# Annual Report 2015

BIL
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BANQUE
INTERNATIONALE
À LUXEMBOURG

# 2015: BIL launches new strategic vision and confirms profitability

The global economy strengthened during 2015, but it continued to do so more slowly than hoped for. Eurozone real GDP growth for 2015 amounted to 1.5% on a year-on-year basis, lagging world growth of 2.9%. Previously troubled economies such as France and Italy gained strength while Germany's GDP slipped slightly to 1.5%. At the same time, the US economy managed a 2.4% rate of growth, in line with its performance of the previous year. China continued its strong expansion, though at a slowly decreasing pace.

World economic news was dominated through the year by two topics: the drop in oil prices and the impact of Chinese economic turbulence. The oil price hit its lowest rate since 2009, dropping from USD 100/barrel in mid-2014 to below USD 35. This has negatively affected the economies of oil-producing countries, and put into question infrastructural investments in oil production.

Turbulence on China's stock markets and several devaluations of the country's yuan currency created market concerns about a potential downward-spiralling economic outlook that could side-swipe other economies, or in the worst-case scenario, set off a global recession.

Focus was also put on the actions of the US Fed and its attitude towards inflation. At year-end, for the first time since the crisis of 2008, the Fed increased its key interest rates, and spoke of further increases planned for 2016 and 2017. However, these planned increases have since been put into question by high market volatility.

The European Central Bank (ECB) continued its fight against low Eurozone economic growth and extremely low inflation, reducing its interbank deposit rate to -0.3%. In parallel, it decided to continue its quantitative easing program at least until March 2017.

After a particularly good beginning to the year in the European financial markets, significant volatility returned in the second half. The US stock markets were more muted throughout the year. As an example, the EuroStoxx 50, the leading European stock market, returned 7.35% for the year in EUR. Performances were less positive in the United States, with the S&P 500 returning only 1.37% in USD.

Amid a challenging environment, Luxembourg's economic situation remained robust, with strong economic growth. Fitch Ratings confirmed Luxembourg's AAA rating, with a stable outlook, in January, with Standard & Poor's following suit in September.

Luxembourg's financial industry continued to be faced with a rapidly-changing economic and regulatory environment in 2015. The country's banking sector is facing a panoply of challenges, including increased regulatory and supervisory requirements, the creation of the banking union, an intensification of competition with the entrance of new players such as FinTech companies and a general trend towards increased tax transparency, with the G20/OECD Base Erosion and Profit Shifting (BEPS) project.

Given this context, banks' balance sheet totals decreased by 1.0%. At the same time, however, Luxembourg's investment fund industry has continued its status as the European leader, with net assets under management climbing 13.29% to exceed the EUR 3.5 trillion mark.

## After-tax income up 10%

After a year of solid financial performance for BIL in 2014, the Bank announced net income after-tax of EUR 134 million for 2015, up 10% over the previous year. This good result is primarily due to the strength of its commercial franchises. The core operating net income before tax principally related to the retail, corporate, wealth management and market activities has increased by 13%. Additionally the sale of its shares in Luxempart in January 2015 generated capital gains amounting to EUR 67 million. Conversely, this result was negatively impacted by restructuring costs related to the decision to end the activities of the branches in Belgium and Singapore in line with the implementation of BIL2020 strategy.

BIL has once again confirmed its support to the Luxembourg economy, by recording an increase of customer loans by 4.9%, reaching a volume of EUR 11.4 billion, as compared to EUR 10.8 billion at the end of 2014.

Assets under management reached EUR 35.5 billion from EUR 30.8 billion as of the end of 2014, increasing by 15.2%. This significant performance is the result of good new net inflows (amounting to more than EUR 1.7 billion), the acquisition of KBL (Switzerland) (assets under management of about EUR 2 billion) and a positive market effect (for about EUR 1 billion).

The Bank's BIL2020 strategy, announced in April 2015, is in its implementation stage, with a variety of initiatives under way to both consolidate and modernise BIL's position with the Luxembourg market as well as improving its international targeting, while prioritising innovation and efficiency. The

Bank seeks to reinforce its position by putting a greater focus on providing relevant and adapted value propositions in order to meet the needs of a diverse clientele. The Bank's positive results for the year 2015 demonstrate that BIL2020 is already having a discernible impact.

As BIL's Chairman of the Board of Directors and Chief Executive Officer, we would like to thank our clients for their loyalty and confidence. We also wish to individually thank our staff for their professionalism and steady commitment to our customers, attributes characterising BIL employees for 160 years, a milestone being celebrated with a celebration of BIL's 160th anniversary on March 8, 2016.

With the full support of our shareholders – Precision Capital, along with the Luxembourg State – and the commitment of our staff, we are confident that BIL, in Luxembourg as well as internationally, can by 2020 reach the objectives it has set.

François Pauly
Chairman of the
Board of Directors

Hugues Delcourt
Chief Executive Officer

# Annual Report 2015

# Consolidated management report

# Corporate governance (as at March 4, 2016)

## Board of Directors

### *Chairman*

| | |
|---|---|
| **François Pauly** | Chairman |
| ***Luc Frieden*** | *will become Chairman subject to and effective upon prudential approval* |

### *Vice-Chairman*

| | |
|---|---|
| **George Nasra** | CEO, Precision Capital SA |

### *Members*

| | |
|---|---|
| **Hugues Delcourt** | CEO, Banque Internationale à Luxembourg SA |
| **Frank Wagener** | Honorary Chairman |
| **Robert Glaesener** | CEO, Trendiction SA |
| ***Maurice Lam*** | *will replace Robert Glaesener as director subject to and effective upon prudential approval* |
| **Nicholas Harvey** | Deputy CEO, Precision Capital SA |
| **Pascale Toussing** | 1er Conseiller de Gouvernement, Ministry of Finance |
| **Albert Wildgen** | Lawyer |
| **Christophe Zeeb-Ichter** | Conseiller de Gouvernement 1ère classe, Ministry of Finance |
| **Michel Scharff** | Employees' Delegation, BIL |
| **Serge Schimoff** | Employees' Delegation, BIL |
| **Donny Wagner** | Employees' Delegation, BIL |
| **Fernand Welschbillig** | Employees' Delegation, BIL |

## Board Strategy Committee

| *Chairman* | *Members* |
|---|---|
| George Nasra | François Pauly *(Luc Frieden[1])* |
| | Pascale Toussing |

## Board Audit and Compliance Committee

| *Chairman* | *Members* |
|---|---|
| Robert Glaesener | Nicholas Harvey |
| *(Maurice Lam[1])* | Christophe Zeeb-Ichter |

[1] subject to and effective upon prudential approval.

# Board Risk Committee

| *Chairman* | *Vice-Chairman* | *Members* |
|---|---|---|
| Frank Wagener | George Nasra | François Pauly *(Luc Frieden[1])*<br>Pascale Toussing<br>Albert Wildgen |

# Board Remuneration and Nominations Committee

| *Chairman* | *Members* |
|---|---|
| George Nasra | Nicholas Harvey<br>Pascale Toussing<br>Fernand Welschbillig (from January 1, 2016, remuneration sub-meeting) |

# Management Board

## *Chairman*

| | |
|---|---|
| **Hugues Delcourt** | Chief Executive Officer |

## *Vice-Chairman*

| | |
|---|---|
| **Pierre Malevez** | Chief Financial and Risk Officer |

## *Members*

| | |
|---|---|
| **Yves Baguet** | Chief Operations Officer |
| **Hans-Peter Borgh** | Head of Wealth and Investment Management |
| **Olivier Debehogne** | Head of Retail and Digital Banking (subject to and effective upon prudential approval) |
| **Marcel Leyers** | Head of Corporate and Institutional Banking |
| **Bernard Mommens** | Secretary General and General Counsel |
| **Claude Schon** | Head of Treasury and Financial Markets |

## *Audit (Permanent Invitee)*

| | |
|---|---|
| **Pia Haas** | Chief Internal Auditor |

[1] subject to and effective upon prudential approval.

# Business Review and Results

## 1. Highlights of 2015 and early 2016

The positive financial results announced for 2015 confirm that the implementation of the BIL2020 strategic framework developed in 2014 is well underway.

### BIL2020 – A STRATEGIC FRAMEWORK FOR THE FUTURE

Banque Internationale à Luxembourg SA is a long-established multi-business bank in a rapidly-changing sector. In order to equip itself with a focused vision and identity in the years leading up to 2020, BIL has developed a new corporate strategy after a thorough consideration of its priorities, its goals and the means necessary in order to achieve them. This strategy called "BIL2020", was launched and announced in April 2015. The strategy constitutes a roadmap for tackling overarching trends in banking, challenges in financial markets and issues affecting BIL's ability to compete efficiently. By 2020, BIL will seek to reinforce its position by putting a greater focus on providing relevant and adapted value propositions in order to meet the needs of a diverse clientele, both in Luxembourg and in a clearly defined number of international markets. This effort will be reinforced by BIL2020's strong emphasis on innovation and technology. A key example of this emphasis and of BIL's intention to adopt state-of-the-art technology that was initiated during 2015 is the strategic transformation program called "Ignite". The program concerns the overhauling of the "Operations and IT" business line so that it can effectively support the Bank's BIL2020 strategy of sustainable profitability. Ignite also seeks to foster agile operations and innovation in support of BIL's digital strategy.

BIL2020 is intended to allow the Bank to continue to uphold its reputation and strive for excellence as part of its overall goals. The Bank's performance has been recognised by several external players, including award and ranking organisations.

BIL was voted "Best Bank in Luxembourg" by Euromoney magazine at its Awards for Excellence 2015 ceremony. The Bank also won the "Commercial Banking Capabilities" award as part of Euromoney's Private Banking and Wealth Management Survey 2015. BIL's Danish branch, BIL Denmark, attained a top ranking by Morningstar, the prestigious investment analysis provider. It ranked first-place over one year among those funds available for sale in Denmark, with a net euro-based absolute return of 63.86%.

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

### WEALTH MANAGEMENT: INCREASED FOCUS ON A SELECTED NUMBER OF MARKETS

Since the onset of the financial crisis, international regulatory developments, including efforts to increase tax transparency, have increased the speed at which financial centres have been subjected to structural changes. This global development presents challenges as well as opportunities for BIL, both in terms of its strategic and geographic focuses. Against this background, BIL's Wealth Management business line concentrates its efforts on a defined number of target markets in which it is striving to offer an increasingly relevant service.

A strong emphasis has been put on wealth management in Luxembourg, where BIL has sought to grow its market share by offering its clients a unique value proposition, based on the strong synergies that exist between the Bank's business lines. Internationally, BIL is focusing its growth efforts on a defined number of target markets where teams of professionals made up of investment advisors, structuring experts and product specialists, perfectly mastering the economic, legal and tax environment of these countries, are able to offer these clients an ever-more relevant service, based on their unequalled knowledge of these markets.

As part of the BIL2020 strategy, the Bank initiated a review of its international presence, with the aim of ensuring that it is ideally-positioned internationally to better serve its target markets. This review concluded that the operations in Singapore, where the Bank has been active since 1982, did not achieve the critical mass necessary for efficient and sustainable operations in Asia, given the immense competition in the region. Therefore BIL decided to end its presence in Singapore.

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

A highlight of the year was the merger of the private banking business of KBL (Switzerland) Ltd. into Banque Internationale à Luxembourg (Suisse) SA. This transaction has allowed BIL to strengthen its presence in Switzerland, where it has been an active player for 30 years. The larger BIL (Suisse) entity will make it possible for BIL to provide effective and relevant solutions with a footprint to Lugano.

On September 14, 2014, BIL took steps to reinforce the close economic ties between Luxembourg and the United Arab Emirates by opening its BIL Middle East branch in Dubai, UAE. The branch was inaugurated in a ceremony attended by members of Luxembourg's Grand Ducal family on March 3, 2015.

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

## RETAIL BANKING EMPHASISES DIGITALISATION

Clients' expectations are constantly changing, with demands for increased responsiveness, as well as access to 24/7 service through a wide range of electronic devices. BIL seeks to respond to this demand by continually better serving its clients' needs and using innovative approaches to offer relevant and adapted products and services.

Starting with its first-on-the-market introduction of Touch ID as a way to confirm smartphone transactions, BIL has pursued its innovation drive for its BILnet banking service. In Luxembourg, BIL has launched the first online banking solution with a user experience that can accommodate any type of device through the use of an adaptive layout.

The modernisation of branches that was initiated in 2013 has led to the refurbishment of several locations and a significant increase in the number of cash recyclers located at "Servibank +" facilities.

Also in line with its client service strategy, BIL has extended its branch opening hours. All Retail Banking, Wealth Management and Corporate Banking clients can now meet their usual relationship manager at their convenience – either during the week at their local branch or the head office, or on Saturday mornings at selected branches.

The Bank opened its BIL Direct Center on January 1, 2016. This omni-channel remote bank branch, which complements our electronic banking services, gives clients easier access to BIL and its range of services through a dedicated telephone number. It has the mission of turning contacts into business opportunities.

The numerous growth opportunities presented by digital technology go beyond the adoption of new functionalities for our clients. They also present the prospect of radical change to our services, operating methods and business lines. Such change is both possible and necessary as part of the Bank's effort to rise to the challenges of the digital revolution.

## CORPORATE AND INSTITUTIONAL BANKING SUPPORTS THE NATIONAL ECONOMY AND DRIVES INNOVATION

Corporate and Institutional Banking (CIB) has played a historic role in support of the development of the national economy through its financing of businesses. It is now translating that experience into its support for innovative sectors and start-ups, as a complement to its traditional sectors. Several concrete steps have already been taken.

In July 2015, the European Investment Fund (EIF) and BIL signed an agreement to increase lending to innovative businesses in Luxembourg. This agreement, which falls within the framework of the European Fund for Strategic Investments (EFSI) – also called the Juncker plan – allows BIL to make available EUR 60 million for the funding of innovative companies in Luxembourg, on preferential terms over the next two years. Since the signing of the EIF agreement, a first EUR 3 million loan was granted by BIL to the online medical appointment-booking platform Doctena.

BIL reaffirmed its support for the development of the national economy in December 2015 when it signed, alongside the Luxembourg state and six other investors, a letter of commitment creating a EUR 19.2 million seed fund for start-ups. This seed fund aims to foster a thriving start-up ecosystem in Luxembourg. The fund will encourage venture capital investments into start-up businesses and could also be used to fund promising public research spin-offs.

BIL has also joined forces with the start-up promotion organisation nyuko. Through a formal agreement and by collaborating with its experts, BIL has reiterated its strong commitment to supporting innovative businesses. This partnership with nyuko takes advantage of BIL's services for creators and innovative business leaders.

A tailor-made offering called BIL Start allows the Bank to support start-ups at all stages of their development and help them to benefit from the various framework programs in which the Bank takes part.

As a complement to its extensive range of property financing solutions, the Bank, in a joint project with PwC, has launched the "BIL Immo Index", Luxembourg's first housing market index. The index provides a market indicator based on seven weighted ratios. It allows retail, professional and institutional investors to gain an understanding of housing market trends at a glance. BIL's intent is to make the index a benchmark for the sector.

## TREASURY AND FINANCIAL MARKETS DEMONSTRATES ITS EXPERTISE

Treasury and Financial Markets leverages significant expertise in the issuance and structuring of complex international financial transactions through a range of specialised desks. As part of its contribution to the Bank's BIL2020 strategic intent, the department is venturing into new areas.

For example, on December 1, 2015, a first renminbi (RMB) triparty trade, with ICBC's Luxembourg branch serving as cash giver and Banque Internationale à Luxembourg in the role of cash taker, was carried out on Clearstream's triparty collateral management platform. This marked the first-ever RMB triparty repurchase agreement (repo) transaction by a Chinese bank handled through Clearstream. For this "reverse repo" transaction, ICBC's Luxembourg branch provided BIL with RMB liquidity, collateralised through high investment grade sovereign bonds.

This first RMB trade can be seen as an enrichment of RMB financing tools, as well as a facilitation of greater liquidity supply on the offshore RMB market.

The BIL2020 strategic framework also involves attracting Middle Eastern investors to Luxembourg by offering them investment options which comply with the principles of Islamic finance. On this basis, BIL has launched its first Sharia-compliant real estate financing project in Luxembourg.

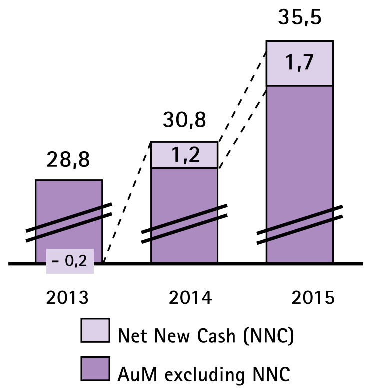
## BIL ADOPTS MORE EFFECTIVE CORPORATE SOCIAL RESPONSIBILITY STRATEGY

As a responsible and committed company, BIL has over the years developed a strong policy in support of a wide range of social, cultural and charitable goals. Its business is underpinned by a strong conviction: the country's competitiveness and social well-being are the cornerstones of its long-term economic health. The Bank will henceforth strengthen its commitment, focusing on three well-defined areas: art and culture, education and innovation. Luxembourg's National Institute for Sustainable Development and Corporate Social Responsibility (INDR) recognised the Bank's genuine and serious commitment to corporate social responsibility (CSR) and delivered its CSR label to BIL on November 26, 2015.

## STRENGTH OF COMMERCIAL FRANCHISES

The "Retail, Corporate and Wealth Management" activities have once more turned in a robust performance during 2015.

- Customer deposits were up by 11.7% to 15 billion (versus 13.4 billion at year-end 2014) as this commercial franchise continues its development in Luxembourg and abroad.
- Customer funds (assets under management - AuM) increased by 15.2% to 35.5 billion, compared to 30.8 billion at the end of 2014. This change resulted from net new inflows amounting to 1.7 billion especially in the Wealth Management & Corporate Banking activities, positive market effect of 1 billion despite unstable market conditions through the year and 2 billion related to the KBL (Switzerland) acquisition.




- Customer loans saw an increase of 4.9% to 11.4 billion compared with 10.8 billion at year-end 2014. BIL has once again confirmed its support to the Luxembourg economy, particularly for corporate and individual customers.

**PROFITABILITY CONFIRMED**

BIL reported a net income after tax of 134 million in 2015, up +10% as compared to December 2014 (122 million), in line with the 2015 expectations. The income for 2015 included exceptional results generated by the sale of Luxempart in January 2015 (67 million) compensated by a reduction of capital gains (46 million) from market activities. 2015 was also impacted by non-recurring expenses due to the integration of KBL (Switzerland) and the decision to end the activities of the branches in Belgium and Singapore. The core operating net income before tax (excluding capital gains and non-recurring items) reveals a good performance +13%.

**IMPROVEMENTS HIGHLIGHTED BY THE RATING AGENCIES**

After the rating agencies' annual reviews performed during 2015, BIL's rating situation remains robust as illustrated in the rating overview hereunder. The major 2015 evolutions applied to Fitch Ratings, Moody's Investors Services and Standards & Poor's Ratings Services methodologies are related to the EU's Bank Recovery and Resolution Directive (BRRD) specifying that sovereign support can no longer be relied upon.

**LONG-TERM COUNTERPARTY CREDIT RATINGS AND OUTLOOK OVERVIEW**

| BIL group | Dec 2014 | Dec 2015 | Rationale |
|---|---|---|---|
| S&P | A-<br>Negative | A-<br>Stable | The removal of state support enhancement was compensated by the perceived strength of the bank and the expected funding exercises.<br>S&P revised the outlook from negative to stable |
| Fitch | A-<br>Negative | BBB+<br>Stable | Downgrade purely due to change in methodology (government support).<br>More than 40 banks in Europe impacted. |
| Moody's | Baa1<br>Potential for an upgrade | A3<br>Positive | + 1 notch.<br>Please refer to Highlights of 2015 and early 2016. |

# 2. Business line segmentation

In 2015, BIL has the following segmentation of its business lines:

- "Retail Banking, Corporate & Investment Banking and Wealth Management". Commercial activities regrouped three business lines: Retail Banking, Corporate & Investment Banking, and Wealth Management. Please note that from 2014 to 2015 the name changed from "Private Banking" to "Wealth Management" without inducing business changes.
- Treasury and Financial Markets (TFM), split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM), and Financial Markets, with dedicated teams supporting the commercial activities.
- Group Center, which mainly includes dividends from unconsolidated shareholdings and the results of non-operating entities as well as certain types of costs not attributable to the other business lines mentioned above.

# 3. Consolidated statement of income and consolidated balance sheet

**PRELIMINARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of BIL group for the financial year 2015 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The main accounting principles and regulations are described in Note 1 to the consolidated financial statements. Unless stated otherwise, all amounts are expressed in euro (EUR).

The European Union (EU) has published a Commission Regulation endorsing Annual Improvements to IFRSs 2011-2013 Cycle (amendment to IFRS 3 "Business Combinations", amendment to IFRS 13 "Fair value measurement" and amendment to IAS 40 "Investment property"). Annual Improvements to IFRSs 2011-2013 Cycle became effective on January 1, 2015. The Bank analyzed the changes introduced by these amendments and concluded that the Annual Improvements to IFRSs Cycle 2011-2013 have no impact on the Bank.

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes ("the Law"), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on December 18, 2015.

The deposit guarantee and investor compensation scheme currently in place through the "Association pour la Garantie des Dépôts Luxembourg" (AGDL) will be replaced by a new contribution based system of deposit guarantee and investor compensation. This new system will cover eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the "Fonds de resolution Luxembourg" (FRL) shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in Luxembourg. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the "Fonds de garantie des dépôts Luxembourg" (FDGL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. For 2015, the credit institutions have reflected a provision of 0.2% of covered deposits in order to anticipate these contributions.

When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

As at December 31, 2015, BIL SA (the "parent company") comprises the head office in Luxembourg and four branches in Dubai, Denmark, Singapore and Belgium. The weight of the still active branches (Denmark and Dubai) as at December 2015 was 67 million in terms of balance sheet assets, -2.4 million of net income and 50 employees.

## ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME [1]

As at December 2015, net income for BIL group totalled 134 million, a growth of 12 million (+10%) as compared to December 2014.

### CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

| (in EUR million) | 31/12/14 (after restatement) | 31/12/15 | Change versus 2014 | % |
|---|---|---|---|---|
| Income | 529 | 559 | 29 | 6% |
| Expenses | (339) | (374) | (35) | 10% |
| **Gross operating income** | **190** | **185** | **(5)** | **(3%)** |
| Cost of risk and provisions for legal litigation | (26) | (18) | 8 | (30%) |
| **Net income before tax** | **164** | **166** | **2** | **1%** |
| Tax expense | (42) | (32) | 10 | (23%) |
| **Net income** | **122** | **134** | **12** | **10%** |

[1] Rounding differences and percentages calculated on exact numbers.

**CONTRIBUTION TO THE CONSOLIDATED STATEMENT OF INCOME BY BUSINESS LINE**

| (in EUR million) | Commercial activities and Treasury and Financial Markets | | Group Center | | Total | | Change versus 2014 | % |
|---|---|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | | |
| Income | 512 | 493 | 17 | 66 | 529 | 559 | 29 | 6% |
| *of which Core Operating Income* | *462* | *491* | *4* | *4* | *465* | *495* | *29* | *6%* |
| Expenses | (330) | (354) | (9) | (20) | (339) | (374) | (35) | 10% |
| *of which Core Operating Expenses* | *(326)* | *(343)* | *(7)* | *(9)* | *(333)* | *(353)* | *(20)* | *6%* |
| Gross operating income | 182 | 138 | 8 | 46 | 190 | 185 | (5) | (3%) |
| ***of which Core Gross operating income*** | ***136*** | ***147*** | ***(3)*** | ***(5)*** | ***133*** | ***142*** | ***9*** | ***7%*** |
| Cost of risk and provisions for legal litigation | (20) | (19) | (6) | 1 | (26) | (18) | 8 | (30%) |
| *of which Core Operating Cost of risk* | *(20)* | *(19)* | *(6)* | *(2)* | *(26)* | *(21)* | *5* | *(18%)* |
| Net income before tax | 162 | 119 | 2 | 47 | 164 | 166 | 2 | 1% |
| ***of which Core Net income before tax*** | ***116*** | ***128*** | ***(9)*** | ***(7)*** | ***107*** | ***120*** | ***14*** | ***13%*** |
| Tax expenses | | | | | (42) | (32) | 10 | (23%) |
| **Net income** | | | | | **122** | **134** | **12** | **10%** |

## Income

Suitable income growth of 29 million (+6%) thanks to the positive performance of the core activities.

The increase of the core activities' operating income is mainly due to the significant growth of Commercial activities and of Treasury and Financial Markets (491 million versus 462 million in 2014).

Despite volatile markets and a very low long-term interest rate environment, commercial activities increased, up 13 million compared to 2014. In this difficult economic context, clients prefer to increase the share of their assets in cash and short term products. Despite of the pressure on margins, net interest income increased with the strong volume growth in terms of loans (+4.9%) and deposits (+11.7%). The decision to end the activities of the branches in Belgium and Singapore was totally compensated by the contribution of newly created entities (e.g Belair House, BIL Manage Invest and BIL Dubai) and by the integration of KBL (Switzerland) since November 2015.

Treasury and Financial Markets activities generated a high positive contribution to core operating income, up 16 million as compared to 2014. Assets and Liabilities Management's stake increased by 16 million due to the improvement in terms of interest margin, while Treasury and Financial Markets chip in 3 million more through the active management of the Bank's surplus liquidity, an amount however compensated by the Investment Portfolio where revenues decreased by 3 million (excluding capital gains).

Overall income followed the same trend than core operating income, taking into account exceptional items in 2014 as well as in 2015. The major exceptional element in 2015 was the capital gain related to the sale of Luxempart in January 2015 (+67 million), reduced by a lower level of capital gains from market activities (5 million versus 51 million in 2014) as the Bank preferred to hold its position to collect a recurring interest margin. Furthermore, 2014 income was influenced by the capital gains generated by the sale of BIL Ré and its investment portfolio (+19 million).

## Expenses

General expenses totalled 374 million in 2015, up 10% compared with 2014 (+35 million). The relatively large increase was fuelled by the non-recurring expenses as the acquisition costs related to KBL (Switzerland) (commercial activities) and the restructuring costs following the decision to end the activities of Singapore branch (Group Center). The core operating expenses increased by 6% compared with 2014 mainly due to the contribution of newly created entities (e.g. Belair House, BIL Manage Invest, BIL Dubai), the integration of KBL (Switzerland) and the BIL2020 program.

In April 2015, the Bank has successfully launched the BIL2020 program. Several initiatives have already been launched in this context. Personal expenditures were affected by employee recruitments to reinforce the skills of the whole workforce to conduct the strategic program. Strategic projects concerning the modernisation of processes and systems have been launched. The Loans project reengineering and the new IT strategy were initiated to support the BIL2020 vision and also to position the Bank as a leader in terms of efficiency and technology innovation. All these initiatives have naturally generated an increase of the general expenses in line with the BIL2020 strategy.

### Gross operating income

Gross operating income amounted to 185 million. The decrease of 5 million compared with 2014 includes the variation of non-recurring items as mentioned in the income and expenses sections. Core gross operating income, up by 7%, was mainly due to the good results of the commercial activities and Treasury and Financial Markets.

### Cost of risk and provisions for legal litigation

BIL group recorded net provisions on loans and advances of 18 million compared with 26 million in 2014. In 2015, specific value adjustments on loans related to the commercial activities reached 19 million and remained stable in comparison with 2014 (20 million). Recoveries on an entirely provisioned legacy loan have led to a write-back of 3 million in Group Center (+2 million compared to 2014). The Bank posted 2 additional million of collective impairments on its loan books compared with 6 million in 2014. Impaired loans as a percentage of total loans outstanding amounted to 2.95% in December 2015 versus 2.83% in December 2014, proving the high quality of the Bank's assets.

### Net income before tax

Net income before tax stood at 166 million. Core operating net income before tax grew by 13%, a positive result for 2015 thanks to commercial activities in line with expectations and excellent results from Treasury and Financial Markets (especially ALM and Treasury).

### Tax Expenses

The 2015 tax expenses of 32 million correspond to the taxable income of the various BIL group entities in distinct jurisdictions with different tax rates. The level of tax expenses is below 2014, influenced by the non-taxable capital gain of the Luxempart sale.

### Net income

At the end of the year, the Bank generated an encouraging performance with a net profit of 134 million. The Bank reconfirmed its steady performance despite a difficult market environment driven by a solid commercial franchise and boosted by the launch of the "BIL2020" strategy program announced in April 2015. The ratio net income divided by consolidated balance sheet amounts to 0.63%.

#### ANALYSIS OF THE CONSOLIDATED BALANCE SHEET[1]

| (in EUR billion) | 31/12/14 (after restatement) | 31/12/15 | Change versus 2014 |
|---|---|---|---|
| **ASSETS** | **20.3** | **21.5** | **5.9%** |
| Loans and advances to credit institutions | 2.3 | 2.3 | (0.6%) |
| Loans and advances to customers | 10.8 | 11.4 | 4.9% |
| Loans and securities available for sale | 5.7 | 6.5 | 15.1% |
| Positive fair value of derivative products | 0.4 | 0.3 | (32.5%) |
| Other assets | 1.1 | 1.0 | (13.3%) |
| **LIABILITIES** | **20.3** | **21.5** | **5.9%** |
| Amounts due to credit institutions | 2.0 | 2.0 | (1.0%) |
| Amounts due to customers | 13.4 | 15.0 | 11.7% |
| Negative fair value of derivative products | 0.7 | 0.4 | (41.9%) |
| Debt securities | 2.0 | 2.0 | (2.8%) |
| Subordinated debt | 0.5 | 0.4 | (1.0%) |
| Other liabilities | 0.5 | 0.4 | (18.8%) |
| Shareholders' equity | 1.2 | 1.2 | (1.0%) |

During the 2015 financial year, the size of the consolidated balance sheet increased by 1.2 billion (+5.9%). This evolution can be explained mainly by a significant growth of the amounts due to customers of 1.6 billion.

[1] Rounding differences and percentages calculated on exact numbers.

**ASSETS MOVEMENTS**

"Loans and advances to customers" increased by 0.6 billion (+4.9%). The Bank continued to develop its retail banking and corporate banking activities. In this context, outstanding mortgage loans grew by 0.3 billion (+7.9%) and investment loans by 0.2 billion (+3.3%).

"Loans and securities available for sale" reached 6.5 billion (+15.1%), an increase resulting from additional investments in high quality bond positions in 2015. The bond portfolio stood at 6.5 billion at the end of 2015 (versus 5.6 billion in 2014). It consists mainly of assets eligible for refinancing from the European Central Bank and qualifying as liquidity reserves under Basel III and the CRD IV Directive. These assets enable the Bank to fully comply with liquidity ratio requirements.

**LIABILITIES MOVEMENTS**

"Amounts due to customers" showed a robust increase of 1.6 billion (+11.7%) mainly represented by a surge of demand deposits (+1.7 billion). In an uncertain market environment characterized by high volatility, clients preferred to keep some of their assets as deposits. In addition, this evolution integrated the contribution of KBL (Switzerland) of +0.5 billion.

"Debt securities" issued under the EMTN program to Institutional, Retail and Wealth Management clients are stable compared to December 2014. The Bank was able to issue new BIL Structured Products (BSP) and Medium Term Notes (MTN) of approximately 720 million to compensate the 2015 maturities.

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

# 4. Movements in share capital

At the end of December 2015, the Bank's share capital was fixed at 141,224,090 represented by 2,017,487 fully paid-up shares of no par value (no change compared with 2014). During 2015, the Bank held 970 BIL treasury shares, representing a value of 1,455,000.

# 5. Research and development

BIL is continuously adapting its products and services to ensure that customers are being offered relevant and innovative products and that portfolios match individual risk profiles. Within the BIL2020 strategic framework, a commercial strategic program is implementing a new client segmentation strategy and refreshing the Bank's product and service range accordingly. The objective is to use a common approach and coordinate all current and future commercial projects relating to BIL's client-segment based offering. Two new departments were set up in this context: Market Intelligence and Innovation. Next to Strategy and Products & Solutions, their objective is to provide forward-looking insights in order to contribute to the shaping of the strategy and BIL's competitive positioning in the market.

# 6. Post-balance sheet events

Since closure of the financial year, no event that might affect the financial or commercial situation of the group has occurred.

# 7. Outlook / Strategies

With the first year anniversary of the BIL2020 strategy in sight, it is clear that BIL's mid-term future will be guided by this strategy. In Luxembourg, BIL intends to further develop its multi-business bank model and to deepen its ties with its clients, including individuals, professionals and financial institutions by offering innovative and relevant products and services. By focusing its multi-business expertise under a common brand, BIL seeks to meet, through its retail and corporate banking, wealth management and financial market activities, the needs of its very diverse client base, while contributing to economic growth in Luxembourg. Internationally, BIL continues to develop its wealth management activities in a defined number of target markets.

# Risk Management

## 1. INTRODUCTION

### 1.1 Key events of 2015

#### Corporate structure and risk profile

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

Main events having impacted the Bank's risk profile evolution during 2015 are described in the annual report, section 1 of the "Business Review and Results".

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

### 1.2 Main regulatory changes occurred in 2015

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

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

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

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

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

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

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

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

## 2. RISK MANAGEMENT MISSIONS, ORGANISATION AND GOVERNANCE

### 2.1 Missions

The main missions of the Risk Management function are the following:

- **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 Management Governance

### General principles

According to Circular CSSF 12/552, as amended, the Risk Management function is one of the three distinct internal control functions (together with Internal Audit and Compliance).

BIL group's Risk Management framework is based on a decisional process allowing a prudent and sound management of risks. The decisional process is defined by:

- The responsibilities of the Board of Directors, the Board Risk Committee, the Board Audit and Compliance Committee and the Management Board and their roles in decision-making and risk management;
- Risk committees of which at least one member of the Management Board is a member, and the mission of these committees in decision-making;
- Other committees that are formalised meetings whose members are experts and operational teams, and their missions in decision-making;
- The maintenance of a set of policies, guidelines and procedures explaining the activities, the definition of limits for risk-taking by operational units, consistent with the Bank's risk appetite, the process of detection, assessment and measurement, reporting, management and control of the risks induced by the Bank's activities.

BIL's entities internal control functions report from both a hierarchical and a functional point of view for branches and from a functional point of view for subsidiaries to the corresponding control functions at BIL Head Office level.

BIL group's Risk Management governance is based on a clear decisional process framed by the following committees:

### Board of Directors

Among its missions, the Board of Directors 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.

According to CSSF circular 12/552, as amended, the Board of Directors makes a critical assessment of the internal governance mechanisms and approves them by taking into account:

- The balance between the incurred risks, the ability of the establishment to manage these risks, own funds and internal and regulatory reserves;
- The strategies and guiding principles with a view to improve and adapt them to internal and external, current and anticipated changes;
- The manner the Management Board meets its responsibilities (for instance by ensuring corrective measures are implemented);
- The effectiveness and efficiency of internal control mechanisms;
- The adequacy of the organisational and operational structure.

These assessments may be prepared by dedicated internal committees and be notably based on the information received from the Management Board, the ICAAP report and the summary reports of the internal control functions which the Board of Directors is called upon to approve on this occasion.

### Board Risk Committee

The Board Risk Committee is responsible for proposing BIL's group risk policy to the Board of Directors. This Committee also ensures that BIL's activities are consistent with its risk profile and gives positive recommendation to the Board of Directors as regards the level of global limits for the main risk exposures.

Among its roles, the Board Risk Committee reviews and recommends changes to the BIL group Risk Management framework and the global risk limits and capital allocation to the Board of Directors; it reviews the global BIL group risk exposure, major Risk Management issues and capital adequacy requirements covering all of the group's risks; it reviews, assesses and discusses with the external auditor on an annual basis any significant risk or exposure and relevant risk assessments; and it also reports regularly to the Board of Directors and makes such recommendations with respect to any of the above or other matters.

The Board Risk Committee is a specialised committee supporting the Board of Directors on subjects related to risks.

### Board Audit & Compliance Committee

Among its missions, the Board Audit & Compliance Committee monitors the effectiveness of the Bank's internal control, internal audit, and risk management framework; it aims also at giving an independent assistance to the Board of Directors on the supervisory of the Bank's management. This committee ensures that the Management Board does a follow-up of the recommendations of the external auditors. This committee also reviews and discusses the implementation and the adequacy of the key accounting policies, practices and financial reporting processes.

### Internal Control Committee

The Internal Control Committee is a sub-committee of the Management Board which coordinates the activities of the Bank's three Internal Control functions (i.e. Internal Audit, Compliance, and Risk). It decides on transversal issues related to Internal Control and provides a common position from Internal Control functions.

### Management Board

The Management Board is responsible for implementing and establishing a safe and sound management, in accordance with the principles and objectives established by the Board of Directors.

According to Circular CSSF 12/552 (as amended), the Management Board *"is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. This management shall be exercised in compliance with the strategies and guiding principles laid down by the board of directors and the existing regulations (...)"*.

Moreover, the Management Board informs, on a regular basis and at least once a year, the Board of Directors of the implementation, adequacy, effectiveness and compliance with the internal governance arrangements.

Finally, once a year, the Management Board confirms the compliance with CSSF circular 12/552, as amended. The information to be provided is submitted to the CSSF together with the annual accounts to be published.

The Management Board ensures that rigorous and robust processes for risk management and internal controls are in place, and that the Bank is sufficiently staffed to be able to implement the safe and sound management of its activities. These processes include the establishment of strong risk governance.

### Risk Committees

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 decisions. Their mandate and roles, their members and other rules settling how they are functioning, are described in a specific form. At least one member of the Management Board is part of the Risk Committees. If these Risk Committees make decisions related to the overall risk process, the Board of Directors and the Management Board are not exempted from their responsibilities.

### Risk Management organisation

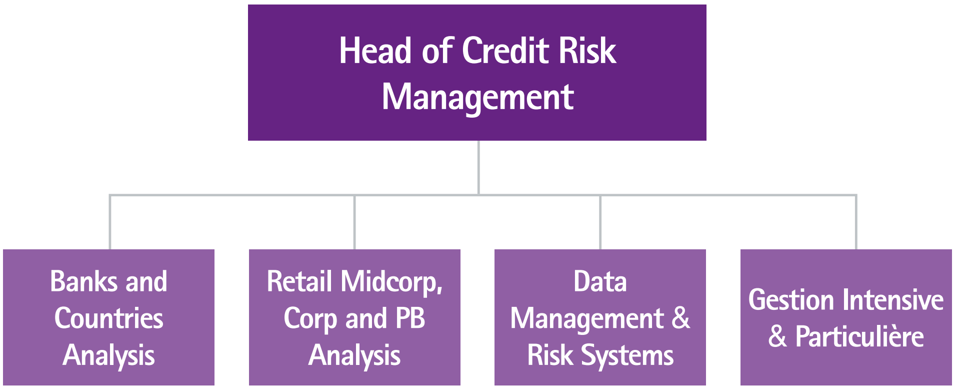
In order to ensure a sound management of risk and develop an integrated risk culture, the Bank has set up an effective Risk Management organisation, in adequacy with its activities, encompassing the relevant risks resulting from its activities.


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

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

In terms of organisation, BIL group's Risk Management department is based on four specific units described in greater detail 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 four different teams:

- While the "Banks & Countries Analysis" team is in charge of the assessment and the monitoring of the risk related to the banks and sovereign counterparts, the "Retail Midcorp, Corp and Private Banking Analysis" team is in charge of that for the retail, corporate and institutional counterparts. Both of them are in charge of assigning internal ratings to BIL counterparties, but also of monitoring the corresponding portfolio;
- "Data Management & Risk Systems" teams are in charge of the development and maintenance of the data and risk systems used for the calculation of the credit risk capital requirements and the corresponding regulatory reportings. These teams are also responsible for the production of regulatory and internal reports related to Credit Risk such as the COREP, Large Exposures and covers ad-hoc requests from regulatory authorities;
- "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

**Financial Risk Management**


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

This unit is composed of three different teams:

- The "Banking Risk Monitoring" team is in charge of the follow-up of the counterparties' limits, of margin calls for collateral management purposes, of banking book activity and of liquidity risk. It also implements the regulatory ratios related to liquidity risk (e.g. LCR, NSFR, liquidity monitoring tools);
- The "TFM Risk Monitoring" team's main tasks are the implementation and the follow-up of the financial risks of the Financial Markets' activities (i.e. Fixed Income, Forex, Structured Products and Brokerage), the calculation of BIL's group Value at Risk (VaR), the detection of suspicious transactions and the reconciliation of positions with Profit & Loss (P&L);
- The "EUI (End-User Integration) & Market Data Management" team is in charge of the maintenance and of the evolution of market risk data as well as dealing with dedicated reports and systems.

**Operational Risk Management**


This department encompasses the management of Corporate Operational Risks, Insurance & Reinsurance and Security Risks (prevention, regulation):

- "Corporate Operational Risk" (COR) is in charge of the description of the Bank's internal operational risk management framework and to ensure its implementation and application throughout BIL group. In addition, COR is in charge of recording operational incidents, implementing Key Risk Indicators (KRI), supervising the Risk and Control Self-Assessment (RCSA) performed by each business line/branch/subsidiary, and following the resulting action plans. COR also provides quarterly reports to the *Operational Risk and New Products Committee (ORNPC)*. These reports can be used to review changes in the Bank's risk profile and to take measures needed to reduce risk;
- Based on the risk profile of the Bank, the "Insurance & Reinsurance" team develops and ensures the adequacy (i.e. establishment of new insurance policies and / or update of existing policies) of the (re)insurance policy and (re)insurance system within the Bank and its branches/subsidiaries. The team also provides a centralized management of (re)insurance contracts and acts as single point of contact for our brokers, insurance companies and others insured bodies;
- "Security Risk Prevention" is in charge of ensuring Information Security by defining the access rules to information in accordance with the Security Policy of the Bank, securing access to information by implementing tools and defining access granting procedures, and addressing the new challenges (e.g. reorganization, restructuring, expansion, etc.) of the Bank by working to adapt its management system of access to information. Also responsible of analysing the risks related to the availability of critical activities (i.e. BIA[1], RTO[2] , RPO[3] ) and considering the strategy reducing these risks to an acceptable level through the development, testing and maintenance of a Business Continuity Plan (BCP);
- "Security Risk Regulation" ensures the analysis of risks related to the availability, confidentiality and integrity of information and implements the strategy, actions and projects to reduce these risks to an acceptable level. As part of its duties we can mention the management of security governance (i.e. roles, responsibilities, committees, processes), the development and maintenance of information classification, the awareness of employees with security requirements. This team is also in charge of the management of security incidents related to information, the organization of the Crisis Committee and Security Committee and the implementation and monitoring of decisions, the execution of controls to ensure compliance with the Security Policy and some aspects of the legal and regulatory compliance related to information security issues.

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

### Strategic Risk Management


The Strategic Risk Management department consolidates all the activities related to the modelling and the monitoring of the Bank's transversal risks. This department is composed of four different teams:

- The "Economic Risk Assessment & Monitoring" team develops an overall framework for the assessment and the monitoring of economic risks faced by the Bank in the course of its activities. This framework comprises, among others the development and integration of the ICAAP process (i.e. risk cartography, economic capital, risk appetite and stress-testing) within the Bank;
- The "IRS Modeling & Integration" team is in charge of the modelling of the Bank's internal rating systems (developed within the A-IRB framework) and their subsequent integration within the businesses. This mandate also comprises the follow-up of key credit risk indicators (e.g. Non-Performing loans, Provisioning) as well as the realisation of the Bank's credit risk related stress-tests;
- The "Risk Controlling" team's aim is to validate the credit risk models' adequacy and performance (Model Validation) as well as their correct use by the credit risk teams regarding both use-tests requirements and dissemination of their corresponding outputs within the Bank's information systems (Rating Systems Quality Control);
- The "Transversal Reportings & Regulatory Watch" team aims to consolidate all of the group risks reports in order to produce an overall view of the Bank's risk profile. This activity thus includes the development and production of a set of transversal reports comprising, among others, the Pillar III Risk report, the coordination and consolidation of the Risk Management department's contributions to the Annual/Semi-Annual Reports, Long Form Reports and Rating Agencies requests as well as the production of a framework dedicated to the monitoring of risks incurred by BIL group's branches/subsidiaries. Moreover, this team is also in charge of the regulatory watch activity and the coordination of projects dedicated to these matters

## 3. CREDIT RISK

### 3.1 Definition

Credit risk represents the potential loss (reduction in value of an asset or payment default) the Bank may incur as a result of a deterioration in the solvency of any counterparty.

### 3.2 Risk 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.

### 3.3 Organisation and governance

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.).

### 3.4 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.

#### Focus on the forbearance measure

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

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

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

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

### 3.5 Risk exposure [1]

Credit risk exposure includes:

- 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 corresponding to unused lines of liquidity or to the maximum amount that BIL is committed to as a result of guarantees issued to third parties.

Are excluded from this perimeter, equity exposures, tangible/intangible assets and deferred tax assets.

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

As at December 31, 2015, the Bank's total credit risk exposure amounted to 22.2 billion, namely almost two billion above the end 2014 situation. The overall exposure increase is observed on nearly all the segments of the Bank's portfolio; the main contributors are the Financial Institutions (+0.85 billion), the Corporate (+0.31 billion) and the Individual, *SME and Self-Employed (+0.27 billion) portfolios.*

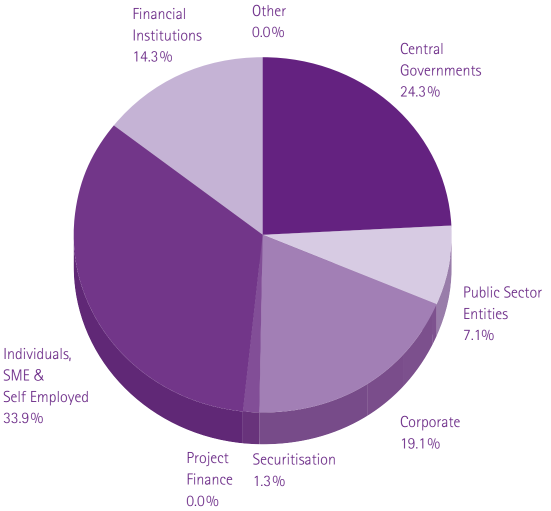
[1] Rounding differences and percentages calculated on exact numbers.

### Exposure by type of counterparty

In 2015 and in line with BIL group's business model and strategy, the *Individuals, SME and Self Employed* segment remains the Bank's largest portfolio, representing around 33.9% of the overall exposure (7.55 billion, +0.27 billion as compared to end 2014).

The *Central Governments* exposure weighting is relatively stable compared with the previous year and remains the second segment of the Bank's portfolio, representing 24.3% of the overall exposure.

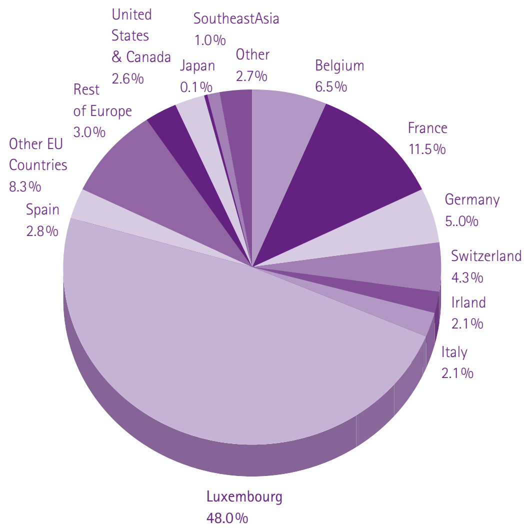
Finally, it is also worth noting the increases on (i) the *Financial Institutions* exposures (+0.85 billion as compared to the end 2014 situation, corresponding to an increase of +36% over one year) partially explained by the repo and reverse repo activities and the increase of the Bank's investment portfolio as well as (ii) on the *Corporate* exposures (19.1% of the overall exposure, +0.31 billion as compared to 2014).




| **Exposures by counterparty category** (in EUR million) | **31/12/14** | **31/12/15** | **Variation** |
|---|---|---|---|
| Central Governments | 5,225 | 5,409 | 184 |
| Public Sector Entities | 1,372 | 1,583 | 211 |
| Corporate | 3,941 | 4,250 | 309 |
| Securitisation | 100 | 281 | 181 |
| Project Finance | 6 | 0 | (6) |
| Individuals, SME & Self Employed | 7,277 | 7,551 | 274 |
| Financial Institutions | 2,326 | 3,172 | 846 |
| Other | 6 | 5 | (1) |
| **TOTAL** | **20,253** | **22,251** | **1,998** |

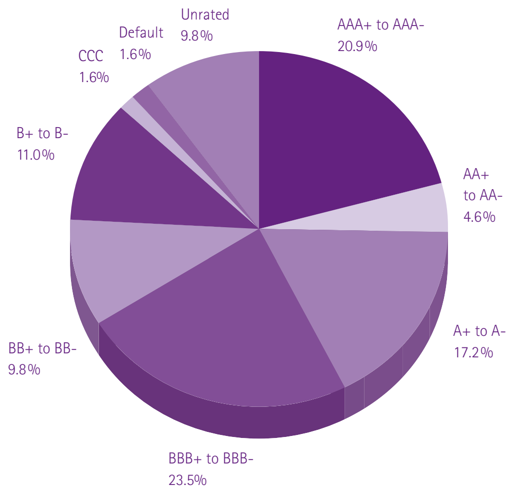
### Exposure by geographical region

As at December 31, 2015, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (48%), France (11.5%), Belgium (6.5%) and Germany (5%).




### Exposure by internal rating

The credit risk profile of the Bank has remained stable since year-end 2014 and is of good quality. Indeed, the Investment Grade (IG) exposures represent 66.2% of the total credit risk exposure, of which 20.9% lies within the AAA+ to AAA range.



### Exposure to PIIGS

The breakdown of the government bond portfolio for sensitive European countries by maturity bucket is provided hereafter for the 2015 situation[1].

| | 31/12/14 | 31/12/15 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in EUR million) | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | TOTAL |
| Ireland | 290 | 73 | 111 | 0 | 0 | 0 | 0 | 26 | 0 | 42 | 113 | 365 |
| Italy | 505 | 182 | 133 | 11 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 326 |
| Spain | 257 | 68 | 34 | 21 | 35 | 18 | 11 | 30 | 52 | 86 | 35 | 390 |
| **TOTAL** | **1,052** | **323** | **278** | **32** | **35** | **18** | **11** | **56** | **52** | **128** | **148** | **1,081** |

The Bank's portfolio exposure on PIIGS[2] has slightly increased compared to year-end 2014 which can be explained by new investments on Irish and Spanish government bonds and sales or matured positions on Italian government bonds.

As at end 2015, the Bank has no investments in Portuguese or Greek government bonds.

### Large exposures

According to its letter dated November 22, 2012, the CSSF has granted a total exemption for BIL's exposure towards its sister company KBL epb and its subsidiaries in the calculation of large exposure limits, in accordance with the former Circular 06/273 (part XVI, point 24), as amended. As at December 31, 2015, BIL had no exposure towards its sister company KBL epb.

### Asset Quality

| (in EUR million) | 31/12/14 | 31/12/15 |
|---|---|---|
| Gross amount of non-impaired loans | 10,806.8 | 11,330.3 |
| Impaired loans to customers | 314.3 | 344.8 |
| Specific provisions | 256.0 | 274.8 |
| Asset quality ratio[3] | 2.83% | 2.95 |
| Coverage ratio[4] | 81.46% | 79.71 |
| Collective impairments on loans | 26.5 | 28.6 |

Both the Bank's loan portfolio size and the specific provisions level have increased in 2015.

The asset quality ratio amounts to 2.95% as at December 31, 2015 and has slightly increased when compared to the year end 2014 situation (2.83%). The impaired loans and advances to customers amounted to 344.8 million (+30.5 million), corresponding to a relative increase of 10% as compared with the previous year.

[1] Excluding trading.
[2] Namely Portugal, Italy, Ireland, Greece and Spain.
[3] Impaired loans as a percentage of total loans outstanding.
[4] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.

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## 4. MARKET RISK, ASSETS & LIABILITIES MANAGEMENT (ALM)

### 4.1 Definitions

**Market risk** is the risk of losses in positions arising from adverse movements in market prices. It mainly consists of interest rate risk, equity price risk and foreign exchange risk:

- The interest rate risk consists of a general interest rate risk resulting from market developments and a specific interest rate risk. The latter, also called "credit spread risk", is defined as the specific interest rate risk attached to an issuer and arises from variations in the 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 equity;
- The foreign exchange risk represents the potential decrease of the 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.

### 4.2 Risk policy

For integrated market and ALM risk management, BIL defines a framework based on the following dimensions:

- 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 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.

### 4.3 Organisation and governance

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 on risks and results (including the valuation of assets) associated with financial market activities.

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

- Head Office FRM teams define risk measurement methods for the whole Group; in addition they report and monitor the risks of the activities they are responsible for, at a consolidated level;
- 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.

### 4.4 Risk measurement and exposures

#### Market risk

**Risk measurement**

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

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

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

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

In 2015, the hypothetical back-testing calculated on the trading portfolio revealed 8 downward backtesting exceptions for interest rate and currency risks of which:
- 1 exception is explained by the unpegging of CHF from EUR exchange rate;
- 1 exception is explained by a high volatility of USD exchange rate against EUR;
- 4 exceptions are explained by no diversification benefit due to a sudden increase of middle/long term EUR interest rate joined with a high increase of EUR exchange rate against USD (EUR interest rate on 7y and 10y tenors climbed by more than 90% over 1 week);
- 2 exceptions are explained to a high volatility of USD exchange rate against EUR combined with exceptional variations of EUR interest rates.

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

### Risk exposure

#### 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. The average Value at Risk was 0.97 million in 2015, compared with 2.4 million in 2014.

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

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

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

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

### Asset and Liability Management

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, 2015, the ALM sensitivity amounted to -8.5 million (vs. +61 million as at end 2014).

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

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

### Investment Portfolio

The interest-rate risk of the investment portfolio is transferred and managed by the Treasury department or by the ALM department, depending on various criteria (i.e. maturity, sector).

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

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

**Investment portfolio** (in EUR million)

| | Notional amount | | Rate bpv | | Spread bpv | |
|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Treasury | 2,323 | 2,939 | (0.15) | (0.16) | (0.81) | (1.05) |
| ALM | 2,588 | 3,126 | (0.23) | (1.41) | (1.98) | (2.10) |

## 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.

**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[5]. All these indicators are assessed according to a variety of scenarios, in the major currencies. These ratios are sent to the CSSF and to the BCL, respectively on a daily and a weekly basis.

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

**Risk exposure**

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

**Additional funding needed to reach 100% of the base case ratio**
(in EUR million)

| | 2015 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|
| | Estimated - 1 month | | | | |
| Average | (4,257) | (3,510) | (4,597) | (4,208) | (4,712) |
| Maximum | (4,960) | (3,784) | (4,785) | (4,450) | (4,960) |

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

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

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

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

## 5. OPERATIONAL RISK

### 5.1 Definition

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk. It also excludes losses resulting from commercial decisions.

### 5.2 Risk policy

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

In terms of 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's information assets.

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

### 5.3 Organisation and governance

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 Operational Risk and New Products Committee (OR&NPC), mandated by the Management Board, is in charge of supervising operational risk at BIL and of addressing operational impacts arising from the development of new markets, products and services and significant changes to existing ones. To this end, the committee takes decisions on risks that have been identified and analysed (i.e. through projects, controls, incidents etc.) as well as on suitable measures to be taken in order to improve weak processes. This committee also monitors the decisions that have been taken during the OR&NPC and approves the results of the Risk & Control Self-Assessment (RCSA) exercises;
- The 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 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 at the initiative of IS4F[1].

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

This Committee covers aspects of Compliance, Audit and Risk between BIL and IS4F[1]. It brings together the Chief Compliance Officer, the Head of Audit and the Head of BIL group's Risk Management and/or their substitutes.

## 5.4 Risk measurement and management

The operational risk framework relies on the following elements.

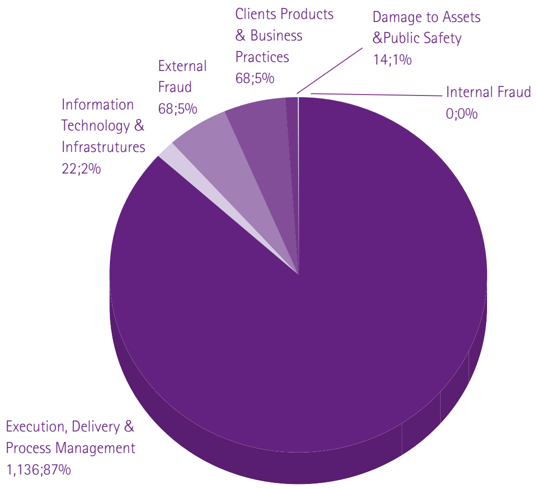
### Operational Risk Event Data Collection

According to the Basel Committee, the systematic recording and monitoring of operational incidents is a fundamental aspect of risk management: "*Historical data on banking losses may provide significant information for assessing the Bank's operational risk exposure and establishing a policy to limit/manage risk*".

Regardless of the approach used to calculate the capital, data collection is required. Having a relevant procedure in place ensures that BIL complies with the Basel Committee's requirements (i.e. guidelines for reporting operational incidents). At the same time, recording incidents provides information that may be used to improve the internal control system and determine the Bank's operational risk profile.

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

Gross impact in EUR thousands and share in %




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

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

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

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

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

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

### Self-assessment of risks and associated controls

A RCSA exercise is performed each year in order 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 mitigation actions. The results of these assessments are reported to the management during the OR&NPC meetings. The guideline for RCSA has been reviewed in 2015 without significant changes.

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

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

### Calculation of the regulatory capital requirement

BIL group applies the standardised Basel approach to calculate the regulatory capital requirements 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 operational results of the underlying business lines, using an average over the past three years. The calculation is updated at the end of each year. The operational risk weighted assets have increased compared with the end of 2014 figures (692 million) to reach 764 million at year-end 2015.

**Risk Weighted Assets** (in EUR million)

| 2014 | 2015 |
|---|---|
| 692 | 764 |

## 6. REGULATORY CAPITAL ADEQUACY – PILLAR 1

### 6.1 Weighted risks

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

For credit risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. Central Governments, Banks, Corporate, SMEs and Retail) for the assessment of its risk weighted assets (RWA). When it comes to Market Risk, the Bank has adopted the Standardised method; this choice is based on the Bank's very moderate trading activity, whose sole purpose is to assist BIL's customers by providing the best service relating to the purchase or sale of bonds, foreign currencies, equities and structured products. The Standardised method is also used for the calculation of the weighted operational risks of the Bank.

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

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

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

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

### 6.2 Capital Adequacy ratios

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

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

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

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

## 7. INTERNAL CAPITAL ADEQUACY – PILLAR 2

*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".*

The 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 strategic plan, this being framed by its Risk Appetite and its risk bearing capacity.

Under the ICAAP, BIL group is required to identify the material risks to which it is exposed, to quantify them and to ensure it maintains adequate capital to back them. This capital must be of sufficient quality to absorb losses that may arise for a given time period and level of confidence.

The ICAAP shall fully reflect all of the risks to which BIL group is or could be exposed, as well as the economic and regulatory environment within which the Bank operates or could come to operate. The ICAAP shall therefore not only take into account the current situation but shall also be forward-looking in order to ensure the internal capital adequacy on an ongoing basis.

### The main building blocks of BIL group's ICAAP

In order to maintain internal capital adequacy on an ongoing basis, the ICAAP is anchored in BIL group's decision-making processes, its business and risk strategies and its risk management and control processes.

This objective is achieved through the development of a sound and comprehensive framework based on the following key components:
- In order to determine the adequacy of its internal capital, BIL group first translates its business and strategy plans into *Risk Appetite Statements* and develops and monitors the corresponding framework.
- Secondly, BIL group has to identify the risks to which it is exposed to (i.e. risk identification and cartography). Different steps are then taken within the Bank on an ongoing basis: Definition of a risk glossary, identification of the risks borne by the institution, assessment of the risks materiality, drafting of the Bank's risk cartography.
- BIL group then assesses its capital needs to cover the economic effects of risk-taking activities thanks to the Economic Capital (ECAP) framework. ECAP is defined as the potential deviation between the group's economic value and its expected value, for a given confidence interval (depending on BIL group's target rating), and a horizon of one year.
- BIL group finally assesses its capacity to maintain sufficient capital, in terms of quantity and quality, to support its risk profile through both normal and crisis periods. This is carried out through the assessment, on an ongoing basis, of the Bank's capital adequacy and, at least once a year, through the forward-looking assessment of the Bank's capital soundness (Capital Planning).

# Consolidated financial statements

# Report of the "réviseur d'entreprises agréé"

To the Board of Directors of
Banque Internationale à Luxembourg SA
69, route d'Esch
L-2953 Luxembourg

## Report on the consolidated financial statements

Following our appointment by the Board of Directors, we have audited the accompanying consolidated financial statements of Banque Internationale à Luxembourg SA, which comprise the consolidated balance sheet as at 31 December 2015, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banque Internationale à Luxembourg SA as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Ernst & Young
Société anonyme
*Cabinet de révision agréé*

Jean-Michel Pacaud

April 8, 2016

# Consolidated balance sheet

| ASSETS (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| I. | Cash and balances with central banks | 7.2 | 1,189,683,299 | 1,340,198,076 |
| II. | Loans and advances to credit institutions | 7.3 | 1,159,872,903 | 994,454,661 |
| III. | Loans and advances to customers | 7.4 | 10,838,506,113 | 11,371,806,693 |
| IV. | Financial assets measured at fair value through profit or loss | 7.5 | 82,141,549 | 88,239,176 |
| V. | Financial investments | 7.6 | 5,831,561,284 | 6,646,471,735 |
| VI. | Derivatives | 9.1 | 425,057,766 | 286,864,028 |
| VII. | Fair value revaluation of portfolios hedged against interest rate risk | | 13,878,066 | 10,161,025 |
| VIII. | Investments in associates | 7.7 | 22,660,198 | 22,348,474 |
| IX. | Investment property | 7.8 / 7.12 | 138,336,363 | 132,165,285 |
| X. | Property, plant and equipment | 7.8 / 7.12 | 109,788,220 | 104,448,698 |
| XI. | Intangible fixed assets and goodwill | 7.9 | 66,338,258 | 95,080,617 |
| XII. | Current tax assets | 7.10 | 7,891 | 264,475 |
| XIII. | Deferred tax assets | 7.10 / 9.2 | 304,411,259 | 282,653,664 |
| XIV. | Other assets | 7.11 | 103,451,646 | 98,714,555 |
| **TOTAL ASSETS** | | | **20,285,694,815** | **21,473,871,162** |

The notes are an integral part of these consolidated financial statements.

## LIABILITIES

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| I. | Amounts due to credit institutions | 8.1 | 2,009,224,539 | 1,988,226,954 |
| II. | Amounts due to customers | 8.2 | 13,444,133,543 | 15,019,202,404 |
| III. | Financial liabilities measured at fair value through profit or loss | 8.3 | 1,023,399,813 | 839,991,931 |
| IV. | Derivatives | 9.1 | 712,019,921 | 414,021,724 |
| V. | Fair value revaluation of portfolios hedged against interest rate risk | | 70,790,659 | 55,197,019 |
| VI. | Debt securities | 8.4 | 1,014,828,413 | 1,141,323,628 |
| VII. | Subordinated debts | 8.5 | 451,200,114 | 446,661,346 |
| VIII. | Provisions and other obligations | 8.6 | 83,832,698 | 81,002,409 |
| IX. | Current tax liabilities | 8.7 | 1,445,632 | 4,079,426 |
| X. | Deferred tax liabilities | 8.7 / 9.2 | 584,624 | 1,496,317 |
| XI. | Other liabilities | 8.8 | 244,308,079 | 265,043,498 |
| **TOTAL LIABILITIES** | | | **19,055,768,035** | **20,256,246,656** |

## SHAREHOLDERS' EQUITY

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| XII. | Subscribed capital | 9.7 | 141,224,090 | 141,224,090 |
| XIII. | Additional paid-in capital | | 708,297,160 | 708,297,160 |
| XIV. | Treasury shares | | (1,455,000) | (1,455,000) |
| XV. | Reserves and retained earnings | | 114,563,711 | 174,680,099 |
| XVI. | Net income for the year | | 122,120,402 | 134,269,101 |
| **CORE SHAREHOLDERS' EQUITY** | | | **1,084,750,363** | **1,157,015,450** |
| XVII. | Gains and losses not recognised in the consolidated statement of income | | 145,176,417 | 60,609,056 |
| | *a) AFS reserve* | | *189,687,997* | *89,146,369* |
| | *b) Other reserves* | | *(44,511,580)* | *(28,537,313)* |
| **GROUP EQUITY** | | | **1,229,926,780** | **1,217,624,506** |
| XVIII. | Non-controlling interest | | 0 | 0 |
| **TOTAL SHAREHOLDERS' EQUITY** | | | **1,229,926,780** | **1,217,624,506** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | **20,285,694,815** | **21,473,871,162** |

The notes are an integral part of these consolidated financial statements.

# Consolidated statement of income

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| I. | Interest and similar income | 11.1 | 596,832,866 | 503,863,462 |
| II. | Interest and similar expenses | 11.1 | (330,160,933) | (218,876,842) |
| III. | Dividend income | 11.2 | 4,831,633 | 215,342 |
| IV. | Net income from associates | 11.3 | 3,112,517 | 2,595,856 |
| V. | Net trading income and net result of hedge accounting | 11.4 | 20,489,183 | 18,536,805 |
| VI. | Net income on investments (assets and liabilities not measured at fair value through profit or loss) | 11.5 | 76,970,315 | 84,769,121 |
| VII. | Fee and commission income | 11.6 | 200,388,822 | 203,552,542 |
| VIII. | Fee and commission expenses | 11.6 | (29,165,091) | (30,105,252) |
| IX. | Other net income | 11.7 | (14,016,073) | (5,847,897) |
| **INCOME** | | | **529,283,239** | **558,703,137** |
| X. | Staff expenses | 11.8 | (200,966,025) | (225,052,781) |
| XI. | General and administrative expenses | 11.9 / 11.10 | (110,912,009) | (124,301,385) |
| XII. | Amortisation of tangible and intangible fixed assets | 11.11 | (27,233,907) | (24,627,655) |
| **EXPENSES** | | | **(339,111,941)** | **(373,981,821)** |
| **GROSS OPERATING INCOME** | | | **190,171,298** | **184,721,316** |
| XIII. | Impairment on loans and provisions for credit commitments | 11.12 | (26,586,319) | (18,559,324) |
| XV. | Provisions for legal litigation | 11.14 | 299,998 | 137,943 |
| **NET INCOME BEFORE TAX** | | | **163,884,977** | **166,299,935** |
| XVI. | Tax expenses | 11.13 | (41,764,575) | (32,030,834) |
| **NET INCOME FOR THE YEAR** | | | **122,120,402** | **134,269,101** |
| | Net income - Group share | | 122,120,402 | 134,269,101 |
| | Non-controlling interest | | 0 | 0 |

The notes are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

| (in EUR) | 31/12/14 | 31/12/15 |
|---|---|---|
| **NET INCOME FOR THE YEAR RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME** | **122,120,402** | **134,269,101** |
| **GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME** | **51,143,765** | **(84,567,361)** |
| **Items that will not be reclassified to profit or loss** | **(9,999,648)** | **11,740,411** |
| Actuarial gains (losses) on defined benefit pension plans - Gross | (13,995,045) | 14,492,750 |
| Actuarial gains (losses) on defined benefit pension plans - Tax | 3,995,397 | (2,752,339) |
| **Items that may be reclassified to profit or loss** | **61,143,413** | **(96,307,772)** |
| Gains (losses) on net investment hedge | (95,022) | (313,729) |
| Translation adjustments | 1,019,468 | (3,371,954) |
| Gains (losses) on cash flow hedge | 3,009,873 | 13,047,731 |
| Unrealised gains (losses) on available for sale financial investments | 74,773,388 | (111,940,578) |
| Share of other recognised income & expenses of investments in subsidiaries, joint ventures & associates | 1,229,893 | (1,517,300) |
| Tax on items that may be reclassified to profit or loss | (18,794,187) | 7,788,058 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **173,264,167** | **49,701,740** |
| **Attributable to equity holders of the parent company** | **173,264,167** | **49,701,740** |
| Attributable to non-controlling interests | 0 | 0 |

The notes are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

| CORE SHAREHOLDERS' EQUITY, (in EUR) | Subscribed capital | Additional paid-in capital | Treasury shares | Reserves and retained earnings[1] | Net income for the year | Core shareholders' equity |
|---|---|---|---|---|---|---|
| **AS AT 01/01/14** | **141,224,090** | **708,297,160** | **(1,455,000)** | **104,297,798** | **114,107,332** | **1,066,471,380** |
| Interim dividend paid | | | | (99,986,656) | | (99,986,656) |
| Classification of income 2013 | | | | 114,107,332 | (114,107,332) | 0 |
| Classification of income to hybrid capital | | | | (2,962,684) | | (2,962,684) |
| Cancellation of deferred tax liabilities on hybrid capital | | | | 865,696 | | 865,696 |
| Dividend received on own shares | | | | 48,073 | | 48,073 |
| Changes in scope of consolidation | | | | 9,808 | | 9,808 |
| IAS 19 restatement[2] | | | | (1,815,656) | | (1,815,656) |
| Net income for the year | | | | | 122,120,402 | 122,120,402 |
| **AS AT 31/12/14** | **141,224,090** | **708,297,160** | **(1,455,000)** | **114,563,711** | **122,120,402** | **1,084,750,363** |

| GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR) | Securities (AFS) | Derivatives (CFH) | Associates | Other reserves | Translation adjustments[3] | Gains and losses not recognised in the consolidated statement of income |
|---|---|---|---|---|---|---|
| **AS AT 01/01/14** | **132,857,075** | **(14,830,178)** | **2,251,216** | **(14,111,683)** | **(12,133,778)** | **94,032,652** |
| Net change in fair value through equity - Available for sale investments | 91,858,955 | | 1,229,893 | | | 93,088,848 |
| Net change in fair value through equity - Cash flow hedges | | 2,098,130 | | | | 2,098,130 |
| Net change in other reserves | | | | (9,910,114) | | (9,910,114) |
| Translation adjustments | 42,213 | | | (89,534) | 1,019,468 | 972,147 |
| Reimbursements for the period, disposals or maturities | 4,152 | | | | | 4,152 |
| Cancellation of fair value following AFS disposals | (35,074,398) | | | | | (35,074,398) |
| Cash flow hedge - Break in hedging | | (35,000) | | | | (35,000) |
| **AS AT 31/12/14** | **189,687,997** | **(12,767,048)** | **3,481,109** | **(24,111,331)** | **(11,114,310)** | **145,176,417** |

| NON-CONTROLLING INTERESTS (in EUR) | Core shareholders' equity | Gains and losses not recognised in the consolidated statement of income | Non-controlling interests |
|---|---|---|---|
| **AS AT 01/01/14** | **0** | **0** | **0** |
| Changes in scope of consolidation | 0 | 0 | 0 |
| **AS AT 31/12/14** | **0** | **0** | **0** |

The notes are an integral part of these consolidated financial statements.

[1] Of wich AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 10 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.
[2] Refer to point C of the Note 8.6.
[3] As at December 31, 2014, translation adjustments comprise an amount of EUR -37,105,106 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

| CORE SHAREHOLDERS' EQUITY GROUP (in EUR) | Subscribed capital | Additional paid-in capital | Treasury shares | Reserves and retained earnings [1] | Net income for the year | Core shareholders' equity |
|---|---|---|---|---|---|---|
| **AS AT 01/01/15** | **141,224,090** | **708,297,160** | **(1,455,000)** | **114,563,711** | **122,120,402** | **1,084,750,363** |
| Dividend paid | | | | (54,996,696) | | (54,996,696) |
| Classification of income 2014 | | | | 122,120,402 | (122,120,402) | 0 |
| Interest on contingent convertible bond | | | | (7,033,760) | | (7,033,760) |
| Dividend received on own shares | | | | 26,442 | | 26,442 |
| Net income for the year | | | | | 134,269,101 | 134,269,101 |
| **AS AT 31/12/15** | **141,224,090** | **708,297,160** | **(1,455,000)** | **174,680,099** | **134,269,101** | **1,157,015,450** |

| GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR) | Securities (AFS) | Derivatives (CFH) | Associates | Other reserves | Translation adjustments [2] | Gains and losses not recognised in the consolidated statement of income |
|---|---|---|---|---|---|---|
| **AS AT 01/01/15** | **189,687,997** | **(12,767,048)** | **3,481,109** | **(24,111,331)** | **(11,114,310)** | **145,176,417** |
| Net change in fair value through equity - Available for sale investments | (7,284,789) | | (1,517,300) | | | (8,802,089) |
| Net change in fair value through equity - Cash flow hedges | | 1,323,805 | | | | 1,323,805 |
| Net change in other reserves | | | | 12,274,649 | | 12,274,649 |
| Translation adjustments | 194,664 | | | (534,239) | (3,371,954) | (3,711,529) |
| Reimbursements for the period, disposals or maturities | (1,305) | | | | | (1,305) |
| Cancellation of fair value following AFS disposals | (93,450,198) | | | | | (93,450,198) |
| Cash flow hedge - Break in hedging | | 7,799,306 | | | | 7,799,306) |
| **AS AT 31/12/15** | **89,146,369** | **(3,643,937)** | **1,963,809** | **(12,370,921)** | **(14,486,264)** | **60,609,056** |

| NON-CONTROLLING INTERESTS (in EUR) | Core shareholders' equity | Gains and losses not recognised in the consolidated statement of income | Non-controlling interests |
|---|---|---|---|
| **AS AT 01/01/15** | **0** | **0** | **0** |
| Changes in scope of consolidation | 0 | 0 | 0 |
| **AS AT 31/12/15** | **0** | **0** | **0** |

The notes are an integral part of these consolidated financial statements.

[1] Of which AGDL (Association pour la Garantie des Dépôts Luxembourg) reserve for EUR 20 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.

[2] As at December 31, 2015, translation adjustments comprise an amount of EUR -53,159,213 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

# Consolidated cash flow statement

| (in EUR) | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net income for the year | | 122,120,402 | 134,269,101 |
| Adjustment for: | | | |
| - Depreciation and amortisation | 7.8 / 7.9 | 39,775,357 | 37,294,055 |
| - Impairment on bonds, equities and other assets | 11.5 / 11.12 | 13,001,871 | 4,748,581 |
| - Net gains/(losses) on investments | | (13,121,518) | (65,759,530) |
| - Provisions (including collective impairment) | 7.11 / 8.6 / 8.8 / 11.12 | (161,907) | (228,466) |
| - Change in unrealised gains/(losses) | 11.4 | (111,127) | 12,240,929 |
| - Income/(expense) from associates | 7.7 / 11.3 | (3,112,517) | (2,595,856) |
| - Dividends from associates | 7.7 | 1,002,223 | 1,390,280 |
| - Deferred taxes | 11.13 | 40,002,864 | 30,520,393 |
| Changes in operating assets and liabilities | | 49,555,304 | (222,259,333) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **248,950,952** | **(70,379,846)** |
| | | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of fixed assets | 7.8 / 7.9 | (28,028,232) | (32,986,791) |
| Sale of fixed assets | 7.8 / 7.9 | 6,733,316 | (1,038,117) |
| Purchase of non-consolidated shares | | (2,762,331) | (385,200) |
| Sales of non-consolidated shares | | 5,198,019 | 78,264,611 |
| Acquisitions of subsidiaries | | 0 | (20,200,909) |
| Sales of subsidiaries/branch closures | | 4,907,050 | 0 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **(13,952,178)** | **23,653,594** |
| | | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Issuance of subordinated debts | | 150,000,000 | 0 |
| Reimbursement of subordinated debts | | (138,997,158) | (26,725,176) |
| Dividends paid | | (99,986,656) | (54,996,696) |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **(88,983,814)** | **(81,748,872)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **146,014,960** | **(128,475,124)** |
| | | | |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **1,991,259,729** | **2,150,617,305** |
| Net cash flow from operating activities | | 248,950,952 | (70,379,846) |
| Net cash flow from investing activities | | (13,952,178) | 23,653,594 |
| Net cash flow from financing activities | | (88,983,814) | (81,748,872) |
| Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents | | 13,342,616 | 20,733,889 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **7.1** | **2,150,617,305** | **2,042,876,070** |
| | | | |
| **ADDITIONAL INFORMATION** | | | |
| Taxes paid | | (1,758,944) | 813,210 |
| Dividends received | 11.2 | 4,831,633 | 215,342 |
| Interest received | | 638,564,163 | 509,973,356 |
| Interest paid | | (364,527,630) | (254,776,283) |

The BIL group decided to classify operations relating to core shareholders' equity, treasury shares and other elements eligible as regulatory capital as financing activities.

Investing activities are limited to tangible and intangible fixed assets and to transactions on consolidated or non-consolidated available for sale shares.

The notes are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

# Note 1: Accounting principles and rules of the consolidated financial statements

## GENERAL INFORMATION

The parent company of the BIL group is Banque Internationale à Luxembourg, a Luxembourg public limited company (hereafter "BIL" or "the Bank"). Its registered office is situated at 69, route d'Esch, L-2953 Luxembourg.

The BIL group is integrated in the consolidated financial statements of Pioneer Holding SA, comprising the largest body of undertakings of which BIL forms part as a subsidiary. The registered office of Pioneer Holding SA is located in Luxembourg at 15, Boulevard Franklin Roosevelt – L-2450 Luxembourg. The BIL group is integrated in the consolidated financial statements of Precision Capital SA, comprising the smallest body of undertakings of which BIL forms part as a subsidiary. The registered office of Precision Capital SA is located in Luxembourg at 15, Boulevard Franklin Roosevelt – L-2450 Luxembourg and its consolidated accounts are available at the same address.

The object of BIL is to undertake all banking and financial operations, for its own account or for the account of third parties, in Luxembourg or abroad – including the establishment of subsidiaries, branches and representative offices – and to carry out all financial, industrial and commercial operations, as well as to take deposits of funds and to hold items of value on deposit. These financial statements were approved for publication by the Board of Directors on March 24, 2016, and signed by Hugues Delcourt, Chairman of the Management Board of the BIL group and Chief Executive Officer.

These annual accounts cover the period beginning January 1, 2015 and ending December 31, 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.
The common used abbreviations below are:
- IASB: International Accounting Standards Board;
- IFRIC: International Financial Reporting Interpretations Committee;
- IFRS: International Financial Reporting Standards.

## 1. ACCOUNTING POLICIES

### 1.1 Basis of accounting

#### 1.1.1 Statement of compliance

BIL's consolidated financial statements have therefore been prepared in accordance with all IFRSs as adopted by the EU and endorsed by the EC up to December 31, 2015.

The consolidated financial statements are prepared on a "going concern basis" and are presented in euro (EUR) unless otherwise stated.

#### 1.1.2 Accounting estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses information available at the date of preparation of the consolidated financial statements and exercises its judgment. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the consolidated financial statements.

Judgments are made principally in the following areas:
- Classification of financial instruments into the appropriate category ('loans and receivables', 'held to maturity', 'available for sale', 'held for trading' and 'fair value option') for measurement purposes based on the instrument's characteristics and BIL's intention (see 1.6);
- Financial instruments for which no quoted market prices on active markets are available are valued by means of valuation techniques. The determination as to whether or not there is an active market is based on criteria such as number of contributors, bid offer spread and issue size (see 1.7);
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques (see 1.7);
- Determination on whether BIL controls the investee, including special purpose entities (see 1.3);
- The appropriateness of designating derivatives as hedging instruments (see 1.12);
- Existence of a present obligation with probable outflows in the context of litigation (see 1.23); and
- Identification of impairment triggers (see 1.6.5).

These judgments are entered into the corresponding sections (as referenced above) of the accounting policies.
Estimates are principally made in the following areas:
- The measurement of hedge effectiveness in hedging relations (see 1.12);
- Determination of the market value correction to adjust for market value and model uncertainty (see 1.7);

- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets (see 1.14,1.15);
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.22, 8.6);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see 1.21); and
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see 1.17.2).

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

## 1.2 Changes in accounting policies since the previous annual publication that may impact BIL group

The overview of the texts below is made up to the reporting date of December 31, 2015.

### 1.2.1 IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2015

Annual Improvements to IFRSs 2011-2013 Cycle (issued on December 19, 2014 effective January 1, 2015): amendment to IFRS 3 "Business Combinations", amendment to IFRS 13 "Fair value measurement" and amendment to IAS 40 "Investment property". These amendments have no impact on BIL.

### 1.2.2 IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from January 1, 2015

There were no standard, interpretation or amendment endorsed by the European Commission and not yet applicable as from January 1, 2015.

### 1.2.3 New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on September 11, 2015 effective January 1, 2018). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. This standard could impact the Bank.

## 1.3 Consolidation

### 1.3.1 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by BIL, the liabilities incurred by BIL to former owners of the acquiree and the equity interests issued by BIL in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Non-controlling interests may be initially measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by-transaction basis. The equity and net income attributable to the non-controlling interests are shown separately in the balance sheet and statement of income respectively.

When the consideration transferred by BIL in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in the fair value of the contingent consideration are typically recognised in the consolidated statement of income.

When a business combination is achieved in stages, BIL's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date on which BIL obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

### 1.3.2 Subsidiaries

Subsidiaries are those entities over whose financial and operating policies BIL may, directly or indirectly, exercise control.

According to IFRS 10, an investor controls an investee if and only if the investor has all of the following elements:
- Power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- Exposure, or rights, to variable returns from its involvement with the investee;

- The ability to use its power over the investee to affect the amount of the investor's returns.

In practice, the Bank uses the board composition, the percentage of voting rights owned and the status of company in order to determine whether it controls an investee.

Subsidiaries are fully consolidated as of the date upon which effective control is transferred to BIL and are no longer consolidated as of the date upon which BIL's control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions among the BIL group's companies have been eliminated. Where necessary, the subsidiaries' accounting policies have been amended to ensure consistency with the policies BIL has adopted.

Changes in BIL's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

When BIL loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:
- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary as of the date on which control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, where applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 1.4 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset (and consequently, only the net amount is reported) when BIL has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 1.5 Foreign currency translation and transactions

### 1.5.1 Foreign currency translation

On consolidation, the statements of income and cash flow statements of foreign entities that have a functional currency different from BIL's presentation currency are translated into BIL's presentation currency (EUR) at the average exchange rates for the year and their assets and liabilities are translated at the respective year-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss upon disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

### 1.5.2 Foreign currency transactions

For individual BIL entities, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies are translated at year-end exchange rates for monetary items and non-monetary items carried at fair value.

Historical rates are used for non-monetary items carried at cost.

The resulting exchange differences from monetary items are recorded in the consolidated statement of income; except for the foreign exchange impact related to fair value adjustments on available-for-sale bonds, which is recorded under "Other comprehensive income". For non-monetary items carried at fair value, the exchange differences are governed by the same accounting treatment as for fair value adjustments.

## 1.6 Financial assets and liabilities

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments at initial recognition.

However, under certain conditions, financial assets could subsequently be reclassified.

**1.6.1 Recognition and derecognition of financial instruments**

BIL recognises and derecognises financial assets held for trading on trade date. For these financial assets, BIL recognises in the consolidated statement of income and on the trade date any unrealised gains or losses arising from revaluing the contract to fair value at the reporting date. BIL recognises these unrealized gains and losses under "Net income from financial instruments at fair value through profit or loss".

All other "regular way" purchases and sales of financial assets are recognised and derecognised on the settlement date, which is the date of delivery to or by BIL.

BIL recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument.

BIL derecognises financial liabilities only when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

**1.6.2 Loans and advances to credit institutions and to customers**

BIL classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables– L&R) except for:

- those that BIL intends to sell immediately or in the near term, which are classified as held for trading, and those that BIL, upon initial recognition, designates as being at fair value through profit or loss;
- those that BIL, upon initial recognition, designates as available-for-sale; or
- those for which BIL might not substantially recover all of its initial investment, other than because of credit deterioration, such L&R then being classified as available-for-sale.

BIL recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is calculated using the effective interest-rate method and recorded under "Net interest income".

The effective interest-rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

**1.6.3 Financial instruments measured at fair value through profit or loss**

1.6.3.1 Loans and securities held for trading

BIL reports loans held for trading purposes in the line "Financial assets held for trading" at their fair value, with unrealised gains and losses recorded in the statement of income under "Net trading income and net result of hedge accounting". Interest income is accrued using the effective interest rate method and is recorded under "Net interest income".

Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. BIL initially recognises trading securities at fair value and subsequently re-measures them at fair value. All realised and unrealised gains and losses are recorded under "Net income from financial instruments at fair value through profit or loss". Interest earned is recorded under "Interest income", and dividends received under "Dividend income".

1.6.3.2 Liabilities held for trading

Liabilities held for trading are subject to the same accounting rules as those for "loans and securities held for trading".

1.6.3.3 Loans and securities designated at fair value through profit or loss ("FVO")

In some cases, and if appropriately documented, BIL can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- an instrument contains a non-closely related embedded derivative:
  - that significantly modifies the cash flows that otherwise would be required by the contract; or
  - for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

1.6.3.4 Liabilities designated at fair value through profit or loss (FVO)

For subsequent measurement, these financial liabilities are subject to the same accounting principles as described earlier under the heading "Loans and securities held for trading".

1.6.3.5 Trading derivatives

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are foreign exchange and interest-rate derivatives. BIL, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate. All changes in fair value are recognised in the consolidated statement of income.

BIL reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.

BIL treats some derivatives embedded in other financial instruments as separate derivatives:

- when their risks and characteristics are not closely related to those of the host contract; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the consolidated statement of income.

**1.6.4 Financial investments**

1.6.4.1 Held-to-maturity

BIL classifies the interest-bearing financial assets with fixed maturity which are quoted on an active market as held-to-maturity (HTM) when management has both the intent and the ability to hold these assets until maturity.
BIL recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest-rate method and recorded under "Net interest income".

1.6.4.2 Available-for-sale

BIL classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest-rates, exchange rates or equity prices, as available-for-sale (AFS).

BIL recognises financial assets initially at fair value plus transaction costs. Interest is recognised based on the effective interest-rate method and recorded under "Net interest income". BIL recognises dividend income from equities under "Dividend income".

BIL subsequently measures AFS financial assets at fair value.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as AFS are recognised within equity, under the heading "Gains and losses not recognised in the consolidated statement of income". When securities are disposed of, or impaired, BIL recycles the related accumulated fair value adjustments in the consolidated statement of income as "Net income on investments".

**1.6.5 Impairments on financial assets**

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.

1.6.5.1 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 although those losses have not yet been identified.

TThe 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 reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
- national or local economic conditions that correlate with defaults on the assets in the group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

In addition, the Bank will also consider the levels of and trends in delinquencies for similar financial assets.

In order to adopt a prudent approach, the Bank consider all individual factor as a trigger event.

#### Accounting treatment of the impairment

BIL recognises changes in the amount of impairment losses in the consolidated statement of income and reports them as "Impairment on loans and provisions for credit commitments".

The impairment losses are reversed through the consolidated statement of income if the increase in fair value relates objectively to an event occurring after the impairment was recognised.

When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the consolidated statement of income under the heading "Impairment on loans and provisions for credit commitments" and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

#### 1.6.5.2 Available-for-sale financial assets

BIL recognises the impairment of available-for-sale (AFS) assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

#### Determination of the impairment

- Quoted equities – the potential need of impairment is analysed based on an impairment test which consists of identifying cases where the net carrying amount is higher than the net present value.
- Unquoted equities – the potential need of impairment on participations is reviewed based on a comparison between the purchase cost and the estimated fair value obtained through latest annual accounts available of the entity (for consolidated participations) and/or any other information that can help evaluating the participation such as latest securities exchanges, internal memorandum on valuation,... (for non-consolidated participations).
- Quoted/unquoted bonds – the potential need of impairment is analysed based on (i) the same impairment test described for the quoted equities above and, in some cases, (ii) an impairment test based on the evolution of the fair value referring to the credit spread.
- Private equity instruments - the potential need of impairment is analysed based on (i) the net asset value reported by the fund/company, and (ii) an utility value calculated by the Credit Risk department.

#### Accounting treatment of the impairment

When AFS financial assets are impaired, the AFS reserve is recycled and these impairment losses are reported in the consolidated statement of income as "Net income on investments". Additional decline in fair value is recorded under the same heading for equity securities.

When an impairment loss has been recognised on bonds, any subsequent decline in fair value is recognised under "Net income on investments", if there is objective evidence of impairment. In all other cases, changes in fair value are recognised in "Other comprehensive income".

Impairments on equity securities cannot be reversed in the statement of income unless the instrument is derecognised.

Please refer to point 3 "Credit Risk" of the BIL group Risk Management Report for further information on how credit risk is monitored by BIL.

#### 1.6.5.3 Off-balance sheet exposures

BIL usually converts off-balance sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance sheet items when they are called. However, there may be circumstances, such as uncertainty about the counterpart, where the off-balance sheet exposure should be regarded as impaired. BIL classifies loan commitments as impaired when the credit worthiness of the client has deteriorated to such an extent as to make the repayment of any loan and associated interest payments doubtful.

### 1.6.6 Borrowings

BIL recognises borrowings initially at fair value, generally at their issue proceeds, net of any transaction costs incurred.

Subsequently, borrowings are measured at amortised cost. BIL recognises any difference between their initial carrying amount and the reimbursement value in the consolidated statement of income over the period of the borrowings using the effective interest-rate method.

The distinction between interest-bearing instruments and equity instruments issued is based on the substance of their underlying contracts, rather than their legal form.

## 1.7 Fair value of financial instruments

**1.7.1 Valuation principles as per IFRS 13**

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 three fair value hierarchy levels. The following definitions used by the Bank for the hierarchy levels are in line with IFRS 13:

- 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.

Changes between levels may occur in case of (i) improvements in internal models and satisfactory back-testing results or (ii) changes in market characteristics.

Bilateral collateral arrangements, master netting agreements and other credit enhancement or risk mitigation tools reduce the credit exposure associated with a liability (or asset) and are considered in determining the fair value of the liability. Although these agreements reduce credit exposure, they typically do not eliminate the exposure completely.

**1.7.2 Valuation techniques used by the Bank**

The Bank's approach for the valuation of its financial instruments (financial instruments at fair value through profit or loss, assets available for sale and valuations for disclosures) can be summarised as follows:

### 1.7.2.1 Financials instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

A. 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 IFRS 13 fair value hierarchy, contrary to the use of quoted prices on inactive markets or the use of quoted spreads.

B. 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 be significantly used. The market data incorporated in the Bank's valuation models are either directly observable data (prices), indirectly observable data (spreads) or own assumptions about unobservable market data. Fair value measurements that rely significantly on own assumptions qualify for Level 3 disclosure.

The Bank integrates the notions of Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for derivatives. A CVA reflects the counterpart's risk of default and a DVA reflects the Bank's own credit risk.

When determining the CVA / DVA, the Bank considers the market of uncollateralised derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA / DVA calculation, the Probability of Default (PD) parameters are based on credit risk data. The Loss Given Default (LGD) parameters are based on credit risk data.

#### 1.7.2.2 Financial instruments measured at amortised cost (disclosures of the fair value)

Loans and Receivables, Held to Maturity financial investments and liabilities at amortised cost are valued based on the following valuation principles.

##### General principles

- the carrying amount of loans maturing within the next 12 months is assumed to reflect their fair value;
- for bonds classified in HTM and L&R since inception and for liabilities at amortised cost, the valuation is done as for bonds classified in AFS.

##### Interest rate part

- the fair value of fixed-rate loans or liabilities and mortgages reflects interest-rate movements since inception;
- embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities at amortised cost;
- the fair value of variable-rate loans or liabilities is assumed to be approximately the same as their carrying amounts.

##### Credit risk part

- credit spreads changes since inception are reflected in the fair value.

## 1.8 Interest and similar income and expense

Interest income and expense are recognised in the statement of income for all interest-bearing instruments on an accrual basis, using the effective interest-rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through profit or loss.

Discretionary interests on compound instruments issued are recognised in equity as those payments relate to the equity component.

Transaction costs are the incremental costs directly attributable to the acquisition of a financial asset or liability and are included in the calculation of the effective interest-rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

Accrued interest, positive or negative, is reported in the same line as the related financial asset or liability in the balance sheet.

Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the interest used to discount the future cash flows for measuring the recoverable amount.

## 1.9 Fee and commission income and expense

Commissions and fees arising from most of BIL's activities are recognised on an accrual basis over the life of the underlying transaction.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

For asset management operations, revenue consists principally of unit trust and mutual fund management and administration fees. Revenue from asset management is recognised as earned when the service is provided. Performance fees are recognised when all underlying conditions are met and thus acquired.

Loan commitment fees are recognised as part of the effective interest-rate if the loan is granted, and recorded as revenue on expiry, if no loan is granted.

## 1.10 Insurance and reinsurance activities

**1.10.1 Insurance**

BIL's main activity is banking products.

**1.10.2 Reinsurance**

BIL's reinsurance contracts with third parties containing enough insurance risk to be classified as an insurance contract continue to be accounted for in accordance with local GAAP.
A reinsurance asset is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- that the event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

To measure the solvency of a reinsurer, BIL refers to its attributed credit rating and the impairment rules.

## 1.11 Hedging derivatives

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation.

BIL designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective (within a range of 80 % to 125 %) in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis. BIL records changes in the fair value of derivatives that are designated, and qualify as fair value hedges in the statement of income, along with the corresponding change in fair value of the hedged assets or the liabilities that are attributable to that specific hedged risk.

If the hedge no longer meets the criteria for a fair value hedge, BIL amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument into the consolidated statement of income over the remaining life of the hedged instrument, if shorter by an adjustment of the yield of the hedged item.

BIL recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges in "Other comprehensive income" under the heading "Gains and losses not recognised in the statement of income" (see "Consolidated statement of changes in shareholders' equity"). Any non-effective portion of the changes in fair value of the hedging instrument is recognised in the statement of income. Amounts deferred in equity are transferred to the statement of income and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the statement of income.

## 1.12 Hedge of the interest-rate risk exposure of a portfolio

As explained in 1.1.1 "Statement of compliance", BIL makes use of the provisions of IAS 39 as adopted by the European Union ("IAS 39 carveout") because it better reflects the way in which BIL manages its financial instruments.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

BIL performs an overall analysis of interest-rate risk exposure.

This involves assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

BIL applies the same methodology to select which assets and / or liabilities will be entered into the portfolio's hedge of interest-rate risk exposure. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio, based on behavioural study to estimate expected maturity date. BIL may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale (AFS) assets or loan portfolios.

On the basis of this gap analysis, which is carried out on a net basis, BIL defines, at inception, the risk exposure to be hedged, the length of the time bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. BIL recognises the hedging items at fair value with adjustments accounted for in the consolidated statement of income.

BIL reports the revaluation of elements carried at amortised cost which are on the consolidated balance sheet under the line "Fair value revaluation of portfolios hedged against interest-rate risk".

## 1.13 Day one profit or loss

The day one profit or loss is applicable to all transactions measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price; in cases where the transaction is quoted; or

- the transaction price and the fair value determined by using a valuation technique, (mark-to-model) adjusted with some market value adjustments, such as a liquidity adjustment, model adjustment or credit adjustment, in cases where the transaction is not quoted.

If BIL considers the main parameters of the model as observable and if Risk Management validates the model, the day one profit or loss is recognised immediately in the consolidated statement of income.

If BIL does not consider the main parameters as observable or if Risk Management does not validate the model, the day one profit or loss is amortised linearly over the expected life of the transaction. However, if the data becomes observable subsequently, BIL recognises the remaining portion of day one profit or loss in the consolidated statement of income.

In cases of early termination, the remaining portion of day one profit or loss is recognised in the consolidated statement of income.

In cases of partial early termination, BIL recognises in the consolidated statement of income the part of the day one profit or loss relating to the partial early termination.

## 1.14 Tangible fixed assets

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to BIL and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

Typical useful lives are linked to asset categories as follows:
- Buildings (including acquisition costs and non-deductible taxes): 20 to 50 years;
- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individual varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:
- Structure of the building: 50 years;
- Roof, and frontage: 30 years;
- Technical installations: 10 to 20 years;
- Fixtures and fittings: 10 to 20 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset, they are capitalised. Other borrowing costs are recognised as an expense.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually, BIL determines the recoverable amount of the cash generating unit (CGU) or group of CGUs to which the asset belongs.

Investment properties are those properties held to earn rentals or appreciate in value. BIL may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property only if BIL holds an insignificant portion for its own use.

Investment properties are recorded at their cost less accumulated depreciation and impairments. Investment properties are depreciated over their useful lives on a straight-line basis.

Depreciation on buildings and other assets given in operating lease are booked under "Other net income".

Gains and losses on disposals of property and equipment and investment property are determined by reference to their carrying amount and are included under "Net income on investments".

## 1.15 Intangible assets

Intangible assets consist mainly of (a) internally-generated and (b) acquired softwares. Costs associated with maintaining computer softwares are recognised as expenses as incurred.

However, expenditure that enhances or extends the benefits of computer softwares beyond one year is capitalised. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period can be up to 10 years.

As borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset, they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount, and are included under "Net income on investments".

## 1.16 Non-current assets held for sale and discontinued operations

If the carrying amount of a non-current asset (or disposal group) is recovered principally through a sale transaction, rather than through continuing use, it will be classified as "held for sale" or as "discontinued operations", if the disposal group represents a segment of activities.

BIL measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount or its fair value less costs to sell. Non-current assets (or disposal groups) classified as held for sale are presented separately in the consolidated balance sheet, without restatement for previous years. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for the previous period is performed.

When a disposal group is classified as held for sale or discontinued operations, the related elements of its Other Comprehensive Income are isolated in a separate line of the equity. The carrying amount of a disposal group, being the difference of assets less liabilities and non-controlling interests, is composed of the group part of the equity. If this equity includes other comprehensive income (OCI) elements, this OCI part is recycled in the consolidated statement of income at the sale of the disposal group. It may therefore happens that the result of the sale of a disposal group is recorded in two different periods, mainly when the fair value less cost to sell is lower than the carrying amount and the carrying amount includes negative OCI, like AFS reserve of cumulative translation adjustments, that will be recorded in the following accounting period, when the disposal is realised.

The disposal group held for sale and discontinued operations consist mainly of financial assets, as the group is active in financial activities. If the disposal group's fair value less costs to sell is lower than its carrying amount after impairing the non-current assets that are in the IFRS 5 measurement scope, the difference is allocated to the other assets of the disposal group, including financial assets, and is accounted for in the consolidated statement of income for the period. The difference will be adjusted at each year-end until the sale.

If a non-current asset ceases to be classified as held for sale, due to a change in market conditions or to the impossibility of selling it because of a lack of counterparties or other reasons, it will be reclassified in its original portfolio and restated at the value at which it would have been recognised if it had never been classified as held for sale. In this case, the difference between the fair value less cost to sell and the value, if no reclassification had taken place, is reversed.

## 1.17 Goodwill

### 1.17.1 Measurement of goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

It is measured as the difference between:

- the sum of the following elements:
  - Consideration transferred,
  - Amount of any non-controlling interests in the acquiree, and
  - Fair value of the acquirer's previously held equity interest in the acquiree (if any) and is
- net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, this difference is negative ("negative goodwill"), it is recognised immediately in the consolidated statement of income as a bargain purchase gain.

Variations in the percentage of ownership in fully-consolidated companies are considered to be transactions with shareholders.

Therefore, neither fair value adjustments nor goodwill adjustments are made whenever percentage increases or decreases take place without any change in the consolidation method. The difference between the purchase or the sale of a net asset and the purchase or sale price is directly recorded in equity.

### 1.17.2 Impairment of goodwill

The carrying amount of goodwill is reviewed at each year-end. For the purpose of this impairment testing, BIL allocates goodwill to cash-generating units (CGUs) or groups of such units.

When circumstances or events indicate that there may be uncertainty about the carrying amount, goodwill is written down for impairment when the recoverable amount of the CGU or group of CGUs to which it has been allocated is lower than the carrying value.

The recoverable amount is the "fair value less cost to sell" or the "value in use" (whichever is higher). The "value in use" is the sum of the future cash flows expected to be derived from a CGU.

The calculation of the "value in use" shall also reflect the time value of money (current market risk-free rate of interest) adjusted for the price for bearing the uncertainty inherent in the asset. This is reflected in the discount rate.

For subsidiaries operating in economically mature and financially stable markets, the discount rate used is BIL's Cost of Equity defined under a dividend discount model. For subsidiaries operating on emerging markets, a specific discount rate is applied on a case-by-case basis.

## 1.18 Other assets

Other assets mainly include accrued incomes (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivable, etc.), and plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standards, less any allowance for impairment if applicable. Plan assets are recognised in accordance with IAS 19 requirements.

## 1.19 Leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

### 1.19.1 BIL is the lessee

BIL uses operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the consolidated statement of income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of the asset's ownership, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to BIL. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest-rate method.

**1.19.2 BIL is the lessor**
BIL grants both operating and finance leases.

Revenue from operating leases is recognised in the consolidated statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, BIL recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.

The interest-rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest-rate implicit in the lease.

## 1.20 Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised and remain in their original category. The corresponding liability is recorded under "Amounts due to credit institutions" or "Amounts due to customers", as appropriate. The asset is reported as "pledged" in the notes.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance sheet items and the corresponding loans recorded as "Loans and advances to credit institutions" or "Loans and advances to customers".

The difference between the sale and the repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest-rate method.

Securities lent to counterparties are not derecognised but, rather, recorded in the consolidated financial statements in the same heading. Securities borrowed are not recognised in the consolidated balance sheet.

If they are sold to third parties, the gain or loss is recorded under "Net trading income and net result of hedge accounting" and the obligation to return them is recorded at fair value under "Financial liabilities measured at fair value through profit or loss".

## 1.21 Deferred tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loans and other impairments and, in relation to acquisitions, from the difference between the fair value of the net assets acquired and their tax base.

The rates enacted or substantively enacted at the balance-sheet date are used to determine the deferred income tax.

Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences and tax losses can be utilised.

Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to the fair value re-measurement of available-for-sale financial assets and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

## 1.22 Employee benefits

**1.22.1 Short-term benefits**
Short-term benefits, payable within 12 months of the service being rendered, are measured on an undiscounted basis and recognised as an expense.

Expenses relating to bonus which is payable at a future date subject only to the requirement for continued employment for a further period (the 'loyalty' period) is recognised as the employees render the service that increases the amount to be paid. As the amount of the bonus does not increase after the earning period, BIL measures the obligation - for the full amount expected to be paid taking into consideration the expected forfeitures - in its entirety as from the end of the earning period.

**1.22.2 Post-employment benefits**

If BIL has a legal or constructive obligation to pay postemployment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". BIL offers a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held by insurance companies or pension funds. These pension plans are generally funded by payments from both BIL and its employees. In some cases, BIL provides post-retirement health care benefits to its retirees.

1.22.2.1 Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest-rates of AA-rated corporate bonds (Iboxx Corp AA), which have terms to maturity approximating the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions including both demographic assumptions and financial assumptions such as the inflation rate.

Pension costs are determined based on the projected units credit method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Net cumulative unrecognised actuarial gains and losses are recognised in other comprehensive income.

The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods) and reduced by the fair value of plan assets at the balance sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately, if those assets are held by an entity of the Group.

Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Qualified external actuaries carry out valuations of these obligations. All the valuations' assumptions and results are reviewed and validated by an external actuary for BIL, which ensures that all calculations are harmonised and calculated in compliance with IAS 19 Revised.

1.22.2.2 Defined contribution pension plans

BIL's contributions to defined contribution pension plans are charged to the statement of income for the year to which they relate. Under such plans, BIL's obligations are limited to the contributions that BIL agrees to pay into the insurance company on behalf of its employees.

1.22.2.3 Post-employment medical care

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period.

**1.22.3 Other long-term benefits**

These mainly include provisions for jubilee premiums that employees receive after completion of specified periods of service.

Unlike defined benefit plans, remeasurements relating to these benefits are immediately recognised. All past service costs are recognised immediately in the consolidated statement of income.

Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and longservice leave as a result of services rendered by employees up to the balance-sheet date.

**1.22.4 Termination benefits**

A termination benefit provision is only recorded when BIL is obliged to terminate the employment before the normal date of retirement or to provide benefits as a result of an offer made in order to encourage voluntary redundancy. In such cases, BIL has a detailed formal plan and no realistic possibility of withdrawal.

## 1.23 Provisions

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Provisions are recognised when:

- BIL has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterpart.

## 1.24 Share capital and treasury shares

**1.24.1 Share issue costs**
External incremental costs directly attributable to the issue of new equity securities, other than as part of a business combination, are deducted from equity, net of any related income tax.

**1.24.2 Dividends on BIL's ordinary shares**
BIL recognises its dividends on its ordinary shares as a liability from the date upon which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the "Proposed allocation of net income" note.

**1.24.3 Preferred shares**
BIL classifies preferred shares that are non-redeemable and upon which dividends are declared, at the directors' discretion, as equity.

**1.24.4 Treasury shares**
Where BIL or one of its subsidiaries purchase BIL's shares capital or is obliged to purchase a fixed number of treasury shares for a fixed amount of cash, the consideration paid - including any attributable transaction costs, net of income taxes - is shown as a deduction from total shareholders' equity. Gains and losses on sales of own equity securities are charged or credited to the treasury share account within equity.

## 1.25 Fiduciary activities

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these consolidated financial statements in cases where BIL acts in a fiduciary capacity such as nominee, trustee or agent.

## 1.26 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an initial maturity of 3 months from acquisition date, included within cash and balances with central banks, loans and advances to credit institutions and available for sale financial assets.

# Note 2: Material changes in scope of consolidation and list of subsidiaries and associates

## 2.1 Changes compared with 2014:

### A. Companies consolidated for the first time or no longer consolidated

**Companies fully consolidated for the first time**
Privagest SA (acquired on November 2, 2015)
Red Sky SA (incorporated December 22, 2015)

**Companies no longer fully consolidated**
N/A

**Companies accounted for by the equity method for the first time**
N/A

**Companies no longer accounted for by the equity method**
N/A

### B. Main changes in the Group's interest percentage

N/A

### C. Changes in corporate names
N/A

## 2.2 List of fully consolidated subsidiaries, non-consolidated subsidiaries and associates accounted for by the equity method

### A. Fully consolidated subsidiaries

| Name | Head office | % of capital held |
|---|---|---|
| Banque Internationale à Luxembourg (Suisse) SA | Beethovenstrasse 48<br>PO Box 2192<br>CH-8002 Zürich | 100 |
| Belair House SA | 2, boulevard Grande-Duchesse Charlotte<br>L-1330 Luxembourg | 100 |
| BIL Asia Singapore Ltd | 9 Raffles Place #29-01<br>Republic Plaza<br>Singapore 048619 | 100 |
| BIL Auto Lease Luxembourg SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| BIL Manage Invest SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| BIL Reinsurance SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| Experta Corporate and Trust Services SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| Experta Immobilien A.G. (in liquidation) | c/o Banque Internationale à Luxembourg (Suisse) SA<br>Steinengraben 22<br>P.O. Box 2652<br>CH-4002 Basel | 100 |
| I.B. Finance SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| Privagest SA (in liquidation as from February, 2016) | Rue Jean-Petitot 5<br>CH-1204 Genève | 100 |
| Red Sky SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| Selskabet af 18 December 2013 A/S | Gronningen 17<br>DK-1270 Copenhagen | 100 |
| Société du 25 juillet 2013 SA (in liquidation) | 54-56 avenue Hoche<br>Building Regus<br>F-75008 Paris | 100 |
| Société Luxembourgeoise de Leasing - BIL-LEASE SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |

## B. Non-consolidated subsidiaries

| Name | Head office | % of capital held | Reason for exclusion |
|---|---|---|---|
| Audit-Trust SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 | insignificant |
| BIL Trust Ltd | Canada Court 14<br>PO Box 48<br>St Peter Port<br>Guernsey GY1 3BQ, Channel Islands | 100 | insignificant |
| Compagnie Financière BIL SA & Cie S.e.c.s. | 69, route d'Esch<br>L-2953 Luxembourg | 100 | in liquidation |
| Koffour SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 | insignificant |
| Lannage SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 | insignificant |
| Private II Wealth Management SARL | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 | insignificant |
| Valon SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 | insignificant |

## C. Associates accounted for by the equity method

| Name | Head office | % of capital held |
|---|---|---|
| Europay Luxembourg S.C. | 10, rue Gabriel Lippmann<br>L-5365 Munsbach | 35.20 |
| Société de la Bourse de Luxembourg SA | 35A, boulevard Joseph II<br>L-1840 Luxembourg | 21.41 |

# Note 3: Business and geographic reporting

A segment is a distinguishable component of BIL that is engaged either in providing specific products or services (business segment) or in providing specific products or services within a particular economic environment (geographic segment), which is subject to risks and returns that differ from those of other segments. Segments for which a majority of their revenue is earned from sales to external customers and for which income, income before tax or assets represent 10% or more of the total are reported separately.

In 2015, the segmentation is as follows:

- "Retail Banking, Corporate & Investment Banking and Wealth Management".
- "Treasury and Financial Markets" split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets.

| **INCOME**<br>(in EUR thousands) | 31/12/14 | | | |
|---|---|---|---|---|
| | Income | *of which net income from associates* | *of which interest income and dividend income* | Net income before tax |
| Retail, Corporate and Wealth Management | 443,155 | *0* | *256,492* | 126,739 |
| Treasury and Financial Markets | 69,040 | *0* | *6,136* | 35,210 |
| Group Center | 17,088 | *3,113* | *8,876* | 1,936 |
| **TOTAL** | **529,283** | ***3,113*** | ***271,504*** | **136,885** |
| Net income before tax | | | | 163,885 |
| Tax expenses | | | | (41,765) |
| **NET INCOME** | | | | **122,120** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Income | *of which net income from associates* | *of which interest income and dividend income* | Net income before tax |
| Retail, Corporate and Wealth Management | 453,832 | *0* | *259,264* | 115,529 |
| Treasury and Financial Markets | 38,843 | *0* | *20,159* | 3,333 |
| Group Center | 66,028 | *2,596* | *5,779* | 47,438 |
| **TOTAL** | **558,703** | ***2,596*** | ***285,202*** | **166,300** |
| Net income before tax | | | | 166,300 |
| Tax expenses | | | | (32,031) |
| **NET INCOME** | | | | **134,269** |

| **ASSETS AND LIABILITIES**<br>(in EUR thousands) | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Retail, Corporate and Wealth Management | 10,838,506 | 14,677,532 | 11,371,807 | 16,175,975 |
| Treasury and Financial Markets | 8,587,903 | 3,511,644 | 9,316,009 | 3,202,989 |
| Group Center | 859,286 | 866,592 | 786,055 | 877,283 |
| **TOTAL** | **20,285,695** | **19,055,768** | **21,473,871** | **20,256,247** |

## OTHER SEGMENT INFORMATION
(in EUR thousands)

| 31/12/14 | Capital expenditures | Depreciation and amortisation | Impairments[1] Allowances | Impairments[1] Write-backs | Other non-cash expenses[2] |
|---|---|---|---|---|---|
| Retail, Corporate and Wealth Management | 0 | 0 | (52,134) | 31,804 | (3,857) |
| Treasury and Financial Markets | 0 | 0 | (199) | 143 | 0 |
| Group Center | 13,299 | (27,234) | (6,630) | 156 | (15,286) |
| **TOTAL** | **13,299** | **(27,234)** | **(58,963)** | **32,103** | **(19,143)** |

| 31/12/15 | Capital expenditures | Depreciation and amortisation | Impairments[1] Allowances | Impairments[1] Write-backs | Other non-cash expenses[2] |
|---|---|---|---|---|---|
| Retail, Corporate and Wealth Management | 0 | 0 | (52,129) | 32,549 | (7,451) |
| Treasury and Financial Markets | 0 | 0 | (394) | 2,259 | 0 |
| Group Center | 10,742 | (24,628) | (2,693) | 3,711 | (22,102) |
| **TOTAL** | **10,742** | **(24,628)** | **(55,216)** | **38,519** | **(29,553)** |

Relations between product lines, in particular commercial product lines, financial markets and production and service centers are subject to retrocessions and/or analytical transfers, carried out according to market conditions. The results of each product line also include:

- earnings from commercial transformation, including the management costs of this transformation;
- cost of financing.

Tangible and intangible fixed assets are allocated to the "Group Center" segment, except when they are directly managed by a commercial or financial product line.

## GEOGRAPHIC BREAKDOWN
(in EUR thousands)

| | Bahrain | Belgium | Danmark | France | Luxembourg | Singapore | Switzerland | United Arab Emirates | Total |
|---|---|---|---|---|---|---|---|---|---|
| Staff (in average FTE) | 0 | 10 | 31 | 0 | 1,786 | 20 | 73 | 9 | 1,929 |
| Subsidies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income | 2,055 | 1,855 | 6,368 | 13 | 493,475 | 6,955 | 18,263 | 299 | 529,283 |
| Net income before tax | 1,362 | (6,191) | 532 | (224) | 168,247 | 1,970 | 4 | (1,815) | 163,885 |
| Tax expenses | 0 | 0 | 0 | 0 | (42,473) | 638 | 70 | 0 | (41,765) |
| **NET INCOME AS AT 31/12/14** | **1,362** | **(6,191)** | **532** | **(244)** | **125,774** | **2,608** | **74** | **(1,815)** | **122,120** |
| Staff (in average FTE) | 0 | 0 | 35 | 0 | 1,840 | 3 | 157 | 15 | 2,050 |
| Subsidies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income | 0 | 2,323 | 8,083 | (113) | 526,207 | 904 | 19,880 | 1,419 | 558,703 |
| Net income before tax | 0 | 1,490 | 726 | (124) | 193,253 | (7,165) | (18,784) | (3,096) | 166,300 |
| Tax expenses | 0 | 0 | 0 | 0 | (32,139) | 0 | 108 | 0 | (32,031) |
| **NET INCOME AS AT 31/12/15** | **0** | **1,490** | **726** | **(124)** | **161,114** | **(7,165)** | **(18,676)** | **(3,096)** | **134,269** |

The geographic zone is determined by the country of the company concluding the transaction and not by the country of the transaction's counterpart.

[1] Include impairments on tangible and other intangible assets, impairments on securities, impairments on loans and provisions for credit commitments and impairments on goodwill with a breakdown between allowances and write-backs.

[2] Include IFRS2 costs, net allowances to provisions for restructuring costs, net allowances to provisions related to IAS 19 and capital losses on exchange of assets.

**BIL**

"BIL has been serving retail and business customers since 1856. A bank of systemic importance, it is a key player in the Luxembourg market.

Recognised as a cornerstone of the Luxembourg financial centre, BIL plays an active role in developing the local economy. Through its retail banking (with a network of 40 branches), private banking, corporate banking and financial markets activities, the Bank boasts one of the best credit ratings in Luxembourg's banking sector (A-) and is among the country's top three banks.

The European Central Bank has confirmed BIL's systemic importance, currently owned by Precision Capital SA – a Luxembourg public limited company regulated by the CSSF (Luxembourg's financial regulator) – and the Grand Duchy of Luxembourg.

**BIL (Suisse)**

"BIL (Suisse), a wholly-owned subsidiary of the BIL group, has been a leading wealth manager for more than 25 years. Specialised in financial analysis and management, it is active in Switzerland's three main financial centres, Zurich, Geneva and Lugano, and offers a full range of private banking services.

The company is a wealth management leader in Switzerland and supports its customers in structuring, protecting and growing their assets. Flexible and efficient, BIL (Suisse) offers personalised services including asset management and investment advice. Similarly, it undertakes to find innovative and transparent solutions tailored to specific requirements, while simultaneously protecting its customers.

BIL (Suisse) is also a partner of choice for Independent Financial Advisers (IFA) providing a robust and independent set of services that supports the work they conduct with their clients."

**BIL Denmark**

BIL Denmark is a private banking centre specialised in wealth management and asset management services. The Scandinavian community of entrepreneurs and senior executives is a key market for the Bank.

**BIL Dubai**

In the Middle East, BIL Dubai focuses in particular on regional very high net worth customers, both with respect to their family and their business activities.

# Note 4: Material items in the consolidated statement of income

These items are included in point 1 of the consolidated management report.

# Note 5: Post-balance sheet events

The were no other occurrences of significant post-balance sheet events likely to have a major impact on the financial statements of BIL other than those referred to in the consolidated management report.

# Note 6: Litigation

## 6.1 Banque Internationale à Luxembourg SA and Banque Internationale à Luxembourg (Suisse) SA

Following the bankruptcy of Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and certain investment funds linked to B. Madoff instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff. In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse.

Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 68 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

At this time, Banque Internationale à Luxembourg SA is not able to express a reasonable opinion on the duration or outcome of actions sub judice or on any potential financial impact.

As at December 31, 2014 and 2015, no provision for clawback actions had been made.

Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

## 6.2 Banque Internationale à Luxembourg Bank Danmark A/S

A Danish bank, EBH BANK, went bankrupt in the turbulent conditions of the 2008 crisis, and people connected with this bank were charged with fraud and market manipulation as part of transactions involving EBH BANK shares and those of other listed companies.

As part of this case, complaints were lodged with the police by the Danish regulator against Banque Internationale à Luxembourg Bank Danmark A/S ("BIL DK") and one of its traders for aiding EBH BANK in allegedly manipulating the market. This trader and, subsequently, BIL DK, were investigated for this alleged aid. The police investigation is still in progress and is likely to result in BIL DK and former its trader being charged.

BIL DK denies any involvement or responsibility in connection with the actions targeted by the investigation. Effective on December 18, 2013, BIL DK transferred its assets and obligations to a newly created branch of BIL in Denmark. BIL DK will however continue to exist until the foregoing investigation is closed or otherwise terminated; BIL DK has been renamed Selskabet af 18 December 2013 A/S.

The Bank is not involved in any other material litigation, where adequate provisions have not been funded, that readers may need to consider in evaluating the risks related to possible credit risks or current or potential litigation.

# Note 7: Notes on the assets of the consolidated balance sheet (in EUR)

## 7.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents may be broken down as follows (balances with initial maturity less than 90 days):

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Cash and balances with central banks | 1,189,678,087 | 1,340,193,518 |
| Loans and advances to credit institutions | 496,405,425 | 668,564,063 |
| Financial assets available for sale | 464,533,795 | 34,118,489 |
| **TOTAL** | **2,150,617,307** | **2,042,876,070** |

| B. OF WHICH RESTRICTED CASH | 31/12/14 | 31/12/15 |
|---|---|---|
| Mandatory reserves[1] | 103,710,035 | 392,149,430 |
| **TOTAL RESTRICTED CASH** | **103,710,035** | **392,149,430** |

Cash collateral is primarily paid or received based on the market value of collateralised derivatives.

The collateralised derivatives used by BIL are interest rate derivatives that hedge fixed rate assets. Should interest rate fall, the fair value of the assets increases and the value of the hedging derivatives decreases. This decrease generates a cash collateral payment. Against the backdrop of a general decline in interest rates years, cash collateral remains at a high level and can no longer be considered as a cash equivalent that fluctuates in the short term. It has therefore been excluded from cash equivalents. Financial assets designated at fair value and financial assets held for trading have also been excluded.

## 7.2 Cash and balances with central banks

| ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Cash in hand | 44,352,198 | 51,203,952 |
| Balances with central banks other than mandatory reserve deposits | 1,041,615,854 | 896,840,136 |
| Mandatory reserve deposits | 103,715,247 | 392,153,988 |
| **TOTAL** | **1,189,683,299** | **1,340,198,076** |
| *of which included in cash and cash equivalents* | *1,189,678,087* | *1,340,193,518* |

## 7.3 Loans and advances to credit institutions

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Nostro accounts | 156,615,266 | 83,884,431 |
| Cash collateral | 428,440,900 | 240,518,813 |
| Loans and other advances | 574,825,803 | 670,051,417 |
| Less: | | |
| Collective impairment | (9,066) | 0 |
| **TOTAL** | **1,159,872,903** | **994,454,661** |
| *of which included in cash and cash equivalents* | *496,405,425* | *668,564,063* |

### B. QUALITATIVE ANALYSIS
see Note 7.13

### C. ANALYSIS BY MATURITY AND INTEREST RATE
see Notes 12.4, 12.5 and 12.6

### D. ANALYSIS OF THE FAIR VALUE
see Note 12.1

[1] Mandatory reserves: minimum reserves deposited by credit institutions with Central Bank of Luxembourg or other central banks.

## 7.4 Loans and advances to customers

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 120,940,169 | 109,066,887 |
| Other (primarily fixed advances and property loans) | 10,685,815,200 | 11,221,339,100 |
| Impaired loans | 314,282,159 | 344,826,327 |
| Less: | | |
| Specific impairment of impaired loans and debt instruments | (256,012,021) | (274,844,153) |
| Collective impairment | (26,519,394) | (28,581,468) |
| **TOTAL** | **10,838,506,113** | **11,371,806,693** |

| B. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| On demand and short notice | 1,543,098,997 | 1,808,287,259 |
| Finance leases | 174,068,778 | 173,434,723 |
| Debt instruments | 0 | 20,198,496 |
| Other term loans | 9,121,133,098 | 9,369,604,734 |
| *of which mortgage loans (real estate collateralised loans)* | *6,700,627,109* | *7,050,436,244* |
| Advances that are not loans | 205,240 | 281,481 |
| **TOTAL** | **10,838,506,113** | **11,371,806,693** |

### C. QUALITATIVE ANALYSIS
see Note 7.13

### D. ANALYSIS BY MATURITY AND INTEREST RATE
see Notes 12.4, 12.5 and 12.6

### E. ANALYSIS OF THE FAIR VALUE
see Note 12.1

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

## 7.5 Financial assets measured at fair value through profit or loss

### Financial assets held for trading

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 9,132,539 | 8,911,621 |
| Credit institutions | 41,097,583 | 38,779,912 |
| Other | 31,911,427 | 40,547,643 |
| **TOTAL** | **82,141,549** | **88,239,176** |

| B. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Bonds issued by public bodies | 9,132,539 | 8,911,621 |
| Other bonds and fixed-income instruments | 72,962,458 | 79,228,352 |
| Equities and other variable-income instruments | 46,552 | 99,203 |
| **TOTAL** | **82,141,549** | **88,239,176** |

#### C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

#### D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

### Financial assets designated at fair value through profit or loss (fair value option)

As at December 31, 2014 and 2015, the Bank does not hold any financial assets designated at fair value through profit or loss (fair value option).

## 7.6 Financial investments

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 3,990,393,889 | 4,403,439,327 |
| Credit institutions | 1,201,285,390 | 1,399,897,306 |
| Other | 635,957,802 | 839,804,421 |
| Impaired financial investments | 24,851,329 | 23,484,364 |
| **TOTAL BEFORE IMPAIRMENT** | **5,852,488,410** | **6,666,625,418** |
| Specific and collective impairment on financial investments | (20,927,126) | (20,153,683) |
| **TOTAL** | **5,831,561,284** | **6,646,471,735** |
| *of which included in cash and cash equivalents* | *464,533,795* | *34,118,489* |

#### B. QUALITATIVE ANALYSIS

see Note 7.13

#### C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

| D. ANALYSIS BY NATURE | Available for sale financial assets | | Held to maturity financial assets | |
|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Bonds issued by public bodies | 3,847,460,735 | 4,300,539,705 | 142,933,153 | 102,899,622 |
| Other bonds and fixed-income instruments | 1,705,998,391 | 2,171,814,159 | 20,877,384 | 20,838,911 |
| Equities and other variable-income instruments [1] | 135,218,747 | 70,533,021 | n.a. | n.a. |
| **TOTAL BEFORE IMPAIRMENT** | **5,688,677,873** | **6,542,886,885** | **163,810,537** | **123,738,533** |
| Specific and collective impairment on financial investments | (20,927,126) | (20,153,683) | 0 | 0 |
| **TOTAL** | **5,667,750,747** | **6,522,733,202** | **163,810,537** | **123,738,533** |

## 7.7 Investments in associates

| A. CARRYING VALUE | 2014 | 2015 |
|---|---|---|
| **CARRYING VALUE AS AT JANUARY 1** | 19,320,010 | 22,660,198 |
| - Share of result before tax | 4,297,485 | 3,745,482 |
| - Share of tax | (1,184,968) | (1,149,626) |
| - Dividend paid | (1,002,222) | (1,390,280) |
| - Gains and losses not recognised in the statement of income | 1,229,893 | 1,517,300 |
| **CARRYING VALUE AS AT DECEMBER 31** | **22,660,198** | **22,348,474** |

**B. LIST OF MAIN ASSOCIATES as at 31/12/15**

| | Acquisition cost | Equity method valuation | Reference to website |
|---|---|---|---|
| Europay Luxembourg S.C. | 260,823 | 463,762 | |
| Société de la Bourse de Luxembourg SA | 319,806 | 21,884,712 | https://www.bourse.lu/ |
| **TOTAL** | **580,629** | **22,348,474** | |

**Financial statements of Europay Luxembourg S.C.**

| (in EUR) | 31/12/14 | 31/12/15 |
|---|---|---|
| Assets | 9,321,479 | 12,677,464 |
| Liabilities | 7,425,176 | 11,201,487 |
| Shareholders' equity | 1,896,303 | 1,475,977 |
| Revenue | 7,074,462 | 6,605,371 |
| Other comprehensive income | 109,288 | 0 |
| Net income | 61,587 | 90,490 |
| Total comprehensive income | 170,875 | 90,490 |

2014 audited figures.

2015 figures have been estimated based on Lux GAAP financial statements.

**Financial statements of Société de la Bourse de Luxembourg SA**

| (in EUR) | 31/12/14 | 31/12/15 |
|---|---|---|
| Assets | 203,693,783 | 198,406,400 |
| Liabilities | 103,480,126 | 100,011,586 |
| Shareholders' equity | 100,213,657 | 98,394,814 |
| Revenue | 42,665,320 | 44,980,736 |
| Other comprehensive income | 5,744,667 | (7,087,107) |
| Net income | 13,407,090 | 13,007,221 |
| Total comprehensive income | 19,151,757 | 5,920,114 |

2015 figures are unaudited.

[1] The amount of variable-income securities recorded at cost amounted to EUR 18.3 million as at December 31, 2015 (EUR 1.9 million as at December 31, 2014).

## 7.8 Tangible fixed assets

| A. NET CARRYING VALUE | Land and buildings | Office furniture and other equipment | | Investment property | Total |
|---|---|---|---|---|---|
| | Own use owner | Own use owner | Operating lease | | |
| **ACQUISITION COST AS AT 01/01/14** | **305,419,217** | **123,266,968** | **7,540,464** | **221,795,942** | **658,022,591** |
| - Acquisitions | 7,106,062 | 5,923,269 | 0 | 269,586 | 13,298,917 |
| - Disposals | (1,119,457) | (229,983) | (6,470,328) | (3,916,415) | (11,736,183) |
| - Transfers and cancellations | (504,155) | (116,575) | 0 | (5,390) | (626,120) |
| - Translation adjustments | 21,764 | 230,311 | 0 | 0 | 252,075 |
| - Other | 0 | 0 | 0 | 0 | 0 |
| **ACQUISITION COST AS AT 31/12/14 (A)** | **310,923,431** | **129,073,990** | **1,070,136** | **218,143,723** | **659,211,280** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/14** | **(207,693,297)** | **(113,632,163)** | **(4,639,730)** | **(68,017,112)** | **(393,982,302)** |
| - Booked | (8,525,334) | (2,219,324) | (753,442) | (11,790,248) | (23,288,348) |
| - Write-off | 802,655 | 137,651 | 4,801,893 | 0 | 5,742,199 |
| - Transfers and cancellations | 487,691 | 150,175 | 0 | 0 | 637,866 |
| - Translation adjustments | (3,109) | (210,002) | 0 | 0 | (213,111) |
| - Other | 0 | 16,999 | 0 | 0 | 16,999 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/14 (B)** | **(214,931,394)** | **(115,756,664)** | **(591,279)** | **(79,807,360)** | **(411,086,697)** |
| **NET CARRYING VALUE AS AT 31/12/14 (A)+(B)** | **95,992,037** | **13,317,326** | **478,857** | **138,336,363** | **248,124,583** |

| | Land and buildings | Office furniture and other equipment | | Investment property | Total |
|---|---|---|---|---|---|
| | Own use owner | Own use owner | Operating lease | | |
| **ACQUISITION COST AS AT 01/01/15** | **310,923,431** | **129,073,990** | **1,070,136** | **218,143,723** | **659,211,280** |
| - Acquisitions | 6,224,708 | 4,311,324 | 0 | 205,704 | 10,741,736 |
| - Disposals | 0 | (522,838) | 0 | 0 | (522,838) |
| - Transfers and cancellations | (1,935,350) | 0 | (1,070,136) | (1,754,747) | (4,760,233) |
| - Translation adjustments | 29,893 | 2,000,196 | 0 | 0 | 2,030,089 |
| - Other [1] | (8,728,396) | 9,949,233 | 0 | (84,064,852) | (82,844,015) |
| **ACQUISITION COST AS AT 31/12/15 (A)** | **306,514,286** | **144,811,905** | **0** | **132,529,828** | **583,856,019** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/15** | **(214,931,394)** | **(115,756,664)** | **(591,279)** | **(79,807,360)** | **(411,086,697)** |
| - Booked | (7,570,133) | (3,610,338) | (478,857) | (12,187,543) | (23,846,871) |
| - Write-off | 0 | 451,364 | 0 | 0 | 451,364 |
| - Transfers and cancellations | 1,901,136 | (603) | 1,070,136 | 893,199 | 3,863,868 |
| - Translation adjustments | (6,021) | (1,852,336) | 0 | 0 | (1,858,357) |
| - Other [1] | 3,600,095 | (9,102,599) | 0 | 90,737,161 | 85,234,657 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/15 (B)** | **(217,006,317)** | **(129,817,176)** | **0** | **(364,543)** | **(347,242,036)** |
| **NET CARRYING VALUE AS AT 31/12/15 (A)+(B)** | **89,507,969** | **14,940,729** | **0** | **132,165,285** | **236,613,983** |

| B. FAIR VALUE OF INVESTMENT PROPERTIES | 31/12/14 | 31/12/15 |
|---|---|---|
| Fair value subject to an independent valuation | 128,550,000 | 131,000,000 |

The Esch Belval property was revalued in December 2015 by an independent valuator, CBRE Luxembourg.

[1] 2015 movements relate to the contribution in kind of Esch Belval into Red Sky SA.

## 7.9 Intangible fixed assets and goodwill

| | Positive goodwill [1] | Internally-developed software | Other intangible fixed assets [2] | Total |
|---|---|---|---|---|
| **ACQUISITION COST AS AT 01/01/14** | **42,383,450** | **119,566,537** | **17,807,941** | **179,757,928** |
| - Acquisitions | 0 | 13,765,410 | 963,905 | 14,729,315 |
| - Disposals | 0 | (633,617) | (4,065,427) | (4,699,044) |
| - Transfers and cancellations | 0 | 26,494 | (26,494) | 0 |
| - Translation adjustments | 0 | 9,778 | 29,060 | 38,838 |
| **ACQUISITION COST AS AT 31/12/14 (A)** | **42,383,450** | **132,734,602** | **14,708,985** | **189,827,037** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/13** | **(11,734,189)** | **(84,981,131)** | **(14,948,017)** | **(111,663,337)** |
| - Booked | 0 | (15,434,275) | (1,052,734) | (16,487,009) |
| - Transfers and cancellations | 0 | 633,617 | 4,065,427 | 4,699,044 |
| - Translation adjustments | 0 | (9,778) | (27,699) | (37,477) |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/14 (B)** | **(11,734,189)** | **(99,791,567)** | **(11,963,023)** | **(123,488,779)** |
| **NET CARRYING VALUE AS AT 31/12/14 (A)+(B)** | **30,649,261** | **32,943,035** | **2,745,962** | **66,338,258** |

| | Positive goodwill [1] | Internally-developed software | Other intangible fixed assets [2] | Total |
|---|---|---|---|---|
| **ACQUISITION COST AS AT 01/01/15** | **42,383,450** | **132,734,602** | **14,708,985** | **189,827,037** |
| - Acquisitions | 20,200,909 | 12,604,294 | 10,082,676 | 42,887,879 |
| - Disposals | 0 | 0 | (12,732) | (12,732) |
| - Transfers and cancellations | 0 | (11,597,570) | (15,541) | (11,613,111) |
| - Translation adjustments | (407,270) | 0 | 504,615 | 97,345 |
| - Other | 0 | 0 | 4,238,273 | 4,238,273 |
| **ACQUISITION COST AS AT 31/12/15 (A)** | **62,177,089** | **133,741,326** | **29,506,276** | **225,424,691** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/14** | **(11,734,189)** | **(99,791,567)** | **(11,963,023)** | **(123,488,779)** |
| - Booked | 0 | (11,870,427) | (1,576,757) | (13,447,184) |
| - Transfers and cancellations | 0 | 11,546,049 | (371,378) | 11,174,671 |
| - Translation adjustments | 0 | 0 | (563,351) | (563,351) |
| - Other | 0 | 0 | (4,019,431) | (4,019,431) |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/15 (B)** | **(11,734,189)** | **(100,115,945)** | **(18,493,940)** | **(130,344,074)** |
| **NET CARRYING VALUE AS AT 31/12/15 (A)+(B)** | **50,442,900** | **33,625,381** | **11,012,336** | **95,080,617** |

## 7.10 Tax assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Current taxes assets | 7,891 | 264,475 |
| Deferred tax assets (see Note 9.2) | 304,411,259 | 282,653,664 |
| **TOTAL** | **304,419,150** | **282,918,139** |

[1] Origin of goodwill:
- EUR 30.7 million goodwill from the acquisition of Bikuben Girobank International SA Luxembourg in 2001.
- Fully depreciated EUR 6.3 million goodwill from the acquisition of Petersen-Hinrichsen Holding Danmark at the end of year 2000.
- EUR 19.8 million goodwill from the acquisition of KBL (Switzerland) in 2015.

The impairment test has been performed on the relating cash generating unit based on the discounted cash flow methodology with indefinite lifetime assumption. Cash flows are assumed to be stable. They have been computed as revenue of the generating unit less direct and indirect cost, and after taxes. No further impairment is required as at the end of 2014 (goodwill valuation of EUR 66 million). Sensisivity test : +1% increase of the discount rate generates EUR -6.8 million goodwill value whereas -1% decrease of this rate generates EUR +9.0 million goodwill value.

[2] Other intangible fixed assets include, inter alia, softwares purchased.

## 7.11 Other assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Other assets* | 101,772,755 | 98,607,251 |
| Other assets specific to insurance activities | 1,678,891 | 107,304 |
| **TOTAL** | **103,451,646** | **98,714,555** |

| *ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Receivables | 3,232,927 | 3,834,854 |
| Prepaid fees | 697,490 | 1,089,253 |
| Other receivables | 35,218,970 | 66,217,091 |
| Pension plan assets | 1,776,001 | 5,449,000 |
| Operating taxes | 9,284,739 | 11,163,449 |
| Other assets [1] | 51,562,628 | 10,853,604 |
| **TOTAL** | **101,772,755** | **98,607,251** |

## 7.12 Leasing

### 1. BIL as lessor

### A. FINANCE LEASE

| Gross investment in finance lease: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 70,614,593 | 76,919,681 |
| More than 1 year and less than 5 years | 238,383,813 | 228,651,758 |
| **SUBTOTAL (A)** | **308,998,406** | **305,571,439** |
| **UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASE (B)** | **(135,254,174)** | **(132,301,669)** |
| **NET INVESTMENT IN FINANCE LEASE (A)-(B)** | **173,744,232** | **173,269,770** |

| Net investment in finance lease may be analysed as follows: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 27,851,336 | 33,268,310 |
| More than 1 year and less than 5 years | 145,892,896 | 140,001,460 |
| **TOTAL** | **173,744,232** | **173,269,770** |

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Amount of doubtful debts on finance lease included in the loan loss provision at the end of the financial year | 3,826,532 | 4,037,305 |
| Estimated fair value of finance lease | 173,744,232 | 173,269,770 |
| Accumulated provision for irrecoverable minimum lease payments | 2,855,568 | 3,105,568 |

**Overview of the significant provisions of leasing contracts (see IFRS 7)**

The assets managed by BIL Lease SA and BIL Auto Lease Luxembourg SA may be broken down as follows:

- 69.1% of the assets is composed of vehicles, mainly passenger cars but also commercial vehicles.
- 10.5% is composed of IT equipment.
- 20.1% is composed of industrial equipment: machinery, medical equipment, etc.
- 0.3% of the assets is composed primarily of office furniture.

[1] Transactions linked to current business awaiting settlement.

## B. OPERATING LEASE

BIL is the operating lessor of certain land and buildings. Relating information is detailed in Note 7.8.

| Future net minimum lease payments under operating lease: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 6,638,000 | 6,638,000 |
| More than 1 year and less than 5 years | 6,638,000 | 0 |
| TOTAL | 13,276,000 | 6,638,000 |

No contingent rents were recognised in 2014 and 2015.

### 2. BIL as lessee

## A. FINANCE LEASE

BIL is the financial lessee of certain land and buildings. Relating information is detailed in Note 7.8.

Given that the total amounts are not material, additional information has not been provided in this note.

## B. OPERATING LEASE

| Future net minimum lease payments under non-cancellable operating lease: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 5,743,089 | 8,401,386 |
| More than 1 year and less than 5 years | 5,303,689 | 10,624,904 |
| More than 5 years | 707,936 | 8,507,986 |
| TOTAL | 11,754,714 | 27,534,276 |

| | | |
|---|---|---|
| Lease and sublease payments recognised as an expense during the financial year:<br>- minimum lease payments | 4,583,960 | 6,334,167 |
| TOTAL | 4,583,960 | 6,334,167 |

## 7.13 Quality of financial assets

| Analysis of normal loans and securities | Gross amount (A) | |
|---|---|---|
| | 31/12/14 | 31/12/15 |
| Normal loans and advances to credit institutions | 1,159,881,969 | 994,454,661 |
| Normal loans to customers | 10,806,755,370 | 11,330,405,987 |
| Normal financial investments held to maturity | 163,810,537 | 123,738,533 |
| Normal financial investments available for sale | 5,663,826,544 | 6,519,402,521 |
| *of which bonds and fixed-income instruments* | *5,553,459,126* | *6,472,353,864* |
| *of which equities and other variable-income instruments* | *110,367,418* | *47,048,657* |
| Collective impairment on normal loans [1] | (26,528,461) | (28,581,468) |
| **TOTAL** | **17,767,745,959** | **18,939,420,234** |

| Analysis of impaired loans and securities | Gross amount (B) | | Specific loan loss allowance (C) | | Net amount (B+C) | |
|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Impaired loans and advances to customers | 314,282,159 | 344,826,327 | (256,012,021) | (274,844,153) | 58,270,138 | 69,982,174 |
| Impaired financial assets available for sale | 24,851,329 | 23,484,364 | (20,927,126) | (20,153,683) | 3,924,203 | 3,330,681 |
| *of which equities and other variable-income instruments* | *24,851,329* | *23,484,364* | *(20,927,126)* | *(20,153,683)* | *3,924,203* | *3,330,681* |
| **TOTAL** | **339,133,488** | **368,310,691** | **(276,939,147)** | **(294,997,836)** | **62,194,341** | **73,312,855** |

| Analysis of normal and impaired loans and securities | Gross amount (A+B) | | Specific loan loss allowance (C) | | Net amount (A+B+C) | |
|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Loans and advances to credit institutions | 1,159,881,969 | 994,454,661 | 0 | 0 | 1,159,881,969 | 994,454,661 |
| Loans and advances to customers | 11,121,037,529 | 11,675,232,314 | (256,012,021) | (274,844,153) | 10,865,025,508 | 11,400,388,161 |
| Financial investments held to maturity | 163,810,537 | 123,738,533 | 0 | 0 | 163,810,537 | 123,738,533 |
| Financial investments available for sale | 5,688,677,873 | 6,542,886,885 | (20,927,126) | (20,153,683) | 5,667,750,747 | 6,522,733,202 |
| *of which bonds and fixed-income instruments* | *5,553,459,126* | *6,472,353,864* | *0* | *0* | *5,553,459,126* | *6,472,353,864* |
| *of which equities and other variable-income instruments* | *135,218,747* | *70,533,021* | *(20,927,126)* | (20,153,683) | *114,291,621* | *50,379,338* |
| Collective impairment on normal loans [1] | (26,528,461) | (28,581,468) | n.a. | n.a. | (26,528,461) | (28,581,468) |
| **TOTAL** | **18,106,879,447** | **19,307,730,925** | **(276,939,147)** | **(294,997,836)** | **17,829,940,300** | **19,012,733,089** |

[1] For the countervalue in profit or loss, see Note 11.12.

# Note 8: Notes on the liabilities of the consolidated balance sheet (in EUR)

## 8.1 Amounts due to credit institutions

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| On demand | 347,638,276 | 537,337,056 |
| Term | 374,673,316 | 375,499,274 |
| Cash collateral | 232,858,678 | 178,104,226 |
| Repurchase agreements | 373,337,959 | 56,795,264 |
| Central banks [1] | 213,522,069 | 396,563,235 |
| Other borrowings [2] | 467,194,241 | 443,927,899 |
| **TOTAL** | **2,009,224,539** | **1,988,226,954** |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.2 Amounts due to customers

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Demand deposits | 7,875,456,416 | 9,612,236,339 |
| Savings deposits | 3,671,537,670 | 3,678,360,916 |
| Term deposits | 1,889,110,202 | 1,727,077,742 |
| Cash collateral | 7,251,723 | 1,162,131 |
| **TOTAL CUSTOMER DEPOSITS** | **13,443,356,011** | **15,018,837,128** |
| Other borrowings | 777,532 | 365,276 |
| **TOTAL CUSTOMER BORROWINGS** | **777,532** | **365,276** |
| **TOTAL** | **13,444,133,543** | **15,019,202,404** |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

[1] The Management Board decided to participate for EUR 200 million at the September 2014 TLTRO (Targeted longer-term refinancing operations) and for EUR 150 million at the June 2015 TLTRO.
[2] Other borrowings represent day-to-day cash management operations.

## 8.3 Financial liabilities measured at fair value through profit or loss

### Financial liabilities held for trading

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Other bonds | 126,377 | 0 |
| TOTAL | 126,377 | 0 |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

### Financial liabilities designated at fair value through profit or loss (fair value option)

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Non-subordinated liabilities | 1,023,273,436 | 839,991,931 |
| TOTAL | 1,023,273,436 | 839,991,931 |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

The BIL group primarily uses the fair value option (FVO) to eliminate or at least significantly reduce the measurement or recognition inconsistency (also known as the accounting mismatch) that would arise from measuring financial assets or liabilities or recognising the gains and losses on these assets and liabilities on a different basis.

The fair value of unlisted financial instruments was determined using pricing tools and procedures established by Group Risk Management. These pricing tools are discounted cash flow models that allow the current value to be determined on the basis of an interest rate curve that is applicable to similar securities and takes into account the Bank's own credit rating.

## 8.4 Debt securities

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Certificates of deposit | 61,125,788 | 55,821,740 |
| Non-convertible bonds | 953,702,625 | 1,085,501,888 |
| TOTAL | 1,014,828,413 | 1,141,323,628 |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.5 Subordinated debt

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Non-convertible subordinated debts [1] | 301,539,478 | 297,089,262 |
| Contingent convertible bond (compound instrument) [2] | 149,660,636 | 149,572,084 |
| TOTAL | 451,200,114 | 446,661,346 |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.6 Provisions and other obligations

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Litigation [1] | 13,163,798 | 9,857,950 |
| Restructuring (included garden leave) | 12,107,863 | 18,777,216 |
| Defined benefit plans | 39,337,146 | 34,005,684 |
| Other long-term employee benefits (included jubilee and time saving account) | 17,642,302 | 17,269,359 |
| Provision for off-balance sheet credit commitments | 31,931 | 24,200 |
| Other provisions | 1,549,658 | 1,068,000 |
| TOTAL | 83,832,698 | 81,002,409 |

| B. ANALYSIS BY MOVEMENT | Litigation | Restructuring | Pensions and other employee benefits | Provision for off-balance sheet credit commitments | Other provisions |
|---|---|---|---|---|---|
| AS AT 01/01/14 | 15,910,437 | 17,424,742 | 42,713,569 | 252,800 | 3,244,986 |
| Exchange differences | 554,596 | 3,942 | 49,843 | 0 | 59,864 |
| Additional provisions | 459,471 | 2,349,495 | 4,352,295 | 29,131 | 910,619 |
| Unused amounts reversed | (608,833) | (40,654) | (1,763,707) | (14,000) | (1,197,475) |
| Used during the year | (3,231,873) | (7,629,662) | (3,540,445) | 0 | (1,468,336) |
| Transfers | 0 | 0 | 0 | (236,000) | 0 |
| Revaluation through reserves [1] | n.a. | n.a. | 12,045,637 | n.a. | n.a. |
| Other movements [3] | 80,000 | 0 | 3,122,256 | 0 | 0 |
| AS AT 31/12/14 | 13,163,798 | 12,107,863 | 56,979,448 | 31,931 | 1,549,658 |
| AS AT 01/01/15 | 13,163,798 | 12,107,863 | 56,979,448 | 31,931 | 1,549,658 |
| Exchange differences | 649,813 | (153,975) | 963,617 | 0 | 100,328 |
| Additional provisions | 5,104,490 | 16,284,631 | 4,788,125 | 0 | 533,137 |
| Unused amounts reversed | (331,405) | (366,181) | (2,490,714) | (7,731) | (94,784) |
| Used during the year | (12,468,361) | (9,072,331) | (3,820,222) | 0 | (1,020,339) |
| Transfers | 22,791 | (22,791) | 0 | 0 | 0 |
| Revaluation through reserves [1] | n.a. | n.a. | (10,846,390) | n.a. | n.a. |
| Other movements [3] | 3,716,824 | 0 | 5,701,179 | 0 | 0 |
| AS AT 31/12/15 | 9,857,950 | 18,777,216 | 51,275,043 | 24,200 | 1,068,000 |

[1] See point 1.22 of Note 1.
[2] Refer to section C below.
[3] Other movements mainly relate to the merger of KBL (Switzerland) Ltd into BIL (Suisse) SA.

## C. RESTATEMENT OF THE JUBILEE PROVISION

Calculation of jubilee premium provision has been reviewed in order to correctly reflect the final cost of the benefits. The impact has been integrated retrospectively on 2014 figures.

| CONSOLIDATED BALANCE SHEET ITEMS IMPACTED BY THE RESTATEMENT (in EUR) | 31/12/14 | 31/12/14 Restated | Impact of restatement |
|---|---|---|---|
| XIII. Deferred tax assets | 303,498,936 | 304,411,259 | 912,323 |
| **TOTAL ASSETS** | **20,284,782,492** | **20,285,694,815** | **912,323** |
| VIII. Provisions and other obligations | 80,710,442 | 83,832,698 | 3,122,256 |
| **TOTAL LIABILITIES** | **19,052,645,779** | **19,055,768,035** | **3,122,256** |
| XV. Reserves and retained earnings | 116,379,367 | 114,563,711 | (1,815,656) |
| XVI. Net income of the year | 122,514,679 | 122,120,402 | (394,277) |
| **TOTAL SHAREHOLDERS' EQUITY** | **1,232,136,713** | **1,229,926,780** | **(2,209,933)** |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **20,284,782,492** | **20,285,694,815** | **912,323** |

## D. ANALYSIS BY MATURITY

see Note 12.6

## E. PROVISIONS FOR PENSIONS

Employees hired on or after November 1, 2007 partake in a defined-contribution pension plan, while employees hired prior to November 1, 2007 partake either in a defined-contribution or a defined-benefit pension plan. All these commitments are shown in the table below.

| a. Reconciliation of benefit obligations | 31/12/14 | 31/12/15 |
|---|---|---|
| Defined benefit obligations at the beginning of the year | 253,502,189 | 288,224,900 |
| Current service cost | 10,334,243 | 11,795,051 |
| Interest cost | 7,115,815 | 4,144,997 |
| Past service cost and gains and losses arising from settelements | 435,000 | 0 |
| Actuarial gains/losses | 32,719,904 | (11,131,627) |
| *Stemming from changes in demographic assumptions* | *0* | *34,769* |
| *Stemming from changes in financial assumptions* | *35,541,028* | *(4,975,280)* |
| *Experience adjustments* | *(2,821,124)* | *(6,191,116)* |
| Benefits paid | (19,937,580) | (16,223,289) |
| *Out of which: amounts paid in respect of settlements* | *0* | *0* |
| Pension plan participant contributions | 588,817 | 713,243 |
| Currency adjustment | 472,883 | 2,330,913 |
| Business combination and disposals | 5,068,448 | 20,768,607 |
| Other | (2,074,819) | (2,065,305) |
| **DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR** | **288,224,900** | **298,557,490** |

| b. Reconciliation of fair value of pension plan assets | 31/12/14 | 31/12/15 |
|---|---|---|
| Fair value of pension plan assets at the beginning of the year | 228,127,994 | 250,663,755 |
| Actual return on pension plan assets | 25,396,830 | 7,708,581 |
| *Interest income* | *6,552,592* | *3,659,001* |
| *Return on pension plan assets (excluding interest income)* | *18,844,238* | *4,049,580* |
| Employer contributions | 13,080,613 | 13,088,491 |
| Pension plan participant contributions | 588,817 | 713,243 |
| Benefits paid | (19,937,580) | (16,223,289) |
| *Out of which: amounts paid in respect of settlements* | *0* | *0* |
| Currency adjustment | 436,542 | 2,259,383 |
| Business combination and disposals | 5,068,448 | 14,120,135 |
| Other | (2,097,909) | (2,329,493) |
| **FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR** | **250,663,755** | **270,000,806** |

| c. Reconciliation of the effect of the asset ceiling | 31/12/14 | 31/12/15 |
|---|---|---|
| Effect of the asset ceiling at the beginning of the year | 0 | 0 |
| Interest on the effect of the asset ceiling | 0 | 0 |
| Change in the effect of the asset ceiling | 0 | 0 |
| Other | 0 | 0 |
| **EFFECT OF THE ASSET CEILING AT THE END OF THE YEAR** | **0** | **0** |

| | | |
|---|---|---|
| **UNFUNDED ACCRUED/PREPAID PENSION COST** | **(37,561,145)** | **(28,556,684)** |

| d. Funded status | 31/12/14 | 31/12/15 |
|---|---|---|
| Pension plan assets in excess of benefit obligation | (1,776,000) | (5,449,000) |
| Unrecognised assets | 0 | 0 |

| e. Movement in net defined benefit pension liability or asset | 31/12/14 | 31/12/15 |
|---|---|---|
| Unfunded accrued/prepaid pension cost at the beginning of the year | (25,374,195) | (37,561,145) |
| Net periodic pension cost recognised in the income statement | (11,355,557) | (12,323,334) |
| Remeasurements recognised in OCI | (13,875,666) | 15,181,207 |
| Employer contributions | 13,080,613 | 13,088,491 |
| Pension payments by employer | 0 | 0 |
| *Out of which: amounts paid in respect of settlements* | *0* | *0* |
| Business combination and disposals | 0 | (6,648,473) |
| Currency adjustments | (36,340) | (71,529) |
| Other | 0 | (221,901) |
| **UNFUNDED ACCRUED/PREPAID PENSION COST AT THE END OF THE YEAR** | **(37,561,145)** | **(28,556,684)** |

| f. Movement in the IAS 19 remeasurement reserve in equity | 31/12/14 | 31/12/15 |
|---|---|---|
| Recognised reserve at the beginning of the year | (19,627,144) | (33,622,189) |
| Remeasurements recognised in OCI | (13,995,045) | 14,492,750 |
| Transfers | 0 | 0 |
| **RECOGNISED RESERVE AT THE END OF THE YEAR** | **(33,622,189)** | **(19,129,439)** |

| g. Amounts recognised in the income statement | 31/12/14 | 31/12/15 |
|---|---|---|
| Current service cost | 10,334,243 | 11,795,051 |
| Net interest on the defined benefit liability/asset | 563,223 | 485,996 |
| Past service cost | 435,000 | 0 |
| Gains and losses arising from settlements | 0 | 0 |
| Other | 23,091 | 42,287 |
| **ACTUARIALLY DETERMINED NET PERIODIC PENSION COST** | **11,355,557** | **12,323,334** |

| h. Amounts recognised in other comprehensive income | 31/12/14 | 31/12/15 |
|---|---|---|
| Actuarial gains/losses on the defined benefit obligation | 32,719,904 | (11,131,627) |
| Actual return on plan assets (excluding amounts included in interest income) | (18,844,238) | (4,049,580) |
| Currency adjustments | 119,379 | 688,457 |
| **TOTAL OTHER COMPREHENSIVE INCOME** | **13,995,045** | **(14,492,750)** |

| Actual return on pension plan assets (%) | 31/12/14 | 31/12/15 |
|---|---|---|
| | 10.61% | 2.96% |

| Breakdown of pension plan assets | 31/12/14 | 31/12/15 |
|---|---|---|
| Fixed income | | |
| Quoted market price on an active market | 67.69% | 61.29% |
| Equities | | |
| Quoted market price on an active market | 17.03% | 15.96% |
| Alternatives | | |
| Quoted market price on an active market | 2.33% | 2.26% |
| Cash | 5.38% | 2.68% |
| Other | 7.57% | 17.81% |
| **TOTAL** | **100.00%** | **100.00%** |

The assets do not include any own transferable financial instruments issued by the Bank nor any assets occupied or used by the Bank itself.

## Significant actuarial assumptions used (at the end of the year)

### Discount rate

| DBO sensitivity to changes in discount rate | | |
|---|---|---|
| | Scenario DR -1% | 12.06% |
| | Scenario DR +1% | (9.26%) |

### Expected rate of salary increase (including inflation)

| DBO sensitivity to changes in expected rate of salary increase | | |
|---|---|---|
| | Scenario SR -1% | (2.73%) |
| | Scenario SR +1% | 4.66% |

The Duration of the DBO of the pension plans in EUR as of December 31, 2015 is 8.31
The Duration of the DBO of the Swiss pension plan as of December 31, 2015 is 20.30

| Expected contributions for next year | |
|---|---|
| | 14,429,039 |

### Additional descriptions

A. Description of the plan - Events in the financial year - Focus on risk exposures
In Luxemburg, pension plans for "active people" are two hybrid defined benefit (DB) / defined contribution (DC) pension plans (closed plans) and one DC with guaranteed return pension plan (open plan).
For retirees, pension plan is a DB plan (closed). No specific event occured in Luxemburg during the year 2015.
Risk exposure is actually an exposure to financial risk, and for part of the plans, to the longevity and inflation risks.

In Switzerland, BIL (Suisse) merges with KBL (Switzerland) in 2015. 50 people from KBL (Switzerland) joined the BIL (Suisse) pension plan.
This leads to an incresae in DBO, in Assets and in Net Liability recognized through Business combination and disposals.

B. Methods and assumptions used in preparing the sensitivity analysis

The principal assumptions used to assess the defined benefit obligation are as follows:

| | Luxembourg | | Switzerland | |
|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Discount rate | 1.50% | 1.50% | 1.25% | 0.75% |
| Salary increase (age based since 2015 and inflation excluded) | 1.00% | 0.50%-3.75% | 0.50% | 0.50% |
| *of which inflation* | *2.00%* | *1.80%* | *0.50%* | *0.50%* |

C. Description of ALM strategies

In Luxembourg, investment strategy is based on ALM objectives, trying to align as far as possible assets maturities with liabilites profile and is also based on return objectives, with limited risks exposure.

Investment strategy also aims at protecting the funding surplus (surplus according to Funding vehicle local GAAP).

In Switzerland, investment strategy is in the hands of the insurer.

D. Description of funding arrangements

In Luxembourg, pension plans are funded through pension fund arrangements.

In the pension plans for "active people", employer contributions are calculated according to an Aggregate Cost method.

In the pension plans for "retirees", pensions are fully funded.

For all plans, minimum funding applies according to the legislation in force, and employer is due to make additional contributions in case assets do not meet the funding requirements.

Asset ceiling under IAS 19 does not apply.

In Switzerland, pension plan is funded through an insurance agreement.

This pension plan is subject to asset ceiling under IAS 19, however the plan shows a Net Liability as of December 31, 2015.

## 8.7 Tax liabilities

| ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Current tax liabilities | 1,445,632 | 4,079,426 |
| Deferred tax liabilities (see Note 9.2) | 584,624 | 1,496,317 |
| **TOTAL** | **2,030,256** | **5,575,743** |

## 8.8 Other liabilities

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Other liabilities* | 242,512,581 | 262,511,641 |
| Other liabilities specific to insurance activities | 1,795,498 | 2,531,857 |
| **TOTAL** | **244,308,079** | **265,043,498** |

| *ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Accrued costs | 7,130,226 | 10,997,881 |
| Deferred income | 6,281,504 | 13,598,617 |
| Other payables [1] | 149,590,735 | 161,535,948 |
| Other granted amounts received | 1,218,045 | 987,888 |
| Salaries and social security costs (payable) | 23,908,731 | 27,870,366 |
| Other operating taxes | 47,788,156 | 41,148,090 |
| Other liabilities | 6,595,184 | 6,372,851 |
| **TOTAL** | **242,512,581** | **262,511,641** |

[1] As at December 31, 2014 and 2015, the heading "Other payables" mainly comprises the amounts of the coupons to be paid to clients of the parent company, the amounts of stock exchange transactions and transactions being liquidated.

# Note 9: Other notes on the consolidated balance sheet (in EUR)

## 9.1 Derivatives

| A. ANALYSIS BY NATURE | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Derivatives held for trading | 311,960,448 | 287,348,357 | 203,231,984 | 212,659,321 |
| Derivatives designated as fair value hedge | 7,881,951 | 357,217,358 | 7,870,610 | 168,830,595 |
| Derivatives designated as cash flow hedge | 30,801,792 | 53,001,818 | 18,500,748 | 22,005,077 |
| Derivatives designated as portfolio hedge against interest rate | 74,413,575 | 14,452,388 | 57,260,686 | 10,526,731 |
| **TOTAL** | **425,057,766** | **712,019,921** | **286,864,028** | **414,021,724** |

| B. DETAIL OF DERIVATIVES HELD FOR TRADING | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **5,590,730,673** | **5,571,392,015** | **92,099,704** | **83,462,818** |
| FX forward | 5,263,070,838 | 5,250,108,415 | 72,256,638 | 50,088,784 |
| Cross currency swap | 187,623,794 | 187,132,997 | 19,067,556 | 32,280,360 |
| FX options | 140,036,041 | 134,150,603 | 775,510 | 1,093,674 |
| **Interest rate derivatives** | **2,404,331,910** | **2,419,144,479** | **206,439,330** | **202,079,865** |
| Options-Caps-Floors-Collars-Swaptions | 296,400,988 | 296,400,988 | 1,534,515 | 1,538,681 |
| IRS | 2,107,930,922 | 2,107,930,922 | 204,904,815 | 200,541,184 |
| Interest futures | 0 | 14,812,569 | 0 | 0 |
| **Equity derivatives** | **305,461,220** | **270,814,797** | **13,421,414** | **1,805,674** |
| Equity futures | 3,005,206 | 6,969,605 | 0 | 0 |
| Equity options | 163,094,852 | 124,484,030 | 1,008,581 | 0 |
| Other equity derivatives | 139,361,162 | 139,361,162 | 12,412,833 | 1,805,674 |
| **TOTAL** | **8,300,523,803** | **8,261,351,291** | **311,960,448** | **287,348,357** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **7,882,617,367** | **7,870,845,602** | **96,634,862** | **97,800,138** |
| FX forward | 7,422,385,675 | 7,417,708,556 | 82,204,141 | 86,094,912 |
| Cross currency swap | 90,208,489 | 90,107,924 | 11,345,757 | 9,019,946 |
| FX options | 370,023,203 | 363,029,122 | 3,084,964 | 2,685,280 |
| **Interest rate derivatives** | **1,481,842,391** | **1,136,467,579** | **92,547,486** | **92,647,321** |
| Options-Caps-Floors-Collars-Swaptions | 135,589,205 | 135,589,205 | 1,867,616 | 1,871,786 |
| IRS | 973,278,594 | 973,878,594 | 90,679,870 | 90,775,535 |
| Interest futures | 372,974,592 | 26,999,780 | 0 | 0 |
| **Equity derivatives** | **336,121,106** | **324,764,403** | **14,049,636** | **22,211,862** |
| Equity futures | 0 | 3,634,638 | 0 | 0 |
| Equity options | 208,662,777 | 195,294,334 | 3,931,055 | 15,493,103 |
| Other equity derivatives | 127,458,329 | 125,835,431 | 10,118,581 | 6,718,759 |
| **TOTAL** | **9,700,580,864** | **9,332,077,584** | **203,231,984** | **212,659,321** |

| C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **2,997,593,418** | **2,997,593,418** | **7,881,951** | **357,217,358** |
| IRS | 2,997,593,418 | 2,997,593,418 | 7,881,951 | 357,217,358 |
| **TOTAL** | **2,997,593,418** | **2,997,593,418** | **7,881,951** | **357,217,358** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **1,958,104,348** | **1,958,104,348** | **7,870,610** | **168,830,595** |
| IRS | 1,958,104,348 | 1,958,104,348 | 7,870,610 | 168,830,595 |
| **TOTAL** | **1,958,104,348** | **1,958,104,348** | **7,870,610** | **168,830,595** |

| D. DETAIL OF DERIVATIVES DESIGNATED AS CASH FLOW HEDGE | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **93,655,712** | **95,572,474** | **0** | **0** |
| Other currency derivatives | 93,655,712 | 95,572,474 | 0 | 0 |
| **Interest rate derivatives** | **757,093,286** | **757,093,286** | **30,801,792** | **53,001,818** |
| IRS | 757,093,286 | 757,093,286 | 30,801,792 | 53,001,818 |
| **TOTAL** | **850,748,998** | **852,665,760** | **30,801,792** | **53,001,818** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **0** | **0** | **0** | **0** |
| Other currency derivatives | 0 | 0 | 0 | 0 |
| **Interest rate derivatives** | **399,519,841** | **399,519,841** | **18,500,748** | **22,005,077** |
| IRS | 399,519,841 | 399,519,841 | 18,500,748 | 22,005,077 |
| **TOTAL** | **399,519,841** | **399,519,841** | **18,500,748** | **22,005,077** |

Cash flows in respect of the hedging instruments relating to the statement of income are recorded therein on a continual basis as interest is paid.

Interest generated by derivatives designated as cash flow hedge amounted to EUR -2.7 million in 2015 (EUR -7.4 million in 2014) and are recorded in income statement as interests on derivatives used for hedging purposes.

| Breakdown of derivatives designated as Cash Flow Hedge by residual maturity | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | Between 1 year and 5 years | Between 5 years and 10 years | More than 10 years | Total |
| Assets | 328,655 | 16,554,054 | 10,230,490 | 3,688,593 | **30,801,792** |
| Liabilities | 2,953,537 | 41,282,686 | 5,105,332 | 3,660,263 | **53,001,818** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | Between 1 year and 5 years | Between 5 years and 10 years | More than 10 years | Total |
| Assets | 273,387 | 15,197,687 | 3,029,674 | 0 | **18,500,748** |
| Liabilities | 374,947 | 14,174,932 | 7,455,198 | 0 | **22,005,077** |

| E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| Foreign exchange derivatives | 62,365,588 | 81,361,147 | 1,897,400 | 314,351 |
| Interest rate derivatives | 796,875,570 | 796,875,570 | 72,516,175 | 14,138,037 |
| TOTAL | 859,241,158 | 878,236,717 | 74,413,575 | 14,452,388 |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| Foreign exchange derivatives | 34,014,633 | 40,101,212 | 1,367,646 | 201,898 |
| Interest rate derivatives | 510,804,564 | 510,804,564 | 55,893,040 | 10,324,833 |
| TOTAL | 544,819,197 | 550,905,776 | 57,260,686 | 10,526,731 |

## 9.2 Deferred tax

| A. ANALYSIS | 31/12/14 | 31/12/15 |
|---|---|---|
| Net deferred tax assets | 304,411,259 | 282,653,664 |
| Deferred tax liabilities | (584,624) | (1,496,317) |
| DEFERRED TAX | 303,826,635 | 281,157,347 |

| B. MOVEMENTS | 2014 | 2015 |
|---|---|---|
| AS AT JANUARY 1 | 336,520,201 | 303,826,635 |
| Movements during the financial year: | | |
| - Amounts recognised in the statement of income | (37,113,029) | (30,704,973) |
| - Items directly computed by equity | (18,101,983) | 5,016,134 |
| - Changes in consolidation scope | 20,439,476 | 0 |
| - Exchange differences | 90,718 | 115,812 |
| - Other movements | 1,991,252 | 2,903,739 |
| AS AT DECEMBER 31 | 303,826,635 | 281,157,347 |

| Deferred tax coming from balance sheet assets | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Cash, loans and loan loss provisions | 7,397,785 | 1,895,478 | 8,011,107 | 607,671 |
| Securities | (44,160,177) | (144,208) | (31,562,753) | 2,124,924 |
| Derivatives | 4,944,240 | 0 | 1,241,677 | 0 |
| Tangible and intangible fixed assets | 5,940,458 | (248,648) | 5,692,938 | (247,520) |
| Other - non-allocated | 40,229 | 0 | 0 | (34,312) |
| TOTAL | (25,837,465) | 1,502,622 | (16,617,031) | 2,450,763 |

| Deferred tax coming from balance sheet liabilities | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Borrowings, deposits and issuance of debt securities | (1,451,869) | (1,451,869) | (1,451,869) | (2,903,738) |
| Provisions | (27,365,493) | (611,194) | (25,350,558) | 1,857,043 |
| Pensions | 14,368,021 | (438,280) | 12,814,421 | (559,267) |
| Other liabilities specific to insurance companies | (545,626) | (545,626) | (1,528,368) | (982,742) |
| TOTAL | (14,994,967) | (3,046,969) | (15,516,374) | (2,588,704) |

| Deferred tax coming from other items | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Tax losses carried forward | 530,405,202 | (36,012,342) | 503,918,897 | (29,703,571) |
| *less: impairments* | *(185,746,135)* | 0 | *(190,628,145)* | 0 |
| TOTAL | 344,659,067 | (36,012,342) | 313,290,725 | (29,703,571) |

Considering that:

- a large part of the unused tax losses results from identifiable causes which are unlikely to recur (the significant amount of 2011 losses result indeed from the sale of the Legacy portfolio, from sales of participations and from deleveraging impacts);
- BIL decided to re-focus on its historical business which is unlikely to generate such losses in the future, but rather a stable to increasing profitability over the next years;
- BIL new strategies are clear with a limited risk appetite, which again limits the risk that significant unexpected losses may occur in the future;
- our analysis on future taxable profit over the next years will enable to use the unused tax losses over a medium term period (no time restriction applied in Luxembourg).

Based on these considerations, BIL has recognised the full amount of unused tax losses.

## 9.3 Share-based payments

There is no Stock option plan settled in BIL shares.

## 9.4 Related parties transactions

### A. RELATED PARTIES TRANSACTIONS

| (in EUR thousands) | Key management 31/12/14 | Key management 31/12/15 | Subsidiaries 31/12/14 | Subsidiaries 31/12/15 |
|---|---|---|---|---|
| Loans [1] | 10,945 | 10,626 | 19 | 34 |
| Interest received | 0 | 0 | 0 | 0 |
| Deposits | 13,090 | 12,466 | 255 | 118 |
| Contingent convertible bond (compound instrument) | 0 | 0 | 0 | 0 |
| Interest paid | 0 | 0 | 0 | 0 |
| Guarantees and commitments given by the Group | 24 | 28 | 0 | 0 |
| Guarantees and commitments given to the Group | 1,319 | 1,317 | 0 | 0 |
| Assets entrusted from third parties | 11,351 | 8,079 | 0 | 0 |

| | Associates 31/12/14 | Associates 31/12/15 | Other related parties 31/12/14 | Other related parties 31/12/15 |
|---|---|---|---|---|
| Loans [1] | 32 | 38 | 141,227 | 150,579 |
| Interest received | 0 | 0 | 14 | 61 |
| Deposits | 11,704 | 9,219 | 1 | 63,030 |
| Contingent convertible bond (compound instrument) | 0 | 0 | 150,000 | 150,000 |
| Interest paid | (7) | (2) | (120) | 0 |
| Guarantees and commitments given by the Group | 0 | 0 | 30,035 | 30,011 |
| Guarantees and commitments given to the Group | 0 | 0 | 27,630 | 27,630 |
| Assets entrusted from third parties | 0 | 0 | 150,000 | 150,000 |

### B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.8 "Staff expenses")

## 9.5 Securitisation

As at December 31, 2015, the BIL group has no securitisation vehicles included in its scope of consolidation. The relevant accounting rules are described in point 1.3 of Note 1.

[1] All loans were granted at market conditions. No depreciation was recorded on the loans granted to the related parties.

## 9.6 Acquisitions and disposals of consolidated companies

### A. MAIN ACQUISITIONS

Year 2014

None.

Year 2015

In November 2015, BIL (Suisse) SA acquired KBL (Switzerland) Ltd, subsidiary of KBL European Private Bankers SA.

### B. MAIN DISPOSALS

Year 2014

BIL RE SA was sold on September 19, 2014 to Melio Luxembourg International Sàrl.

| The assets and liabilities sold as at September 19, 2014, were as follows: | BIL RE SA |
|---|---|
| Loans and advances to credit institutions | 77,211,902 |
| Other assets | 2,248,549 |
| Other liabilities | 21,384,370 |
| NET ASSETS | 58,076,081 |
| Proceeds from the sale | 70,368,209 |
| Less: Transaction cost | (117,786) |
| NET PROCEEDS ON THE SALE | 70,250,423 |

Year 2015

In October 2015, BIL SA sold the private banking activity of its belgian Branch to Puilaetco Dewaay Private Bankers SA.

## 9.7 Subscribed and authorised capital

| By share category | 31/12/14 | 31/12/15 |
|---|---|---|
| Number of shares authorised and not issued [1] | 2,982,513 | 2,982,513 |
| Number of shares issued and fully paid up | 2,017,487 | 2,017,487 |
| Value per share (accounting par value) | EUR 70 | EUR 70 |
| Number of treasury shares | 970 | 970 |

## 9.8 Exchange rates

| The main exchange rates used are the followings: | | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|---|
| | | Closing rate | Average rate | Closing rate | Average rate |
| Australian dollar | AUD | 1.4845 | 1.4719 | 1.4878 | 1.4817 |
| Canadian dollar | CAD | 1.4058 | 1.4628 | 1.5095 | 1.4259 |
| Swiss franc | CHF | 1.2028 | 1.2126 | 1.0861 | 1.0642 |
| Danish krone | DKK | 7.4460 | 7.4544 | 7.4632 | 7.4607 |
| Pound sterling | GBP | 0.7775 | 0.8026 | 0.7373 | 0.7243 |
| Hong Kong dollar | HKD | 9.4045 | 10.2485 | 8.4438 | 8.5636 |
| Japanese yen | JPY | 145.1121 | 140.5139 | 130.8260 | 133.5991 |
| Norwegian krone | NOK | 9.0523 | 8.3952 | 9.5911 | 8.9799 |
| Polish zloty | PLN | 4.3002 | 4.1963 | 4.2787 | 4.1829 |
| Swedish krone | SEK | 9.4314 | 9.1158 | 9.1668 | 9.3325 |
| Singapore dollar | SGD | 1.6057 | 1.6774 | 1.5411 | 1.5222 |
| US dollar | USD | 1.2126 | 1.3214 | 1.0894 | 1.1047 |

[1] As at December 31, 2015, the subscribed and paid-up capital of the Bank is EUR 141,224,090 (2014: EUR 141,224,090) represented by 2,017,487 shares (2014: 2,017,487 shares) with a par value of EUR 70 (2014: EUR 70). Following the extraordinary general meeting of April 25, 2014, and in accordance with the articles of incorporation, the Board of Directors of the Bank is authorised to increase the share capital to a maximum of EUR 350 million, without prejudice to possible renewals, until April 25, 2019.

# Note 10: Notes on the consolidated off-balance sheet items (in EUR)

## 10.1 Regular way trade

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Loans to be delivered | 410,963,975 | 172,605,851 |
| Borrowings to be received | 415,379,496 | 471,440,878 |

## 10.2 Guarantees

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Guarantees given to credit institutions | 157,200,169 | 334,822,638 |
| Guarantees given to customers | 673,820,685 | 497,293,960 |
| Guarantees received from credit institutions | 273,411 | 268,682 |
| Guarantees received from customers | 2,906,859,490 | 2,644,870,245 |

## 10.3 Loan commitments

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Unused credit lines granted to credit institutions | 969,979 | 51,065,468 |
| Unused credit lines granted to customers | 1,640,748,313 | 1,726,989,312 |

## 10.4 Other commitments

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Banking activity - Other commitments given [1] | 31,135,874,567 | 35,231,715,311 |
| Banking activity - Other commitments received [2] | 193,419,146,105 | 200,339,880,578 |

[1] Other commitments given are mainly composed of assets entrusted to third parties.

[2] Other commitments received are composed of assets held on behalf of third parties, which amounted to EUR 192.3 billion as at December 31, 2015 and EUR 186.0 billion as at December 31, 2014. 2014 figures have been restated to include custody assets from clearing or settlement institutions.

# Note 11: Notes on the consolidated statement of income (in EUR)

## 11.1 Interest and similar income – Interest and similar expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| INTEREST AND SIMILAR INCOME | 596,832,866 | 503,863,462 |
| **a) Interest and similar income of assets not measured at fair value through profit or loss** | **336,793,154** | **327,586,782** |
| Cash and balances with central banks | 210,789 | 69,183 |
| Loans and advances to credit institutions | 8,253,307 | 5,553,635 |
| Loans and advances to customers | 229,957,967 | 237,013,949 |
| Financial assets available for sale | 94,865,284 | 82,176,007 |
| Investments held to maturity | 3,505,807 | 2,774,008 |
| **b) Interest and similar income of assets measured at fair value through profit or loss** | **260,039,712** | **176,276,680** |
| Financial assets held for trading | 2,033,487 | 1,789,096 |
| Derivatives held for trading | 157,947,554 | 91,529,196 |
| Derivatives used for hedging purposes | 100,058,671 | 82,958,388 |
| INTEREST AND SIMILAR EXPENSES | (330,160,933) | (218,876,842) |
| **a) Interest and similar expense of liabilities not measured at fair value through profit or loss** | **(49,298,359)** | **(42,635,501)** |
| Amounts due to credit institutions | (6,675,783) | (4,564,146) |
| Amounts due to customers | (28,397,547) | (23,531,452) |
| Debt securities | (10,576,464) | (12,354,240) |
| Subordinated debt | (2,822,434) | (2,160,403) |
| Interest on preferred shares and hybrid capital | (811,104) | 0 |
| Other | (15,027) | (25,260) |
| **b) Interest and similar expense of liabilities measured at fair value through profit or loss** | **(280,862,574)** | **(176,241,341)** |
| Financial liabilities held for trading | (10) | (295) |
| Financial liabilities designated at fair value through profit or loss | (32,397,407) | (17,471,752) |
| Derivatives held for trading | (127,284,835) | (64,729,023) |
| Derivatives used for hedging purposes | (121,180,322) | (94,040,271) |
| NET INTEREST INCOME | 266,671,933 | 284,986,620 |

## 11.2 Dividend income

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Financial assets available for sale | 4,827,810 | 212,403 |
| Financial assets held for trading | 3,823 | 2,939 |
| TOTAL | 4,831,633 | 215,342 |

## 11.3 Net income from associates

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Income from associates before tax | 4,297,485 | 3,745,482 |
| Share of tax | (1,184,968) | (1,149,626) |
| TOTAL | 3,112,517 | 2,595,856 |

## 11.4 Net trading income and net result of hedge accounting

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Net income from transactions | (2,964,205) | 3,390,251 |
| *of which income from trading securities* | *8,679,216* | *(233,081)* |
| *of which income from trading derivatives* | *(11,643,421)* | *3,623,332* |
| Net result of hedge accounting | 111,127 | (12,240,929) |
| Net result of financial instruments designated at fair value through profit or loss* | 919,186 | 403,040 |
| Change in own credit risk [1] | (560,448) | (183,613) |
| Net foreign exchange gain/(loss) | 22,983,523 | 27,168,056 |
| **TOTAL** | **20,489,183** | **18,536,805** |

| | 31/12/14 | 31/12/15 |
|---|---|---|
| * including hedging derivatives classified in the accounts as trading derivatives (accounting mismatch) | **(4,416,459)** | **(16,457,600)** |

| **Result of hedge accounting** | **31/12/14** | **31/12/15** |
|---|---|---|
| | **Net gain/(loss)** | **Net gain/(loss)** |
| **Fair value hedge** | **(18,874)** | **(1,407,486)** |
| Change in the fair value of the hedged item attributable to the hedged risk | 187,110,392 | (13,190,184) |
| Change in the fair value of the hedging derivatives | (187,129,266) | 11,782,698 |
| **Portfolio hedge against interest rate risk** | **95,001** | **185,638** |
| Change in the fair value of the hedged item | (13,810,009) | 12,192,382 |
| Change in the fair value of the hedging derivatives | 13,905,010 | (12,006,744) |
| **Discontinuation of cash flow hedge accounting (cash flows not expected to occur)** | **35,000** | **(11,019,081)** |
| **TOTAL** | **111,127** | **(12,240,929)** |

Interest paid and received on assets, liabilities and derivatives are recorded in the interest margin. Consequently, the net trading income resulting from hedge accounting only includes changes in the valuation of derivatives, the revaluation of assets and liabilities involved in a hedge relationship and the revaluation of the trading portfolio, as well as the ineffectiveness of hedge relationships.

[1] For liabilities revalued at fair value through profit or loss, own credit risk was determined on the basis of changes in financing costs. Own credit risk refers to changes in the issue costs under current conditions compared to initial conditions (see Note 12.2.G.)

## 11.5 Net income on investments (assets and liabilities not measured at fair value through profit or loss)

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Gains on loans and advances | 4,550,485 | 2,671,217 |
| Gains on financial assets available for sale | 71,520,562 | 83,767,694 |
| Gains on tangible fixed assets | 742,858 | 24,302 |
| Gains on liabilities | 3,895,657 | 625,964 |
| **TOTAL GAINS** | **80,709,562** | **87,089,177** |
| Losses on loans and advances | (1,544) | (1,291,709) |
| Losses on financial assets available for sale | (3,462,517) | (2,398,016) |
| Losses on tangible fixed assets | (3,527) | (308,025) |
| Losses on intangible fixed assets | 0 | (12,732) |
| Losses on liabilities | 0 | (171,929) |
| **TOTAL LOSSES** | **(3,467,588)** | **(4,182,411)** |
| **NET IMPAIRMENT** | **(271,659)** | **1,862,355** |
| **TOTAL** | **76,970,315** | **84,769,121** |

The impact of net income on financial assets available for sale of EUR 81,369,678 as at December 31, 2015 (EUR 68,058,045 as at December 31, 2014) should be compared with the EUR -100,886,957 impact of the sale of securities on the AFS reserves as at December 31, 2015 (EUR -49,554,108 as at December 31, 2014).

| Net impairment | Specific Risk | | Total |
|---|---|---|---|
| | Allowances | Write-backs | |
| **AS AT DECEMBER 31, 2014** | | | |
| Available for sale securities | (3,683,567) | 3,411,908 | (271,659) |
| **TOTAL** | **(3,683,567)** | **3,411,908** | **(271,659)** |
| **AS AT DECEMBER 31, 2015** | | | |
| Available for sale securities | (396,556) | 2,258,911 | 1,862,355 |
| **TOTAL** | **(396,556)** | **2,258,911** | **1,862,355** |

## 11.6 Fees and commissions income and expenses

| | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Income | Expenses | Net | Income | Expenses | Net |
| Management of unit trusts and mutual funds | 22,716,409 | (2,052,475) | 20,663,934 | 25,295,313 | (3,957,599) | 21,337,714 |
| Administration of unit trusts and mutual funds | 234,983 | 0 | 234,983 | 365,163 | 0 | 365,163 |
| Insurance activity | 10,633,344 | 0 | 10,633,344 | 9,715,681 | 0 | 9,715,681 |
| Credit activity | 15,325,464 | (270,056) | 15,055,408 | 18,416,539 | (683,395) | 17,733,144 |
| Purchase and sale of securities | 27,921,731 | (8,986,416) | 18,935,315 | 25,411,350 | (9,649,386) | 15,761,964 |
| Purchase and sale of units trusts and mutual funds | 8,434,533 | (982,342) | 7,452,191 | 6,681,884 | (479,677) | 6,202,207 |
| Payment services | 28,174,334 | (794,287) | 27,380,047 | 28,953,656 | (868,835) | 28,084,821 |
| Commissions to non-exclusive brokers | 151,496 | (389,045) | (237,549) | 58,425 | (401,332) | (342,907) |
| Financial engineering | 7,479,181 | (212,183) | 7,266,998 | 6,438,474 | (92,557) | 6,345,917 |
| Services on securities other than safekeeping | 2,501,185 | (616,027) | 1,885,158 | 3,395,529 | (578,591) | 2,816,938 |
| Custody | 19,089,233 | (3,338,646) | 15,750,587 | 18,810,713 | (3,813,605) | 14,997,108 |
| Issues and placements of securities | 3,912,329 | (8,058) | 3,904,271 | 3,137,014 | (4,323) | 3,132,691 |
| Private banking | 42,268,631 | (8,073,461) | 34,195,170 | 46,652,376 | (7,546,708) | 39,105,668 |
| Clearing and settlement | 1,614,643 | (1,421,802) | 192,841 | 2,148,877 | (1,828,236) | 320,641 |
| Securities lending | 0 | (25,569) | (25,569) | 0 | (32,680) | (32,680) |
| Other | 9,931,326 | (1,994,724) | 7,936,602 | 8,071,548 | (168,328) | 7,903,220 |
| **TOTAL** | **200,388,822** | **(29,165,091)** | **171,223,731** | **203,552,542** | **(30,105,252)** | **173,447,290** |

## 11.7 Other net income

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Operating taxes | 0 | 26,169 |
| Rental Income | 13,843,370 | 11,984,638 |
| Other banking income [1] | 869,072 | 1,704,002 |
| Other income on other activities [2] | 9,854,575 | 22,497,880 |
| **OTHER INCOME** | **24,567,017** | **36,212,689** |
| Operating taxes | (1,094,385) | (2,075,790) |
| Maintenance and repair of investment property | (1,174,860) | (134,940) |
| Other bank charges [3] | 0 | (9,913,483) |
| Other expenses in relation to other activities [4] | (36,313,845) | (29,936,373) |
| **OTHER EXPENSES** | **(38,583,090)** | **(42,060,586)** |
| **TOTAL** | **(14,016,073)** | **(5,847,897)** |

| | |
|---|---|
| Advances paid to the AGDL in 2008: | 37,876,176 |
| Reimbursements received from the AGDL in 2009: | (11,572,127) |
| Reimbursements received from the AGDL in 2010: | (4,951,593) |
| Reimbursements received from the AGDL in 2011: | (2,322,004) |
| Reimbursements received from the AGDL in 2012: | (2,187,355) |
| Reimbursements received from the AGDL in 2013: | (427,430) |
| Reimbursements received from the AGDL in 2014: | (869,072) |
| Reimbursements received from the AGDL in 2015: | (1,704,002) |
| Advances paid to the AGDL and not reimbursed as at December 31, 2015 | 13,842,593 |

In 2008, in order to pay advances to the AGDL, an expense of EUR 37.9 million was recorded in the statement of income. Reimbursements of EUR 24.0 million were made in 2009 till 2015 and recorded under other net operating income. Lastly, no reimbursements are expected from the AGDL in 2016.

## 11.8 Staff expenses

### A. STAFF EXPENSES

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Wages and salaries | (160,112,450) | (174,726,807) |
| Social security and insurance costs | (20,539,052) | (21,201,107) |
| Staff benefits | (13,534,215) | (13,772,110) |
| Restructuring expenses | (3,508,841) | (12,205,953) |
| Other expenses | (3,271,467) | (3,146,804) |
| **TOTAL** | **(200,966,025)** | **(225,052,781)** |

### B. WORKFORCE

| (Average FTE) | 2014 | 2015 |
|---|---|---|
| Senior management | 51 | 51 |
| Employees | 1,876 | 1,997 |
| Other | 2 | 2 |
| **TOTAL** | **1,929** | **2,050** |

[1] This consists of the recovery of AGDL (Association pour la Garantie des Dépôts, Luxembourg) payments made in 2008 following the bankruptcies of Icelandic banks.
[2] This consists primarily of write-backs of provisions and extraordinary operating income.
[3] This consists of charges related to FGDL and FRL.
[4] This consists primarily of depreciation of investment property for EUR -12.2 million (EUR -11.8 million in 2014), provisions for litigation and extraordinary loss.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

| (Average FTE)[1] as at 31/12/14 | Belgium | Luxembourg | Other Europe | Other non-Europe | Total BIL |
|---|---|---|---|---|---|
| Senior management | 1 | 44 | 4 | 2 | 51 |
| Employees | 9 | 1,742 | 98 | 27 | 1,876 |
| Other | 0 | 0 | 2 | 0 | 2 |
| **TOTAL** | **10** | **1,786** | **104** | **29** | **1,929** |

| (Average FTE)[1] as at 31/12/15 | Belgium | Luxembourg | Other Europe | Other non-Europe | Total BIL |
|---|---|---|---|---|---|
| Senior management | 0 | 44 | 5 | 2 | 51 |
| Employees | 0 | 1,796 | 185 | 16 | 1,997 |
| Other | 0 | 0 | 2 | 0 | 2 |
| **TOTAL** | **0** | **1,840** | **192** | **18** | **2,050** |

### C. REMUNERATION OF BIL GROUP'S ADMINISTRATIVE AND MANAGERIAL BODIES

During the financial year, the Group granted emoluments to current members of its administrative and financial bodies and has made contributions in respect of retirements pensions on their behalf as follows:

| | 2014 | 2015 | 2014 | 2015 |
|---|---|---|---|---|
| | Remuneration | | Retirement pensions | |
| Members of the administrative bodies | 900,890 | 1,052,712 | 0 | 0 |
| Members of the managerial bodies[2] | 13,180,117 | 17,574,027 | 2,467,269 | 1,833,504 |
| **TOTAL** | **14,081,007** | **18,626,739** | **2,467,269** | **1,833,504** |

### D. DEFINED CONTRIBUTION PLAN EXPENSES

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Defined contribution plan expenses | 1,785,292 | 1,783,923 |
| **TOTAL** | **1,785,292** | **1,783,923** |

## 11.9 General and administrative expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Occupancy | (8,355,734) | (8,924,613) |
| Operating leases | (4,022,032) | (5,731,144) |
| Professional fees | (17,394,630) | (20,071,501) |
| Marketing, advertising and public relations | (5,312,236) | (5,253,320) |
| Technology and system costs | (27,771,341) | (29,692,800) |
| Software costs and maintenance expenses | (6,622,514) | (7,563,019) |
| Repair and maintenance expenses | (162,520) | (69,890) |
| Operating taxes | (682,144) | (943,296) |
| Other general and administrative expenses[3] | (40,588,858) | (46,051,802) |
| **TOTAL** | **(110,912,009)** | **(124,301,385)** |

1 Breakdown by subsidiary's country of implementation.
2 2015 retirement pensions include EUR 1.3 million of pension plan and EUR 0.5 million of managerial plan.
3 This heading primarily comprises the cost of financial information, various types of insurance cover and the transport of valuables.

## 11.10 Independent auditors' fees

The fees payable to the independant auditors of the BIL group for the years 2014 and 2015 are as follows:

| | 2014 | 2015 |
|---|---|---|
| Legal control of annual financial statements | 1,617,932 | 1,728,450 |
| Certification | 0 | 93,971 |
| Tax services | 58,305 | 0 |
| Other | 69,290 | 120,248 |
| **TOTAL** | **1,745,527** | **1,942,669** |

## 11.11 Amortisation of tangible and intangible fixed assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Depreciation on land and buildings | (8,525,334) | (7,570,133) |
| Depreciation on other tangible fixed assets | (1,186,214) | (1,059,671) |
| Depreciation on IT equipment | (1,035,350) | (2,550,667) |
| Depreciation on intangible fixed assets | (16,487,009) | (13,447,184) |
| **TOTAL** | **(27,233,907)** | **(24,627,655)** |

## 11.12 Impairment on loans and provisions for credit commitments

| **Collective impairment** | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | **Allowances** | **Write-backs** | **Total** | **Allowances** | **Write-backs** | **Total** |
| **LOANS** | **(17,537,726)** | **11,118,382** | **(6,419,344)** | **(3,315,129)** | **1,285,655** | **(2,029,474)** |

During 2014, the Bank has reviewed its collective impairment methodology in the context of the comprehensive assessment, leading to unusual movements and a net additional allowance of EUR 6.4 million.

| **Specific impairment** | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | **Allowances** | **Write-backs** | **Losses** | **Recoveries** | **Total** |
| Loans and advances to customers | (36,189,932) | 22,848,714 | (6,415,124) | 0 | (19,756,342) |
| Other receivables [1] | (275,633) | 886,639 | (1,006,508) | 0 | (395,502) |
| Commitments | (29,131) | 14,000 | n.a. | n.a. | (15,131) |
| **TOTAL** | **(36,494,696)** | **23,749,353** | **(7,421,632)** | **0** | **(20,166,975)** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | **Allowances** | **Write-backs** | **Losses** | **Recoveries** | **Total** |
| Loans and advances to customers | (38,597,682) | 31,751,391 | (12,572,491) | 2,831,085 | (16,587,697) |
| Other receivables [1] | (148,625) | 383,979 | (185,238) | 0 | 50,116 |
| Commitments | (0) | 7,731 | n.a. | n.a. | 7,731 |
| **TOTAL** | **(38,746,307)** | **32,143,101** | **(12,757,729)** | **2,831,085** | **(16,529,850)** |

[1] Is published in heading XIV. of the assets.

## 11.13 Tax expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Income tax for current financial year | (1,761,711) | (560,419) |
| Deferred taxes | (42,193,186) | (29,442,952) |
| **Tax on current financial year result (A)** | **(43,954,897)** | **(30,003,371)** |
| Income tax for previous year | 0 | (950,022) |
| Deferred taxes for previous year | 2,190,322 | (1,007,441) |
| **Other tax expenses (B)** | **2,190,322** | **(2,027,463)** |
| TOTAL (A)+(B) | (41,764,575) | (32,030,834) |

### EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 29.22% as at December 31, 2014 and 2015.
The effective BIL tax rate was 27.34% in 2014 and 18.33% in 2015.
The difference between both rates may be analysed as follows:

| | 31/12/14 | 31/12/15 |
|---|---|---|
| NET INCOME BEFORE TAX | 163,884,977 | 166,299,935 |
| **Tax base** | **161,772,460** | **163,704,079** |
| Applicable tax rate at year-end | 29.22% | 29.22% |
| **Theoretical corporate income tax at standard rate** | **(46,977,713)** | **(47,834,332)** |
| Effect of different tax rates in other countries | 435,966 | (2,608,169) |
| Tax effect of non-deductible expenses | (1,037,072) | (1,623,667) |
| Tax effect of non-taxable income | 4,375,013 | 25,261,242 |
| Tax effect of items taxed at a reduced rate | (82,004) | 19,318 |
| Impairment on deferred tax assets (tax loss carried forward) | 417,265 | 0 |
| Other | (1,086,352) | (3,217,763) |
| **Tax on current financial year result** | **(43,954,897)** | **(30,003,371)** |
| EFFECTIVE TAX RATE | 27.34% | 18.33% |

## 11.14 Provisions for legal litigation

The charges recognised under this item mainly comprised legal fees, provisions for existing litigation and write-backs of provisions.

# Note 12: Notes on risk exposures (in EUR)

## 12.1 Fair value

### A. BREAKDOWN OF FAIR VALUE

| A.1 Fair value of assets | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Cash and balances with central banks | 1,189,683,299 | 1,189,683,299 | 0 | 1,340,198,076 | 1,340,198,076 | 0 |
| Loans and advances to credit institutions | 1,159,872,903 | 1,160,026,352 | 153,449 | 994,454,661 | 994,884,332 | 429,671 |
| Loans and advances to customers | 10,838,506,113 | 10,993,819,295 | 155,313,182 | 11,371,806,693 | 11,519,733,884 | 147,927,191 |
| Financial assets held for trading | 82,141,549 | 82,141,549 | 0 | 88,239,176 | 88,239,176 | 0 |
| Financial assets available for sale | 5,667,750,747 | 5,667,750,747 | 0 | 6,522,733,202 | 6,522,733,202 | 0 |
| Investments held to maturity | 163,810,537 | 175,621,453 | 11,810,916 | 123,738,533 | 134,834,794 | 11,096,261 |
| Derivatives | 425,057,766 | 425,057,766 | 0 | 286,864,028 | 286,864,028 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 13,878,066 | 13,878,066 | 0 | 10,161,025 | 10,161,025 | 0 |
| Investments in associates | 22,660,198 | 22,660,198 | 0 | 22,348,474 | 22,348,474 | 0 |
| Other assets | 722,333,637 | 722,333,637 | 0 | 713,327,294 | 713,327,294 | 0 |
| **TOTAL** | **20,285,694,815** | **20,452,972,362** | **167,277,547** | **21,473,871,162** | **21,633,324,285** | **159,453,123** |

| A.2 Fair value of liabilities | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Amounts due to credit institutions | 2,009,224,539 | 2,013,497,801 | (4,273,262) | 1,988,226,954 | 1,996,056,578 | (7,829,624) |
| Amounts due to customers | 13,444,133,543 | 13,454,786,632 | (10,653,089) | 15,019,202,404 | 15,028,615,600 | (9,413,196) |
| Financial liabilities held for trading | 126,377 | 126,377 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 1,023,273,436 | 1,023,273,436 | 0 | 839,991,931 | 839,991,931 | 0 |
| Derivatives | 712,019,921 | 712,019,921 | 0 | 414,021,724 | 414,021,724 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 70,790,659 | 70,790,659 | 0 | 55,197,019 | 55,197,019 | 0 |
| Debt securities | 1,014,828,413 | 1,028,681,176 | (13,852,763) | 1,141,323,628 | 1,156,567,391 | (15,243,763) |
| Subordinated debt | 451,200,114 | 444,176,464 | 7,023,650 | 446,661,346 | 447,247,743 | (586,397) |
| Other liabilities | 330,171,033 | 330,171,033 | 0 | 351,621,650 | 351,621,650 | 0 |
| **TOTAL** | **19,055,768,035** | **19,077,523,499** | **(21,755,464)** | **20,256,246,656** | **20,289,319,636** | **(33,072,980)** |

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value (see point 1.7 of Note 1).

With the exception of the items "Financial liabilities held for trading" and "Financial liabilities designated at fair value", the yield differential due to our own credit quality was deemed unchanged for the purpose of calculating the fair value.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

## B. ANALYSIS OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below 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:

Level 1: fair value measurements are based on (unadjusted) prices quoted on active markets for similar assets or liabilities.

Level 2: fair value measurements are based on data other than the quoted prices included in Level 1, which are observable for the assets or liabilities, either directly (e.g. prices) or indirectly (e.g. price derivatives).

Level 3: fair value measurements are based on valuation techniques that include assets or liabilities data that are not based on observable market data (non-observable data).

Fair value of financial instruments which are not fair valued according to their classification and nature is considered as Level 2.

| B.1 Assets | 31/12/14 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 55,567,249 | 22,817,847 | 3,756,453 | 82,141,549 |
| Financial assets available for sale - bonds | 4,810,072,791 | 477,248,049 | 266,138,286 | 5,553,459,126 |
| Financial assets available for sale - equities | 75,151,350 | 5,753,028 | 33,387,243 | 114,291,621 |
| Derivatives | 0 | 414,566,353 | 10,491,413 | 425,057,766 |
| **TOTAL** | **4,940,791,390** | **920,385,277** | **313,773,395** | **6,174,950,062** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 67,697,342 | 16,010,971 | 4,530,863 | 88,239,176 |
| Financial assets available for sale - bonds | 5,592,237,867 | 857,621,712 | 22,494,285 | 6,472,353,864 |
| Financial assets available for sale - equities | 0 | 22,809,266 | 27,570,072 | 50,379,338 |
| Derivatives | 0 | 278,109,506 | 8,754,522 | 286,864,028 |
| **TOTAL** | **5,659,935,209** | **1,174,551,455** | **63,349,742** | **6,897,836,406** |

Fair value may also be calculated by the interpolation of market prices.

| B.2 Liabilities | 31/12/14 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 100,769 | 25,608 | 0 | 126,377 |
| Financial liabilities designated at fair value | 0 | 798,039,398 | 225,234,038 | 1,023,273,436 |
| Derivatives | 1,542,999 | 708,581,772 | 1,895,150 | 712,019,921 |
| **TOTAL** | **1,643,768** | **1,506,646,778** | **227,129,188** | **1,735,419,734** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 679,441,757 | 160,550,174 | 839,991,931 |
| Derivatives | 0 | 393,220,856 | 20,800,868 | 414,021,724 |
| **TOTAL** | **0** | **1,072,662,613** | **181,351,042** | **1,254,013,655** |

Fair value may also be calculated by the interpolation of market prices.

## C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

| C.1 Assets | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 1 to Level 2 | From Level 2 to Level 1 |
| Financial assets available for sale - bonds | 53,203,572 | 0 | 12,039,493 | 39,606,472 |
| Financial assets available for sale - equities | 5,700,811 | 0 | 0 | 0 |
| **TOTAL** | **58,904,383** | **0** | **12,039,493** | **39,606,472** |

C.2 Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2014 and 2015.

## D. LEVEL 3 RECONCILIATION

| D.1 Assets | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | Total gains and losses in OCI | Purchase | Sale |
| Financial assets held for trading | 1,480,216 | 629 | 0 | 3,767,500 | 0 |
| Financial assets available for sale - bonds | 0 | 0 | 0 | 215,990,100 | 0 |
| Financial assets available for sale - equities | 28,017,334 | 3,241,655 | (1,937,289) | 2,527,494 | 0 |
| Derivatives | 14,409,984 | (1,770,350) | 0 | 3,336,486 | 0 |
| **TOTAL** | **43,907,534** | **1,471,934** | **(1,937,289)** | **225,621,580** | **0** |

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Settlement | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial assets held for trading | (1,491,892) | 0 | 0 | 0 | 3,756,453 |
| Financial assets available for sale - bonds | 0 | 50,148,186 | 0 | 0 | 266,138,286 |
| Financial assets available for sale - equities | (3,717,663) | 5,868,674 | (612,962) | 0 | 33,387,243 |
| Derivatives | (1,541,296) | 4,462,901 | (8,406,312) | 0 | 10,491,413 |
| **TOTAL** | **(6,750,851)** | **60,479,761** | **(9,019,274)** | **0** | **313,773,395** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | Total gains and losses in OCI | Purchase | Sale |
| Financial assets held for trading | 3,756,453 | 622,782 | 0 | 3,096,409 | (2,944,781) |
| Financial assets available for sale - bonds | 266,138,286 | 969,301 | (21,123,135) | 22,494,285 | (969,301) |
| Financial assets available for sale - equities | 33,387,243 | 12,893 | (6,455,285) | 648,480 | (23,259) |
| Derivatives | 10,491,413 | (1,736,891) | 0 | 0 | 0 |
| **TOTAL** | **313,773,395** | **(131,915)** | **(27,578,420)** | **26,239,174** | **(3,937,341)** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Settlement | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial assets held for trading | 0 | 0 | 0 | 0 | 4,530,863 |
| Financial assets available for sale - bonds | (195,966,075) | 0 | (50,148,186) | 1,099,110 | 22,494,285 |
| Financial assets available for sale - equities | 0 | 0 | 0 | 0 | 27,570,072 |
| Derivatives | 0 | 0 | 0 | 0 | 8,754,522 |
| **TOTAL** | **(195,966,075)** | **0** | **(50,148,186)** | **1,099,110** | **63,349,742** |

| D.2 Liabilities | 31/12/14 | | | |
|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | New issues | Settlement |
| Financial liabilities designated at fair value | 315,342,191 | 2,562,820 | 71,383,578 | (82,327,192) |
| Derivatives | 4,439,420 | (697,348) | 702,080 | (3,302,155) |
| **TOTAL** | **319,781,611** | **1,865,472** | **72,085,658** | **(85,629,347)** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial liabilities designated at fair value | 4,004,187 | (85,216,187) | (515,359) | 225,234,038 |
| Derivatives | 826,978 | (73,823) | (2) | 1,895,150 |
| **TOTAL** | **4,831,165** | **(85,290,010)** | **(515,361)** | **227,129,188** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | New issues | Settlement |
| Financial liabilities designated at fair value | 225,234,038 | 3,610 | 93,545,215 | (162,434,335) |
| Derivatives | 1,895,150 | 321,828 | 18,583,890 | 0 |
| **TOTAL** | **227,129,188** | **325,438** | **112,129,105** | **(162,434,335)** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial liabilities designated at fair value | 0 | 0 | 4,201,646 | 160,550,174 |
| Derivatives | 0 | 0 | 0 | 20,800,868 |
| **TOTAL** | **0** | **0** | **4,201,646** | **181,351,042** |

Following the AQR review, BIL has elaborated a procedure defining the criteria for an active market and the notions of observable and non-observable inputs. These definitions have led the Bank to reconsider the levels of existing positions and led to changes in the levels of some banking and structured bonds activities.

**Banking bonds**

For each position, the FRM department has obtained from Bloomberg the following information:
- the bid and ask spread
- the issue size (with type of issuer and currency)
- number of contributors providing a direct observable price.

Following these criteria, FRM has submitted a level for advise to a market expert.

The market expert has pointed out that some instruments are still in an active market even though all the criteria are not filled. Therefore, we need to consider the following information:

a) The rarity of the issue: when the overall issuer debt is relatively low , or in the case of securities issued by issuers outside the Eurozone. This is the case of emissions from Poland, the Czech Republic (EUR -area size and debt), Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively low as well as the number of contributors.

b) Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.

c) The investors "buy and hold" behavior: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid / ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

**Structured bonds**

Finalyse communicates for each product the type of data required for the valorization as well as whether these data are observable or not.

Moreover, the market expert is requested to evaluate the impact of the non observability of the forward data.

The "Total gains and losses in the statement of income" column cannot be analysed separately as such. Indeed, certain assets and liabilities at amortised cost or classified under Level 1 or 2 may be hedged by derivatives classified under Level 3. We refer to Note 11.3 "Result of hedge accounting" for an economic view of the impact in the statement of income.

It should be noted that Level 3 financial instruments held for trading are the result of buybacks of BIL issues.

## E. SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE SCENARIOS

BIL uses a discounted cash flow model to determine the mark-to-model price. Sensitivity is a measurement of the fair value impact of alternative scenarios relating to the model's unobservable parameters at the closing date.

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:
- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;
- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar products, and/or by incorporating an analysis of the bid-ask spread for real transactions.

Tests were carried out on all financial instruments classified under Level 3.

The effects of sensitivity are mainly felt at the level of structured issues recognised at fair value through profit and loss. These effects are, however, offset by a reverse sensitivity at the level of activity-related hedging derivatives.

The most significant stand-alone Level 3 instrument is BIL's participation in Luxair SA. The sensitivity test leads to a minor impact in the OCI reserve. Nevertheless, such a sensitivity analysis is not relevant as many factors (such as fuel market volatility and global economic context) may impact Luxair valuation.

## 12.2 Credit risk exposures

### A. ANALYSIS OF BIL EXPOSURES

Counterparty and geographical exposures are indicated in the consolidated management report. Geographical region is determined according to the country of residence of the counterparty.

Credit risk includes counterparty risk in relation to balance sheet items and confirmed off-balance sheet items.

Risks are evaluated after taking into account the effect of guarantees and impairment.

The risks relate to all entities in which BIL is a majority shareholder.

**Exposures by geographical region**

| (in EUR million) | 31/12/14 | 31/12/15 |
|---|---|---|
| Belgium | 1,396 | 1,436 |
| France | 2,117 | 2,558 |
| Germany | 1,179 | 1,118 |
| Switzerland | 1,217 | 952 |
| Greece | 0 | 1 |
| Ireland | 450 | 459 |
| Italy | 598 | 467 |
| Luxembourg | 9,810 | 10,660 |
| Spain | 472 | 617 |
| Portugal | 5 | 7 |
| Other EU countries | 1,419 | 1,856 |
| Turkey | 8 | 8 |
| Rest of Europe | 687 | 672 |
| United States and Canada | 115 | 575 |
| Central and South America | 4 | 8 |
| Japan | 16 | 27 |
| South-east Asia | 381 | 226 |
| Other | 379 | 604 |
| TOTAL | 20,253 | 22,251 |

**Exposures by counterparty category**

| (in EUR million) | 31/12/14 | 31/12/15 |
|---|---|---|
| Central Governments | 5,225 | 5,409 |
| Public Sector Entities | 1,372 | 1,583 |
| Corporate | 3,941 | 4,250 |
| Securitisation | 100 | 281 |
| Project Finance | 6 | 0 |
| Individuals, SME & Self Employed | 7,277 | 7,551 |
| Financial institutions | 2,326 | 3,172 |
| Other | 6 | 5 |
| TOTAL | 20,253 | 22,251 |

Credit risk exposure is shown as follows:

- Balance sheet assets other than derivative contracts are valued at their net value (i.e. the carrying value after deduction of the specific provision).
- Derivative contracts are recorded at their mark-to-market value plus add-on ("add-on" is an estimate of potential future exposure; this value is not recorded but is added on for regulatory purposes).
- Off-balance sheet items are shown in terms of total commitment.

The total amount of off-balance sheet commitments corresponds to unused lines of credit or to the maximum amount of guarantees granted by BIL to third parties.

Exposure to credit risk is broken down by geographic region and counterparty category, bearing in mind guarantees received.

### B. CREDIT RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENTS

| | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| (in EUR million) | Credit risk exposures [1] | Financial effect of the collateral | Credit risk exposures [1] | Financial effect of the collateral |
| Available for sale portfolio (excluding variable-income securities) | 5,551 | 0 | 6,457 | 0 |
| Held for trading portfolio (excluding variable-income securities) | 56 | 0 | 68 | 0 |
| Loans and advances (at amortised cost) | 11,926 | 1,759 | 12,796 | 2,062 |
| Financial assets held to maturity | 164 | 0 | 124 | 0 |
| Derivatives | 133 | 197 | 120 | 151 |
| Other financial instruments at cost | 46 | 0 | 148 | 0 |
| Commitments in respect of loans granted | 189 | 6 | 132 | 3 |
| Commitments in respect of guarantees given | 2,188 | 1,052 | 2,406 | 883 |
| TOTAL | 20,253 | 3,014 | 22,251 | 3,099 |

[1] Credit risk exposures net of the financial effect of the collateral.

## C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Credit quality of normal financial assets | | | | |
| (in EUR million) | AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
| Available for sale portfolio (excluding variable-income securities) | 2,808 | 2,134 | 145 | 464 | 5,551 |
| Held for trading portfolio (excluding variable-income securities) | 12 | 30 | 1 | 13 | 56 |
| Loans and advances (at amortised cost) | 1,679 | 4,932 | 4,097 | 903 | 11,611 |
| Financial assets held to maturity | 124 | 40 | 0 | 0 | 164 |
| Derivatives | 8 | 109 | 7 | 9 | 133 |
| Other financial instruments at cost | 1 | 3 | 1 | 42 | 47 |
| Commitments in respect of loans granted | 14 | 84 | 25 | 65 | 188 |
| Commitments in respect of guarantees given | 259 | 995 | 761 | 158 | 2,173 |
| **TOTAL** | **4,905** | **8,327** | **5,037** | **1,654** | **19,923** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Credit quality of normal financial assets | | | | |
| (in EUR million) | AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
| Available for sale portfolio (excluding variable-income securities) | 3,347 | 2,271 | 86 | 753 | 6,457 |
| Held for trading portfolio (excluding variable-income securities) | 19 | 27 | 5 | 17 | 68 |
| Loans and advances (at amortised cost) | 1,804 | 5,517 | 4,091 | 1,042 | 12,454 |
| Financial assets held to maturity | 124 | 0 | 0 | 0 | 124 |
| Derivatives | 11 | 98 | 7 | 4 | 120 |
| Other financial instruments at cost | 44 | 2 | 2 | 100 | 148 |
| Commitments in respect of loans granted | 15 | 89 | 25 | 2 | 131 |
| Commitments in respect of guarantees given | 297 | 1,050 | 775 | 270 | 2,392 |
| **TOTAL** | **5,661** | **9,054** | **4,991** | **2,188** | **21,894** |

The quality of financial assets is determined using internal credit ratings, or external ratings in the event that internal ratings are not available.

Prior to being taken into account in the table, external ratings are converted into internal ratings by means of a correlation table based on default probabilities.

## D. PAST DUE OR IMPAIRED FINANCIAL ASSETS

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Past due but not impaired assets | | | Gross 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 | | |
| Loans and advances (at amortised cost) | 153,248,228 | 80,092,300 | 143,661,147 | 314,282,159 | 449,494,617 |
| **TOTAL** | **153,248,228** | **80,092,300** | **143,661,147** | **314,282,159** | **449,494,617** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Past due but not impaired assets | | | Gross 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 | | |
| Loans and advances (at amortised cost) | 215,619,644 | 60,261,214 | 159,110,793 | 344,826,327 | 534,260,900 |
| **TOTAL** | **215,619,644** | **60,261,214** | **159,110,793** | **344,826,327** | **534,260,900** |

BIL has defined three types of past due loans:
- "technical" past due financial assets
- "operational" past due financial assets
- "credit" past due financial assets.

For reporting purposes, the financial assets in question have exceeded the payment deadline by more than 14 days for an amount of more than EUR 25.

## E. COLLATERAL AND OTHER CREDIT ENHANCEMENTS OBTAINED BY TAKING POSSESSION OF THE GUARANTEES HELD

| Type of assets obtained during the period by taking possession of the guarantees held | Carrying value | |
|---|---|---|
| | 31/12/14 | 31/12/15 |
| Cash | 19,053,867 | 10,724,979 |
| Debt instruments | 1,787,828 | 477,434 |
| **TOTAL** | **20,841,695** | **11,202,413** |

In general, guarantees obtained are immediately converted into cash by BIL.

## F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

| | As at 01/01/14 | Utilisation | Allowances | Write-backs |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(249,738,051)** | **9,663,789** | **(39,873,499)** | **16,596,833** |
| Loans and advances to customers | (230,596,261) | 6,251,881 | (36,189,932) | 16,596,833 |
| Financial assets available for sale | (19,141,790) | 3,411,908 | (3,683,567) | 0 |
| *of which equities and other variable-income instruments* | *(19,141,790)* | *3,411,908* | *(3,683,567)* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(20,104,335)** | **0** | **(17,537,728)** | **11,118,382** |
| **TOTAL** | **(269,842,386)** | **9,663,789** | **(57,411,227)** | **27,715,215** |

| | Other adjustments | As at 31/12/14 | Recoveries recorded directly in profit or loss | Charges recorded directly in profit or loss |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(13,588,219)** | **(276,939,147)** | **0** | **(6,415,124)** |
| Loans and advances to customers | (12,074,542) | (256,012,021) | 0 | (6,415,124) |
| Financial assets available for sale | (1,513,677) | (20,927,126) | 0 | 0 |
| *of which equities and other variable-income instruments* | *(1,513,677)* | *(20,927,126)* | *0* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(4,781)** | **(26,528,462)** | **0** | **0** |
| **TOTAL** | **(13,593,000)** | **(303,467,609)** | **0** | **(6,415,124)** |

| | As at 01/01/15 | Utilisation | Allowances | Write-backs |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(276,939,147)** | **14,640,547** | **(38,994,238)** | **19,369,755** |
| Loans and advances to customers | (256,012,021) | 12,381,636 | (38,597,682) | 19,369,755 |
| Financial assets available for sale | (20,927,126) | 2,258,911 | (396,556) | 0 |
| *of which equities and other variable-income instruments* | *(20,927,126)* | *2,258,911* | *(396,556)* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(26,528,462)** | **0** | **(3,315,130)** | **1,285,654** |
| **TOTAL** | **(303,467,609)** | **14,640,547** | **(42,309,368)** | **20,655,409** |

| | Other adjustments | As at 31/12/15 | Recoveries recorded directly in profit or loss | Charges recorded directly in profit or loss |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(13,074,753)** | **(294,997,836)** | **2,831,085** | **(12,572,491)** |
| Loans and advances to customers | (11,985,841) | (274,844,153) | 2,831,085 | (12,572,491) |
| Financial assets available for sale | (1,088,912) | (20,153,683) | 0 | 0 |
| *of which equities and other variable-income instruments* | *(1,088,912)* | *(20,153,683)* | *0* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(23,532)** | **(28,581,470)** | **0** | **0** |
| **TOTAL** | **(13,098,285)** | **(323,579,306)** | **2,831,085** | **(12,572,491)** |

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

## G. CREDIT RISK LINKED TO FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| As at 31/12/14 | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity [1] |
|---|---|---|---|---|
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 1,023,273,436 | 560,448 | (1,168,835) | 20,467,090 |

| As at 31/12/15 | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity [1] |
|---|---|---|---|---|
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 839,991,931 | 183,613 | (985,222) | 4,470,808 |

In 2014 and 2015, no change in the fair value of BIL's financial liabilities is attributable to changes in the credit risk relating to liabilities, except for liabilities designated at fair value through profit or loss.

For liabilities revalued at fair value against profit or loss, our own credit risk was determined on the basis of changes in financing costs. Own credit risk refers to changes in the issue costs under current conditions compared to initial conditions.

## H. EXEMPTION ASSOCIATED WITH LARGE EXPOSURES

At the request of the Bank, the CSSF has granted a total exemption for its exposures towards its subsidiaries (BIL group) and towards its sister company (KBL European Private Bankers SA and its subsidiaries) in the calculation of large exposures limits, in accordance with Part XVI, point 24 of the former Circular 06/273, as amended. The amount of exposures covered by this exemption is null as at December 31, 2015 (as on a consolidated basis, exposures on entities of BIL group are excluded from the large exposures reporting). This exemption was granted on November 22, 2012.

## I. INFORMATION ON FORBORNE EXPOSURES

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

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

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

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (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 2015, BIL group's forborne exposures amounted to 296.4 million including 8 million as given banking guarantees.

[1] This amount includes premiums/discounts and the fair value adjustment.

## J. INFORMATION ON SOVEREIGN DEBTS

For 2014 and 2015, this statement refers to bonds issued by central & local governments and governmental bodies.

| As at 31/12/14 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **Austria** | | | | | | |
| Between 1 and 5 years | 59,156,953 | *4,455,994* | | | | |
| More than 5 years | 62,845,000 | *1,235,857* | *3,718,106* | | | |
| **Belgium** | | | | | | |
| Less than a year | 133,754,336 | *764* | | | | |
| Between 1 and 5 years | 66,335,341 | *742,958* | *150,502* | | | |
| More than 5 years | 673,828,062 | *20,453,823* | *25,820,451* | | | |
| **Czech Republic** | | | | | | |
| Between 1 and 5 years | 4,390,817 | *23,711* | | | | |
| More than 5 years | 42,919,965 | *539,967* | *2,474,740* | | | |
| **Finland** | | | | | | |
| Between 1 and 5 years | 24,289,507 | *3,165,594* | | | | |
| More than 5 years | | | | 51,526,611 | | |
| **France** | | | | | | |
| Between 1 and 5 years | 70,207,151 | *7,186,964* | | | | |
| More than 5 years | 665,548,360 | *22,343,472* | *29,287,041* | | | |
| **Germany** | | | | | | |
| Between 1 and 5 years | 10,271,389 | *4,902* | *173,816* | | | |
| More than 5 years | 102,938,958 | *1,121,826* | *6,013,427* | 30,966,496 | 1,770,393 | *47,931* |
| **Ireland** | | | | | | |
| Between 1 and 5 years | 192,018,303 | *9,347,343* | *950,486* | | | |
| More than 5 years | 66,868,487 | *1,048,924* | *1,736,949* | | | |
| **Italy** | | | | | | |
| Less than 1 year | 48,277,248 | *(3,811)* | | 39,852,280 | | |
| Between 1 and 5 years | 360,367,849 | *11,364,191* | *38,345* | | | |
| More than 5 years | 57,662,866 | *259,316* | *957,753* | | | |
| **Lithuania** | | | | | | |
| Between 1 and 5 years | 4,536,204 | *(1,234)* | *(1,950)* | | | |
| **Luxembourg** | | | | | | |
| Between 1 and 5 years | | | | | 6,164,473 | *4,462* |
| More than 5 years | 40,368,249 | *1,163,059* | *3,450,388* | 20,587,766 | 1,099,779 | *15,292* |
| **Mexico** | | | | | | |
| More than 5 years | | | | | 26,330 | *860* |
| **Poland** | | | | | | |
| Less than 1 year | 6,390,745 | *670* | | | | |
| Between 1 and 5 years | 35,231,879 | *265,012* | *114,742* | | | |
| More than 5 years | 56,877,595 | *1,767,448* | *3,777,102* | | | |
| **Qatar** | | | | | | |
| Less than 1 year | 41,998,919 | *(35,142)* | *4,396* | | | |
| Between 1 and 5 years | 21,715,094 | *334,829* | *(132,262)* | | | |
| More than 5 years | 23,021,194 | *205,739* | *(730,254)* | | | |
| **Singapore** | | | | | | |
| Less than 1 year | 96,424,809 | *(13,041)* | | | | |
| Between 1 and 5 years | 5,672,195 | *382* | | | | |
| **SUB-TOTAL** | **2,973,917,475** | ***86,979,517*** | ***77,803,778*** | **142,933,153** | **9,060,975** | ***68,545*** |

| As at 31/12/14 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **SUB-TOTAL BROUGHT FORWARD** | **2,973,917,475** | ***86,979,517*** | ***77,803,778*** | **142,933,153** | **9,060,975** | ***68,545*** |
| **Slovakia** | | | | | | |
| Between 1 and 5 years | 4,179,425 | *187,584* | | | | |
| More than 5 years | 112,763,409 | *4,118,746* | *3,285,064* | | | |
| **South Korea** | | | | | | |
| More than 5 years | | | | | | |
| **Spain** | | | | | | |
| Between 1 and 5 years | 69,664,771 | *777,388* | *27,372* | | | |
| More than 5 years | 108,296,771 | *1,913,115* | *2,242,931* | | | |
| **Supranational** | | | | | | |
| Between 1 and 5 years | 163,977,371 | *4,727,252* | *132,936* | | | |
| More than 5 years | 327,133,187 | *16,658,287* | *18,802,942* | | | |
| **Switzerland** | | | | | | |
| Less than 1 year | | | | | | |
| **The Netherlands** | | | | | | |
| Less than 1 year | | | | | | |
| Between 1 and 5 years | | | | | 71,564 | *2,190* |
| More than 5 years | 78,808,175 | *2,076,583* | *4,512,259* | | | |
| **United Arab Emirates** | | | | | | |
| Between 1 and 5 years | 8,720,151 | *51,939* | | | | |
| **United States of America** | | | | | | |
| Between 1 and 5 years | | | | | | |
| **TOTAL** | **3,847,460,735** | ***117,490,411*** | ***106,807,282*** | **142,933,153** | **9,132,539** | ***70,735*** |

| As at 31/12/15 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **Austria** | | | | | | |
| Between 1 and 5 years | 57,261,953 | *3,372,967* | | | | |
| More than 5 years | 61,916,521 | *2,526,434* | | | | |
| **Belgium** | | | | | | |
| Less than 1 year | 22,494,285 | *22* | | | | |
| Between 1 and 5 years | 81,307,526 | *962,043* | *154,034* | | | |
| More than 5 years | 734,415,523 | *17,565,993* | *2,670,603* | | | |
| **Czech Republic** | | | | | | |
| Less than 1 year | 4,754,500 | *33,344* | | | | |
| More than 5 years | 42,307,821 | *830,645* | *2,169,539* | | | |
| **Finland** | | | | | | |
| Between 1 and 5 years | 23,611,328 | *2,642,135* | | | | |
| More than 5 years | | | | 51,437,069 | | |
| **France** | | | | | | |
| Between 1 and 5 years | 129,065,989 | *6,308,469* | | | | |
| More than 5 years | 755,354,125 | *17,188,790* | *5,261,468* | | | |
| **Germany** | | | | | | |
| Between 1 and 5 years | 10,270,089 | *58,448* | *116,146* | | | |
| More than 5 years | 107,654,417 | *2,281,803* | *1,824,629* | 30,922,907 | 5,997,919 | *(152,536)* |
| **Ireland** | | | | | | |
| Less than 1 year | 73,230,539 | *505,744* | | | | |
| Between 1 and 5 years | 111,317,023 | *5,317,450* | *823,749* | | | |
| More than 5 years | 181,210,277 | *4,435,044* | | | | |
| **Italy** | | | | | | |
| Less than 1 year | 181,925,837 | *2,547,238* | | | | |
| Between 1 and 5 years | 143,833,100 | *4,959,175* | *23,440* | | | |
| **Lithuania** | | | | | | |
| Between 1 and 5 years | 42,677,388 | *90,038* | *(108,723)* | | | |
| More than 5 years | 5,370,917 | *(24,195)* | *48,010* | | | |
| **Luxembourg** | | | | | | |
| Between 1 and 5 years | | | | | 805,877 | *(14,843)* |
| More than 5 years | 39,338,020 | *1,561,198* | *3,020,705* | | | |
| **Mexico** | | | | | | |
| More than 5 years | | | | | 26,364 | *895* |
| **Poland** | | | | | | |
| Less than 1 year | 4,730,531 | *2,922* | | | | |
| Between 1 and 5 years | 32,241,782 | *213,839* | *230,399* | | | |
| More than 5 years | 74,393,332 | *1,580,339* | *3,835,123* | | | |
| **Qatar** | | | | | | |
| Between 1 and 5 years | 33,981,234 | *28,526* | *(139,601)* | | | |
| More than 5 years | 46,004,590 | *(279,727)* | *(275,316)* | | | |
| **Singapore** | | | | | | |
| Less than 1 year | | | | | | |
| Between 1 and 5 years | | | | | | |
| **SUB-TOTAL** | **3,000,668,647** | ***74,708,684*** | ***19,654,205*** | **82,359,976** | **6,830,160** | ***(166,484)*** |

| As at 31/12/15 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **SUB-TOTAL BROUGHT FORWARD** | **3,000,668,647** | ***74,708,684*** | ***19,654,205*** | **82,359,976** | **6,830,160** | ***(166,484)*** |
| **Slovakia** | | | | | | |
| Between 1 and 5 years | 4,179,410 | *184,112* | | | | |
| More than 5 years | 133,463,464 | *7,723,262* | *3,166,949* | | | |
| **South Korea** | | | | | | |
| More than 5 years | | | | | 6,768 | *(30)* |
| **Spain** | | | | | | |
| Less than 1 year | 61,240,497 | *567,789* | | | | |
| Between 1 and 5 years | 66,691,942 | *29,134* | *(105,626)* | | | |
| More than 5 years | 213,929,740 | *477,642* | *2,058,703* | | | |
| **Supranational** | | | | | | |
| Between 1 and 5 years | 139,819,594 | *2,786,774* | | | 233,406 | *(1,559)* |
| More than 5 years | 266,684,875 | *12,973,683* | *1,515,610* | 20,539,646 | 1,841,287 | *(103,837)* |
| **Switzerland** | | | | | | |
| Less than 1 year | 10,156,465 | | | | | |
| **The Netherlands** | | | | | | |
| More than 5 years | 78,377,367 | *2,327,366* | *4,077,668* | | | |
| **United Arab Emirates** | | | | | | |
| Between 1 and 5 years | | | | | | |
| **United States of America** | | | | | | |
| Between 1 and 5 years | 325,327,704 | *(1,851,548)* | | | | |
| **TOTAL** | **4,300,539,705** | ***99,926,898*** | ***30,367,509*** | **102,899,622** | **8,911,621** | ***(271,910)*** |

## 12.3 Encumbered assets

### A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Fair value of collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* | Fair value of encumbered collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* |
| Cash collateral | 240,110,401 | *240,110,401* | 0 | *0* |
| Debt securities | 728,698,103 | *335,098,064* | 0 | *0* |
| **TOTAL** | **968,808,504** | ***575,208,465*** | **0** | ***0*** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Fair value of collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* | Fair value of encumbered collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* |
| Cash collateral | 179,266,357 | *179,266,357* | 0 | *0* |
| Debt securities | 591,938,941 | *591,938,941* | 128,620,520 | *128,620,520* |
| **TOTAL** | **773,035,308** | ***773,035,308*** | **128,620,520** | ***128,620,520*** |

## B. ENCUMBERED ASSETS

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Carrying amount of encumbered assets | *of which: central bank's eligible* | Fair value of encumbered assets | *of which: central bank's eligible* |
| AFS Debt securities | 1,316,969,324 | *1,291,170,438* | 1,317,304,570 | *1,291,199,106* |
| *of which: issued by general governments* | *1,074,326,119* | *1,057,758,426* | *1,074,632,698* | *1,057,758,426* |
| *of which: issued by financial corporations* | *233,160,711* | *226,602,161* | *233,189,378* | *226,630,829* |
| *of which: issued by non-financial corporations* | *9,482,494* | *6,809,851* | *9,482,494* | *6,809,851* |
| Loans and advances other than loans on demand | 521,444,754 | *521,444,754* | 521,444,754 | *521,444,754* |
| **TOTAL** | **1,838,414,078** | ***1,812,615,192*** | **1,838,749,324** | ***1,812,643,860*** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Carrying amount of encumbered assets | *of which: central bank's eligible* | Fair value of encumbered assets | *of which: central bank's eligible* |
| AFS Debt securities | 1,050,810,330 | *1,050,810,330* | 1,050,810,330 | *1,050,810,330* |
| *of which: issued by general governments* | *783,575,187* | *783,575,187* | *783,575,187* | *783,575,187* |
| *of which: issued by financial corporations* | *267,235,143* | *267,235,143* | *267,235,143* | *267,235,143* |
| *of which: issued by non-financial corporations* | *0* | *0* | *0* | *0* |
| Loans and advances other than loans on demand | 285,578,368 | *285,578,368* | 285,578,368 | *285,578,368* |
| **TOTAL** | **1,336,388,698** | ***1,336,388,698*** | **1,336,388,698** | ***1,336,388,698*** |

## C. SOURCES OF ENCUMBRANCE

| | 31/12/14 | | |
|---|---|---|---|
| | Matching liabilities, contingent liabilities or securities lent | Assets or collateral received encumbered | *of which: collateral received re-used* |
| Derivatives | 711,925,749 | 521,444,754 | *0* |
| Repurchase agreements | 578,300,961 | 581,557,723 | *0* |
| *of which: central banks* | *204,963,002* | *204,963,002* | *0* |
| Collateralized deposits other than repurchase agreements | 8,113,970 | 8,113,970 | *0* |
| *of which: central banks* | *8,113,970* | *8,113,970* | *0* |
| Fair value of securities borrowed with non cash collateral | 728,698,103 | 727,297,632 | *0* |
| **TOTAL** | **2,027,038,783** | **1,838,414,079** | ***0*** |

| | 31/12/15 | | |
|---|---|---|---|
| | Matching liabilities, contingent liabilities or securities lent | Assets or collateral received encumbered | *of which: collateral received re-used* |
| Derivatives | 412,949,676 | 285,578,368 | *0* |
| Repurchase agreements | 407,220,681 | 407,273,243 | *128,620,520* |
| *of which: central banks* | *350,425,417* | *350,425,417* | *128,620,520* |
| Collateralized deposits other than repurchase agreements | 45,430,246 | 45,430,246 | *0* |
| *of which: central banks* | *45,430,246* | *45,430,246* | *0* |
| Fair value of securities borrowed with non cash collateral | 720,559,461 | 726,727,362 | *0* |
| **TOTAL** | **1,586,160,064** | **1,465,009,219** | ***128,620,520*** |

### D. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Offsetting policy is described in the Note 1.4 to the consolidated financial statements.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreements are not presented on a net basis in the consolidated financial statements. BIL may have conditional rights to set-off that are enforceable only in the event of default, or insolvency or bankruptcy of any of the counterparts. Such arrangements do not meet the conditions for offsetting according to IAS 32.

Guarantees are obtained within the framework of reverse repos, securities lending and derivatives activities.

Guarantees are given within the framework of repos, securities borrowing and derivatives activities.

The conditions for using and returning pledged assets or pledged liabilities are defined either in Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSL) and Credit Support Annexes Agreements (CSA), amended, when appropriate, by the Legal Department, or in agreements drafted directly by this department.

Cash collateral received or given relates to derivatives CSA agreements.

## 12.4 Interest rate risk: breakdown by maturity until next interest rate repricing date[1]

| A. ASSETS | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand[2] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,189,678,087 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 954,618,053 | 152,692,875 | 50,000,000 | 2,135,000 | 0 |
| Loans and advances to customers | 4,252,423,693 | 231,939,072 | 184,392,747 | 1,046,609,465 | 5,391,094,917 |
| Financial assets held for trading | 35,364,620 | 3,851,672 | 2,004,974 | 16,623,118 | 23,512,670 |
| Financial assets available for sale | 579,357,099 | 446,794,333 | 166,373,472 | 1,504,148,483 | 2,513,204,200 |
| Investments held to maturity | 0 | 15,000,000 | 23,430,165 | 0 | 122,056,785 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **7,011,441,552** | **850,277,952** | **426,201,358** | **2,569,516,066** | **8,049,868,572** |

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 5,212 | n.a. | n.a. | 1,189,683,299 |
| Loans and advances to credit institutions | 0 | 436,041 | 0 | (9,066) | 1,159,872,903 |
| Loans and advances to customers | 0 | 14,348,067 | 229,566 | (282,531,415) | 10,838,506,112 |
| Financial assets held for trading | 46,552 | 415,709 | 322,234 | n.a. | 82,141,549 |
| Financial assets available for sale | 48,310,847 | 58,947,562 | 371,541,877 | (20,927,126) | 5,667,750,747 |
| Investments held to maturity | 0 | 3,323,587 | 0 | 0 | 163,810,537 |
| Derivatives | n.a. | 23,548,681 | 401,509,085 | n.a. | 425,057,766 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 13,878,066 | n.a. | 13,878,066 |
| **TOTAL** | **48,357,399** | **101,024,859** | **787,480,828** | **(303,467,607)** | **19,540,700,979** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand[2] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,340,193,518 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 934,565,648 | 53,285,669 | 683,968 | 1,100,000 | 4,500,000 |
| Loans and advances to customers | 4,540,330,869 | 130,631,835 | 64,348,968 | 1,145,705,416 | 5,779,311,441 |
| Financial assets held for trading | 2,044,209 | 15,541,204 | 6,769,460 | 29,537,961 | 35,221,800 |
| Financial assets available for sale | 16,167,513 | 1,253,279,613 | 379,137,151 | 1,725,958,808 | 2,938,922,750 |
| Investments held to maturity | 101,830,140 | 0 | 0 | 0 | 20,000,000 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **6,935,131,897** | **1,452,738,321** | **450,939,547** | **2,902,302,185** | **8,777,955,991** |

[1] Excluding derivatives and off-balance sheet items.
[2] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 4,558 | n.a. | n.a. | 1,340,198,076 |
| Loans and advances to credit institutions | 0 | 319,376 | 0 | 0 | 994,454,661 |
| Loans and advances to customers | 0 | 14,591,427 | 312,358 | (303,425,621) | 11,371,806,693 |
| Financial assets held for trading | 99,203 | 524,437 | (1,499,098) | n.a. | 88,239,176 |
| Financial assets available for sale | 4,042,095 | 63,735,976 | 161,642,979 | (20,153,683) | 6,522,733,202 |
| Investments held to maturity | 0 | 1,908,393 | 0 | 0 | 123,738,533 |
| Derivatives | n.a. | 13,945,733 | 272,918,295 | n.a. | 286,864,028 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 10,161,025 | n.a. | 10,161,025 |
| **TOTAL** | **4,141,298** | **95,029,900** | **443,535,559** | **(323,579,304)** | **20,738,195,394** |

| **B. LIABILITIES** | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,360,324,996 | 407,367,331 | 36,629,565 | 204,750,000 | 0 |
| Amounts due to customers | 12,233,865,498 | 180,993,645 | 545,826,363 | 454,317,209 | 11,699,086 |
| Financial liabilities held for trading | 11,135 | 0 | 319 | 0 | 114,128 |
| Financial liabilities designated at fair value | 255,036,857 | 69,935,475 | 262,598,245 | 239,342,947 | 171,850,833 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 417,591,713 | 25,757,616 | 104,679,825 | 405,576,802 | 56,433,367 |
| Subordinated debt | 301,178,055 | 0 | 0 | 0 | 149,660,636 |
| **TOTAL** | **14,568,008,254** | **684,054,067** | **949,734,317** | **1,303,986,958** | **389,758,050** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 152,647 | 0 | 2,009,224,539 |
| Amounts due to customers | 895,978 | 16,535,764 | 0 | 13,444,133,543 |
| Financial liabilities held for trading | 0 | 519 | 276 | 126,377 |
| Financial liabilities designated at fair value | 0 | 3,996,377 | 20,512,702 | 1,023,273,436 |
| Derivatives | n.a. | 55,383,012 | 656,636,909 | 712,019,921 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 70,790,659 | 70,790,659 |
| Debt securities | 0 | 4,789,090 | 0 | 1,014,828,413 |
| Subordinated debt | 0 | 361,423 | 0 | 451,200,114 |
| **TOTAL** | **895,978** | **81,218,832** | **747,940,546** | **18,725,597,002** |

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5)

| B. LIABILITIES | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,195,891,541 | 168,692,395 | 146,163,135 | 382,750,000 | 94,145,802 |
| Amounts due to customers | 13,335,909,745 | 595,693,135 | 657,720,154 | 416,516,481 | 9,754,494 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 335,648,484 | 144,376,691 | 136,704,195 | 215,985,599 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 38,875,686 | 587,661,873 | 142,841,388 | 319,465,055 | 46,979,027 |
| Subordinated debt | 0 | 296,772,349 | 0 | 0 | 149,572,084 |
| **TOTAL** | **14,570,676,972** | **1,984,468,236** | **1,091,101,368** | **1,255,435,731** | **516,437,006** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 584,081 | 0 | 1,988,226,954 |
| Amounts due to customers | 904,978 | 2,703,417 | 0 | 15,019,202,404 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 2,739,272 | 4,537,690 | 839,991,931 |
| Derivatives | n.a. | 33,475,043 | 380,546,681 | 414,021,724 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 55,197,019 | 55,197,019 |
| Debt securities | 0 | 5,500,599 | 0 | 1,141,323,628 |
| Subordinated debt | 0 | 316,913 | 0 | 446,661,346 |
| **TOTAL** | **904,978** | **45,319,325** | **440,281,390** | **19,904,625,006** |

| C. NET POSITION | 31/12/14 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Balance sheet sensitivity gap | (7,556,566,702) | 166,223,885 | (523,532,959) | 1,265,529,108 | 7,660,110,522 | 47,461,421 |

| | 31/12/15 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Balance sheet sensitivity gap | (7,635,545,075) | (531,729,915) | (640,161,821) | 1,646,866,454 | 8,261,518,985 | 3,236,320 |

Derivatives are used to hedge the balance sheet sensitivity gap.

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

## 12.5 Market risk and Assets & Liabilities Management (ALM)

### A. TREASURY AND FINANCIAL MARKETS (TFM) ACTIVITIES

BIL's Treasury and Financial Markets activities support the Bank's commercial activities.
Risk on trading activity: general rate risk, forex risk, equities and spread risk are limited by value at risk (VaR) limit and / or sensitivity limit.
Treasury management - banking - subject to VaR limit and interest rate sensitivity limit.

**a. Value at Risk – 99%, 10 days (in EUR million)**
In 2015, BIL calculated:

- an interest-rate VaR and a Forex VaR based on a historical VaR (99 %, 10 days)
- an equity VaR based on a historical VaR "full Valuation".

The details of the calculation are detailed below:

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

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

The treasury activity is subject to sensitivity limits (on December 31, 2015, the sensitivity (+1%) is EUR -4.2 million, for a limit of EUR 20 million).

[1] IR: interest rate
[2] FX: forex
[3] IR & FX: without ALM
[4] EQT: equity

**b. Investment Treasury Portfolio (in EUR million)**

- Exposure

Exposures include swapped and non-swapped positions.

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | 2,323 | 2,939 |

- Interest rate sensitivity (+1 basis point)

  The portfolio's interest rate is managed by Treasury.

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | (0.15) | (0.16) |

- Credit spread sensitivity

  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | (0.81) | (1.05) |

## B. ALM INTEREST RATE RISK, EQUITY AND CREDIT SPREAD RISK

The interest rate risk is followed by an interest rate sensitivity limit. For information, the investment portfolio is measured by a credit spread sensitivity measure.

### a. ALM

ALM is managed by the ALCO (ALM Committee).
Sensitivity is the measure of the change in fair value due to a 1% change in the interest rate position of ALM activities.

| (in EUR million) | | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest rate [1] [2] | | | | Credit spread [3] | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **ALM** | Sensitivity | 0 | 44 | 68 | 61 | (2) | (2) | (2) | (2) |

| (in EUR million) | | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest rate [1] [4] | | | | Credit spread [3] | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **ALM** | Sensitivity | 32 | 15 | (8) | (9) | (2) | (2) | (2) | (2) |

[1] Sensitivity (+1%).
[2] On December 31, 2014, the interst rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
[3] Sensitivity (+1 basis point).
[4] On December 31, 2015, the interst rate sensitivity limit for BIL ALM reached EUR 81 million per percent.

**b. Investment Portfolio (in EUR million)**

- Exposure

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | 2,429 | 3,006 |

- Interest rate sensitivity (+1 basis point)
  The portfolio's interest rate is managed by the ALM.

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | (0.14) | (1.31) |

- Credit spread sensitivity
  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | (1.88) | (2.00) |

**c. ALM equity – Sensitivity of listed equities** (in EUR million)

| ALM Equity Portfolio [1] | Market Value |
|---|---|
| December 31, 2010 | 60.72 |
| December, 31 2011 | 57.21 |
| December 31, 2012 | 59.48 |
| December 31, 2013 | 66.30 |
| December 31, 2014 | 75.15 |
| December 31, 2015 | 0.00 |

[1] The management of financial establishment shares put in run-off was assigned to TFM.

## 12.6 Liquidity risk: breakdown by residual maturity[1]

BIL's approach to liquidity risk management is described under point 4. "Market risk, Assets & Liabilities Management (ALM)" section of the consolidated management report.

The maturity analysis do not include the remaining contractual maturities for derivative. The Bank considers that their contractual maturities are not essential for an understanding of the timing of the cash flows as liquidity for derivatives is managed on a daily basis according to the cash collateral posted or received.

| A. ASSETS | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand[2] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,189,678,087 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 352,511,872 | 171,658,301 | 432,794,362 | 202,481,393 | 0 |
| Loans and advances to customers | 2,215,757,189 | 1,771,918,119 | 765,260,031 | 635,581,986 | 5,717,942,569 |
| Financial assets held for trading | 529 | 7,902,565 | 10,354,654 | 8,771,213 | 54,328,093 |
| Financial assets available for sale | 9,625,887 | 455,900,740 | 202,734,185 | 1,834,897,449 | 2,706,719,326 |
| Investments held to maturity | 0 | 15,000,000 | 23,430,165 | 0 | 122,056,785 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **3,767,573,564** | **2,422,379,725** | **1,434,573,397** | **2,681,732,041** | **8,601,046,773** |

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 5,212 | n.a. | n.a. | 1,189,683,299 |
| Loans and advances to credit institutions | 0 | 436,041 | 0 | (9,066) | 1,159,872,903 |
| Loans and advances to customers | 0 | 14,348,067 | 229,566 | (282,531,415) | 10,838,506,112 |
| Financial assets held for trading | 46,552 | 415,709 | 322,234 | n.a. | 82,141,549 |
| Financial assets available for sale | 48,310,847 | 58,947,562 | 371,541,877 | (20,927,126) | 5,667,750,747 |
| Investments held to maturity | 0 | 3,323,587 | 0 | 0 | 163,810,537 |
| Derivatives | n.a. | 23,548,681 | 401,509,085 | n.a. | 425,057,766 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 13,878,066 | n.a. | 13,878,066 |
| **TOTAL** | **48,357,399** | **101,024,859** | **787,480,828** | **(303,467,607)** | **19,540,700,979** |

[1] Residual maturity, excluding derivatives and off-balance sheet items.
[2] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| A. ASSETS | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,340,193,518 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 600,687,041 | 82,187,530 | 95,494,750 | 211,265,964 | 4,500,000 |
| Loans and advances to customers | 2,350,707,065 | 1,600,056,776 | 744,268,887 | 1,150,232,667 | 5,815,063,134 |
| Financial assets held for trading | 901,646 | 2,774,080 | 6,196,199 | 43,917,768 | 35,324,941 |
| Financial assets available for sale | 116,342 | 44,274,953 | 479,800,800 | 2,387,804,059 | 3,347,280,874 |
| Investments held to maturity | 0 | 0 | 0 | 0 | 121,830,140 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **4,292,605,612** | **1,729,293,339** | **1,325,760,636** | **3,793,220,458** | **9,323,999,089** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 4,558 | n.a. | n.a. | 1,340,198,076 |
| Loans and advances to credit institutions | 0 | 319,376 | 0 | 0 | 994,454,661 |
| Loans and advances to customers | 0 | 14,591,427 | 312,358 | (303,425,621) | 11,371,806,693 |
| Financial assets held for trading | 99,203 | 524,437 | (1,499,098) | n.a. | 88,239,176 |
| Financial assets available for sale | 58,230,902 | 63,735,976 | 161,642,979 | (20,153,683) | 6,522,733,202 |
| Investments held to maturity | 0 | 1,908,393 | 0 | 0 | 123,738,533 |
| Derivatives | n.a. | 13,945,733 | 272,918,295 | n.a. | 286,864,028 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 10,161,025 | n.a. | 10,161,025 |
| **TOTAL** | **58,330,105** | **95,029,900** | **443,535,559** | **(323,579,304)** | **20,738,195,394** |

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| B. LIABILITIES | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand[1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 793,279,846 | 574,412,481 | 236,629,565 | 400,550,000 | 4,200,000 |
| Amounts due to customers | 11,705,472,651 | 709,779,680 | 545,677,344 | 454,073,040 | 11,699,086 |
| Financial liabilities held for trading | 0 | 0 | 319 | 11,115 | 114,148 |
| Financial liabilities designated at fair value | 0 | 92,139,415 | 320,881,989 | 413,892,120 | 171,850,833 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 15,003,813 | 96,881,553 | 176,668,796 | 664,751,803 | 56,733,358 |
| Subordinated debt | 0 | 0 | 0 | 301,178,055 | 149,660,636 |
| **TOTAL** | **12,513,756,310** | **1,473,213,129** | **1,279,858,013** | **2,234,456,133** | **394,258,061** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 152,647 | 0 | 2,009,224,539 |
| Amounts due to customers | 895,978 | 16,535,764 | 0 | 13,444,133,543 |
| Financial liabilities held for trading | 0 | 519 | 276 | 126,377 |
| Financial liabilities designated at fair value | 0 | 3,996,377 | 20,512,702 | 1,023,273,436 |
| Derivatives | n.a. | 55,383,012 | 656,636,909 | 712,019,921 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 70,790,659 | 70,790,659 |
| Debt securities | 0 | 4,789,090 | 0 | 1,014,828,413 |
| Subordinated debt | 0 | 361,423 | 0 | 451,200,114 |
| **TOTAL** | **895,978** | **81,218,832** | **747,940,546** | **18,725,597,002** |

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| B. LIABILITIES | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,054,855,396 | 302,853,392 | 153,038,284 | 382,750,000 | 94,145,802 |
| Amounts due to customers | 13,335,909,745 | 595,693,135 | 657,720,154 | 416,516,481 | 9,754,494 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 46,626,698 | 167,417,294 | 396,065,254 | 222,605,723 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 16,250,654 | 96,096,963 | 153,055,028 | 820,490,672 | 49,929,712 |
| Subordinated debt | 0 | 0 | 206,188,367 | 90,583,982 | 149,572,084 |
| **TOTAL** | **14,407,015,795** | **1,041,270,188** | **1,337,419,127** | **2,106,406,389** | **526,007,815** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 584,080 | 0 | 1,988,226,954 |
| Amounts due to customers | 904,978 | 2,703,417 | 0 | 15,019,202,404 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 2,739,272 | 4,537,690 | 839,991,931 |
| Derivatives | n.a. | 33,475,043 | 380,546,681 | 414,021,724 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 55,197,019 | 55,197,019 |
| Debt securities | 0 | 5,500,599 | 0 | 1,141,323,628 |
| Subordinated debt | 0 | 316,913 | 0 | 446,661,346 |
| **TOTAL** | **904,978** | **45,319,324** | **440,281,390** | **19,904,625,006** |

| C. NET POSITION | 31/12/14 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Net liquidity gap | (8,746,182,746) | 949,166,596 | 154,715,384 | 447,275,908 | 8,206,788,712 | 47,461,421 |

| | 31/12/15 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Net liquidity gap | (10,114,410,183) | 688,023,151 | (11,658,491) | 1,686,814,069 | 8,797,991,274 | 57,425,127 |

Asset liquidity and the refinancing of assets are not taken into account in this table; some long-term assets may be sold in the event that liquidity is required.

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

## 12.7 Currency risk

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | EUR | Other EU currencies | USD | Other | Total |
| Assets | 16,981,738,271 | 336,070,970 | 1,061,111,652 | 1,906,773,922 | 20,285,694,815 |
| Liabilities | 16,691,159,609 | 533,696,013 | 2,054,084,853 | 1,006,754,340 | 20,285,694,815 |
| **NET ON-BALANCE SHEET POSITION** | **290,578,662** | **(197,625,043)** | **(992,973,201)** | **900,019,582** | **0** |
| Off-balance sheet – receivable | 2,145,491,695 | 325,936,844 | 2,415,684,454 | 1,169,445,692 | 6,056,558,685 |
| Off-balance sheet – payable | 2,521,786,288 | 117,754,314 | 1,398,056,412 | 2,020,893,732 | 6,058,490,746 |
| **NET OFF-BALANCE SHEET POSITION** | **(376,294,593)** | **208,182,530** | **1,017,628,042** | **(851,448,040)** | **(1,932,061)** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | EUR | Other EU currencies | USD | Other | Total |
| Assets | 17,886,389,531 | 484,549,459 | 1,585,871,688 | 1,517,060,484 | 21,473,871,162 |
| Liabilities | 16,641,023,099 | 598,262,527 | 3,092,049,153 | 1,142,536,383 | 21,473,871,162 |
| **NET ON-BALANCE SHEET POSITION** | **1,245,366,432** | **(113,713,068)** | **(1,506,177,465)** | **374,524,101** | **0** |
| Off-balance sheet – receivable | 1,993,699,088 | 611,904,013 | 3,660,554,078 | 1,821,181,297 | 8,087,338,476 |
| Off-balance sheet – payable | 3,197,832,047 | 481,732,945 | 2,129,205,271 | 2,272,867,043 | 8,081,637,306 |
| **NET OFF-BALANCE SHEET POSITION** | **(1,204,132,959)** | **130,171,068** | **1,531,348,807** | **(451,685,746)** | **5,701,170** |

## 12.8 Solvency ratios

**Regulatory capital, total amount of weighted risks and solvency ratios**

| | 31/12/14 | 31/12/15 |
|---|---|---|
| **TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)** | **979,083,438** | **898,066,617** |
| | | |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **765,012,975** | **728,632,040** |
| Capital, share premium and own shares | 848,066,250 | 848,066,250 |
| Reserves, retained earnings and eligible result | 361,542,440 | 260,289,156 |
| Regulatory and transitional adjustments[1] | (444,595,715) | (379,723,366) |
| | | |
| **ADDITIONAL TIER 1 CAPITAL (AT1)** | **150,000,000** | **150,000,000** |
| Contingent convertible bond (issued on June 30, 2014) | 150,000,000 | 150,000,000 |
| | | |
| **TIER 2 CAPITAL (T2)** | **64,070,463** | **19,434,577** |
| Subordinated liabilities | 60,250,036 | 18,451,816 |
| IRB excess | 3,820,427 | 982,761 |
| | | |
| **RISK WEIGHTED ASSETS** | **5,006,413,548** | **5,588,699,164** |
| Credit risk | 4,140,187,282 | 4,702,903,412 |
| Market risk | 136,407,162 | 97,107,274 |
| Operational risk | 691,762,971 | 763,869,385 |
| Credit Valuation Adjustment | 38,056,133 | 24,819,093 |
| | | |
| **SOLVENCY RATIOS** | | |
| Common Equity Tier 1 ratio | 15.28% | 13.04% |
| Tier 1 ratio | 18.28% | 15.72% |
| Capital Adequacy ratio | 19.56% | 16.07% |

| [1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1** | **31/12/14** | **31/12/15** |
|---|---|---|
| Goodwill and intangible assets | (66,338,258) | (95,080,616) |
| Deferred tax assets that rely on future probability | (189,962,676) | (177,353,878) |
| Fair value reserves related to gains or losses cash flow hedges | 11,976,500 | 2,631,332 |
| Gains or losses on liabilities at fair value resulting from own credit | (1,729,283) | (1,168,835) |
| Defined benefit pension fund assets | (1,776,001) | (5,449,001) |
| AGDL reserves | (7,078,000) | (14,156,000) |
| Unrealised gains or losses measured at fair value | (189,687,997) | (89,146,368) |
| **TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1** | **(444,595,715)** | **(379,723,366)** |

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14/01).

# Financial statements of the parent company

# Report of the "réviseur d'entreprises agréé"

To the Board of Directors of
Banque Internationale à Luxembourg SA
69, Route d'Esch
L-2953 Luxembourg

## Report on the financial statements

Following our appointment by the Board of Directors, we have audited the accompanying financial statements of Banque Internationale à Luxembourg SA, which comprise the balance sheet as at 31 December 2015, the statement of income, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banque Internationale à Luxembourg SA as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the financial statements.

Ernst & Young
Société anonyme
*Cabinet de révision agréé*

Jean-Michel Pacaud

April 8, 2016

# Balance sheet

| **ASSETS** (in EUR) | | **Notes** | **31/12/14** | **31/12/15** |
|---|---|---|---|---|
| I. | Cash and balances with central banks | 7.2 | 1,031,428,253 | 800,680,893 |
| II. | Loans and advances to credit institutions | 7.3 | 1,197,296,464 | 1,099,548,561 |
| III. | Loans and advances to customers | 7.4 | 10,776,879,010 | 11,380,904,757 |
| IV. | Financial assets measured at fair value through profit or loss | 7.5 | 82,141,549 | 88,239,176 |
| V. | Financial investments | 7.6 | 5,841,074,229 | 6,755,957,799 |
| VI. | Derivatives | 9.1 | 422,025,785 | 287,764,276 |
| VII. | Fair value revaluation of portfolios hedged against interest rate risk | | 13,878,066 | 10,161,025 |
| VIII. | Investment property | 7.8 / 7.12 | 138,336,363 | 28,973 |
| IX. | Property, plant and equipment | 7.8 / 7.12 | 109,109,097 | 103,044,939 |
| X. | Intangible fixed assets | 7.9 | 35,572,105 | 39,815,468 |
| XI. | Current tax assets | 7.10 | 1,471 | 2,006 |
| XII. | Deferred tax assets | 7.10 / 9.2 | 300,820,964 | 275,359,016 |
| XIII. | Other assets | 7.11 | 99,055,326 | 92,985,445 |
| **TOTAL ASSETS** | | | **20,047,618,682** | **20,934,492,334** |

The notes are an integral part of these financial statements.

## LIABILITIES

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| I. | Amounts due to credit institutions | 8.1 | 2,249,564,864 | 2,393,641,549 |
| II. | Amounts due to customers | 8.2 | 13,063,317,586 | 14,194,391,345 |
| III. | Financial liabilities measured at fair value through profit or loss | 8.3 | 1,023,713,675 | 840,450,899 |
| IV. | Derivatives | 9.1 | 711,943,973 | 412,949,676 |
| V. | Fair value revaluation of portfolios hedged against interest rate risk | | 70,790,659 | 55,197,019 |
| VI. | Debt securities | 8.4 | 1,014,828,413 | 1,141,323,628 |
| VII. | Subordinated debt | 8.5 | 451,200,114 | 446,661,346 |
| VIII. | Provisions and other obligations | 8.6 | 70,460,894 | 48,540,128 |
| IX. | Other liabilities | 8.7 | 226,870,726 | 233,953,281 |
| **TOTAL LIABILITIES** | | | **18,882,690,904** | **19,767,108,871** |

## SHAREHOLDERS' EQUITY

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| X. | Subscribed capital | 9.6 | 141,224,090 | 141,224,090 |
| XI. | Additional paid-in capital | | 708,297,160 | 708,297,160 |
| XII. | Treasury shares | | (1,455,000) | (1,455,000) |
| XIII. | Reserves and retained earnings | | 75,278,548 | 182,173,846 |
| XIV. | Net income for the year | | 168,899,312 | 83,637,156 |
| **CORE SHAREHOLDERS' EQUITY** | | | **1,092,244,110** | **1,113,877,252** |
| XV. | Gains and losses not recognised in the statement of income | | 72,683,668 | 53,506,211 |
| | *a) AFS reserve* | | *150,018,444* | *122,109,956* |
| | *b) Other reserves* | | *(77,334,776)* | *(68,603,745)* |
| **TOTAL SHAREHOLDERS' EQUITY** | | | **1,164,927,778** | **1,167,383,463** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | **20,047,618,682** | **20,934,492,334** |

The notes are an integral part of these financial statements.

# Statement of income

| (in EUR) | | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|---|
| I. | Interest and similar income | 11.1 | 589,463,898 | 494,623,457 |
| II. | Interest and similar expenses | 11.1 | (332,830,292) | (221,599,584) |
| III. | Dividend income | 11.2 | 6,757,889 | 5,156,872 |
| IV. | Net trading income and net result of hedge accounting | 11.3 | 18,357,360 | 16,481,996 |
| V. | Net income on investments (assets and liabilities not measured at fair value through profit or loss) | 11.4 | 128,208,585 | 16,892,669 |
| VI. | Fee and commission income | 11.5 | 176,538,852 | 171,662,612 |
| VII. | Fee and commission expenses | 11.5 | (25,088,353) | (22,810,587) |
| VIII. | Other net income | 11.6 | (20,805,504) | (6,358,869) |
| **INCOME** | | | **540,602,435** | **454,048,566** |
| IX. | Staff expenses | 11.7 | (180,898,528) | (189,768,363) |
| X. | General and administrative expenses | 11.8/11.9 | (100,589,676) | (108,218,099) |
| XI. | Amortisation of tangible and intangible fixed assets | 11.10 | (26,780,946) | (23,366,968) |
| **EXPENSES** | | | **(308,269,150)** | **(321,353,430)** |
| **GROSS OPERATING INCOME** | | | **232,333,285** | **132,695,136** |
| XII. | Impairment on loans and provisions for credit commitments | 11.11 | (26,034,064) | (18,327,998) |
| XIII. | Provisions for legal litigation | 11.13 | 299,998 | (50,000) |
| **NET INCOME BEFORE TAX** | | | **206,599,219** | **114,317,138** |
| XIV. | Tax expenses | 11.12 | (37,699,907) | (30,679,982) |
| **NET INCOME FOR THE YEAR** | | | **168,899,312** | **83,637,156** |

The notes are an integral part of these financial statements.

# Statement of comprehensive income

| (in EUR) | 31/12/14 | 31/12/15 |
|---|---|---|
| NET INCOME FOR THE YEAR RECOGNISED IN THE STATEMENT OF INCOME | 168,899,312 | 83,637,156 |
| GAINS (LOSSES) NOT RECOGNISED IN THE STATEMENT OF INCOME | 45,162,252 | (19,177,457) |
| **Items that will not be reclassified to profit or loss** | **(8,329,832)** | **14,999,342** |
| Actuarial gains (losses) on defined benefit pension plans - Gross | (11,768,624) | 21,191,497 |
| Actuarial gains (losses) on defined benefit pension plans - Tax | 3,438,792 | (6,192,155) |
| **Items that may be reclassified to profit or loss** | **53,492,084** | **(34,176,799)** |
| Gains (losses) on net investment hedge | (95,022) | (313,729) |
| Translation adjustments | (1,412,271) | (15,391,422) |
| Gains (losses) on cash flow hedge | 3,009,872 | 13,047,731 |
| Unrealised gains (losses) on available for sale financial investments | 73,565,799 | (39,073,659) |
| Tax on items that may be reclassified to profit or loss | (21,576,294) | 7,554,280 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | 214,061,564 | 64,459,699 |

The notes are an integral part of these financial statements.

# Statement of changes in equity

| CORE SHAREHOLDERS' EQUITY<br>(in EUR) | Subscribed capital | Additional paid-in capital | Treasury shares | Reserves and retained earnings[1] | Net income for the year | Core shareholders' equity |
|---|---|---|---|---|---|---|
| **AS AT 01/01/14** | **141,224,090** | **708,297,160** | **(1,455,000)** | **11,269,434** | **167,860,341** | **1,027,196,025** |
| Interim dividend paid | | | | (99,986,656) | | (99,986,656) |
| Classification of income 2013 | | | | 167,860,341 | (167,860,341) | 0 |
| Classification of income to hybrid capital | | | | (2,962,684) | | (2,962,684) |
| Cancellation of deferred tax liabilities on hybrid capital | | | | 865,696 | | 865,696 |
| Dividend received on own shares | | | | 48,073 | | 48,073 |
| IAS 19 Restatement[2] | | | | (1,815,656) | 0 | (1,185,656) |
| Net income for the year | | | | | 168,899,312 | 168,899,312 |
| **AS AT 31/12/14** | **141,224,090** | **708,297,160** | **(1,455,000)** | **75,278,548** | **168,899,312** | **1,092,244,110** |

| GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME<br>(in EUR) | Securities (AFS) | Derivatives (CFH) | Other reserves | Translation adjustments[3] | Gains and losses not recognised in the statement of income |
|---|---|---|---|---|---|
| **AS AT 01/01/14** | **97,177,219** | **(14,830,182)** | **(10,068,572)** | **(44,757,049)** | **27,521,416** |
| Net change in fair value through equity - Available for sale investments | 87,910,700 | | | | 87,910,700 |
| Net change in fair value through equity - Cash flow hedges | | 2,098,130 | | | 2,098,130 |
| Net change in other reserves | | | (8,329,832) | | (8,329,832) |
| Translation adjustments | 3 | | | (1,412,271) | (1,412,268) |
| Reimbursements for the period, disposals or maturities | 4,152 | | | | 4,152 |
| Cancellation of fair value following AFS disposals | (35,073,630) | | | | (35,073,630) |
| Cash flow hedge - Break in hedging | | (35,000) | | | (35,000) |
| **AS AT 31/12/14** | **150,018,444** | **(12,767,052)** | **(18,398,404)** | **(46,169,320)** | **72,683,668** |

The notes are an integral part of these financial statements.

[1] of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 10 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.
[2] Refer to Note 8.6.
[3] As at December 31, 2014, translation adjustments comprise an amount of EUR -37'105'106 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

| CORE SHAREHOLDERS' EQUITY<br><br>(in EUR) | Subscribed capital | Additional paid-in capital | Treasury shares | Reserves and retained earnings [1] | Net income for the year | Core shareholders' equity |
|---|---|---|---|---|---|---|
| **AS AT 01/01/15** | **141,224,090** | **708,297,160** | **(1,455,000)** | **75,278,548** | **168,899,312** | **1,092,244,110** |
| Dividends paid | | | | (54,996,696) | | (54,996,696) |
| Classification of income 2014 | | | | 168,899,312 | (168,899,312) | 0 |
| Interest on contingent convertible bond | | | | (7,033,760) | | (7,033,760) |
| Dividend received on own shares | | | | 26,442 | | 26,442 |
| Net income for the year | | | | | 83,637,156 | 83,637,156 |
| **AS AT 31/12/15** | **141,224,090** | **708,297,160** | **(1,455,000)** | **182,173,846** | **83,637,156** | **1,113,877,252** |

| GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME<br><br>(in EUR) | Securities (AFS) | Derivatives (CFH) | Other reserves | Translation adjustments [2] | Gains and losses not recognised in the statement of income |
|---|---|---|---|---|---|
| **AS AT 01/01/15** | **150,018,444** | **(12,767,052)** | **(18,398,404)** | **(46,169,320)** | **72,683,668** |
| Net change in fair value through equity - Available for sale investments | (2,300,560) | | | | (2,300,560) |
| Net change in fair value through equity - Cash flow hedges | | 1,323,805 | | | 1,323,805 |
| Net change in other reserves | | | 14,999,342 | | 14,999,342 |
| Translation adjustments | (34,474) | | | (15,391,422) | (15,425,896) |
| Reimbursements for the period, disposals or maturities | (1,305) | | | | (1,305) |
| Cancellation of fair value following AFS disposals | (25,572,149) | | | | (25,572,149) |
| Cash flow hedge - Break in hedging | | 7,799,306 | | | 7,799,306 |
| **AS AT 31/12/15** | **122,109,956** | **(3,643,941)** | **(3,399,062)** | **(61,560,742)** | **53,506,211** |

The notes are an integral part of these financial statements.

[1] of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 10 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.

[2] As at December 31, 2015, translation adjustments comprise an amount of EUR -53'159'213 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

# Cash flow statement

| (in EUR) | Notes | 31/12/14 | 31/12/15 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net income for the year | | 168,899,312 | 83,637,156 |
| Adjustment for: | | | |
| - Depreciation and amortisation | 7.8 / 7.9 | 39,324,637 | 35,728,681 |
| - Impairment on bonds, equities and other assets | 11.4 / 11.11 | 14,282,874 | 5,877,300 |
| - Net gains/(losses) on investments | | (70,962,986) | 828,297 |
| - Provisions (including collective impairment) | 7.11 / 8.6 / 8.8 / 11.11 | 1,102,318 | (2,429,483) |
| - Change in unrealised gains/(losses) | 11.3 | (111,127) | 12,240,929 |
| - Deferred taxes | 11.12 | 37,699,907 | 29,729,960 |
| Changes in operating assets and liabilities | | (58,014,238) | (460,193,519) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **132,220,697** | **(294,580,679)** |
| | | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of fixed assets | 7.8 / 7.9 | (27,400,933) | (27,839,043) |
| Sale of fixed assets | 7.8 / 7.9 | 6,661,162 | (656,280) |
| Purchase of non-consolidated shares | | (8,862,331) | (27,798,387) |
| Sales of non-consolidated shares | | 12,425,639 | 4,329,610 |
| Sales of subsidiaries/branch closures | | 66,517,115 | 0 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **49,340,652** | **(51,955,100)** |
| | | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Capital increase | | 3,462,875 | 0 |
| Issuance of subordinated debts | | 150,000,000 | 0 |
| Reimbursement of subordinated debts | | (138,997,158) | (26,752,178) |
| Dividends paid | | (99,986,656) | (54,996,695) |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **(85,520,939)** | **(81,748,873)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **96,040,410** | **(428,284,652)** |
| | | | |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **1,922,833,633** | **2,029,680,649** |
| Net cash flow from operating activities | | 132,220,697 | (294,580,679) |
| Net cash flow from investing activities | | 49,340,652 | (51,955,100) |
| Net cash flow from financing activities | | (85,520,939) | (81,748,873) |
| Effect of change in exchange rate on cash and cash equivalents | | 10,806,606 | 6,946,678 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **7.1** | **2,029,680,649** | **1,608,342,675** |
| | | | |
| **ADDITIONAL INFORMATION** | | | |
| Taxes paid | | (15,471) | (950,557) |
| Dividends received | 11.2 | 6,757,889 | 5,156,872 |
| Interest received | | 630,890,285 | 500,960,517 |
| Interest paid | | (367,172,843) | (257,215,972) |

The Bank decided to classify operations relating to core shareholders' equity, treasury shares and other elements eligible as regulatory capital as financing activities.

Investing activities are limited to tangible and intangible fixed assets and to transactions on consolidated or non-consolidated available for sale shares.

The notes are an integral part of these financial statements.

# Notes to the financial statements of the parent company

## Preliminary note:
Presentation of the accounts

If the balance of an item is nil for the financial year under review as well as for the comparative year, this item is not included in the financial statements. This rule applies to the presentation of the balance sheet, the statement of income, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, as well as to the notes to the financial statements.

# Note 1: Accounting principles and rules of the financial statements

As the parent company's annual financial statements have been published using IFRS since 2008, the accounting principles and rules applying to the parent company's financial statements are explained in detail in the Note 1 to the consolidated financial statements herein.

**Specific information relating to the financial statements of the parent company:**
Consolidated participating interests are recorded at cost in accordance with IAS 27.

# Note 2: Changes in branches and list of main subsidiaries and associates

## 2.1 Changes in branches

**Openings**
N/A

**Closings**
N/A

## 2.2 List of main subsidiaries and associates

As at December 31, 2015, the Bank has a participating interest of at least 10 % in the capital of the following undertakings:

| Name | Head office | % of capital held |
|---|---|---|
| Banque Internationale à Luxembourg (Suisse) SA | Beethovenstrasse 48<br>PO Box 2192<br>CH-8002 Zürich | 100 |
| Belair House SA | 2, boulevard Grande-Duchesse Charlotte<br>L-1330 Luxembourg | 100 |
| BIL Asia Singapore Ltd | 9 Raffles Place #29-01<br>Republic Plaza<br>Singapore 048619 | 100 |
| BIL Auto Lease Luxembourg SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| BIL Manage Invest SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| BIL Reinsurance SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| BIL Trust Ltd | Canada Court 14<br>PO Box 48<br>St Peter Port<br>Guernsey GY1 3BQ, Channel Islands | 100 |
| CD-PME, Société Luxembourgeoise de Capital-Développement pour les PME SA | 7, rue du Saint-Esprit<br>L-1475 Luxembourg | 10 |
| Compagnie Financière BIL SA & Cie S.e.c.s. | 69, route d'Esch<br>L-2953 Luxembourg | 99.99 |
| Europay Luxembourg S.C | 10, rue Gabriel Lippmann<br>L-5365 Munsbach | 35.20 |
| Experta Corporate and Trust Services SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |

| Name | Head office | % of capital held |
|---|---|---|
| FS-B Sàrl | 29, boulevard Prince Henri<br>L-1724 Luxembourg | 17.66 |
| FS-T Sàrl | 29, boulevard Prince Henri<br>L-1724 Luxembourg | 17.66 |
| I.B. Finance SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| Red Sky SA | 69, route d'Esch<br>L-2953 Luxembourg | 100 |
| Luxair, Société Luxembourgeoise de Navigation Aérienne SA | Aéroport de Luxembourg<br>L-2987 Luxembourg | 13.14 |
| Private II Wealth Management SARL | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| Selskabet af 18 December 2013 A/S | Gronningen 17<br>DK-1270 Copenhagen | 100 |
| Société de la Bourse de Luxembourg SA | 35A, boulevard Joseph II<br>L-1840 Luxembourg | 21.41 |
| Société du 25 juillet 2013 SA | 54-56 avenue Hoche<br>Building Regus<br>F-75008 Paris | 100 |
| Société Luxembourgeoise de Leasing - BIL-LEASE SA | Valley Park B<br>42, rue de la Vallée<br>L-2661 Luxembourg | 100 |
| Visalux S.C. | 10, rue Gabriel Lippmann<br>L-5365 Munsbach | 16.24 |

# Note 3: Business and geographic reporting

Please refer to Note 3 to the consolidated financial statements.

| **INCOME** (in EUR thousands) | 31/12/14 | | |
|---|---|---|---|
| | **Income** | ***of which interest income and dividend income*** | **Net income before tax** |
| Retail, Corporate and Private Banking | 413,538 | *248,017* | 128,077 |
| Treasury and Financial Markets | 69,040 | *6,136* | 35,210 |
| Group Center | 58,024 | *9,238* | 43,312 |
| **TOTAL** | **540,602** | ***263,391*** | **206,599** |
| Net income before tax | | | 206,599 |
| Tax expenses | | | (37,700) |
| **NET INCOME** | | | **168,899** |

| | 31/12/15 | | |
|---|---|---|---|
| | **Income** | ***of which interest income and dividend income*** | **Net income before tax** |
| Retail, Corporate and Private Banking | 419,794 | *249,513* | 133,985 |
| Treasury and Financial Markets | 38,843 | *20,159* | 3,333 |
| Group Center | (4,588) | *8,509* | (23,001) |
| **TOTAL** | **454,049** | ***278,181*** | **114,317** |
| Net income before tax | | | 114,317 |
| Tax expenses | | | (30,680) |
| **NET INCOME** | | | **83,637** |

| ASSETS AND LIABILITIES (in EUR thousands) | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Retail, Corporate and Private Banking | 10,776,879 | 14,296,716 | 11,380,905 | 15,351,163 |
| Treasury and Financial Markets | 8,395,920 | 3,751,908 | 8,828,832 | 3,607,332 |
| Group Center | 874,820 | 834,067 | 724,756 | 808,614 |
| **TOTAL** | **20,047,619** | **18,882,691** | **20,934,493** | **19,767,109** |

| OTHER SEGMENT INFORMATION (in EUR thousands) | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Capital expenditures | Depreciation and amortisation | Impairments[1] | | Other non-cash expenses[2] |
| | | | Allowances | Write-backs | |
| Retail, Corporate and Private Banking | 0 | 0 | (51,692) | 31,919 | (3,857) |
| Treasury and Financial Markets | 0 | 0 | (199) | 143 | 0 |
| Group Center | 12,787 | 26,781 | (6,929) | 155 | (13,653) |
| **TOTAL** | **12,787** | **26,781** | **(58,820)** | **32,217** | **(17,510)** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Capital expenditures | Depreciation and amortisation | Impairments[2] | | Other non-cash expenses[2] |
| | | | Allowances | Write-backs | |
| Retail, Corporate and Private Banking | 0 | 0 | (50,416) | 31,037 | (4,248) |
| Treasury and Financial Markets | 0 | 0 | (1,545) | 2,259 | 0 |
| Group Center | 10,070 | (23,367) | (2,660) | 3,711 | (14,776) |
| **TOTAL** | **10,070** | **(23,367)** | **(54,621)** | **37,007** | **(19,024)** |

Relations between product lines, in particular commercial product lines, financial markets and production and service centers are subject to retrocessions and/or analytical transfers, carried out according to market conditions. The results of each product line also include:

- earnings from commercial transformation, including the management costs of this transformation;
- cost of financing.

Tangible and intangible fixed assets are allocated to the "Group Center" segment, except when they are directly managed by a commercial or financial product line.

| GEOGRAPHIC BREAKDOWN (in EUR thousands) | Bahrain | Belgium | Denmark | Luxembourg | Singapore | United Arab Emirates | Total |
|---|---|---|---|---|---|---|---|
| Staff (in average FTE) | 0 | 10 | 31 | 1,704 | 20 | 9 | 1,774 |
| Subsidies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income | 2,055 | 1,855 | 6,304 | 523,134 | 6,955 | 299 | 540,602 |
| Net income before tax | 1,362 | (6,191) | 490 | 210,772 | 1,980 | (1,814) | 206,599 |
| Tax expenses | 0 | 0 | 0 | (38,337) | 637 | 0 | (37,700) |
| **NET INCOME AS AT 31/12/14** | **1,362** | **(6,191)** | **490** | **172,435** | **2,617** | **(1,814)** | **168,899** |
| Staff (in average FTE) | 0 | 0 | 35 | 1,757 | 3 | 15 | 1,810 |
| Subsidies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income | 0 | 2,323 | 8,027 | 441,376 | 904 | 1,419 | 454,049 |
| Net income before tax | 0 | 1,490 | 677 | 122,411 | (7,165) | (3,096) | 114,317 |
| Tax expenses | 0 | 0 | 0 | (30,680) | 0 | 0 | (30,680) |
| **NET INCOME AS AT 31/12/15** | **0** | **1,490** | **677** | **91,731** | **(7,165)** | **(3,096)** | **83,637** |

The geographic zone is determined by the country of the company concluding the transaction and not by the country of the transaction's counterpart.

[1] Include impairments on tangible and other intangible assets, impairments on securities, impairments on loans and provisions for credit commitments and impairments on goodwill with a breakdown between allowances and write-backs.
[2] Include IFRS2 costs, net allowances to provisions for restructuring costs, net allowances to provisions related to IAS 19 and capital losses on exchange of assets.

# Note 4: Material items in the statement of income

These items are included in point 1 of the consolidated management report.

# Note 5: Post-balance sheet events

There were no other occurrences of significant post-balance sheet events likely to have a major impact on financial statements of BIL other than those referred to in the consolidated management report.

# Note 6: Litigation

Following the bankruptcy of Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and certain investment funds linked to B. Madoff instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff. In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse.

Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 68 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

At this time, Banque Internationale à Luxembourg SA is not able to express a reasonable opinion on the duration or outcome of actions sub judice or on any potential financial impact.

As at December 31, 2014 and 2015, no provision for clawback actions had been made.

Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

The Bank is not involved in any other material litigation, where adequate provisions have not been funded, that readers may need to consider in evaluating the risks related to possible credit risks or current or potential litigation.

# Note 7: Notes on the assets of the balance sheet (in EUR)

## 7.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents may be broken down as follows (balances with initial maturity less than 90 days):

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Cash and balances with central banks | 1,031,423,041 | 800,676,335 |
| Loans and advances to credit institutions | 533,723,813 | 773,547,852 |
| Financial assets available for sale | 464,533,795 | 34,118,489 |
| **TOTAL** | **2,029,680,649** | **1,608,342,676** |

| B. OF WHICH RESTRICTED CASH | 31/12/14 | 31/12/15 |
|---|---|---|
| Mandatory reserves[1] | 103,710,035 | 392,149,430 |
| **TOTAL RESTRICTED CASH** | **103,710,035** | **392,149,430** |

Cash collateral is primarily paid or received based on the market value of collateralised derivatives.
The collateralised derivatives used by BIL are interest rate derivatives that hedge fixed rate assets. Should interest rate fall, the fair value of the assets increases and the value of the hedging derivatives decreases. This decrease generates a cash collateral payment. Against the backdrop of a general decline in interest rates years, cash collateral remains at a high level and can no longer be considered as a cash equivalent that fluctuates in the short term. It has therefore been excluded from cash equivalents. Financial assets designated at fair value and financial assets held for trading have also been excluded.

## 7.2 Cash and balances with central banks

| ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Cash in hand | 42,838,354 | 47,294,866 |
| Balances with central banks other than mandatory reserve deposits | 884,874,652 | 361,232,039 |
| Mandatory reserve deposits | 103,715,247 | 392,153,988 |
| **TOTAL** | **1,031,428,253** | **800,680,893** |
| *of which included in cash and cash equivalents* | *1,031,423,041* | *800,676,335* |

## 7.3 Loans and advances to credit institutions

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Nostro accounts | 123,433,193 | 182,344,295 |
| Cash collateral | 428,440,900 | 240,518,813 |
| Loans and other advances | 645,431,437 | 676,685,453 |
| Less: | | |
| Collective impairment | (9,066) | 0 |
| **TOTAL** | **1,197,296,464** | **1,099,548,561** |
| *of which included in cash and cash equivalents* | *533,723,813* | *773,547,852* |

[1] Mandatory reserves: minimum reserves deposited by credit institutions with Central Bank of Luxembourg or other central banks.

### B. QUALITATIVE ANALYSIS

see Note 7.13

### C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 7.4 Loans and advances to customers

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 120,940,169 | 109,066,887 |
| Other (primarily fixed advances and property loans) | 10,624,319,957 | 11,230,480,451 |
| Impaired loans | 308,935,395 | 338,214,109 |
| Less: | | |
| Specific impairment of impaired loans and debt instruments | (251,636,221) | (269,163,672) |
| Collective impairment | (25,680,290) | (27,693,018) |
| **TOTAL** | **10,776,879,010** | **11,380,904,757** |

| B. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| On demand and short notice | 1,539,018,936 | 1,926,258,900 |
| Debt instruments | 0 | 20,198,496 |
| Other term loans | 9,237,860,074 | 9,434,447,361 |
| *of which mortgage loans (real estate collateralized loans)* | *6,697,001,670* | *7,042,595,853* |
| **TOTAL** | **10,776,879,010** | **11,380,904,757** |

### C. QUALITATIVE ANALYSIS

see Note 7.13

### D. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### E. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 7.5 Financial assets measured at fair value through profit or loss

### Financial assets held for trading

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 9,132,539 | 8,911,621 |
| Credit institutions | 41,097,583 | 38,779,912 |
| Other | 31,911,427 | 40,547,643 |
| **TOTAL** | **82,141,549** | **88,239,176** |

| B. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Bonds issued by public bodies | 9,132,539 | 8,911,621 |
| Other bonds and fixed-income instruments | 72,962,458 | 79,228,352 |
| Equities and other variable-income instruments | 46,552 | 99,203 |
| **TOTAL** | **82,141,549** | **88,239,176** |

#### C. ANALYSIS BY MATURITY AND INTEREST RATE
see Notes 12.4, 12.5 and 12.6

#### D. ANALYSIS OF THE FAIR VALUE
see Note 12.1

### Financial assets designated at fair value through profit or loss (fair value option)

As at December 31, 2014 and 2015, the Bank does not hold any financial assets designated at fair value through profit or loss (fair value option).

## 7.6 Financial investments

| A. ANALYSIS BY COUNTERPART | 31/12/14 | 31/12/15 |
|---|---|---|
| Public sector | 3,989,250,420 | 4,393,282,862 |
| Credit institutions | 1,143,299,951 | 1,366,504,799 |
| Other | 696,432,244 | 985,820,108 |
| Impaired financial investments | 49,297,391 | 47,930,426 |
| **TOTAL BEFORE IMPAIRMENT** | **5,878,280,006** | **6,793,538,195** |
| Specific and collective impairment on financial investments | (37,205,777) | (37,580,396) |
| **TOTAL** | **5,841,074,229** | **6,755,957,799** |
| *of which included in cash and cash equivalents* | *464,533,795* | *34,118,489* |

#### B. QUALITATIVE ANALYSIS
see Note 7.13

#### C. ANALYSIS BY MATURITY AND INTEREST RATE
see Notes 12.4, 12.5 and 12.6

| D. ANALYSIS BY NATURE | Available for sale financial assets | | Held to maturity financial assets | |
|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Bonds issued by public bodies | 3,846,317,267 | 4,290,383,240 | 142,933,153 | 102,899,622 |
| Other bonds and fixed-income instruments | 1,639,022,471 | 2,128,315,982 | 20,877,384 | 20,838,911 |
| Equities and other variable-income instruments [1 2] | 229,129,731 | 251,100,440 | n.a. | n.a. |
| **TOTAL BEFORE IMPAIRMENT** | **5,714,469,469** | **6,669,799,662** | **163,810,537** | **123,738,533** |
| Specific and collective impairment on financial investments | (37,205,777) | (37,580,396) | 0 | 0 |
| **TOTAL** | **5,677,263,692** | **6,632,219,266** | **163,810,537** | **123,738,533** |

## 7.7 Investments in participating interests

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Net carrying value | 178,158,188 | 206,069,102 |

| A. ANALYSIS BY COUNTERPARTY (NET CARRYING VALUE) | 31/12/14 | 31/12/15 |
|---|---|---|
| Banks | 104,500,171 | 109,039,020 |
| Other | 73,658,017 | 97,030,082 |
| **TOTAL** | **178,158,188** | **206,069,102** |

| B. ANALYSIS BY NATURE (NET CARRYING VALUE) | 31/12/14 | 31/12/15 |
|---|---|---|
| Unlisted equities and other variable-income instruments | 178,158,188 | 206,069,102 |
| **TOTAL** | **178,158,188** | **206,069,102** |



[1] The amount of non-consolidated variable income securities recorded at cost amounted to EUR 1.9 million as at December 31, 2015 (EUR 1.9 million as at December 31, 2014).
[2] Include investments in participating interests as described in Note 7.7.

## 7.8 Tangible fixed assets

| A. NET CARRYING VALUE | Land and buildings | Office furniture and other equipment | | Investment property | Total |
|---|---|---|---|---|---|
| | Own use owner | Own use owner | Financing lease | | |
| **ACQUISITION COST AS AT 01/01/14** | **305,419,217** | **114,724,115** | **7,540,464** | **221,795,942** | **649,479,738** |
| - Acquisitions | 7,106,062 | 5,411,771 | 0 | 269,586 | 12,787,419 |
| - Disposals | (1,119,457) | (70,786) | (6,470,328) | (3,916,415) | (11,576,986) |
| - Transfers | (504,155) | (159,823) | 0 | (5,390) | (669,368) |
| - Translation adjustments | 21,764 | 67,819 | 0 | 0 | 89,583 |
| **ACQUISITION COST AS AT 31/12/14 (A)** | **310,923,431** | **119,973,096** | **1,070,136** | **218,143,723** | **650,110,386** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/14** | **(207,693,297)** | **(105,707,897)** | **(4,639,730)** | **(68,017,111)** | **(386,058,035)** |
| - Booked | (8,525,335) | (1,802,885) | (753,442) | (11,790,249) | (22,871,911) |
| - Write-off | 802,655 | 81,971 | 4,801,893 | 0 | 5,686,519 |
| - Transfers | 487,691 | 150,175 | 0 | 0 | 637,866 |
| - Translation adjustments | (3,109) | (56,256) | 0 | 0 | (59,365) |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/14 (B)** | **(214,931,395)** | **(107,334,892)** | **(591,279)** | **(79,807,360)** | **(402,664,926)** |
| **NET CARRYING VALUE AS AT 31/12/14 (A)+(B)** | **95,992,036** | **12,638,204** | **478,857** | **138,336,363** | **247,445,460** |

| | Land and buildings | Office furniture and other equipment | | Investment property | Total |
|---|---|---|---|---|---|
| | Own use owner | Own use owner | Financing lease | | |
| **ACQUISITION COST AS AT 01/01/15** | **310,923,431** | **119,973,096** | **1,070,136** | **218,143,723** | **650,110,386** |
| - Acquisitions | 6,224,708 | 3,639,123 | 0 | 205,704 | 10,069,535 |
| - Disposals | 0 | (103,932) | 0 | 0 | (103,932) |
| - Transfers and cancellations | (1,935,350) | 0 | (1,070,136) | (1,754,747) | (4,760,233) |
| - Translation adjustments | 29,893 | 42,262 | 0 | 0 | 72,155 |
| - Other[1] | (8,728,396) | 0 | 0 | (216,505,852) | (225,234,248) |
| **ACQUISITION COST AS AT 31/12/15 (A)** | **306,514,286** | **123,550,549** | **0** | **88,828** | **430,153,663** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/15** | **(214,931,395)** | **(107,334,892)** | **(591,279)** | **(79,807,360)** | **(403,664,926)** |
| - Booked | (7,570,133) | (2,721,739) | (478,857) | (11,882,855) | (22,653,584) |
| - Write-off | 0 | 71,943 | 0 | 0 | 71,943 |
| - Transfers and cancellations | 1,901,136 | (603) | 1,070,136 | 893,199 | 3,863,868 |
| - Translation adjustments | (6,021) | (28,287) | 0 | 0 | (34,308) |
| - Other[1] | 3,600,095 | 0 | 0 | 90,737,161 | 94,337,256 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/15 (B)** | **(217,006,318)** | **(110,013,578)** | **0** | **(59,855)** | **(327,079,751)** |
| **NET CARRYING VALUE AS AT 31/12/15 (A)+(B)** | **89,507,968** | **13,536,971** | **0** | **28,973** | **103,073,912** |

[1] 2015 movements relate to the contribution in kind of Esch Belval into Red Sky SA.

## 7.9 Intangible fixed assets

| | Internally-developed software | Other intangible fixed assets [1] | Total |
|---|---|---|---|
| **ACQUISITION COST AS AT 01/01/14** | **119,566,539** | **16,370,411** | **135,936,950** |
| - Acquisitions | 13,765,410 | 848,104 | 14,613,514 |
| - Disposals | (633,617) | (4,065,427) | (4,699,044) |
| - Transfers | 26,494 | (26,494) | 0 |
| - Translation adjustments | 9,778 | 3,569 | 13,347 |
| **ACQUISITION COST AS AT 31/12/14 (A)** | **132,734,604** | **13,130,163** | **145,864,767** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/14** | **(84,981,131)** | **(13,545,790)** | **(98,526,921)** |
| - Booked | (15,434,275) | (1,018,452) | (16,452,727) |
| - Write-off | 633,617 | 4,065,427 | 4,699,044 |
| - Transfers | 0 | 0 | 0 |
| - Translation adjustments | (9,778) | (2,280) | (12,058) |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/14 (B)** | **(99,791,567)** | **(10,501,095)** | **(110,292,662)** |
| **NET CARRYING VALUE AS AT 31/12/14 (A)+(B)** | **32,943,037** | **2,629,068** | **35,572,105** |

| | Internally-developed software | Other intangible fixed assets [1] | Total |
|---|---|---|---|
| **ACQUISITION COST AS AT 01/01/15** | **132,734,604** | **13,130,163** | **145,864,767** |
| - Acquisitions | 12,604,294 | 5,165,214 | 17,769,508 |
| - Disposals | 0 | (12,732) | (12,732) |
| - Transfers | (11,597,570) | (15,541) | (11,613,111) |
| - Translation adjustments | 0 | (2,674) | (2,674) |
| **ACQUISITION COST AS AT 31/12/15 (A)** | **133,741,328** | **18,264,430** | **152,005,758** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/15** | **(99,791,567)** | **(10,501,095)** | **(110,292,662)** |
| - Booked | (11,870,427) | (1,204,670) | (13,075,097) |
| - Write-off | 383,953 | 0 | 383,953 |
| - Transfers | 11,162,096 | (371,378) | 10,790,718 |
| - Translation adjustments | 0 | 2,798 | 2,798 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/15 (B)** | **(100,115,945)** | **(12,074,345)** | **(112,190,290)** |
| **NET CARRYING VALUE AS AT 31/12/15 (A)+(B)** | **33,625,383** | **6,190,085** | **39,815,468** |

## 7.10 Tax assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Taxes/Current | 1,471 | 2,006 |
| Deferred tax assets (see Note 9.2) | 300,820,964 | 275,359,016 |
| **TOTAL** | **300,822,435** | **275,361,022** |

[1] Other intangible fixed assets include, inter alia, softwares purchased.

## 7.11 Other assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Other assets* | 99,055,326 | 92,985,445 |
| TOTAL | 99,055,326 | 92,985,445 |

| * ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Receivables | 2,828,180 | 3,225,247 |
| Prepaid fees | 422,704 | 620,876 |
| Other receivables | 32,957,586 | 61,600,282 |
| Pension plan assets | 1,776,001 | 5,449,001 |
| Operating taxes | 8,555,997 | 10,972,377 |
| Other assets [1] | 52,514,858 | 11,117,662 |
| TOTAL | 99,055,326 | 92,985,445 |

## 7.12 Leasing

### 1. BIL as lessor

BIL is the operating lessor of certain land and buildings. Relating information is detailed in Note 7.8.

| Future net minimum lease payments under operating lease: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 6,638,000 | 6,638,000 |
| More than 1 year and less than 5 years | 6,638,000 | 0 |
| TOTAL | 13,276,000 | 6,638,000 |

### 2. BIL as lessee

#### A. FINANCIAL LEASE

BIL is the financial lessee of certain land and buildings. Relating information is detailed in Note 7.8.
Given that the total amounts are below materiality, additional information has not been provided in this note.

#### B. OPERATING LEASE

| Future net minimum lease payments under non-cancellable operating lease: | 31/12/14 | 31/12/15 |
|---|---|---|
| Less than 1 year | 3,139,615 | 4,636,116 |
| More than 1 year and less than 5 years | 906,935 | 0 |
| TOTAL | 4,046,550 | 4,636,116 |

| | | |
|---|---|---|
| Lease and sublease payments recognised as an expense during the financial year:<br>- minimum lease payments | 2,176,425 | 3,121,342 |
| TOTAL | 2,176,425 | 3,121,342 |

[1] Transactions linked to current business awaiting settlement.

## 7.13 Quality of financial assets

| Analysis of normal loans and securities | Gross amount (A) | |
|---|---|---|
| | 31/12/14 | 31/12/15 |
| Normal loans and advances to credit institutions | 1,197,305,530 | 1,099,548,561 |
| Normal loans to customers | 10,745,260,126 | 11,339,547,337 |
| Normal financial investments held to maturity | 163,810,537 | 123,738,533 |
| Normal financial investments available for sale | 5,665,172,078 | 6,621,869,236 |
| *of which bonds and fixed-income instruments* | *5,485,339,738* | *6,418,699,222* |
| *of which equities and other variable-income instruments* | *179,832,340* | *203,170,014* |
| Collective impairment on normal loans [1] | (25,689,357) | (27,693,018) |
| **TOTAL** | **17,745,858,914** | **19,157,010,649** |

| Analysis of impaired loans and securities | Gross amount (B) | | Specific loan loss allowance (C) | | Net amount (B+C) | |
|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Impaired loans and advances to customers | 308,935,395 | 338,214,109 | (251,636,221) | (269,163,672) | 57,299,174 | 69,050,437 |
| Impaired financial assets available for sale | 49,297,391 | 47,930,426 | (37,205,777) | (37,580,396) | 12,091,614 | 10,350,030 |
| *of which equities and other variable-income instruments* | *49,297,391* | *47,930,426* | *(37,205,777)* | *(37,580,396)* | *12,091,614* | *10,350,030* |
| **TOTAL** | **358,232,786** | **386,144,535** | **(288,841,998)** | **(306,744,068)** | **69,390,788** | **79,400,467** |

| Analysis of normal and impaired loans and securities | Gross amount (A+B) | | Specific loan loss allowance (C) | | Net amount (A+B+C) | |
|---|---|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Loans and advances to credit institutions | 1,197,305,530 | 1,099,548,561 | 0 | 0 | 1,197,305,530 | 1,099,548,561 |
| Loans and advances to customers | 11,054,195,521 | 11,677,761,446 | (251,636,221) | (269,163,672) | 10,802,559,300 | 11,408,597,774 |
| Financial investments held to maturity | 163,810,537 | 123,738,533 | 0 | 0 | 163,810,537 | 123,738,533 |
| Financial investments available for sale | 5,714,469,469 | 6,669,799,662 | (37,205,777) | (37,580,396) | 5,677,263,692 | 6,632,219,266 |
| *of which bonds and fixed-income instruments* | *5,485,339,738* | *6,418,699,222* | *0* | *0* | *5,485,339,738* | *6,418,699,222* |
| *of which equities and other variable-income instruments* | *229,129,731* | *251,100,440* | *(37,205,777)* | *(37,580,396)* | *191,923,954* | *213,520,044* |
| Collective impairment on normal loans [1] | (25,689,357) | (27,693,018) | n.a. | n.a. | (25,689,357) | (27,693,018) |
| **TOTAL** | **18,104,091,700** | **19,543,155,184** | **(288,841,998)** | **(306,744,068)** | **17,815,249,702** | **19,236,411,116** |

[1] For the countervalue in profit or loss, see Note 11.11.

# Note 8: Notes on the liabilities of the balance sheet (in EUR)

## 8.1 Amounts due to credit institutions

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| On demand | 361,638,837 | 721,686,611 |
| Term | 446,436,084 | 481,419,726 |
| Cash collateral | 232,858,678 | 179,934,226 |
| Repurchase agreements | 373,337,959 | 56,795,264 |
| Central banks [1] | 213,522,069 | 396,563,235 |
| Other borrowings [2] | 621,771,237 | 557,242,487 |
| **TOTAL** | **2,249,564,864** | **2,393,641,549** |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.2 Amounts due to customers

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Demand deposits | 7,489,175,484 | 8,783,320,959 |
| Savings deposits | 3,674,780,177 | 3,679,830,513 |
| Term deposits | 1,892,110,202 | 1,730,077,742 |
| Cash collateral | 7,251,723 | 1,162,131 |
| **TOTAL** | **13,063,317,586** | **14,194,391,345** |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

[1] The Management Board decided to participate for EUR 200 million at September 2014 TLTRO (Targeted longer-term refinancing operations) and for EUR 150 million at the June 2015 TLTRO.

[2] Other borrowings represent day-to-day cash management operations.

## 8.3 Financial liabilities measured at fair value through profit or loss

### Financial liabilities held for trading

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Other bonds | 126,377 | 0 |
| TOTAL | 126,377 | 0 |

#### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

#### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

### Financial liabilities designated at fair value through profit or loss (fair value option)

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Non-subordinated liabilities | 1,023,587,298 | 840,450,899 |
| TOTAL | 1,023,587,298 | 840,450,899 |

#### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

#### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

The Bank primarily uses the fair value option (FVO) to eliminate or at least significantly reduce the measurement or recognition inconsistency (also known as the accounting mismatch) that would arise from measuring financial assets or liabilities or recognising the gains and losses on these assets and liabilities on a different basis.

The fair value of unlisted financial instruments was determined using pricing tools and procedures established by Group Risk Management. These pricing tools are discounted cash flow models that allow the current value to be determined on the basis of an interest-rate curve that is applicable to similar securities and takes into account the Bank's own credit rating.

## 8.4 Debt securities

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Certificates of deposit | 61,125,788 | 55,821,740 |
| Non-convertible bonds | 953,702,625 | 1,085,501,888 |
| TOTAL | 1,014,828,413 | 1,414,323,628 |

#### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

#### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.5 Subordinated debt

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Non-convertible subordinated debt [1] | 301,539,478 | 297,089,262 |
| Contingent convertible bond (compound instrument) [2] | 149,660,636 | 149,572,084 |
| TOTAL | 451,200,114 | 446,661,346 |

### B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

### C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

## 8.6 Provisions and other obligations

| A. ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Litigation [3] | 5,447,194 | 4,357,104 |
| Restructuring (including garden leave) | 12,087,699 | 10,933,522 |
| Defined benefit plans | 35,831,334 | 17,408,001 |
| Other long-term employee benefits (including jubilee and time saving account) | 16,561,745 | 15,653,412 |
| Provision for off-balance sheet credit commitments | 31,931 | 24,200 |
| Other provisions | 500,991 | 163,889 |
| TOTAL | 70,460,894 | 48,540,128 |

| B. ANALYSIS BY MOVEMENT | Litigation | Restructuring | Pensions and other employee benefits | Provision for off-balance sheet credit commitments | Other provisions |
|---|---|---|---|---|---|
| AS AT 01/01/14 | 6,305,239 | 17,064,821 | 40,494,805 | 252,800 | 1,286,399 |
| Exchange differences | 240 | 0 | 0 | 0 | 34,758 |
| Additional provisions | 250,000 | 2,349,495 | 6,096,272 | 29,131 | 435,928 |
| Unused amounts reversed | (516,312) | 0 | (1,692,964) | (14,000) | (607,704) |
| Used during the year | (591,973) | (7,326,617) | (2,443,628) | 0 | (648,390) |
| Transfers | 0 | 0 | 0 | (236,000) | 0 |
| Revaluation through reserves [4] | n.a. | n.a. | 9,938,594 | n.a. | n.a. |
| AS AT 31/12/14 | 5,447,194 | 12,087,699 | 52,393,079 | 31,931 | 500,991 |
| AS AT 01/01/15 | 5,447,194 | 12,087,699 | 52,393,079 | 31,931 | 500,991 |
| Exchange differences | (308) | 4,788 | 0 | 0 | 25,464 |
| Additional provisions | 632,693 | 8,279,547 | 2,855,256 | 0 | 191,978 |
| Unused amounts reversed | 0 | (366,181) | (2,158,775) | (7,731) | (94,784) |
| Used during the year | (1,722,475) | (9,072,331) | (2,483,010) | 0 | (459,760) |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Revaluation through reserves [4] | n.a. | n.a. | (17,545,137) | n.a. | n.a. |
| AS AT 31/12/15 | 4,357,104 | 10,933,522 | 33,061,413 | 24,200 | 163,889 |

[1] List available upon request.
[2] On June 30, 2014, the Bank issued a EUR 150 million contingent convertible bond eligible as additional Tier 1 capital.
[3] Provisions for legal litigations, including those for staff and tax-related litigation.
[4] See point 1.22 of Note 1 to the Consolidated financial statements.

## C. RESTATEMENT OF THE JUBILEE PROVISION

Calculation of jubilee premium provision has been reviewed in order to correctly reflect the final cost of the benefits. The impact has been integrated retrospectively on 2014 figures.

### BALANCE SHEET ITEMS IMPACTED BY THE RESTATEMENT

| (in EUR) | | 31/12/14 | 31/12/14 Restated | Impact of restatement |
|---|---|---|---|---|
| XII. | Deferred tax assets | 299,908,641 | 300,820,964 | 912,323 |
| **TOTAL ASSETS** | | **20,046,706,359** | **20,047,618,682** | **912,323** |
| VIII. | Provisions and other obligations | 67,338,638 | 70,460,894 | 3,122,256 |
| **TOTAL LIABILITIES** | | **18,879,568,648** | **18,882,690,904** | **3,122,256** |
| XIII. | Reserves and retained earnings | 77,094,204 | 75,278,548 | (1,815,656) |
| XIV. | Net income of the year | 169,293,589 | 168,899,312 | (394,277) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,167,137,711** | **1,164,927,778** | **(2,209,933)** |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | | **20,046,706,359** | **20,047,618,682** | **912,323** |

## D. ANALYSIS BY MATURITY

see Note 12.6

## E. PROVISIONS FOR PENSIONS

Employees hired on or after November 1, 2007 partake in a defined-contribution pension plan, while employees hired prior to November 1, 2007 partake either in a defined-contribution or a defined-benefit pension plan. All these commitments are shown in the table below.

| **a. Reconciliation of benefit obligations** | **31/12/14** | **31/12/15** |
|---|---|---|
| Defined benefit obligations at the beginning of the year | 228,253,140 | 257,156,334 |
| Current service cost | 8,978,297 | 9,906,452 |
| Interest cost | 6,532,316 | 3,687,822 |
| Past service cost and gains and losses arising from settlements | 435,000 | 0 |
| Actuarial gains / (losses) | 30,295,614 | (16,752,452) |
| *Stemming from changes in demographic assumptions* | *0* | *0* |
| *Stemming from changes in financial assumptions* | *31,470,334* | *(8,882,183)* |
| *Stemming from experience adjustments* | *(1,174,720)* | *(7,870,269)* |
| Benefits paid | (15,512,000) | (17,515,000) |
| *Out of which: amounts paid in respect of settlements* | *0* | *0* |
| Business combination and disposals | 0 | 1,058,723 |
| Other | (1,826,033) | (1,803,879) |
| **DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR** | **257,156,334** | **235,738,000** |

| **b. Reconciliation of fair value of pension plan assets** | **31/12/14** | **31/12/15** |
|---|---|---|
| Fair value of pension plan assets at the beginning of the year | 204,171,000 | 223,101,000 |
| Actual return on pension plan assets | 24,505,000 | 7,700,000 |
| *Expected return on pension plan assets* | *5,978,010* | *3,260,955* |
| *Actuarial gains / (losses)* | *18,526,990* | *4,439,045* |
| Employer contributions | 11,763,033 | 11,555,879 |
| Benefits paid | (15,512,000) | (17,515,000) |
| *Out of which: amounts paid in respect of settlements* | *0* | *0* |
| Business combination and disposals | 0 | 741,000 |
| Other | (1,826,033) | (1,803,879) |
| **FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR** | **223,101,000** | **223,779,000** |

| c. Reconciliation of the effect of the asset ceiling | 31/12/14 | 31/12/15 |
|---|---|---|
| Effect of the asset ceiling at the beginning of the year | 0 | 0 |
| Interest on the effect of the asset ceiling | 0 | 0 |
| Change in the effect of the asset ceiling | 0 | 0 |
| Other | 0 | 0 |
| **EFFECT OF THE ASSET CEILING AT THE END OF THE YEAR** | **0** | **0** |

| | | |
|---|---|---|
| **UNFUNDED ACCRUED/PREPAID PENSION COST** | **(34,055,334)** | **(11,959,000)** |

| d. Funded status | 31/12/14 | 31/12/15 |
|---|---|---|
| Pension plan assets in excess of benefit obligation | (1,776,000) | (5,449,000) |
| Unrecognised assets | 0 | 0 |

| e. Movement in net defined benefit pension liability or asset | 31/12/14 | 31/12/15 |
|---|---|---|
| Unfunded accrued/prepaid pension cost at the beginning of the year | (24,082,140) | (34,055,334) |
| Net periodic pension cost recognised in the income statement | (9,967,603) | (10,651,042) |
| Remeasurements recognised in OCI | (11,768,624) | 21,191,497 |
| Employer contributions | 11,763,033 | 11,555,879 |
| **UNFUNDED ACCRUED/PREPAID PENSION COST AT THE END OF THE YEAR** | **(34,055,334)** | **(11,959,000)** |

| f. Movement in the IAS 19 remeasurement reserve in equity | 31/12/14 | 31/12/15 |
|---|---|---|
| Recognised reserve at the beginning of the year | (14,225,166) | (25,993,790) |
| Remeasurements recognised in OCI | (11,768,624) | 21,191,497 |
| Transfers | 0 | 0 |
| **RECOGNISED RESERVE AT THE END OF THE YEAR** | **(25,993,790)** | **(4,802,293)** |

| g. Amounts recognised in the income statement | 31/12/14 | 31/12/15 |
|---|---|---|
| Current service cost | 8,978,297 | 9,906,452 |
| Net interest on the defined benefit liability/asset | 554,306 | 426,867 |
| Past service cost | 435,000 | 0 |
| Business combination and disposals | 0 | 317,723 |
| **ACTUARIALLY DETERMINED NET PERIODIC PENSION COST** | **9,967,603** | **10,651,042** |

| h. Amounts recognised in other comprehensive income | 31/12/14 | 31/12/15 |
|---|---|---|
| Actuarial gains/losses on the defined benefit obligation | 30,295,614 | (16,752,452) |
| Actual return on plan assets (excluding amounts included in interest income) | (18,526,990) | (4,439,045) |
| Change in the effect of the asset ceiling | 0 | 0 |
| **TOTAL OTHER COMPREHENSIVE INCOME** | **11,768,624** | **(21,191,497)** |

| Actual return on pension plan assets | 31/12/14 | 31/12/15 |
|---|---|---|
| | 11.47% | 3.45% |

| Breakdown of pension plan assets | 31/12/14 | 31/12/15 |
|---|---|---|
| Fixed-income | | |
| Quoted market price on an active market | 72.96% | 73.43% |
| Unquoted | 0.00% | 0.00% |
| Equities | | |
| Quoted market price on an active market | 18.27% | 18.79% |
| Unquoted | 0.00% | 0.00% |
| Alternatives | | |
| Quoted market price on an active market | 3.24% | 2.70% |
| Unquoted | 0.00% | 0.00% |
| Cash | 5.53% | 2.93% |
| Real estate | 0.00% | 0.00% |
| Other | 0.00% | 2.15% |
| **TOTAL** | **100.00%** | **100.00%** |

The assets do not include any own transferable financial instruments issued by the Bank nor any assets occupied or used by the Bank itself.

## Significant actuarial assumptions used (at the end of the year)

### Discount rate

| DBO sensitivity to changes in discount rate | | |
|---|---|---|
| | Scenario DR -1% | 9.32% |
| | Scenario DR +1% | (7.30%) |

### Expected rate of salary increase (including inflation)

| DBO sensitivity to changes in expected rate of salary increase | | |
|---|---|---|
| | Scenario SR -1% | (2.11%) |
| | Scenario SR +1% | 4.38% |

The Duration of the pension plans DBO as of 31/12/2015 is 8.31.

| Expected contributions for next year | (12,017,193) |
|---|---|

#### Additional descriptions

A. Description of the plan - Events in the financial year - Focus on risk exposures

In Luxemburg, pension plans for "active people" are two hybrid defined benefit (DB) / defined contribution (DC) pension plans (closed plans) and one DC with guaranteed return pension plan (open plan).
In the open plan, DC depends on seniority.
For retirees, pension plan is a DB plan (closed). No specific event occured in Luxemburg during the year 2015.
Risk exposure is actually an exposure to financial risk, and for part of the plans, to the longevity and inflation risks.

B. Methods and assumptions used in preparing the sensitivity analysis

The principal assumptions used to assess the defined benefit obligationare are as follows:

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Discount rate | 1.50% | 1.50% |
| Salary increase (age based since 2015 and inflation excluded) | 1.00% | 0.50% - 3.75% |
| Inflation | 2.00% | 1.80% |

C. Description of ALM strategies

In Luxemburg, investment strategy is based on ALM objectives, trying to align as far as possible assets maturities with liabilites profile and is also based on return objectives, with limited risks exposures.
Investment strategy also aims at protecting the funding surplus (surplus according to Funding vehicule local GAAP).

D. Description of funding arrangements

In Luxemburg, pension plans for "active people" are funded through pension fund arrangements and pension plan for retired people is funded through an insurance agreement.

### 8.7 Other liabilities

| ANALYSIS BY NATURE | 31/12/14 | 31/12/15 |
|---|---|---|
| Accrued costs | 2,099,021 | 1,718,985 |
| Deferred income | 3,506,500 | 13,335,420 |
| Other payables [1] | 146,572,214 | 151,533,235 |
| Other granted amounts received | 1,218,045 | 987,888 |
| Salaries and social security costs (payable) | 23,697,810 | 27,758,170 |
| Other operating taxes | 45,482,585 | 35,841,372 |
| Other liabilities | 4,294,551 | 2,778,211 |
| TOTAL | 226,870,726 | 233,953,281 |

## Note 9: Other notes on the balance sheet (in EUR)

### 9.1 Derivatives

| A. ANALYSIS BY NATURE | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Derivatives held for trading | 308,928,467 | 287,272,409 | 204,405,619 | 211,587,273 |
| Derivatives designated as fair value hedge | 7,881,951 | 357,217,358 | 7,870,610 | 168,830,595 |
| Derivatives designated as cash flow hedge | 30,801,792 | 53,001,818 | 18,227,361 | 22,005,077 |
| Derivatives of portfolio hedge | 74,413,575 | 14,452,388 | 57,260,686 | 10,526,731 |
| TOTAL | 422,025,785 | 711,943,973 | 287,764,276 | 412,949,676 |

[1] As at December 31, 2014 and 2015, the heading "Other payables" mainly comprises the amounts of the coupons to be paid to clients of the parent company, the amounts of stock exchange transactions and transactions being liquidated.

## B. DETAIL OF DERIVATIVES HELD FOR TRADING

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **5,742,615,613** | **5,726,267,911** | **89,067,723** | **83,386,870** |
| FX forward | 5,414,955,778 | 5,394,984,311 | 69,224,657 | 50,012,836 |
| Cross currency swap | 187,623,794 | 187,132,997 | 19,067,556 | 32,280,360 |
| FX options | 140,036,041 | 144,150,603 | 775,510 | 1,093,674 |
| **Interest rate derivatives** | **2,404,331,910** | **2,419,144,479** | **206,439,330** | **202,079,865** |
| Options-Caps-Floors-Collars-Swaptions | 296,400,988 | 296,400,988 | 1,534,515 | 1,538,681 |
| IRS | 2,107,930,922 | 2,107,930,922 | 204,904,815 | 200,541,184 |
| Interest futures | 0 | 14,812,569 | 0 | 0 |
| **Equity derivatives** | **305,461,220** | **270,814,797** | **13,421,414** | **1,805,674** |
| Equity futures | 3,005,206 | 6,969,605 | 0 | 0 |
| Equity options | 163,094,852 | 124,484,030 | 1,008,581 | 0 |
| Other equity derivatives | 139,361,162 | 139,361,162 | 12,412,833 | 1,805,674 |
| **TOTAL** | **8,452,408,743** | **8,416,227,187** | **308,928,467** | **287,272,409** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Foreign exchange derivatives** | **7,904,620,473** | **7,890,345,424** | **97,808,497** | **96,728,090** |
| FX forward | 7,407,628,803 | 7,393,898,953 | 83,297,797 | 84,680,072 |
| Cross currency swap | 90,208,489 | 90,107,924 | 11,345,757 | 9,019,946 |
| FX options | 406,783,181 | 406,338,547 | 3,164,943 | 3,028,072 |
| **Interest rate derivatives** | **1,481,842,391** | **1,136,467,579** | **92,547,486** | **92,647,321** |
| Options-Caps-Floors-Collars-Swaptions | 135,589,205 | 135,589,205 | 1,867,616 | 1,871,786 |
| IRS | 973,278,594 | 973,878,594 | 90,679,870 | 90,775,535 |
| Interest futures | 372,974,592 | 26,999,780 | 0 | 0 |
| **Equity derivatives** | **336,121,106** | **324,764,403** | **14,049,636** | **22,211,862** |
| Equity futures | 0 | 3,634,638 | 0 | 0 |
| Equity options | 208,662,777 | 195,294,334 | 3,931,055 | 15,493,103 |
| Other equity derivatives | 127,458,329 | 125,835,431 | 10,118,581 | 6,718,759 |
| **TOTAL** | **9,722,583,970** | **9,351,577,406** | **204,405,619** | **211,587,273** |

## C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **2,997,593,418** | **2,997,593,418** | **7,881,951** | **357,217,358** |
| IRS | 2,997,593,418 | 2,997,593,418 | 7,881,951 | 357,217,358 |
| **TOTAL** | **2,997,593,418** | **2,997,593,418** | **7,881,951** | **357,217,358** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **1,958,104,348** | **1,958,104,348** | **7,870,610** | **168,830,595** |
| IRS | 1,958,104,348 | 1,958,104,348 | 7,870,610 | 168,830,595 |
| **TOTAL** | **1,958,104,348** | **1,958,104,348** | **7,870,610** | **168,830,595** |

| D. DETAIL OF DERIVATIVES DESIGNATED AS CASH FLOW HEDGE | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **757,093,286** | **757,093,286** | **30,801,792** | **53,001,818** |
| IRS | 757,093,286 | 757,093,286 | 30,801,792 | 53,001,818 |
| **TOTAL** | **757,093,286** | **757,093,286** | **30,801,792** | **53,001,818** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| **Interest rate derivatives** | **399,519,841** | **399,519,841** | **18,227,361** | **22,005,077** |
| IRS | 399,519,841 | 399,519,841 | 18,227,361 | 22,005,077 |
| **TOTAL** | **399,519,841** | **399,519,841** | **18,227,361** | **22,005,077** |

Cash flows in respect of the hedging instruments relating to the statement of income are recorded therein on a continual basis as interest is paid.

Interest generated by derivatives designated as cash flow hedge amounted to EUR -2.7 million in 2015 (EUR -7.4 million in 2014) and are recorded in income statement as interests on derivatives used for hedging purposes.

| Breakdown of derivatives designated as Cash Flow Hedge by residual maturity | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | Between 1 year and 5 years | Between 5 years and 10 years | More than 10 years | Total |
| Assets | 328,655 | 16,554,054 | 10,230,490 | 3,688,593 | **30,801,792** |
| Liabilities | 2,953,537 | 41,282,686 | 5,105,332 | 3,660,263 | **53,001,818** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | Between 1 year and 5 years | Between 5 years and 10 years | More than 10 years | Total |
| Assets | 0 | 15,197,687 | 3,029,674 | 0 | **18,227,361** |
| Liabilities | 374,947 | 14,174,932 | 7,455,198 | 0 | **22,005,077** |

| E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE | 31/12/14 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| Foreign exchange derivatives | 62,365,588 | 81,361,147 | 1,897,400 | 314,351 |
| Interest rate derivatives | 796,875,570 | 796,875,570 | 72,516,175 | 14,138,037 |
| **TOTAL** | **859,241,158** | **878,236,717** | **74,413,575** | **14,452,388** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Notional Amount | | Assets | Liabilities |
| | To be received | To be delivered | | |
| Foreign exchange derivatives | 34,014,633 | 40,101,212 | 1,367,646 | 201,898 |
| Interest rate derivatives | 510,804,564 | 510,804,564 | 55,893,040 | 10,324,833 |
| **TOTAL** | **544,819,197** | **550,905,776** | **57,260,686** | **10,526,731** |

## 9.2 Deferred tax

| A. ANALYSIS | 31/12/14 | 31/12/15 |
|---|---|---|
| Net deferred tax assets | 300,820,964 | 275,359,016 |
| Deferred tax liabilities | 0 | 0 |
| **DEFERRED TAX** | **300,820,964** | **275,359,016** |

| B. MOVEMENTS | 2014 | 2015 |
|---|---|---|
| **AS AT JANUARY 1** | **354,970,056** | **300,820,964** |
| Movements during the financial year: | | |
| - Amounts recognised in the statement of income | (36,280,956) | (29,914,539) |
| - Items directly computed by equity | (18,825,771) | 1,395,891 |
| - Exchange differences | 91,939 | 152,962 |
| - Other movements | 865,696 | 2,903,738 |
| **AS AT DECEMBER 31** | **300,820,964** | **275,359,016** |

| Deferred tax coming from balance sheet assets | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Cash, loans and loan loss provisions | 7,349,614 | 1,847,695 | 7,980,690 | 631,076 |
| Securities | (43,466,699) | (144,208) | (31,194,764) | 2,033,214 |
| Derivatives | 4,944,240 | 0 | 1,241,677 | 0 |
| Tangible and intangible fixed assets | 5,940,458 | (248,648) | 5,692,938 | (247,520) |
| **TOTAL** | **(25,232,387)** | **1,454,839** | **(16,279,459)** | **2,416,770** |

| Deferred tax coming from balance sheet liabilities | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Borrowings, deposits and issuance of debt securities | (1,451,869) | (1,451,869) | (1,451,869) | (2,903,738) |
| Provisions | (27,304,465) | (256,398) | (25,464,774) | 1,839,691 |
| Pensions | 13,476,419 | (455,600) | 8,658,533 | (603,520) |
| **TOTAL** | **(15,279,915)** | **(2,163,867)** | **(18,258,110)** | **(1,667,567)** |

| Deferred tax coming from other items | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | Balance sheet | P&L | Balance sheet | P&L |
| Tax losses carried forward | 527,079,402 | (36,015,589) | 500,524,730 | (29,800,281) |
| *less: impairments* | *(185,746,135)* | *0* | *(190,628,145)* | *0* |
| **TOTAL** | **341,333,267** | **(36,015,589)** | **309,896,585** | **(29,800,281)** |

Considering that:

- a large part of the unused tax losses results from identifiable causes which are unlikely to recur (the significant amount of 2011 losses result indeed from the sale of the Legacy portfolio, from sales of participations and from deleveraging impacts);
- BIL decided to re-focus on its historical business which is unlikely to generate such losses in the future, but rather a stable to increasing profitability over the next years;
- BIL new strategies are clear with a limited risk appetite, which again limits the risk that significant unexpected losses may occur in the future;
- our analysis on future taxable profit over the next years will enable to use the unused tax losses over a medium term period (no time restriction applied in Luxembourg).

Based on these considerations, BIL has recognised the full amount of unused tax losses.

## 9.3 Share-based payments

There is no stock option plan settled in BIL shares.

## 9.4 Related parties transactions

### A. RELATED PARTIES TRANSACTIONS

| (in EUR thousands) | Key management | | Subsidiaries | |
|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Loans [1] | 7,411 | 7,332 | 285,741 | 423,831 |
| Interest received | 0 | 0 | 2,711 | 1,575 |
| Deposits | 10,481 | 10,265 | 263,414 | 515,225 |
| Contingent convertible bond (compound instrument) | 0 | 0 | 0 | 0 |
| Interest paid | 0 | 0 | (2,748) | (3,470) |
| Other income – fee and commission expense | 0 | 0 | 37 | 149 |
| Guarantees and commitments given by the Group | 9 | 13 | 53,471 | 574,172 |
| Guarantees and commitments given to the Group | 1,319 | 1,317 | 10,364 | 11,292 |
| Assets entrusted from third parties | 10,672 | 7,612 | 0 | 0 |

| | Associates | | Other related parties | |
|---|---|---|---|---|
| | 31/12/14 | 31/12/15 | 31/12/14 | 31/12/15 |
| Loans [1] | 32 | 38 | 144,762 | 146,716 |
| Interest received | 0 | 0 | 14 | 61 |
| Deposits | 11,704 | 9,219 | 2,610 | 59,012 |
| Contingent convertible bond (compound instrument) | 0 | 0 | 150,000 | 150,000 |
| Interest paid | (7) | (2) | (120) | 0 |
| Other income – fee and commission expense | 0 | 0 | 0 | 0 |
| Guarantees and commitments given by the Group | 0 | 0 | 30,050 | 30,026 |
| Guarantees and commitments given to the Group | 0 | 0 | 27,630 | 27,630 |
| Assets entrusted from third parties | 0 | 0 | 150,679 | 150,467 |

2014 other related parties has been amended in order to reflect the ultimate beneficial owner.

### B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.7 "Staff expenses")

## 9.5 Securitisation

As at December 31, 2015, the BIL group has no securitisation vehicles included in its scope of consolidation. The relevant accounting rules are described in point 1.3. of Note 1 to the consolidated financial statements.

## 9.6 Subscribed and authorised capital

| By share category | 31/12/14 | 31/12/15 |
|---|---|---|
| Number of shares authorised and not issued [2] | 2,982,513 | 2,982,513 |
| Number of shares issued and fully paid up | 2,017,487 | 2,017,487 |
| Value per share (accounting par value) | EUR 70 | EUR 70 |
| Number of treasury shares | 970 | 970 |

[1] All loans were granted at market conditions. No depreciation was recorded on the loans granted to the related parties.

[2] As at December 31, 2015, the subscribed and paid-up capital of the Bank is EUR 141,224,090 (2014: EUR 141,224,090) represented by 2,017,487 shares (2014: 2,017,487 shares) with a par value of EUR 70 (2014: EUR 70). Following the extraordinary general meeting of April 25, 2014, and in accordance with the articles of incorporation, the Board of Directors of the Bank is authorised to increase the share capital to a maximum of EUR 350 million, without prejudice to possible renewals, until April 25, 2019.

### 9.7 Exchange rates

The main exchange rates used are the followings:

| | | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|---|
| | | Closing rate | Average rate | Closing rate | Average rate |
| Australian dollar | AUD | 1.4845 | 1.4719 | 1.4878 | 1.4817 |
| Canadian dollar | CAD | 1.4058 | 1.4628 | 1.5095 | 1.4259 |
| Swiss franc | CHF | 1.2028 | 1.2126 | 1.0681 | 1.0642 |
| Danish krone | DKK | 7.4460 | 7.4544 | 7.4632 | 7.4607 |
| Pound sterling | GBP | 0.7775 | 0.8026 | 0.7373 | 0.7243 |
| Hong Kong dollar | HKD | 9.4045 | 10.2485 | 8.4438 | 8.5636 |
| Japanese yen | JPY | 145.1121 | 140.5139 | 130.8260 | 133.5991 |
| Norwegian krone | NOK | 9.0523 | 8.3952 | 9.5911 | 8.9799 |
| Polish zloty | PLN | 4.3002 | 4.1963 | 4.2787 | 4.1829 |
| Swedish krone | SEK | 9.4314 | 9.1158 | 9.1668 | 9.3325 |
| Singapore dollar | SGD | 1.6057 | 1.6774 | 1.5411 | 1.5222 |
| US dollar | USD | 1.2126 | 1.3214 | 1.0894 | 1.1047 |

# Note 10: Notes on the off-balance sheet items (in EUR)

### 10.1 Regular way trade

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Loans to be delivered | 434,967,115 | 175,193,724 |
| Borrowings to be received | 437,783,437 | 474,024,934 |

### 10.2 Guarantees

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Guarantees given to credit institutions | 157,200,169 | 334,786,568 |
| Guarantees given to customers | 671,966,238 | 661,344,114 |
| Guarantees received from credit institutions | 10,363,637 | 11,291,603 |
| Guarantees received from customers | 2,906,859,490 | 2,644,870,245 |

### 10.3 Loan commitments

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Unused credit lines granted to credit institutions | 969,979 | 51,065,468 |
| Unused credit lines granted to customers | 1,604,033,909 | 1,641,240,122 |

### 10.4 Other commitments

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Banking activity - Other commitments given [1] | 31,186,366,675 | 35,629,215,323 |
| Banking activity - Other commitments received [2] | 192,177,274,891 | 197,850,491,983 |

[1] Other commitments given are mainly composed of assets entrusted to third parties.

[2] Other commitments received are mainly composed of assets held on behalf of third parties, which amounted to EUR 189.7 billion as at December 31, 2015 and EUR 184.7 billion as at December 31, 2014. 2014 figures have been restated to include custody assets from clearing or settlement institutions.

# Note 11: Notes on the statement of income (in EUR)

## 11.1 Interest and similar income - Interest and similar expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| INTEREST AND SIMILAR INCOME | 589,463,898 | 494,623,457 |
| **a) Interest and similar income of assets not measured at fair value through profit or loss** | **329,680,867** | **319,288,456** |
| Cash and balances with central banks | 210,789 | 69,183 |
| Loans and advances to credit institutions | 7,100,077 | 5,683,403 |
| Loans and advances to customers | 225,714,703 | 230,059,698 |
| Financial assets available for sale | 93,149,491 | 80,702,164 |
| Investments held to maturity | 3,505,807 | 2,774,008 |
| **b) Interest and similar income of assets measured at fair value through profit or loss** | **259,783,031** | **175,335,001** |
| Financial assets held for trading | 2,033,487 | 1,789,096 |
| Derivatives held for trading | 157,963,444 | 91,578,987 |
| Derivatives used for hedging purposes | 99,786,100 | 81,966,918 |
| INTEREST AND SIMILAR EXPENSES | (332,830,292) | (221,599,584) |
| **a) Interest and similar expense of liabilities not measured at fair value through profit or loss** | **(51,997,857)** | **(45,152,962)** |
| Amounts due to credit institutions | (9,208,016) | (7,287,325) |
| Amounts due to customers | (28,592,806) | (23,350,979) |
| Debt securities | (10,576,265) | (12,354,240) |
| Subordinated debt | (2,809,452) | (2,160,403) |
| Interest on preferred shares and hybrid capital | (811,104) | 0 |
| Other | (214) | (15) |
| **b) Interest and similar expense of liabilities measured at fair value through profit or loss** | **(280,832,435)** | **(176,446,622)** |
| Financial liabilities held for trading | (10) | (295) |
| Financial liabilities designated at fair value through profit or loss | (32,397,407) | (17,471,752) |
| Derivatives held for trading | (127,287,370) | (65,122,025) |
| Derivatives used for hedging purposes | (121,147,648) | (93,852,550) |
| NET INTEREST INCOME | 256,633,606 | 273,023,873 |

## 11.2 Dividend income

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Financial assets available for sale | 6,754,066 | 5,153,933 |
| Financial assets held for trading | 3,823 | 2,939 |
| TOTAL | 6,757,889 | 5,156,872 |

## 11.3 Net trading income and net result of hedge accounting

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Net income from transactions | (2,964,205) | 3,390,020 |
| *of which income from trading securities* | *8,679,216* | *(233,312)* |
| *of which income from trading derivatives* | *(11,643,421)* | *3,623,332* |
| Net result of hedge accounting | 111,127 | (12,240,929) |
| Net result of financial instruments designated at fair value through profit or loss* | 919,186 | 716,902 |
| Change in own credit risk [1] | (560,448) | (183,613) |
| Net foreign exchange gain/(loss) | 20,851,700 | 24,799,616 |
| **TOTAL** | **18,357,360** | **16,481,996** |

| | 31/12/14 | 31/12/15 |
|---|---|---|
| * including hedging derivatives classified in the accounts as trading derivatives (accounting mismatch) | **(4,416,459)** | **(16,457,600)** |

| **Result of hedge accounting** | **31/12/14** | **31/12/15** |
|---|---|---|
| | **Net gain/(loss)** | **Net gain/(loss)** |
| **Fair value hedge** | **(18,874)** | **(1,407,486)** |
| Change in the fair value of the hedged item attributable to the hedged risk | 187,110,392 | (13,190,184) |
| Change in the fair value of the hedging derivatives | (187,129,266) | 11,782,698 |
| **Portfolio hedge against interest rate risk** | **95,001** | **185,638** |
| Change in the fair value of the hedged item | (13,810,009) | 12,192,382 |
| Change in the fair value of the hedging derivatives | 13,905,010 | (12,006,744) |
| **Discontinuation of cash flow hedge accounting (cash flows not expected to occur)** | **35,000** | **(11,019,081)** |
| **TOTAL** | **111,127** | **(12,240,929)** |

Interest paid and received on assets, liabilities and derivatives are recorded in the interest margin. Consequently, the net trading income resulting from hedge accounting only includes changes in the valuation of derivatives, the revaluation of assets and liabilities involved in a hedge relationship and the revaluation of the trading portfolio, as well as the ineffectiveness of hedge relationships.

[1] For liabilities revalued at fair value through profit or loss, our own credit risk was determined on the basis of changes in financing costs. Own credit risk refers to changes in the issue costs under current conditions compared to initial conditions (see Note 12.2.G.)

## 11.4 Net income on investments (assets and liabilities not measured at fair value through profit or loss)

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Gains on loans and advances | 4,550,485 | 2,671,217 |
| Gains on financial assets available for sale | 122,952,860 | 17,059,897 |
| Gains on tangible fixed assets | 730,973 | 0 |
| Gains on liabilities | 3,895,657 | 625,964 |
| **TOTAL GAINS** | **132,129,975** | **20,357,078** |
| Losses on loans and advances | (1,544) | (1,291,709) |
| Losses on financial assets available for sale | (3,349,143) | (2,398,016) |
| Losses on tangible fixed assets | (3,527) | (304,316) |
| Losses on intangible fixed assets | 0 | (12,732) |
| Losses on liabilities | 0 | (171,929) |
| **TOTAL LOSSES** | **(3,354,214)** | **(4,178,702)** |
| **NET IMPAIRMENT** | **(567,176)** | **714,293** |
| **TOTAL** | **128,208,585** | **16,892,669** |

The impact of net income on financial assets available for sale of EUR 14,661,881 as at December 31, 2015 (EUR 119,603,717 as at December 31, 2014) should be compared with the EUR -32,969,910 impact of the sale of securities on the AFS reserves as at December 31, 2015 (EUR -49,553,023 as at December 31, 2014).

| Net impairment | Specific Risk | | Total |
|---|---|---|---|
| | Allowances | Write-backs | |
| **AS AT DECEMBER 31, 2014** | | | |
| Available for sale securities | (3,979,084) | 3,411,908 | (567,176) |
| **TOTAL** | **(3,979,084)** | **3,411,908** | **(567,176)** |
| **AS AT DECEMBER 31, 2015** | | | |
| Available for sale securities | (1,544,618) | 2,258,911 | 714,293 |
| **TOTAL** | **(1,544,618)** | **2,258,911** | **714,293** |

## 11.5 Fees and commissions income and expenses

| | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Income | Expenses | Net | Income | Expenses | Net |
| Management of unit trusts and mutual funds | 20,040,173 | (1,092,486) | 18,947,687 | 18,662,875 | (843,479) | 17,819,396 |
| Administration of unit trusts and mutual funds | 234,983 | 0 | 234,983 | 365,163 | 0 | 365,163 |
| Insurance activity | 10,400,018 | 0 | 10,400,018 | 9,535,436 | 0 | 9,535,436 |
| Credit activity | 15,041,173 | (157,901) | 14,883,272 | 18,097,719 | (588,502) | 17,509,217 |
| Purchase and sale of securities | 24,118,359 | (7,657,413) | 16,460,946 | 21,188,235 | (7,867,002) | 13,321,233 |
| Purchase and sale of units trusts and mutual funds | 7,381,138 | (984,488) | 6,396,650 | 5,677,508 | (479,677) | 5,197,831 |
| Payment services | 28,015,927 | (790,614) | 27,225,313 | 28,829,305 | (868,505) | 27,960,800 |
| Commissions to non-exclusive brokers | 151,496 | (389,045) | (237,549) | 58,425 | (401,332) | (342,907) |
| Services on securities other than safekeeping | 2,383,480 | (616,027) | 1,767,453 | 3,300,725 | (578,591) | 2,722,134 |
| Custody | 13,865,181 | (2,253,943) | 11,611,238 | 14,938,963 | (2,093,514) | 12,845,449 |
| Issues and placements of securities | 3,889,544 | (6,837) | 3,882,707 | 3,137,014 | (4,323) | 3,132,691 |
| Private banking | 39,918,441 | (7,825,988) | 32,092,453 | 38,235,669 | (7,095,220) | 31,140,449 |
| Clearing and settlement | 1,652,039 | (1,372,229) | 279,810 | 2,216,230 | (1,756,331) | 459,899 |
| Securities lending | 0 | (25,569) | (25,569) | 0 | (32,680) | (32,680) |
| Other | 9,446,900 | (1,915,813) | 7,531,087 | 7,419,345 | (201,431) | 7,217,914 |
| **TOTAL** | **176,538,852** | **(25,088,353)** | **151,450,499** | **171,662,612** | **(22,810,587)** | **148,852,025** |

## 11.6 Other net income

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Operating taxes | 0 | 21,863 |
| Rental income | 13,843,370 | 11,990,264 |
| Other banking income [1] | 869,072 | 1,704,002 |
| Other income on other activities [2] | 2,242,235 | 17,406,868 |
| **OTHER INCOME** | **16,954,677** | **31,122,997** |
| Operating taxes | (892,186) | (1,972,686) |
| Maintenance and repair of investment property | (1,174,860) | (436,775) |
| Other bank charges [3] | 0 | (9,913,483) |
| Other expenses in relation to other activities [4] | (35,693,135) | (25,158,922) |
| **OTHER EXPENSES** | **(37,760,181)** | **(37,481,866)** |
| **TOTAL** | **(20,805,504)** | **(6,358,869)** |

| | |
|---|---|
| Advances paid to the AGDL in 2008: | 37,876,176 |
| Reimbursements received from the AGDL in 2009: | (11,572,127) |
| Reimbursements received from the AGDL in 2010: | (4,951,593) |
| Reimbursements received from the AGDL in 2011: | (2,322,004) |
| Reimbursements received from the AGDL in 2012: | (2,187,355) |
| Reimbursements received from the AGDL in 2013: | (427,430) |
| Reimbursements received from the AGDL in 2014: | (869,072) |
| Reimbursements received from the AGDL in 2015: | (1,704,002) |
| Advances paid to the AGDL and not reimbursed as at December 31, 2015 | 13,842,593 |

In 2008, in order to pay advances to the AGDL, an expense of EUR 37.9 million was recorded in the statement of income. Reimbursements of EUR 24.0 million were made in 2009 till 2015 and recorded under other net operating income. Lastly, no reimbursements are expected from the AGDL in 2016.

## 11.7 Staff expenses

### A. STAFF EXPENSES

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Wages and salaries | (144,162,946) | (151,093,629) |
| Social security and insurance costs | (19,053,246) | (18,904,033) |
| Staff benefits | (11,860,145) | (11,060,773) |
| Restructuring expenses | (3,549,495) | (6,562,368) |
| Other expenses | (2,272,696) | (2,147,560) |
| **TOTAL** | **(180,898,528)** | **(189,768,363)** |

### B. WORKFORCE

| (Average FTE) | 2014 | 2015 |
|---|---|---|
| Senior management | 42 | 41 |
| Employees | 1,732 | 1,769 |
| **TOTAL** | **1,774** | **1,810** |

[1] This consists primarily of the recovery of AGDL (Association pour la Garantie des Dépôts, Luxembourg) payments made in 2008 following the bankruptcies of Icelandic banks.
[2] This consists primarily of write-backs of provisions and extraordinary income.
[3] This consists of charges related to the FGDL and FRL.
[4] This consists primarily of depreciation of investment property for EUR -11.9 million (EUR -11.8 million in 2014), extraordinary losses and other exceptional results.

### C. REMUNERATION OF THE BANK'S ADMINISTRATIVE AND MANAGERIAL BODIES

During the financial year, the Bank granted emoluments to current members of its administrative and financial bodies and has made contributions in respect of retirements pensions on their behalf as follows:

| | 2014 | 2015 | 2014 | 2015 |
|---|---|---|---|---|
| | Remuneration | | Retirement pensions | |
| Members of the administrative bodies | 846,167 | 1,052,712 | - | - |
| Members of the managerial bodies [1] | 11,065,005 | 14,496,233 | 2,373,840 | 1,730,047 |
| **TOTAL** | **11,911,172** | **15,548,945** | **2,373,840** | **1,730,047** |

### D. DEFINED CONTRIBUTION PLAN EXPENSES

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Defined contribution plan expenses | 1,723,513 | 1,714,146 |
| **TOTAL** | **1,723,513** | **1,714,146** |

## 11.8 General and administrative expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Occupancy | (7,544,697) | (7,997,335) |
| Operating leases | (1,754,895) | (2,650,896) |
| Professional fees | (16,926,010) | (18,660,085) |
| Marketing, advertising and public relations | (4,504,801) | (4,166,072) |
| Technology and system costs | (25,982,499) | (27,207,047) |
| Software costs and maintenance expenses | (5,470,402) | (6,467,988) |
| Repair and maintenance expenses | (82,247) | (11,672) |
| Other general and administrative expenses [2] | (38,324,125) | (41,057,004) |
| **TOTAL** | **(100,589,676)** | **(108,218,099)** |

## 11.9 Independent auditor's fees

The fees payable to the independant auditor of the Bank for the years 2014 and 2015 are as follows:

| | 2014 | 2015 |
|---|---|---|
| Legal control of annual financial statements | 1,160,079 | 1,110,809 |
| Tax services | 58,305 | 0 |
| Other | 69,290 | 120,248 |
| **TOTAL** | **1,287,674** | **1,231,057** |

## 11.10 Amortisation of tangible and intangible fixed assets

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Depreciation on land and buildings | (8,525,334) | (7,570,133) |
| Depreciation on other tangible fixed assets | (956,288) | (818,843) |
| Depreciation on IT equipment | (846,598) | (1,902,895) |
| Depreciation on intangible fixed assets | (16,452,726) | (13,075,097) |
| **TOTAL** | **(26,780,946)** | **(23,366,968)** |

[1] 2015 retirement pensions include EUR 1.3million of pension plan and EUR 0.4 million of managerial plan.
[2] This heading primarily comprises the cost of financial information, various types of insurance cover and the transport of valuables.

## 11.11 Impairment on loans and provisions for credit commitments

| Collective impairment | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Allowances | Write-backs | Total | Allowances | Write-backs | Total |
| LOANS | (17,006,493) | 11,118,382 | (5,888,111) | (3,016,224) | 1,013,495 | (2,002,729) |

During 2014, the Bank has reviewed its collective impairment methodology in the context of the comprehensive assessment, leading to unusual movements and a net additional allowance of EUR 5.9 million.

| Specific impairment | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Allowances | Write-backs | Losses | Recoveries | Total |
| Loans and advances to customers | (35,621,138) | 21,905,440 | (6,415,124) | 0 | (20,130,822) |
| Commitments | (29,131) | 14,000 | n.a. | n.a. | (15,131) |
| TOTAL | (35,650,269) | 21,919,440 | (6,415,124) | 0 | (20,145,953) |

| Specific impairment | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Allowances | Write-backs | Losses | Recoveries | Total |
| Loans and advances to customers | (37,487,753) | 30,896,159 | (12,572,491) | 2,831,085 | (16,333,000) |
| Commitments | 0 | 7,731 | n.a. | n.a. | (7,731) |
| TOTAL | (37,487,753) | 30,903,890 | (12,572,491) | 2,831,085 | (16,325,269) |

## 11.12 Tax expenses

| | 31/12/14 | 31/12/15 |
|---|---|---|
| Deferred taxes | (39,890,229) | (28,652,519) |
| **Tax on current financial year result (A)** | **(39,890,229)** | **(28,652,519)** |
| Income tax for previous year | 0 | 950,022 |
| Deferred taxes for previous year | 2,190,322 | (1,077,441) |
| **Other tax expenses (B)** | **2,190,322** | **(2,027,463)** |
| TOTAL (A)+(B) | (37,699,907) | (30,679,982) |

### EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 29.22% as at December 31, 2014 and 2015.
The effective BIL tax rate was 19.31% in 2014 and 25.06% in 2015.
The difference between both rates may be analysed as follows:

| | 31/12/14 | 31/12/15 |
|---|---|---|
| NET INCOME BEFORE TAX | 206,599,219 | 114,317,138 |
| **Tax base** | **206,599,219** | **114,317,138** |
| Applicable tax rate at year-end | 29.22% | 29.22% |
| **Theoretical corporate income tax at standard rate** | **(60,368,292)** | **(33,403,468)** |
| Effect of different tax rates in other countries | 426,003 | (1,822,609) |
| Tax effect of non-deductible expenses | (691,119) | (1,615,801) |
| Tax effect of non-taxable income | 22,152,818 | 6,946,076 |
| Tax effect of items taxed at a reduced rate | (82,004) | 19,318 |
| Impairment on deferred tax assets (tax loss carried forward) | 417,265 | 0 |
| Other | (1,744,900) | 1,223,965 |
| **Tax on current financial year result** | **(39,890,229)** | **(28,652,519)** |
| EFFECTIVE TAX RATE | 19.31% | 25.06% |

## 11.13 Provisions for legal litigation

The charges recognised under this item mainly comprised legal fees, provisions for existing litigation and write-backs of provisions.

# Note 12: Notes on risk exposures (in EUR)

## 12.1 Fair value

### A. BREAKDOWN OF FAIR VALUE

| A.1. Fair value of assets | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Cash and balances with central banks | 1,031,428,253 | 1,031,428,253 | 0 | 800,680,893 | 800,680,893 | 0 |
| Loans and advances to credit institutions | 1,197,296,464 | 1,197,449,913 | 153,449 | 1,099,548,561 | 1,099,876,721 | 328,160 |
| Loans and advances to customers | 10,776,879,010 | 10,931,353,087 | 154,474,077 | 11,380,904,757 | 11,528,045,008 | 147,140,251 |
| Financial assets held for trading | 82,141,549 | 82,141,549 | 0 | 88,239,176 | 88,239,176 | 0 |
| Financial assets available for sale | 5,677,263,692 | 5,677,263,692 | 0 | 6,632,219,266 | 6,632,219,266 | 0 |
| Investments held to maturity | 163,810,537 | 175,621,453 | 11,810,916 | 123,738,533 | 134,834,794 | 11,096,261 |
| Derivatives | 422,025,785 | 422,025,785 | 0 | 287,764,276 | 287,764,276 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 13,878,066 | 13,878,066 | 0 | 10,161,025 | 10,161,025 | 0 |
| Other assets | 682,895,326 | 682,895,326 | 0 | 511,235,847 | 511,235,847 | 0 |
| **TOTAL** | **20,047,618,682** | **20,214,057,124** | **166,438,442** | **20,934,492,334** | **21,093,057,006** | **158,564,672** |

| A.2. Fair value of liabilities | 31/12/14 | | | 31/12/15 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Amounts due to credit institutions | 2,249,564,864 | 2,253,838,126 | (4,273,262) | 2,393,641,549 | 2,401,471,173 | (7,829,624) |
| Amounts due to customers | 13,063,317,586 | 13,073,970,675 | (10,653,089) | 14,194,391,345 | 14,203,804,541 | (9,413,196) |
| Financial liabilities held for trading | 126,377 | 126,377 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 1,023,587,298 | 1,023,587,298 | 0 | 840,450,899 | 840,450,899 | 0 |
| Derivatives | 711,943,973 | 711,943,973 | 0 | 412,949,676 | 412,949,676 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 70,790,659 | 70,790,659 | 0 | 55,197,019 | 55,197,019 | 0 |
| Debt securities | 1,014,828,413 | 1,028,681,176 | (13,852,763) | 1,141,323,628 | 1,156,567,391 | (15,243,763) |
| Subordinated debt | 451,200,114 | 444,176,464 | 7,023,650 | 446,661,346 | 447,247,743 | (586,397) |
| Other liabilities | 297,331,620 | 297,331,621 | (1) | 282,493,409 | 282,493,409 | 0 |
| **TOTAL** | **18,882,690,904** | **18,904,446,369** | **(21,755,465)** | **19,767,108,871** | **19,800,181,851** | **(33,072,980)** |

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value (see Note 1.7 of the section "Accounting policies").

With the exception of the items "Financial liabilities held for trading" and "Financial liabilities designated at fair value", the yield differential due to our own credit quality was deemed unchanged for the purpose of calculating the fair value.

## B. ANALYSIS OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below 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:

Level 1: fair value measurements are based on (unadjusted) prices quoted on active markets for similar assets or liabilities.

Level 2: fair value measurements are based on data other than the quoted prices included in Level 1, which are observable for the assets or liabilities, either directly (e.g. prices) or indirectly (e.g. price derivatives).

Level 3: fair value measurements are based on valuation techniques that include assets or liabilities data that are not based on observable market data (non-observable data).

Fair value of financial instruments which are not fair valued according to their classification and nature is considered as Level 2.

| B.1 Assets | 31/12/14 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 55,567,249 | 22,817,847 | 3,756,453 | 82,141,549 |
| Financial assets available for sale - bonds | 4,741,953,403 | 477,248,049 | 266,138,286 | 5,485,339,738 |
| Financial assets available for sale - equities | 0 | 158,626,245 | 33,297,709 | 191,923,954 |
| Derivatives | 0 | 411,534,372 | 10,491,413 | 422,025,785 |
| **TOTAL** | **4,797,520,652** | **1,070,226,513** | **313,683,861** | **6,181,431,026** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 67,697,342 | 16,010,971 | 4,530,863 | 88,239,176 |
| Financial assets available for sale - bonds | 5,542,251,370 | 853,953,567 | 22,494,285 | 6,418,699,222 |
| Financial assets available for sale - equities | 0 | 186,036,568 | 27,483,476 | 213,520,044 |
| Derivatives | 0 | 279,009,754 | 8,754,522 | 287,764,276 |
| **TOTAL** | **5,609,948,712** | **1,335,010,860** | **63,263,146** | **7,008,222,718** |

Fair value may also be calculated by the interpolation of market prices.

| B.2 Liabilities | 31/12/14 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 100,769 | 25,608 | 0 | 126,377 |
| Financial liabilities designated at fair value | 0 | 798,353,260 | 225,234,038 | 1,023,587,298 |
| Derivatives | 0 | 710,048,823 | 1,895,150 | 711,943,973 |
| **TOTAL** | **100,769** | **1,508,427,691** | **227,129,188** | **1,735,657,648** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 679,900,725 | 160,550,174 | 840,450,899 |
| Derivatives | 0 | 392,148,808 | 20,800,868 | 412,949,676 |
| **TOTAL** | **0** | **1,072,049,533** | **181,351,042** | **1,253,400,575** |

Fair value may also be calculated by the interpolation of market prices.

### C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

| C.1 Assets | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 1 to Level 2 | From Level 2 to Level 1 |
| Financial assets available for sale - bonds | 53,203,572 | 0 | 12,039,493 | 39,606,472 |
| Financial assets available for sale - equities | 5,700,811 | 0 | 0 | 0 |
| **TOTAL** | **58,904,383** | **0** | **12,039,493** | **39,606,472** |

C.2 Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2014 and 2015.

## D. LEVEL 3 RECONCILIATION

| D.1 Assets | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | Total gains and losses in OCI | Purchase | Sale |
| Financial assets held for trading | 1,480,216 | 629 | 0 | 3,767,500 | (1,491,892) |
| Financial assets available for sale - bonds | 0 | 0 | 0 | 215,990,100 | 0 |
| Financial assets available for sale - equities | 27,923,317 | 3,246,138 | (1,937,289) | 2,527,494 | 3,717,663 |
| Derivatives | 14,409,984 | (1,770,350) | 0 | 3,336,486 | (1,541,296) |
| **TOTAL** | **43,813,517** | **1,476,417** | **(1,937,289)** | **225,621,580** | **(6,750,851)** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial assets held for trading | 0 | 0 | 0 | 3,756,453 |
| Financial assets available for sale - bonds | 50,148,186 | 0 | 0 | 266,138,286 |
| Financial assets available for sale - equities | 5,868,674 | (612,962) | 0 | 33,297,709 |
| Derivatives | 4,462,901 | (8,406,312) | 0 | 10,491,413 |
| **TOTAL** | **60,479,761** | **(9,019,274)** | **0** | **313,683,861** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | Total gains and losses in OCI | Purchase | Sale |
| Financial assets held for trading | 3,756,453 | 622,782 | 0 | 3,096,409 | (2,944,781) |
| Financial assets available for sale - bonds | 266,138,286 | 969,301 | (21,123,135) | 22,494,285 | (196,935,376) |
| Financial assets available for sale - equities | 33,297,709 | 15,831 | (6,455,285) | 648,480 | (23,259) |
| Derivatives | 10,491,413 | (1,736,891) | 0 | 0 | 0 |
| **TOTAL** | **313,683,861** | **(128,977)** | **(27,578,420)** | **26,239,174** | **(199,903,416)** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial assets held for trading | 0 | 0 | 0 | 4,530,863 |
| Financial assets available for sale - bonds | 0 | (50,148,186) | 1,099,110 | 22,494,285 |
| Financial assets available for sale - equities | 0 | 0 | 0 | 27,483,476 |
| Derivatives | 0 | 0 | 0 | 8,754,522 |
| **TOTAL** | **0** | **(50,148,186)** | **1,099,110** | **63,263,146** |

| D.2 Liabilities | 31/12/14 | | | |
|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | New issues | Settlement |
| Financial liabilities designated at fair value | 315,342,191 | 2,562,820 | 71,383,578 | (82,327,192) |
| Derivatives | 4,439,420 | (697,348) | 702,080 | (3,302,155) |
| **TOTAL** | **319,781,611** | **1,865,472** | **72,085,658** | **(85,629,347)** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial liabilities designated at fair value | 4,004,187 | (85,216,187) | (515,359) | 225,234,038 |
| Derivatives | 826,978 | (73,823) | (2) | 1,895,150 |
| **TOTAL** | **4,831,165** | **(85,290,010)** | **(515,361)** | **227,129,188** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Opening balance | Total gains and losses in the income statement | New issues | Settlement |
| Financial liabilities designated at fair value | 225,234,038 | 3,610 | 93,545,215 | (162,434,335) |
| Derivatives | 1,895,150 | 321,828 | 18,583,890 | 0 |
| **TOTAL** | **227,129,188** | **325,438** | **112,129,105** | **(162,434,335)** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Total |
| Financial liabilities designated at fair value | 0 | 0 | 4,201,646 | 160,550,174 |
| Derivatives | 0 | 0 | 0 | 20,800,868 |
| **TOTAL** | **0** | **0** | **4,201,646** | **181,351,042** |

Following the AQR review, BIL has elaborated a procedure defining the criteria for an active market and the notions of observable and non-observable inputs. These definitions have led the Bank to reconsider the levels of existing positions and led to changes in the levels of some banking and structured bonds activities.

**Banking bonds**

For each position, the FRM department has obtained from Bloomberg the following information:
- the bid and ask spread;
- the issue size (with type of issuer and currency);
- number of contributors providing a direct observable price.

Following these criteria, FRM has submitted a level for advise to a market expert.

The market expert has pointed out that some instruments are still in an active market even though all the criteria are not filled. Therefore, we need to consider the following information:

a) The rarity of the issue: when the overall issuer debt is relatively low , or in the case of securities issued by issuers outside the Eurozone. This is the case of emissions from Poland, the Czech Republic (EUR -area size and debt), Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively low as well as the number of contributors.

b) Securitisations : prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.

c) The investors "buy and hold" behavior : certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid / ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

**Structured bonds**

Finalyse communicates for each product the type of data required for the valorization as well as whether these data are observable or not.

Moreover, the market expert is requested to evaluate the impact of the non observability of the forward data.

The "Total gains and losses in the statement of income" column cannot be analysed separately as such. Indeed, certain assets and liabilities at amortised cost or classified under Level 1 or 2 may be hedged by derivatives classified under Level 3. We refer to Note 11.3 "Result of hedge accounting" for an economic view of the impact in the statement of income;

It should be noted that Level 3 financial instruments held for trading are the result of buybacks of BIL issues.

## E. SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE SCENARIOS

BIL uses a discounted cash flow model to determine the mark-to-model price. Sensitivity is a measurement of the fair value impact of alternative scenarios relating to the model's unobservable parameters at the closing date.

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:
- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;
- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar products, and/or by incorporating an analysis of the bid-ask spread for real transactions.

Tests were carried out on all financial instruments classified under Level 3.

The effects of sensitivity are mainly felt at the level of structured issues recognised at fair value through profit and loss. These effects are, however, offset by a reverse sensitivity at the level of activity-related hedging derivatives.

The most significant stand-alone Level 3 instrument is BIL's participation in Luxair SA. The sensitivity test leads to a minor impact in the OCI reserve. Nevertheless, such a sensitivity analysis is not relevant as many factors (such as fuel market volatility and global economic context) may impact Luxair valuation.

## 12.2 Credit risk exposures

### A. ANALYSIS OF BIL EXPOSURES

Counterparty and geographical exposures are indicated in the consolidated management report. Geographical region is determined according to the country of residence of the counterparty.

Credit risk includes counterparty risk in relation to balance sheet items and confirmed off-balance sheet items.

Risks are evaluated after taking into account the effect of guarantees and impairment.

The risks relate to all entities in which BIL is a majority shareholder.

**Exposures by geographic region**

| (in EUR million) | 31/12/14 | 31/12/15 |
|---|---|---|
| Belgium | 1,395 | 1,435 |
| France | 2,092 | 2,530 |
| Germany | 1,162 | 1,118 |
| Switzerland | 1,155 | 694 |
| Greece | 0 | 1 |
| Ireland | 450 | 459 |
| Italy | 598 | 467 |
| Luxembourg | 9,854 | 10,770 |
| Portugal | 5 | 7 |
| Spain | 472 | 616 |
| Other EU countries | 1,396 | 1,846 |
| Turkey | 8 | 8 |
| Rest of Europe | 687 | 671 |
| United States and Canada | 115 | 573 |
| Central and South America | 4 | 5 |
| Japan | 16 | 27 |
| South-east Asia | 381 | 226 |
| Other | 379 | 599 |
| **TOTAL** | **20,169** | **22,052** |

**Exposures by counterparty category**

| (in EUR million) | 31/12/14 | 31/12/15 |
|---|---|---|
| Central Governments | 5,063 | 5,044 |
| Public Sector Entities | 1,372 | 1,583 |
| Corporate | 4,024 | 4,306 |
| Securitisation | 100 | 281 |
| Project Finance | 6 | 0 |
| Individuals, SMEs, self-employed | 7,129 | 7,416 |
| Financial institutions | 2,474 | 3,422 |
| Other | 1 | 0 |
| **TOTAL** | **20,169** | **22,052** |

Credit risk exposure is shown as follows:
- balance sheet assets other than derivative contracts are valued at their net value (i.e. the carrying value after deduction of the specific provision);
- derivative contracts are recorded at their mark-to-market value plus add-on ("add-on" is an estimate of potential future exposure; this value is not recorded but is added on for regulatory purposes);
- off-balance sheet items are shown in terms of total commitment.

The total amount of off-balance sheet commitments corresponds to unused lines of credit or to the maximum amount of guarantees granted by BIL to third parties.

Exposure to credit risk is broken down by geographic region and counterparty category, bearing in mind guarantees received.

### B. CREDIT RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENTS

| | 31/12/14 | | 31/12/15 | |
|---|---|---|---|---|
| (in EUR million) | Credit risk exposures [1] | Financial effect of the collateral | Credit risk exposures [1] | Financial effect of the collateral |
| Available for sale portfolio (excluding variable-income securities) | 5,485 | 0 | 6,419 | 0 |
| Held for trading portfolio (excluding variable-income securities) | 56 | 0 | 68 | 0 |
| Loans and advances (at amortised cost) | 11,868 | 1,674 | 12,470 | 2,007 |
| Financial assets held to maturity | 164 | 0 | 124 | 0 |
| Derivatives | 133 | 197 | 127 | 150 |
| Other financial instruments at cost | 31 | 0 | 113 | 0 |
| Commitments in respect of loans granted | 185 | 3 | 132 | 3 |
| Commitments in respect of guarantees given | 2,247 | 1,042 | 2,599 | 864 |
| **TOTAL** | **20,169** | **2,916** | **22,052** | **3,024** |

[1] Credit risk exposures net of the financial effect of the collateral.

## C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS

| (in EUR million) | 31/12/14 Credit quality of normal financial assets AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
|---|---|---|---|---|---|
| Available for sale portfolio (excluding variable-income securities) | 2,763 | 2,113 | 145 | 463 | 5,484 |
| Held for trading portfolio (excluding variable-income securities) | 12 | 31 | 1 | 13 | 57 |
| Loans and advances (at amortised cost) | 1,522 | 5,097 | 3,988 | 946 | 11,553 |
| Financial assets held to maturity | 124 | 40 | 0 | 0 | 164 |
| Derivatives | 9 | 110 | 7 | 9 | 135 |
| Other financial instruments at cost | 1 | 4 | 1 | 27 | 33 |
| Commitments in respect of loans granted | 14 | 84 | 22 | 65 | 185 |
| Commitments in respect of guarantees given | 259 | 1,080 | 734 | 158 | 2,231 |
| **TOTAL** | **4,704** | **8,559** | **4,898** | **1,681** | **19,842** |

| (in EUR million) | 31/12/15 Credit quality of normal financial assets AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
|---|---|---|---|---|---|
| Available for sale portfolio (excluding variable-income securities) | 3,314 | 2,266 | 86 | 753 | 6,419 |
| Held for trading portfolio (excluding variable-income securities) | 19 | 27 | 5 | 17 | 68 |
| Loans and advances (at amortised cost) | 1,406 | 5,612 | 3,961 | 1,150 | 12,129 |
| Financial assets held to maturity | 124 | 0 | 0 | 0 | 124 |
| Derivatives | 11 | 105 | 7 | 4 | 127 |
| Other financial instruments at cost | 44 | 2 | 3 | 64 | 113 |
| Commitments in respect of loans granted | 15 | 89 | 25 | 2 | 131 |
| Commitments in respect of guarantees given | 297 | 1,267 | 753 | 268 | 2,585 |
| **TOTAL** | **5,230** | **9,368** | **4,840** | **2,258** | **21,696** |

The quality of financial assets is determined using internal credit ratings, or external ratings in the event that internal ratings are not available.

Prior to being taken into account in the table, external ratings are converted into internal ratings by means of a correlation table based on default probabilities.

## D. PAST DUE OR IMPAIRED FINANCIAL ASSETS

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Past due but not impaired assets | | | Gross 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 | | |
| Loans and advances (at amortised cost) | 148,494,278 | 79,701,591 | 143,588,993 | 308,935,395 | 449,494,617 |
| **TOTAL** | **148,494,278** | **79,701,591** | **143,588,993** | **308,935,395** | **449,494,617** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Past due but not impaired assets | | | Gross 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 | | |
| Loans and advances (at amortised cost) | 207,085,121 | 59,796,563 | 159,044,637 | 338,214,109 | 534,260,900 |
| **TOTAL** | **207,085,121** | **59,796,563** | **159,044,637** | **338,214,109** | **534,260,900** |

BIL has defined three types of past due loans:
- "technical" past due financial assets;
- "operational" past due financial assets;
- "credit" past due financial assets.

For reporting purposes, the financial assets in question have exceeded the payment deadline by more than 14 days for an amount of more than EUR 25.

## E. COLLATERAL AND OTHER CREDIT ENHANCEMENTS OBTAINED BY TAKING POSSESSION OF THE GUARANTEES HELD

| Type of assets obtained during the period by taking possession of the guarantees held | Carrying value | |
|---|---|---|
| | 31/12/14 | 31/12/15 |
| Cash | 19,053,867 | 10,724,979 |
| Debt instruments | 1,787,828 | 477,434 |
| **TOTAL** | **20,841,695** | **11,202,413** |

In general, guarantees obtained are immediately converted into cash by BIL.

## F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

| | As at 01/01/14 | Utilisation | Allowances | Write-backs |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(268,583,830)** | **17,175,420** | **(39,600,222)** | **15,653,559** |
| Loans and advances to customers | (225,947,275) | 6,251,881 | (35,621,138) | 15,653,559 |
| Financial assets available for sale | (42,636,555) | 10,923,539 | (3,979,084) | 0 |
| *of which equities and other variable-income instruments* | *(42,636,555)* | *10,923,539* | *(3,979,084)* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(19,798,022)** | **0** | **(17,006,493)** | **11,118,382** |
| **TOTAL** | **(288,381,852)** | **17,175,420** | **(56,606,715)** | **26,771,941** |

| | Other adjustments | As at 31/12/14 | Recoveries recorded directly in profit or loss | Charges recorded directly in profit or loss |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(13,486,925)** | **(288,841,998)** | **0** | **(6,415,124)** |
| Loans and advances to customers | (11,973,248) | (251,636,221) | 0 | (6,415,124) |
| Financial assets available for sale | (1,513,677) | (37,205,777) | 0 | 0 |
| *of which equities and other variable-income instruments* | *(1,513,677)* | *(37,205,777)* | *0* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(3,223)** | **(25,689,356)** | **0** | **0** |
| **TOTAL** | **(13,490,148)** | **(314,531,354)** | **0** | **(6,415,124)** |

| | As at 01/01/15 | Utilisation | Allowances | Write-backs |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(288,841,998)** | **14,640,547** | **(39,032,370)** | **18,514,523** |
| Loans and advances to customers | (251,636,221) | 12,381,636 | (37,487,752) | 18,514,523 |
| Financial assets available for sale | (37,205,777) | 2,258,911 | (1,544,618) | 0 |
| *of which equities and other variable-income instruments* | *(37,205,777)* | *2,258,911* | *(1,544,618)* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(25,689,356)** | **0** | **(3,016,224)** | **1,013,494** |
| **TOTAL** | **(314,531,354)** | **14,640,547** | **(42,048,594)** | **19,528,017** |

| | Other adjustments | As at 31/12/15 | Recoveries recorded directly in profit or loss | Charges recorded directly in profit or loss |
|---|---|---|---|---|
| **Specific allowances for financial assets individually assessed for impairment** | **(12,024,770)** | **(306,744,068)** | **2,831,085** | **(12,572,491)** |
| Loans and advances to customers | (10,935,858) | (269,163,672) | 2,831,085 | (12,572,491) |
| Financial assets available for sale | (1,088,912) | (37,580,396) | 0 | 0 |
| *of which equities and other variable-income instruments* | *(1,088,912)* | *(37,580,396)* | *0* | *0* |
| **Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment** | **(931)** | **(27,693,017)** | **0** | **0** |
| **TOTAL** | **(12,025,701)** | **(334,437,085)** | **2,831,085** | **(12,572,491)** |

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

## G. CREDIT RISK LINKED TO FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| As at 31/12/14 | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity [1] |
|---|---|---|---|---|
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 1,023,587,298 | 560,448 | (1,168,835) | 20,780,952 |

| As at 31/12/15 | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity [1] |
|---|---|---|---|---|
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 840,450,899 | 183,613 | (985,222) | 4,470,808 |

In 2014 and 2015, no change in the fair value of BIL's financial liabilities is attributable to changes in the credit risk relating to liabilities, except for liabilities designated at fair value through profit or loss.

For liabilities revalued at fair value against profit or loss, our own credit risk was determined on the basis of changes in financing costs. Own credit risk refers to changes in the issue costs under current conditions compared to initial conditions.

## H. EXEMPTION ASSOCIATED WITH LARGE EXPOSURES

At the request of the Bank, the CSSF has granted a total exemption for its exposures towards its subsidiaries (BIL group) and towards its sister company (KBL European Private Bankers SA and its subsidiaries) in the calculation of large exposures limits, in accordance with Part XVI, point 24 of the former Circular 06/273, as amended. The amount of exposures covered by this exemption is null as at December 31, 2015 (as on a consolidated basis, exposures on entities of BIL group are excluded from the large exposures reporting). This exemption was granted on November 22, 2012.

## I. INFORMATION ON FORBORNE EXPOSURES

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

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

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

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (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 2015, BIL Luxembourg's forborne exposures amounted to 296.4 million including 8 million as given banking guarantees.

[1] This amount includes premiums/discounts and the fair value adjustment.

## J. INFORMATION ON SOVEREIGN DEBTS

For 2014 and 2015, this statement refers to bonds issued by central & local governments and governmental bodies.

| As at 31/12/14 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **Austria** | | | | | | |
| Between 1 and 5 years | 59,156,953 | *4,455,994* | | | | |
| More than 5 years | 62,845,000 | *1,235,857* | *3,718,106* | | | |
| **Belgium** | | | | | | |
| Less than 1 year | 133,754,336 | *764* | | | | |
| Between 1 and 5 years | 66,335,341 | *742,958* | *150,502* | | | |
| More than 5 years | 673,828,063 | *20,453,823* | *25,820,451* | | | |
| **Czech Republic** | | | | | | |
| Between 1 and 5 years | 4,390,817 | *23,711* | | | | |
| More than 5 years | 42,919,965 | *539,967* | *2,474,740* | | | |
| **Finland** | | | | | | |
| Between 1 and 5 years | 24,289,507 | *3,165,594* | | | | |
| More than 5 years | | | | 51,526,611 | | |
| **France** | | | | | | |
| Between 1 and 5 years | 70,207,151 | *7,186,964* | | | | |
| More than 5 years | 665,548,360 | *22,343,472* | *29,287,041* | | | |
| **Germany** | | | | | | |
| Between 1 and 5 years | 10,271,389 | *4,902* | *173,816* | | | |
| More than 5 years | 102,938,958 | *1,121,826* | *6,013,427* | 30,966,496 | 1,770,393 | *47,931* |
| **Ireland** | | | | | | |
| Between 1 and 5 years | 192,018,303 | *9,347,343* | *950,486* | | | |
| More than 5 years | 66,868,487 | *1,048,924* | *1,736,949* | | | |
| **Italy** | | | | | | |
| Less than 1 year | 48,277,248 | *(3,811)* | | 39,852,280 | | |
| Between 1 and 5 years | 360,367,849 | *11,364,191* | *38,345* | | | |
| More than 5 years | 57,662,866 | *259,316* | *957,753* | | | |
| **Lithuania** | | | | | | |
| Between 1 and 5 years | 4,536,204 | *(1,234)* | *(1,950)* | | | |
| **Luxembourg** | | | | | | |
| Between 1 and 5 years | | | | | 6,164,473 | *4,462* |
| More than 5 years | 39,224,780 | *1,029,596* | *3,450,388* | 20,587,766 | 1,099,779 | *15,292* |
| **Mexico** | | | | | | |
| More than 5 years | | | | | 26,330 | *860* |
| **Poland** | | | | | | |
| Less than 1 year | 6,390,745 | *670* | | | | |
| Between 1 and 5 years | 35,231,879 | *265,012* | *114,742* | | | |
| More than 5 years | 56,877,595 | *1,767,448* | *3,777,102* | | | |
| **Qatar** | | | | | | |
| Less than 1 year | 41,998,919 | *(35,142)* | *4,396* | | | |
| Between 1 and 5 years | 21,715,094 | *334,829* | *(132,262)* | | | |
| More than 5 years | 23,021,194 | *205,739* | *(730,254)* | | | |
| **Singapore** | | | | | | |
| Less than 1 year | 96,424,809 | *(13,041)* | | | | |
| Between 1 and 5 years | 5,672,195 | *382* | | | | |
| **Slovakia** | | | | | | |
| Between 1 and 5 years | 4,179,425 | *187,584* | | | | |
| More than 5 years | 112,763,409 | *4,118,746* | *3,285,064* | | | |
| **SUB-TOTAL** | **3,089,716,841** | ***91,152,384*** | ***81,088,842*** | **142,933,153** | **9,060,975** | ***68,545*** |

| As at 31/12/14 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **SUB-TOTAL BROUGHT FORWARD** | **3,089,716,841** | ***91,152,384*** | ***81,088,842*** | **142,933,153** | **9,060,975** | ***68,545*** |
| **South Korea** | | | | | | |
| More than 5 years | | | | | | |
| **Spain** | | | | | | |
| Between 1 and 5 years | 69,664,771 | *777,388* | *27,372* | | | |
| More than 5 years | 108,296,771 | *1,913,115* | *2,242,931* | | | |
| **Supranational** | | | | | | |
| Between 1 and 5 years | 163,977,371 | *4,727,252* | *132,936* | | | |
| More than 5 years | 327,133,187 | *16,658,287* | *18,802,942* | | | |
| **The Netherlands** | | | | | | |
| Less than 1 year | | | | | | |
| Between 1 and 5 years | | | | | 71,564 | *2,190* |
| More than 5 years | 78,808,175 | *2,076,583* | *4,512,259* | | | |
| **United Arab Emirates** | | | | | | |
| Between 1 and 5 years | 8,720,151 | *51,939* | | | | |
| **United States of America** | | | | | | |
| Between 1 and 5 years | | | | | | |
| **TOTAL** | **3,846,317,267** | ***117,356,948*** | ***106,807,282*** | **142,933,153** | **9,132,539** | ***70,735*** |

| As at 31/12/15 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **Austria** | | | | | | |
| Between 1 and 5 years | 57,261,953 | *3,372,967* | | | | |
| More than 5 years | 61,916,521 | *2,526,434* | | | | |
| **Belgium** | | | | | | |
| Less than 1 year | 22,494,285 | *22* | | | | |
| Between 1 and 5 years | 81,307,526 | *962,043* | *154,034* | | | |
| More than 5 years | 734,415,523 | *17,565,993* | *2,670,603* | | | |
| **Czech Republic** | | | | | | |
| Between 1 and 5 years | 4,754,500 | *33,344* | | | | |
| More than 5 years | 42,307,821 | *830,645* | *2,169,539* | | | |
| **Finland** | | | | | | |
| Between 1 and 5 years | 23,611,328 | *2,642,135* | | | | |
| More than 5 years | | | | 51,437,069 | | |
| **France** | | | | | | |
| Between 1 and 5 years | 129,065,989 | *6,308,469* | | | | |
| More than 5 years | 755,354,125 | *17,188,790* | *5,261,468* | | | |
| **Germany** | | | | | | |
| Between 1 and 5 years | 10,270,089 | *58,448* | *116,146* | | | |
| More than 5 years | 107,654,417 | *2,281,803* | *1,824,629* | 30,922,907 | 5,997,919 | *(152,536)* |
| **Ireland** | | | | | | |
| Less than 1 year | 73,230,539 | *505,744* | | | | |
| Between 1 and 5 years | 111,317,023 | *5,317,450* | *823,749* | | | |
| More than 5 years | 181,210,277 | *4,435,044* | | | | |
| **Italy** | | | | | | |
| Less than a year | 181,925,837 | *2,547,238* | | | | |
| Between 1 and 5 years | 143,833,100 | *4,959,175* | *23,440* | | | |
| **Lithuania** | | | | | | |
| Between 1 and 5 years | 42,677,388 | *90,038* | *(108,723)* | | | |
| More than 5 years | 5,370,917 | *(24,195)* | *48,010* | | | |
| **Luxembourg** | | | | | | |
| Between 1 and 5 years | | | | | 805,877 | *(14,843)* |
| More than 5 years | 39,338,020 | *1,561,198* | *3,020,705* | | | |
| **Mexico** | | | | | | |
| More than 5 years | | | | | 26,364 | *895* |
| **Poland** | | | | | | |
| Less than 1 year | 4,730,531 | *2,922* | | | | |
| Between 1 and 5 years | 32,241,782 | *213,839* | *230,399* | | | |
| More than 5 years | 74,393,332 | *1,580,339* | *3,835,123* | | | |
| **Qatar** | | | | | | |
| Between 1 and 5 years | 33,981,234 | *28,526* | *(139,601)* | | | |
| More than 5 years | 46,004,590 | *(279,727)* | *(275,316)* | | | |
| **Singapore** | | | | | | |
| Less than 1 year | | | | | | |
| Between 1 and 5 years | | | | | | |
| **Slovakia** | | | | | | |
| Between 1 and 5 years | 4,179,410 | *184,112* | | | | |
| More than 5 years | 133,463,464 | *7,723,262* | *3,166,949* | | | |
| **SUB-TOTAL** | **3,138,311,521** | ***82,616,058*** | ***22,821,154*** | **82,359,976** | **6,830,160** | ***(166,484)*** |

| As at 31/12/15 | Available for sale | | | Held to maturity | Held for trading | |
|---|---|---|---|---|---|---|
| Country<br>Maturity date | Net carrying amount | *Of which fair value in OCI* | *Of which fair value related to hedging* | Carrying amount | Carrying amount | *Of which fair value in profit or loss* |
| **SUB-TOTAL BROUGHT FORWARD** | **3,138,311,521** | ***82,616,058*** | ***22,821,154*** | **82,359,976** | **6,830,160** | ***(166,484)*** |
| **South Korea** | | | | | | |
| More than 5 years | | | | | 6,768 | *(30)* |
| **Spain** | | | | | | |
| Less than 1 year | 61,240,497 | *567,789* | | | | |
| Between 1 and 5 years | 66,691,942 | *29,134* | *(105,626)* | | | |
| More than 5 years | 213,929,740 | *477,642* | *2,058,703* | | | |
| **Supranational** | | | | | | |
| Between 1 and 5 years | 139,819,594 | *2,786,774* | | | 233,406 | *(1,559)* |
| More than 5 years | 266,684,875 | *12,973,683* | *1,515,610* | 20,539,646 | 1,841,287 | *(103,837)* |
| **The Netherlands** | | | | | | |
| More than 5 years | 78,377,367 | *2,327,366* | *4,077,668* | | | |
| **United Arab Emirates** | | | | | | |
| Less than 1 year | | | | | | |
| **United States of America** | | | | | | |
| Between 1 and 5 years | 325,327,705 | *(1,851,548)* | | | | |
| **TOTAL** | **4,290,383,241** | ***99,926,898*** | ***30,367,509*** | **102,899,622** | **8,911,621** | ***(271,910)*** |

## 12.3 Encumbered assets

### A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Fair value of collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* | Fair value of encumbered collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* |
| Cash collateral | 240,110,401 | *240,110,401* | 0 | *0* |
| Debt securities | 728,698,103 | *335,098,064* | 0 | *0* |
| **TOTAL** | **968,808,504** | ***575,208,465*** | **0** | ***0*** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Fair value of collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* | Fair value of encumbered collateral received or own debt securities issued available for encumbrance | *of which: central bank's eligible* |
| Cash collateral | 181,096,367 | *181,096,367* | 0 | *0* |
| Debt securities | 591,938,941 | *591,938,941* | 128,620,520 | *128,620,520* |
| **TOTAL** | **773,035,308** | ***773,035,308*** | **128,620,520** | ***128,620,520*** |

## B. ENCUMBERED ASSETS

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Carrying amount of encumbered assets | *of which: central bank's eligible* | Fair value of encumbered assets | *of which: central bank's eligible* |
| AFS Debt securities | 1,316,969,324 | *1,291,170,438* | 1,317,304,570 | *1,291,199,106* |
| *of which: issued by general governments* | *1,074,326,119* | *1,057,758,426* | *1,074,632,698* | *1,057,758,426* |
| *of which: issued by financial corporations* | *233,160,711* | *226,602,161* | *233,189,378* | *226,630,829* |
| *of which: issued by non-financial corporations* | *9,482,494* | *6,809,851* | *9,482,494* | *6,809,851* |
| Loans and advances other than loans on demand | 521,444,754 | *521,444,754* | 521,444,754 | *521,444,754* |
| **TOTAL** | **1,838,414,078** | ***1,812,615,192*** | **1,838,749,324** | ***1,812,643,860*** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Carrying amount of encumbered assets | *of which: central bank's eligible* | Fair value of encumbered assets | *of which: central bank's eligible* |
| AFS Debt securities | 1,050,810,330 | *1,050,810,330* | 1,050,810,330 | *1,050,810,330* |
| *of which: issued by general governments* | *783,575,187* | *783,575,187* | *783,575,187* | *783,575,187* |
| *of which: issued by financial corporations* | *267,235,143* | *267,235,143* | *267,235,143* | *267,235,143* |
| *of which: issued by non-financial corporations* | *0* | *0* | *0* | *0* |
| Loans and advances other than loans on demand | 285,578,368 | *285,578,368* | 285,578,368 | *285,578,368* |
| **TOTAL** | **1,336,388,698** | ***1,336,388,698*** | **1,336,388,698** | ***1,336,388,698*** |

## C. SOURCES OF ENCUMBRANCE

| | 31/12/14 | | |
|---|---|---|---|
| | Matching liabilities, contingent liabilities or securities lent | Assets or collateral received encumbered | *of which: collateral received re-used* |
| Derivatives | 711,925,749 | 521,444,754 | *0* |
| Repurchase agreements | 578,300,961 | 581,557,723 | |
| *of which: central banks* | *204,963,002* | *204,963,002* | *0* |
| Collateralized deposits other than repurchase agreements | 8,113,970 | 8,113,970 | *0* |
| *of which: central banks* | *8,113,970* | *8,113,970* | *0* |
| Fair value of securities borrowed with non cash collateral | 728,698,103 | 727,297,632 | *0* |
| **TOTAL** | **2,027,038,783** | **1,838,414,079** | ***0*** |

| | 31/12/15 | | |
|---|---|---|---|
| | Matching liabilities, contingent liabilities or securities lent | Assets or collateral received encumbered | *of which: collateral received re-used* |
| Derivatives | 412,949,676 | 285,578,368 | *0* |
| Repurchase agreements | 407,220,681 | 407,273,243 | *128,620,520* |
| *of which: central banks* | *350,425,417* | *350,425,417* | *128,620,520* |
| Collateralized deposits other than repurchase agreements | 45,430,246 | 45,430,246 | *0* |
| *of which: central banks* | *45,430,246* | *45,430,246* | *0* |
| Fair value of securities borrowed with non cash collateral | 720,559,461 | 726,727,362 | *0* |
| **TOTAL** | **1,586,160,064** | **1,465,009,219** | ***128,620,520*** |

### D. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Offsetting policy is described in the Note 1.4 to the consolidated financial statements.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreements are not presented on a net basis in the consolidated financial statements. BIL may have conditional rights to set-off that are enforceable only in the event of default, or insolvency or bankruptcy of any of the counterparts. Such arrangements do not meet the conditions for offsetting according to IAS 32.

Guarantees are obtained within the framework of reverse repos, securities lending and derivatives activities.

Guarantees are given within the framework of repos, securities borrowing and derivatives activities.

The conditions for using and returning pledged assets or pledged liabilities are defined either in Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSL) and Credit Support Annexes Agreements (CSA), amended, when appropriate, by the Legal Department, or in agreements drafted directly by this department.

Cash collateral received or given relates to derivatives CSA agreements.

## 12.4 Interest rate risk: breakdown by maturity until next interest rate repricing date [1]

| A. ASSETS | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand [2] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,031,423,041 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 921,435,980 | 223,193,336 | 50,000,000 | 2,135,000 | 0 |
| Loans and advances to customers | 4,264,999,445 | 179,773,880 | 153,116,422 | 1,050,882,221 | 5,391,094,917 |
| Financial assets held for trading | 35,364,620 | 3,851,672 | 2,004,974 | 16,623,118 | 23,512,670 |
| Financial assets available for sale | 713,919,327 | 445,801,895 | 136,398,450 | 1,474,769,534 | 2,513,204,200 |
| Investments held to maturity | 0 | 15,000,000 | 23,430,165 | 0 | 122,056,785 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **6,967,142,413** | **867,620,783** | **364,950,011** | **2,544,409,873** | **8,049,868,572** |

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 5,212 | n.a. | n.a. | 1,031,428,253 |
| Loans and advances to credit institutions | 0 | 541,214 | 0 | (9,066) | 1,197,296,464 |
| Loans and advances to customers | 0 | 14,099,070 | 229,566 | (277,316,511) | 10,776,879,010 |
| Financial assets held for trading | 46,552 | 415,709 | 322,234 | n.a. | 82,141,549 |
| Financial assets available for sale | 40,820,038 | 58,285,468 | 331,270,557 | (37,205,777) | 5,677,263,692 |
| Investments held to maturity | 0 | 3,323,587 | 0 | 0 | 163,810,537 |
| Derivatives | n.a. | 23,566,248 | 398,459,537 | n.a. | 422,025,785 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 13,878,066 | n.a. | 13,878,066 |
| **TOTAL** | **40,866,590** | **100,236,508** | **744,159,960** | **(314,531,354)** | **19,364,723,356** |

[1] Excluding derivatives and off-balance sheet items.
[2] Demand deposits and saving deposits are declared "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

| A. ASSETS | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand[1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 800,676,335 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 1,033,025,512 | 54,647,689 | 3,685,873 | 3,260,000 | 4,500,000 |
| Loans and advances to customers | 4,644,686,029 | 79,926,744 | 43,805,402 | 1,115,403,956 | 5,779,311,441 |
| Financial assets held for trading | 2,044,209 | 15,541,204 | 6,769,460 | 29,537,961 | 35,221,800 |
| Financial assets available for sale | 131,434,735 | 1,243,123,149 | 375,438,380 | 1,688,772,861 | 2,973,780,602 |
| Investments held to maturity | 101,830,140 | 0 | 0 | 0 | 20,000,000 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **6,713,696,960** | **1,393,238,786** | **429,699,115** | **2,836,974,778** | **8,812,813,843** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 4,558 | n.a. | n.a. | 800,680,893 |
| Loans and advances to credit institutions | 0 | 429,487 | 0 | 0 | 1,099,548,561 |
| Loans and advances to customers | 0 | 14,315,516 | 312,358 | (296,856,689) | 11,380,904,757 |
| Financial assets held for trading | 99,203 | 524,437 | (1,499,098) | n.a. | 88,239,176 |
| Financial assets available for sale | 28,138 | 62,983,219 | 194,238,578 | (37,580,396) | 6,632,219,266 |
| Investments held to maturity | 0 | 1,908,393 | 0 | 0 | 123,738,533 |
| Derivatives | n.a. | 13,740,106 | 274,024,170 | n.a. | 287,764,276 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 10,161,025 | n.a. | 10,161,025 |
| **TOTAL** | **127,341** | **93,905,716** | **477,237,033** | **(334,437,085)** | **20,423,256,487** |

[1] Demand deposits and saving deposits are declared "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

| B. LIABILITIES | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,427,740,404 | 409,322,990 | 96,293,533 | 305,752,479 | 9,976,721 |
| Amounts due to customers | 11,850,945,519 | 180,993,645 | 545,826,363 | 454,317,209 | 14,699,086 |
| Financial liabilities held for trading | 11,135 | 0 | 319 | 0 | 114,128 |
| Financial liabilities designated at fair value | 255,036,857 | 69,935,475 | 262,598,245 | 239,342,947 | 171,850,833 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 417,591,713 | 25,757,616 | 104,679,825 | 405,576,802 | 56,433,367 |
| Subordinated debt | 301,178,055 | 0 | 0 | 0 | 149,660,636 |
| **TOTAL** | **14,252,503,683** | **686,009,726** | **1,009,398,285** | **1,404,989,437** | **402,734,771** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 478,737 | 0 | 2,249,564,864 |
| Amounts due to customers | 0 | 16,535,764 | 0 | 13,063,317,586 |
| Financial liabilities held for trading | 0 | 519 | 276 | 126,377 |
| Financial liabilities designated at fair value | 0 | 3,996,377 | 20,826,564 | 1,023,587,298 |
| Derivatives | n.a. | 55,431,836 | 656,512,137 | 711,943,973 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 70,790,659 | 70,790,659 |
| Debt securities | 0 | 4,789,090 | 0 | 1,014,828,413 |
| Subordinated debt | 0 | 361,423 | 0 | 451,200,114 |
| **TOTAL** | **0** | **81,593,746** | **748,129,636** | **18,585,359,284** |

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

| B. LIABILITIES | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | At sight or on demand[1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,485,974,770 | 175,644,837 | 178,400,210 | 458,793,806 | 94,145,802 |
| Amounts due to customers | 12,508,887,744 | 595,693,135 | 657,720,154 | 419,516,481 | 9,754,494 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 335,648,484 | 144,376,691 | 137,163,163 | 215,985,599 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 38,875,686 | 587,661,873 | 142,841,388 | 319,465,055 | 46,979,027 |
| Subordinated debt | 0 | 296,772,349 | 0 | 0 | 149,572,084 |
| **TOTAL** | **14,033,738,200** | **1,991,420,678** | **1,123,338,443** | **1,334,938,505** | **516,437,006** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 682,123 | 0 | 2,393,641,548 |
| Amounts due to customers | 0 | 2,819,337 | 0 | 14,194,391,345 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 2,739,272 | 4,537,690 | 840,450,899 |
| Derivatives | n.a. | 33,918,959 | 379,030,717 | 412,949,676 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 55,197,019 | 55,197,019 |
| Debt securities | 0 | 5,500,599 | 0 | 1,141,323,628 |
| Subordinated debt | 0 | 316,913 | 0 | 446,661,346 |
| **TOTAL** | **0** | **45,977,203** | **438,765,426** | **19,484,615,461** |

| C. NET POSITION | 31/12/14 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Balance sheet sensitivity gap | (7,285,361,270) | 181,611,057 | (644,448,274) | 1,139,420,436 | 7,647,133,801 | 40,866,590 |

| | 31/12/15 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Balance sheet sensitivity gap | (7,320,041,240) | (598,181,892) | (693,639,328) | 1,502,036,273 | 8,296,376,837 | 127,341 |

Derivatives are used to hedge the balance sheet sensitivity gap.

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

## 12.5 Market risk and Assets & Liabilities Management (ALM)

### A. TREASURY AND FINANCIAL MARKETS (TFM) ACTIVITIES

BIL's Treasury and Financial Markets activities support the Bank's commercial activities.
Risk on trading activity: general rate risk, forex risk, equities and spread risk are limited by value at risk (VaR) limit and / or sensitivity limit.
Treasury management - banking - subject to VaR limit and interest rate sensitivity limit.

**a. Value at Risk – 99 %, 10 days (in EUR million)**
In 2015, BIL calculated:
- an interest-rate VaR and a Forex VaR based on a historical VaR (99%, 10 days);
- an equity VaR based on a historical VaR "full Valuation".

The details of the calculation are detailed below:

| VaR (10 days, 99%) (in EUR million) | | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | IR[1] & FX[2] (Trading and Banking)[3] | | | | EQT[4] Trading | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By risk factor | Average | 4.45 | 2.97 | 1.57 | 0.70 | 0.00 | 0.00 | 0.01 | 0.00 |
| | Maximum | 5.45 | 4.00 | 2.46 | 0.95 | 0.01 | 0.02 | 0.01 | 0.03 |
| Global | Average | 2.40 | | | | | | | |
| | Maximum | 5.45 | | | | | | | |
| | End of period | 0.44 | | | | | | | |
| | Limit | 8.00 | | | | | | | |

| VaR (10 days, 99%) (in EUR million) | | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | IR[1] & FX[2] (Trading and Banking)[3] | | | | EQT[4] Trading | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By risk factor | Average | 1.18 | 1.06 | 0.89 | 0.76 | 0.01 | 0.01 | 0.00 | 0.00 |
| | Maximum | 5.17 | 2.19 | 1.25 | 1.29 | 0.02 | 0.02 | 0.01 | 0.02 |
| Global | Average | 0.97 | | | | | | | |
| | Maximum | 5.17 | | | | | | | |
| | End of period | 1.15 | | | | | | | |
| | Limit | 8.00 | | | | | | | |

The treasury activity is subject to sensitivity limits (on December 31, 2015, the sensitivity (+1 %) is EUR -3.9 million, for a limit of EUR 20 million).

**b. Investment Treasury Portfolio (in EUR million)**
- Exposure

Exposures include swapped and non-swapped positions.

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | 2,323 | 2,939 |

- Interest rate sensitivity (+1 basis point)
  The portfolio's interest rate is managed by Treasury

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | (0.15) | (0.16) |

[1] IR: interest rate
[2] FX: forex
[3] IR & FX: without ALM
[4] EQT: equity

- Credit spread sensitivity
  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

| | 2014 | 2015 |
|---|---|---|
| Investment Treasury Portfolio – AFS | (0.81) | (1.05) |

## B. ALM INTEREST RATE RISK, EQUITY AND CREDIT SPREAD RISK

The interest rate risk is followed by an interest rate sensitivity limit. For information, the investment portfolio is measured by a credit spread sensitivity measure.

### a. ALM

ALM is managed by the ALCO (ALM Committee).
Sensitivity is the measure of the change in fair value due to a 1% change in the interest-rate position of ALM activities.

| (in EUR million) | | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest rate [1] [2] | | | | Credit spread [3] | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **ALM** | Sensitivity | 6 | 51 | 75 | 67 | ( 2) | ( 2) | ( 2) | ( 2) |

| (in EUR million) | | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest rate [1] [4] | | | | Credit spread [3] | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **ALM** | Sensitivity | 37 | 20 | (4) | (15) | ( 2) | ( 2) | ( 2) | ( 2) |

### b. Investment Portfolio (in EUR million)

- Exposure

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | 2,429 | 2,959 |

- Interest rate sensitivity (+1 basis point)
  The portfolio's interest rate is managed by the ALM.

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | (0.13) | (1.30) |

- Credit spread sensitivity
  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

| | 2014 | 2015 |
|---|---|---|
| Investment ALM Portfolio – AFS | (1.87) | (1.99) |

[1] Sensitivity (+1%).
[2] On December 31, 2014, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
[3] Sensitivity (+1 basis point).
[4] On December 31, 2015, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.

**c. ALM equity – Sensitivity of listed equities** (in EUR million)

| ALM Equity Portfolio [1] | Market Value |
|---|---|
| December 31, 2010 | 60.72 |
| December, 31 2011 | 57.21 |
| December 31, 2012 | 59.48 |
| December 31, 2013 | 0.00 |
| December 31, 2014 | 0.00 |
| December 31, 2015 | 0.00 |

## 12.6 Liquidity risk: breakdown by residual maturity [2]

BIL's approach to liquidity risk management is described under point 4. "Market risk, Assets & Liabilities Management (ALM)" section of the consolidated management report.

The maturity analysis do not include the remaining contractual maturities for derivative. The Bank considers that their contractual maturities are not essential for an understanding of the timing of the cash flows as liquidity for derivatives is managed on a daily basis according to the cash collateral posted or received.

| A. ASSETS | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [3] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 1,031,423,041 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 319,329,799 | 242,158,762 | 432,794,362 | 202,481,393 | 0 |
| Loans and advances to customers | 2,203,964,735 | 1,762,160,363 | 715,180,165 | 640,619,053 | 5,717,942,569 |
| Financial assets held for trading | 529 | 7,902,565 | 10,354,654 | 8,771,213 | 54,328,093 |
| Financial assets available for sale | 9,625,886 | 454,908,302 | 172,759,163 | 1,805,518,501 | 2,841,281,554 |
| Investments held to maturity | 0 | 15,000,000 | 23,430,165 | 0 | 122,056,785 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **3,564,343,990** | **2,482,129,992** | **1,354,518,509** | **2,657,390,160** | **8,735,609,001** |

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 5,212 | n.a. | n.a. | 1,031,428,253 |
| Loans and advances to credit institutions | 0 | 541,214 | 0 | (9,066) | 1,197,296,464 |
| Loans and advances to customers | 0 | 14,099,070 | 229,566 | (277,316,511) | 10,776,879,010 |
| Financial assets held for trading | 46,552 | 415,709 | 322,234 | n.a. | 82,141,549 |
| Financial assets available for sale | 40,820,038 | 58,285,468 | 331,270,557 | (37,205,777) | 5,677,263,692 |
| Investments held to maturity | 0 | 3,323,587 | 0 | 0 | 163,810,537 |
| Derivatives | n.a. | 23,566,248 | 398,459,537 | n.a. | 422,025,785 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 13,878,066 | n.a. | 13,878,066 |
| **TOTAL** | **40,866,590** | **100,236,508** | **744,159,960** | **(314,531,354)** | **19,364,723,356** |

[1] The management of financial establishment shares put in run-off was assigned to TFM.
[2] Residual maturity, excluding derivatives and off-balance sheet items.
[3] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| A. ASSETS | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Cash and balances with central banks | 800,676,335 | 0 | 0 | 0 | 0 |
| Loans and advances to credit institutions | 705,670,830 | 82,187,530 | 95,494,750 | 211,265,964 | 4,500,000 |
| Loans and advances to customers | 2,502,093,151 | 1,544,947,304 | 689,756,376 | 1,117,402,900 | 5,808,933,841 |
| Financial assets held for trading | 901,646 | 2,774,080 | 6,196,199 | 43,917,768 | 35,324,941 |
| Financial assets available for sale | 0 | 34,118,489 | 476,102,029 | 2,350,618,120 | 3,513,573,461 |
| Investments held to maturity | 0 | 0 | 0 | 0 | 121,830,140 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL** | **4,009,341,962** | **1,664,027,403** | **1,267,549,354** | **3,723,204,752** | **9,484,162,383** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Impairment | Total |
| Cash and balances with central banks | 0 | 4,558 | n.a. | n.a. | 800,680,893 |
| Loans and advances to credit institutions | 0 | 429,487 | 0 | 0 | 1,099,548,561 |
| Loans and advances to customers | 0 | 14,315,516 | 312,358 | (296,856,689) | 11,380,904,757 |
| Financial assets held for trading | 99,203 | 524,437 | (1,499,098) | n.a. | 88,239,176 |
| Financial assets available for sale | 38,165,766 | 62,983,219 | 194,238,578 | (37,580,396) | 6,632,219,266 |
| Investments held to maturity | 0 | 1,908,393 | 0 | 0 | 123,738,533 |
| Derivatives | n.a. | 13,740,106 | 274,024,170 | n.a. | 287,764,276 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 10,161,025 | n.a. | 10,161,025 |
| **TOTAL** | **38,264,969** | **93,905,716** | **477,237,033** | **(334,437,085)** | **20,423,256,487** |

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| B. LIABILITIES | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 860,695,254 | 576,368,140 | 296,293,533 | 501,552,479 | 14,176,721 |
| Amounts due to customers | 11,322,552,672 | 709,779,680 | 545,677,344 | 454,073,040 | 14,699,086 |
| Financial liabilities held for trading | 0 | 0 | 319 | 11,115 | 114,148 |
| Financial liabilities designated at fair value | 0 | 92,139,415 | 320,881,989 | 413,892,120 | 171,850,833 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 15,003,813 | 96,881,553 | 176,668,796 | 664,751,803 | 56,733,358 |
| Subordinated debt | 0 | 0 | 0 | 301,178,055 | 149,660,636 |
| **TOTAL** | **12,198,251,739** | **1,475,168,788** | **1,339,521,981** | **2,335,458,612** | **407,234,782** |

| | 31/12/14 | | | |
|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 478,737 | 0 | 2,249,564,864 |
| Amounts due to customers | 0 | 16,535,764 | 0 | 13,063,317,586 |
| Financial liabilities held for trading | 0 | 519 | 276 | 126,377 |
| Financial liabilities designated at fair value | 0 | 3,996,377 | 20,826,564 | 1,023,587,298 |
| Derivatives | n.a. | 55,431,836 | 656,512,137 | 711,943,973 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 70,790,659 | 70,790,659 |
| Debt securities | 0 | 4,789,090 | 0 | 1,014,828,413 |
| Subordinated debt | 0 | 361,423 | 0 | 451,200,114 |
| **TOTAL** | **0** | **81,593,746** | **748,129,636** | **18,585,359,284** |

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

| B. LIABILITIES | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | | |
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| Amounts due to credit institutions | 1,357,077,570 | 304,542,037 | 178,400,210 | 458,793,806 | 94,145,802 |
| Amounts due to customers | 12,508,887,744 | 595,693,135 | 657,720,154 | 419,516,481 | 9,754,494 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 46,626,698 | 167,876,262 | 396,065,254 | 222,605,723 |
| Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt securities | 16,250,654 | 96,096,963 | 153,055,028 | 820,490,672 | 49,929,712 |
| Subordinated debt | 0 | 0 | 206,188,367 | 90,583,982 | 149,572,084 |
| **TOTAL** | **13,882,215,968** | **1,042,958,833** | **1,363,240,021** | **2,185,450,195** | **526,007,815** |

| | 31/12/15 | | | |
|---|---|---|---|---|
| | Breakdown of gross amount and premium/discount | | | |
| | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
| Amounts due to credit institutions | 0 | 682,123 | 0 | 2,393,641,548 |
| Amounts due to customers | 0 | 2,819,337 | 0 | 14,194,391,345 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 2,739,272 | 4,537,690 | 840,450,899 |
| Derivatives | n.a. | 33,918,959 | 379,030,717 | 412,949,676 |
| Fair value revaluation of portfolios hedged against interest rate risk | n.a. | n.a. | 55,197,019 | 55,197,019 |
| Debt securities | 0 | 5,500,599 | 0 | 1,141,323,628 |
| Subordinated debt | 0 | 316,913 | 0 | 446,661,346 |
| **TOTAL** | **0** | **45,977,203** | **438,765,426** | **19,484,615,461** |

| C. NET POSITION | 31/12/14 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Net liquidity gap | (8,633,907,749) | 1,006,961,204 | 14,996,528 | 321,931,548 | 8,328,374,219 | 40,866,590 |

| | 31/12/15 | | | | | |
|---|---|---|---|---|---|---|
| | At sight or on demand [1] | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Undetermined maturity |
| Net liquidity gap | (9,872,874,006) | 621,068,570 | (95,690,667) | 1,537,754,557 | 8,958,154,568 | 38,264,969 |

Asset liquidity and the refinancing of assets are not taken into account in this table; some long-term assets may be sold in the event that liquidity is required.

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

## 12.7 Currency risk

| | 31/12/14 | | | | |
|---|---|---|---|---|---|
| | EUR | Other EU currencies | USD | Other | Total |
| Assets | 17,030,310,422 | 335,298,029 | 1,015,678,062 | 1,665,332,169 | 20,047,618,682 |
| Liabilities | 16,597,142,440 | 538,028,026 | 1,953,428,663 | 959,019,553 | 20,047,618,682 |
| **NET ON-BALANCE SHEET POSITION** | **434,167,982** | **(202,729,997)** | **(937,750,601)** | **706,312,616** | **0** |
| Off-balance sheet – receivable | 2,072,375,165 | 325,215,355 | 2,432,786,672 | 1,306,913,861 | 6,137,291,053 |
| Off-balance sheet – payable | 2,492,642,323 | 119,040,458 | 1,480,303,678 | 2,048,211,650 | 6,140,198,109 |
| **NET OFF-BALANCE SHEET POSITION** | **(420,267,158)** | **206,174,897** | **952,482,994** | **(741,297,789)** | **(2,907,056)** |

| | 31/12/15 | | | | |
|---|---|---|---|---|---|
| | EUR | Other EU currencies | USD | Other | Total |
| Assets | 18,069,489,370 | 480,123,263 | 1,554,080,162 | 830,799,539 | 20,934,492,334 |
| Liabilities | 16,514,949,440 | 596,259,902 | 2,853,875,227 | 969,407,765 | 20,934,492,334 |
| **NET ON-BALANCE SHEET POSITION** | **1,554,539,930** | **(116,136,639)** | **(1,299,795,065)** | **(138,608,226)** | **0** |
| Off-balance sheet – receivable | 1,978,258,167 | 592,037,006 | 3,622,767,033 | 1,918,867,249 | 8,111,929,455 |
| Off-balance sheet – payable | 3,382,132,766 | 475,674,455 | 2,299,477,038 | 1,946,436,925 | 8,103,721,184 |
| **NET OFF-BALANCE SHEET POSITION** | **(1,403,874,599)** | **116,362,551** | **1,323,289,995** | **(27,569,676)** | **8,208,271** |

## 12.8 Solvency ratios

**Regulatory capital, total amount of weighted risks and solvency ratios**

| | 31/12/14 | 31/12/15 |
|---|---|---|
| **TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)** | **938,108,643** | **898,953,326** |
| | | |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **726,775,349** | **729,368,530** |
| Capital, share premium and own shares | 848,066,250 | 848,066,250 |
| Reserves, retained earnings and eligible result | 249,764,528 | 235,680,057 |
| Regulatory and transitional adjustments [1] | (371,055,429) | (354,377,777) |
| | | |
| **ADDITIONAL TIER 1 CAPITAL (AT1)** | **150,000,000** | **150,000,000** |
| Contingent convertible bond (issued on June 30, 2014) | 150,000,000 | 150,000,000 |
| | | |
| **TIER 2 CAPITAL (T2)** | **61,333,294** | **19,584,796** |
| Subordinated liabilities | 60,250,036 | 18,451,816 |
| IRB excess | 1,083,258 | 1,132,980 |
| | | |
| **RISK WEIGHTED ASSETS** | **5,223,025,428** | **5,689,440,538** |
| Credit risk | 4,424,342,709 | 4,898,393,144 |
| Market risk | 136,406,503 | 98,684,138 |
| Operational risk | 624,136,115 | 666,477,064 |
| Credit Value Adjustment | 38,140,101 | 25,886,192 |
| | | |
| **SOLVENCY RATIOS** | | |
| Common Equity Tier 1 ratio | 13.91% | 12.82% |
| Tier 1 ratio | 16.79% | 15.46% |
| Capital Adequacy ratio | 17.96% | 15.80% |

| [1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1** | 31/12/14 | 31/12/15 |
|---|---|---|
| Goodwill and intangible assets | (35,572,105) | (39,815,468) |
| Deferred tax assets that rely on future probability | (186,858,096) | (174,309,849) |
| Fair value reserves related to gains or losses cash flow hedges | 11,976,500 | 2,631,332 |
| Gains or losses on liabilities at fair value resulting from own credit | (1,729,283) | (1,168,835) |
| Defined benefit pension fund assets | (1,776,001) | (5,449,001) |
| AGDL reserves | (7,078,000) | (14,156,000) |
| Unrealised gains or losses measured at fair value | (150,018,444) | (122,109,956) |
| **TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1** | **(371,055,429)** | **(354,377,777)** |

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14/01).

# Proposed allocation of 2015 net income

The Board of Directors proposed to the General Meeting of Shareholders that the profit be used as follows:

| EUR | |
|---|---|
| Net income for the year | 83,637,156 |
| Dividend of EUR 34.69 gross per share on 2,017,487 shares [1] | (69,986,624) |
| Allocation to "Legal reserve" [2] | 0 |
| Allocation to "Retained earnings" | (13,650,532) |
| **TOTAL** | **0** |

[1] In line with the board decision dated March 24, 2016.
[2] No additional allocation is mandatory since the legal reserve already amounts to 10 % of the subscribed capital.