

Pillar 3
Risk Report
Half-Year
2016



BANQUE
INTERNATIONALE
À LUXEMBOURG

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BIL group Pillar 3 Risk Report

On an annual and semi-annual basis, BIL group publishes a Pillar 3 disclosure report. This semi-annual report aims at complying with the CSSF Circular 15/618 which is the transposition of the EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency. This report also aims at complying with the Circular CSSF 14/583 and the CSSF regulation 14-01, which are the transpositions of the CRR (EU 575/2013) into national law.

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1. Own funds and capital adequacy

1.1 Own Funds

In the first half of 2016, BIL group's own funds were impacted by the increase of the Common Equity Tier 1 for EUR 50 million (mainly explained by the net impact of the eligible result 2015 including the payment of a dividend of EUR 70 million, regulatory deductions included) and the amortization and redemption of fixed-term subordinated loans (EUR -19 million, Tier 2 Capital).

Own Funds in EUR million		31/12/15	30/06/16
Common Equity Tier 1 (CET1)	before regulatory adjustments	1,096	1,205
	regulatory adjustments	(367)	(426)
	after regulatory adjustments	729	779
Additional Tier 1 (AT1)	before regulatory adjustments	150	150
	regulatory adjustments	-	-
	after regulatory adjustments	150	150
Tier 1 Capital		879	929
Tier 2 (T2) Capital	before regulatory adjustments	19	0.17
	regulatory adjustments	-	-
	after regulatory adjustments	19	0.17
TOTAL CAPITAL		898	929

1.2 Capital Adequacy

BIL's half-year Common Equity Tier 1, Tier 1 and Total Capital ratios respectively stand at 13.04%, 15.55% and 15.56% above the regulatory minimum requirements.

Half-Year Capital Ratios	31/12/15	30/06/16
Common Equity Tier 1 Ratio	13.04%	13.04%
Tier 1 Ratio	15.72%	15.55%
Total Capital Ratio	16.07%	15.56%

As compared to end-year 2015, the CET1 ratio remains stable which can be explained by an increase of the Common Equity Tier 1 offset by higher Risk Weighted Assets (RWA, please refer to next section for further details).

The slight decrease of the total capital ratio is attributable to both the decrease of Tier 2 capital and the increase of the Bank's overall RWA.

1.3 Risk Weighted Assets

The following tables show the weighted risks and capital requirements for each type of risk at year-end 2015 and half-year 2016. The capital requirement amounts have been obtained by applying 8% to the corresponding weighted risks.

By end June 2016, the Bank's total RWAs amounted to 5.9 billion, as compared with the 5.6 billion as at end 2015 which is explained by credit risk weighted assets evolution. This increase is observed on all exposure classes under the IRB approach due to the Bank's business evolution (e.g. mainly on Corporate).

Type of Risk	Basel III Treatment	Segmentation	31/12/15		30/06/16	
			Risk Weighted Assets	Capital Requirements	Risk Weighted Assets	Capital Requirements
Credit Risk	STANDARDISED	Central Governments and Central Banks	50	4	44	4
		Corporates	802	64	798	64
		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	68	5
		Secured by mortgages on immovable property	286	23	311	25
		Short Term Exposures	0	0	0	0
		Securitisation	56	4	61	5
		Other items	338	27	308	25
		Exposure in default	14	1	14	1
		Equity	14	1	30	2
		Items associated with particularly high risk	45	4	47	4
		SUB TOTAL		1,700	136	1,705
	ADVANCED	Central Governments and Central Banks	373	30	465	37
		Corporates - Other	1,027	82	1,168	93
		Corporates - Specialised Lending	0	0	0	0
		Corporates - SME	143	11	160	13
		Institutions	423	34	498	40
		Retail - Other SME	29	2	30	2
		Retail - Other NON SME	254	20	302	24
		Retail secured by mortgages on immovable property SME	36	3	39	3
Retail secured by mortgages on immovable property non SME		701	56	733	59	
Other non credit obligation assets		0	0	0	0	
Equity		16	1	18	1	
SUB TOTAL		3,003	240	3,413	273	
CREDIT VALUATION ADJUSTMENT	CVA	25	2	20	2	
	SUB TOTAL	4,728	378	5,138	411	
Market Risk	STANDARDISED	Interest Rate Risk / Trade debt instruments	71	6	52	4
		Position Risk on equities	0	0	0	0
		Foreign Exchange Risk	26	2	21	2
		SUB TOTAL	97	8	73	6
Operational Risk	STANDARDISED	764	61	764	61	
TOTAL		5,589	447	5,975	478	

1.4 Leverage ratio

By end June 2016, BIL group's leverage ratio reached a level of 3.65%, above the minimum level set at 3%. As compared to end-year 2015, the change is due to an increase of total exposure (denominator) explained by both a structural increase of the Bank's assets and off-balance sheet items.

In EUR million	31/12/15	30/06/16
Tier 1 Capital	879	929
Total Exposure	22,429	25,432
LEVERAGE RATIO	3.92%	3.65%

2. Credit risk-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).

2.1 Average Probability of Default (PD), Loss Given Default (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 half-year 2016 and year-end 2015. 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	Value adjustments Provisions	EAD 31/12/15
AAA+ to AA-	4,424.79	437.12	121.60	4,303.19	0.00%	6.82%	72.18%	0.00%	0.00	4,195.77
A+ to A-	606.14	0.00	0.00	606.14	0.06%	25.15%	50.00%	19.45%	0.00	639.78
BBB+ to BBB-	581.12	0.00	0.00	581.12	0.34%	36.68%	0.00%	59.70%	0.00	550.59
Other	2.15	0.05	0.03	2.12	30.83%	5.04%	50.00%	31.15%	0.00	0.60
Total	5,614.19	437.18	121.63	5,492.57	0.05%	12.00%	72.18%	8.48%	0.00	5,386.75
AAA+ to AA-	239.88	0.00	0.00	239.88	0.04%	29.83%	50.00%	12.27%	0.00	48.17
A+ to A-	425.33	93.40	18.91	406.42	0.06%	31.49%	79.75%	15.08%	0.00	166.31
BBB+ to BBB-	1,008.44	116.53	31.05	977.39	0.40%	37.83%	73.36%	66.61%	0.00	910.72
Default	25.40	0.60	0.29	25.11	100.00%	26.73%	51.54%	0.00%	12.69	24.39
Other	445.73	102.55	31.28	414.45	2.64%	46.05%	69.50%	102.86%	0.00	384.75
Total	2,144.78	313.09	81.53	2,063.25	1.95%	37.20%	73.96%	56.61%	12.69	1,534.34
A+ to A-	103.17	31.72	8.63	94.54	0.12%	8.67%	72.78%	6.88%	0.00	78.40
BBB+ to BBB-	442.48	79.06	24.80	417.68	0.61%	8.98%	68.63%	11.17%	0.00	381.08
Default	82.91	0.64	0.27	82.64	100.00%	6.97%	57.73%	0.00%	41.46	84.52
Other	1,105.56	121.53	40.63	1,064.93	7.00%	4.18%	66.57%	10.06%	0.00	1,030.05
Total	1,734.12	232.94	74.33	1,659.80	9.63%	5.78%	68.09%	9.66%	41.46	1,574.05
BBB+ to BBB-	0.00	0.00	0.00	0.00	1.25%	90.00%	0.00%	256.50%	0.00	0.00
Other	6.52	0.00	0.00	6.52	31.24%	14.03%	0.00%	277.46%	0.00	5.97
Total	6.52	0.00	0.00	6.52	31.24%	14.03%	0.00%	277.46%	0.00	5.97
AAA+ to AA-	1,644.44	50.00	10.00	1,634.44	0.04%	8.00%	80.00%	5.40%	0.00	924.03
A+ to A-	2,188.27	5.94	0.23	2,188.04	0.06%	2.35%	96.15%	11.36%	0.00	2,723.85
BBB+ to BBB-	357.48	0.11	0.05	357.43	0.39%	13.16%	50.00%	30.90%	0.00	412.85
Other	126.14	2.32	0.70	125.44	7.06%	7.61%	69.74%	40.60%	0.00	100.95
Total	4,316.33	58.38	10.99	4,305.35	0.28%	5.54%	81.18%	11.57%	0.00	4,161.67
AAA+ to AA-	32.36	20.71	9.86	22.50	0.04%	23.46%	52.39%	3.08%	0.00	16.31
A+ to A-	545.49	356.29	122.71	422.78	0.10%	8.36%	65.56%	2.11%	0.00	321.58
BBB+ to BBB-	721.31	265.26	97.32	623.99	0.48%	8.93%	63.31%	6.44%	0.00	642.65
Default	333.66	14.26	4.80	328.87	100.00%	41.58%	66.38%	0.00%	109.84	249.66
Other	1,479.86	274.05	101.35	1,378.51	5.33%	11.91%	63.02%	18.28%	0.81	1,443.57
Total	3,112.69	930.57	336.04	2,776.66	14.61%	14.31%	63.89%	10.87%	110.65	2,673.77

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	Value adjustments Provisions	EAD 31/12/15
A+ to A-	1.04	0.83	0.20	0.84	0.11%	15.72%	75.53%	3.21%	0.00	1.81
BBB+ to BBB-	46.07	19.53	5.85	40.22	0.67%	13.84%	70.04%	9.10%	0.00	36.18
Default	10.13	0.35	0.14	9.99	100.00%	12.84%	59.38%	0.00%	6.50	11.74
Other	181.78	51.39	14.14	167.64	10.33%	11.84%	72.48%	15.48%	0.00	170.54
Total	239.02	72.10	20.34	218.69	12.61%	12.27%	71.79%	13.55%	6.50	220.27
Retail - Other SME										
A+ to A-	891.37	7.89	3.24	888.13	0.10%	10.50%	58.86%	2.62%	0.00	819.50
BBB+ to BBB-	1,858.40	43.97	19.99	1,838.41	0.50%	10.34%	54.54%	8.34%	0.00	1,810.74
Default	184.78	1.16	0.50	184.28	100.00%	11.42%	56.82%	0.00%	24.12	170.61
Other	1,778.85	47.16	14.85	1,764.00	6.46%	11.41%	68.50%	31.53%	0.00	1,663.03
Total	4,713.40	100.18	38.59	4,674.81	6.60%	10.82%	61.48%	15.68%	24.12	4,463.87
Retail Secured by mortgages on immovable property non SME										
A+ to A-	0.29	0.00	0.00	0.29	0.12%	15.00%	0.00%	4.50%	0.00	0.00
BBB+ to BBB-	21.75	2.55	0.67	21.08	0.67%	13.66%	73.89%	12.19%	0.00	27.64
Default	3.73	0.06	0.03	3.70	100.00%	12.34%	50.00%	0.00%	0.33	2.70
Other	106.96	7.38	2.40	104.56	14.35%	13.61%	67.51%	34.45%	0.00	108.37
Total	132.73	9.99	3.09	129.64	14.54%	13.58%	69.03%	29.78%	0.33	138.71
Retail Secured by mortgages on immovable property SME										
AAA+ to AA-	2.61	0.00	0.00	2.61	0.00%	7.80%	0.00%	0.00%	0.00	4.82
A+ to A-	0.20	0.00	0.00	0.20	0.05%	8.90%	0.00%	0.00%	0.00	0.37
Other	3.62	0.00	0.00	3.62	30.86%	5.83%	0.00%	0.00%	0.00	3.46
Total	6.43	0.00	0.00	6.43	17.37%	6.73%	0.00%	0.00%	0.00	8.66
Other Non credit obligation assets										
TOTAL	22,020.23	2,154.42	686.53	21,333.70					195.75	20,168.06

2.2 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.

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

	30/06/16					
	AAA to AA-	A+ to A-	BBB+ to BBB-	Default	Other	Total
Consumer loans	0.03	181.33	284.26	349.75	1,094.08	1,909.45
Credit cards	15.64	46.72	43.22	0.32	24.06	129.96
Investment loans	-	5.62	17.28	5.63	65.25	93.78
Leasing	0.46	1.34	16.45	0.07	40.10	58.42
Lombards	-	63.44	95.54	28.56	309.09	496.64
Mortgage loans	1.19	916.16	1,902.05	107.49	1,589.83	4,516.72
Others	5.17	64.82	135.27	32.01	251.69	488.95
Student loans	-	5.87	28.02	1.66	15.87	51.43
Treasury Loans/ Facilities	-	26.75	1.62	1.34	24.74	54.45
TOTAL	22.50	1,312.05	2,523.71	526.83	3,414.71	7,799.79



3. Final Remark

No additional significant information was identified in the first half of 2016 with regard to the evolution of the Bank's risk profile and the necessary information to be disclosed to market participants in order to convey a fair picture of this risk profile.

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