

Pillar 3  
report  
2016



BANQUE  
INTERNATIONALE  
À LUXEMBOURG

# Table of contents

<b>Introduction</b>	<b>4</b>
<b>1. Own funds and capital adequacy</b>	<b>6</b>
1.1 Regulatory capital adequacy (Pillar 1)	6
1.2 Leverage ratio	9
1.3 Internal Capital Adequacy Assessment Process - Pillar 2	10
<b>2. Risk Management</b>	<b>18</b>
2.1 Risk management responsibilities	18
2.2 Risk organisation and governance	18
<b>3. Credit risk</b>	<b>22</b>
3.1 Credit risk governance	22
3.2 Credit risk exposure	23
3.3 Forbearance, impairment, past due and provisions	29
3.4 Advanced Internal Ratings Based approach (A-IRB)	32
3.5 Standardised approach	44
3.6 Credit risk mitigation techniques	47
3.7 Counterparty credit risk	51
3.8 Exposure in equities not included in the trading book	52
3.9 Securitisation exposures	54
<b>4. Market risk</b>	<b>57</b>
4.1 Market risk governance	57
4.2 Market risk exposure	59
4.3 Liquidity risk	61
4.4 Assessment of the regulatory capital requirement	63

<b>5. Operational risk</b>	<b>64</b>
5.1 Operational risk governance	64
5.2 Calculation of the regulatory capital requirement	66
<b>6. Remuneration Charter and practices</b>	<b>67</b>
6.1 Key Pillars	67
6.2 Determination of the Identified Staff	67
6.3 Determination of the Relevant Persons	68
6.4 Performance assessment	69
6.5 Remuneration structure & pay out modalities	70
6.6 Governance: roles and responsibilities in the design, implementation and ongoing supervision of the Charter	76
6.7 Diversity and succession plan at the level of the Management Body	77
6.8. CRD IV mandates limitation	78
6.9. Disclosure	78
6.10 Quantitative information	79
<b>Appendix 1: Declaration of the Management Body</b>	<b>81</b>
<b>Appendix 2: Transitional own funds disclosure template</b>	<b>82</b>
<b>Appendix 3: Capital instruments' main features template</b>	<b>87</b>
<b>Appendix 4: Leverage ratio disclosure template</b>	<b>89</b>
<b>Appendix 5: Countercyclical capital buffer disclosure template</b>	<b>91</b>
<b>Appendix 6: Glossary</b>	<b>96</b>
<b>Appendix 7: Risk Glossary</b>	<b>98</b>



# Introduction

Several important initiatives have been taken at a group-wide level since late 2014 in the context of BIL's 2020 strategy that impacted BIL group's corporate structure and risk profile. All initiatives were monitored closely by the Bank's Risk Management department whose main objective is to guide their implementation by ensuring that the related risks are constantly under control and compatible with the institution's risk appetite.

BIL group's Risk Management department monitored the Bank's activities and risk profile throughout 2016 in line with the BIL2020 strategy. The ongoing implementation of new regulatory requirements together with the participation in the EU-wide Stress Test were the main challenges faced by the institution during the year.

## Main regulatory changes in 2016

In 2016, 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 Single Supervisory Mechanism introduced in November 2014, BIL was required to participate in this year's ECB/EBA Stress Testing exercise. For the 2016 stress tests, the EBA used a different methodology with more conservative assumptions in comparison to the 2014 exercise. Even in a very stressed scenario, BIL's results are proof of resilient solvency. Those stress tests aimed to assess the resilience of financial institutions to adverse developments and are part of the overall Supervisory Review and Evaluation Process (SREP). According to the EBA, the next Stress Test is foreseen in 2018.

Moreover, BIL has also realised other Stress Tests exercises, including the Pillar II Stress Tests and the Pillar I Credit Risk. Along with the evolution of the supervisory practices, the ongoing implementation of CRR and CRD IV requirements as well as the analysis of new requirements, such as Basel IV, remained some of the most challenging tasks of the Risk Management department in 2016.

In the context of the Basel III revisions, some topics were published by the Basel Committee in order to introduce the so-called Basel IV requirements. In 2017, the Bank will continue to invest resources to satisfy these requirements by the application deadline in January 2018.

In 2016, BIL also started to work on the new default definition. It is also worth mentioning that a roadmap of new internal models has been established and will be deployed during the next years.

The IFRS 9 project will officially replace IAS 39 from January 2018 onwards. Governance processes are an essential tool for the Bank to implement the new standard. A steering committee is ultimately responsible for monitoring progress and approving key decisions. The Bank has now moved into the implementation phase, especially concerning modeling, data and systems. IFRS 9 poses numerous challenges with regards to availability (historic data at origination for stage allocation...) granularity, quality and storage. The Bank will strive to implement and respect the new standard within the prescribed period.

The Bank Recovery and Resolution Directive (2014/59/EU) was transposed into Luxembourgish law in late 2015. Complementary publications were issued throughout 2016. In this context, the Bank has participated in the SRB data collection in May in order to determine the Minimum Requirement for Own funds and Eligible Liabilities (MREL). BIL also participated in several meetings on future MREL requirements with the Resolution Authority.

Finally, it is also worth noting that the Bank took part in various ad hoc regulatory exercises such as the benchmarking portfolio exercise. Precision Capital also took part in regulatory exercises such as the EBA's Transparency Exercise.

## BIL group Pillar III Disclosures

On an annual and semi-annual basis, BIL group publishes a Pillar III disclosure report in compliance with Part Eight of Regulation (EU) 575/2013, broadly known as the Capital Requirements Regulation (CRR), on disclosure requirements by institutions. This report is also published in compliance with the CSSF circular 14/583 and the CSSF regulation 14-01, which are the transpositions of the CRR (EU 575/2013) into national law, thereby setting the regulatory prudential framework applicable to credit institutions.

This reporting requirement improves the risk disclosure of banks with the aim of restoring investor confidence and enhancing market discipline. BIL group considers this report to be a major improvement of 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 III report.

## Structure

BIL group's Pillar III 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 outlines the organisation, the methodological procedures and provides 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 is on remuneration policy and practices.

The appendices include two glossaries of relevant terms.

## General comment

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

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 7.125% for the CET1 ratio, and 10.625 % for the total capital ratio.

As at December 31, 2016, the Bank had a CET1 ratio of 12.98% and a total capital ratio of 18.04%.

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 2016, the ratio reached a level of 3.78%, 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 III 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 December 31, 2016, 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.

	31/12/2015		31/12/2016	
	Financial statements	Regulatory purposes	Financial statements	Regulatory purposes
<b>Total shareholders' equity</b>	<b>1,218</b>	<b>1,218</b>	<b>1,260</b>	<b>1,260</b>
<i>of which Core equity</i>	<i>1,157</i>	<i>1,157</i>	<i>1,191</i>	<i>1,191</i>
<i>of which Gains and Losses not recognized in the statement of income</i>	<i>61</i>	<i>61</i>	<i>69</i>	<i>69</i>
Non-controlling interests	0	0	0	0
<i>of which Core equity</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>of which Gains and Losses not recognised in the statement of income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Discretionary participation features of insurance contracts	0	0	0	0
<b>TOTAL</b>	<b>1,218</b>	<b>1,218</b>	<b>1,260</b>	<b>1,260</b>

#### Notes:

- Comments on regulatory requirements are described in note 6 of the Risk Management Report published in the 2016 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.

As at end-2016, shareholder's equity increased by 42 million (+3.5%). This increase was due to the 2016 net profit of EUR 110 million. The dividend payment of EUR 70 million in April 2016 negatively impact shareholder's equity.

### 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 June 30th, 2014;
- Tier 2 capital : Eligible portion of subordinated long-term debt.

Please refer to appendix 3 for transitional own funds disclosure template. With regard to the confidential nature of Tier 2 capital, 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 2016 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	31/12/2015		31/12/2016		
			Risk Weighted Assets	Capital Requirements	Risk Weighted Assets	Capital Requirements	
Credit Risk	STANDARDISED	Central Governments and Central Banks	50	4	40	3	
		Corporates	802	64	861	69	
		Covered Bonds	2	0	0	0	
		Institutions	24	2	8	1	
		Multilateral Development Banks (MDB)	0	0	0	0	
		Public Sector Entities	32	3	16	1	
		Regional Government and Local Authorities (RGLA)	35	3	40	3	
		Secured by mortgages on immovable property	286	23	298	24	
		Short Term Exposures	0	0	0	0	
		Securitisation	56	4	65	5	
		Other items	338	27	288	23	
		Exposure in default	14	1	15	1	
		Equity	14	1	31	2	
		Items associated with particularly high risk	45	4	47	4	
		<b>SUB TOTAL</b>	<b>1,700</b>	<b>136</b>	<b>1,709</b>	<b>137</b>	
		ADVANCED	Central Governments and Central Banks	373	30	275	22
			Corporates - Other	1,027	82	1,260	101
			Corporates - SME	143	11	203	16
			Institutions	423	34	343	27
			Retail - Other SME	29	2	27	2
			Retail - Other NON SME	254	20	250	20
			Retail secured by mortgages on immovable property SME	36	3	40	3
			Retail secured by mortgages on immovable property non SME	701	56	816	64
	Other non credit obligation assets		0	0		0	
	Equity		16	1	17	1	
		<b>SUB TOTAL</b>	<b>3,003</b>	<b>240</b>	<b>3,233</b>	<b>259</b>	
	<b>CREDIT VALUATION ADJUSTMENT</b>	<b>CVA</b>	<b>25</b>	<b>2</b>	<b>23</b>	<b>2</b>	
		<b>SUB TOTAL</b>	<b>4,728</b>	<b>378</b>	<b>4,965</b>	<b>397</b>	
Market Risk	STANDARDISED	Interest Rate Risk / Trade debt instruments	71	6	34	3	
		Position Risk on equities	0	0	0	0	
		Foreign Exchange Risk	26	2	21	2	
		<b>SUB TOTAL</b>	<b>97</b>	<b>8</b>	<b>55</b>	<b>4</b>	
Operational Risk	STANDARDISED		<b>764</b>	<b>61</b>	<b>799</b>	<b>64</b>	
<b>TOTAL</b>			<b>5,589</b>	<b>447</b>	<b>5,819</b>	<b>466</b>	

The total RWA amounts to 5,819 million as at year-end 2016. An explanation on its evolution is given hereafter.



### 1.1.3.1 Weighted risks

Since January 1<sup>st</sup>, 2008, the Bank has been compliant with the Basel framework – through its different evolutions – to calculate its capital requirements with respect to credit, market, operational and counterparty 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 2016, the Bank's total RWAs amounted to 5.8 billion, as compared with the 5.6 billion as at end 2015.

On the credit risk side, the slight increase observed in 2016 (+0.2 billion), is mainly explained, on one hand, by the increase on fixed and roll-over terms advances and, on the other hand, by new lines of mortgage loans.

While the market RWAs decreased by 42 million, the operational RWAs increased by 35 million in 2016, explained by higher average revenues on the Commercial Banking and Trading & Sales activities of the Bank.

(in EUR million)	31/12/15	31/12/16	Variation
Weighted credit risks	4,703	4,942	5%
Weighted market risks	97	55	(43%)
Weighted operational risks	764	799	5%
Weighted CVA risks	25	23	(9%)
<b>TOTAL WEIGHTED RISKS</b>	<b>5,589</b>	<b>5,819</b>	<b>4%</b>

### 1.1.3.2 Capital Adequacy ratios

(in EUR million)	31/12/15	31/12/16
Common Equity Tier 1 Capital (CET1)	729	755
Additional Tier One Capital	150	150
Total Own funds	898	1,050
Risk Weighted Assets	5,589	5,819
Common Equity Tier 1 Capital Ratio (CET1%)	13.04%	12.98%
<b>TOTAL CAPITAL RATIO</b>	<b>16.07%</b>	<b>18.04%</b>

The Bank's Common Equity Tier 1 (CET1) capital evolution since end 2015 is mainly explained by the integration of the profits of the current financial year less the dividend paid.

The increase observed on total own funds is due to both the evolution of the CET1 capital and the issue of new subordinated loans of Tier 2 capital.

## 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 transitional arrangements, the total exposure measure corresponds to the sum of the following exposures: (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction (SFT) exposures; and (d) off-balance sheet (OBS) items.

At the end of the year, BIL group's leverage ratio amounted to 3.78% compared to 3.92% at year-end 2015. 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 2015 can be explained as follows:

- On one hand, by the increase of the numerator: increase of both T1 capital (increase of CET1 capital) and regulatory adjustments, the latter impacting downwards the CET1 capital.
- On the other hand, by the increase of the denominator: increase of the other assets category namely cash and balances with central banks and loans and advances to customers.

Nevertheless the increase of the denominator is more substantial which leads to a decrease of the leverage ratio.

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 February 15th, 2016 the Commission implementing regulation EU 2016/200.

In this regard, the leverage ratio disclosures templates in appendix 7 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".

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 ongoing 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) 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.

Another important purpose of the ICAAP is, for senior Management, to inform the Board of Directors on the ongoing assessment of the Bank's risk profile, Risk Appetite, Strategic Model and Capital Adequacy. It also includes the documentation as to how the Bank intends to manage these risks, and how much current and future capital is necessary to meet its future plan.

#### 1.3.1.3 ICAAP Components

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

##### i. Risk appetite framework (RAF)

###### a. Process

Four years after regaining its independence, BIL found necessary to equip itself with a clear vision and identity leading up to 2020. During 2015, 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 BIL 2020 project.

While defining the Bank's strategic priorities, it 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.

#### 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.

#### d. 2016 Risk Appetite Statement evolution

The BIL 2020 Strategy brought some additional risks of limited amount and time. Indeed, BIL 2020 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. 2016 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 2015 and 2016 year-end:

Category	Indicators	12/2015	12/2016
1. Capital Adequacy	Basel III CET1	13.04%	13.05%
	AFR/ECAP	135%	135%
	Basel III Total Capital ratio	16.07%	18.15%
	Leverage ratio	3.92%	3.78%
2. Earnings Stability	Return on Equity	16.24%	14.64%
3. Liquidity	LCR	119%	140%
	NSFR	110%	114%

Risk Appetite figures as of December 31, 2016 attest of the sound situation of BIL group according to solvency and liquidity effectiveness axes. It is worth mentioning that no limit and trigger breach have been observed.

## ii. Risk identification and cartography

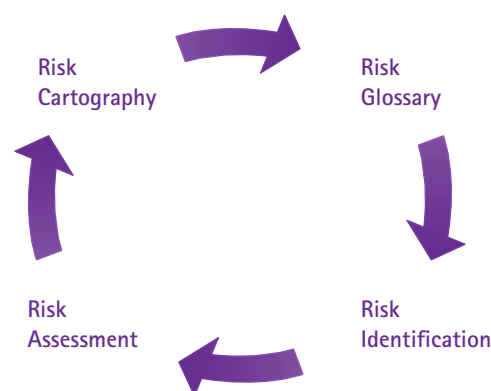
### Principles

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 formalization of the Bank's risk cartography.



### – 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 summarizes 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.

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:

<b>Credit Risks</b>	Solvency Risk
	Country Risk
	Credit Spread Risk
	Securitisation Risk
	Residual/recovery Risk
	Settlement Risk
	Concentration Risk
	Counterparty Risk
<b>Operational Risks</b>	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
	Conduct Risk
Cyber Security Risk	
<b>Market &amp; ALM Risks</b>	Interest rate Risk
	Price Risk
	Currency Risk
	Commodity Risk
	Inflation Risk
	Liquidity Risk
	Funding Risk
	Basis Risk
	Behavioural Risk
<b>Entreprise Risks</b>	Business Risk
	Strategic Risk
	Pension Risk
	Model Risk
	Human resources and Remuneration Risks
	Legal and Compliance Risks
	Reputation Risk
	Social and Environmental Risk

## – 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 formalized, 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 (BIL 2020).
- 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.

**- Risk Materiality**

The materiality of each identified risk is based on its nature, in light of the Bank's activities, and the overall impact its materialization 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.

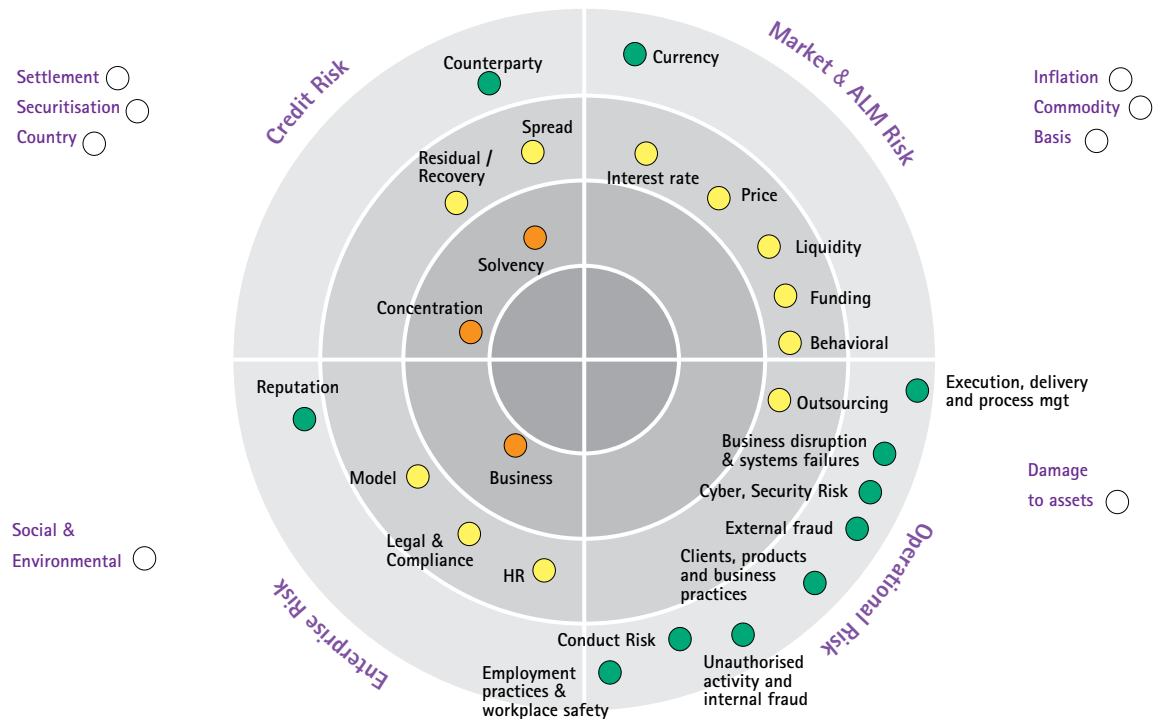
Depending on its materiality and its nature, the risk identified will then be covered by economic capital, when deemed necessary, or apprehended through the establishment of dedicated internal governance, process and procedures.

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 2016 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 ●

### 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 summarizing 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). It aims to ensure that the Bank allocates sufficient capital considering its risk profile.

### 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 I and Pillar II 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 2016

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 December 31, 2016, BIL group's Available Financial Resources amounted to EUR 1080 M. 2015 AFR has been recalculated to take into account the haircut on the property market value.

BIL GROUP AFR	2015 YE	2016 YE	Delta
<b>Resources</b>			
Core equity	848.1	848.0	(0.1)
Retained earnings & Reserves (P&L included)	188.4	230.9	42.5
AFS Bonds	77.4	83.6	6.2
AT1 (CoCo bonds)	150.0	150.0	0.0
<b>TOTAL</b>	<b>1,263.8</b>	<b>1,312.5</b>	<b>48.7</b>
<b>Deductions</b>			
Intangible & goodwill	(95.1)	(119.5)	(24.4)
Full deduction DTA Netting with DTL	(257.8)	(220.7)	37.1
<b>TOTAL</b>	<b>(352.8)</b>	<b>(340.2)</b>	<b>12.6</b>
UCG on AFS Equity after haircut 25%	8.9	12.3	3.4
UCG on real estate PLM after haircut 25%	97.6	95.5	(2.1)
<b>TOTAL</b>	<b>106.5</b>	<b>107.9</b>	<b>1.3</b>
<b>TOTAL AFR</b>	<b>1,017.5</b>	<b>1,080.1</b>	<b>62.6</b>

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

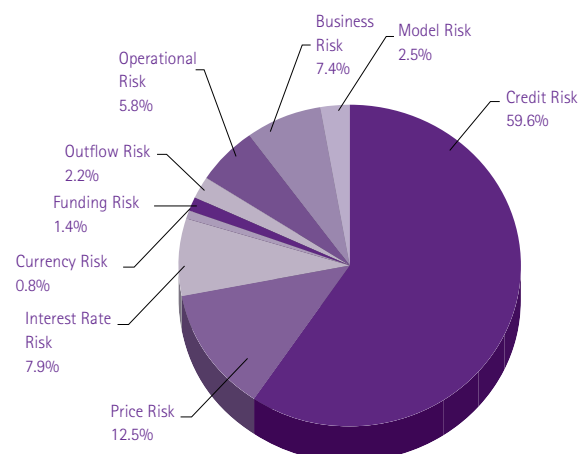
In the context of BIL group, ECAP can be defined as the amount of capital that would be necessary to cover the unexpected risks inherent in the Bank's activities and thus ensure the continuity of its business over a given time period with a certain level of confidence. ECAP could thus be interpreted 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 December 31, 2016, BIL group's economic capital amounted to EUR 803 M, allocated according to the following structure:





### 1.3.2.4 Capital Adequacy

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

Risk Category	Risk Type	Pillar 1	Pillar 2	
<b>Credit Risks</b>	Credit Risk		293	
	Concentration Risk	394	17	478
	Credit spread Risk		142	
	Other credit Risks		27	
<b>Market &amp; ALM Risks</b>	Price Risk		101	
	Interest Rate Risk		64	
	Currency Risk	4	6	199
	Funding Risk		11	
	Behavioural Risk		17	
<b>Operational Risks</b>	Operational Risk	64		47
<b>Enterprise Risks</b>	Business Risk	-	59	59
	Model Risk	-	20	
<b>TOTAL CAPITAL REQUIREMENTS</b>		<b>463</b>	<b>803</b>	
<b>Capital Supplies</b>		<b>1,050</b>	<b>1,080</b>	
<b>Ratio AFR/ECAP</b>		<b>227%</b>	<b>134%</b>	

As of 2016 year-end, the ratio of economic capital resources to economic capital consumption (AFR/ECAP) had reached the level of 134%.



## 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.

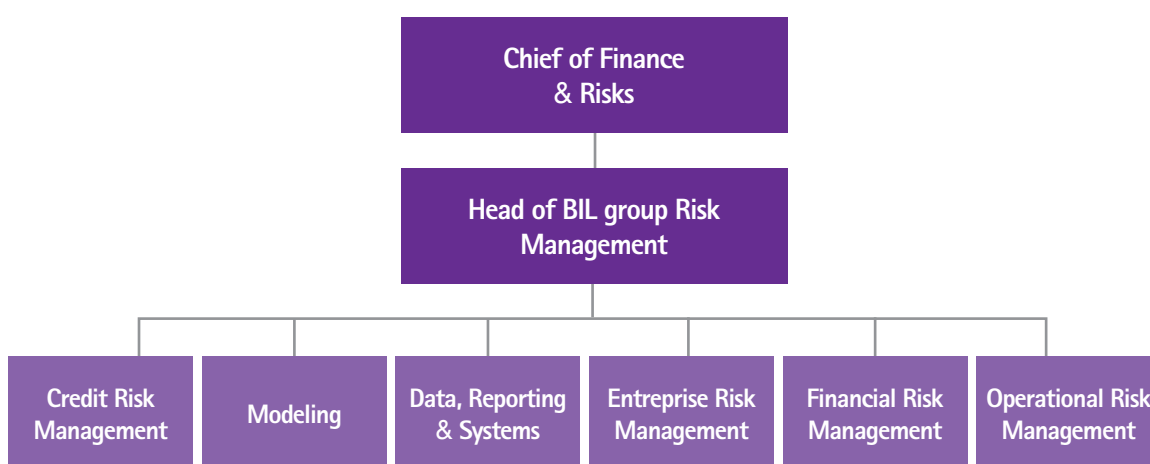
The Bank's risk management model is based on the following principles:

- 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 ensure a sound management of risk and to develop an integrated risk management culture, the Bank has set up an effective Risk Management organisation, in adequacy with its activities, encompassing the relevant risks induced by its activities.

In line with the BIL 2020 Strategy and in order to help the Bank reach defined objectives as well as face expected regulatory developments, the Risk Management departments have been reorganised as depicted below:



At the Management Board level, the overall Risk Management framework is 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.

The BIL group Risk Management department is divided into six dedicated units described below.

### Credit risk management

The Credit Risk unit is in charge of defining credit risk policies and guidelines, analysing counterparties and monitoring the Bank's credit risk portfolio. This unit is composed of three different teams:

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

- *Gestion Intensive et Particulière (GIP)* manages the assets deemed to be "sensitive" by a proactive approach, in order to minimize the potential losses for the Bank in case of default of a counterparty.

### Modeling

The *Modeling* team is in charge of the development and performance monitoring of Basel III Pillar I approach & IFRS 9 models for Credit Risk.

### Data, Reporting & Systems

The *Data, Reporting & Systems* is 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 reporting. 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.

There are three teams, which are:

- The *Data Management & Quality* team is responsible for operational quality control (known as level 1) and regulations (so-called second level) for data and processes related to Basel risk parameters.
- The *Risk Reporting* team is in charge of monitoring credit risk figures, producing regulatory reporting (e.g. COREP, Large exposures, Past Due, IFRS 7) as well as any internal credit risk reporting, external demands or periodical credit risk reporting (ECB, EBA, CSSF, etc.);
- The *Risk Systems* team mainly works with the Moody's RAY software which serves to produce, among others, the Basel COREP and Large Exposures reports. The team is responsible for the software's expertise in terms of data, parameterization and calculation engines (i.e. Basel, Economic IRBA, IBNR provisions and Large Exposures).

### Enterprise Risk Management

The *Enterprise Risk Management* department consolidates all the activities related to the monitoring of the Bank's group-wide Risk Management frameworks (ICAAP/ILAAP, Stress Tests, Recovery Plan, etc.).

This unit is composed of two different teams:

- The *Enterprise Risk Management* team is in charge of the deployment and monitoring of the various components of the SREP process. This system is based on the analysis of Business Model of the Bank through its Risk Appetite; the establishment of a framework for risk governance; the deployment of an internal capital adequacy assessment process (ICAAP) and an internal liquidity adequacy assessment process (ILAAP); a transversal stress testing device; and the establishment of a BIL Recovery Plan. Moreover, this team is also responsible for the prudential consolidation of the risks of the Bank and regulatory monitoring. In line with this requirement, the Enterprise Risk Management department ensures the regulatory monitoring activity monitoring and coordination of transversal projects related thereto; the realization of regulatory transversal reports (Pillar III Report, Annual Report, Long Form Report, etc.) and the prudential risk consolidation for the Bank and its subsidiaries/ branches.
- The *Internal Validation Manager* is responsible for validating the internal rating systems used in the calculation of the regulatory capital requirement, and notably the Credit Risk Pillar I under Basel III and IFRS 9.

### Financial Risk Management

The *Financial Risk Management* unit is in charge of defining policies and guidelines on financial market activities, and of identifying, analysing, monitoring and reporting on risks and results on these topics.

This unit is composed of three different teams:

- The *Banking Risk Monitoring* team is responsible for supervision of Interest Rate Risk and Liquidity Risk of the balance sheet of the Bank, analysis and implementation of Basel III rules relating to liquidity (LCR / NSFR, HQLA, Asset Encumbrance, etc.), relationship with the BCL on regulatory compliance and consolidation of subsidiaries. But also, they are in charge of the assessment of daily needs in collateral for derivatives, repo for BIL Social and to ensure compliance with the unconfirmed credit limits for BIL Conso and update of limits in the systems.
- The *EUI (End-User Integration) & Market Data Management* team is in charge of the maintenance and the evolution of Market Risk data as well as dealing with dedicated reports and systems;
- The *TFM Risk Monitoring* team is responsible for overseeing the monitoring of Market Risk of all trading activities of the Dealing Room; maintaining the relationship with 'Finalyse' (external provider) for the validation of valuations of structured products; consolidating subsidiaries and report to the Management Board and finally setting up systems to reduce Fraud Risk and Operational Risk.

### Operational Risk Management

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

- The *Corporate Operational Risk (COR)* team is in charge of ensuring the establishment, for BIL and its subsidiaries / branches, of a system of control and actions enabling the adequacy of Operational Risks exposure (internal fraud, external fraud, processes, systems, products, ...) to the Risk Appetite as defined by the Bank. Moreover, this team ensures the establishment and regular updating of the insurance program (BIL and employees coverage) within the Bank and its subsidiaries / branches and ensures a centralized management of insurance policies and claims within the Bank and its subsidiaries, acting as a single contact for both brokers and insured. Finally, the COR team develops a comprehensive approach by ensuring the adequacy of the policy and insurance device including the own reinsurance company of BIL (captive) for risk analysis;
- The *Security Risk Prevention* team is in charge of validating and controlling access according to the rules and principles set out in the memo NS0032 to ensure the security of systems and applications, and establishing and maintaining the continuity plan (Business Continuity Plan) and its alignment with the IT Recovery Plan (Disaster Recovery Plan);
- The *Security Risk Regulation* team ensures the establishment and maintenance of a global and transversal vision of

various aspects of the Bank's Information Security to bring BIL adequate protection and prevent threats (theft, loss, destruction, alteration, inaccessibility, etc.) which could affect this information.

## 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.

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
Strengthen cooperation between the 3 lines of control functions through coordination of the activities of each Internal Control function and decision on transversal issues related to Internal Control	Internal Control Committee
Decision/Approval of procedures and risk policies in the scope of Risk Management	Risk Policy Committee
Decision/Approval of credit engagements	Commitments Committee Credit Committee Employee Credit Committee
Decision/Approval on defaults or provisioning	Default Committee
Decision on Market limits	ALM Committee
Security of information	Security Committee
Develop and promote a culture of regulatory strategy, oversee regulatory projects and provide assistance in the implementation of regulatory projects	Regulatory Committee
Governance for the bank-wide change portfolio and new products having a significant impact	Change Committee

### 2.2.2.1 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

Please refer to the section 2.2.1 Organisation.

#### 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.

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	21,867.27	21,143.34	3,233.45
STD	4,290.61	3,553.33	1,709.04
<b>TOTAL</b>	<b>26,157.88</b>	<b>24,696.67</b>	<b>4,942.49</b>

### 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	2016 Year-end exposure	2016 Average exposure
Central Governments and Central Banks	6,612.37	6,243.01
Corporates - Other	2,615.46	2,346.56
Corporates - SME	2,112.21	1,942.94
Corporates - Specialized Lending	-	-
Equity	6.29	6.28
Institutions	2,463.83	3,212.82
Retail - Other non-SME	2,231.75	2,645.50
Retail - Other SME	235.18	242.59
Retail secured by mortgages on immovable property non SME	5,419.79	4,769.76
Retail secured by mortgages on immovable property SME	165.68	144.39
Other non credit obligation assets	4.71	6.15
<b>Total IRB approach</b>	<b>21,867.27</b>	<b>21,560.00</b>
Standardised approach		
Corporates	1,502.79	1,158.35
Covered Bonds	-	-
Equity	17.37	15.27
Items associated with particularly high risk	31.67	32.20
Institutions	38.42	13.15
Multilateral Development Banks	106.34	101.93
Other items	413.77	421.45
Exposure in default	14.55	13.68
Public Sector Entities	144.86	106.16
Regional Governments And Local Authorities	203.36	347.93
Secured by mortgages on immovable property	372.18	364.48
Short-Term Exposures	0.15	0.06
Central Governments and Central Banks	1,119.97	1,146.76
Securitisation	325.19	302.42
<b>Total Standardised approach</b>	<b>4,290.61</b>	<b>4,023.85</b>
<b>TOTAL</b>	<b>26,157.88</b>	<b>25,583.85</b>

As of December 31<sup>st</sup>, 2016, the Bank's total credit risk exposure amounted to 26,158 million which represents an increase of 15.24% compared with the 2015 year-end (22,698 million). This increase is observed on exposures both under IRB and Standardised approach, respectively for 2,750.3 million and 709.7 million.

The main credit risk classes generating this increase were Corporates (49.4%), Central Governments and Central Banks (32.1%) and Retail (20.1%).<sup>1</sup>

<sup>1</sup> The main credit risk exposure class which slightly offset this increase was *Institutions* (-4.5%).

The year-end total credit risk exposure was 2.2% higher than the 2016 average. The main credit risk classes composing the total exposure were Retail (30.8%), Central Governments or Central Banks (29.6%) and Corporates (23.8%).

The increase on counterparties associated with very low risk such as Central Governments and Central Banks under the IRB approach is mainly explained by deposits to the Banque Centrale du Luxembourg (BCL).

In line with the Bank's business model and strategy, the retail counterparties secured by mortgages on immovable property under the IRB approach increased which is explained by the granting of mortgages loans which are secured by mortgages on residential property. The increase in Corporates exposures is mainly driven by the increase in fixed and roll-over term advances and new lines of credit towards these counterparties.

### 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 2016. It comprises figures obtained using both the standardised and the advanced methods.

IRB approach	Eurozone	Of which: Luxembourg	Of which: France	Of which: Belgium	Of which: Germany	Other EU countries	Rest Of Europe	US & Canada	Rest of the World	TOTAL EXPOSURE
Central Governments and Central Banks	5,156.93	2,514.62	1,210.52	612.28	21.32	139.54	671.02	449.18	195.71	6,612.37
Corporates - Other	1,850.39	926.08	356.65	52.55	290.46	9.48	53.13	45.47	656.99	2,615.46
Corporates - SME	2,095.15	2,012.61	13.73	33.47	35.34	4.02	6.45	-	6.58	2,112.21
Equity	6.26	6.24	0.02	-	-	0.03	-	-	0.00	6.29
Institutions	1,347.10	137.35	392.61	132.86	216.54	485.43	137.13	119.76	374.41	2,463.83
Retail - Other non-SME	1,877.80	1,494.53	224.44	85.38	29.08	201.79	102.17	2.49	47.50	2,231.75
Retail - Other SME	234.55	230.12	1.71	1.27	0.68	0.29	0.15	0.00	0.19	235.18
Retail secured by mortgages on immovable property non SME	5,258.74	4,256.98	520.03	235.47	151.56	29.24	103.44	2.51	25.86	5,419.79
Retail secured by mortgages on immovable property SME	165.68	159.49	1.55	3.20	1.45	-	-	-	-	165.68
Other non credit obligation assets	4.71	4.71	-	-	-	-	-	-	-	4.71
<b>Total IRB approach</b>	<b>17,997.31</b>	<b>11,742.75</b>	<b>2,721.26</b>	<b>1,156.47</b>	<b>746.42</b>	<b>869.81</b>	<b>1,073.49</b>	<b>619.40</b>	<b>1,307.25</b>	<b>21,867.27</b>
<b>Standardised approach</b>										
Corporates	1,361.23	1,096.58	9.31	3.78	198.55	30.45	10.98	1.25	98.88	1,502.79
Equity	17.29	17.15	0.14	-	-	0.06	0.02	-	-	17.37
Items associated with particularly high risk	30.13	29.81	0.00	0.32	-	-	1.35	0.18	0.01	31.67
Institutions	33.34	2.54	11.52	-	19.28	-	0.01	5.08	-	38.42
Multilateral Development Banks	-	-	-	-	-	-	106.34	-	-	106.34
Other items	381.29	381.08	0.01	0.13	0.06	2.87	28.68	-	0.93	413.77
Exposure in default	14.55	5.02	-	-	9.53	-	-	-	0.00	14.55
Public Sector Entities	144.32	106.22	-	-	17.09	0.54	-	-	-	144.86
Regional Governments And Local Authorities	203.36	-	160.60	42.76	-	-	-	-	-	203.36
Secured by mortgages on immovable property	372.18	318.71	2.96	-	24.44	-	-	-	-	372.18
Short-Term Exposures	0.15	-	-	0.15	-	-	-	-	-	0.15
Central Governments and Central Banks	810.04	101.16	6.73	216.19	241.09	-	289.92	-	20.00	1,119.97
Securitisation	294.28	22.42	85.56	5.25	66.40	-	12.83	-	18.08	325.19
<b>Total Standardised approach</b>	<b>3,662.14</b>	<b>2,080.69</b>	<b>276.84</b>	<b>268.57</b>	<b>576.44</b>	<b>33.93</b>	<b>450.13</b>	<b>6.51</b>	<b>137.90</b>	<b>4,290.61</b>
<b>TOTAL EXPOSURE</b>	<b>21,659.45</b>	<b>13,823.44</b>	<b>2,998.09</b>	<b>1,425.04</b>	<b>1,322.86</b>	<b>903.74</b>	<b>1,523.62</b>	<b>625.91</b>	<b>1,445.15</b>	<b>26,157.88</b>



As at December 31, 2016, the Bank's exposure was mainly concentrated in Europe (92.1%, 24.09 billion) and especially in the Eurozone (82.8%), with 52.8% of the total exposure in Luxembourg, 11.5% in France, 5.4% in Belgium and 5.1% in Germany.

- Corporate activity is concentrated in Luxembourg (64.8%).
- Retail activity is concentrated in Luxembourg (76.3%) and its neighbouring countries (9.3% in France, 4% in Belgium and 2.3% in Germany).
- Regarding the Central Governments and Central Banks exposures, the main counterparties of the Bank are the Central Bank of Luxembourg, the Swiss National Bank, Luxembourg, France and Belgium.

### 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 2016. 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	5,900.42	711.86		0.09		6,612.37
Corporates - Other	270.56	1,788.29	543.97	2.58	10.05	2,615.46
Corporates - SME		585.80	1,406.19	1.08	119.14	2,112.21
Equity	-	0.00		6.29	0.00	6.29
Institutions	714.68	1,660.02	74.86	14.27		2,463.83
Retail - Other non-SME	33.61	1,015.85	991.08	0.00	191.20	2,231.75
Retail - Other SME		39.15	192.14	0.57	3.32	235.18
Retail secured by mortgages on immovable property non SME	0.39	3,131.49	2,110.26		177.65	5,419.79
Retail secured by mortgages on immovable property SME		21.95	140.30	0.11	3.33	165.68
Other non credit obligation assets	2.79	0.24	0.01	1.67		4.71
<b>Total IRB approach</b>	<b>6,922.46</b>	<b>8,954.64</b>	<b>5,458.81</b>	<b>26.67</b>	<b>504.69</b>	<b>21,867.27</b>
<b>Standardised approach</b>						
Corporates	0.25	177.92	99.23	1,225.39		1,502.79
Equity		4.56	0.00	12.81		17.37
Items associated with particularly high risk		0.32	8.08	23.27		31.67
Institutions	9.98	21.44	0.19	6.81		38.42
Multilateral Development Banks	106.34					106.34
Other items	36.43			377.34		413.77
Exposure in default					14.55	14.55
Public Sector Entities		17.09		127.78		144.86
Regional Governments And Local Authorities	9.36	12.00		182.00		203.36
Secured by mortgages on immovable property		24.44	-	347.74		372.18
Short-Term Exposures		0.15				0.15
Central Governments and Central Banks	543.66	126.98	-	449.33		1,119.97
Securitisation				325.19		325.19
<b>Total Standardised approach</b>	<b>706.01</b>	<b>384.89</b>	<b>107.51</b>	<b>3,077.65</b>	<b>14.55</b>	<b>4,290.61</b>
<b>TOTAL EXPOSURE</b>	<b>7,628.47</b>	<b>9,339.53</b>	<b>5,566.32</b>	<b>3,104.32</b>	<b>519.24</b>	<b>26,157.88</b>

As at December 31, 2016, 64.9% of the exposure was classified as investment grade, compared with 66.2% in 2015. Focusing on these investment grade exposures, the most notable increases concern the segments *Central Governments* and *Central Banks and Corporate Other*.

The non-investment grade exposure representing 21.3% of the total credit risk exposure is mainly composed of mid-corporate and retail exposures.

As of December 31, 2016, not rated exposures (NR) represent 11.9% of the total exposure. It is worth mentioning that the majority of these exposures are treated under the standardised approach (99.1% of NR exposures). The increase of 779.1 million among the non-rated exposures is mainly due to an increase of 518.7 million of corporate exposures and 377.3 million of *Multilateral Development Banks*, 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 2016. It comprises figures obtained using both the standardised and the advanced methods.

SERVICES											TOTAL EXPOSURE				
IRB approach	Industry	Construction	Trade-Tourism	Transportation and storage	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support activities	Public administration and defence – compulsory social security	Human health and social work activities	Arts, entertainment and recreation	Other service activities	Others	TOTAL EXPOSURE
Central Governments and Central Banks	0.00					2,125.34			4,136.67	45.49	0.50	0.00	304.37	6,612.37	
Corporates – Other	707.42	147.24	268.50	121.64	75.80	992.57	80.06	133.85	33.18	29.01	20.45	0.17	0.00	2,615.46	
Corporates – SME	237.72	627.30	213.98	41.94	38.95	173.68	620.45	66.22	59.76	13.69	8.99	1.38	0.46	2,121.21	
Equity					0.00	0.05		0.03	0.82			5.39		6.29	
Institutions						2,460.17								2,463.83	
Retail – Other non-SME	67.34	80.66	73.45	12.94	18.73	733.96	215.20	87.43	8.27	62.02	18.98	18.87	9.34	2,231.75	
Retail – Other SME	19.74	43.08	77.98	10.20	11.24	6.86	14.29	20.47	15.63	6.59	1.73	6.09	1.25	235.18	
Retail secured by mortgages on immovable property non SME	152.11	203.65	266.74	27.55	33.05	773.51	567.67	206.47	23.62	204.13	32.27	27.31	22.60	2,858.41	
Retail secured by mortgages on immovable property SME	5.79	30.40	35.59	1.73	2.61	1.90	66.39	7.11	6.02	3.05	2.78	2.06	0.27	165.68	
Other non credit obligation assets						3.21								1.50	
<b>Total IRB approach</b>	<b>1,190.12</b>	<b>1,132.33</b>	<b>936.27</b>	<b>215.99</b>	<b>180.38</b>	<b>7,211.25</b>	<b>1,564.05</b>	<b>521.57</b>	<b>147.30</b>	<b>363.97</b>	<b>85.71</b>	<b>61.26</b>	<b>33.93</b>	<b>4,061.69</b>	<b>21,867.27</b>
<b>Standardised approach</b>															
Corporates	156.44	373.90	8.51	21.08	1.21	572.58	295.21	5.81	0.05	10.86	0.07	5.34	1.71	50.03	1,502.79
Equity						9.80	0.00					7.57		17.37	
Items associated with particularly high risk															
Institutions				8.07	0.32	22.44	0.00	0.32				0.52		31.67	
Multilateral Development Banks						28.44								9.99	
Other items	0.01	0.19	0.07	0.37	0.15	37.05	0.01	0.03	0.00	1.87	1.73	1.96	0.63	369.47	413.77
Exposure in default		2.26	0.01			0.08	12.19				0.00	0.00		14.55	
Public Sector Entities				0.01	47.02			0.01	3.00	29.08		4.66	0.20	21.11	144.86
Regional Governments And Local Authorities									188.20					15.16	203.36
Secured by mortgages on immovable property	7.40	85.54	2.44	1.39	1.39	104.16	160.55	1.15	-	6.81	0.35	2.30	0.02	372.18	0.15
Short-Term Exposures						0.15									
Central Governments and Central Banks						12.60		12.12	718.30	64.33			289.92	22.70	1,119.97
Securitisation						98.23						47.13		179.83	325.19
<b>Total Standardised approach</b>	<b>163.85</b>	<b>461.90</b>	<b>11.03</b>	<b>29.53</b>	<b>50.08</b>	<b>981.43</b>	<b>467.96</b>	<b>7.00</b>	<b>15.48</b>	<b>112.95</b>	<b>2.15</b>	<b>69.48</b>	<b>302.90</b>	<b>668.37</b>	<b>4,290.61</b>
<b>TOTAL EXPOSURE</b>	<b>1,353.98</b>	<b>1,594.22</b>	<b>947.30</b>	<b>245.52</b>	<b>230.45</b>	<b>8,192.68</b>	<b>2,032.01</b>	<b>528.56</b>	<b>162.78</b>	<b>476.92</b>	<b>87.86</b>	<b>130.74</b>	<b>336.84</b>	<b>4,730.06</b>	<b>26,157.88</b>

As of 2016 year-end, the sectors "Financial and insurances activities" and "Public administration" represented the highest exposures with respectively 31.3% and 19.5% of the total exposures.

BIL continues to invest in low RWA cost counterparties such as 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 2016.

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 defined maturity	TOTAL EXPOSURE
Central Governments and Central Banks	1,479.11	299.60	352.40	556.08	2,845.49	1,079.68	6,612.37
Corporates - Other	356.15	272.04	681.03	490.75	581.94	233.55	2,615.46
Corporates - SME	278.03	139.54	101.99	97.08	1,070.58	424.99	2,112.21
Equity					6.29		6.29
Institutions	278.52	322.61	640.52	479.47	341.54	401.18	2,463.83
Retail - Other non-SME	409.44	118.04	338.57	250.05	495.50	620.16	2,231.75
Retail - Other SME	16.82	33.04	54.80	37.92	38.36	54.23	235.18
Retail secured by mortgages on immovable property non SME	33.60	93.43	206.77	134.38	4,691.54	260.08	5,419.79
Retail secured by mortgages on immovable property SME	2.52	10.39	6.70	9.42	111.81	24.84	165.68
Other non credit obligation assets						4.71	4.71
<b>Total IRB approach</b>	<b>2,854.18</b>	<b>1,288.69</b>	<b>2,382.78</b>	<b>2,055.16</b>	<b>10,183.04</b>	<b>3,103.42</b>	<b>21,867.27</b>
<b>Standardised approach</b>							
Corporates	432.65	98.98	76.95	89.23	449.45	355.52	1,502.79
Equity	5.01				12.36		17.37
Items associated with particularly high risk					31.67		31.67
Institutions	1.64	0.03	0.17	1.50	27.80	7.29	38.42
Multilateral Development Banks	0.02		4.72	0.23	101.22	0.15	106.34
Other items	0.56	1.51	1.61	1.52	3.46	405.12	413.77
Exposure in default	0.82		0.00		1.77	11.96	14.55
Public Sector Entities	39.75	0.02	22.77	2.47	57.78	22.08	144.86
Regional Governments And Local Authorities	22.86	19.90	46.06	39.41	75.14		203.36
Secured by mortgages on immovable property		2.47	23.29	7.07	338.99	0.37	372.18
Short-Term Exposures						0.15	0.15
Central Governments and Central Banks	118.72	28.96	78.24	92.02	775.49	26.54	1,119.97
Securitisation	0.00		7.17	14.56	303.46		325.19
<b>Total Standardised approach</b>	<b>622.02</b>	<b>151.87</b>	<b>260.97</b>	<b>248.01</b>	<b>2,178.57</b>	<b>829.18</b>	<b>4,290.61</b>
<b>TOTAL EXPOSURE</b>	<b>3,476.20</b>	<b>1,440.56</b>	<b>2,643.75</b>	<b>2,303.16</b>	<b>12,361.61</b>	<b>3,932.60</b>	<b>26,157.88</b>

This table shows that 37.7% of the total risk exposure does not exceed five years, and 13.3% of it is of very short term, below three months.

Over the longer term, 47.3% 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 15% of the total exposure and are essentially composed of debits accounts for the corporate and retail exposure class and (ii) Nostri accounts with central banks 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 recognizes changes in the amount of impairment losses in the consolidated statement of income and reports them as "Impairment on loans and provisions for credit commitments". The 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 recognized.

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 recognizes 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 analyzed 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 analyzed 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 analyzed 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 recognized on bonds, any subsequent decline in fair value is recognized under "Net income on investments", if there is objective evidence of impairment. In all other cases, changes in fair value are recognized 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

BBIL 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 (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) 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 2016, BIL group's forborne exposures amounted to 294.1 million including 5.1 million as given banking guarantees.

### 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 3.85% at the end of 2016.<sup>1</sup>

### 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 2016.

In EUR million Loans and advances (at amortised cost)	Past-due but not impaired assets			Carrying amount of individually impaired financial assets	Guarantees held for past-due or individually impaired assets and debt instruments
	<= 90 days	> 90 days <= 180 days	> 180 days		
Institutions	0.00	0.00	0.00	4.59	0.00
Retail	88.86	43.54	71.61	25.40	192.80
Corporate Other	123.52	49.92	69.36	41.54	348.11
General governments	0.01	0.00	0.03	0.00	0.00
<b>TOTAL</b>	<b>212.39</b>	<b>93.46</b>	<b>141.00</b>	<b>71.54</b>	<b>540.91</b>

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

### 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.

	31/12/2016					
	Past due financial assets (not impaired)			Past due financial assets (impaired)		
	< = 90 days	> 90 days	Total	< = 90 days	> 90 days	Total
Eurozone	211.13	216.36	427.48	6.32	159.59	165.91
Rest of Europe	0.26	6.51	6.77	-	26.71	26.71
Rest of the world	0.20	10.38	10.58	-	108.20	108.20
US & Canada	0.79	1.22	2.01	-	0.02	0.02
<b>TOTAL</b>	<b>212.39</b>	<b>234.46</b>	<b>446.85</b>	<b>6.32</b>	<b>294.52</b>	<b>300.84</b>

<sup>1</sup> FINREP source

### 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 2016 and for comparison at year-end 2015.

In EUR million	As at 31/12/15	Utilisation	Allowances	Write-backs	Other adjustments	As at 31/12/16	Recoveries recorded directly in profit and loss	Charges recorded directly in profit and loss
<b>Specific allowances for financial assets individually assessed for impairment</b>	<b>(295.00)</b>	<b>11.11</b>	<b>(25.88)</b>	<b>12.60</b>	<b>(3.43)</b>	<b>(300.69)</b>	<b>0.00</b>	<b>(11.52)</b>
Loans and advances to customers	(274.84)	11.00	(25.88)	12.60	(3.16)	(280.30)	0.00	(11.52)
<i>Corporates</i>	(220.06)	5.95	(19.05)	8.34	(3.10)	(227.92)	0.00	(6.04)
<i>Retail</i>	(54.79)	5.05	(6.83)	4.26	(0.06)	(52.37)	0.00	(5.48)
Financial assets available for sale	(20.15)	0.11	(0.07)	0.00	(0.27)	(20.39)	0.00	0.00
<i>of which equities and other variable-income instruments</i>	(20.15)	0.11	(0.07)	0.00	(0.27)	(20.39)	0.00	0.00
<b>Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment</b>	<b>(28.58)</b>	<b>0.00</b>	<b>(4.56)</b>	<b>1.61</b>	<b>(0.01)</b>	<b>(31.54)</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL</b>	<b>(323.58)</b>	<b>11.11</b>	<b>(30.52)</b>	<b>14.21</b>	<b>(3.44)</b>	<b>(332.23)</b>	<b>0.00</b>	<b>(11.52)</b>

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 December 21, 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 Luxembourgish 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.

### 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 I 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

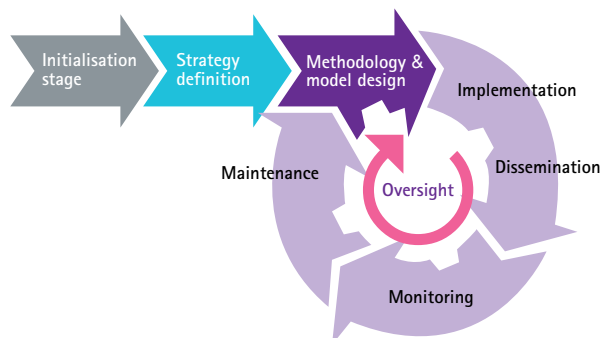
For BIL and its main subsidiaries and branches, this committee examines each case of default, classifies it (distinguishing between "true default" and "technical default"), assigns counterparties default level D1 or D2 according to general default indicators and parameters specific to each customer segment, 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 I 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
<b>Model development and update decision</b>	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.
<b>Decision on a change in the rating process</b>	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.
<b>New model or model update vetting</b>	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.
<b>Validation of rating tool implementation</b>	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.
<b>Validation of the operational rating process</b>	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.
<b>Quantitative model validation</b>	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.
<b>IRS compliance audit</b>	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<sup>1</sup> 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.

<sup>1</sup> 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).

### 3.4.3 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 profitability. The performance is tracked by analyzing 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 regarding LGD Retail model, LGD bank model and PD Mid-corporate model. Some changes have been applied to these models and submitted to Joint Supervisory Team for approval.

Table 1 contains the obligor weighted average of the calibrated PD and the obligor weighted average of the actual default rates. 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, Small and Mid-corporate PD models:

The PD of the Retail and Small and Mid-corporate rating models has been calibrated with internal default data. 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 margin added to the PD to cover this uncertainty level. Nevertheless, the backtesting demonstrates that the calibration of PD is statistically conservative for both. The backtesting of Mid-Corp PD performed in 2014 has pointed out that the default were durably higher than the calibrated PD. The PD of the Mid-corp rating model was originally calibrated with external data including mainly bankruptcies of Belgium corporates. Since the PDs were not sufficiently calibrated, the PD scale has been recalibrated on the basis of internal default data. This new calibration is more conservative and aligned with observed default rate.

#### Corporate, Bank and Sovereign PD model:

Due to scarcity of default data, the PDs of the Corporate, Bank and Sovereign rating model have been calibrated with external data. Especially, the PD of these models relies on default data reported 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.



	PD	DR	Period
<b>Sovereign</b>	2.35%	0.65%	2005 - 2016
<b>Bank</b>	0.31%	0.22%	2008 - 2016
<b>Corporate</b>	0.74%	0.34%	2009 - 2016
<b>Midcorporate</b>	3.73%	2.77%	2009 - 2016
<b>Grading</b>	8.27%	5.72%	2007 - 2016
<b>Retail</b>	0.64%	0.57%	2005 - 2016

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. Note that a new LGD model for Retail portfolio has been implemented and the calibration revised in 2015. Backtesting results have not highlighted calibration weakness. The calibrated LGD is very conservative when it is compared to the loss rates.

	LGD	LR	Period
<b>Retail</b>	14.57%	4.13%	2008 - 2016
<b>SME</b>	24.44%	15.18%	2006 - 2014

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.

### 3.4.4 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 2016. The exposure is calculated using the advanced method.

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 31/12/2015
AAA+ to AA-	5,824.30	482.67	117.29	5,458.88	0.00%	6.57%	98.59%	0.00%	0.00	4,195.77
A+ to A-	419.27	0.00	0.00	419.27	0.06%	19.90%	100.00%	16.04%	0.00	639.78
BBB+ to BBB-	288.33	-	-	288.33	0.33%	38.59%	100.00%	72.20%	0.00	550.59
Other	0.09	-	-	0.09	30.87%	5.00%	100.00%	27.82%	0.00	0.60
<b>TOTAL</b>	<b>6,532.00</b>	<b>482.67</b>	<b>117.29</b>	<b>6,166.57</b>	<b>0.02%</b>	<b>8.97%</b>	<b>98.75%</b>	<b>4.47%</b>	<b>0.00</b>	<b>5,386.75</b>
AAA+ to AA-	270.80	1.11	0.56	270.24	0.04%	29.05%	99.90%	11.46%	0.00	48.17
A+ to A-	653.20	116.82	16.60	548.05	0.07%	33.23%	97.16%	15.60%	0.00	166.31
BBB+ to BBB-	1,168.22	179.83	30.83	978.55	0.58%	38.57%	96.59%	67.41%	0.00	910.72
Other	602.42	176.94	29.96	420.25	4.98%	44.49%	92.55%	113.29%	-	384.75
Default	19.93	0.25	0.08	19.17	100.00%	11.06%	98.23%	0.00%	9.64	24.39
<b>TOTAL</b>	<b>2,714.57</b>	<b>474.96</b>	<b>78.04</b>	<b>2,236.26</b>	<b>2.07%</b>	<b>36.99%</b>	<b>96.38%</b>	<b>56.00%</b>	<b>9.64</b>	<b>1,534.34</b>
A+ to A-	143.99	52.76	7.59	76.72	0.86%	7.20%	80.16%	11.09%	0.00	78.40
BBB+ to BBB-	449.12	98.93	14.48	345.81	1.26%	9.30%	94.69%	15.94%	0.00	381.08
Other	1,422.68	278.51	45.80	1,085.08	8.33%	4.11%	92.77%	11.26%	-	1,030.05
Default	166.68	3.61	0.82	159.94	100.00%	3.60%	98.39%	0.00%	41.66	84.52
<b>Total</b>	<b>2,182.46</b>	<b>433.81</b>	<b>68.70</b>	<b>1,667.55</b>	<b>15.31%</b>	<b>5.28%</b>	<b>93.13%</b>	<b>11.14%</b>	<b>41.66</b>	<b>1,574.05</b>
BBB+ to BBB-	0.00	-	-	0.00	0.00%	0.00%	0.00%	0.00%	0.00	0.00
Other	6.66	-	-	6.29	99.99%	11.12%	100.00%	269.12%	0.00	5.97
Default	3.79	-	-	0.00	100.00%	11.11%	100.00%	370.00%	-	-
<b>Total</b>	<b>10.45</b>	<b>-</b>	<b>-</b>	<b>6.29</b>	<b>99.99%</b>	<b>11.12%</b>	<b>100.00%</b>	<b>269.12%</b>	<b>-</b>	<b>5.97</b>
AAA+ to AA-	959.97	0.00	-	883.53	0.04%	15.32%	98.25%	7.16%	0.00	924.03
A+ to A-	1,679.01	12.50	0.40	1,663.62	0.06%	6.58%	99.89%	11.14%	0.00	2,723.85
BBB+ to BBB-	389.27	0.35	0.08	388.25	0.27%	18.85%	99.91%	15.69%	0.00	412.85
Other	89.22	6.80	0.63	82.12	4%	3.6%	99%	41%	0.00	100.95
<b>Total</b>	<b>3,117.47</b>	<b>19.65</b>	<b>1.10</b>	<b>3,017.52</b>	<b>0.19%</b>	<b>11.70%</b>	<b>99.39%</b>	<b>11.37%</b>	<b>-</b>	<b>4,161.67</b>

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 31/12/2015
AAA+ to AA-	33.68	19.65	9.05	23.09	0.04%	9.18%	79.76%	1.21%	-	16.31
A+ to A-	521.82	268.61	64.13	313.03	0.10%	5.96%	87.92%	1.51%	-	321.58
BBB+ to BBB-	672.29	185.75	58.16	536.13	0.48%	7.98%	93.14%	5.77%	0.00	642.65
Other	1,297.38	173.84	65.64	1,182.55	4.59%	11.95%	96.96%	18.12%	0.00	1,443.57
Default	313.94	9.36	2.42	306.92	100.00%	40.07%	99.46%	0.00%	109.71	249.66
<b>Total</b>	<b>2,839.11</b>	<b>657.22</b>	<b>199.40</b>	<b>2,361.72</b>	<b>15.42%</b>	<b>13.88%</b>	<b>95.05%</b>	<b>10.59%</b>	<b>109.71</b>	<b>2,673.77</b>
A+ to A-	1.36	1.00	0.05	0.36	0.38%	9.82%	87.48%	6.05%	0.00	1.81
BBB+ to BBB-	41.94	14.63	4.58	29.53	0.67%	9.32%	87.21%	8.42%	0.00	36.18
Other	215.35	50.92	13.99	165.86	12.15%	10.18%	91.13%	17.93%	0.00	170.54
Default	9.02	0.40	0.08	8.58	100.00%	12.39%	98.79%	0.00%	5.31	11.74
<b>Total</b>	<b>267.67</b>	<b>66.96</b>	<b>18.69</b>	<b>204.33</b>	<b>14.16%</b>	<b>10.14%</b>	<b>90.88%</b>	<b>15.78%</b>	<b>5.31</b>	<b>220.27</b>
AAA+ to AA-	0.39	0.39	0.20	0.20	0.04%	11.25%	50.00%	1.48%	0.00	-
A+ to A-	1,039.80	87.84	40.12	991.88	0.10%	10.61%	97.89%	2.66%	0.00	819.50
BBB+ to BBB-	2,128.06	129.97	62.52	2,060.27	0.50%	10.74%	98.45%	8.59%	0.00	1,810.74
Other	2,124.92	100.74	44.53	2,067.45	6.37%	11.16%	98.84%	29.64%	0.00	1,663.03
Default	204.70	5.59	2.16	201.28	100.00%	11.21%	99.40%	0.00%	26.46	170.61
<b>Total</b>	<b>5,497.98</b>	<b>324.53</b>	<b>149.51</b>	<b>5,321.08</b>	<b>6.47%</b>	<b>10.90%</b>	<b>98.53%</b>	<b>15.34%</b>	<b>26.46</b>	<b>4,463.87</b>
BBB+ to BBB-	22.08	4.58	1.91	19.35	0.67%	11.79%	94.54%	10.91%	0.00	27.64
Other	141.42	11.24	3.50	133.29	13.25%	11.71%	98.22%	28.75%	0.00	108.37
Default	4.82	0.19	0.08	4.67	100.00%	12.07%	98.69%	0.00%	1.49	2.70
<b>Total</b>	<b>168.32</b>	<b>16.01</b>	<b>5.49</b>	<b>157.32</b>	<b>14.28%</b>	<b>11.73%</b>	<b>97.78%</b>	<b>25.70%</b>	<b>1.49</b>	<b>138.71</b>
AAA+ to AA-	2.79	-	-	2.79	0.00%	7.39%	100.00%	0.00%	0.00	4.82
A+ to A-	0.24	-	-	0.24	0.05%	8.18%	100.00%	0.00%	0.00	0.37
Other	1.68	-	-	1.68	30.77%	7.40%	100.00%	0.00%	0.00	3.46
<b>Total</b>	<b>4.71</b>	<b>-</b>	<b>-</b>	<b>4.71</b>	<b>10.97%</b>	<b>7.43%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>-</b>	<b>8.66</b>
<b>TOTAL</b>	<b>23,334.64</b>	<b>2,475.80</b>	<b>638.22</b>	<b>21,143.34</b>					<b>194.27</b>	<b>20,168.06</b>

### 3.4.5 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.

	31/12/16					Grand Total
	AAA+ to AA-	A+ to A-	BBB+ to BBB-	Default	Other	
Consumer loans		34.77	56.25	6.09	88.99	186.11
Credit cards	15.76	48.31	44.27	0.28	25.80	134.43
Investment loans		3.25	18.00	4.58	62.02	87.85
Leasing	0.49	1.49	13.55	0.27	45.13	60.93
Lombards		61.10	115.73	18.56	354.08	549.46
Mortgage loans	1.30	959.87	2,010.30	92.59	1,730.62	4,794.69
Others	5.74	190.43	351.60	396.44	1,213.41	2,157.62
Student loans		6.02	26.84	1.87	17.32	52.05
Treasury Loans/ Facilities		0.03	8.75	0.76	11.77	21.31
<b>Grand Total</b>	<b>23.29</b>	<b>1,305.28</b>	<b>2,645.28</b>	<b>521.44</b>	<b>3,549.15</b>	<b>8,044.44</b>

The overall exposure increased to reach 8,044 million at year-end 2016 compared to 7,497 million at year-end 2015. The Bank continued to develop its credit business which led to an increase of 439 million in mortgage loan exposure.

## 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 31/12/15
Corporates	AAA+ to AA-	0.11	100.00%	0.02	0.00	0.11
	A+ to A-	3.30	55.97%	0.01	0.00	21.06
	BBB+ to BBB-	145.99	100.00%	35.42	0.00	170.81
	Other	760.42	94.60%	562.97	0.00	640.01
<b>Corporates</b>	<b>Total</b>	<b>909.83</b>	<b>95.33%</b>	<b>598.43</b>	<b>0.00</b>	<b>831.98</b>
Covered bonds	A+ to A-	-	0.00%	0.00	0.00	10.07
	BBB+ to BBB-	-	0.00%	0.00	0.00	14.34
<b>Covered bonds</b>	<b>Total</b>	<b>0.00</b>	<b>0.00%</b>	<b>0.00</b>	<b>0.00</b>	<b>24.41</b>
Equity	BBB+ to BBB-	4.56	250.00%	0.00	0.00	0.58
	Other	7.80	245.99%	0.00	7.39	5.26
<b>Equity</b>	<b>TOTAL</b>	<b>12.36</b>	<b>247.47%</b>	<b>0.00</b>	<b>7.39</b>	<b>5.84</b>
Items associated with particularly high risk	BBB+ to BBB-	0.00	150.00%	0.00	0.00	0.32
	Other	31.66	150.00%	0.00	9.25	29.81
<b>Items associated with particularly high risk</b>	<b>TOTAL</b>	<b>31.67</b>	<b>150.00%</b>	<b>0.00</b>	<b>9.25</b>	<b>30.13</b>
Institutions	AAA+ to AA-	9.98	20.00%	0.00	0.00	0.00
	A+ TO A-	1.54	20.00%	0.00	0.00	2.53
	BBB+ TO BBB-	19.28	2.00%	0.00	0.00	0.25
	Other	5.88	89.11%	1.82	0.00	2.02
<b>Institutions</b>	<b>TOTAL</b>	<b>36.68</b>	<b>21.62%</b>	<b>1.82</b>	<b>0.00</b>	<b>4.80</b>

Multilateral Development Banks	AAA+ TO AA-	100.59	0.00%	2.93	0.00	92.80
<b>Multilateral Development Banks</b>	<b>TOTAL</b>	<b>100.59</b>	<b>0.00%</b>	<b>2.93</b>	<b>0.00</b>	<b>92.80</b>
Other items	AAA+ TO AA-	36.43	0.00%	0.00	0.00	38.65
	Other	374.34	77.09%	4.50	0.00	386.19
<b>Other items</b>	<b>TOTAL</b>	<b>410.77</b>	<b>70.26%</b>	<b>4.50</b>	<b>0.00</b>	<b>424.83</b>
Exposure in default	Default	13.17	113.69%	0.82	78.68	12.86
<b>Exposure in default</b>	<b>TOTAL</b>	<b>13.17</b>	<b>113.69%</b>	<b>0.82</b>	<b>78.68</b>	<b>12.86</b>
Public Sector Entities	A+ to A-	17.09	20.00%	0.00	0.00	18.81
	Other	64.04	20.00%	70.62	0.00	65.58
<b>Public Sector Entities</b>	<b>TOTAL</b>	<b>81.12</b>	<b>20.00%</b>	<b>70.62</b>	<b>0.00</b>	<b>84.39</b>
Regional Governments And Local Authorities	AAA+ to AA-	9.36	20.00%	0.00	0.00	0.00
	BBB+ to BBB-	12.00	20.00%	0.00	0.00	0.00
	Other	180.52	20.00%	0.33	0.00	176.22
<b>Regional Governments And Local Authorities</b>	<b>TOTAL</b>	<b>201.88</b>	<b>20.00%</b>	<b>0.33</b>	<b>0.00</b>	<b>176.22</b>
Secured by mortgages on immovable property	A+ to A-	0.00	0.00%	0.00	0.00	0.51
	BBB+ to BBB-	24.44	50.00%	0.00	0.00	26.14
	Other	346.09	83.15%	2.56	0.00	345.81
<b>Secured by mortgages on immovable property</b>	<b>TOTAL</b>	<b>370.53</b>	<b>80.96%</b>	<b>2.56</b>	<b>0.00</b>	<b>372.46</b>
Securitisation	AAA+ to AA-	324.57	20.00%	0.00	0.00	280.78
<b>Securitisation</b>	<b>TOTAL</b>	<b>324.57</b>	<b>20.00%</b>	<b>0.00</b>	<b>0.00</b>	<b>280.78</b>
Short-Term Exposures	A+ to A-	0.15	50.00%	0.00	0.00	0.00
	BBB+ TO BBB-	0.00	0.00%	0.00	0.00	0.00
	OTHER	0.00	0.00%	0.00	0.00	0.00
<b>Short-Term Exposures</b>	<b>TOTAL</b>	<b>0.15</b>	<b>50.00%</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Central Governments And Central Banks	AAA+ to AA-	522.99	7.72%	0.00	0.00	460.00
	A+ to A-	42.45	0.00%	0.00	0.00	0.00
	BBB+ TO BBB-	74.01	0.00%	10.88	0.00	28.94
	Other	420.56	0.00%	13.35	0.00	553.78
<b>Central Governments and Central Banks</b>	<b>TOTAL</b>	<b>1,060.01</b>	<b>3.81%</b>	<b>24.23</b>	<b>0.00</b>	<b>1,042.72</b>
<b>TOTAL</b>		<b>3,553.33</b>	<b>48.10%</b>	<b>706.24</b>	<b>95.32</b>	<b>3,384.22</b>

## 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

Guarantees that BIL received are 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-	707.8	707.8
Credit Quality Step #2	From A+ to A-	359.2	358.6
Credit Quality Step #3	From BBB+ to BBB-	93.9	93.6
Credit Quality Step #4	From BB+ to BB-	7.5	5.4
Credit Quality Step #5	From B+ to B-	30.1	25.9
Credit Quality Step #6	Below B-	2.4	1.2
No Credit Quality Step	Non Applicable	39.3	3.1
<b>Total</b>		<b>1,240.3</b>	<b>1,195.6</b>

## 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 2016. The amounts shown in the table below take netting agreements into account and include collateral values for reverse repo transactions.

31/12/16	Financial Collateral	Guarantee	Physical collateral	Repo	EAD collateralised or guaranteed	EAD NOT collateralised and NOT guaranteed	TOTAL EAD	Cover percentage
<b>IRB approach</b>								
Central Governments and Central Banks	0.01	653.99	-	-	653.99	5,512.57	6,166.57	10.61%
Corporates - Other	85.31	286.92	147.16	-	519.39	1,716.87	2,236.26	23.23%
Corporates - SME	25.39	60.58	1,030.46	-	1,116.43	551.12	1,667.55	66.95%
Equity	-	-	-	-	-	6.29	6.29	0%
Institutions	66.76	182.03	-	614.35	863.14	2,154.38	3,017.52	28.60%
Retail - Other non-SME	1,014.18	-	-	-	1,014.18	1,347.54	2,361.72	42.94%
Retail - Other SME	23.90	0.38	-	-	24.28	180.05	204.33	11.88%
Retail secured by mortgages on immovable property non SME	77.31	-	5,061.34	-	5,138.64	182.43	5,321.08	96.57%
Retail secured by mortgages on immovable property SME	1.22	-	153.69	-	154.91	2.40	157.32	98.47%
Other non credit obligation assets	-	-	-	-	-	4.71	4.71	0%
<b>Total IRB approach</b>	<b>1,294.06</b>	<b>1,183.90</b>	<b>6,392.65</b>	<b>614.35</b>	<b>9,484.97</b>	<b>11,658.37</b>	<b>21,143.34</b>	<b>44.86%</b>
<b>Standardised approach</b>								
Corporates	-	-	-	-	-	909.83	909.83	0%
Equity	-	-	-	-	-	12.36	12.36	0%
Items associated with particularly high risk	-	-	-	-	-	31.67	31.67	0%
Institutions	-	-	-	-	-	36.68	36.68	0%
Multilateral Development Banks	-	8.65	-	-	8.65	91.94	100.59	8.60%
Other items	-	-	-	-	-	410.77	410.77	0%
Exposure in default	-	-	-	-	-	13.17	13.17	0%
Public Sector Entities	-	-	-	-	-	81.12	81.12	0%
Regional Governments And Local Authorities	-	3.07	-	-	3.07	198.81	201.88	1.52%
Secured by mortgages on immovable property	-	-	137.62	-	137.62	232.91	370.53	37.14%
Short-Term Exposures	-	-	-	-	-	0.15	0.15	0%
Central Governments and Central Banks	-	-	-	-	-	1,060.01	1,060.01	0%
Securitisation	-	-	-	-	-	324.57	324.57	0%
<b>Total Standardised approach</b>	<b>-</b>	<b>11.72</b>	<b>137.62</b>	<b>-</b>	<b>149.33</b>	<b>3,404.00</b>	<b>3,553.33</b>	<b>4.20%</b>
<b>TOTAL EXPOSURE</b>	<b>1,294.06</b>	<b>1,195.62</b>	<b>6,530.27</b>	<b>614.35</b>	<b>9,634.30</b>	<b>15,062.37</b>	<b>24,696.67</b>	<b>39.01%</b>

## 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 analyzed 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 2016, BIL's threshold was not dependent of the credit rating. In consequence, there was 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).

in million EUR	31/12/15	31/12/16
Gross EAD	392.23	392.3
Netting agreements	121.6	126.3
Eligible collateral	150.5	57.3
Net EAD	120.2	159.8
Total RWA	38.9	39.2
Capital requirement	3.1	3.1

The derivatives exposure decreased in gross EAD by 48.9 million. The amount of collateral has 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 2015 and 2016.

Type of derivative	31/12/15	31/12/16
Over the counter derivative – equity type	3.2	4.6
Over the counter derivative – exchange type	58.7	75.7
Over the counter derivative – rate type	58.2	79.5
<b>TOTAL</b>	<b>120.2</b>	<b>159.8</b>

### 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 2016.

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.

	31/12/16			
	Level 1	Level 2	Level 3	Total
Financial assets available for sale - equities	0	10,143,498	32,533,310	42,676,808
<b>TOTAL</b>	<b>0</b>	<b>10,143,498</b>	<b>32,533,310</b>	<b>42,676,808</b>

### 3.8.3 Available-For-Sale equity portfolio

At 31 December 2016, the Bank had an equity portfolio in the non-trading book of EUR 42.68 million.

	31/12/16			
	Acquisition cost	Impairment	Fair Value Adjustment	Carrying Amount
Investment Funds	7,265,583	0	67,742	7,333,325
Operational Participations	20,310,564	(9,994,400)	5,069,981	15,386,145
Other	4,586,020	(4,556,247)	16,570	46,343
Private Equities	6,120,674	(5,840,152)	122,973	403,495
Strategic Participations	8,059,638	0	11,447,862	19,507,500
<b>TOTAL</b>	<b>46,342,479</b>	<b>(20,390,799)</b>	<b>16,725,128</b>	<b>42,676,808</b>

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

	31/12/16		
	Carrying Amount	Of which at cost	Of which Fair Valued
Investment Funds	7,333,325	0	7,333,325
Operational Participations	15,386,144	2,122,190	13,263,954
Other	46,343	1,523	44,820
Private Equities	403,496	1	403,495
Strategic Participations	19,507,500	0	19,507,500
<b>TOTAL</b>	<b>42,676,808</b>	<b>2,123,714</b>	<b>40,553,094</b>

## 3.8.4 Gains or losses on equity

### 3.8.4.1 Realised gains or losses arising from sales and liquidations

The following table shows the cumulative realised gains or losses arising from sales or liquidations, impairments allowances and write-backs in 2016 and 2015.

	2015	2016
Financial assets available for sale - equities	67,921,278	57,806
<b>TOTAL</b>	<b>67,921,278</b>	<b>57,806</b>

### 3.8.4.2 Unrealised gains or losses included in own funds

The total unrealised gains or losses related to equity instruments amounted to 16.16 million as at December 31, 2016.

	2015	2016
Financial assets available for sale - equities	11,745,197	16,156,606
<b>TOTAL</b>	<b>11,745,197</b>	<b>16,156,606</b>

## 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 325 million of ABS on a total portfolio of EUR 6.2 billion. BIL has exclusively securitisation exposures in the banking book referencing different types of underlying assets including residential mortgage-backed security, auto loans, consumer loans and credit cards receivables.

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

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

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

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

## 3.9.2 Management of the Bank's securitisation activity

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

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

- Exposures on securitised assets could not exceed 10% of total size of portfolio;
- The Weighted Average Life (WAL) of each exposure must not exceed 5-year at the time of the trade;
- The evolution of the WAL must be followed on a monthly basis. If the WAL exceeds 5-year during the life of the issue, a specific investment committee is organized 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 2016, 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 600 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 December 31, 2016, the total EAD for securitised products amounted to 325 million for forty-four exposures. The exposure could be split as follows:

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

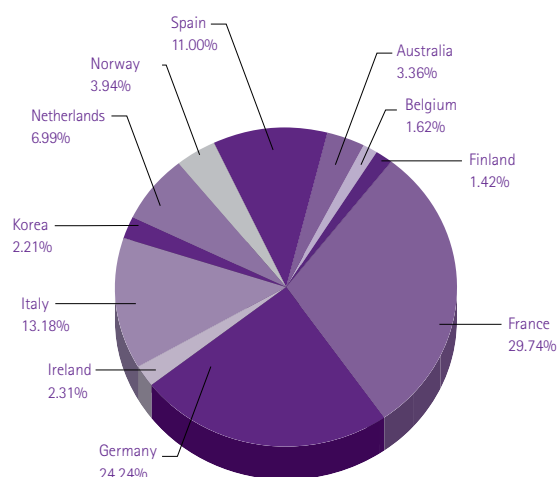
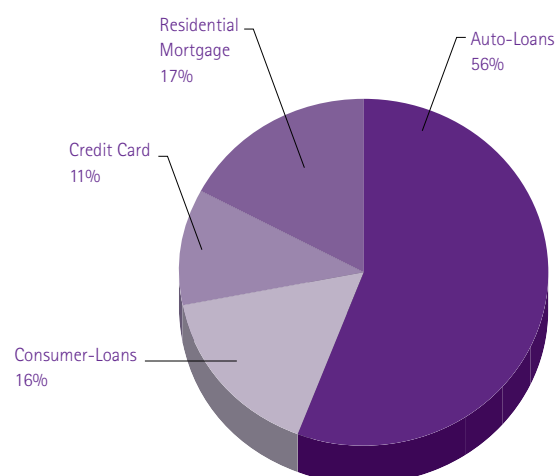


Chart 2: Breakdown type of assets (by EAD)



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 recognizes AFS securities initially at fair value plus transaction costs. Interest is recognized 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 recognized within equity, under the heading "Gains and losses not recognized 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 recognizes 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 2016:

	INVESTOR
Traditional securitisations	Purchased Exposures
Auto-loans	180.27
Consumer loans	52.54
Credit Card	35.50
RMBS	56.26
<b>TOTAL</b>	<b>324.57</b>

This table shows the securitisation breakdown by weighted risk in the banking book of the Bank at year-end 2016:

	EAD (Standard)	RWA
Traditional securitisations	<= 20% RW	<= 20% RW
Auto-loans	180.27	36.05
Consumer loans	52.54	10.51
Credit Card	35.50	7.10
RMBS	56.26	11.25
<b>TOTAL</b>	<b>324.57</b>	<b>64.91</b>

This table represents the breakdown of securitisation exposures by rating class at year-end 2016:

Rating used for RWA calculations	EAD (Standard)	RWA
AAA	235.11	47.02
AA+	72.26	14.45
AA	6.20	1.24
AA-	11.00	2.20
<b>TOTAL</b>	<b>324.57</b>	<b>64.91</b>

And finally, this table shows the breakdown of securitisation exposures by valuation method at year-end 2016:

Valuation method	EAD (Standard)	RWA
Market	303.15	60.63
Expert	21.43	4.29
<b>TOTAL</b>	<b>324.57</b>	<b>64.91</b>



## 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

Please refer to the section 2.2.1 Organisation.

#### 4.1.2 Policy and committees

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

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

in accordance with BIL's objectives and strategy, within its overall risk appetite.

Financial Risk Management (FRM) oversees market risk under the supervision of the Management Board and specialized risk committees. FRM is a support unit within the Risk Management department. On the basis of its global risk management approach, it is responsible for identifying, analysing, monitoring and reporting 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 the Bank's entities:

- Head Office FRM teams define risk measurement methods for the whole Group; in addition they report and monitor the consolidated risks of the activities they are responsible for;
- Head Office and local FRM teams follow the day-to-day activity, implement policies and directives, monitor risks (e.g. calculation of risk indicators, control limits and triggers, frame new activities/new products etc.) and report to their own Management Board, as well as to local supervisory and regulatory bodies;
- The ALM Committee decides on the structural balance sheet positioning regarding rates, foreign exchange and liquidity. 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 impacts on the exposure of a parallel movement of 1% on the interest rate 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 2016, the hypothetical back-testing calculated on the trading portfolio revealed 1 downward back-testing exception for interest rate and currency risks of which:

- 1 exception is explained to a high volatility of USD exchange rate against EUR combined with exceptional variations of USD interest rates.

By the end of 2016, the Bank had set up a stress testing<sup>1</sup> framework taking into account exceptional market occurrences.

<sup>1</sup> Stress testing is a risk management technique used to evaluate the potential effects on an institution's financial condition of a specific event and/or movement in a set of financial variables. The traditional focus of stress testing relates to exceptional but plausible events.

## 4.2 Market risk exposure

### 4.2.1 Treasury and Financial Market

The detailed IR&FX VaR used for Treasury and Financial Market activities (ALM not included) is disclosed in the table below. BIL group's average Value at Risk was 0.91 million in 2016, compared with 0.97 million in 2015.

VaR (10 days 99%) (in EUR million)		2015							
		IR <sup>1</sup> & FX <sup>2</sup> (trading and banking) <sup>3</sup>				EQT <sup>4</sup> trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>By risk factor</b>	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
<b>Global</b>	Average	0.97							
	Maximum	5.22							
	End of period	1.15							
	Limit	8.00							

VaR (10 days 99%) (in EUR million)		2015							
		IR <sup>1</sup> & FX <sup>2</sup> (trading and banking) <sup>3</sup>				EQT <sup>4</sup> trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>By risk factor</b>	Average	0.84	1.00	1.00	0.81	0.01	0.01	0.01	0.01
	Maximum	1.22	1.48	1.45	1.32	0.03	0.02	0.04	0.02
<b>Global</b>	Average	0.91							
	Maximum	1.48							
	End of period	0.44							
	Limit	8.00							

As of December 30, 2016, the spread sensitivity (+1bp) for the capital markets activity amounted to EUR -10,471 for a limit set at EUR -60,000. The average for 2016 amounted to -16,753.

### 4.2.2 Asset & Liability Management (ALM)

The role of the ALM unit 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 December 31, 2016, the ALM sensitivity amounted to 6 million (vs.- 16 million as at end 2015).

Over 2016, the ALM department managed its rate position by progressively limiting its exposure to an increase in long term rates.

The limit of interest-rate sensitivity for a 100 bp parallel shift was 81 million as at December 31, 2016 (identical to last year's limit).

<sup>1</sup> IR: interest rate.

<sup>2</sup> FX: foreign exchange.

<sup>3</sup> IR & FX: excluding asset & liability management (ALM).

<sup>4</sup> 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 had a total nominal exposure of 6.23 billion as at December 31, 2016 (against 6.06 billion as at December 31, 2015). The majority of the bonds are classified in the AFS portfolio: 5.71 billion as at December 31, 2016 (against 5.94 billion as at December 31, 2015). The remaining part is classified in the HTM portfolio: 522 million as at December 31, 2016.

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 2016 (compared with -3.0 million per basis point as at December 31, 2015).

Investment portfolio (in EUR million)	Notional amount		Rate bpv		Spread bpv	
	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16
Treasury	2,939	2,947	(0.16)	(0.10)	(1.05)	(1.24)
ALM	3,126	3,285	(1.41)	(1.39)	(2.10)	(2.17)

## 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 2016, 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 upon covering funding requirements with available liquidity reserves. Funding requirements are assessed carefully, dynamically and comprehensively by taking the existing and planned on- and off-balance sheet asset and liability transactions into consideration. Reserves are constituted with assets eligible for refinancing with the central banks to which BIL has access (Banque Centrale du Luxembourg (BCL) and Swiss National Bank (SNB)).

Regular information channels have been established for management bodies. 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 development (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<sup>1</sup>. 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, on a daily and a weekly basis respectively.

### 4.3.2 Risk exposure

In line with the 2015 year-end situation, BIL presented a significant liquidity surplus throughout the year of 2016.

Additional funding needed to reach 100% of the base case ratio (in EUR million)	2016	Q1	Q2	Q3	Q4
		Estimated - 1 month			
Average	(4,418)	(4,607)	(4,348)	(4,355)	(4,362)
Maximum	(5,041)	(5,041)	(4,783)	(4,633)	(4,678)

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 observed a progressive increase in customer deposits and a moderate growth in the loan portfolio.

<sup>1</sup> Called "Base Case Ratio".

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 140% by end 2016.

### 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 December 31, 2016, EUR 2.82 billion of BIL group's balance sheet assets were encumbered. Key sources of encumbrance are securities lending (EUR 1.25 billion), collateral swaps (EUR 0.6 billion), deposits to the BCL (EUR 0.55 billion) and OTC derivatives (EUR 0.4 billion). Almost all securities lending transactions are open maturity operations with a maximum recall period of two days, which mitigates liquidity risk. Depending on the counterparty, BIL or a third party on the behalf of BIL receives securities as collateral to address the credit risk. A common feature of collateral swaps carried out by BIL is the lending of high quality securities (e.g. issued by a general government) against LCR-eligible securities of lesser quality (e.g. RMBS). Central Bank-eligible securities are encumbered to pledge BIL's participation in the Targeted Longer Term Refinancing Operations (TLTRO) programme. Lastly, collateral needs from derivatives (CSA and GRMA) require cash deposits.

The significant increase of encumbered assets (+ EUR 1.1 billion) and of contingent encumbrance are mainly explained by the variation of securities lending. As previously explained, the liquidity risk resulting from these operations is very limited due the very short-term recall period.

Despite the securities lending, BIL maintained a sufficient level of unencumbered high quality assets, including assets eligible as liquid assets for LCR and Central Banks. Furthermore, the BIL asset encumbrance ratio remains largely below the limit, in line with the EU average ratio.

The figures displayed in the tables hereafter correspond to the 2016 median values and are expressed in EUR millions.

### 4.3.3.1 Assets

The following table describes the unencumbered and encumbered assets at the end of 2016.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets of the reporting institution</b>	1,943.0		21,474.9	
Loans on demand	-		1,614.9	
Equity instruments	-	-	41.4	226.7
Debt securities	1,590.5	1,590.5	5,893.3	5,908.9
Loans and advances other than loans on demand	309.6		12,841.2	
Other assets	-		1,043.0	

### 4.3.3.2 Collateral received

The following table details the collateral received by the Bank related to the unencumbered and encumbered assets at the end of 2016.

	Fair value of encumbered collateral received or own debt securities issued	Unencumbered	
		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
<b>Collateral received by the reporting institution</b>	-	612.8	6,441.5
Loans on demand	-	-	-
Equity instruments	-	-	-
Debt securities	-	456.0	472.2
Loans and advances other than loans on demand	-	156.8	-
Other collateral received	-	-	5,596.2
<b>Own debt securities issued other than own covered bonds or ABSs</b>	-	24.9	-

### 4.3.3.3 Sources of encumbrance

At the end of 2016, 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
<b>Carrying amount of selected financial liabilities</b>	1,192.2	1,004.3
Derivatives	481.5	309.6
Deposits	684.0	684.0
Debt securities issued	-	-
<b>Other sources of encumbrance</b>	455.2	462.2
<b>TOTAL SOURCES OF ENCUMBRANCE</b>	<b>2,061.8</b>	<b>1,943.0</b>

## 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 2016 and 2015.

Type of risk	31/12/2015		31/12/2016	
	RWA	Capital requirement	RWA	Capital requirement
Interest Rate Risk / Trade debt instruments	71	6	34	3
Position Risk on equities	0	0	0	0
Foreign Exchange Risk	26	2	21	2
<b>TOTAL</b>	<b>97</b>	<b>8</b>	<b>55</b>	<b>4</b>

## 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

Please refer to the section 2.2.1 Organisation.

#### 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 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 quick 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 information security, including business continuity management and access management, BIL group's Management Board has validated and implemented an information security policy. This document and its related guidelines, standards, procedures and practices are intended to secure BIL group's information assets. In 2016, BIL mandated PwC to review all the internal governance and policies related to cybersecurity topics (covering both IT Security and Information Security perimeters). In this context, the Information Security Policy is being completely rewritten.

In terms of operational risk, BIL's management conducted the annual review of the Operational Risk Global Policy without any major change in September 2016.

##### Committees

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

The following committees are responsible for operational risk at BIL:

- **The Internal Control Committee (ICC)**, mandated by the Management Board, is in charge of supervising the Operational Risk Management for operational incidents, major risks and root causes, follow-up on corrective/mitigating measures, RCSA results, KRI, BCP/DRP Information Security as well as overseeing the operational risks for BIL, its subsidiaries and branches based on the existing products/services.
- **The New Product Committee (NPC)** is a transversal committee responsible for new products/ services on the basis of ideas coming from the entire bank including the Innovation & Digital Forum and for checking the relevancy of the underlying business case against the Bank's strategy. The Head of BIL's group Risk Management acts as a permanent member for risk advice.
- **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.
- **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 (CC)** is mandated by the Management Board to create an operational crisis management committee consisting of a core incorporating different members of the functions necessary for the management of any crisis; depending on the type of crisis, this core is complemented by the heads of the entities affected.



- **The Compliance, Audit and Risk (CAR) Committee** is a monthly committee which has been set up following a proposal by IS4F. This Committee covers aspects of Compliance, Audit and Risk between BIL and IS4F.<sup>1</sup> It brings together the Chief Compliance Officer, the Head of Audit and the Head of BIL group's Risk Management and/or their substitutes.

### 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.

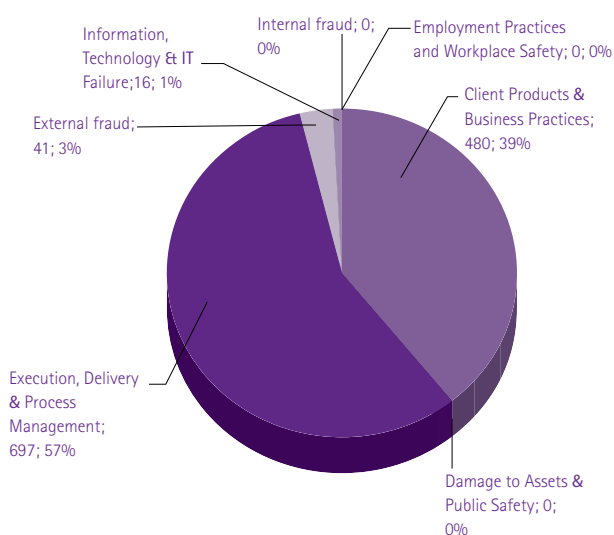
#### Operational risk event data collection

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 division of BIL group's gross losses for the year 2016 by risk event type is disclosed in the chart below. The total gross impact is calculated on an absolute value basis, including losses, profits, timing accounting and excluding recoveries. This explains possible differences with other regulatory reports which are only based on a losses point of view.

Gross impact in thousands EUR and share in %



*Execution, Delivery & Process Management* incidents represent 57% of the total amount of BIL group's operational risk losses. Losses related to these incidents were in the vast majority incurred due to human errors and the main operational risk lies in the wrong execution of instructions.

In the second place, one incident related to the *Client Products & Business Practices* category represents 39% of the total amount of operational incidents.

An action plan has been implemented regarding those kind of incidents which consists of :

- A reminder to client advisors about the obligation to have a statement signed annually by the customers, to protect the Bank against claims on account management;
- Monitoring that all the customers have a statement duly signed within a maximum of 12 months.

In 2016, the Bank recorded 68 operational incidents related to External Fraud among which 49 have been stopped by the Bank (fraud attempts) for a risk exposure amount of 1985 K€. Seven frauds were executed for an effective loss of 41 K€ but the risk exposure amount was 500 K€. A review of the internal memorandum that imposes the execution of additional controls based on the customer's habits or profile has been started in 2017. The criteria of the controls will be updated to keep them in line with the fraudulent practices. Moreover, thanks to reminding campaigns especially via intranet, the Bank keeps raising all front business lines' employees awareness. The Bank didn't face any internal fraud in 2016.

<sup>1</sup> IS4F (Innovative Solutions For Finance) is provider of financial services (PFS company) that delivers IT infrastructure and production services for BIL.

In the Information, Technology and Infrastructures category (1%), the operational incidents were mainly linked to disturbances in the IT systems. BIL does not estimate the related financial impacts except if they have direct financial consequences for customers. The principal impact is calculated in men/days. Each financial impact related to Damage to Assets & Public Safety event type have been totally recovered, which explains that it represents 0% of the total amount of the operational risk losses.

In terms of control, 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 and that has been declared to the COR team. Recipients analyse their report and verify that all incidents brought to their attention have been treated and reported.

ORM presents an operational risk report to the ICC at the end of each quarter.

#### Self-assessment of risks and associated controls

A pre-defined RCSA exercise is performed each year to identify the most significant operational risk areas of the Bank. This assessment provides a good overview of the various activities and existing checks and can lead to the definition of mitigating actions. The results of these assessments are reported to the management during the ICC meeting. The guideline for RCSA has been reviewed in 2016 without significant changes.

#### Definition and follow-up of action plans

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

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

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

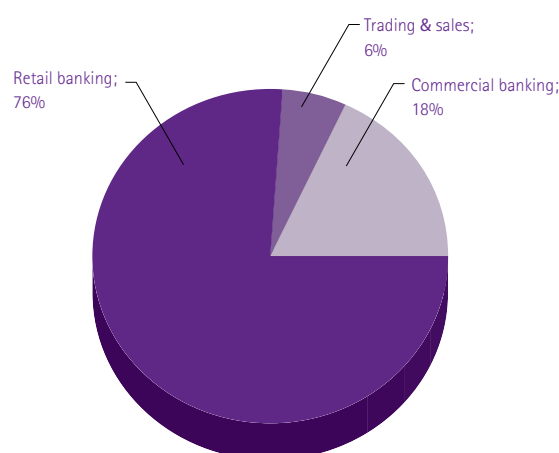
## 5.2 Calculation of the regulatory capital requirement

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 63.91 million at year-end 2016, as compared with 61.11 million at year-end 2015.

Banking activities (EUR million)	Beta Factor	Ajusted P&L	Capital Requirements 2015	Capital Requirements 2016
Commercial Banking	15%	91.99	12.47	13.79
Trading and sales	18%	28.62	3.05	5.15
Retail banking	12%	374.67	45.59	44.96
<b>TOTAL</b>		<b>495.28</b>	<b>61.11</b>	<b>63.91</b>

The chart below presents the breakdown by business lines (according to Basel definitions) of the capital requirement for operational risk as at December 31, 2016.



# 6. Remuneration Charter and practices

## 6.1 Key pillars

This current Charter has been approved by the BOD on 17 March 2017 and is effective within BIL group as of date.

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

- **Maintain a sound and effective risk management framework**  
The Charter and its associated practices aim at defining the remuneration within BIL group with a view to protect the interests of BIL group's clients, providers, employees, shareholders as well as BIL group's financial sustainability in a long-term perspective.

The Charter is 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 behaviour. More generally, BIL group does not reward failure.

- **Comply with the regulatory framework**

The Charter complies with the requirements on remuneration policy and practices in the financial sector that have been defined by applicable rules and competent regulators, including the CSSF.

- **Foster transparency**

Transparency is a keystone of the Charter. Detailed information on the Charter's rules and practices is made available both internally and externally in order to ensure that employees as well as stakeholders are timely and accurately informed about BIL group's remuneration Charter.

- **Ensure group consistency**

BIL group remuneration Charter is applicable to all subsidiaries and branches in Luxembourg and abroad in order to ensure consistency throughout the Group. All entities of BIL group are requested to examine the conformity of the Charter on a yearly basis and set, where need may be, more restrictive provisions if imposed by local regulators.

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

## 6.2 Determination of the Identified Staff

BIL performs, at least on an annual basis, a detailed analysis in order to identify its staff members and staff members of entities of the BIL group whose professional activities have a material impact on BIL group's risk profile (hereafter referred to as the "Identified Staff").

BIL group applies the guidance provided by the EBA when determining its Identified Staff. The list of Identified Staff is drawn up each year on the basis of the analysis of job functions and responsibilities according to the following governance :

- 1/ Each entity is requested to identify staff members who meet the Material Risk Takers criteria or definition. This analysis is made on the basis of (i) the Qualitative and Quantitative Criteria detailed in the Commission Delegated Regulation EU 604/2014 on the identification of categories of staff whose professional activities have a material impact on an institution's risk profile and, whenever appropriate (ii) the specific definition set forth in the context of AIFMD;
- 2/ The analysis is combined into a consolidated Material Risk Takers list which is assessed at Group level during an ad hoc meeting;
- 3/ This annual process is coordinated by HR in close collaboration with Risk Management, Compliance, Audit and Legal departments;
- 4/ The final consolidated list is reviewed by the BRNC-N and recommended by the BRNC-N to the BOD for decision.

### Proportionality principle at the level of Identified Staff

All principles described in this Charter apply to all Identified Staff at BIL group level.

However, as foreseen by the CRDIV, the Luxembourg Financial Sector Law and the EBA Guidelines, BIL may apply the remuneration requirements in a proportionate way to Identified Staff who have a less material impact on BIL group's risk profile.

More precisely, BIL applies the proportionality principle to Identified Staff who have a less material impact on BIL group's risk profile and an annual Variable Remuneration below or equal to € 100 000.

Based on past practice in a normal year, a significant proportion (+/- 85%) of the Identified Staff is considered to fall within the criteria foreseen in CSSF Circular 11/505.

In this context, the following specific remuneration requirements are neutralized for the Identified Staff for whom the proportionality principle is applied:

- Requirement to pay out a part of the Variable Remuneration in instruments and, as a consequence, the related instrument retention obligations;
- Requirement to pay out a part of the Variable Remuneration through a deferral scheme and, de facto, the related ex-post risk adjustment obligations (Malus).

## 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 identifies, on a regular and continuous basis, and establishes a 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 an Identified Staff 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, analyze 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 an Identified Staff or not.

The main objective of such annual assessments is to give feedback to employees regarding their performance and competencies and hence recognize 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 BIL group;
- Promote internal mobility;
- Recognize 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.

### 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 BIL 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 for Variable Remuneration;
- The staff member with a rating of "2" is in principle not eligible for Variable Remuneration;
- The staff member with a rating of "1" is not eligible for 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, compliance with the BIL group's standards in terms of client relationship and ethical behaviour.

## 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 of BIL group.

However, since BIL group is active in multiple countries, it sometimes needs to align its practices with 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 competencies 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.

These benefits are linked to the employee's classification in the CBA or internal grading (Hay grading) for executives, as well as the seniority within the BIL group.

None of these benefits are linked to performance. Fringe Benefits depend on each entity's Remuneration Structure.

## Variable Remuneration

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") Beneficiaries are 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 the 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 84 as of 31.12.2016.

### 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 and the financial Sector 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 S.A., 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 CRD IV, the Financial Sector Law and the EBA Guidelines 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 Charter 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 do not receive Variable Remuneration. The remuneration of the non-executive directors of BIL S.A. for the exercise of their mandates, is set as follows:

- The annual General Meeting of Shareholders of BIL S.A. 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 S.A. (or of a BIL group entity) who is an employee of BIL S.A. (or of such BIL group entity), does not receive any remuneration for the exercise of its director mandate unless such a director represents the staff.

The annual General Meeting of the Shareholders of BIL S.A., 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 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.

If a MMB receives a remuneration (allowances or attendance fees) for a mandate that he/she exercises in the name of or on behalf of BIL group, this remuneration is retroceded to BIL group.

##### Amount of Variable Remuneration

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

This target bonus represents a percentage of the Fixed Remuneration of the MMB. The Variable Remuneration eventually paid out may be higher or lower than the target bonus and depends on the level of achievement of the objectives.

Variable Remuneration is by no means guaranteed, remains discretionary and can be set to zero by the BOD if the BIL group / Business / Individual performances targets are not met.

##### Drivers 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 extent the KPIs are met. They are calculated on the basis of the financial indicators set by the BOD, acting upon recommendation of the BRNC.

###### Business KPIs

The business KPIs are analysed individually with respect to the targets set for the MMBs for the coming year. The performance assessment depends on the manner in which the business or the support line has taken an active part in the achievement of the group target. The performance assessment includes the monitoring of the risk elements specific to the MMB's activity line.

###### Individual KPIs

The individual component is analysed separately with respect to the targets 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 the 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 Internal Control Functions

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

The performance is assessed on the basis of targets that are mainly qualitative and specific to the Internal 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 Internal Control Functions is overseen and decided by the BOD upon recommendation of the BRNC in accordance with the TOR BRNC at BIL group level.

The appraisal, remuneration and objectives' setting of the Chief Internal Auditor are performed by the Chairman of the BACC, who takes input from the members of the BACC, in accordance with the TOR BRNC.

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

Variable Remuneration for all other Identified Staff is, discretionary.

For some Identified Staff members, a target bonus model may be set-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 6.5.5.6. 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

For the MMB, 50% of the total Variable Remuneration is deferred over a period of five years.

For other Identified Staff, 40% of the total Variable Remuneration is deferred over a period of three years.

If the Variable Remuneration is of a particular high amount, the portion of the Variable Remuneration to be deferred will be increased to 60%. Whether the variable component is considered as of a particular high amount will be determined by reference to the CSSF guidelines, once such guidelines will be issued.

#### 6.5.5.4 Terms of payment of the Variable Remuneration for the MMB

##### 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% (=25% of the total variable remuneration) in cash;
- 50% (=25% 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 (=25% of the total variable remuneration) is paid in cash in Y+2, Y+3 and Y+4, Y+5, Y+6, vesting on a pro rata basis;
- 50% of the deferred part (=25% of the total variable remuneration) is paid in the form of phantom shares in Y+2, Y+3 and Y+4, Y+5, Y+6, vesting on a pro rata basis and subject to one year retention period.

### 6.5.5.5 Terms of payment of the Variable Remuneration for other Identified Staff

#### 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.

### 6.5.5.6 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 may 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 individual.

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, remain entitled to the Deferred Parts of his Variable Remuneration. The Deferred Parts of the Variable Remuneration will be settled in line with the original vesting schedule and the principles of this Charter (in particular ex-post risk adjustments). 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.

BIL has the authority to reclaim any variable compensation granted. The Claw-back provision is applied in case of established or proven fraud or in case of use of misleading information, if enforceable under local employment law.

### 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 Compensation and buy out from previous employment contract

In exceptional circumstances, the Identified Staff could be entitled to a one time lump sum compensating the loss of the Variable Remuneration by leaving his previous employer.

Variable Remuneration pay-out principles will apply automatically and a dedicated clause will be inserted in the employment contract.

### 6.5.6.4 Severance payments

Without prejudice to the application of the relevant and applicable legal and regulatory framework and agreements binding the relevant entity, payments associated with the early termination of an employment contract and/or a mandate as

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

Decisions about severance payments are reviewed by the BRNC and recommended to the BOD for decision.

There are no "Golden Parachutes" in the BIL group's Remuneration Charter.

Severance pay will not be awarded in case of an obvious failure allowing the relevant entity of the BIL group to terminate the employment contract with immediate effect. Failure of Identified Staff will be assessed on a case by case basis and will notably include the situations described in the EBA Guidelines (e.g. acting contrary to BIL internal rules, values and procedures, not meeting BIL's standard of fitness and propriety).

Severance pay will not be awarded in case the employee/member of the Management Board resigns. In case the employment contract is terminated by mutual consent, the potential severance payment will be considered and reviewed on a case by case basis and subject to Applicable Laws by the BRNC, and recommended to the BOD for decision.

Severance payments may be paid out in the context of a settlement agreement in order to prevent or terminate a potential or current labour dispute leading to costly and long labour court procedures. Severance payments are granted in the event a labour court might declare the dismissal as unfair. In order to assess whether a dismissal is likely to be declared unfair by labour courts, BIL group will, as need may be, seek to assistance of internal or external labour law specialists.

The labour law specialists will counsel BIL group on the appropriate amount to be granted.

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 final decision on whether a severance pay is awarded is taken by the BOD upon BRNC recommendation.

Severance pay is considered by the EBA Guidelines, as Variable Remuneration. Severance paid to Identified Staff will thus in principle be subject to all principles described in this Charter (e.g. deferral and payment in instruments) except for those amounts of severance payments that are mentioned under rule 154 of the EBA Guidelines.

### 6.5.6.5 Prohibition of personal hedging

It is forbidden for staff members to use personal hedge or insurance strategies linked to the remuneration or to responsibility in order to offset the impact of the ex-ante and ex-post risk alignment measures incorporated in the Charter.

Every Identified Staff is asked to comply with such requirement by accepting the principles laid in the Remuneration Charter.

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

### 6.6.1 The Board of Directors (BoD)

The BOD is responsible for the design, the review and the correct implementation of the Remuneration Charter. It ensures that the Remuneration Charter is compliant with relevant and applicable rules and regulations.

In this context, the BOD is recommended by the BRNC, the relevant Internal Control Functions (Risk Management, Compliance, Internal Audit), and RH. If need may be, the BOD may seek the assistance of external remuneration specialists.

The BOD ensures that the implementation of the Charter is reviewed on a regular basis by the BRNC, which must be assisted by the Internal Control Functions or by external experts. Such independent review will assess whether the remuneration system (i) operates as intended, and (ii) is compliant with the Applicable Laws.

The BOD has final decision power and responsibility regarding all aspects of the Remuneration Charter.

### 6.6.2 The Board of Remuneration and Nominations Committee (BRNC)

BIL operates in the financial market place giving rise to business, regulatory, financial, operational and human capital issues from many aspects of its activities. The BRNC is a BOD specialised committee and has been set up by the BOD in order to 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 TOR.

The responsibilities and the functioning of the BRNC at the level of BIL S.A. 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").

Since 1 January 2016, the BRNC is organised in two sub-meetings:

- Sub-meeting BRNC-N in charge of all nomination 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 Members

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

### 6.6.4 The Internal Control Functions

The roles of BIL group Control Functions (hereafter, the "Control Functions") in the design and the review of the Charter 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 Charter in collaboration with other Control Functions and the Secretary General;
- Review on an annual basis the practical application of the Charter 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 Charter 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 Charter;
- Perform on a regular basis a gap analysis of the Charter compared to new regulations.

#### 6.6.4.3 Risk Management

Take part, if need be, in the update of the Charter, especially regarding the definition/identification 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 Charter is as follows:

- HR is the process owner of the Charter definition and implementation process;
- HR proceeds to the annual review and update the Charter 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 Charter within BIL group, follow-up on the approval by local management, keeps track of the finalized version applicable in each entity;
- HR ensures that BIL group entities complies with the Charter during the appraisal/reward process (coherence checks, awareness of managers, etc...);
- HR coordinates works on the Charter 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 Diversity and succession plan at the level of the Management Body

In the selection and appointment of the Management Body member(s) to fill vacancies, the assessment will consider the candidate(s) good repute, the balance of knowledge, skills, diversity, time and availability to perform his/her duties, gender, experience and number of executive and non-executive directorships of a candidate. The Management Body shall possess adequate collective knowledge, skills and experience to be able to understand the Banks' activities, including the main risks.

When a position of Management Body member(s) vacates, the members of the BRNC sitting in Nomination matters will liaise and cooperate in order to select and recommend an appropriate candidate(s) to fill in the vacancy as soon as possible taking into account the following criteria: reputation criteria, experience criteria, governance criteria, independence criteria (BOD candidates), individual and collective requirements. The suitability of the Management Body member(s) is assessed according to the EBA guidelines of 22 November 2012 (EBA/GL/2012/06).

The initial assessment of candidate(s) and the periodic assessments of members of the Management Body is performed in accordance with the Bank Succession Charters.

## 6.8. CRD IV mandates limitation

Regarding the number of directorships held by the Management Body, the Board assessed in July 2016 the compliance of the members of the Board of Directors with the CRD IV mandates limitation.

The conclusion by the BRNC-N assessment is that there is no violation of the limitation requirement.

One Director holds 5 non-executive mandates, whereby an exception (+1 non-executive mandate versus the standard rule of 4 non-executive mandates) could be requested to the CSSF. However, given the upcoming change in the Board composition, such request is considered to be unnecessary at this stage. Consequently, the Board members are considered by the Board to have sufficient time available to perform their duties as a directors of BIL.

## 6.9 Disclosure

### 6.9.1 Internal disclosure

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

The discretionary nature of the Variable Remuneration is mentioned in the employment contracts.

BIL group informs its staff members appropriately and timely of any amendments to the Charter which might affect them.

### 6.9.2 External disclosure

As set out in article 450 (Part Eight) of EU Regulation 575/2013 on prudential requirements and article 22(2) & (f) of the EU Directive 2011/61 on AIFM, 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 Employees).

## 6.10 Quantitative information

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

### Information on remuneration of Identified Staff on 31/12/2016:

	Top Management	Other Identified Staff
<b>MEMBERS (HEADCOUNT)</b>	<b>44</b>	<b>40</b>
<b>TOTAL FIXED</b>	<b>11,001,114</b>	<b>5,351,163</b>
<i>of which: fixed in cash</i>	11,001,114	5,351,163
<i>of which: fixed in shares and share-linked instruments</i>	0	0
<i>of which: fixed in other types instruments</i>	0	0
<b>TOTAL VARIABLE REMUNERATION (IN EUR)</b>	<b>6,419,265</b>	<b>1,320,318</b>
<i>of which: variable in cash</i>	4,136,822	1,086,773
<i>of which: variable in shares and share-linked instruments</i>	0	0
<i>of which: variable in other types instruments</i>	2,282,443	233,545
<b>TOTAL AMOUNT OF VARIABLE REMUNERATION AWARDED IN YEAR N WHICH HAS BEEN DEFERRED (IN EUR)</b>	<b>1,326,821</b>	<b>186,836</b>
<i>of which: deferred variable in cash in year N</i>	663,410	93,418
<i>of which: deferred variable in shares and share-linked instruments in year N</i>	0	0
<i>of which: deferred variable in other types of instruments in year N</i>	663,410	93,418
<b>Additional information regarding the amount of total variable remuneration</b>		
Article 450 h(iii)CRR – total amount of outstanding deferred variable remuneration awarded in previous periods and not in year N (in EUR)	4,713,013	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)	1	2
<b>TOTAL AMOUNT OF GUARANTEED VARIABLE REMUNERATION (NEW SIGN-ON PAYMENTS) (IN EUR)</b>	<b>225,000</b>	<b>32,552</b>
Number of beneficiaries of severance payments	0	0
Total amount of severance payments paid in year N (in EUR)	0	0
Article 450 h(v) – Highest severance payment to a single person (in EUR)	0	0
Number of beneficiaries of contributions to discretionary pension benefits in year N	0	0
<b>TOTAL AMOUNT OF CONTRIBUTIONS TO DISCRETIONARY PENSION BENEFITS (IN EUR) IN YEAR N20</b>	<b>0</b>	<b>0</b>
Total amount of variable remuneration awarded for multi-year periods under programmes which are not revolved annually (in EUR)	376,000	0

## Information on remuneration for all staff:

Business areas	MB Mgmt function	Investment banking	Retail banking	Asset Mgmt	Corporate functions	Ind. control functions	All other
Number of members (Headcount)	8						
<b>Total number of staff in FTE</b>		<b>73</b>	<b>558</b>	<b>596</b>	<b>794</b>	<b>161</b>	<b>59</b>
<b>Total remuneration (in EUR)</b>	<b>7,583,720</b>	<b>7,615,894</b>	<b>39,868,467</b>	<b>69,343,660</b>	<b>59,726,387</b>	<b>14,271,326</b>	<b>4,096,503</b>
<i>Of which: variable remuneration (in EUR)</i>	<i>3,785,232</i>	<i>859,450</i>	<i>2,588,250</i>	<i>9,937,306</i>	<i>4,648,394</i>	<i>1,199,518</i>	<i>0</i>

## Information on identified staff remunerated EUR 1 million or more in 2016:

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	0
2,000,000 to below 2,500,000	1
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
To be extended as appropriate, if further payment bands are needed.	





# 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 of which: Instrument type 1	849.4 849.4	26 (1), 27, 28, 29, EBA list 26 (3) EBA list 26 (3)	N/A N/A
2	Retained earnings	217.8	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	69.4	26 (1)	N/A
3a	Funds for general banking risk	-	26 (1) (f)	N/A
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)	N/A
	Public sector capital injections grandfathered until 1 January 2018	-	483 (2)	N/A
5	Minority interests (amount allowed in consolidated CET1)	-	84, 479, 480	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)	N/A
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,136.6</b>	<b>-</b>	<b>N/A</b>
<b>Common Equity Tier 1 capital: Regulatory Adjustments</b>				
7	Additional value adjustments (negative amount)	2	34, 105	N/A
8	Intangible assets (net of related tax liability) (negative amount)	(121.9)	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)	(221.9)	36 (1) (c), 38, 472 (5)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	6.9	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 value resulting from changes in own credit standing	(1.0)	33 (1) (b) (c)	N/A
15	Defined-benefit pension fund assets (negative amount)	(4.1)	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	-36,4	-	N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-105,6	-	N/A
	Of which: ... filter for unrealised loss 1	3,9	467	N/A
	Of which: ... filter for unrealised loss 2		467	N/A
	Of which: ... filter for unrealised gain 1	-109,5	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	69,2	481	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)	N/A
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-379,9</b>	<b>-</b>	<b>N/A</b>
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>755,082</b>	<b>-</b>	<b>N/A</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>				
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	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>150</b>	<b>-</b>	<b>N/A</b>
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>				
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	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	-	-	N/A
44	<b>Additional Tier 1 (AT1) capital</b>	150	-	N/A
45	<b>Tier 1 capital (T1=CET1+AT1)</b>	905.1	-	N/A
<b>Tier 2 (T2) capital: instruments and provisions</b>				
46	Capital instruments and the related share premium accounts	144.6	62. 63	N/A
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)	N/A
	Public sector capital injections grandfathered until 1 January 2018	-	483 (4)	N/A
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 and 34) issued by subsidiaries and held by third parties	-	87, 88, 480	N/A
49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)	N/A
50	Credit risk adjustments	-	62 (c) & (d)	N/A
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	144.6	-	N/A
<b>Tier 2 (T2) capital: regulatory adjustments</b>				
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	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	-	-	N/A
58	<b>Tier 2 (T2) capital</b>	144.6	-	N/A
59	<b>Total capital (TC=T1+T2)</b>	1,049.7	-	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) <sup>o</sup> , 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	<b>Total risk weighted assets</b>	<b>5,819,1</b>	<b>-</b>	<b>N/A</b>
<b>Capital ratios and buffers</b>				
61	<b>Common Equity Tier 1 (as a percentage of risk exposure amount)</b>	<b>12.98%</b>	<b>92 (2) (a), 465</b>	<b>N/A</b>
62	<b>Tier 1 (as a percentage of risk exposure amount)</b>	<b>15.55%</b>	<b>92 (2) (b), 465</b>	<b>N/A</b>
63	<b>Total capital (as a percentage of risk exposure amount)</b>	<b>18.04%</b>	<b>92 (2) (c)</b>	<b>N/A</b>
64	<b>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)</b>			<b>N/A</b>
65	<b>of which: countercyclical buffer requirement</b>	<b>2.50%</b>	<b>-</b>	<b>N/A</b>
66	<b>of which: systemic risk buffer requirement</b>	<b>-</b>	<b>-</b>	<b>N/A</b>
67	<b>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</b>	<b>-</b>	<b>-</b>	<b>N/A</b>
67a	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</b>	<b>0.125%</b>	<b>CRD 131</b>	<b>N/A</b>
68	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</b>	<b>7.125%</b>	<b>CRD 128</b>	<b>N/A</b>
69	[non relevant in EU regulation]	-	-	-
70	[non relevant in EU regulation]	-	-	-
71	[non relevant in EU regulation]	-	-	-
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
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) (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)	12.1	36 (1) (i), 45, 48, 470, 472 (11)	N/A
74	Empty set in the EU	-	-	N/A
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	21.8	36 (1) (c), 38, 48, 470, 472 (5) t	N/A
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
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 standardized approach	-	62	N/A
78	Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62	N/A

79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62	N/A
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)</b>				
80	Current cap on CET1 instruments subject to phase out arrangements	-	484 (3), 486 (2) & (5)	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (4), 486 (3) & (5)	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (5), 486 (4) & (5)	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)	N/A

## 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
2	Unique identifier	XS1426144561	XS1502535351	XS1068770335	LU0006040975
3	Governing law(s) of the instrument	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law
<b>Regulatory treatment</b>					
4	Transitional CRR rules	Tier2	Tier2	Additional Tier1	Common Equity Tier 1
5	Post-transitional CRR rules	Tier2	Tier2	Additional Tier1	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/ 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 Contingent Convertible Debt	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 50 mio	EUR 94.63 mio	EUR 150 mio	EUR 849.4 mio
9	Nominal amount of instrument	EUR 50,000,000	USD 100,000,000	EUR 150,000,000	EUR 141,212,330
9a	Issue price	100,00%	100,00%	100,00%	N/A
9b	Redemption price	100%	100%	100%	N/A
10	Accounting classification	Liability-amortized cost	Liability-amortized cost	Liability-amortized cost	Shareholder's equity
11	Original date of issuance	08/06/2016	18/10/2016	30/06/2014	08/03/1856
12	Perpetual or dated	Dated	Dated	Perpetual	Perpetual
13	Original maturity date	08/06/2028	18/10/2028	No maturity	N/A
14	Issuer call subject to prior supervisory approval	No	No	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	EUR 100,000 per Note of EUR 100,000 specified denomination for tax, default and capital event calls	EUR 100,000 per Note of EUR 100,000 specified denomination for tax, default and capital event calls	Tax, capital and regulatory event calls	N/A
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	30/06/2020 and each anniversary date thereafter	N/A
<b>Coupons / dividends</b>					
17	Fixed or floating dividend/ coupon	Fixed / Floating	Fixed	Fixed	floating
18	Coupon rate and any related index	4 % per annum up to 8/06/2018 / euribor 6m+230 thereafter	5,01 % per annum	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
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory

21	Existence of step up or other incentive to redeem	No	No	No	N/A
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Convertible	N/A
24	If convertible, conversion trigger(s)	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	Fully	N/A
26	If convertible, conversion rate	N/A	N/A	100%	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	Banque Internationale à Luxembourg SA	N/A
30	Write-down features	No	No	No	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	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
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Unsubordinated Debt	Unsubordinated Debt	Dated Subordinated Debt	Subordinated Contingent Convertible Debt
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	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	23,148.66
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	807.10
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0.00
4	Adjustments for derivative financial instruments	112.94
5	Adjustments for securities financing transactions "SFTs"	0.00
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,338.49
7	Other adjustments	-381.52
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>23,955.76</b>

## Leverage ratio common disclosure

		Amounts in EUR million
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	22,753.73
2	(Asset amounts deducted in determining Tier 1 capital)	-381.52
<b>3</b>	<b>TOTAL ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND FIDUCIARY ASSETS) (SUM OF LINES 1 AND 2)</b>	<b>22,372.21</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	132.11
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	112.94
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)	-
<b>11</b>	<b>TOTAL DERIVATIVE EXPOSURES (SUM OF LINES 4 TO 10)</b>	<b>245.05</b>
<b>Securities financing transaction exposures</b>		
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)	-
<b>16</b>	<b>TOTAL SECURITIES FINANCING TRANSACTION EXPOSURES (SUM OF LINES 12 TO 15A)</b>	<b>0</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	1,338.49
18	(Adjustments for conversion to credit equivalent amounts)	-
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>1,338.49</b>
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>905.08</b>
<b>21</b>	<b>TOTAL LEVERAGE RATIO EXPOSURES (SUM OF LINES 3, 11, 16, 19, EU-19A AND EU-19B)</b>	<b>23,955.76</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>3.78%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

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

		<b>Amounts in EUR million</b>
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	22,753.73
EU-2	Trading book exposures	47.63
EU-3	Banking book exposures, of which:	22,706.10
EU-4	Covered bonds	0.00
EU-5	Exposures treated as sovereigns	6,580.05
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	468.01
EU-7	Institutions	2,153.65
EU-8	Secured by mortgages of immovable properties	6,326.46
EU-9	Retail exposures	2,249.97
EU-10	Corporate	3,646.86
EU-11	Exposures in default	429.14
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	851.95

# Appendix 5: Countercyclical capital buffer disclosure template

ROW	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Counter-cyclical capital buffer rate	
	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
	010	020	030	040	050	060	070	080	090	100	110	120
Breakdown by country												
Albania		0,01					0,00	0,00		0,00	0,00	0%
Algeria		0,17		0,00			0,01	0,00		0,01	0,00	0%
Andorra	0,00	1,95		0,00			0,01	0,00		0,01	0,00	0%
Angola		0,02					0,00	0,00		0,00	0,00	0%
Anguilla		0,87					0,02	0,00		0,02	0,00	0%
Argentina		3,70		0,00			1,37	0,00		1,37	0,00	0%
Armenia		0,00					0,00	0,00		0,00	0,00	0%
Australia		138,63			10,90		17,14	0,00	2,18	19,32	0,00	0%
Austria		257,26		0,01			75,94	0,00		75,94	0,02	0%
Azerbaijan		0,00					0,00	0,00		0,00	0,00	0%
Bahamas	0,00	1,29	0,00				0,01	0,00		0,01	0,00	0%
Bahrain		4,57		0,00			0,15	0,00		0,15	0,00	0%
Belarus		0,10					0,01	0,00		0,01	0,00	0%
Belgium	3,50	1077,27	0,00	5,41	5,24		102,09	0,10	1,05	103,24	0,02	0%
Belize		17,37		0,12			12,46	0,02		12,47	0,00	0%
Bermuda	0,00	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		0,02					0,00	0,00		0,00	0,00	0%
Brazil	0,01	0,43		0,00			0,04	0,00		0,04	0,00	0%
Bulgaria	0,37	0,04		0,00			0,29	0,00		0,29	0,00	0%
Burkina Faso		0,00					0,00	0,00		0,00	0,00	0%
Burundi		0,02					0,00	0,00		0,00	0,00	0%
Cambodia		0,39					0,51	0,00		0,51	0,00	0%
Cameroon		0,02					0,00	0,00		0,00	0,00	0%
Canada	0,01	109,15		0,00			42,12	0,00		42,13	0,01	0%
Cape Verde		0,05					0,19	0,00		0,19	0,00	0%
Cayman Islands	36,93	0,02	0,05				36,94	0,05		36,99	0,01	0%
Central African Republic		0,00					0,00	0,00		0,00	0,00	0%

Chad	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
Chile	0,28	0,22	0,00	0,00	0,22	0,00	0,22	0,00	0,00	0,22	0,00	0,00	0,22	0,00	0,00	0,22	0,00	0,00	0,22	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Colombia	0,57	0,32	0,00	0,00	0,32	0,00	0,32	0,00	0,00	0,32	0,00	0,32	0,00	0,00	0,32	0,00	0,00	0,32	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Congo	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Congo, Democratic Republic	0,15	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Costa Rica	0,03	0,03	0,00	0,00	0,03	0,00	0,03	0,00	0,00	0,03	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Côte D'Ivoire	0,17	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Croatia	0,04	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Curacao	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Cyprus	10,43	0,45	0,11	0,06	0,45	0,11	0,45	0,11	0,06	0,45	0,11	0,06	0,45	0,11	0,06	0,45	0,11	0,06	0,45	0,11	0,06	0,45	0,11	0,06	0,45	0,11	0,06
Czech Republic	39,89	1,56	0,00	0,00	1,56	0,00	1,56	0,00	0,00	1,56	0,00	0,00	1,56	0,00	0,00	1,56	0,00	0,00	1,56	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Denmark	4,22	30,31	0,00	0,01	30,31	0,00	30,31	0,00	0,01	30,31	0,00	0,01	30,31	0,00	0,01	30,31	0,00	0,01	30,31	0,00	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Dominican Republic	0,03	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Egypt	0,14	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Estonia	0,05	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Ethiopia	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Finland	102,14	10,82	0,00	0,00	10,82	0,00	10,82	0,00	0,00	10,82	0,00	0,00	10,82	0,00	0,00	10,82	0,00	0,00	10,82	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
France (Including Dom-Tom)	34,12	2666,85	407,35	85,50	523,19	9,22	523,19	17,10	549,51	9,22	17,10	549,51	9,22	17,10	549,51	9,22	17,10	549,51	9,22	17,10	549,51	9,22	17,10	549,51	9,22	17,10	549,51
Gabon	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Gambia	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Georgia	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Germany	210,01	702,53	0,19	24,00	413,17	0,70	413,17	4,80	418,66	0,70	4,80	418,66	0,70	4,80	418,66	0,70	4,80	418,66	0,70	4,80	418,66	0,70	4,80	418,66	0,70	4,80	418,66
Ghana	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Gibraltar	3,83	11,00	0,97	0,00	3,84	0,14	3,84	0,14	0,00	3,84	0,14	0,00	3,84	0,14	0,00	3,84	0,14	0,00	3,84	0,14	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Greece	6,16	0,90	0,00	0,00	0,03	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,03	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Grenada	0,90	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Guernsey	0,09	16,30	0,00	0,00	2,30	0,00	2,30	0,00	0,00	2,30	0,00	0,00	2,30	0,00	0,00	2,30	0,00	0,00	2,30	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Guinea	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Hong Kong	0,01	2,04	0,00	0,00	0,16	0,00	0,16	0,00	0,00	0,16	0,00	0,00	0,16	0,00	0,00	0,16	0,00	0,00	0,16	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,6259%
Hungary	0,04	0,60	0,10	0,00	0,06	0,01	0,06	0,01	0,00	0,06	0,01	0,00	0,06	0,01	0,00	0,06	0,01	0,00	0,06	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Iceland	1,06	0,17	0,00	0,00	2,49	0,00	2,49	0,00	0,00	2,49	0,00	0,00	2,49	0,00	0,00	2,49	0,00	0,00	2,49	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
India	0,17	0,00	0,00	0,00	0,01	0,00	0,01	0,00	0,00	0,01	0,00	0,00	0,01	0,00	0,00	0,01	0,00	0,00	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Indonesia	0,14	0,05	0,00	0,00	0,05	0,00	0,05	0,00	0,00	0,05	0,00	0,00	0,05	0,00	0,00	0,05	0,00	0,00	0,05	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Iran, Islamic Republic Of	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Iraq	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Ireland	30,04	216,08	24,92	0,00	60,92	0,00	60,92	4,98	65,90	0,00	4,98	65,90	0,01	0,00	0,01	65,90	0,01	0,00	65,90	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Isle Of Man	0,00	0,09	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Israel	0,00	3,47	0,00	0,00	0,06	0,00	0,06	0,00	0,00	0,06	0,00	0,00	0,06	0,00	0,00	0,06	0,00	0,00	0,06	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Italy	0,02	222,95	0,02	42,77	167,62	0,03	167,62	8,55	176,20	0,03	8,55	176,20	0,04	0,00	0,04	176,20	0,04	0,00	176,20	0,04	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Japan	47,08	0,01	0,00	0,00	4,04	0,00	4,04	0,00	0,00	4,04	0,00	0,00	4,04	0,00	0,00	4,04	0,00	0,00	4,04	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Jersey	14,44	0,01	0,00	0,00	0,25	0,00	0,25	0,00	0,00	0,25	0,00	0,00	0,25	0,00	0,00	0,25	0,00	0,00	0,25	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

ROW	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	exposure value SA	exposure value IRB	exposure value SA	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	-	-	-	-	-	-	-	-	-	-	-	-
Kazakhstan		0.53					0.00	0.00		0.00	0.00	0%
Kenya		0.23					0.08	0.00		0.08	0.00	0%
Korea, Republic Of		8.45			7.19		0.36	0.00	1.44	1.80	0.00	0%
Kuwait		39.81					76.72	0.00		76.72	0.02	0%
Kyrgyzstan		0.00					0.00	0.00		0.00	0.00	0%
Latvia		16.07					4.45	0.00		4.45	0.00	0%
Lebanon		0.76		0.00			0.00	0.00		0.00	0.00	0%
Liberia		0.00					0.00	0.00		0.00	0.00	0%
Libyan Arab Jamahiriya	14.27	0.02					14.27	0.00		14.27	0.00	0%
Liechtenstein	0.00	38.21		0.00			1.26	0.00		1.26	0.00	0%
Lithuania		41.55					6.84	0.00		6.84	0.00	0%
Luxembourg	1291.04	10140.14	4.86	31.67	59.88		2450.96	18.11	11.98	2481.05	0.51	0%
Macao		0.00					0.00	0.00		0.00	0.00	0%
Macedonia, Former Yugoslav Rep.		0.27					0.00	0.00		0.00	0.00	0%
Madagascar	2.15	0.05		0.00			2.15	0.00		2.15	0.00	0%
Malaysia	0.00	0.64					0.02	0.00		0.02	0.00	0%
Malta	9.36	1.65		0.05			9.43	0.00		9.43	0.00	0%
Marshall Islands		1.64					0.00	0.00		0.00	0.00	0%
Mauritius	0.00	1.39		0.00			0.01	0.00		0.01	0.00	0%
Mexico		2.10					5.85	0.00		5.85	0.00	0%
Moldova, Republic Of		0.00					0.00	0.00		0.00	0.00	0%
Monaco		115.81		0.03			19.85	0.00		19.85	0.00	0%
Montenegro		0.00					0.00	0.00		0.00	0.00	0%

Morocco	5.19	0.00	0.52	0.00	0.00	0.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Namibia	0.01		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Netherlands	37.48	257.52	1.13	17.48	87.25	0.14	3.50	90.89	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Netherlands Antilles	0.00		0.00		0.00	0.00			0.00	0.00									0.00
New Zealand	0.00	49.52			7.07	0.00			7.07	0.00									0.00
Nicaragua	0.00				0.00	0.00			0.00	0.00									0.00
Nigeria	0.03				0.00	0.00			0.00	0.00									0.00
Norway	0.00	114.37	0.44	1.96	3.24	0.50			3.74	0.00									1.5%
Pakistan	0.13				0.00	0.00			0.00	0.00									0.00
Panama	0.00	21.09	0.00		2.81	0.00			2.81	0.00									0.00
Paraguay	0.29				0.00	0.00			0.00	0.00									0.00
Peru	0.31				0.16	0.00			0.16	0.00									0.00
Philippines	0.18				0.00	0.00			0.00	0.00									0.00
Poland	94.94				19.76	0.00			19.76	0.00									0.00
Portugal	0.00	13.01	0.00		3.95	0.00			3.95	0.00									0.00
Qatar	500.83				42.49	0.00			42.49	0.01									0.00
Romania	0.40				0.02	0.00			0.02	0.00									0.00
Russian Federation	16.47			0.05	1.03	0.01			1.03	0.00									0.00
Rwanda	0.21				0.17	0.00			0.17	0.00									0.00
Saint Kitts And Nevis	0.01				0.00	0.00			0.00	0.00									0.00
Saint Lucia	0.01			0.01	0.00	0.00			0.00	0.00									0.00
Saint Vincent And The Grenadines	0.09		0.03		0.03	0.00			0.03	0.00									0.00
San Marino	0.01				0.00	0.00			0.00	0.00									0.00
Saudi Arabia	4.16			0.00	0.07	0.00			0.07	0.00									0.00
Senegal	0.29			0.00	0.32	0.00			0.32	0.00									0.00
Serbia	0.00				0.00	0.00			0.00	0.00									0.00
Seychelles	1.28				0.01	0.00			0.01	0.00									0.00
Sierra Leone	0.00				0.00	0.00			0.00	0.00									0.00
Singapore	13.77				1.04	0.00			1.04	0.00									0.00
Slovakia	87.43				3.39	0.00			3.39	0.00									0.00
Slovenia	0.04				0.00	0.00			0.00	0.00									0.00
South Africa	0.59				1.09	0.00			1.09	0.00									0.00
Spain	0.00	385.82		0.12	149.70	0.03	9.34	159.07	0.03	0.00									0.00
Sri Lanka	1.74				0.00	0.00			0.00	0.00									0.00

Sweden	11.00	179.82	0.32	36.25	0.02	36.28	0.00750	1.5%
Switzerland	1.35	871.88	12.79	82.45	0.48	82.93	0.02	0%
Syrian Arab Republic		0.00		0.00	0.00	0.00	0.00	0%
Taiwan		0.03	0.00	0.00	0.00	0.00	0.00	0%
Thailand		1.67	0.04	0.95	0.00	0.95	0.00	0%
Togo		0.01		0.00	0.00	0.00	0.00	0%
Tunisia		2.95		0.01	0.00	0.01	0.00	0%
Turkey	1.36	3.65	0.00	5.65	0.00	5.65	0.00	0%
Uganda		0.00		0.00	0.00	0.00	0.00	0%
Ukraine		6.13		0.24	0.00	0.24	0.00	0%
United Arab Emirates	3.28	300.66	0.28	20.09	0.28	20.37	0.00	0%
United Kingdom(Not Norm.Isd/Man)	17.02	528.04	318.94	94.23	9.55	103.77	0.02	0%
United States	1.48	519.69	0.00	34.39	0.00	34.39	0.01	0%
Unknown	2.04	0.14	0.01	2.12	0.01	2.13	0.00	0%
Uruguay		1.81	0.09	0.09	0.01	0.10	0.00	0%
Uzbekistan		0.01		0.00	0.00	0.00	0.00	0%
Venezuela		2.81	0.01	0.01	0.00	0.01	0.00	0%
Viet Nam		0.64		0.03	0.00	0.03	0.00	0%
Virgin Islands.								
British	26.98	74.12	0.41	28.07	0.48	28.55	0.01	0%
Zambia		0.00		0.00	0.00	0.00	0.00	0%
<b>020 TOTAL</b>	<b>1,742.14</b>	<b>20,355.50</b>	<b>6.34</b>	<b>4,732.69</b>	<b>40.00</b>	<b>64.91</b>	<b>4,837.60</b>	<b>0%</b>

Table 2

010	Total risk exposure amount	4,837.60
020	Institution specific countercyclical buffer rate	0.012%
030	Institution specific countercyclical buffer requirement	0.601321

# 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 recognized 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 II 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 have given 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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