

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 |
| 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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