC	Each time a new model or updated is requested.
Decision on a change in the rating process	All changes in the rating process are to be discussed and validated.	Credit Risk Management Unit or Model Management Unit	RC – Operational changes IRSPC – Methodological changes	Each time a change in rating process is requested.
New model or model update vetting	When a new model is developed, a comprehensive review must be performed in order to validate the accuracy of 1) the model methodology and underlying assumptions, 2) the data and the programmes used in the development and 3) the mathematical foundation of the model.	Model Validation (review could be performed by an external vendor)	IRSPC	Each time a new model is developed or updated.
Validation of rating tool implementation	When a new rating application is implemented or developed, a comprehensive set of tests should be performed in order to ensure the consistency and the reliability of the ratings. These tests relate to programming and data flow. Validation should be based on the documented testing results.	Model Management Unit	IRSPC	Each time a new rating application is developed or updated.
Validation of the operational rating process	The reliability and consistency of the rating process is controlled on a regular basis in order to ensure an appropriate level of rating quality.	Quality Control Unit	RC	At least once a year per IRS.
Quantitative model validation	The ability of the model to provide an appropriate assessment of risk is controlled on a regular basis through the backtesting process.	Model Validation	IRSPC	At least once a year per IRS.
IRS compliance audit	A comprehensive review ensures the compliance of IRS with regulatory requirements, especially regarding the robustness of the oversight process.	Internal Audit	Internal Audit	At least once a year.

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 II 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 II 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 II parameters used for internal reports or specific analysis, with the aim of improving credit risk management best practices.

Provisioning methodology

IFRS loan-loss provisioning can occur on an individual or on a collective (portfolio) basis. Specific analysis of significant and impaired assets is necessary to calculate the so-called "specific" loan-loss provision. All the other assets, such as individually non-significant loans and individually significant but non-impaired loans, are subject to a portfolio approach to loan-loss provisioning.

Both Basel III and IFRS agree, in essence, in their international focus and their general goal to provide market participants and supervisory authorities with transparent and precise information. Consequently, many of the requirements and sources of data are similar under IFRS and Basel III.

Therefore, Basel III parameters can serve as a starting point to calculate loan loss provisions and are adapted in order to fulfil the IFRS requirements. This is especially the case for collective provisioning approaches.

3.4.2.6 Model approval process

In the context of the Capital Requirement Regulation, the use of internal models for the assessment of the Risk Weighted Assets requires preliminary approval by the competent authority before effective implementation. According to the steps of the model life cycle, this approval can be required for 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);
- Changes are applied to existing model covering a specific portfolio (Model Maintenance).

For the first case, the permission of the competent authority is systematically required. However, in the two other cases, this permission is required depending on the materiality of the extension or the change:

- Material extensions and/or changes require permission from the relevant competent authorities;
- Other less material extensions and/or changes require notification to the competent authorities. Two cases should be considered:
  - Extensions and/or changes that require notification before their implementation;
  - Extensions and/or changes that require notification after their implementation.

The assessment of the materiality of the extensions or changes relies on the EBA/RTS/2013/06 [1] as transposed by the EU in its corresponding delegated regulation.

The rules defined below are the internal transposition of this framework and attempt to keep their main principles.

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.

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

Credit risk models performance

According to BIL credit risk model governance, Model validation includes an on-going 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), 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

[1] On the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for credit and operational risk in accordance with Articles 143(5) and 312(4)(b) and (c) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

profitability. The performance is tracked by analysing the ability to predict default and losses, to discriminate between high and low risks, and by analyzing 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 observed default rates, and the estimated LGD to (1-loss recovery rate) for the part of the portfolio for which BIL has experienced default. Therefore, BIL has experienced a limited number of default for a part its portfolio (Low Default Portfolio, LDP). This regards Sovereigns, Banks and Corporates segments. 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 backtestings have not highlighted major issues regarding the conservativeness of the calibrated levels of PD and LGD. Some weaknesses have been however identified during the previous exercises and the review of the related model is in progress.

Table 1 contains the obligor weighted average of the calibrated PD and the obligor weighted average of the actual default rates observed from 2011 to 2015. Default rate is computed according to the cohort principle as the ratio between the observed number of new defaults occurred during the considered period N and the number of non-defaulted obligors at the end of the previous period N-1. The date of reference of the cohort is end of June for Retail and Small corporate models, and end of December for the other models.

Retail and Small corporate PD model

The PD of the Retail and Small corporate rating model has been calibrated with internal experienced defaults. As a consequence, the resulting PD and default rates are very close and quite stable over the considered period, especially for Retail model which relies on a large portfolio. The gaps between PD and DR for Small corporate is larger. However the Small corporate portfolio is smaller and the level of uncertainty of the estimate is higher. This gap reflects the conservative layer added to the PD to cover this uncertainty level. Nevertheless, the backtesting demonstrates that the calibration of PD is statistically conservative for both.

Corporate, Bank and Sovereign PD model

Due to the absence or the limited number of experienced default, the PD of the Corporate, Bank and Sovereign rating model has been calibrated with external data. Especially, it relies on default data provided by external rating agencies Moody's and S&P. 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 rating agencies and the calibrated PD are tested with default rates provided by these agencies. The results of the related backtest have demonstrated that the PD of these models is conservatively calibrated. We have observed however some default rates higher than the calibrated PD, especially in 2011 for Sovereign exposures and in 2012 for corporate exposures. The portfolio of sovereign is small (61 obligors in 2011), and BIL has experienced only one Sovereign default in 2011. Greece has been classified in default on demand of the local regulator. As a result this sole default has contributed to increase the default rate over the calibrated PD. Similarly, the default rate of corporate is higher than the PD while only two defaults have been observed in 2012. Despite these default rates higher than expected, the statistical tests of the backtestings have demonstrated that the PD are conservatively calibrated for the considered years and for the considered period anyway.

Mid-Corporate

During the backtest of 2013, the default rates have appeared durably higher than the PD. The PD of the Mid-corp rating model were originally calibrated with external data including mainly bankruptcies of Belgium corporates. Since the results of backtesting demonstrated that the PDs were not sufficiently calibrated, the PD scale has been recalibrated on the basis of internal experienced default. This new calibration is in process of review by the competent authority.

Years	Retail		Small Corp		Sovereign [2]		Bank [2]		Corporate		Mid-Corp [2]	
	PD%	DR%	PD%	DR%	PD%	DR%	PD%	DR%	PD%	DR%	PD%	DR%
2011	0.61	0.56	7.79	4.77	0.80	1.64	1.44	0.15	0.87	0.00	2.25	3.02
2012	0.60	0.57	8.57	5.70	0.96	0.00	1.00	0.00	0.86	2.60	2.27	2.59
2013	0.66	0.61	9.00	6.40	1.42	0.00	2.75	0.00	0.49	0.00	2.24	2.45
2014	0.67	0.66	9.01	6.77	1.42	0.00	1.50	0.00	0.62	0.00	2.55 [1]	2.82 [1]
2015	0.65	0.62	8.59	6.80	-	-	-	-	0.72 [1]	0.00 [1]	-	-
Average	**0.63**	**0.56**	**8.23**	**5.74**	**2.53**	**0.73**	**1.45**	**0.24**	**0.71**	**0.48**	**2.18**	**2.68**
Period	2005/2015		2007/2015		2005/2014		2008/2014		2009/2014		2009/2012	

Table 1: Average PD and average default rates

The table 2 contains the obligor weighted average of the calibrated LGD and the obligor weighted average of the loss rates for the retail and small & middle corporates as reported in the backtesting. Loss rate is computed as the ratio between the not recovered part of defaulted exposures and the total amount of the defaulted exposures. This table reports workout defaults, i.e. the default files for which the recovery process is closed. The figures are reported by year of the origination of the default. This explains why the Loss rates are very low in 2014 and 2015. These two years include defaults which have been closed in one or two years. The Loss rate is usually lower when the debt is recovered rapidly. The Loss rates for the other years and the average Loss rate observed over longer period (2000 – 2015 for retail and 2001 – 2015 for Small & Mid-Corp) are higher. Backtesting results have not highlighted calibration weakness. The loss rates are globally lower than the calibrated level of LGD for both and the LGD levels are considered as conservative enough. Nevertheless, some methodological improvements have been requested regarding the retail LGD model. This model has been reviewed and submitted to the competent authority.

Years	Retail		Small & Mid-Corp	
	LGD%	LR%	LGD%	LR%
2011	14.34	5.73	10.63	0.91
2012	14.79	5.38	6.05	3.50
2013	13.82	3.24	13.63	0.72
2014	12.89	0.46	9.11	0.30
2015	23.62	0.09	9.19	0.03
Average	**14.09**	**9.76**	**10.75**	**6.68**
Period	2001/2015		2000/2015	

Table 2: Average LGD and average loss rates

Due to limited number of experienced default for Sovereign, Bank and Corporate exposures, the comparison between LGD and loss rate cannot be performed. The calibration backtesting for these types of exposure relies on external loss data. The backtesting results have not highlighted conservativeness issues regarding the calibration of the LGD. However, some improvements have been requested in order to address some weaknesses regarding the Bank LGD model features.

3.4.3 Average PD, LGD and risk weight by asset class and obligor grade

The following table shows the total EAD, undrawn commitments, exposure-weighted average PD, LGD and CCF and exposure-weighted average risk weights broken down by exposure class and obligor grade at year-end 2015. The exposure is calculated using the advanced method.

[1] Estimates not based on validated backtesting reports.

[2] 2015 backtesting not performed and validated at the date of the report since it is performed during the year N+1.

	Obligor Grade	Total exposure	Undrawn Commitment	Off-balance sheet exposure after CCF application	EAD	Average PD weighted by EAD	Average LGD weighted by EAD	Average CCF weighted by EAD	Average RW weighted by EAD	Provisions	EAD 31/12/14
Central Governments and Central Banks	AAA+ to AA-	4,249.03	109.51	53.25	4,195.77	0.00%	6.65%	51.37%	0.00%	0.00	3,841.36
	A+ to A-	639.78	0.00	0.00	639.78	0.07%	24.93%	50.00%	17.56%	0.00	531.51
	BBB+ to BBB-	550.59	0.00	0.00	550.59	0.34%	37.47%	50.00%	47.33%	0.00	698.42
	Other	0.60	0.00	0.00	0.60	30.87%	5.00%	0.00%	27.82%	0.00	0.78
Central Governments and Central Banks	**Total**	**5,440.00**	**109.52**	**53.25**	**5,386.75**	**0.05%**	**11.97%**	**51.37%**	**6.93%**	**0.00**	**5,072.07**
Corporates – Other	AAA+ TO AA-	48.17	0.00	0.00	48.17	0.03%	37.64%	50.00%	22.71%	0.00	158.80
	A+ to A-	184.60	90.44	18.29	166.31	0.07%	33.55%	79.78%	14.56%	0.00	297.96
	BBB+ to BBB-	934.49	89.33	23.76	910.72	0.43%	39.23%	73.40%	67.81%	0.00	708.10
	Default	24.47	0.18	0.08	24.39	100.00%	27.29%	53.45%	0.00%	12.88	20.50
	Other	414.37	81.85	29.62	384.75	2.83%	44.07%	63.81%	97.35%	0.00	386.84
Corporates – Other	**Total**	**1,606.10**	**261.80**	**71.76**	**1,534.34**	**2.56%**	**39.59%**	**72.59%**	**66.95%**	**12.88**	**1,572.20**
Corporates – SME	A+ to A-	84.90	25.27	6.51	78.40	0.12%	8.73%	74.24%	7.77%	0.00	101.62
	BBB+ to BBB-	403.01	64.89	21.92	381.08	0.61%	6.47%	66.21%	8.22%	0.00	380.72
	Default	85.20	1.91	0.68	84.52	100.00%	8.23%	64.58%	0.00%	40.71	83.77
	Other	1,063.19	108.28	33.15	1,030.05	6.80%	4.55%	69.39%	10.97%	0.50	998.38
Corporates – SME	**Total**	**1,636.30**	**200.35**	**62.25**	**1,574.05**	**9.97%**	**5.42%**	**68.93%**	**9.55%**	**41.21**	**1,564.50**
Corporates – Specialised Lending	Other	0.00	0.00	0.00	0.00	0.00%	0.00%	0.00%	0.00%	0.00	4.96
Corporates – Specialised Lending	**Total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00**	**4.96**
Equity	AAA+ to AA-	0.00	0.00	0.00	0.00	0.00%	0.00%	0.00%	0.00%	0.00	0.00
	BBB+ to BBB-	0.00	0.00	0.00	0.00	0.31%	90.00%	0.00%	172.69%	0.00	7.37
	Other	5.97	0.00	0.00	5.97	29.40%	16.20%	0.00%	274.68%	0.32	4.98
Equity	**Total**	**5.97**	**0.00**	**0.00**	**5.97**	**29.40%**	**16.21%**	**0.00%**	**274.66%**	**0.32**	**12.35**
Institutions	AAA+ to AA-	956.08	50.00	10.00	924.03	0.04%	13.83%	80.00%	6.80%	0.00	491.10
	A+ to A-	2,702.22	1.87	0.42	2,723.85	0.06%	13.42%	77.32%	7.64%	0.00	2,292.34
	BBB+ to BBB-	412.92	0.13	0.07	412.85	0.31%	16.91%	50.00%	25.34%	0.00	426.32
	Default	0.00	0.00	0.00	0.00	0%	0%	0%	0%	0.00	0.01
	Other	101.56	2.07	0.61	100.95	5.00%	9.30%	70.40%	46.59%	0.00	158.13
Institutions	**Total**	**4,172.78**	**54.08**	**11.10**	**4,161.67**	**0.20%**	**13.75%**	**79.46%**	**10.16%**	**0.00%**	**3,367.90**

	Obligor Grade	Total exposure	Undrawn Commitment	Off-balance sheet exposure after CCF application	EAD	Average PD weighted by EAD	Average LGD weighted by EAD	Average CCF weighted by EAD	Average RW weighted by EAD	Provisions	EAD 31/12/14
Retail - Other non-SME	AAA+ to AA-	24.15	16.21	7.84	16.31	0.04%	26.87%	51.63%	3.53%	0.00	15.72
	A+ to A-	408.11	197.32	86.53	321.58	0.10%	10.70%	56.15%	2.65%	0.00	314.27
	BBB+ to BBB-	732.31	208.01	89.65	642.65	0.46%	8.25%	56.90%	5.93%	0.00	576.82
	Default	251.84	6.76	2.18	249.66	100.00%	20.49%	67.74%	0.00%	110.75	207.64
	Other	1,573.56	284.93	129.99	1,443.57	5.17%	9.26%	54.38%	14.35%	0.00	1,545.06
Retail - Other non-SME	**Total**	**2,989.96**	**713.23**	**316.19**	**2,673.77**	**12.25%**	**10.34%**	**55.67%**	**9.51%**	**110.75**	**2,659.50**
Retail - Other SME	A+ to A-	1.93	0.35	0.13	1.81	0.11%	15.24%	63.87%	4.34%	0.00	0.27
	BBB+ to BBB-	41.78	16.38	5.60	36.18	0.65%	13.71%	65.80%	11.62%	0.00	19.76
	Default	11.84	0.21	0.10	11.74	100.00%	12.30%	52.39%	0.00%	6.44	10.05
	Other	184.61	47.38	14.06	170.54	11.31%	11.62%	70.31%	19.98%	0.00	110.60
Retail - Other SME	**Total**	**240.16**	**64.32**	**19.89**	**220.27**	**14.19%**	**12.03%**	**69.07%**	**17.41%**	**6.44**	**140.67**
Retail Secured by mortgages on immovable property non SME	AAA+ to AA-	0.00	0.00	0.00	0.00	0.00%	0.00%	0.00%	0.00%	0.00	0.00
	A+ to A-	823.69	10.08	4.19	819.50	0.10%	10.48%	58.41%	2.60%	0.00	727.85
	BBB+ to BBB-	1,820.12	21.61	9.38	1,810.74	0.50%	10.35%	56.60%	8.35%	0.00	1,703.85
	Default	170.91	0.76	0.30	170.61	100.00%	11.27%	60.69%	0.00%	23.90	166.67
	Other	1,677.30	38.98	14.27	1,663.03	6.59%	11.36%	63.40%	31.77%	0.00	1,618.01
Retail Secured by mortgages on immovable property non SME	**Total**	**4,492.01**	**71.44**	**28.14**	**4,463.87**	**6.50%**	**10.79%**	**60.61%**	**15.70%**	**23.90**	**4,216.38**
Retail Secured by mortgages on immovable property SME	BBB+ to BBB-	28.43	1.99	0.79	27.64	0.65%	12.52%	60.40%	11.21%	0.00	4.55
	Default	2.71	0.01	0.01	2.70	100.00%	13.39%	50.22%	0.00%	0.48	3.51
	Other	111.72	9.87	3.35	108.37	14.09%	13.23%	66.09%	32.01%	0.00	68.13
Retail Secured by mortgages on immovable property SME	**Total**	**142.86**	**11.88**	**4.14**	**138.71**	**13.09%**	**13.09%**	**65.12%**	**27.24%**	**0.48**	**76.20**
Other Non credit obligation assets	AAA+ to AA-	5.11	-	-	4.82	0.00%	7.25%	0.00%	0.00%	0.00	2.57
	A+ to A-	0.09	-	-	0.37	0.05%	6.49%	0.00%	0.00%	-	0.04
	Other	3.46	-	-	3.46	30.87%	5.25%	0.00%	0.00%	0.00	2.98
Other Non credit obligation assets	**Total**	**8.66**	**-**	**-**	**8.66**	**12.35%**	**6.42%**	**0.00%**	**0.00%**	**-**	**5.59**
TOTAL		**20,734.80**	**1,486.60**	**566.74**	**20,168.06**	**-**	**-**	**-**	**-**	**195.98**	**18,692.32**

3.4.4 Advanced retail exposure by type of product and obligor grade

The following tables provide an analysis of the retail segment exposures broken down by loan types and expressed in EAD under the A-IRB approach.

	31/12/14					
	AAA to AA-	A+ to A-	BBB+ to BBB-	Default	Other	Total
Consumer loans	-	156.09	345.99	256.30	1,259.80	2,018.18
Credit cards	13.65	43.22	41.07	0.31	21.96	120.19
Investment loans	-	10.38	33.46	5.56	62.44	111.83
Leasing	0.34	1.37	35.55	0.45	39.64	77.36
Lombards	-	16.23	49.63	16.96	241.12	323.94
Mortgage loans	0.97	744.04	1,762.95	91.62	1,516.51	4,116.09
Others	0.76	73.07	157.55	33.68	283.30	548.36
Straight loans	-	-	9.93	-	12.59	22.52
Student loans	-	5.84	25.73	1.67	15.49	48.73
Treasury Loans/ Facilities	-	2.86	4.82	0.69	28.83	37.20
TOTAL	**15.72**	**1,053.09**	**2,466.69**	**407.24**	**3,481.68**	**7,424.41**

	31/12/15					
	AAA to AA-	A+ to A-	BBB+ to BBB-	Default	Other	Total
Consumer loans	0.02	150.37	256.62	298.19	1,118.50	1,823.70
Credit cards	14.80	45.99	42.93	0.31	23.98	128.01
Investment loans	0.00	5.54	19.33	5.50	62.76	93.13
Leasing	0.41	1.96	15.35	0.17	43.40	61.28
Lombards	-	20.85	131.48	9.53	289.67	451.52
Mortgage loans	0.17	843.67	1,895.49	87.96	1,528.41	4,355.70
Others	0.91	66.42	127.29	30.02	226.98	451.61
Student loans	-	5.97	26.94	1.63	15.70	50.24
Treasury Loans/ Facilities	-	2.11	1.78	1.41	76.12	81.42
TOTAL	**16.31**	**1,142.89**	**2,517.21**	**434.71**	**3,385.51**	**7,496.62**

The overall exposure by rating slightly increased between 2014 and 2015. The Bank continued to develop its credit business which led to an increase of 240 million in mortgage loan exposure and 128 million in Lombard credit offset by a decrease of 194 million in consumer loans exposure and 97 million in other loans.

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 regulator, more than 85% of the exposures are treated under the A-IRB approach.

3.5.2 External credit assessment institutions (ECAI)

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

Risk weights are mainly determined in relation to the credit quality step and the exposure class.

3.5.3 Standardised exposure-at-default and average risk weights

The following table shows the EAD under the standardised approach, before and after credit risk mitigation, broken down by asset and external rating classes. It also indicates the corresponding weighted average risk weights, the undrawn commitment amounts and the exposure of debtors in default (for which the amount of provisions is given by the impaired exposure).

	Obligor Grade	EAD	Average RW weighted by EAD	Undrawn commitment	Impaired Exposures	EAD 31/12/14
Corporates	AAA+ to AA-	0.11	100.00%	0.00	0.00	0.11
	A+ to A-	21.06	100.00%	1.65	0.00	63.51
	BBB+ to BBB-	170.81	99.82%	54.05	0.00	118.57
	Other	640.01	95.35%	129.99	3.93	561.24
Corporates	**TOTAL**	**831.98**	**96.39%**	**185.69**	**3.93**	**743.42**
Covered bonds	A+ to A-	10.07	10.00%	0.00	0.00	45.65
	BBB+ to BBB-	14.34	10.00%	0.00	0.00	14.60
Covered bonds	**TOTAL**	**24.41**	**10.00%**	**0.00**	**0.00**	**60.25**

Equity	BBB+ to BBB-	0.58	250.00%	0.00	0.00	0.16
	Other	5.26	238.50%	0.00	7.46	4.79
Equity	**TOTAL**	**5.84**	**239.64%**	**0.00**	**7.46**	**4.95**
Items associated with particularly high risk	BBB+ to BBB-	0.32	150.00%	0.00	0.00	0.66
	Other	29.81	150.00%	0.00	9.04	29.36
Items associated with particularly high risk	**TOTAL**	**30.13**	**150.00%**	**0.00**	**9.04**	**30.02**
Institutions	AAA+ to AA-	0.00	0.00%	0.00	0.00	0.00
	A+ to A-	2.53	22.01%	0.00	0.00	1.51
	BBB+ to BBB-	0.25	50.00%	0.00	0.00	0.28
	Other	2.02	1,153.80%	0.17	0.00	0.14
Institutions	**TOTAL**	**4.80**	**500.01%**	**0.17**	**0.00**	**1.93**
Multilateral Development Banks	AAA+ to AA-	92.80	0.00%	0.00	0.00	86.72
Multilateral Development Banks	**TOTAL**	**92.80**	**0.00%**	**0.00**	**0.00**	**86.72**
Other items	AAA+ to AA-	38.65	0.00%	0.00	0.00	39.06
	BBB+ to BBB-	0.00	0.00%	0.00	0.00	0.00
	Other	386.19	87.62%	3.35	0.00	330.56
Other items	**TOTAL**	**424.83**	**79.65%**	**3.35**	**0.00**	**369.62**
Exposure in default	Default	12.86	109.14%	0.00	75.85	19.34
Exposure in default	**TOTAL**	**12.86**	**109.14%**	**0.00**	**75.85**	**19.34**
Public Sector Entities	A+ to A-	18.81	100.00%	0.00	0.00	20.45
	AAA+ to AA-	0.00	0.00%	0.00	0.00	20.05
	Other	65.58	20.00%	93.55	0.00	87.82
Public Sector Entities	**TOTAL**	**84.39**	**37.83%**	**93.55**	**0.00**	**128.31**
Regional Governments And Local Authorities	Other	176.22	20.00%	0.00	0.00	174.82
Regional Governments And Local Authorities	**TOTAL**	176.22	20.00%	0.00	0.00	174.82
Secured by mortgages on immovable property	A+ to A-	0.51	100.00%	0.00	0.00	20.56
	BBB+ to BBB-	26.14	50.00%	0.00	0.00	13.78
	Other	345.81	78.72%	3.96	0.00	350.99
Secured by mortgages on immovable property	**TOTAL**	**372.46**	**76.74%**	**3.96**	**0.00**	**385.33**
Securitisation	AAA+ to AA-	280.78	20.00%	0.00	0.00	100.08
Securitisation	**TOTAL**	**280.78**	**20.00%**	**0.00**	**0.00**	**100.08**
Short-Term Exposures	Other	0.00	0.00%	0.00	0.00	7.79
Short-Term Exposures	**TOTAL**	**0.00**	**0.00%**	**0.00**	**0.00**	**7.79**
Central Governments And Central Banks	AAA+ to AA-	460.00	10.95%	0.00	0.00	560.82
	BBB+ to BBB-	28.94	0.00%	5.98	0.00	0.00
	Other	553.78	0.00%	1.51	0.00	450.00
Central Governments and Central Banks	**TOTAL**	**1042.72**	**4.83%**	**7.49**	**0.00**	**1,010.82**
TOTAL		**3,384.22**	**50.22%**	**294.20**	**96.28**	**3,123.41**

3.6 Credit risk mitigation techniques

3.6.1 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 – see below).

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;
- 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.

3.6.2 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;
- Description of all CRM characteristics in BIL group's risk systems, such as:
  - Mortgages – 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

For derivatives exposures guarantee BIL received is mostly given by bank counterparties. The Bank does not have credit derivatives exposures.

In EUR million	Credit Quality Step/Rating Translation	Exposures	Of which covered by Guarantee
Credit Quality Step #1	From AAA to AA-	693.4	693.4
Credit Quality Step #2	From A+ to A-	257.3	257.3
Credit Quality Step #3	From BBB+ to BBB-	58.6	58.0
Credit Quality Step #4	From BB+ to BB-	28.3	24.5
Credit Quality Step #5	From B+ to B-	11.9	11.3
Credit Quality Step #6	Below B-	0.1	0.1
No Credit Quality Step	Non Applicable	38.2	3.8
TOTAL		**1,087.7**	**1,048.4**

On- and off-balance sheet netting

The regulator is in charge of granting banks authorisation to use netting agreements according to certain eligibility criteria which are different for on-balance sheet and off-balance sheet netting agreements.

BIL group does not make use of on- or off-balance sheet netting for regulatory purposes, except for over-the-counter (OTC) derivative products.

For these products, 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 the credit BIL 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 and leveraged loans (categorised as Lombard loans and investment lines of credit by BIL).

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 asset 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 to ensure 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.

3.6.3 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.

3.6.4 Exposure covered by CRM by exposure class

This section provides an overview of the EAD covered by Basel III-eligible CRM (after regulatory haircuts) broken down by exposure class at year-end 2014 and 2015. The amounts shown in the table below take netting agreements into account and include collateral values for reverse repo transactions.

31/12/14 IRB approach	Financial Collateral	Guarantee	Physical collateral	Repo	EAD collateralised or guaranteed	EAD NOT collateralised and NOT guaranteed	TOTAL EAD	Cover percentage
Central Governments and Central Banks	0.01	536.56	-	-	536.58	4,535.50	5,072.07	10.58%
Corporates - Other	41.20	12.01	255.36	-	308.57	1,263.63	1,572.20	19.63%
Corporates - SME	20.22	24.89	827.43	-	872.54	691.96	1,564.50	55.77%
Corporates Specialised Lending	-	-	-	-	-	4.96	4.96	0%
Equity	-	-	-	-	-	12.35	12.35	0%
Institutions	190.62	130.57	-	1,561.68	1,882.86	1,485.03	3,367.90	55.91%
Retail - Other non-SME	962.26	-	-	-	962.26	1,697.24	2,659.50	36.18%
Retail - Other SME	11.92	0.04	-	-	11.96	128.71	140.67	8.50%
Retail secured by mortgages on immovable property non SME	33.14	-	941.51	-	974.65	3,241.73	4,216.38	23.12%
Retail secured by mortgages on immovable property SME	0.06	-	74.78	-	74.83	1.36	76.20	98.21%
Other non credit obligation assets	-	-	-	-	-	5.59	5.59	0.00%
Total IRB approach	**1,259.44**	**704.07**	**2,099.08**	**1,561.68**	**5,624.26**	**13,068.05**	**18,692.32**	**30.09%**
Standardised approach								
Corporates	-	-	-	-	-	743.42	743.42	0%
Covered Bonds	-	-	-	-	-	60.25	60.25	0%
Equity	-	-	-	-	-	4.95	4.95	0%
Items associated with particularly high risk	-	-	-	-	-	30.02	30.02	0%
Institutions	-	-	-	-	-	1.93	1.93	0%
Multilateral Development Banks	-	-	-	-	-	86.72	86.72	0%
Other items	-	-	-	-	-	369.24	369.24	0%
Exposure in default	-	-	-	-	-	19.34	19.34	0%
Public Sector Entities	-	-	-	-	-	128.31	128.31	0%
Retail	-	-	-	-	-	0.38	0.38	0%
Regional Governments And Local Authorities	-	-	-	-	-	174.82	174.82	0%
Secured by mortgages on immovable property	-	-	172.80	-	172.80	212.53	385.33	44.84%
Short-Term Exposures	-	-	-	-	-	7.79	7.79	0%
Central Governments and Central Banks	-	91.54	-	-	91.54	351.47	443.01	20.66%
Supra	-	-	-	-	-	567.81	567.81	0%
Securitisation	-	-	-	-	-	100.08	100.08	0%
Total Standardised approach	**-**	**91.54**	**172.80**	**-**	**264.34**	**2,859.07**	**3,123.41**	**8.46%**
TOTAL	**1,259.44**	**795.61**	**2,271.88**	**1,561.68**	**5,888.60**	**15,927.12**	**21,815.72**	**26.99%**

31/12/15						EAD NOT		
IRB approach	**Financial Collateral**	**Guarantee**	**Physical collateral**	**Repo**	**EAD collateralised or guaranteed**	**collateralised and NOT guaranteed**	**TOTAL EAD**	**Cover percentage**
Central Governments and Central Banks	0.01	641.71	-	-	641.72	4,745.02	5,386.75	11.91%
Corporates - Other	45.07	82.47	142.62	-	270.17	1,264.17	1,534.34	17.61%
Corporates - SME	29.50	37.51	940.45	-	1,007.46	566.59	1,574.05	64.00%
Equity	-	-	-	-	-	5.97	5.97	FAUX
Institutions	149.66	281.94	-	1,509.20	1,940.81	2,220.87	4,161.67	46.64%
Retail - Other non-SME	1,055.73	-	-	-	1,055.73	1,618.04	2,673.77	39.48%
Retail - Other SME	23.28	0.89	-	-	24.16	196.10	220.27	10.97%
Retail secured by mortgages on immovable property non SME	45.51	-	958.89	-	1,004.41	3,459.47	4,463.87	22.50%
Retail secured by mortgages on immovable property SME	0.67	-	136.63	-	137.30	1.41	138.71	98.98%
Other non credit obligation assets	-	-	-	-	-	8.66	8.66	0.0%
Total IRB approach	**1,349.43**	**1,044.53**	**2,178.60**	**1,509.20**	**6,081.76**	**14,086.30**	**20,168.06**	**30.16%**
Standardised approach								
Corporates	-	-	-	-	-	831.98	831.98	0.0%
Covered Bonds	-	-	-	-	-	24.41	24.41	0.0%
Equity	-	-	-	-	-	5.84	5.84	0.0%
Items associated with particularly high risk	-	-	-	-	-	30.13	30.13	0.0%
Institutions	-	-	-	-	-	4.80	4.80	0.0%
Multilateral Development Banks	-	-	-	-	-	92.80	92.80	0.0%
Other	-	-	-	-	-	416.53	416.53	0.0%
Exposure in default	-	-	-	-	-	12.86	12.86	0.0%
Public Sector Entities	-	-	-	-	-	84.39	84.39	0.0%
Retail	-	-	-	-	-	8.31	8.31	0.0%
Regional Governments And Local Authorities	-	3.84	-	-	3.84	172.38	176.22	2.18%
Secured by mortgages on immovable property	-	-	162.33	-	162.33	210.13	372.46	43.58%
Central Governments and Central Banks	-	-	-	-	-	1,042.72	1,042.72	0.0%
Securitisation	-	-	-	-	-	280.78	280.78	0.0%
Total Standardised approach	**-**	**3.84**	**162.33**	**-**	**166.17**	**3,218.06**	**3,384.22**	**4.91%**
TOTAL	**1,349.43**	**1,048.36**	**2,340.93**	**1,509.20**	**6,247.93**	**17,304.35**	**23,552.28**	**26.53%**

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 up 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 transactions, repo/reverse repos and securities lending are traded with counterparties with whom BIL has collateral agreement (respectively ISDA/CSA, GMRA, and GMSLA). These trades are daily revaluated (MtM) which leads to margin calls or to margin delivery from or to the counterparty according to the advantage or disadvantage for the Bank of the deals Marked-to-Market included in the ISDA/CSA contract. Currently, exchanged collateral is cash. Within EMIR regulation, it is forecasted to treat non-cash collateral. This will be taken into account in our collateral management rules.

In order to reduce counterparty risk, OTC derivatives are in most cases concluded under a master agreement (i.e. the International Swap and Derivative Association – ISDA) taking account of 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 Credit Support Annex (CSA) negotiated with the counterparty. The CSA to master agreements provides for rating dependent triggers (called threshold), where addition collateral has to be pledged if a party's rating is downgraded. The impact of potential downgrades is managed by the Bank.

Nevertheless, in 2015, BIL's threshold is not dependent of the credit rating. In consequence, there is no impact due to a credit rating downgrade on the collateral amount.

3.7.2 Exposure to counterparty credit risk

The following table shows the gross EAD for the derivative contracts, the netting agreements and the amount of collateral received, and the net EAD (after taking into account the impact of netting agreements and collateral posting).

	31/12/14	31/12/15
Gross EAD	525.00	392.28
Netting agreements	195.00	121.58
Eligible collateral	197.24	150.54
Net EAD	132.86	120.15
Total RWA	55.03	38.88
Capital requirement	4.40	3.11

The derivatives exposure decreased in gross EAD by 132.7 million explained by termination of transactions with DLG. The amount of collateral and the effect of the netting agreements have been reduced accordingly.

The table below shows the breakdown of the net EAD (after applying the effects of netting and collateral agreements), broken down by type of derivative at year-end 2014 and 2015.

Type of derivative	31/12/14	31/12/15
Equity	22.03	3.19
Foreign exchange	57.01	58.72
Interest rate	53.82	58.24
TOTAL	**132.86**	**120.15**

3.7.3 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 our fixed rate bonds portfolio). Correlation between the underlying of the derivatives and the debtor is considered very low, and margin call are performed daily.

3.7.4 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 available-for-sale equity instruments. In addition, data are provided on any amounts of such capital instruments 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 2015 and for comparison at year-end 2014.

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.

	31/12/14				31/12/15			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets available for sale - equities	75.15	57.53	33.39	166.07	0	22.81	27.57	50.38
TOTAL	**75.15**	**57.53**	**33.39**	**166.07**	**0**	**22.81**	**27.57**	**50.38**

3.8.3 Available-For-Sale equity portfolio

At 31 December 2015, the Bank had an equity portfolio in the non-trading book of EUR 50.38 million.

	31/12/15			
	Acquisition Cost	Impairment	Fair Value Adjustment	Carrying Amount
Investments Funds	4.09	0	(0.04)	4.05
Operationnal Participations	35.67	(9.99)	0.19	25.86
Other	4.42	(4.42)	0.01	0.01
Private Equities	6.16	(5.74)	0.54	0.95
Strategic Participations	8.06	0	11.45	19.51
TOTAL	**58.39**	**(20.15)**	**12.14**	**50.38**

Capital instruments whose fair value cannot be reliably measured are carried at cost.

	31/12/15		
	Carrying Amount	Of which at cost	Of which Fair Valued
Investments Funds	4.05	0	4.05
Operationnal Participations	25.86	1.94	23.93
Other	0.01	0	0.01
Private Equities	0.95	0	0.95
Strategic Participations	19.51	0	19.51
TOTAL	**50.38**	**1.94**	**48.44**

3.8.3 Gains or losses on equity

3.8.3.1 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 2015 and 2014

	2014	2015
Financial assets designated at fair value - equities	0.00	0.00
Financial assets available for sale - equities	18.42	67.92
TOTAL	**18.42**	**67.92**

3.8.3.2 Unrealised gains or losses included in own funds

The total unrealised gains or losses related to equity instruments amounted to 11.75 million as at 31 December 2015. The decrease observed is explained by the sale of Luxempart for 66 million during the year 2015.

	2014	2015
Financial assets available for sale - equities	85.76	11.75
TOTAL	**85.76**	**11.75**

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 acquired EUR 280 million of ABS on a total portfolio of EUR 6.06 billion. BIL has exclusively securitisation exposures in the banking book referencing different types of underlying assets including residential mortgage-backed security and auto loans.

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:

- Payments in the transaction or mechanism are dependent upon the performance of the securitised exposure or pool of exposures;
- 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 2015, the Bank has implemented to following investment strategy in securitised products:

1) Invest only in senior tranche of ABS,
2) Limit the total invested amount to 300 million with a minimum rating of AA-,
3) Limit the WAL to 5-year,

4) Invest principally in ECB-eligible paper, if the paper is not ECB-eligible, a significant spread differential should reward for the additional risk,
5) In terms of geographic exposure, the investment is mainly concentrated in core-countries, peripheral countries could be envisaged only if the spread premium compared to other asset types is significant for a comparable level of risk,
6) Investments in securitised assets must comply to Art 405 & 406 of the CRR to ensure a preferential risk-weighting under the standard method.

On 31 December 2015, the total EAD for securitised products amounted to 280 million for twenty-eight exposures. The exposure could be split as follows:

Chart 1: Breakdown by country of Risk (by EAD)

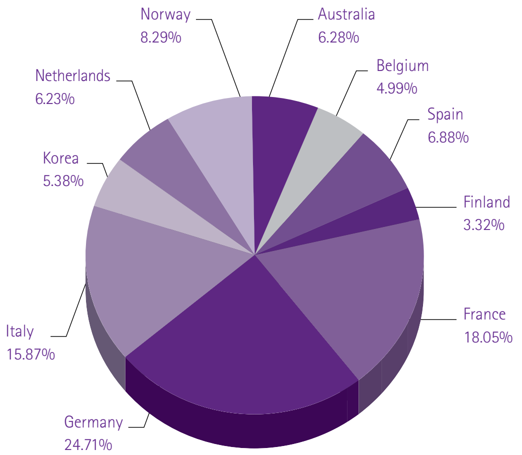
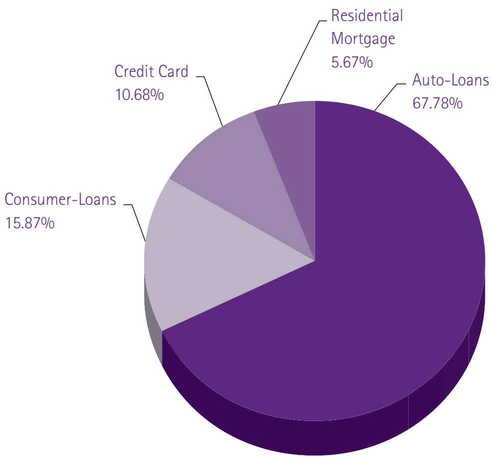


Chart 2: Breakdown type of assets (by EAD)



Most of the securitisation exposures are eligible to HQLA for the LCR calculation.

3.9.3 Securitisation accounting policies

Currently, the Bank does not own any securitisation for which it would be originator/initiator. Therefore, policies as described in the CRR 449 J are not deemed necessary at this stage.

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 available-for-sale securities. Therefore, the accounting treatment as explained in IAS 39 applies.

The Bank recognises AFS 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 AFS financial assets at fair value.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as AFS 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 recognises the impairment of available-for-sale (AFS) assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

When AFS financial assets are impaired, the AFS reserve is recycled and these impairment losses are reported in the consolidated statement of income as "Net income on investments".

3.9.4 Breakdown of securitisation exposures

The following table shows the securitisation positions purchased in the banking book at year-end 2015:

	INVESTOR
Traditional securisations	**Purchased exposures**
Auto-Loans	190.31
Consumer-Loans	44.55
Credit Card	30.00
Residential Mortgage	15.92
TOTAL	**280.78**

This table shows the securitisation breakdown by weighted risk in the banking book of the Bank at year-end 2015:

	INVESTOR	
Traditional securisations	<=20% RW	<=20% RW
Auto-Loans	190.31	38.06
Consumer-Loans	44.55	8.91
Credit Card	30.00	6.00
Residential Mortgage	15.92	3.18
TOTAL	**280.78**	**56.16**

This table represents the breakdown of securitisation exposures by rating class at year-end 2015:

Rating used for RWA calculations	EAD (Standard)	RWA
AAA	216.91	43.38
AA+	49.95	9.99
AA	13.91	2.78
TOTAL	**280.78**	**56.16**

And finally, this table shows the breakdown of securitisation exposures by valuation method at year-end 2015:

Valutation method	EAD (Standard)	RWA
Market	223.35	44.67
Expert	57.43	11.49
TOTAL	**280.78**	**56.16**

4. Market risk

Market risk is the risk of losses resulting from adverse movements of market risk parameters (e.g. interest rate risk, equity price risk and foreign exchange risk):

- The interest rate risk consists of a general interest rate risk, resulting from global market fluctuations, and a specific interest rate risk. The latter, also called 'credit spread risk', arises from variation of the credit spread of a specific signature within a rating class;
- 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.

Assets & Liabilities Management covers all the banking book's structural risks, namely interest-rate risk, foreign exchange risk and liquidity risk.

Liquidity risk measures BIL's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates.

Counterparty risk measures on a daily basis BIL's exposure to an external counterparty.

4.1 Market risk governance

4.1.1 Organisation

The Financial Risk Management department is split into three teams:

- **Banking & Counterparty Risk Monitoring**
  This team is in charge of monitoring counterparties' limits, margin calls for collateral management purposes, banking book activity and liquidity risk. It also implements the new regulatory ratios (LCR, NSFR, liquidity monitoring tools etc.).

- **Treasury and Financial Markets (TFM) Risk Monitoring**
  This team's main tasks are the implementation and monitoring of the financial risks attached to financial market activities (fixed income, FOREX, structured products and brokerage), the calculation of BIL group Value-at-Risk (VaR), the detection of suspicious transactions and the reconciliation of positions and profit and loss (P&L).

- **End User Integration (EUI) and Market Data Management**
  This team is in charge of the maintenance and the development of market risk data as well as dealing with dedicated reports and systems.

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 the following:

- A comprehensive risk measurement approach, which is an important part of BIL's risk profile monitoring and control process;
- A sound set of limits and procedures governing risk-taking: The system of limits must be consistent with the overall risk measurement and management process, and be proportionate to the capital position. These limits are set for the broadest scope 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, strategy and risk appetite.

Financial Risk Management (FRM) oversees market risk under the supervision of the Management Board and specialist risk committees. On the basis of its global risk management approach, FRM is responsible for identifying, analysing, monitoring and reporting on risks and results (including the valuation of assets) associated with financial market activities.

The policies, directives and procedures documenting and governing each of the activities are defined within BIL and applied to all of the Bank's entities:

- Head Office FRM teams define risk measurement methods for the whole Group, as well as reporting and monitoring the risks of the activities they are responsible for, at a consolidated level,
- Head Office and local FRM teams follow day-to-day activity, implement policies and directives, monitor risks (calculation of risk indicators, control limits and triggers, frame new activities/ new products and so on) and report to their own Management Board, as well as to their local supervisory bodies,
- The ALM Committee (ALCo) decides on the structural balance sheet positioning regarding interest rates, foreign exchange rates and liquidity profile. It defines and revises market risk limits,
- FRM, in its day-to-day activity, is supported by two operational committees: The MOC (Monthly Operational Committee) and the OR&NPC (Operational Risk and New Products Committee), which are detailed in Operational Risk section hereafter.

4.1.3 Risk measurement

The Bank has adopted sensitivity and VaR measurement methodologies as key risk indicators. Risk sensitivity measurements reflect the balance-sheet exposure to a parallel movement of 1% on the yield curve. VaR measures the maximal expected potential loss that can be experienced with a 99% confidence interval, within a 10-day holding period.

BIL applies sensitivity and VaR approaches to accurately measure the market risk inherent to its various portfolios and activities.

- General interest rate risk and currency risk are measured through historical VaR;
- Trading portfolio equity risk is measured through historical VaR;
- Non-linear risks are measured through historical VaR;
- Specific interest rate risk (spread risk) is measured through sensitivities.

As a complement to VaR measures and income statement triggers, the Bank applies a broad range of other measures aimed at assessing risks associated with its various business lines and portfolios (e.g. nominal limits, maturity limits, market limits, sensitivity to various risk factors etc.).

In 2015, the hypothetical back-testing calculated on the trading portfolio revealed 8 downward backtesting exceptions for interest rate and currency risks of which:

- 1 exception is explained by the unpegging of CHF from EUR exchange rate;
- 1 exception is explained by a high volatility of USD exchange rate against EUR;
- 4 exceptions are explained by no diversification benefit due to a sudden increase of middle/long term EUR interest rate joined with a high increase of EUR exchange rate against USD (EUR interest rate on 7y and 10y tenors climbed by more than 90% over 1 week);
- 2 exceptions are explained to a high volatility of USD exchange rate against EUR combined with exceptional variations of EUR interest rates.

By the end of 2015, a project has been launched to build a stress testing framework taking into account those exceptional market occurrences.

4.2 Market risk exposure

4.2.1 Treasury and Financial Market

The use of Value at Risk in relation to interest rates and foreign exchange rates (excluding ALM) is disclosed in the table below. BIL group's average VaR was 0.97 million in 2015, compared with 2.4 million in 2014.

VaR (10 days 99%) (in EUR million)		2014							
		IR [1] & FX [2] (trading and banking) [3]				EQT [4] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	4.45	2.97	1.57	0.70	0.00	0.00	0.01	0.00
	Maximum	5.45	3.99	2.46	0.96	0.01	0.02	0.01	0.03
Global	Average	2.40							
	Maximum	5.45							
	End of period	0.45							
	Limit	8.00							

VaR (10 days 99%) (in EUR million)		2015							
		IR [1] & FX [2] (trading and banking) [3]				EQT [4] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	1.17	1.06	0.89	0.76	0.01	0.01	0.00	0.00
	Maximum	5.22	2.21	1.25	1.30	0.02	0.02	0.01	0.02
Global	Average	0.97							
	Maximum	5.22							
	End of period	1.15							
	Limit	8.00							

As of 31 December 2015, the spread sensitivity (+1bp) for the capital markets activity amounted to EUR -25.838 for a limit set at EUR (60.000).

4.2.2 Asset & Liability Management (ALM)

The role of ALM in terms of interest rate risk management is to reduce the volatility of the income statement, thereby safeguarding the gross margin generated by the business lines.

The sensitivity of the net present value of ALM positions to a change in interest rates is currently used as the main indicator for setting limits and monitoring risks.

As at 31 December 2015, the ALM sensitivity amounted to (8.49 million) (vs. +61 million as at end 2014).

This change is mainly due to bonds purchases and increases of fixed rate loans.

The limit of interest-rate sensitivity for a 100 bp parallel shift was 81 million as at 31 December 2015 (identical to last year limit).

[1] IR: interest rate.
[2] FX: foreign exchange.
[3] IR & FX: excluding asset & liability management (ALM).
[4] EQT: equity.

4.2.3 Investment portfolio

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).

The investment portfolio has a total nominal exposure of 6.06 billion as at 31 December 2015 (vs. 4.91 billion as at 31 December 2014). The majority of the bonds are classified in the AFS portfolio and amounted to 5.94 billion as at 31 December 2015 (vs. 4.75 billion as at 31 December 2014). The remaining part is classified in the HTM portfolio (120 million as at 31 December 2015).

As far as the AFS-classified bond portfolio is concerned, the sensitivity of fair value (and the AFS reserve), to a one basis point widening of the spread, was (3.0 million) as at end 2015 (compared with (2.7 million) per basis point as at 31 December 2014).

Investment portfolio (in EUR million)	**Notional amount**		**Rate bpv**		**Spread bpv**	
	31/12/14	**31/12/15**	**31/12/14**	**31/12/15**	**31/12/14**	**31/12/15**
Treasury	2,323	2,939	(0.15)	(0.16)	(0.81)	(1.05)
ALM	2,588	3,126	(0.23)	(1.41)	(1.98)	(2.10)

4.2.4 Model management

4.2.4.1 Backtesting

Backtesting exercises are performed in order to check the reliability of VaR figures.

BIL has adopted hypothetical backtesting as its main indicator, which takes into account different potential scenarios (incorporating changes in all market data, in interest rates only, in exchange rates only and in equity prices).

The backtesting process provides the Financial Risk Management department with a number of exceptions representing the number of losses exceeding their corresponding VaR figures. In 2014, the hypothetical backtesting calculated on the trading portfolio revealed no downward exception for interest rate and currency risks attesting to the quality of the tools in place.

4.2.4.2 Systems and controls

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

All market activities are backed by specific guidelines 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 to ensure a comprehensive framework is in place to support those responsible for managing market risks.

4.3 Liquidity risk

The liquidity management process is based on 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. A weekly report is sent to the CEO, the CRO, the ALM Committee members, the Risk Management, the Cash & Liquidity Management and the TFM teams. An analysis of the balance sheet changes (e.g. customer deposits etc.) is presented and commented during the ALM Committee meetings.

4.3.1 Risk measurement

The internal liquidity management framework includes indicators enabling the assessment of BIL's resilience to liquidity risk. These indicators include liquidity ratios, which compare liquidity reserves with liquidity deficits [1]. All these indicators are assessed according to a variety of scenarios, in the major currencies. These ratios are sent to the CSSF and to the BCL, respectively on a daily and a weekly basis.

4.3.2 Risk exposure

In line with the 2014 year-end situation, BIL presented a significant liquidity surplus throughout 2015.

Additional funding needed to reach 100% of the base case ratio (in EUR million)	2015	Q1	Q2	Q3	Q4
	Estimated - 1 month				
Average	(4,257)	(3,510)	(4,597)	(4,903)	(4,712)
Maximum	(4,995)	(3,784)	(4,785)	(4,995)	(4,960)

The negative amount of additional funding needed to reach 100% of the base-case ratio shows that the Bank presents a surplus of liquidity.

From a commercial balance sheet point of view, the Bank has observed a progressive increase in customer deposits and a moderate growth in the loan portfolio.

This excess cash has been partially invested through the Bank's liquidity buffer bonds portfolio. This portfolio is mainly composed of central bank eligible bonds which are also compliant with the Basel III package requirements, i.e. the LCR and NSFR.

Please also note that the Bank's LCR has met the fully phased threshold of 100% and amounts to 119% by end 2015.

4.3.3 Asset encumbrance

Since December 2014, BIL group's asset encumbrance has been reported on a quarterly basis to the CSSF. This report includes the whole balance sheet split into encumbered and non-encumbered assets, collateral received and sources of encumbrance.

As of 31 December 2015, EUR 1.34 billion of BIL group's balance sheet assets were encumbered. Key sources of encumbrance are collateral swaps (EUR 0.7 billion), deposits to the Banque Centrale du Luxembourg (EUR 0.35 billion) and derivatives (EUR 0.4 billion). Collateral swaps aim at perceiving a premium from the lending of high quality securities (e.g. issued by general government) against lowest quality securities (e.g. RMBS). Central Bank's eligible securities are encumbered to pledge the participation of the Bank in TLTRO program. Lastly, collateral needs from derivatives (CSA and GRMA) require cash deposits.

The decrease of encumbered assets (EUR - 0.5 billion) is mainly explained by the variations of repurchase agreements with credit institutions (EUR -0.2 billion) and derivatives (EUR -0.3 billion). The increase of the participation of the Bank in TLTRO program for EUR 0.15 billion has been partially offset by the deposit to the BCL of collateral received.

Concerning contingent encumbrance, additional encumbered assets resulting from a decrease of 30% of their fair value amount to EUR 0.2 billion. From the same standpoint, Australian dollar and US dollar are the currencies whose the depreciation against the euro affected BIL group the most.

Finally, BIL group ensures to maintain a sufficient level of unencumbered high quality assets, particularly since the entry into force of LCR as from 1 October 2015. This explains the significant amount of central bank's eligible assets among unencumbered assets (EUR 4.6 billion) and the yearly variation of this amount (EUR +0.7 billion).

The figures displayed in the tables hereafter correspond to the 2015 median values which are quite representative of the end of 2015.

[1] Called "Base Case Ratio".

4.3.3.1 Assets

The following table describes the unencumbered and encumbered assets.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unen cumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	1,262.5		20,014.7	
Loans on demand	-		1,000.6	
Equity instruments	-	-	42.8	126.1
Debt securities	961.3	961.3	5,654.4	5,600.9
Loans and advances other than loans on demand	301.2		12,212.2	
Other assets	-		1,088.3	

4.3.3.2 Collateral received

The following table details the collateral received by the Bank related to the unencumbered and encumbered assets.

		Unencumbered	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
Collateral received by the reporting institution	**221.1**	**664.2**	**7,358.2**
Loans on demand	-	-	-
Equity instruments	-	-	-
Debt securities	221.1	491.7	467.1
Loans and advances other than loans on demand	-	187.43	82.0
Other collateral received	-	-	6,603.4
Own debt securities issued other than own covered bonds or ABSs	**-**	**22.7**	**-**

4.3.3.3 Sources of encumbrance

The following table details the breakdown of encumbered assets, collateral received and associated liabilities.

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**1,017.1**	**879.9**
Derivatives	435.4	301.2
Deposits	581.7	581.1
Debt securities issued	-	-
Other sources of encumbrance	**631.8**	**641.8**
TOTAL SOURCES OF ENCUMBRANCE	**1,623.9**	**1,496.1**

4.4 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 2015 and 2014.

	31/12/2014		31/12/2015	
Type of risk	**RWA**	**Capital requirement**	**RWA**	**Capital requirement**
Interest Rate Risk / Trade debt instruments	70	6	71	6
Position Risk on equities	49	4	0	0
Foreign Exchange Risk	17	1	26	2
TOTAL	**136**	**11**	**97**	**8**

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 Organisation

The Operational Risk Management unit encompasses the management of corporate operational risks, Insurances Reinsurance as well as Security risks (i.e. prevention and regulation).

- *Corporate Operational Risk* (COR) is in charge of the description of the Bank's internal operational risk management framework and its implementation and application throughout BIL group. In addition, COR is in charge of recording operational incidents, implementing Key Risk Indicators (KRI), supervising the Risk and Control Self-Assessment (RCSA) performed by each Business Line/branch/subsidiary, and following the resulting action plans. COR also provides quarterly reports to the Operational Risk and New Products Committee (ORNPC). These reports are also presented to the Internal Control Committee (ICC) and the Board Audit & Compliance Committee (BACC), and can be used to review changes in the Bank's risk profile and to take measures needed to reduce risk.

- Based on the risk profile of the Bank, the *Insurance & Reinsurance* team develops and ensures the adequacy (i.e. establishment of new insurance policies and/or update of existing policies) of the (re)insurance policy and (re) insurance system within the Bank and its branches/subsidiaries. This team also provides a centralised management of (re)insurance contracts and acts as single point of contact for our brokers, insurance companies and others insured bodies; In December 2015, the Bank has subscribed to a "cyber policy" contract to prevent any risk of cyber threat with effect on 1 January 2016.

- The *Security Risk Prevention* team is in charge of ensuring Information Security by defining the access rules to information in accordance with the Security Policy of the Bank, securing access to information by implementing tools and defining access granting procedures, and addressing the new challenges (i.e. reorganization, restructuring, expansion etc.) of the Bank by working to adapt its management system of access to information. This team is also responsible for analysing the risks related to the availability of critical activities (i.e. BIA [1], RTO [2], RPO [3]) and considering the strategy reducing these risks to an acceptable level through the development, testing and maintenance of a Business Continuity Plan (BCP).

- The *Security Risk Regulation* team ensures the analysis of risks related to the availability, confidentiality and integrity of information and implements the strategy, actions and projects to reduce these risks to an acceptable level. As part of its duties we can mention the management of security governance (i.e. roles, responsibilities, committees, processes), the development and maintenance of information classification, the awareness of employees with security requirements. This team is also in charge of the management of security incidents related to information, the organization of the Crisis Committee and Security Committee and the implementation and monitoring of decisions, the execution of controls to ensure compliance with the Security Policy and some aspects of the legal and regulatory compliance related to information security issues.

[1] Business Impact Analysis.
[2] Recovery Time Objective.
[3] Recovery Point Objective.

5.1.2 Policies & committees

BIL group's operational risk management framework relies on strong governance, with clearly defined roles and responsibilities.

Policies

BIL's Operational Risk Management (ORM) Policy involves identifying and regularly assessing the existing risks and current measures in order to ensure that the acceptance level defined per activity is respected. If not, the business has to implement swift corrective or improvement actions permitting a return to an acceptable situation. This framework is implemented through a preventive approach, particularly with regard to Information Security, Business Continuity and, whenever necessary, through the transfer of the financial consequences of certain risks towards insurances.

In terms of operational risk, BIL's management has conducted the annual review of the Operational Risk Global Policy without any major change. The few amendments have essentially been implemented into the underlying guidelines (i.e. guidelines for reporting operational incidents and guidelines for conducting a Risk and Control Self-Assessment).

In terms of Security Risk, including business continuity management, BIL group's Management Board has validated and implemented an Information Security Policy. This document and its related instructions, standards and practices are intended to secure BIL's information assets. Security programs and responsibilities (a Chief Information Security Officer supervising BCM, Asset Management, Identity & Access Management, IT Security and Physical Security) have been set up in order to let all the business lines operate within a secure framework.

Committees

The following committees are responsible for operational risk (including Security Risk) at BIL:

- The Operational Risk and New Products Committee (OR&NPC), mandated by the Management Board, is in charge of supervising operational risk at BIL and of addressing operational impacts arising from the development of new markets, products and services and significant changes to existing ones. To this end, the committee takes decisions on risks that have been identified and analysed (i.e. through projects, controls, incidents etc.) as well as on suitable measures to be taken in order to improve weak processes. This committee also monitors the decisions that have been taken during the OR&NPC and approves the results of the Risk & Control Self-Assessment (RCSA) exercises;
- The Security Committee (SC) is mandated by the Management Board to oversee the risks to BIL's Information Security and to that of its subsidiaries and branches, as well as all risks of deficiency of confidentiality, availability, or integrity of the Bank's information assets. It is also in charge of overseeing security incidents involving BIL, taking decisions on any project which could have a potential impact on the security of BIL's information assets and ensuring that the implementation and support of a global Business Continuity Plan (BCP) follows the strategy defined by the Management Board;
- The Crisis Committee is mandated by the Management Board to handle any operational crisis in a management committee, consisting of a core incorporating different members of the necessary functions for the management of any crisis; depending on the type of crisis, this core may be complemented by the heads of the affected entities;
- The Compliance, Audit and Risk (CAR) Committee is a monthly committee which has been set up at the initiative of IS4F[15]. This Committee covers aspects of Compliance, Audit and Risk between BIL and IS4F. It brings together the Chief Compliance Officer, the Head of Audit and the Head of BIL group's Risk Management and/or their substitutes;
- The Monthly Operational Committee (MOC), under the responsibility of the Treasury & Financial Markets (TFM) business line, and with the participation of ORM, supervises BIL's TFM projects and operational risks, takes decisions in terms of tackling day-to-day problems and monitors other risks related to TFM Luxembourg's activities.

5.1.3 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.

[15] IS4F (Innovative Solutions For Finance) is a professional of the financial sector (PFS company) that delivers IT infrastructure and production services for BIL.

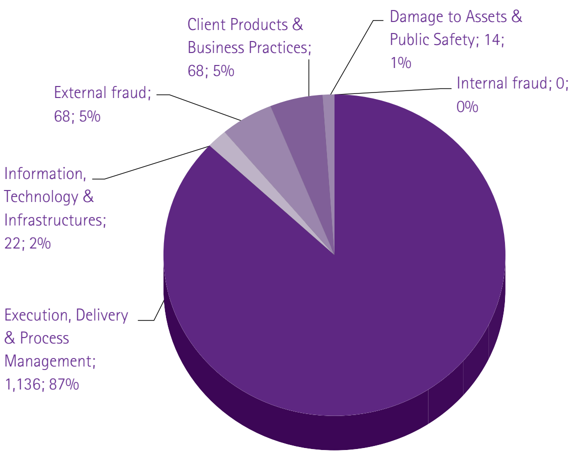
Operational risk event data collection

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 ensures that BIL complies with the Basel Committee's requirements (i.e. guidelines for reporting operational incidents). At the same time, recording incidents provides information that may be used to improve the internal control system and determine the Bank's operational risk profile.

The breakdown of BIL group's gross losses for the year 2015 by nature of events is disclosed in the chart below.

Gross impact in thousands EUR and share in %



Execution, Delivery & Process Management incidents represent 87% of the total amount of BIL group's operational risk losses. Losses related to these incidents were in the vast majority due to human errors and the main operational risk was due to wrong executions of instructions.

In the second place, 5% of the Bank's losses occurred were due to External Fraud events. In 2015, 60 external frauds (attempts) were recorded, among which 50 have been stopped by the Bank, thanks to the update of the internal memorandum that imposes the execution of additional controls based on the customer's habits or profile. The Bank didn't face any internal fraud in 2015.

Within the Client Products and Business Practices segment (5%), BIL recorded incidents linked to the disruption or the wrong conception of systems, with consequences on customers' accounts management and bad management of customers' data.

In the Information, Technology and Infrastructures category (2%), the operational incidents were mainly linked to temporary unavailability of IT systems. BIL does not estimate the related financial impacts except if they have direct financial consequences for the customers. The principal impact is calculated in Men/Days. *The Damage to Assets & Public Safety* event type (1%) represents the incidents linked with buildings and covered by insurances, which explains minor financial impacts.

In terms of reporting, an exhaustive monthly document is produced for each line manager (Head Office, subsidiaries and branches). It covers every incident that has arisen in their business over the previous month. Recipients analyse their report and verify that all incidents brought to their attention have been treated.

ORM also presents an operational risk report to the OR&NPC at the end of each quarter.

Self-assessment of risks and associated controls

A risk and control self-assessment (RCSA) is performed each year in order to identify the most significant risk areas for the Bank (to map the operational risks). This assessment provides a good overview of the various activities and existing checks and can lead to the definition of mitigation actions. The results of the assessment are reported to Management during the OR&NPC meetings. The guideline for RCSA has been reviewed in 2015 without important changes.

Definition and follow-up of action plans

As part of operational risk management, corrective action plans linked to major risks and events must be monitored closely.

Two types of action plans are managed through operational risk management:

- Action plans – Incidents: Following a significant incident, the management has to implement action plans in order to reduce the impacts or prevent its reiteration;
- Action plans – RCSA: In the event of unacceptable risk exposure, the management has to identify ad hoc action plans covering the identified risk.

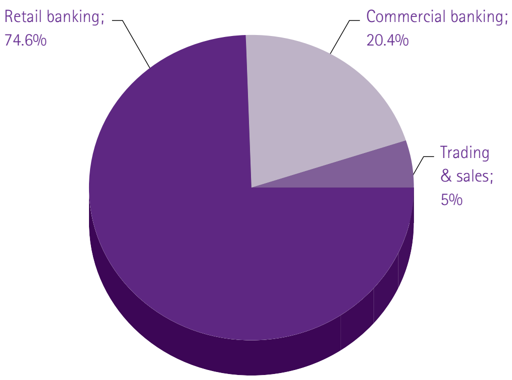
5.2 Calculation of the regulatory capital requirement

BIL applies the Basel III standardised approach to calculate regulatory capital 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 gross operating income of the underlying business, using an average over the past three years. The calculation is updated at the end of each year. The capital requirement for operational risk was 61.11 million at year-end 2015, as compared with 55.34 million at year-end 2014.

Banking activities (EUR million)	**Beta Factor**	**Ajusted P&L**	**Capital Requirements 2014**	**Capital Requirements 2015**
Commercial Banking	15%	83.13	11.08	12.47
Trading and sales	18%	16.97	2.49	3.05
Retail banking	12%	379.88	41.76	45.59
TOTAL		**479.98**	**55.34**	**61.11**

The chart below presents the breakdown by business lines (according to Basel definitions) of the capital requirement for operational risk as at 31 December 2015.



6. Remuneration policy and practices

6.1 Key pillars

This current Policy has been approved by the BoD on 12 December 2014 and amended on 24 March 2016 and is effective within BIL group as of that date.

To both reflect BIL group's core values and comply with the regulatory requirements in terms of remuneration policy and principles, the Policy has been defined around the following pillars:

- **Maintain a sound and effective risk management framework**
  The Policy 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 Policy is consistent with and promotes sound and effective risk management, does not induce excessive risk-taking and is fully aligned with BIL group's aim to efficiently manage conflicts of interests and promote best banking 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, are attractive and competitive, both in terms of amounts and structure.

  The remuneration components granted by BIL group to its staff are regularly benchmarked through market studies performed by internal 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.

- **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, 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 behavior. More generally, BIL group does not reward failure.

- **Comply with the regulatory framework**
  The Policy complies with the requirements on remuneration policy and practices in the financial sector that have been defined by applicable rules and competent regulators, including the CSSF.

- **Foster transparency**
  Transparency is a keystone of the Policy. Detailed information on the Policy's rules and practices is made available both internally and externally. It is essential for BIL group's employees to have clarity about the rules governing their remuneration and it is BIL group's responsibility to inform its staff members in a timely and appropriately way about any amendments which might affect them.

- **Ensure group consistency**
  BIL has established and maintained this Policy at Group level to ensure a group-wide consistency in its remuneration practices. In this context, the Policy is applied as such throughout all BIL subsidiaries and branches in Luxembourg and in all other countries where BIL group is present. The Boards of Directors of these entities are responsible for its implementation locally.

  Local adaptations are however at times introduced in order to (i) face local market demands or (ii) apply potentially more restrictive regulatory provisions imposed by the local regulators.

  BIL group regularly carries out internal audits in entities in Luxembourg and abroad to verify the compliance by such entities with the Policy.

6.2 Determination of the Identified Staff

BIL group has performed a detailed analysis in order to identify its members of staff whose professional activities have a material impact on BIL group's risk profile, referred to as the "Identified Staff".

This analysis has been performed in collaboration with Risk Management, Compliance, Audit, Legal and HR departments.

More precisely, BIL has updated the list of Identified Staff that had already been drawn up -on the basis of the analysis of job functions and responsibilities as prescribed mainly by the CEBS Guidelines on Remuneration Policies and Practices and CSSF Circulars 10/496 and 11/505- with regard to the new requirements detailed in the Commission Delegated Regulation EU 604/2014 (art. 3, 4) on the identification of categories of staff whose professional activities have a material impact on an institution's risk profile (15 qualitative and 3 quantitative criteria).

BIL group updates the list of Identified Staff at least on an annual basis

Proportionality principle at the level of Identified Staff

In accordance with the CSSF Circular 11/505, BIL group applies the proportionality principle to the Identified Staff who have less material impact on BIL group's risk profile and who have an annual variable remuneration inferior or equal to EUR 100,000.

Based on past practice in a normal year, a significant proportion (+/- 85%) of the Identified Staff is exempt due to the proportionality principle.

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, de facto, 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).

6.3 Determination of the Relevant Persons

In addition, as per Circular CSSF 14/585 transposing the European Securities Markets Authority's (ESMA) guidelines on remuneration policies and practices (MiFID), BIL group has identified the list of the so-called Relevant Persons, i.e. *"persons who can have a significant influence on the service provided or corporate behaviour of the firm, including persons who are client-facing front-office staff, sales force staff, and/or other staff indirectly involved in the provision of investment and/or ancillary services whose remuneration may create inappropriate incentives to act against the best interests of their clients. This includes persons who oversee the sales force (such as line managers) who may be incentivised to pressurise sales staff, or financial analysts whose literature may be used by sales staff to induce clients to make investment decisions. Persons involved in complaints handling, claims processing, client retention and in product design and development are other examples of 'relevant persons'. Relevant persons also include tied agents of the firm".*

The list is drawn and yearly reviewed by HR and Compliance Departments.

BIL already adopted before the implementation of Directive 2004/39/CE in 2007 and still maintains measures enabling to effectively identify where the Relevant Persons might fail to act in the best interests of clients and to take remedial action. In addition, organizational measures adopted in the context of the launch of new products or services appropriately take into account the remuneration policies and practices and the risks that these products or services may pose in terms of conduct of business and conflicts of interests.

6.4 Performance assessment

6.4.1 Performance management system

6.4.1.1 Main characteristics of the system

Within BIL group and subject to minor local adjustments, all members of staff are assessed once a year on the basis of targets set at the beginning of each calendar year.

A skills matrix assesses the competencies of the employee, four different categories of skills matrixes exist in order to take the role (people manager or non-people manager) as well as the status of the employee into account (staff or executive function). All skills matrixes assess Qualitative Criteria and are stable over time.

Targets are set for one calendar year. They are specific to the function and to the employee and focus on what the employee is asked to achieve in that particular calendar year. Objectives may be quantitative or qualitative, but the set of objectives should always include qualitative objectives for a minimum of 30%.

Objectives are weighted by the direct manager and must respect the SMART principle, i.e. be Specific, Measurable, Attainable, Relevant and Time-Bound.

As a general principle performance is assessed and discussed during appraisal interviews that are done at least once a year by the direct manager of the employee, might this employee be a Material Risk Taker or not. It is the manager's duty to ensure he/she has all the information needed to assess the employee's performance in a sound, fair and objective way. The appraiser (direct manager) might therefore take all the necessary actions (ask for third party feedback, analyse data…) to ensure he/she has all the elements necessary to have a complete overview of his/her employee's performance. It is also to be noted that the direct manager is aware that the appraisee is a Material Risk Taker or not.

The main objective of such annual assessments is to give feedback to employees regarding their performance and competencies and hence recognise the work done, identify developments needs and career aspirations and motivate employees to continue contributing to BIL group performance

BIL group's performance management also aims to:
- Guarantee fairness and internal consistency throughout the Group;
- Promote internal mobility;
- Recognise collective efforts done to achieve BIL group corporate objectives;
- Granting a fair bonus.

The performance appraisal guidelines and process are detailed in a practical guide provided to each appraiser and appraisee.

The appraisal interview assesses the competencies of the employee as well as the achievement of targets.

Both dimensions are rated on a scale from "5" to "1" and the final assessment score is based on the average of these 2 scores. There is no mathematical formula to set the final score. It is left to the manager's discretion to round it up or down.

Hereafter is the rating scale and the explanation of the scores:
- Rating 5: Very exceptional level of competencies and performance: the staff member has exceeded all expectations and targets constantly and throughout the year.
- Rating 4: Exceptional level of competencies and performance: the staff member has exceeded expectations and targets.
- Rating 3: Very good level of competencies and performance: the staff member masters his function and has reached all his/her targets.
- Rating 2: Competencies are not entirely in line with expectations and / or poor level of performance: the staff member needs to develop his / her competencies and / or has not reached all his/her targets.
- Rating 1: Competencies do not meet expectations and / or very poor level of performance: the staff member is not considered competent for his / her function or has not reached his/her targets at all.

6.4.1.2 Performance assessment process overview

The process starts with the annual target-setting interview between the appraisers and their direct reports. This interview is recorded in writing in the course of Q1. In the course of Q2 or Q3, an optional second interview (mid-year appraisal) may take place to monitor first achievements of the objectives and, if need be, adapt them to take the evolution of the professional context into account.

In Q4, during the appraisal interviews the skills of the employee and the level of target achievement are assessed on a 1-5 rating scale (see above).

6.4.1.3 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 the Group, the entity, the department and the individual.

BIL group can decide, in case of poor performance of the staff member, the department, the entity or BIL group to lower or even to reduce to zero the variable remuneration.

When it comes to individual performance, the rating given by the appraiser determines whether the staff member is eligible or not to receive variable remuneration.

- The staff member with a rating from "3" to "5" is eligible to receive variable remuneration;
- The staff member with a rating of "2" is in principle not eligible to receive variable remuneration;
- The staff member with a rating of "1" is not eligible to receive variable remuneration.

Variable compensation for performance should always have an individual component reflecting non-financial performance criteria, such as compliance with internal rules, risk standards and procedures, as well as compliance with the company's standards which govern relationships with clients and investors, as well as proper ethical behavior.

6.4.2 Setting-up of objectives

Objectives are cascaded via a top/down approach in order to allow BIL group to achieve its strategic priorities and ensure consistency and coherence throughout the Group.

Staff objectives are set-up in a way that ensures that individual performance and development are coherent with BIL group's ambition, future development and risk management.

6.5 Remuneration structure & pay out modalities

6.5.1 Description of the remuneration structure and components

The principles set out below apply to all employees within BIL group entities.

However, since BIL group is active in multiple countries, it sometimes needs to align its practices with the local regulatory frameworks (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:
Portion of the Total Remuneration periodically received in cash. It remunerates the competences of the staff members, is based on the role and experience of the staff members and is guaranteed irrespective of their performance. Fixed remuneration may be impacted by a Collective Bargaining Agreement and is generally composed of the following elements:
- Monthly salary;
- Additional monthly or fixed premium if provided for by contract or by Collective Bargaining Agreement;
- Mandatory additional premiums provided by a Collective Bargaining Agreement.

Fringe Benefits:
All advantages received in kind by an employee in addition to his/her Base Salary (such as company cars, pension schemes and loans). These benefits are non-discretionary and do not foster under any circumstances excessive risk-taking, but may be linked to hierarchical, advancement or seniority criteria. None of these benefits are linked to performance. Fringe Benefits depend on each entity's Remuneration Structure.

Variable Remuneration

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. In addition, the Management Board (hereafter "MMB") may participate to a Long Term Incentive Plan ("LTIP") set up for selected senior Management members. The target group of beneficiaries is defined by the Board Remuneration & Nomination Committee (hereafter "BRNC"). This LTIP rewards senior Management for the value created over an extended period of 5 to 8 years. Rewards are based on the total return to shareholders above a hurdle value of 8%. In order to ensure appropriate balance, the maximum payout to Management is limited to a percentage of the excess value created, and capped at a multiple of annual salary.

6.5.2 Staff identified as Material Risk Takers (MRT)

The list of Identified Staff is fixed at 76 (excluding non-executives BoD members) as of 31 December 2015.

6.5.3 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 notes 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 a period of reference.

As far as the proportion of Variable Remuneration to the Fixed Remuneration with regard to total annual remuneration of the Identified Staff is concerned, these proportions are linked to 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 law requirements, the variable component shall not exceed 100% of the Fixed Remuneration. On an exceptional basis, a higher maximum level of the ratio between the fixed and variable components can be fixed but will in no case exceed 200% of the fixed component. In such a case, and to comply with the CRD IV law requirements, the Board of Directors of the relevant entities, subject to a prior decision in that sense by the General Meeting of Shareholders of BIL SA, 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 affected, 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 the CRDIV law of 23 July 2015 will be strictly followed. Copies of both the recommendation of the board of directors to the shareholders and the shareholders' decision will be provided to the competent regulators.

If one of BIL group entities is located in another EU Member States which have chosen to set lower maximum percentages, the ratios defined in this Policy will no longer apply and the local mandatory requirements will be respected.

6.5.4 Variable remuneration principles for specific categories of staff

6.5.4.1 Non-executive directors in BIL group entities

Non-executive directors receive no Variable Remuneration. The remuneration of the non-executive directors of BIL SA for the exercise of their mandates, is set as follows:

- The annual General Meeting of Shareholders of BIL SA decides on the remuneration of non- executive directors;
- The annual General Meeting of Shareholders of the relevant BIL group entities defines the remuneration of their non-executive and independent directors.

A director of BIL SA (or of a BIL group entity) who is an employee of BIL SA (or of such BIL group entity), does not receive any remuneration for the exercise of their director mandate.

The annual General Meeting of the Shareholders of BIL SA, upon proposal of the BRNC, 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.

6.5.4.2 Members of the Management Board (MMB) of BIL group

The remuneration of the MMB and thus of the Management Board of BIL SA (hereafter, the "Management Board") is defined by the BoD, upon recommendation of the BRNC in accordance with the Applicable Laws and the TOR BRNC. The BRNC may be assisted by independent external advisers who are experts in the field of remuneration, and by the Risk, Human Resources, Compliance, Legal & Tax Departments of BIL.

In order to offer remuneration which is in line with market practice, the BRNC regularly orders a benchmarking study on the basis of which, if need be, it makes proposals to the BoD to adapt the remuneration conditions of the MMB, including the variable components.

The remuneration (allowances or attendance fees) of a MMB (if any) paid by a company in which the relevant MMB exercises a mandate in the name of, or on behalf of, BIL is retroceded to BIL.

The MMB's fixed remuneration constitutes the basis on which the Variable Remuneration is calculated.

Amount of Variable Remuneration

At the beginning of the year, objectives are set and a target bonus is agreed upon.

The variable remuneration that is paid may be more or less than the target bonus in case where the objectives have either been exceeded or have not been met.

Variable Remuneration is in no way guaranteed, remains discretionary and can be set to zero by the BoD if BIL group / Business / Individual performances targets are not fulfilled.

Composition of variable remuneration

Variable Remuneration is determined on the basis of key performance indicators (KPIs) of 3 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. Entire BIL group results determine whether and to what extend the KPIs are met. They are calculated on the basis of the financial indicators agreed by the BoD, acting upon the recommendation of the BRNC.

Business KPIs

The business KPIs are analysed individually with respect to the targets set for the MMBs for the coming year. The performance analysis will depend upon the manner in which the business or the support line has taken an active part in the achievement of the group target. This analysis will make it possible to make a difference between good and poor performance. The performance analysis will include the monitoring of the risk elements specific to the MMB's activity line. All these performance indicators are communicated to the MMBs at the beginning of the year.

Individual KPIs

The individual component is analysed separately with respect to the targets set for the MMBs for the coming year, 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 BIL group. Below a certain result in the individual assessment, the entire variable remuneration amount may be set at zero. This decision is made by the BoD, acting upon the recommendation of the BRNC.

6.5.4.3 Members of Management Boards in BIL group entities

For members of management boards in a BIL group entity (other than BIL), 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 (in a consolidated manner). There is no direct link with BIL group's results, the variable remuneration within a BIL group entity is, per se, conditioned by the good results of BIL group that impact on the Bonus Pool defined by the BRNC.

6.5.4.4 Control functions

The performance analysis and the decision on the variable remuneration are performed in all independence for the Control Functions. More precisely, in order to avoid conflicts of interests, the performance indicators in the Control Functions consist mainly of non-financial individual criteria and do not in any case contain financial criteria related to the entities they control.

As such, the performance is analysed on the basis of targets that are mainly qualitative and specific to the Control Functions performed. 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.

The Variable Remuneration of the Heads of the Control Functions is directly overseen and determined by the BRNC in accordance with the TOR BRNC at BIL SA level.

The appraisal, remuneration and objectives' setting with regard to the Chief Internal Auditor are done in line with the TOR BRNC at BIL SA level.

6.5.4.5 Identified Staff for whom a Target Bonus Model may be set

Variable Remuneration for all other Identified Staff is, in principle, discretionary.

For some Identified Staff members, a target bonus model may be set-up 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 performances targets are not fulfilled. The Variable Remuneration is by definition discretionary.

6.5.5 Variable remuneration pay-out principles for Identified Staff

6.5.5.1 Procedure governing the payment of variable remuneration

Variable Remuneration of Identified Staff members for whom the proportionality principle applies is paid out annually and in cash; the rules described below are hence applicable to the Identified Staff members for whom the proportionality principle cannot be applied only.

6.5.5.2 General rules for deferral

Variable Remuneration of an Identified Staff member higher than €100,000 shall be deferred in order to establish a clear link between the Variable Remuneration and the evolution of his / her performance and potential future impact. In that respect, the performance assessment is part of a multi-annual framework, thereby guaranteeing an assessment of long-term performance. As such, payment of a part of the variable remuneration is deferred and subject to the fulfillment of conditions described under 6.5.5.5 and 6.5.6. The Deferred part will not be paid out in case these conditions are not met.

6.5.5.3 Calculation of the deferred part of the variable remuneration

40% of the total variable remuneration is deferred over a period of three-year.
In the case where the Variable remuneration is of a particular high amount, the portion of the variable remuneration that is deferred should be increased to 60%. Whether the variable component is considered as of a particular amount will be determined by reference to the regulator guidelines in relation to the same.

6.5.5.4 Terms of payment of the variable remuneration

Principles applied to the non-deferred part

The non-deferred part related to performance year Y, i.e. 60% of the total variable remuneration, is paid during the first semester of Y+1:
- 50% (=30% of the total variable remuneration) in cash;
- 50% (=30% of the total variable remuneration) in the form of phantom shares, with a retention period of one year.

Principles applied to the deferred part

- 50% of the deferred part (=20% of the total variable remuneration) is paid in cash in Y+2, Y+3 and Y+4, vesting on a pro rata basis.
- 50% of the deferred part (=20% of the total variable remuneration) is paid in the form of phantom shares in Y+2, Y+3 and Y+4, vesting on a pro rata basis and subject to one year retention period.

6.5.5.5 Conditions of vesting of the deferred element

Any vesting of a deferred variable remuneration is subject to a prior analysis of a long term multi-year performance assessment that has to be verified and confirmed within the assessment review. Actual payment of the deferred part of the variable remuneration requires in any case the fulfillment of the following conditions:

Performance/ex-post risks adjustments

BIL group is in a position to reduce part of, or all the variable remuneration that has not been paid out yet in case the sustainability of the performance of the institution as a whole, the entity and / or the staff member is not in line with expectations. As an ex-post risk adjustment measure, malus will be used to reduce a part of, or all the deferred remuneration in order to take into account the potential negative underlying performance of BIL group as a whole, of BIL group entity or of the Identified Staff member.

A malus will be applied:
- In case of misbehavior or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks). If a malus is applied, all deferred but not yet vested bonus amounts (as well as the bonus amount for the current year) will be reduced in proportion to the severity and impacts of the error / misbehavior;
- When BIL group and/or the underlying BIL group entity suffers a significant downturn in its financial performance. If the performance for the year, assessed at Group and entity level under review is more than 20% lower than those in place when the deferred bonuses were granted, these deferred bonuses will be reduced in proportion to the performance decrease, unless this decrease is fully independent of the strategy employed during the previous years;
- When BIL as a whole and/or the underlying BIL group entity in which the staff member works suffers a significant failure of risk management. If this is the case, all deferred, but not yet vested, bonus amounts (as well as the bonus amount for the current year) will be reduced in proportion to the severity and impacts of the failure;
- In case of significant changes in the institution's economic or regulatory capital base.

Existence of a professional relationship

There needs to be a professional relationship under a contract of employment or, as the case may be, a mandate as a director and/or as a member of a management board, linking the beneficiary to a BIL group entity on the date of payment. Notwithstanding this principle, if the contract is terminated by statutory or early retirement, or on BIL group's initiative on grounds other than serious misconduct, or by automatic termination of the employment contract in accordance with article L.121-4 of the Labour Code or by death, the beneficiary whose contract is terminated may, nonetheless, claim payment of the deferred parts, unless the assessment of his/her performance and BIL group performance during the 12 months prior to termination of the professional relationship has substantially deteriorated. The deferred parts of the variable remuneration will not be paid if the beneficiary leaves BIL group voluntarily or if there is a termination on the grounds of serious misconduct. Nevertheless, the BoD reserves the right to adopt a more favourable position, on a case-by-case basis, upon recommendation of the BRNC, in accordance with the Applicable Laws and the TOR BRNC.

6.5.6 Specific provisions

6.5.6.1 Clawback

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 the variable remuneration might have been granted on the basis of intentionally erroneous information, the Board of Directors 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.

6.5.6.2 Prohibitions of guaranteed variable remuneration

A variable remuneration is 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.

6.5.6.3 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 member of the Management Board must reflect effective performance achieved over time and are designed not to reward failure or misconduct.

There are no "Golden Parachute" in BIL group's policy.

BIL group will ensure that it does not pay severance amounts greater than applicable under the laws, regulations and collective bargaining agreements or exceeding the benefits generally fixed by the competent courts.

The severance package should not only cover compensation for notice, or remuneration relating to the notice period, but should also cover any other payments made when ending the employment relationships.

6.5.6.4. 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 incorporated in the Policy.

6.6 Governance: roles and responsibilities in the design, implementation and ongoing supervision of the Policy

6.6.1 The Board of Directors (BoD)

The BoD is responsible for the design of the Policy and the review of the Policy's implementation.

The BoD also ensures to take into account all the adequate input provided by all relevant internal functions (among others Risk Management, Compliance, HR, Audit).

In addition, the BoD is assisted in its tasks by the BRNC.

Finally, the BoD ensures that the implementation of the Policy is reviewed on a regular basis by the BRNC, which must be assisted by the Control Functions described in section 6.5.4.4 or by external experts. Such central and independent reviews will assess whether the remuneration system (i) operates as intended and (ii) is compliant with the relevant and applicable regulations.

6.6.2 The Board Remuneration and Nomination 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 ensure 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 Terms of Reference (hereafter, the "ToR").

The responsibilities and the functioning of the BRNC at the level of BIL SA is laid down in the ToR of the BRNC. The ToR BRNC are reviewed regularly by the BRNC and subsequently by the BoD to ensure its perfect compliance with all relevant regulations applicable to BIL (hereafter, the "Applicable Laws").

Composition of the BRNC on 31 December 2015 :

Name	Responsability
George NARSA	Chairman
Nicholas HARVEY	Member
Pascale TOUSSING	Member

BIL group CEO, BIL Global Head of Human Resources department and the General Secretary of BIL are invited as permanent guests to the meetings of the Board Remuneration & Nomination Committee.

In the course of 2015, the BRNC met two times. The Chairman of the Remuneration & Nomination Committee reported to the Board on the work of the Committee after each meeting and presented his proposals on matters subject to a decision of the Council.

Since 1 January 2016, the BRNC is organised in two sub-meetings:
- Sub-meeting BRNC-N in charge of all nominations and appraisal related matters as provided for in the ToR BRNC;
- Sub-meeting BRNC-R in charge of the remuneration related matters as provided for in the ToR BRNC.

6.6.3 The Management Board

Notwithstanding the fact that the overall responsibility for the Policy remains in the hands of the BoD, it is important to note the active role of the Management Board of BIL SA ensuring the correct operational implementation of the Policy throughout BIL group and taking all appropriate measures to ensure that the Policy is applied properly and in line with mandatory local regulations.

6.6.4 The Control Functions

The roles of BIL group Control Functions (hereafter, the "Control Functions") in the design and the review of the Policy are as follows :

6.6.4.1 Internal Audit

Take part, in the annual identification of the Identified Staff;

- Take part to the annual review of the Policy in collaboration with other Control Functions and the Secretary General;
- Review on an annual basis the practical application of the Policy within BIL group.

6.6.4.2 Compliance

- Take part, in the annual identification of the Identified Staff;
- Take part to the annual review of the Remuneration Policy to ensure it effectively complies with regulatory requirements, in close collaboration with the other Control Functions and the Secretary General;
- Communicate to the HR Department any new regulations to be taken into account with regard to the Policy;
- Perform on a regular basis a gap analysis of the Policy compared to new regulations.

6.6.4.3 Risk Management

Take part, if need be, in the update of the Policy, especially regarding the definition of the Identified Staff.

6.6.5 Human Resources

The role of BIL group Human Resources function (hereafter, "HR") in the design and the review of the Policy is as follows:
- HR is the process owner of the Policy definition and implementation process;
- HR proceeds to the annual review and update the Policy on the basis of the new regulatory requirements in collaboration with other Control Functions and adapt BIL group procedures and processes accordingly;
- HR informs staff and concerned parties about all changes;
- HR coordinates the circulation of the Policy within BIL group, follow-up on the approval by local management, keeps track of the finalised version applicable in each entity;
- HR ensures that BIL group entities complies with the Policy during the appraisal/reward process (coherence checks, awareness of managers, etc.);
- HR coordinates works on the Policy between the various stakeholders;
- HR initiates updates especially regarding the identification of the Identified Staff;
- HR follows-up with the Supervisor and/or any local regulators (through BIL group entities Human Resources or compliance departments) when necessary;
- HR manages the day-to-day performance assessment and pay-out processes.

6.7 Disclosure

6.7.1 Internal disclosure

Employees of BIL group are informed through the intranet or by their hierarchy on the annual performance assessment and reward process and the main principles of this Policy.

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 Policy which might affect them.

6.7.2 External disclosure

As set out in art. 450 (Part Eight) of EU Regulation N°575/2013, BIL group 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 Staff).

6.8 Quantitative information

The tables below show data on remuneration for all staff and are expressed in EUR.

Information on remuneration of Identified Staff on 31 December 2015:

	Top Management	Other Identified Staff
MEMBERS (HEADCOUNT)	**47**	**29**
TOTAL FIXED REMUNERATION (IN EUR)	**11,118,791**	**3,888,936**
of which: fixed in cash	*11,118,791*	*3,888,936*
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)	**6,070,839**	**1,299,924**
of which: variable in cash	*2,641,189*	*1,180,658*
of which: variable in shares and share-linked instruments	*0*	*0*
of which: variable in other types instruments	*3,429,650*	*119,266*
TOTAL AMOUNT OF VARIABLE REMUNERATION AWARDED IN YEAR N WHICH HAS BEEN DEFERRED (IN EUR)	**1,251,186**	**95,413**
of which: deferred variable in cash in year N	*625,593*	*47,706*
of which: deferred variable in shares and share-linked instruments in year N	*0*	*0*
pf which: deferred variable in other types of instruments in year N	*625,593*	*47,706*
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)	3,508,533	0
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)	3	0
TOTAL AMOUNT OF GUARANTEED VARIABLE REMUNERATION (NEW SIGN-ON PAYMENTS) (IN EUR)	**285,000**	**0**
Number of beneficiaries of severance payments	2	0
Total amount of severance payments paid in year N (in EUR)	848,239	0
Article 450 h(v) – Highest severance payment to a single person (in EUR)	511,251	0
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 N20	**0**	**0**
Total amount of variable remuneration awarded for multi- year periods under programmes which are not revolved annually (in EUR)	**1,674,000**	**0**

Information on remuneration for all staff on 31 December 2015:

Business areas	MB Mgmt function	Investment banking	Retail banking	Asset Mgmt	Corporate functions	Ind. control functions	All other
Number of members (Headcount)	8						
Total number of staff in FTE		**67.40**	**523.34**	**484.95**	**706.95**	**150.00**	**0**
Total remuneration (in EUR)	**6,120,781**	**7,045,143**	**36,735,433**	**58,263,084**	**52,483,186**	**13,431,145**	**0**
Of which: variable remuneration (in EUR)	*2,765,123*	*827,350*	*2,797,046*	*7,173,692*	*4,425,531*	*1,187,245*	*0*

Information on identified staff remunerated EUR 1 million or more in 2015:

Reporting under Article 450(1)(i) of Regulation (EU) No 575/2013	
Total remuneration; payment band (in EUR)	**Number of identified staff (headcount)**
1,000,000 to below 1,500,000	1
1,500,000 to below 2,000,000	1
2,000,000 to below 2,500,000	0
2,500,000 to below 3,000,000	0
3,000,000 to below 3,500,000	0
3,500,000 to below 4,000,000	0
4,000,000 to below 4,500,000	0
4,500,000 to below 5,000,000	0
5,000,000 to below 6,000,000	0
6,000,000 to below 7,000,000	0
7,000,000 to below 8,000,000	0
8,000,000 to below 9,000,000	0
9,000,000 to below 10,000,000	0

Appendix 1: Declaration of the Management Body

BIL group's Board of Directors ensures that the risk management arrangements of BIL group are adequate with regard to the Bank's profile and strategy, these arrangements being already implemented or making part of an action plan with the aim to reach this objective.

This declaration is based on the reliability of the risk-related information communicated to the Board through the dedicated channels foreseen by the governance. In particular, the Board Risk Committee - a sub-committee of the Board- is the forum where the risk exposures are compared to the Board's risk appetite, and where significant risk events and issues are reported and discussed.

Appendix 2: Transitional own funds disclosure template

	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	849.5	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
	of which: Instrument type 1	849.5	EBA list 26 (3)	N/A
2	Retained earnings	160.5	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	60.6	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	25	26 (2)	N/A
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,095.7**	**-**	**N/A**
	Common Equity Tier 1 capital: Regulatory Adjustments			
7	Additional value adjustments (negative amount)	-	34. 105	N/A
8	Intangible assets (net of related tax liability) (negative amount)	(95.1)	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)	(257.8)	36 (1) (c), 38, 472 (5)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	2.6	33 (a)	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	-	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 valur resulting from changes in own credit standing	(1.2)	33 (1) (b) (c)	N/A
15	Defined-benefit pension fund assets (negative amount)	(5.4)	36 (1) (e), 41, 472 (7)	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(1.5)	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	Empty set in the EU	-	-	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	(8.7)	-	N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(89.1)	-	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	(89.1)	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	80.4	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)**	**(367.0)**	**-**	**N/A**
29	**Common Equity Tier 1 (CET1) capital**	**728.6**	**-**	**N/A**
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	150	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	150	-	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**	**150**	**-**	**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**	**150**	**-**	**N/A**
45	**Tier 1 capital (T1=CET1+AT1)**	**878.6**	**-**	**N/A**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	-	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	18.5	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	1.0	62 (c) & (d)	N/A
51	**Tier 2 (T2) capital before regulatory adjustments**	**19.4**	**-**	**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**	**19.4**	**-**	**N/A**
59	**Total capital (TC=T1+T2)**	**898.1**	**-**	**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**	**5,588.7**	**-**	**N/A**
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**13.04%**	**92 (2) (a), 465**	**N/A**
62	**Tier 1 (as a percentage of risk exposure amount)**	**15.72%**	**92 (2) (b), 465**	**N/A**
63	**Total capital (as a percentage of risk exposure amount)**	**16.07%**	**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)**	**2.50%**	**CRD 128, 129, 140**	**N/A**
65	**of which: capital conservation buffer requirement**	**2.50%**	**-**	**N/A**
66	**of which: countercyclical buffer requirement**	**-**	**-**	**N/A**
67	**of which: systemic risk buffer requirement**	**-**	**-**	**N/A**
67a	**of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer**	**-**	**CRD 131**	**N/A**
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**7%**	**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)	3.1	" 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)	5.4	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)	24.9	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 standardised approach (prior to the application of the cap)	-	62	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised 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	286.3	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

Appendix 3: Capital instruments' main features template

1	Issuer	Banque Internationale à Luxembourg SA	Banque Internationale à Luxembourg SA	Banque Internationale à Luxembourg SA	Banque Internationale à Luxembourg SA	Banque Internationale à Luxembourg SA	Banque Internationale à Luxembourg SA
2	Unique identifier	XS0287602568	XS0254491268	CH0025572386	XS0259302585	XS1068770335	LU0006040975
3	Governing law(s) of the instrument	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law
Regulatory treatment							
4	Transitional CRR rules	Ineligible	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible	Ineligible	Additional Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo&(sub-)consolidated	N/A	solo&(sub-)consolidated	solo&(sub-)consolidated	solo&(sub-)consolidated	solo&(sub-)consolidated	solo&(sub-)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated Contingent Convertible Debt	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	0	USD 6.7 mio (EUR 6.2 mio)	CHF 6.2 mio (EUR 5.7 mio)	USD 7.2 mio (EUR 6.6 mio)	EUR 150.00 mio	EUR 848.07 mio
9	Nominal amount of instrument	EUR 90,600.000	USD 88,300.000	CHF 66,820.000	USD 69,300.000	EUR 150,000.000	EUR 141,224.090
9a	Issue price	99.93%	100.00%	100.00%	99.91%	100.00%	N/A
9b	Redemption price	100%	100%	100%	100%	100%	N/A
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Shareholder's equity
11	Original date of issuance	27/02/2007	16/05/2006	14/06/2006	05/07/2006	30/06/2014	08/03/1856
12	Perpetual or dated	Dated	Dated	Dated	Dated	Perpetual	Perpetual
13	Original maturity date	27/02/2017	16/05/2016	14/06/2016	05/07/2016	No maturity	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	EUR 50,000 per Note of EUR 50,000 specified denomination for tax, default and regulatory event calls	USD 100,000 per Note of USD 100,000 specified denomination for tax, default and regulatory event calls	CHF 5,000 per Note of CHF 5,000 specified denomination for tax, default and regulatory event calls	USD 100,000 per Note of USD 100,000 specified denomination for tax, default and regulatory event calls	Tax, capital and regulatory event calls	N/A
16	Subsequent call dates, if applicable	Any Interest Payment Date	Any Interest Payment Date	Any Interest Payment Date	Any Interest Payment Date	30/06/2020 and each anniversary date thereafter	N/A

Coupons / dividends							
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Fixed	floating
18	Coupon rate and any related index	EUR 3m + 67.5 bp	USD libor 3 m + 70 bp	CHF libor 3 m + 57.5 bp	USD libor 3 m + 72 bp	6,625% (+ 0,375% per annum in line with the increase of the CET1 trigger level)	N/A
19	Existence of a dividend stopper	no	no	no	no	no	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionnary	fully discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes	Yes	No	N/A
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible	N/A
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	CET1 <5.75% to 7% -trigger Can be revised at the bank's discretion at any time	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	Fully	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	100%	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	Banque Internationale à Luxembourg SA	N/A
30	Write-down features	No	No	No	No	No	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A

33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Unsubordinated Debt	Unsubordinated Debt	Unsubordinated Debt	Unsubordinated Debt	Dated Subordinated Debt	Subordinated Contingent Convertible Debt
36	Non-compliant transitioned features	yes	yes	yes	yes	No	No
37	If yes, specify non-compliant features	Instrument contains step-up date not compliant with the grandfathering eligibility (CRR Art. 468§4)	Instrument contains an incentive to redeem	Instrument contains an incentive to redeem	Instrument contains an incentive to redeem	N/A	N/A

Appendix 4: Leverage ratio disclosure template

Summary reconciliation of accounting assets and leverage ratio exposures

		Amounts in EUR million
1	Total assets as per published financial statements	21,472
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	957
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
4	Adjustments for derivative financial instruments	151
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,171
7	Other adjustments	(366)
8	**Total leverage ratio exposure**	**22,429**

Leverage ratio common disclosure

		Amounts in EUR million
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,187
2	(Asset amounts deducted in determining Tier 1 capital)	(366)
3	**TOTAL ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND FIDUCIARY ASSETS) (SUM OF LINES 1 AND 2)**	**20,821**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	285
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	151
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)**	**436**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	0
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)**	**0**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,171
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,171**
Capital and total exposures		
20	**Tier 1 capital**	**879**
21	**TOTAL LEVERAGE RATIO EXPOSURES (SUM OF LINES 3, 11, 16, 19, EU-19A AND EU-19B)**	**22,429**
Leverage ratio		
22	**Leverage ratio**	**3.92%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
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	-

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		Amounts in EUR million
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	21,187
EU-2	Trading book exposures	91
EU-3	Banking book exposures, of which:	21,096
EU-4	Covered bonds	24
EU-5	Exposures treated as sovereigns	6,994
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	2,391
EU-8	Secured by mortgages of immovable properties	4,767
EU-9	Retail exposures	2,264
EU-10	Corporate	3,341
EU-11	Exposures in default	355
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	961

Appendix 5: Countercyclical capital buffer disclosure template

ROW		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
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country	-	-	-	-	-	-	-	-	-	-	-	-
	Albania	-	0.04	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
	Algeria	-	0.14	-	-	-	-	0.02	0.00	-	0.02	0.00	0%
	Andorra	0.00	0.51	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Angola	-	0.02	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Anguilla	-	0.03	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Argentina	-	0.95	-	-	-	-	0.14	0.00	-	0.14	0.00	0%
	Armenia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Australia	-	54.39	-	-	17.64	-	8.16	0.00	3.53	11.69	0.00	0%
	Austria	-	262.82	-	0.38	-	-	77.50	0.44	-	77.94	0.02	0%
	Azerbaijan	-	0.13	-	-	-	-	0.07	0.00	-	0.07	0.00	0%
	Bahamas	0.25	1.94	-	0.08	-	-	0.31	0.01	-	0.32	0.00	0%
	Bahrain	-	5.94	-	-	-	-	0.58	0.00	-	0.58	0.00	0%
	Barbados	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Belarus	-	0.02	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Belgium	5.41	1,078.19	0.00	1.00	14.00	-	56.11	0.15	2.80	59.07	0.01	0%
	Belize	0.00	7.50	-	0.07	-	-	3.14	0.01	-	3.15	0.00	0%
	Bermuda	-	0.02	-	0.00	-	-	0.00	0.00	-	0.00	0.00	0%
	Bolivia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Bosnia And Herzegovina	-	0.03	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Brazil	0.01	0.53	-	0.00	-	-	0.09	0.00	-	0.09	0.00	0%
	Bulgaria	0.45	0.03	-	-	-	-	0.35	0.00	-	0.35	0.00	0%
	Burundi	-	0.02	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Cambodia	-	0.28	-	-	-	-	0.22	0.00	-	0.22	0.00	0%
	Cameroon	-	0.65	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Canada	0.00	110.68	-	0.13	-	-	49.31	0.01	-	49.32	0.01	0%
	Cayman Islands	41.30	0.03	0.84	-	-	-	41.31	0.84	-	42.16	0.01	0%
	Chile	0.00	0.13	-	-	-	-	0.01	0.00	-	0.01	0.00	0%

China	-	5.34	-	0.00	-	-	1.32	0.00	-	1.32	0.00	0%
Colombia	-	0.59	-	-	-	-	0.31	0.00	-	0.31	0.00	0%
Congo	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Congo. Democratic Republic	-	0.28	-	-	-	-	0.02	0.00	-	0.02	0.00	0%
Costa Rica	0.02	0.00	-	-	-	-	0.02	0.00	-	0.02	0.00	0%
Côte D'Ivoire	-	0.79	-	-	-	-	0.03	0.00	-	0.03	0.00	0%
Croatia	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Curaçao	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Cyprus	0.06	10.39	-	0.00	-	-	0.08	0.00	-	0.08	0.00	0%
Czech Republic	-	55.04	-	-	-	-	2.32	0.00	-	2.32	0.00	0%
Denmark	3.23	203.12	-	0.15	-	-	35.95	0.39	-	36.34	0.01	0%
Dominican Republic	-	0.04	-	-	-	-	0.02	0.00	-	0.02	0.00	0%
Egypt	-	0.02	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Estonia	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Faroe Islands	-	0.00	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
Finland	0.00	93.64	-	0.00	-	-	13.11	0.00	-	13.11	0.00	0%
France	53.92	2,199.26	-	885.74	40.29	-	381.80	12.20	8.06	402.06	0.09	0%
Gambia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Georgia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Germany	228.40	562.73	0.31	0.10	5.89	-	454.13	0.37	1.18	455.68	0.10	0%
Ghana	-	1.42	-	-	-	-	0.60	0.00	-	0.60	0.00	0%
Gibraltar	2.95	9.16	-	0.08	-	-	2.95	0.01	-	2.97	0.00	0%
Greece	-	5.80	-	-	-	-	0.03	0.00	-	0.03	0.00	0%
Guernesey	0.05	18.76	-	-	-	-	2.97	0.00	-	2.97	0.00	0%
Guinea	-	0.14	-	0.00	-	-	0.00	0.00	-	0.00	0.00	0%
Haiti	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Hong Kong	0.01	2.41	-	-	-	-	0.25	0.00	-	0.25	0.00	0%
Hungary	-	0.31	-	0.04	-	-	0.01	0.01	-	0.02	0.00	0%
Iceland	-	1.29	-	-	-	-	3.40	0.00	-	3.40	0.00	0%
India	-	0.16	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
Indonesia	-	0.44	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Iran. Islamic Republic Of	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Iraq	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Ireland	15.06	432.35	-	79.46	32.61	-	97.66	0.00	6.52	104.18	0.02	0%
Isle Of Man	0.06	0.01	-	-	-	-	0.05	0.00	-	0.05	0.00	0%
Israel	0.00	1.10	-	0.00	-	-	0.04	0.00	-	0.04	0.00	0%
Italy	0.72	411.90	-	0.95	44.55	-	169.86	0.67	8.91	179.44	0.04	0%
Japan	-	27.19	-	0.06	-	-	5.89	0.24	-	6.12	0.00	0%
Jersey	1.74	13.17	-	-	-	-	1.75	0.00	-	1.75	0.00	0%

ROW		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
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country	-	-	-	-	-	-	-	-	-	-	-	-
	Kazakstan	-	0.04	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
	Kenya	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Korea. Republic Of	-	0.03	-	-	15.11	-	0.00	0.00	3.02	3.02	0.00	0%
	Kuwait	-	41.65	-	-	-	-	63.74	0.00		63.74	0.01	0%
	Kyrgyzstan	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Latvia	-	0.04	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Lebanon	-	2.06	-	-	-	-	0.05	0.00	-	0.05	0.00	0%
	Liberia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Libyan Arab Jamahiriya	-	0.03	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Liechtenstein	0.16	83.95	-	0.01	-		0.88	0.00	-	0.88	0.00	0%
	Lithuania	-	48.05	-	-	-	-	19.34	0.00	-	19.34	0.00	0%
	Luxembourg	1,293.30	8,800.28	1.59	76.45	73.87	-	2,421.53	16.03	14.77	2452.34	0.54	0%
	Macau	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Macedonia. Former Yugoslav Rep.	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Madagascar	0.00	0.02	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Malaysia	0.00	0.64	-	-	-	-	0.02	0.00	-	0.02	0.00	0%
	Mali	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Malta	7.01	2.94	0.02	0.04	-	-	7.03	0.02	-	7.05	0.00	0%
	Marshall Islands	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Mauritius	0.00	40.19	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
	Mexico	-	1.35	-	0.02	-	-	3.74	0.00	-	3.75	0.00	0%
	Moldova. Republic Of	-	0.01	-	0.00	-	-	0.00	0.00	-	0.00	0.00	0%

Monaco	-	76.53	-	-	-	-	7.69	0.00	-	7.69	0.00	0%
Montenegro	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Morocco	-	5.58	-	-	-	-	0.57	0.00	-	0.57	0.00	0%
Mozambique	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Namibia	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Nepal	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Netherlands	11.47	295.59	-	1.41	17.50	-	74.76	0.17	3.50	78.43	0.02	0%
New Zealand	0.00	1.03	-	-	-	-	1.21	0.00	-	1.21	0.00	0%
Nicaragua	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Niger	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Nigeria	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Norway	0.01	92.35	0.64	2.79	-	-	0.87	1.01	-	1.89	0.00	1%
Pakistan	-	0.23	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Panama	0.12	13.07	-	0.00	-	-	0.40	0.00	-	0.40	0.00	0%
Paraguay	-	0.24	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Peru	-	0.35	-	-	-	-	0.11	0.00	-	0.11	0.00	0%
Philippines	-	0.41	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
Poland	-	107.95	-	-	-	-	21.95	0.00	-	21.95	0.00	0%
Portugal	0.08	8.11	-	0.00	-	-	1.73	0.00	-	1.73	0.00	0%
Qatar	-	260.53	-	-	-	-	22.90	0.00	-	22.90	0.01	0%
Romania	-	0.08	0.18	-	-	-	0.21	0.18	-	0.39	0.00	0%
Russian Federation	-	42.61	-	0.05	-	-	29.09	0.01	-	29.10	0.01	0%
Rwanda	-	0.20	-	-	-	-	0.17	0.00	-	0.17	0.00	0%
Saint Kitts And Nevis	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Saint Lucia	-	0.01	-	0.01	-	-	0.00	0.00	-	0.00	0.00	0%
Saint Vincent And The Grenadines	0.02	1.87	-	-	-	-	0.04	0.00	-	0.04	0.00	0%
Saudi Arabia	-	4.19	-	0.01	-	-	0.30	0.00	-	0.30	0.00	0%
Senegal	-	0.31	-	-	-	-	0.35	0.00	-	0.35	0.00	0%
Serbia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Seychelles	0.00	1.30	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
Sierra Leone	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Singapore	0.24	19.15	-	0.00	-	-	1.89	0.00	-	1.89	0.00	0%
Sint Maarten (Dutch Part)	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
Slovakia	-	126.87	-	-	-	-	4.99	0.00	-	4.99	0.00	0%

	Slovenia	-	0.04	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
	South Africa	-	0.66	-	-	-	-	0.97	0.00	-	0.97	0.00	0%
	Spain	0.00	410.54	-	0.18	19.31	-	163.81	0.07	3.86	167.74	0.04	0%
	Sri Lanka	-	1.73	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Sweden	-	100.16	-	0.10	-	-	21.02	0.01	-	21.03	0.00	1%
	Switzerland	7.22	845.90	0.04	1.80	-	-	35.87	0.23	-	36.10	0.01	0%
	Taiwan	-	0.04	-	-	-	-	0.01	0.00	-	0.01	0.00	0%
	Tanzania. United Republic Of	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Thailand	-	1.51	-	0.04	-	-	1.07	0.00	-	1.07	0.00	0%
	Togo	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Tunisia	-	2.27	-	-	-	-	0.03	0.00	-	0.03	0.00	0%
	Turkey	1.35	5.91	-	0.10	-	-	9.92	0.42	-	10.34	0.00	0%
	Ukraine	-	6.94	-	-	-	-	0.49	0.00	-	0.49	0.00	0%
	United Arab Emirates	18.45	133.04	-	-	-	-	30.42	0.00	-	30.42	0.01	0%
	United Kingdom	0.29	662.46	-	784.03	-	-	72.22	11.49	-	83.71	0.02	0%
	United States	0.66	440.14	-	0.00	-	-	21.24	0.00	-	21.24	0.00	0%
	Unknown	4.64	0.15	0.02	-	-	-	4.63	0.02	-	4.66	0.00	0%
	Uruguay	-	0.65	-	-	-	-	0.04	0.00	-	0.04	0.00	0%
	Uzbekistan	-	0.01	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Venezuela	-	2.99	-	0.02	-	-	0.01	0.00	-	0.01	0.00	0%
	Viet Nam	-	0.57	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
	Virgin Islands. British	0.18	49.72	-	5.46	-	-	0.72	0.13	-	0.85	0.00	0%
	Zambia	-	0.00	-	-	-	-	0.00	0.00	-	0.00	0.00	0%
020	**TOTAL**	**1,698.86**	**18,327.28**	**3.65**	**1,840.78**	**280.78**	**0.00**	**4,460.03**	**45.16**	**56.16**	**4,561.35**	**1.00**	

Table 2

		010
010	Total risk exposure amount	4,561.35
020	Institution specific countercyclical buffer rate	0.01%
030	Institution specific countercyclical buffer requirement	0.229

Appendix 6: Glossary

AFS Available For Sale
Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

A-IRBA Advanced Internal Rating-Based Approach
Institutions using the IRB approach are allowed to determine borrowers' probabilities of default and to rely on own estimates of loss given default and EAD on an exposure-by-exposure basis. These risk measures are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee.

BANK
Corresponds to Banque Internationale à Luxembourg, including branches and subsidiaries.

ALM Asset and Liability Management
Action – for instance in a financial institution or a corporate – of managing the net risk position between assets and liabilities, particularly with respect to imbalances generated by movements in interest rates, currencies and inflation, but also maturity mismatch, liquidity mismatch, market risk and credit risk.

CCF Credit Conversion Factor
The CCF is the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment will be determined by the advised limit, unless the unadvised limit is higher.

CDS Credit Default Swap
Swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a pay-off if a credit instrument (typically a bond or loan) undergoes a defined "credit event", often described as a default (failure to pay).

CRD Capital Requirements Directive
The Capital Requirements Directive (CRD) for the financial services industry introduces a supervisory framework in the EU that reflects the Basel II rules on capital measurement and capital standards.

CRM Credit Risk Mitigant

A range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or by buying a hedging instrument).

CSSF Commission de Surveillance du Secteur Financier
The Commission de Surveillance du Secteur Financier is Luxembourg's regulator for financial institutions.

DTA Deferred Tax Asset
Deferred tax assets are created due to taxes paid or carried forward but not yet recognised in the income statement. Its value is calculated by taking into account financial reporting standards for book income and the jurisdictional tax authority's rules for taxable income.

EAD Exposure At Default
The EAD is used for calculating regulatory capital requirements including (1) potential future exposures resulting from future commitments, (2) netting arrangements and collateral agreements (3) after a possible substitution in the case of a personal guarantee.

ECAI External Credit Assessment Institutions
Under the Basel II agreement of the Basel Committee on Banking Supervision, banking regulators can allow banks to use credit ratings from certain approved credit rating agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.

EL Expected Loss
The amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one-year period.

FX Foreign Exchange
Transaction of international monetary business, as between governments or businesses of different countries.

HTM Held To Maturity
Non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale.

IAS International Accounting Standards
IAS stands for International Accounting Standards. IAS are used outside the USA, predominantly in continental Europe.

ICAAP Internal Capital Adequacy Assessment Process
The main objective of the Pillar 2 requirements is to implement procedures that will be more sensitive to an institution's individual risk profile. This is to be achieved through the implementation of internal processes (ICAAP).

IFRS International Financial Reporting Standards
International Financial Reporting Standards published by the IASB and adopted by most countries outside the USA. They have been designed to ensure globally transparent and comparable accounting and disclosure.

IR Interest Rate
Interest expressed as an annual percentage rate.

ISDA International Swap and Derivative Association
Trade organisation of participants in the market for over-the-counter derivatives. Its headquarters are in New York, and it has created a standardised contract (the ISDA Master Agreement) for derivatives transactions.

IT Information Technology
Study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit and securely retrieve information.

JST Joint Supervisory Team
Joint Supervisory Teams (JSTs) are one of the main forms of cooperation between the ECB and the National Competent Authorities (NCA).

LGD Loss Given Default
The ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.

L&R Loans & Receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available for sale.

NPE Non-Performing exposures
Non-Performing exposures are all credit lines considered 90 past-due.

PD Probability of Default
The probability of default of a counterparty over a one-year period.

P&L Profit and Loss
The statement of income is a document showing all wealth-creating revenues and wealth-destroying charges. There are two major statement of income formats: the "by nature" statement of income format and the "by function" statement of income format. Also called: profit and loss account.

SSM Single Supervisory Mechanism
The Single Supervisory Mechanism (SSM) is the name for the mechanism which has granted the European Central Bank (ECB) a supervisory role to monitor the financial stability of banks based in participating states, starting from 4 November 2014. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

SRM Single Resolution Mechanism
A mechanism which establishes uniform rules and a uniform procedure for the resolution of credit institutions established in the banking union. The SRM is a necessary complement to the Single Supervisory Mechanism in order to achieve a well-functioning banking union.

RWA Risk Weighted Assets
Used in the calculation of risk-based capital ratios. This refers to the total assets calculated by applying risk-weights to the amount of exposure.

VaR Value at Risk
The VaR represents an investor's maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investment timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.

Appendix 7: Risk Glossary

A key aim of risk management is to identify all risks the Bank is or will be exposed to.

The risks identified within the Bank fall into five main categories:

Credit risk

Credit risk includes:

- Solvency risk, which is the potential loss resulting from the decreased solvency of an obligor arising from credit migration and/or default events;
- Country risk, which is the potential loss due to local political or social actions, preventing an initially solvent obligor from fulfilling its payment obligations;
- Securitisation risk, which refers to the uncertainty relating to the economic substance of a transaction and its risk transfer level;
- Residual/recovery risk, which is the potential loss due to the decrease in value of risk mitigants, or resulting from the decreased solvency of guarantors;
- Settlement risk, which is the risk that a credit institution will deliver the sold asset or cash to the counterparty, and will not receive the purchased asset or cash as expected;
- Concentration risk, which refers to exposure(s) that may arise within or across different risk categories throughout an institution with the potential to produce: (i) losses large enough to threaten the institution's ability to maintain its core operations; or (ii) a material change in an institution's risk profile;
- Counterparty risk, which is the risk that a counterparty to a financial transaction fails to comply with the terms and conditions of the contract, potentially leading to financial losses. Counterparty risk includes the risk arising from credit value adjustment (CVA) and on revalued positions with the possibility of positive or negative fair value.

Operational risk

Operational risk corresponds to potential losses resulting from inadequate or failed internal processes, people and systems or from external events (spread over the other risks).

It includes the seven types of operational risk under Basel II: unauthorised activity and internal fraud risk; external fraud risk; employment practices and workplace safety risk; customer, product and business practice risk; damage to assets risk; business disruption and systems failures risk and execution, and delivery and process management risk. It also includes outsourcing risk, which is the risk arising from an arrangement of any form between a financial institution and a service provider by which the service provider compromises the continuity and the quality of a process, a service or an activity.

Market and ALM risk

Market and ALM risk refers to:

- Interest rate risk, which corresponds to the potential decrease of the Bank's value due to interest rate movements increasing the cost of interest rate liabilities or decreasing the value of interest rate assets;
- Price risk, which corresponds to the potential reduction in value of assets such as equity and real estate, funds, and derivatives pertaining to such assets;
- Currency risk, which is the potential decrease of the Bank's value due to currency exchange rate movements changing the cost of currency-denominated liabilities or the value of such assets;
- Commodity risk, which is the risk of losses caused by changes in commodity prices;
- Inflation risk, which is the risk of losses on assets and liabilities caused by an adverse inflation rate;
- Spread risk, which is the potential decrease of the value of a portfolio due to the general fluctuations of the spread between the portfolio's yield and the risk free rate, when the portfolio's risk profile is unchanged;
- Liquidity risk, which is the risk that the Bank will not be able to meet both expected and unexpected current and future cash flow and collateral needs;
- Funding risk, which is the risk that the refinancing cost for BIL increases;
- Basis risk, which is the risk arising from an imperfect hedging strategy and/or a difference of reference on financial instruments.

Market risk is described in more detail in part 4.

Enterprise risk

Enterprise risk includes:

- Business and strategic risk, which refers to the decrease of profitability resulting from various endogenous or exogenous factors relating to the Bank (adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment, economic downturn, etc.). This risk excludes financial risks for which the impact on profitability is independently assessed;
- Pension risk, which is the risk of losses resulting from an inadequate funding of pension obligations;
- Model risk, which refers to potential risk assessment errors resulting from an inadequate methodology and model, and/or data uncertainty or inappropriate use of models;
- Remuneration risk, which is the risk arising from bad practices which may gave staff incentives to pursue unduly risky practices, for example by undertaking higher risk investments or activities that provide higher income

in the short run despite exposing the institution to higher potential losses in the longer run;

- Human resources risk, which can come from three main sources: human resources operating risk results from inadequate recruitment procedures for screening employees, inadequate training and change management programmes or poor succession planning policies; key-man risk measures the over-reliance on the skills of one or a few individuals which could affect the overall sustainability of the activity; people risk is the risk associated with inadequacies in human capital and the management of human resources, policies and processes, resulting in the inability to attract, manage, motivate, develop and retain competent employees, with a concomitant negative impact on the achievement of strategic group objectives;
- Legal and compliance risk, which is the risk arising from the necessity that the group conducts its activities in conformity with the business and 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. It also includes tax risk, which is risk associated with changes in tax law and/or in the interpretation of tax law;
- Reputation risk, which is the potential decrease in the value of BIL arising from the adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors, regulators and other stakeholders;
- Social and environmental risk, which are the risks that are due to the real or perceived negative impact of group business practices on a broad range of social matters related to employment, labour/management relations; occupational health and safety; training and education; diversity and equal opportunities and equal remuneration for women and men;
- Environmental risks, which are the risks that are due to the real or perceived negative impact of group business practices on a broad range of environmental matters related to energy and water consumption, emissions, production systems, biodiversity that could lead to climate change, resource scarcity and biodiversity loss.

Other risks

Behavioural risk (prepayment and outflow risks) refer to the potential change in exposure to interest rate and funding risks due to the uncertain behaviour of customers.

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