Annual Report 2017

BIL 1856

BANQUE INTERNATIONALE À LUXEMBOURG

Continued profitability as a solid basis for a shareholder change

2017 saw the implementation of major post-crisis regulation such as MiFID II which enables our clients to benefit from increased investor protection. At BIL, we took this opportunity to remodel and streamline our investment offer to better meet our clients' needs in full compliance with the new regulatory requirements.

These regulatory changes are an example of the transformation undergone by the entire financial industry over the last decade. We are proud to say that BIL not only navigated these changes well but has emerged as a leaner, more agile and more robust financial institution.

While the Bank experienced some turbulent times in 2008 and in 2011, we feel that we have reached an important milestone with the envisaged acquisition of Precision Capital's majority stake by Legend Holdings Corp., a Hong Kong-listed diversified investment group.

This acquisition, subject to European Central Bank approval, represents a long-term strategic investment for Legend Holdings. They are committed to strengthening the BIL brand domestically and internationally, as well as to further enhancing its client offering and pursuing the BIL2020 strategy.

And indeed, the BIL2020 strategy continues to serve us well and its implementation is on track. For example, we continue to enhance our digital offer and clients will soon benefit from full digital onboarding. At the same time, we are further tailoring our services to specific client groups such as entrepreneurs and established corporate clients.

A strong performance of all business lines

We are proud to say that, in 2017, we once again met the financial targets we committed to in our BIL2020 strategy. Net income after tax is solid at EUR 117 million in 2017, compared with EUR 110 million in 2016 (+6%). This increase primarily stems from a robust performance by all business lines and effective cost control with an increase limited to 3% in core expenses.

We are also pleased to report that our franchise continued to grow in 2017: Assets under Management (AuM) increased by 4.5% to EUR 39.4 billion, resulting from new net inflows of EUR 1 billion and a positive market effect of EUR 0.7 billion.

At the same time, customer deposits were up by 1.2%, reaching a total of EUR 16.3 billion. The stronger growth in AuM compared to deposits can be explained by cash conversion initiatives which resulted in a positive shift in BIL's product mix, especially in Wealth Management.

We also note a particularly strong increase in customer loans across all business areas to EUR 13.3 billion compared with EUR 12 billion at year-end 2016, once again demonstrating BIL's support for the Luxembourgish economy and for local entrepreneurs.

Core operating net income before tax (excluding non-recurring items and capital gains) reached EUR 135 million in 2017, an increase by 9% compared with 2016 when it stood at EUR 124 million. It should also be noted that the agreement between Legend Holdings and Precision Capital led to one-off costs expensed or provisioned in the last quarter of 2017.

A promising outlook

These figures show that BIL has truly regained its place as a strong, stable and innovative universal bank that is firmly rooted in the local economy. We would like to take this opportunity to thank Precision Capital for their unwavering support to the Bank over the last five years. Their significant investments following an in-depth strategic review enabled this turnaround.

At the same time, we welcome Legend Holdings as our future shareholder and would like to thank them for their trust. They have a proven track record of successful investments in a range of companies and have demonstrated great sensitivity to what makes BIL unique.

We are also pleased that the State of Luxembourg will retain its stake in BIL, thereby confirming the Bank's systemic importance and its role in supporting the local economy. While clients and staff will experience full continuity, we look forward to working with both shareholders to further strengthen BIL's position as a leading Luxembourgish financial institution.

Hugues Delcourt
Chief Executive Officer

Luc Frieden
Chairman of the
Board of Directors

Annual Report 2017

Consolidated management report

Corporate governance (as at 31 December 2017)

Board of Directors

Chairman

Luc Frieden

Vice-Chairman

George Nasra

Members

Hugues Delcourt	Director/CEO
Nicholas Harvey	Director
Maurice Lam	Director
Christian Schaack	Director
Vincent Thurmes	Director
Albert Wildgen	Director
Christophe Zeeb-Ichter	Director
Michel Scharff	Director, Staff Representative
Serge Schimoff	Director, Staff Representative
Donny Wagner	Director, Staff Representative
Fernand Welschbillig	Director, Staff Representative

Board Strategy Committee

Chairman	*Members*
George Nasra	Luc Frieden Christophe Zeeb-Ichter

Board Audit and Compliance Committee

Chairman	*Members*
Maurice Lam	Nicholas Harvey Vincent Thurmes

Board Risk Committee

Chairman	*Vice-Chairman*	*Members*
Christian Schaack	George Nasra	Luc Frieden
		Vincent Thurmes
		Albert Wildgen

Board Remuneration and Nominations Committee

Chairman	*Members*
George Nasra	Nicholas Harvey
	Christophe Zeeb-Ichter
	Fernand Welschbillig (sub-meeting Remuneration)

Management Board

Chairman

Hugues Delcourt Chief Executive Officer

Vice-Chairman

Pierre Malevez

Members

Stéphane Albert	Chief Risk Officer
Yves Baguet	Chief Operating Officer
Hans-Peter Borgh	Head of Wealth and Investment Management
Olivier Debehogne	Head of Retail and Digital Banking
Marcel Leyers	Head of Corporate and Institutional Banking
Bernard Mommens	Secretary General and General Counsel
Nico Picard	Chief Financial Officer
Claude Schon	Head of Treasury and Financial Markets

Audit (Permanent Invitee)

Pia Haas Chief Internal Auditor

Business Review and Results

1. Highlights of 2017 and early 2018

Against the background of a major shareholder change announcement, BIL upheld its solid performance and continued to implement its BIL2020 strategy in 2017, while at the same time adapting its products and services to comply with new regulatory requirements.

The key highlights for BIL in 2017 are as follows:

GOVERNANCE

On September 1, 2017, Legend Holdings Corp., a Hong Kong-listed diversified investment group, announced an agreement with Precision Capital, a Luxembourg-based financial holding company, to acquire the latter's 89.936% stake in BIL. The proposed transaction was approved by the Legend Holdings' shareholders and remains subject to regulatory approval. The Grand Duchy of Luxembourg will retain its 9.993% ownership of BIL.

The acquisition of a majority stake in BIL represents a long-term strategic investment for Legend Holdings. The company is committed to providing financial and operational support to maintain and grow the BIL brand domestically and internationally, further enhance its client offering and support the existing management in the delivery of the BIL2020 strategy aiming at sustainable growth.

ADAPTING TO REGULATORY CHANGE

BIL continued to implement its BIL2020 strategy throughout the year with a strong focus on preparing for the new regulatory landscape, in particular MiFID II and PRIIPs. Both regulations entered into force in January 2018, bringing profound changes to the way in which BIL interacts with clients. BIL also took this opportunity to rethink the overall investment offering, revenue model, relationship with third-party intermediaries, as well as certain processes and ways of working.

In particular the investment products were overhauled and the new MiFID-compliant "BIL way of investing" was introduced in January 2018. The product offering was simplified by greatly reducing the number of investment products and streamlining the accompanying pricing grid. On the operational side, the Triple' A tool was upgraded and launched for executing trades on the market in compliance with MiFID II.

REVIEW OF BIL2020 STRATEGY

A review of the BIL2020 strategy was undertaken in the first half of 2017 to further align the IT strategy with the Bank's commercial ambitions. As a result, BIL now has a more integrated IT strategy, bundling the regulatory, Ignite and Loans projects with the preparations for a new Core Banking System (CBS) and the digital developments. In addition, several growth and efficiency initiatives were launched in 2017 in continuation of those undertaken since 2015. These initiatives ensure the client is always at the centre of the Bank's concerns thanks to an increased tailoring of products and services to specific client segments.

The FLEX programme launched in Wealth Management in September 2017 is a good example of such an initiative as it aims to optimise client-facing time, improve the client experience and empower employees. Three pilot teams completed the twelve-week programme by the end of 2017 with excellent results, including a 63% increase in commercial activities such as client and prospect meetings and a 50% increase in leadership activities such as client book reviews and performance dialogues.

A FOCUS ON ENTREPRENEURS

As part of its efforts to offer more bespoke services to certain client groups, BIL launched a dedicated service for business owners in March. By bringing together the best of BIL's Wealth Management, Corporate Banking and Retail Banking services, BIL offers business owners a single point of contact at the bank for both their personal and professional banking and financing needs throughout the entire lifecycle of their business.

In addition to providing tailored services for entrepreneurs, BIL continued to support innovation and innovative start-ups in Luxembourg in 2017. BIL is proud of its leading role in promoting the development of Luxembourg into a start-up nation.

In this respect, BIL has built an entire network of partnerships with business incubators which continued to grow in 2017. In May, BIL and the business incubator Paul Wurth InCub agreed to jointly support the development of industrial technologies, or InduTech, in Luxembourg. In August, BIL launched a collaboration with The Office, a start-up office space in Luxembourg City, to help the start-ups it works with to find office space. BIL also launched a partnership with Jonk Entrepreneuren, a Luxembourgish association that supports young entrepreneurs, in March 2017.

In addition to encouraging entrepreneurship and start-up businesses, BIL of course also continued to provide services for established companies, including for larger corporate clients. Notable deals include the arrangement of a EUR 40 million syndicated loan in August for a real estate investment company listed in Frankfurt as well as the successful arrangement of several loan syndications in France.

SERVICE UPGRADES

BIL continued to fine-tune its services for meeting the specific needs of different client groups in 2017. For example, BIL improved its B-active offer for young professionals in July by introducing new features such as 100% mortgages with deferred first loan instalments and tax-efficient pension products. BIL also increased its attractiveness for newcomers to Luxembourg in October by offering these clients a voucher for their first tax return and a moving-in loan. Also in October, the BIL MasterCard World Elite was launched for prestigious clients with high-end insurance, assistance and concierge services.

Digitisation is a key aspect of the BIL2020 strategy and BIL continued to upgrade its digital service offering in 2017. New mobile alerts on the BIL app enable clients to monitor their account movements on their mobile phones in real time. In addition, since July, BIL clients using Android phones can use fingerprint authentication and access all QuickBanking™ features easily without having to enter a PIN.

In Retail Banking, BIL launched a collaboration with AXA and Foyer for retirement saving services on January 24, 2017. Certain daily banking procedures were also rendered more efficient to save time for clients and reduce the administrative workload of the sales teams, for example concerning overdraft authorisations and the replacement of lost or stolen bank cards.

LOCAL FOOTPRINT

BIL remains firmly rooted in Luxembourg and plays an active role in supporting the local economy. For example, BIL joined the government's KlimaBank initiative in January 2017 to promote zero percent green building loans for homeowners. BIL also successfully acted as a joint lead manager for a EUR 2 billion bond issue by the Grand Duchy of Luxembourg.

In February 2017, three tax reform conferences for residents and non-residents attracted over 300 attendees in total. The ins and outs of the Luxembourgish tax reform 2017 were explained to participants and the conferences presented an opportunity to showcase BIL's tax services.

In addition to these local initiatives, BIL also actively supports the Luxembourgish government's efforts to promote the Grand Duchy's financial centre abroad. For example, on February 13 and 14, BIL participated in a mission by Luxembourg for Finance (LFF) to the United Arab Emirates.

CORPORATE SOCIAL RESPONSIBILITY – THE LOCAL TOUCH

In addition to the areas of innovation, education and art & culture, BIL extended its Corporate Social Responsibility (CSR) activities in 2017 to the promotion of health-related projects and organisations such as Médecins du Monde. Although BIL has been active in this field for years, health-related projects will now be handled in a more structured manner. In this spirit, the Art2Cure art exhibition at BIL's Galerie Indépendance from June 23 to September 15, combined the Bank's support for art with the new aim of promoting health by raising EUR 30,000 for the Luxembourg Center for Systems Biomedicine (LCSB).

The exhibition "The Promises of Monsters" by Laura Mannelli was another major exhibition at the Galerie Indépendance and generated a lot of media attention. The artist is the first recipient of the Indépendance grant in support of digital art in Luxembourg awarded by the National Culture Fund, the Indépendance Foundation and BIL.

In the area of education, BIL once again supported SOS Villages d'Enfants Monde and the local Luxembourgish branch Fondation Lëtzebuerger Kannerduerf. One of the highlights in the area of innovation was the granting of Innovation Awards by BIL to Alexandra Fernandez-Ramos, co-founder of Travelsify, and Nathalie Dondelinger, co-founder of Kliber.

AWARDS AND RATINGS

BIL's ratings remained stable in 2017, confirming the Bank's strong financial fundamentals. The announcement of Legend Holdings' intention to buy a majority stake in BIL was welcomed by rating agencies with Fitch revising BIL's outlook from "stable" to "positive".

The high quality of BIL's services was also recognised externally by numerous awards such as "Best Bank in Luxembourg 2017" by Global Finance and "Bank of the Year Luxembourg" by The Banker magazine for the second time in a row.

The private banking division won Euromoney's "Best Private Bank for Super Affluent Clients in Luxembourg" award in confirmation of BIL's wealth management expertise and bespoke services as well as a WealthBriefing award for the "Best International Clients Team".

In addition, BIL's myLIFE, an online multimedia platform focusing on questions from clients and their financial plans, was judged "Best Marcom Project of the Year" at the Luxembourg Marketing & Communication Awards.

2. Key figures

STRENGTH OF COMMERCIAL FRANCHISES

The "Retail, Corporate and Wealth Management" business areas once again delivered a good performance in 2017 despite pressure on bank revenues in a low-rate environment.

- Assets under Management increased by 4.5% reaching EUR 39.4 billion compared with EUR 37.7 billion at the end of 2016. This increase resulted essentially from new net inflows of EUR 1 billion attributable to all business lines particularly in terms of off-balance sheet products such as funds and securities and a positive market effect of EUR 0.7 billion.
- Customer deposits were up by 1.2%, reaching EUR 16.3 billion versus EUR 16.1 billion at year-end 2016. The Bank's cash conversion initiative led to a favourable evolution of the clients' product mix with an increased share of securities and funds, explaining a limited growth of client deposits compared to an overall 4.5% increase of clients' Assets under Management.
- Customer loans increased by 10.8% to EUR 13.3 billion compared with EUR 12 billion at year-end 2016. This increase resulted from commercial activities for EUR 0.9 billion (+7.5% compared with 2016) and institutional banking clients' loans from Treasury and Financial Markets accounted for the remaining variation.

PROFITABILITY CONFIRMED

BIL reported a solid net income after tax of EUR 117 million in 2017, compared with EUR 110 million in 2016 (+6%).

This positive evolution stems primarily from the strong core operating activities and limited tax expenses partially offset by non-recurring items.

Core operating net income before tax (excluding non-recurring items and capital gains) reached EUR 135 million in 2017, 9% higher than 2016 figures of EUR 124 million. This increase was driven by commercial activities and TFM contributions (EUR 20 million more compared with 2016), and was partly offset by a lower contribution from the Group Center (EUR 9 million).

Non-recurring items were mainly impacted by the signing of an agreement between Legend Holdings and Precision Capital on September 1, 2017. In the context of the sale of Precision Capital's majority stake in BIL to the former, BIL incurred expenses during the last quarter of 2017. Additional non-recurring expenses in 2017 were attributable to restructuring costs in Luxembourg and the recognition of provisions for risks related to a litigation in a tax matter.

Tax expenses reached EUR 19 million in 2017 compared with EUR 46 million in 2016. The tax change that occurred in the various jurisdictions was limited to 1.7% growth offset by a write-back of impairments on tax losses carried forward.

LONG-TERM COUNTERPARTY CREDIT RATINGS

In November 2017, Standard & Poor's ratings remained unchanged (A-/Stable/A-2). In December 2017, Fitch revised BIL's outlook from stable to positive and confirmed BIL's ratings as BBB+/positive/F2.

BIL group	Dec 2016	Dec 2017	Outcome
Moody's	A2 Positive	A2 Positive	No rating action in 2017 (last publication on October 25, 2016)
S&P	A- Stable	A- Stable	Ratings confirmed on November 23, 2017
Fitch	BBB+ Stable	BBB+ Positive	Ratings confirmed with outlook revised to positive on December 7, 2017

3. Business line segmentation

In 2017, the Bank kept the segmentation of its business lines:

- Commercial activities are divided into three business lines: Retail & Digital Banking, Corporate & Institutional Banking as well as Wealth & Investment Management.
- Treasury and Financial Markets (TFM) remained split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets, with dedicated teams supporting the commercial activities.
- Group Center 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.

4. Consolidated statement of income and consolidated balance sheet

PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

The consolidated financial statements of BIL group for 2017 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The main accounting principles are described in Note 1 of the consolidated financial statements. Unless stated otherwise, all amounts are expressed in euro (EUR).

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME [1]

In December 2017, net income for BIL group totalled EUR 117 million, an increase of EUR 6 million (+6%) compared with December 2016.

CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

(in EUR million)	31/12/16	31/12/17	Change versus 2016	%
Income	541	553	11	2%
Expenses	(369)	(397)	(28)	8%
Gross operating income	**173**	**156**	**(17)**	**(10)%**
Cost of risk and provisions for legal litigation	(17)	(20)	(3)	17%
Net income before tax	**156**	**136**	**(20)**	**(13)%**
Tax expenses	(46)	(19)	26	(58)%
Net income	**110**	**117**	**6**	**6%**

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 2016	%
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17		
Income	554	583	(12)	(31)	541	553	11	2%
of which Core operating income	*512*	*543*	*(6)*	*(16)*	*506*	*527*	*21*	*4%*
Expenses	(355)	(359)	(14)	(38)	(369)	(397)	(28)	8%
of which Core operating expenses	*(354)*	*(359)*	*(8)*	*(13)*	*(363)*	*(372)*	*(9)*	*3%*
Gross operating income	199	224	(26)	(68)	173	156	(17)	(10)%
of which Core gross operating income	*158*	*184*	*(14)*	*(29)*	*143*	*155*	*12*	*8%*
Cost of risk and provisions for legal litigation	(14)	(20)	(3)	0	(17)	(20)	(3)	17%
of which Core operating cost of risk	*(14)*	*(20)*	*(5)*	*0*	*(19)*	*(20)*	*(0)*	*2%*
Net income before tax	185	204	(29)	(68)	156	136	(20)	(13)%
of which Core operating net income before tax	*143*	*163*	*(19)*	*(28)*	*124*	*135*	*11*	*9%*
Tax expenses					(46)	(19)	26	(58)%
Net income					**110**	**117**	**6**	**6%**

Income

In 2017, total income amounted to EUR 553 million, up 2% or EUR 11 million in comparison with year-end 2016 (EUR 541 million). The increase in core operating income excluding capital gains and non-recurring items (EUR 21 million or +4%) was due to the growth in commercial activities (EUR 37 million) offset by a lower income contribution within TFM (EUR - 6 million) and Group Center (EUR -10 million).

Commercial activities' contributions to the core operating income increased significantly by EUR 37 million compared with 2016, mainly at BIL Luxembourg across the three business lines (EUR 34 million). Despite the low interest rate environment, net interest income increased by EUR 21 million through loan growth and the charging of negative interest rates to certain client segments on the deposit side. Assets under Management growth by +4.5% since December 2016 resulted in a fees income increase of EUR 13 million, primarily recorded at the level of management and brokerage fees.

TFM contributions to the core operating income decreased by EUR 6 million compared with 2016. This overall decrease can be explained by the impact of interest margins on the Investment Portfolio desk following sales realised since the second semester of 2016 which generated substantial capital gains but led to reduced recurring interest income and the reduction of the portfolio size by EUR 1 billion compared to December 2016. TFM generated EUR 39.9 million of capital gains from Investment Portfolio sales compared with EUR 39 million in 2016.

Excluding non-recurring items, Group Center activities contributed negatively to the core operating income by EUR 16 million compared with a negative contribution of EUR 6 million in 2016. This decrease was due to the Deposit Guarantee Scheme and Resolution Fund contributions and the funding costs of subordinated debts issued in 2016.

[1] Variation and percentages calculated on exact numbers may bring rounding differences.

Expenses

Expenses totalled EUR 397 million, up 8% compared with December 2016.

Core operating expenses (excluding non-recurring items) increased by EUR 9 million, up 3% essentially at BIL Luxembourg (EUR 10 million) and were compensated by a reduction of costs in the subsidiaries. Despite a decreased headcount, staff costs increased following the salary indexation in January 2017. The Bank continued to implement the BIL2020 strategy and make progress with its IT strategy. These developments influenced on the one hand, the operating expenses in terms of maintenance and external consultancy and on the other hand, the depreciation in line with IT investments.

Gross operating income

Gross operating income amounted to EUR 156 million. The decrease of EUR 17 million compared with 2016 is primarily due to non-recurring items related to the agreed shareholder change.

Core gross operating income amounted to EUR 155 million, a EUR 12 million increase compared with 2016 (+8%).

Cost of risk and provisions for legal litigation

BIL group recorded net provisions on loans and advances of EUR 20 million stable with the core operating cost of risk in 2016 (EUR 19 million).

In 2017, core specific value adjustments on loans reached EUR 22 million (up from EUR 16 million in December 2016) in accordance with the Bank's cautious provisioning policy. The Bank recovered EUR 2 million of collective impairments on its loan books in comparison with allowances for EUR 3 million in 2016. Impaired loans as a percentage of total outstanding loans amounted to 2.43% in December 2017 versus 2.85% in December 2016, reflecting the high quality of the Bank's loan books.

Net income before tax

Net income before tax stood at EUR 136 million. Core operating net income before tax increased by 9% (EUR 11 million) due to strong revenues' growth and effective cost control.

Tax Expenses

Tax expenses stood at EUR 19 million in 2017. The tax expenses in the various jurisdictions were partially offset by a write back of impairments on tax losses carried forward during 2017.

Net income

Despite non-recurring items and very low interest rates, net income after tax reached a respectable EUR 117 million, driven by a solid commercial franchise and boosted by the BIL2020 strategy.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET [1]

(in EUR billion)	31/12/16	31/12/17	Change versus 2016	
ASSETS	**23.1**	**23.8**	**0.6**	**2.6%**
Loans and advances to credit institutions	3.2	3.4	0.3	9.3%
Loans and advances to customers	12.0	13.3	1.3	10.8%
Financial investments	6.9	5.9	(1.0)	(14.2)%
Positive fair value of derivative products	0.2	0.2	0.0	(7.4)%
Other assets	0.8	0.8	0.0	1.8%
LIABILITIES	**23.1**	**23.8**	**0.6**	**2.6%**
Amounts due to credit institutions	2.2	2.8	0.6	25.8%
Amounts due to customers	16.1	16.3	0.2	1.2%
Negative fair value of derivative products	0.4	0.4	(0.1)	(12.0)%
Debt securities	2.4	2.4	(0.1)	(2.2)%
Subordinated debts	0.3	0.3	0.0	(4.1)%
Other liabilities	0.4	0.3	(0.1)	(15.6)%
Shareholders' equity	1.3	1.3	0.0	2.1%

In 2017, the consolidated balance sheet increased by EUR 0.6 billion (+2.6%). This evolution can be explained by a significant growth of "loans and advances to customers" of EUR 1.3 billion, a decrease of "financial investments" of EUR 1 billion and a net increase of amounts to credit institutions of EUR 0.3 billion.

ASSET MOVEMENTS

"Loans and advances to customers" increased by EUR 1.3 billion (+10.8%). This growth stems partly from commercial activities (EUR 0.9 billion) and partly from the institutional banking activities of TFM. Outstanding mortgage loans increased by EUR 0.4 billion (+9.4%) and investment loans by EUR 0.4 billion (+6.8%).

"Financial investments" include the available for sale and held to maturity financial assets (EUR 5.9 billion) and participations measured at fair value (EUR 50 million). In 2017, the Financial investments decreased by 14.2% or EUR 1 billion, notably due to sales, positions reaching maturity and limited replacements in new investments within the same timeframe.

"Loans and advances to credit institutions" increased by EUR 0.3 billion (+9.3%). The increase of the liquidity surplus placed in central banks was due to a delayed reinvestment of the bond portfolio and to increased borrowings.

LIABILITY MOVEMENTS

"Amounts due to credit institutions" increased by EUR 0.6 billion (+25.8%) mainly resulting from the Bank's continued participation in targeted long-term refinancing operations (TLTRO II) and the increasing use of short-term interbank deposits and repos.

"Amounts due to customers" increased by EUR 0.2 billion (+1.2%). This modest evolution is essentially due to an increase in term deposits (EUR 0.5 billion). During the second semester of 2017, the Bank further encouraged clients to convert deposits into higher yielding products as reflected in the increase in Assets under Management.

"Shareholders' equity" increased by EUR 27 million (+2.1%). This increase was due to the net profit 2017 (EUR 117 million) offset by the dividend payment of EUR 60 million in April 2017 and the decrease of EUR 34 million in the revaluation reserves on assets available for sale.

5. Movements in share capital

At the end of the year 2017, the Bank's share capital was fixed at EUR 141,212,330 represented by 2,017,319 fully paid-up shares (no changes compared with 2016). In 2017, the Bank held 970 BIL treasury shares with a value of EUR 1,455,000.

[1] Variation and percentages calculated on exact numbers may bring rounding differences.

6. Research and development

Products and services are continuously adapted to optimise the way in which client needs are met and to further ensure that portfolios match individual risk profiles. In the current low-interest rate environment, BIL is looking into the development of alternative savings products that combine a reasonable risk profile with an attractive return.

BIL continues to research innovative technologies and supports their development in startups through partnerships with business incubators such as the Paul Wurth InCub. Going forward, BIL intends to intensify its collaboration with startups to provide innovative services.

At a systemic level, BIL is currently developing a new Core Banking System which will make processes more efficient and optimise the client's experience.

7. Post-balance sheet events

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

The proposed transaction was approved by the Legend Holdings Corp. shareholders on January 16, 2018.

8. Strategic outlook

We expect the purchase of Precision Capital's 89.936% stake in BIL by Legend Holdings Corp. to be approved by regulators in 2018. Legend Holdings is committed to providing financial and operational support to maintain and grow the BIL brand domestically and internationally, further enhance its customer offering and support the existing management in the delivery of the BIL2020 strategy to achieve sustainable growth.

The implementation of the BIL2020 strategy is therefore set to continue in 2018 with significant investments to upgrade the operating platform. Digital capabilities will be enhanced while ensuring regulatory compliance at all times.

In Luxembourg, BIL aims to meet the evolving needs of its diverse client base with its comprehensive retail and corporate banking, wealth management and financial market offering. Internationally, the Bank will strengthen its wealth management activities in target markets.

Risk Management

1. INTRODUCTION

1.1 Key events of 2017

Corporate structure and risk profile

Since late 2014, important strategic initiatives were undertaken at a group-wide level that naturally impacted BIL group's corporate structure and risk profile. All these initiatives have been monitored closely by the Bank's Risk Management department whose main objective is to guide their implementation by ensuring that the related risks are continuously under control and compatible with the institution's Risk Appetite.

Main events of 2017 with an impact on the Bank's risk profile are described in the annual report, section 1 of the "Business Review and Results".

BIL group's Risk Management department monitored the Bank's activities and risk profile throughout 2017 in line with the BIL2020 strategy. The ongoing implementation of new regulatory requirements was the main challenge faced by the institution during the year.

1.2 Main regulatory changes in 2017

In 2017, BIL continued to invest time and resources in making sure that it is and will always be compliant with regulatory standards notably regarding the **A-IRB framework**. Within this framework, it is worth mentioning the following missions/reviews that were made by the supervisors during the year: (i) The reviews of some specific A-IRB models (CCF retail, LGD Bank, Haircut on Financial Collateral) and, (ii) Some on-site missions related to specific topics were completed, of which: (1) Credit to Wealth Management and (2) Real Estate review.

It is worth noting that in the context of the **Targeted Review of Internal Models** (TRIM), BIL has been working on different topics in order to check the adequacy and appropriateness of approved Pillar I internal models used by significant institutions within the Single Supervisory Mechanism (SSM), thereby enhancing their credibility. To this end, TRIM assesses whether the models comply with regulatory standards and seeks to harmonise supervisory practices. The on-site mission started in 2016 with the request to complete the questionnaire, and then, during the second quarter of 2017 with a focus on the global review of "Retail counterparts " (review of PD and LGD Retail). More in general, the Bank keeps on developing its modeling framework in compliance with current regulatory requirements.

In the context of the **Basel III revisions**, some topics were published by the Basel Committee in order to introduce the so-called Basel IV requirements. In 2018, the Bank will continue to invest resources to comply with these new requirements.

In 2017, BIL also kept working on the **new default definition**. This project will be divided into two parts: (i) A tactical solution in order to estimate and calibrate the Credit Risk Parameters according to this new default definition and (ii) A strategic solution including different elements, such as the IT deployment, a review of our commercial practices, and the validation of the new implied models, etc. The roadmap (2018-2021) of this strategic part will be communicated to the supervisors by June 2018. IFRS 9 «Financial Instruments» is a mandatory new accounting standard applicable to BIL as from 01/01/2018 :

- It is mandatory for BIL to use the IFRS accounting framework for the production of annual and semi-annual consolidated accounts as required by the Transparency Directive. BIL publishes statutory accounts in IFRS 9 as well as for efficiency purposes.
- IFRS 9 replaces IAS 39; following the financial crisis, the IASB started the reform of the financial instruments accounting framework in order to address the following IAS 39 weaknesses: Timelines of recognition of credit losses and complexity of multiple impairment models.
- Products in scope: most of all financial instruments.
- IFRS 9 introduces new rules regarding the classification and measurement based on the entity's business model and the contractual cash flow characteristics of the individual financial asset.
- It also contains a new impairment model which will result in earlier recognition of losses and higher credit impairment losses.

Regarding the different elements of the IFRS 9 framework, the Bank is now up and running: All the business models and the classifications have been set up, the SPPI tests are in production and the impairment assessment (ECL) is also in production with a developed in-house methodology. Please refer to the Note 1.3. "Impact of the IFRS 9 standard applicable as from January 1, 2018" page 75 to see the first estimation of the accounting norm change (FTA).

Moreover, the Bank has worked on the **Interest Rate Risk in the Banking Book** (IRRBB), which refers to the current or prospective risk to a bank's capital and its earnings, arising from the impact of adverse movements in interest rates on the banking book. In this context, a new policy has been drawn up in September. The new standards will be applicable from January 2018 and take into account changes introduced by the BIS/EBA.

The Bank **Recovery and Resolution Directive** (2014/59/EU), published in May 2014, was transposed into Luxembourgish law in late 2015. In this context, in 2017, the Bank elaborated its third Recovery Plan, which was sent to the regulators at the end of September. Regarding the resolution part, BIL has participated in two meetings with the Single Resolution Board. Moreover, in May, the Bank has completed several templates in order to provide general information on its governance, legal contracts, balance sheet, and so on. Finally, it is worth mentioning that the Bank frequently meets the Resolution Authority to discuss MREL requirements. In February 2018, the Bank held discussions with the Resolution Authority, which is the Single Resolution Board (SRB), in order to establish the 2018 roadmap and then, to develop a detailed version of the BIL's Resolution Plan.

During the last quarter of 2017, the Bank has started to work on the **2018 EU-wide stress testing**, by conducting a review of its capability and the methodology of this exercise. The stress testing exercise will run from February to September 2018.

Regarding the credit topics, BIL has also worked on **Anacredit** in order to be fully compliant for the first submission in September 2018, and on the Mortgage Credit Directive (MCD).

Finally, it is also worth noting that the Bank took part in various ad hoc regulatory exercises such as the benchmarking portfolio exercise.

2. RISK MANAGEMENT MISSIONS, ORGANISATION AND GOVERNANCE

2.1 Missions

The main missions of the Risk Management function are to:
- **Ensure that all risks are under control** by identifying, measuring, assessing, mitigating and monitoring them on an on-going 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;
- **Provide to the Management Body (the Board of Directors, the Board Risk Committee and the Management Board) and all other relevant stakeholders** a comprehensive, objective and relevant overview of the risks;
- **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;
- **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 Risk Management framework relies on a robust governance allowing a prudent and sound management of risks. This governance structure is defined by:
- The responsibilities of the Board of Directors (assisted by the Board Risk Committee) and the Management Board and their roles in decision-taking and risk management;
- A set of Management Committees related to risk topics of which at least one member of the Management Board is a member, and the description of the mission of these committees in decision-taking;
- Other formalised Risk committees including experts and operational teams taking decisions related to the Bank's risk monitoring as well as specific practices;
- Consistent with the Bank's Risk Appetite, charters, policies, procedures and reporting explaining:
  - The activities;
  - The definition of limits for risk-taking by operational units;
  - The process of detection;
  - The assessment and measurement of the risks induced by the Bank's activities;
  - The reporting to the Management.

As a general principle, 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 decision-making process supported 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 in which 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 organisational and operational structures.

These assessments may be prepared by dedicated internal committees and be notably based on 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.

The Board Risk Committee is a specialised committee supporting the Board of Directors on subjects related to risks. Among its roles, the Board Risk Committee:

- Reviews and recommends positively changes to the BIL group Risk Management framework and the global risk limits and capital allocation to the Board of Directors;
- Reviews BIL group risk exposure, risk profile and related adequacy with the institution's risk appetite (including capital adequacy) and other major risk management issues on a group-wide basis;
- Reviews, assesses and discusses with the external auditor on an annual basis any significant risk or exposure and relevant risk assessments;
- Reports regularly to the Board of Directors and makes such recommendations with respect to any of the above or other matters.

Management Board

The Management Board (MB, also known as the Authorised Management) is responsible for implementing strategies as approved by the Board of Directors, and establishing a safe and sound management, in accordance with the principles and objectives established by the Board of Directors.

Indeed, 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, taking into account and safeguarding the institution's long-term financial interests, solvency and liquidity situation. (...) The members of the authorised management shall be authorised to effectively determine the business direction. Consequently, where management decisions are taken by management committees which are larger than solely the authorised management, the authorised management shall be part of it and have a veto."*

"Among its responsibilities, the Management Board shall inform, in a comprehensive manner and in writing, 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, including the state of compliance and internal control as well as the ICAAP report on the situation and management of the risks and the internal and regulatory own funds and liquidity (reserves). Once a year, the authorised management shall confirm compliance with this circular to the CSSF by way of a single written sentence followed by the signatures of all the members of the Management Board."

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

Risk Committees

Risk Committees stand 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 attributions and roles, their members and other rules defining 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.

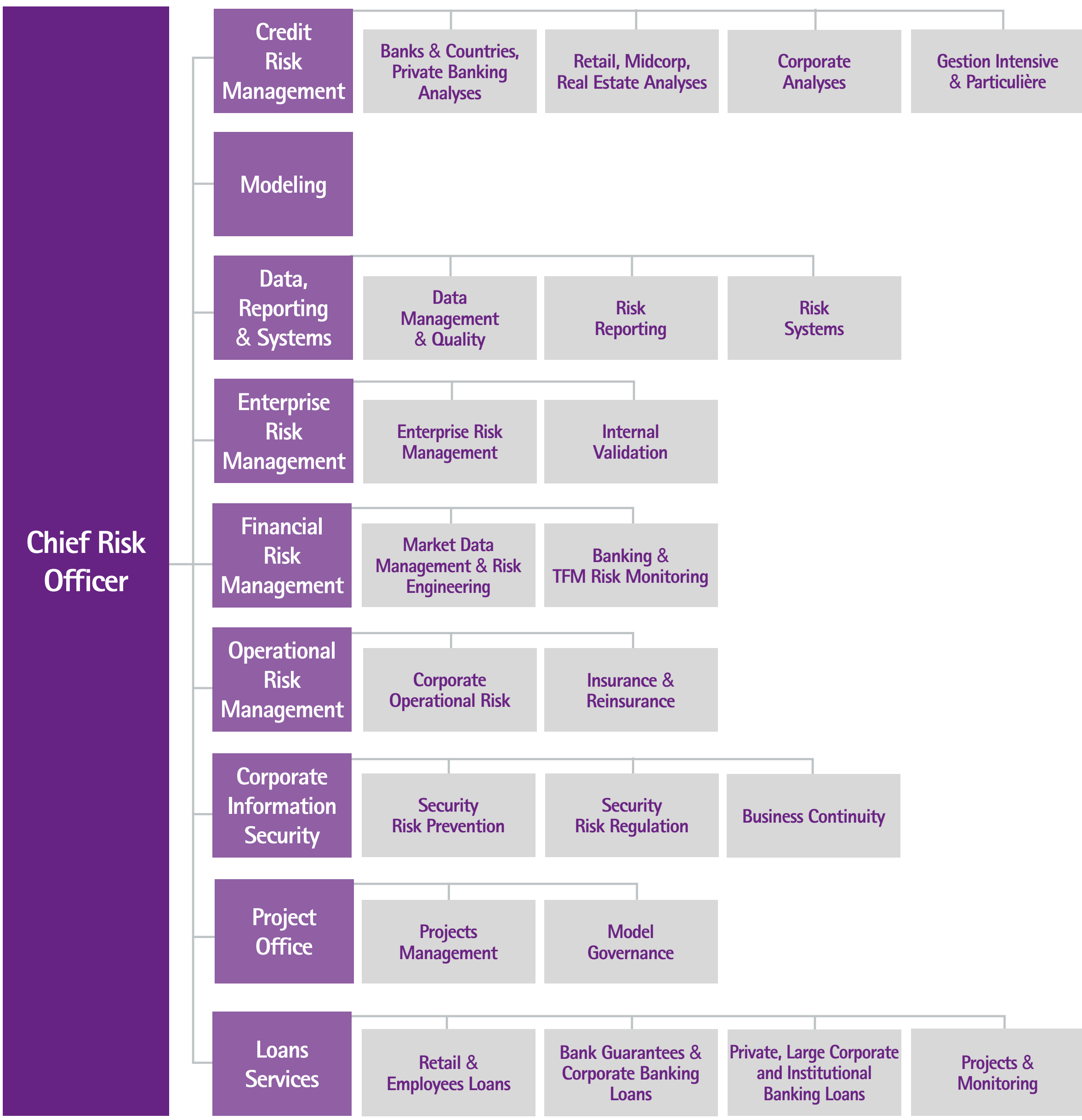
Risk Management organisation

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

In order to help the Bank reach defined objectives as well as face the expected regulatory developments, the organisation of the Risk Management department has been reviewed as depicted on the following pages.

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

The nine specific units are described in further details hereafter.



Credit Risk Management

The **Credit Risk Management** 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:
- The **Banks & Countries, Private Banking Analyses** team is in charge of the assessment and the monitoring of the risk related to banks and sovereign counterparts on one side and private banking counterparts on the other side;
- The **Retail, Midcorp, Real Estate Analyses** team is in charge of retail and midcorp counterparts on one side and for the real estate specialised counterparts on the other side;
- The **Corporate Analyses** team is in charge of the assessment and the monitoring of the risk related to corporate and institutional counterparts, including providing support for complex files to the other teams;
- **"Gestion Intensive et Particulière"** (GIP) proactively manages assets deemed to be "sensitive" in order to minimize the potential losses for the Bank in case of the default of a counterparty.

The three Analyses teams are in charge of assigning internal ratings to BIL counterparties and monitoring the corresponding portfolios.

Modeling

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

The Modeling unit is responsible for the development and the maintenance of all the models related to credit risk quantification implemented in the context of:
- The credit risk management and monitoring;
- The computation of regulatory capital requirements (Pillar 1);
- The computation of the economic capital required for the management of own funds' adequacy (Pillar 2);
- The general and specific provisioning calculation according to the IFRS 9 standard;
- The forecasting of the risk parameters used in the stress test process.

It also manages and ensures the consistency of the internal rating system integration within the credit risk management process and policies of the Bank.

This unit is composed of a single team.

Data, Reporting & Systems

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

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

In addition to these above-mentioned activities, this department is directly involved in the implementation of IFRS 9 standards, including the definition and the classification of the loans according to IFRS 9 standards and in the selection of the different IT tools required.

Enterprise Risk Management

The **Enterprise Risk Management** department consolidates all the activities related to the monitoring of the Bank's group-wide Risk Management frameworks including, but not limited to, ICAAP/ILAAP, stress tests, model validation, and recovery plan.

The unit is composed of two different teams:
- The **Enterprise Risk Management** team is in charge of the deployment and monitoring of the various components of the SREP process. This process is based on the analysis of the Business Model of the Bank through its Risk Appetite; the establishment of a framework for risk governance; the deployment of an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP); a transversal stress testing

device; and the establishment of a BIL Recovery Plan. Moreover, this team is responsible for the prudential consolidation of the risks of the Bank and regulatory monitoring. In line with this requirement, the Enterprise Risk Management department ensures the regulatory monitoring, activity monitoring, and coordination of transversal projects related thereto; the realisation of regulatory transversal reports (Pillar III Report, Annual Report, Long Form Report, etc.) and the prudential risk consolidation for the Bank and its subsidiaries/ branches.

- The **Internal Validation** team aims to ensure the robustness and soundness of the internal rating systems by validating all the BIL risk quantification models. The unit is responsible for independently verifying that models proposed for use by model owners are fit for purpose through the whole model lifecycle, and that the associated model risks are appropriately identified and mitigated. In order to do so, Internal Validation has explicit authority and independence to provide effective challenging to related stakeholders, presenting issues and highlighting deficiencies. The key aspects of models validated by the internal validation unit include model design, data quality, model implementation, and model performance.

Financial Risk Management

The **Financial Risk Management** (hereafter "FRM") department is in charge of the charters, policies and guidelines definition and their application on financial market activities (ALM, Trading, Liquidity and Collateral Management). Moreover, this department is responsible for identifying, analysing, monitoring and reporting on risks and results on these topics at BIL and BIL group level. Furthermore, FRM is the functional responsible of the main tools (Kondor+, Bloomberg), interfaces of the Dealing Room and the FRM datamart (FRMD).

FRM is composed of two different teams, as described below:

- The **Market Data Management & Risk Engineering** team is in charge of:
  - Implementing regulatory projects related to market risks;
  - Ensuring the operational management of the Treasury and Financial Markets (TFM) and FRM tools and implementing the methodologies of revaluation models for the positions of the Bank (and some specific clients) in order to optimise the risk and capital level of the Bank; setting up the evolutions or new activities of the Dealing Room;
  - Developing, producing and monitoring some regulatory indicators (liquidity: LCR, NSFR, HQLA, etc. and interest: IRRBB) and monitoring the counterparties limits and middle-office controls (operational and fraud risk);
  - Designing and maintaining the intelligence tools (Datamart);
  - Managing the definition and the availability of the market data for the Bank.
- The **Banking & TFM Risk Monitoring** team is in charge of (for BIL and BIL group):
  - Implementing the regulatory standards by defining the technical and functional policies and guidelines;
  - Identifying, managing and optimising market and liquidity risks;
  - Identifying, managing and optimising the collateral management;
  - Maintaining an optimised level of capital allocation consistent with the Bank's Risk Appetite strategy;
  - Informing and alerting the Bank's Management of the risks to which BIL group is exposed;
  - Conducting the stress testing and data collection exercises required by the Regulator (ECB/EBA/CSSF).

Operational Risk Management

The **Operational Risk Management** unit handles the management of corporate operational risks and Insurance & Reinsurance topics.

This unit is composed of two different teams:

- The **Corporate Operational Risk** (COR) team is in charge of:
  - Putting in place, for BIL and its subsidiaries / branches, a system of control and actions to ensure an adequate monitoring of operational risk exposure (internal fraud, external fraud, processes, systems, products, etc.) in line with the risk appetite as defined by the Bank;
  - Preventing the Bank from any operational risk exposure on new products and projects from the beginning through the analyses of Key Risk Indicators.

- The **Insurance & Reinsurance** team is in charge of:
  - The establishment and regular updating of the insurance programme (BIL and employee coverage) within the Bank and its subsidiaries / branches;
  - A centralised management of insurance policies and claims within the Bank and its subsidiaries, acting as a single contact for both brokers and the insured;
  - Developing a comprehensive approach by ensuring the adequacy of the policy and insurance device including the own reinsurance company of BIL (captive) for risk analysis.

Corporate Information Security

The **Corporate Information Security** unit aims to define the high level objectives in each domain of Information Security – as defined in ISO/IEC 27001:2013 and the corresponding roles defined in the CSSF circular 12/552 – that must be fulfilled to ensure the security of the information of the Bank. This unit is composed of three different teams:

- The **Security Risk Prevention** team is in charge of validating and controlling access according to the rules and principles set out in memo NS0032 to ensure the security of systems and applications. This team is also in charge of maintaining the referential of resources available in the Identity and Access Management system;
- The **Security Risk Regulation** team ensures the establishment and maintenance of a global and transversal overview of various aspects of the Bank's Information Security to provide BIL with adequate protection and prevent threats (theft, loss, destruction, alteration, inaccessibility, etc.) which could affect this information. This team performs regular controls on effective access rights to systems compared to declared and validated access in the Identity and Access Management tool. This team also intervenes in the new projects' process to ensure that Confidentiality, Integrity and Availability principles defined in internal security policies are applied (Security by design);
- The **Business Continuity** team establishes and maintains the continuity plan (Business Continuity Plan), its alignment with the IT Recovery Plan (Disaster Recovery Plan) and performs an annual review of Business Impact Analysis with Business Lines in order to maintain an up-to-date continuity plan.

Project Office

The **Project Office** within Risk Management is set up in order to cope with the substantial number of projects, be they regulatory, enhancements or strategic projects. These projects are generally transversal projects at the level of the Bank but also at the level of Risk Management.

This unit is composed of two different teams:

- The **Projects Management** team's aim is to have a centralised and coordinated management of these projects ensuring:
  - A structured and centralised approach to anticipation and prioritisation;
  - Solutions designs and deliveries within the projects fitting Risk Management requirements and processes with a transversal forward looking assessment;
  - A consolidated tracking of status/budgets of the projects including their respective deliverables/milestones with regular updates to Risk Management top management;
  - Proper and continuous communication and organisation among participants, within and outside Risk Management;

- In addition to the projects management, the Project Office is also responsible for the **Model Governance**. The Model Governance unit is in charge of overseeing compliance with the Model Risk Management Framework of the Bank. This unit ensures the documentation is in place for each model, that the model inventory and issue tracking tool is maintained and updated regularly, and provides challenge where appropriate to the Model Owners and Developers. Moreover, the Model Governance unit is responsible for organising the model risk committees by preparing agendas, writing minutes, and archiving documents. The unit is the central repository for all charters and policies related to the Model Risk Management Framework.

Loans Services

Loans Services is the back office dedicated to the implementation and follow-up of all loans granted by the Bank. This team has been integrated into Risk Management Organisation in order to ensure a better control of risks linked to the legal implementation and monitoring of loans (and associated security packages).

Loans Services is:
- Accountable for the management of operational and legal risks related to the implementation and the maintenance of all credits granted by the Bank;
- Accountable for the disbursement of loans consecutively to their implementation in full adequacy with the decisions of the credit authorities and committees;
- Guarantor of the operational efficiency of the Bank, reflected in the capacity to implement our loans and credits in conditions of form and time consistent with the expectations of our three main business lines (Retail & Digital Banking, Corporate & Institutional Banking and Wealth & Investment Management) and their customers while respecting the allocated budgets.

Loans Services is divided into 4 dedicated teams.

- The **Retail and Employee Loans** team is in charge of :
  - The implementation of retail loans consisting of a large number of highly standardised small to medium sized loans, mainly consumption and housing loans (in Luxembourg or Luxembourg Great Region);
  - The management of all life cycle events (disbursement, partial or full release of sureties, renewal of sureties, interest rates changes, repayment programs deferrals, etc. related to Retail and Corporate Banking loans);
  - The final validation of mortgage deeds securing cross border loans.

- The **Bank Guarantee & Corporate Banking Loans** team is in charge of :
  - Implementing business loans granted to small and midsized companies in Luxembourg, these loans are also highly standardised and are mainly investment loans and overdraft facilities ;
  - Managing the issuance of bank guarantees as well as the received bank guarantee portfolio.

- The **Private, Large Corporate and Institutional Banking Loans** team is in charge of:
  - Implementing Private banking loans, mainly Lombard loans and investment loans which are quite standardised and secured by assets deposited in BIL;
  - Implementing tailor-made structured multiform facilities or cross-border mortgage loans for international wealth management clients and Ultra High Net Worth Individuals;
  - Implementing tailor-made structured or syndicated facilities for large corporate or institutional clients.

- The **Project and Monitoring** team is in charge of:
  - Maintaining, updating and improving the Bank's risk monitoring system of stock of credit and security packages throughout their life cycle;
  - Maintaining, updating and improving the Bank's system for monitoring the operational efficiency of the Loans Services line;
  - Maintaining, updating and improving the quality monitoring system;
  - Representing Loans Services as Project Business Owner in all projects related to our business;
  - Representing Loans Services as Application Owner for tools related to the Bank's activity.

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 procedural framework in line with the Bank's Risk Appetite. This framework guides the analysis, decision-making and monitoring of credit risk. The Risk Management department manages the loan issuance process by chairing credit and risk committees and by delegating within the limits set by the Bank's internal governance. 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 the 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 "sensitive" and placed under surveillance by being filed as "special mention" or put on "watchlists";
- The Rating Committee: The main tasks of this committee are the approval of any changes in the operational rating process in accordance with the rating methodology, the approval of Internal Rating System reports performed by the Data Management and Quality team and the review of rating overrides and not rated counterparties;
- 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 closely monitors 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 debtors facing or about to face difficulties in meeting their 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 as forborne or non-forborne and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit file 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 2017, BIL group's forborne exposures amounted to EUR 283.4 million including EUR 3.7 million as given banking guarantees.

3.5 Risk Exposure [1]

Credit risk exposure refers to the Bank's internal concept of Maximum Credit Risk Exposure (MCRE):

- The net carrying value of balance sheet assets other than derivative products (i.e. the carrying value after deduction of specific provisions);
- The mark-to-market valuation of derivative products;
- The total off-balance sheet commitments 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.

Equity exposures, tangible/intangible assets and deferred tax assets are excluded from this perimeter.

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.

Unless otherwise stated, all figures are expressed in euro (EUR).

As at December 31, 2017, the Bank's total credit risk exposure amounted to 25.95 billion. Compared to year-end 2016, the slight exposure increase is observed among Corporate (+0.41 billion), Individual, SME and Self-Employed (+0.41 billion) portfolios while exposures to Financial Institutions decreased (-0.82 billion).

Please note that from this reporting date onwards, exposures to regional governments and local authorities which were previously part of Public Sector Entities are now included in the Central Governments segment. The actual increase in the Central Governments segment is of 0.35 billion as exposure to regional governments and local authorities is stable.

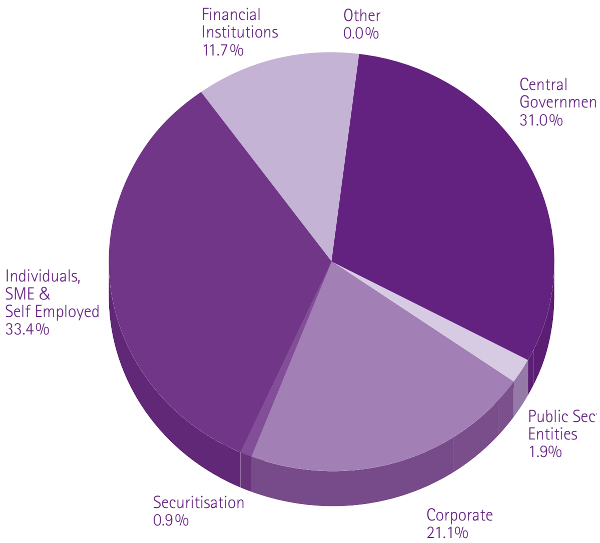
[1] Variation and percentages calculated on exact numbers may bring rounding differences.

Exposure by type of counterparty

In 2017 and in line with BIL group's business model and strategy, the Individuals, SME and Self Employed segment remained the Bank's largest portfolio, representing around 33.4% of the overall exposure.

The Central Governments exposure weighting slightly increased compared with the previous year and remained the second segment of the Bank's portfolio, representing 31% of the overall exposure.

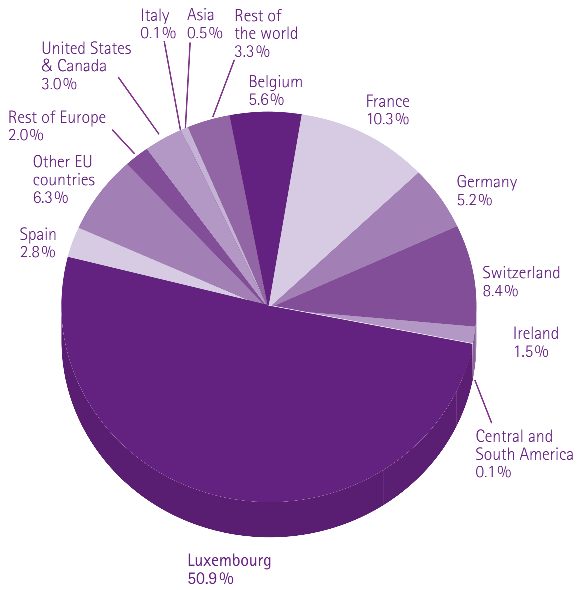
Finally, it is also worth noting the increase of exposure to Corporate that corresponds to 21.1% of the overall exposure.



Exposures by counterparty category (in EUR million)	31/12/16	31/12/17	Variation
Central Governments	6,308	8,032	1,724
Public Sector Entities	1,870	501	(1,369)
Corporate	5,067	5,476	409
Securitisation	325	241	(84)
Individuals, SME & Self Employed	8,250	8,659	409
Financial Institutions	3,852	3,032	(820)
Other	3	5	2
TOTAL	**25,675**	**25,946**	**271**

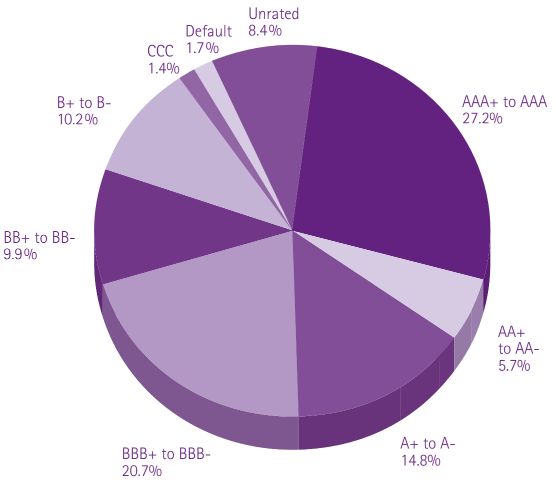
Exposure by geographic region

As at December 31, 2017, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (50.9%), France (10.3%), Switzerland (8.4%), Belgium (5.6%) and Germany (5.2%).



Exposure by internal rating

The credit risk profile of the Bank has remained stable since year-end 2016 and is of good quality. Indeed, the Investment Grade (IG) exposures represent 68.4% of the total credit risk exposure, of which 27.2% lies within the AAA+ to AAA range.



Exposures by ratings (in EUR million)	31/12/16	31/12/17
AAA+ to AAA	6,097	7,059
AA+ to AA-	1,217	1,479
A+ to A-	4,091	3,839
BBB+ to BBB-	5,285	5,371
BB+ to BB-	2,640	2,553
B+ to B-	2,600	2,651
CCC	405	368
Default	438	448
Unrated	2,902	2,178
TOTAL	**25,675**	**25,946**

Exposure to Ireland, Italy and Spain

The breakdown of the government bond portfolio for Ireland, Italy and Spain by maturity bucket is provided hereafter for 2017[1] .

	31/12/16	31/12/17										
(in EUR million)		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	TOTAL
Ireland	121	0	0	0	0	0	0	78	111	88	0	**277**
Italy	144	0	0	0	0	0	0	0	0	0	0	**0**
Spain	392	0	32	32	73	50	52	81	67	46	160	**593**
TOTAL	**657**	**0**	**32**	**32**	**73**	**50**	**52**	**159**	**178**	**134**	**160**	**870**

The Bank's portfolio exposure towards Ireland, Italy and Spain has increased compared to year-end 2016 which is explained by the will of the Bank to take market opportunities in Ireland and Spain; these two countries have benefited from a favorable macroeconomic environment, and to reduce its exposure to Italy due to the expected political turmoil in 2018 following the general elections in March.

As at December 2017, the Bank has no investment in Portuguese or Greek government bonds.

Losses on Immovable Property

The following table displays the losses recorded in 2017 on exposures collateralised by residential and commercial immovable property regarding retail counterparties. These exposures are expressed in terms of Exposure-at-Default (EAD) and in millions of EUR.

	31/12/16		31/12/17	
Collateralised by:	Sum of overall losses	Sum of the exposures	Sum of overall losses	Sum of the exposures
Residential property	1,12	3,907	0,52	4,315
Commercial immovable property	0,00	413	0,36	391

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, 2017, BIL had no exposure towards its sister company KBL epb.

[1] Excluding trading

Asset Quality

(in EUR million)	31/12/16	31/12/17
Gross amount of non-impaired loans	12,003	13,289
Impaired loans to customers	352	331
Specific provisions	280	247
Asset quality ratio[1]	2.85%	2.43%
Coverage ratio[2]	79.67%	74.60%
Collective impairments on loans	31.5	29.2

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

4.1 Definitions

Market Risk is the risk of losses in positions arising from adverse movements due to changes in market factors. It mainly consists of interest rate risk, foreign exchange risk, price risk and spread risk:

- The interest rate risk is the risk that an investment's value changes due to a movement in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship; the four components of interest rate risk are: basis risk, re-pricing risk, yield risk and option risk;
- The foreign exchange risk – also called FX risk, currency risk or exchange rate risk – is the financial risk of an investment's value changing due to the currency exchange rate movements;
- The risk associated with the price represents the risk arising from the reduction in value of the equity or a bond;
- The spread risk is the risk of the reduction in market value of an instrument due to changes in the credit quality of the debtor or the counterparty.

Assets & Liabilities Management covers all the banking[3] 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 BIL's daily exposure to an external counterparty.

4.2 Risk Policy

To ensure integrated market and ALM risk management, BIL has defined a framework based on the following:

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

4.3 Organisation and Governance

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

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

- Head Office FRM teams define risk measurement methods for the whole Group; in addition they report and monitor the consolidated risks of the activities they are responsible for;
- Head Office and local FRM teams follow the day-to-day activity, implement policies and directives, monitor risks (e.g. calculation of risk indicators, control limits and triggers, frame new activities/new products etc.) and report to their own Management Board, as well as to local supervisory and regulatory bodies;
- The ALM Committee decides on the structural balance sheet positioning regarding rates, foreign exchange and liquidity. It defines and revises market risk limits;
- FRM, in its day-to-day activity, is supported by two operational committees: the MOC (Monthly Operational Committee) and the NPC (New Products Committee).

[1] Impaired loans as a percentage of total loans.
[2] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.
[3] In order to be compliant with the EBA and BIS regulations, the Bank set up the IRRBB principles during 2017. The IRRBB refers to the current or prospective risk to the Bank's capital and its earnings, arising from the impact of adverse movements in interest rates on its banking book. The Bank implemented the two complementarity method s of measuring the potential impact of IRRBB: changes in expected earnings and changes in economic value.

4.4 Risk Measurement and Exposures

Market Risk

Risk measurement

The Bank has adopted sensitivity and VaR measurement methodologies as key risk indicators. VaR measures the maximal expected potential loss that can be experienced with a 99% confidence interval, within a 10-day holding period. Risk sensitivity measurements reflect the impacts on the exposure of a parallel movement of 1% on the interest rate curve.
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 2017, the hypothetical back-testing calculated on the trading portfolio revealed one downward back-testing exception for interest rate and currency risks explained by a high volatility of USD exchange rate against EUR.

Since the end of 2016, the Bank has developed a stress testing framework taking into account exceptional market occurrences. The stress tests allow the Bank to gauge its potential vulnerability to exceptional but plausible events. The stress tests are intended to explore a range of low probability events that lie outside of the predictive capacity of VaR measurement techniques. Combined with VaR, stress testing gives thus a broader picture of financial risk.

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 0.38 million in 2017, compared with 0.91 million in 2016.

VaR (10 days, 99%) (in EUR million)		2016							
		IR[1] & FX[2] (trading and banking)[3]				EQT[4] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.84	1.00	1.00	0.81	0.01	0.01	0.01	0.01
	Maximum	1.22	1.48	1.45	1.32	0.03	0.02	0.04	0.02
Global	Average	0.91							
	Maximum	1.48							
	End of period	0.44							
	Limit	8.00							

VaR (10 days, 99%) (in EUR million)		2017							
		IR[1] & FX[2] (trading and banking)[3]				EQT[4] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.42	0.39	0.36	0.36	0.01	0.01	0.01	0.00
	Maximum	0.68	0.58	0.68	0.94	0.02	0.03	0.05	0.02
Global	Average	0.38							
	Maximum	0.94							
	End of period	0.58							
	Limit	8.00							

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

As of December 31, 2017, the spread sensitivity (+1bp) for the capital markets activity amounted to EUR +1 637 for a limit set at EUR – 60 000. The average for 2017 amounted to EUR + 6 404.

Asset & Liabilities 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, 2017, the ALM sensitivity amounted to 4 million (vs. 6 million as at end 2016).

Over 2017, the ALM department managed its rate position in order to keep a neutral sensitivity.

The limit of interest rate sensitivity for a 100 bp parallel shift was 81 million as at December 31, 2017 (identical to last year's 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 had a total nominal exposure of 5.57 billion as at December 31, 2017 (against 6.23 billion as at December 31, 2016). The majority of the bonds are classified in the AFS portfolio: 3.89 billion as at December 31, 2017 (against 5.71 billion as at December 31, 2016). The remaining part is classified in the HTM portfolio: 1.69 billion as at December 31, 2017.

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 -1.9 million as at end 2017 (compared with -3.0 million per basis point as at December 31, 2016).

Investment portfolio (in EUR million)

	Notional amount		Rate bpv		Spread bpv	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Treasury	2,947	2,107	(0.10)	(0.08)	(1.24)	(0.91)
ALM	3,285	3,465	(1.39)	(1.32)	(2.17)	(2.28)

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 Chief Executive Officer, the Chief Risk Officer, 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[1]. All these indicators are assessed according to a variety of scenarios, in the major currencies. These ratios are sent to the CSSF and to the BCL, on a daily and a weekly basis respectively.

Risk exposure

In line with the 2016 year-end situation, BIL presented a significant liquidity surplus throughout 2017.

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

Additional funding needed to reach 100% of the base case ratio (in EUR million)	2017	Q1	Q2	Q3	Q4
	Estimated – 1 month				
Average	(4,363)	(4,308)	(4,532)	(4,346)	(4,266)
Maximum	(5,041)	(4,403)	(5,041)	(4,781)	(4,644)

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

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.

[1] Called "Base Case Ratio"

Liquidity Coverage Ratio (LCR)

As the main short-term liquidity reference indicator, the LCR requires the Bank to hold sufficient HQLA to cover its total net cash outflows over 30 days. It was fully implemented in 2014 to comply with the CRR (Delegated Act based on art. 462 of the CRR).

In EUR billion	31/12/16	31/12/17
Stock of HQLA	5.7	4.44
Net Cash Outflows	4.06	3.38
LCR ratio	140%	131%
Limit	100%	100%

This ratio decreased from 140% as of December 31, 2016 to 131% as of December 31, 2017. The excess of liquidity (HQLA – Net Cash Outflows) decreased too (- EUR 0.68 billion).

The main factors of the HQLA variation are the decrease of reserve requirements (- EUR 0.74 billion) and the decline of the Investment Portfolio (- EUR 0.91 billion[1]), partially HQLA eligible. These funds have been mainly reinvested in a deposit at the Swiss National Bank (+ EUR 1.27 billion) and new commercial loans. The long-term maturity of the loans and, consequently, their exclusion from the inflows, are the major reason of the variation of the ratio.

It is worth mentioning that the LCR has an impact on the asset structure as well as the funding profile of the Bank. LCR forecasts therefore become an integral part of the decision-making process of the Management Bodies.

Net Stable Funding Ratio (NSFR)

The NSFR, reflecting the longer term liquidity position of an institution, requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress. Pending the official EU calibration of the NSFR, calculations are based on Basel III calibration included in the Quantitative Impact Study (QIS) and reported in the Short Term Exercise (STE).

(in EUR billion)	31/12/16	31/12/17
Available Stable Funding (ASF)	15.31	15.22
Required Stable Funding (RSF)	13.41	13.94
NSFR ratio	114%	109%
Limit	100%	100%

The ratio decreased from 114% as of December 31, 2016 to 109% as of December 31, 2017. This evolution of the Required Stable Funding (RSF) (+ EUR 0.54 billion) is mainly due the growth of the commercial loans whereas the Available Stable Funding (ASF) is stable.

Asset Encumbrance

The Bank set up a report of key metrics and a limit regarding asset encumbrance which is based on data of regulatory reporting. The following metrics have been selected to provide key information :

- Level of asset encumbrance;
- Credit quality of unencumbered debt securities;
- Sources of encumbrance;
- Contingent encumbrance.

A reference to the LCR classification has been added in the section "Credit quality of unencumbered debt securities" in order to give a complementary information about the quality of unencumbered assets.

The European asset encumbrance ratio has been calculated and added in the internal report. The components also rely on metrics of regulatory reporting:

$$\textbf{AE\%} = \frac{\text{Total encumbered assets} + \text{Total collateral received re} - \text{used}}{\text{Total assets} + \text{Total collateral received available for encumbrance}}$$

This ratio measures the asset encumbrance of credit institutions in Europe in a harmonised way. The overall weighted average encumbrance ratio calculated and published regularly by the EBA (26.6% in 2017 for the reference period December 2016) is an available benchmark. By comparison, BIL's ratio is around 10% (cf. table below) and reflects a low/moderate level of asset encumbrance compared to other institutions. It is worth mentioning that the limit in Risk Appetite Framework remains at a level of 25%.

[1] Yearly variation of the AFS and HTM portfolio valued at fair value.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

(in EUR million)

LEVEL OF ASSET ENCUMBRANCE	31/12/16	31/12/17
Encumbered assets	2,597	2,282
Collateral received re-used	0	203
Total	2,597	2,485
Ratio[1]	**11%**	**10%**
Limit	**25%**	**25%**

CREDIT QUALITY OF UNENCUMBERED DEBT SECURITIES[2]	31/12/16	31/12/17
Step 1 (AAA to AA-)	3,048	2,316
of which eligible as LA for LCR	*2,851*	*1,977*
Step 2 (A+ to A-)	1,214	1,057
of which eligible as LA for LCR	*754*	*728*
Step 3 (BBB+ to BBB-)	819	918
of which eligible as LA for LCR	*755*	*868*
Non-rated securities	22	317
of which eligible as LA for LCR	*10*	*66*
Total amount	5,103	4,608
of which eligible as LA for LCR	*4,370*	*3,639*

SOURCES OF ENCUMBRANCE	31/12/16	31/12/17
OTC Derivatives	437	370
Repurchase agreements	554	999
Collateral swaps	594	645
Securities lending	751	443
Total amount	2,335	2,457

CONTINGENT ENCUMBRANCE[3]	31/12/16	31/12/17
OTC Derivatives	57	79
Repurchase agreements	165	299
Collateral swaps	245	217
Securities lending	309	149
Total amount	776	745

As of December 31, 2017, EUR 2.49 billion of BIL group's balance sheet assets were encumbered and the asset encumbrance ratio was 10%, amounts relatively stable compared to the last year. Key sources of encumbrance are the participation to the ECB Targeted Long Term Refinancing Operations (TLTRO) (EUR 0.7 billion), collateral swaps (EUR 0.65 billion), securities lending (EUR 0.44 billion) and OTC derivatives (EUR 0.37 billion).

Almost all securities lending transactions are open maturity operations with a maximum recall period of two days, which mitigates liquidity risk. Depending on the counterparty, BIL or a third party on behalf of BIL receives securities as collateral to address the credit risk. A common feature of collateral swaps carried out by BIL is the lending of high quality securities (e.g. issued by a general government) against LCR-eligible securities of lesser quality (e.g. RMBS).

[1] Asset encumbrance ratio = (Encumbered assets + Collateral received re-used) / (Total assets + Total collateral received).

[2] Assets and collateral received available for encumbrance

[3] Additional amount of encumbered assets resulting from a decrease by 30% of the fair value encumbered assets.

5. OPERATIONAL RISK AND INFORMATION SECURITY

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 financial impacts resulting from commercial decisions.

The major role of Information Security is to protect sensitive information and especially BIL's customer data.

Information Security must guarantee that information is accessible only to authorised parties (Confidentiality), remains accurate and complete (Integrity), and can be accessed when needed (Availability). Information Security is fundamental to ensure compliance with applicable legal, regulatory and contractual constraints.

5.2 Risk Policy

BIL's Operational Risk Management (ORM) policy involves identifying and regularly assessing existing risks and current measures in order to ensure that the acceptance level defined per activity is respected. If not, the business has to implement quick corrective or improvement actions permitting a return to an acceptable situation.

This framework is implemented through a preventive approach via the Risk and Control Self Assessment (RCSA) and a Key Risk Indicators (KRI) methodology has been developed in 2017 and will be continuously implemented throughout 2018.

The management of the risk framework of the Bank also includes the transfer of the financial consequences of certain risks towards insurances.

In terms of operational risk, BIL's management conducted a review of the Operational Risk Global Policy on September 2016 (imposed every three years).

In addition, it is worth nothing that at the end of 2015, BIL has decided to build its "Cyber Security Strategy" with the help of an external consulting firm. Therefore, in 2016, the internal governance and policies related to Cyber Security topics (i.e. covering both IT Security and Information Security perimeters) have been reviewed. Finally, end of 2017, the Bank began its validation process for all these documents (i.e. charters, policies and procedures) required to support this framework. The aim of the BIL Information Security Charter is to define the high level objectives in each domain of Information Security – as defined in ISO/IEC 27001:2013 and the corresponding roles defined in the CSSF circular 12/552 – that must be fulfilled to ensure the security of the information of the Bank. The Charter also defines the high level responsibilities of the different actors of BIL's Information Security.

In addition, in the context of an IT Security and Information Security review (organisation, governance, operational mode, etc.), a new Business Continuity and Crisis Management Charter has been achieved. Therefore, the review of the framework of all the documents has been implemented and the validation process has been launched at end-2017. The aim of this document is to define the high level objectives in each domain of Business Continuity Management and Crisis Management – as defined in ISO/IEC 22301:2012 – that must be fulfilled to ensure the business continuity and manage crisis.

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 Internal Control Committee (ICC)***, mandated by the Management Board, is in charge of supervising the Operational Risk Management for operational incidents, major risks and root causes, follow-up on corrective/mitigating measures, RCSA results, KRI, BCP/DRP Information Security as well as overseeing the operational risks for BIL, its subsidiaries and branches based on the existing products/services;
- ***The New Product Committee (NPC)*** is a transversal committee responsible for new products/services on the basis of ideas coming from the entire bank including the Innovation & Digital Forum and for checking the relevancy of the underlying business case against the Bank's strategy. The Head of BIL's Products & Solutions (P&S) acts as the chairman and the Head of Corporate Operational risk acts as member for risk advice;
- ***The Monthly Operational Committee (MOC)***, under the responsibility of the Treasury & Financial Markets (TFM) business line, and with the participation of ORM, supervises BIL's TFM projects and operational risks, takes decisions in terms of tackling day-to-day problems and monitors other risks related to TFM Luxembourg's activities;
- ***The Crisis Committee (CC)*** is mandated by the Management Board to create an Operational Crisis Management Committee consisting of a core incorporating different members of the functions necessary for the management of any crisis; depending on the type of crisis, this core is complemented by the heads of the entities affected. This Committee also deals with the Information Security subjects.

It is worth mentioning that all topics related to the Information Security are handled in the following committees:

- ***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 Compliance, Audit and Risk (CAR) Committee*** is a quarterly committee which covers aspects of Compliance, Audit and Risk between BIL and IBM. It brings together the Chief Compliance Officer, the Head of Audit and the Head of BIL group's Risk Management and/or their substitutes (Head of Operational Risk Management or Head of Corporate Information Security) and their IBM equivalents.

5.4 Risk measurement and management

The operational risk framework relies on the following elements.

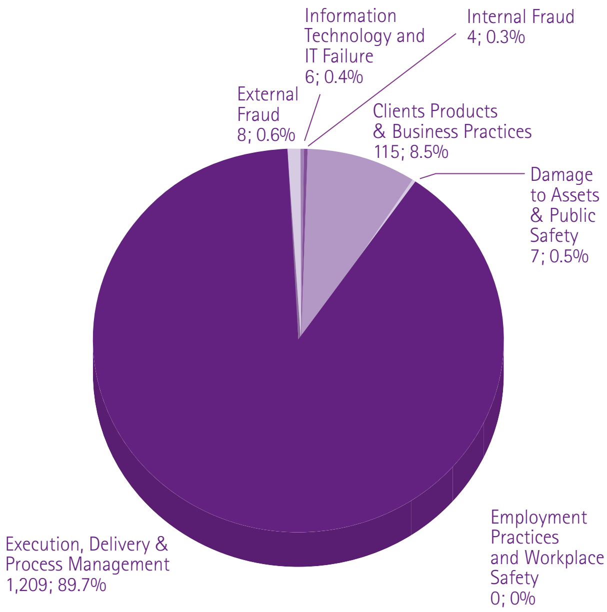
Operational Risk Event Data Collection

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, the guidelines for reporting operational incidents have been reviewed in 2017 to be in line with the organisation of the Bank. At the same time, recording incidents provides information that may be used to improve the internal control system and determine the Bank's operational risk profile.

The division of BIL group's gross losses for the year 2017 by risk event type is disclosed in the chart below. The total gross impact is calculated on an absolute value basis, including losses, profits, timing accounting and excluding recoveries. This explains possible differences with other regulatory reports which are only based on a losses point of view.

Gross impact in EUR thousand and share in %



Execution, Delivery & Process Management incidents represent 89.7% of the total amount of BIL group's operational risk losses. Losses related to these incidents were mainly incurred due to human errors and the main operational risk lies in the wrong execution of instructions.

In the second place, one incident related to the Client Products & Business Practices category represents 8.5% of the total amount of operational incidents. This incident is related to the "Systems" cause category and concerns a tool which is no longer used by the Bank.

In 2017, the Bank recorded 34 operational incidents related to External Fraud among which 30 have been stopped by the Bank (fraud attempts) for a risk exposure amount of 1,150 million EUR. Four frauds were executed for an effective loss of EUR 8,000 but the risk exposure amount was EUR 31,000 . A review of the internal memorandum that imposes the execution of additional controls based on the customer's habits or profile has been done in 2017. The criteria of the controls have been updated to keep them in line with the fraudulent practices. Moreover, thanks to various campaigns especially via intranet, the Bank keeps raising all front business lines' employees awareness. The Bank also faced the consequence of an internal fraud in 2017 for an amount of EUR 4,000 resulting from an incident that occurred in 2008. The Bank had updated the internal procedures accordingly in due time.

In the Information, *Technology and Infrastructures* category (0.4%), the operational incidents were linked to disturbances in the IT systems. BIL does not estimate the related financial impacts except if they have direct financial consequences for customers. The principal impact is calculated in man/days.

In the *Damage to Assets & Public Safety* category, a remaining loss of approximately EUR 6,500 (0.5%) has not been recovered due to the insurance deductible or the (partial) exclusion of the case from the insurance contracts.

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

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

Self-assessment of risks and associated controls

A pre-defined RCSA exercise is performed each year to identify the most significant operational risk areas of the Bank. This assessment provides a good overview of the various activities and existing checks and can lead to the definition of mitigating actions. The results of these assessments are reported to the management during the ICC meeting. The guideline for RCSA has been reviewed at the beginning of 2017 without significant changes.

Definition and follow-up of action plans

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

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

Calculation of the regulatory capital requirements

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 amount of operational risk-weighted assets has increased compared with the 2016 figures (799 million) to 831 million at year-end 2017.

Risk Weighted Assets (in EUR million)	
2016	**2017**
799	831

6. REGULATORY CAPITAL ADEQUACY – PILLAR 1

6.1 Weighted risks

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

For credit risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. 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 2017, the Bank's total RWAs amounted to 6.6 billion, compared with 5.8 billion as at end 2016.

RWA growth of EUR 821 million (+15%) is mainly driven by credit risk (EUR +771 million) due to the implementation of changes in the credit risk models in July 2017 (EUR 455 million) and the commercial loans portfolio growth (EUR 337 million).

Meanwhile, the market risk RWAs increased by 15 million and the operational risk RWAs increased by 32 million in 2017.

(in EUR million)	31/12/16	31/12/17	Variation
Weighted credit risks	4,942	5,713	16%
Weighted market risks	55	70	27%
Weighted operational risks	799	831	4%
Weighted CVA risks	23	26	13%
TOTAL WEIGHTED RISKS	5,819	6,640	14%

6.2 Capital Adequacy ratios

(in EUR million)	31/12/16	31/12/17
Common Equity Tier 1 Capital (CET1)	755	811
Additional Tier One Capital	150	150
Total regulatory capital	1,050	1,094
Risk Weighted Assets	5,819	6,640
Common Equity Tier 1 Capital Ratio (CET1%)	12.98%	12.21%
TOTAL ADEQUACY RATIO	18.04%	16.48%

Common Equity Tier 1 Capital including partial profit allocation for EUR 64 million in 2017.

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 ongoing assessment 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 audit of the consolidated financial statements

OPINION

We have audited the consolidated financial statements of Banque Internationale à Luxembourg S.A. (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Financial Statements » section of our report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year.

These matters were addressed in the context of the audit of the consolidated financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

1. Impairment of loans and advances to customers

Description

At 31 December 2017, the gross loans and advances of the Bank amounted to EUR 13,621 million against which an impairment allowance of EUR 276.6 million was booked (comprising impairment against specific loans and collective impairment).
We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the estimation of the amount and timing of the future cash flows when determining impairment losses.

The Bank uses the following methods to assess the required impairment allowance:

- For significant loans and advances, impairment is assessed individually on a regular basis;
- Collective impairment is assessed for less significant loans or for loans which are not considered as impaired based on historical deterioration in the borrowers' internal grading

In particular, the determination of impairment against loans and advance includes:

- The identification of impairment events and judgments used to calculate the impairment against specific loans and advances flagged on the Bank's Special Mention and Watch List. Those individual assessment for impairment are based on the borrower's financial performance, solvency and liquidity on a regular basis;
- The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations. Models used to estimate the existence of incurred loss events and the resulting expected write-offs depend to a certain degree on judgments in determining the inputs, methodologies and assumptions.

Refer to the Accounting policy Note 1.7.5 page 63 and to Note 7.4 to the consolidated financial statements.

How the matter was addressed in our audit

Controls testing:

We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of:

- Entity level controls over the modelling process, including model review and monitoring and approval of assumptions by the Credit committee and the Bank's Executive Committee;
- Controls over models outputs and approval of post model adjustments;
- For loans granted to wealth management customers, controls over the collateral breach monitoring, the valuation and haircut of assets held as collateral;
- Controls over the identification of impaired loans and advances and the calculation of the related impairment allowances.

Collective modelling assessment:

For collective impairment, we used our own risk specialists to:

- Assess the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio;
- Test, on a sample basis, extraction of data used in the models, including rating of loans and movements between various ratings.

Test of details:

For loans which are individually assessed for impairment:

- We tested a sample of loans and advances (including loans which were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required;
- We obtained the Credit Special Mention and Watch list and considered the assumptions underlying the impairment identification used by the Bank, including expected cash flows and estimated recovery from any underlying collateral.

2. Valuation of unquoted financial assets

Description

As at 31 December 2017, the Bank is holding equities measured at fair value with level 3 inputs for an acquisition cost of EUR 20.5 million and with a fair value of EUR 31.8 million, included in the "Financial investments" caption of the consolidated balance sheet.

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the determination of the significant valuation inputs used to determine the fair value of the financial assets; in addition, for the valuation of the most significant investment the Bank used complex valuation model with data input based on comparative financial ratios from peers in the industry.

Refer to the Accounting policy Note 1.8 page 65 and to Note 12.1 to the consolidated financial statements.

How the matter was addressed in our audit

We performed the following procedures:

- For all significant financial assets that are subject to level 3 non-observable inputs, we obtained the valuation methods and related outcome applied by the Management;
- We assessed the appropriateness of the methods used and challenged the appropriateness of the key assumptions used in relation to non-observable inputs, using valuation specialists where applicable;
- We reconciled input data to supporting evidence, such as Management's forecast of future profits and business plans, and assessed the relevance and reasonableness of the input data used including back-testing of prior year assumptions.

3. Impairment of goodwill

Description

As at 31 December 2017, the gross amount of goodwill (arising in a business combination) amounted to EUR 62 million against which an impairment allowance of EUR 11.7 million was recorded.

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the identification of the cash-generating units ("CGUs") and the estimation of the recoverable values (which are the fair value less cost to sell or the value in use) when determining the impairment to be recorded.

Recoverable values are primarily measured from a Dividend Discount Model ("DDM") valuation method which, in practice, represents an estimation of fair value less costs of disposal.

Other cross-check methods such as the "Net asset value + multiple of Assets under management" might be used to corroborate the results of the DDM method applied to the wealth management units.

The assumptions are made by the Bank considering a three year period and a terminal value is calculated based on a long term dividends growth rate.

Refer to the Accounting policy Note 1.18 page 69 and to Note 7.9 to the consolidated financial statements

How the matter was addressed in our audit

We performed the following procedures:
- We assessed the CGUs identified by the Bank that should be subject to impairment testing based on the understanding of the Bank's activities;
- We obtained the goodwill valuation methodology applied by the Bank;
- We evaluated and commented on whether or not the valuation methodology used by the Bank is reasonable in the circumstances, giving consideration to the:
  - nature of the entity being valued;
  - premise of value;
  - business, industry, and environment in which the entity operates, and
  - common practices among valuation experts
- We identified, verified and tested significant assumptions used by the Bank for each CGUs and evaluated whether the information used:
  - was reasonably available at the time of the analysis;
  - was appropriate given the circumstances; and
  - gave consideration to observable market prices.

4. Onerous contract

Description

The Bank entered in 2012 into an agreement with a third party according to which the Bank has to generate a minimum level of revenue guaranteed to such third party during the lifetime of the contract.

As at 31 December 2017, the Bank holds a provision of EUR 9.1 million to cover the unavoidable costs of meeting the obligation imposed by the onerous contract upon its termination.

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the estimation of the amount of the unavoidable costs over the lifetime of the contract.

Refer to the Accounting policy Note 1.26 page 73 and to Note 8.8 to the consolidated financial statements.

How the matter was addressed in our audit

We performed the following procedures:
- We assessed the eligibility of the contract to be treated as an onerous contract according to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets);
- We obtained the forecast of expected income deficits and benefits from the onerous contract prepared by the Bank to determine the unavoidable costs over the lifetime of the agreement;
- We assessed the consistency and reasonableness of these assumptions including back testing of the assumptions made by the Bank at previous year ends.

5. Deferred tax assets recognition and impairment

Description

As at 31 December 2017, the deferred tax assets recognized in the consolidated balance sheet amounts to EUR 238.5 million of which EUR 49.0 million resulting from the loss perpetrated in 2011 by one of the former branch of the Bank in a third party country.

We considered this as a key audit matter as the Bank makes forecast to determine the amount of tax losses carried forward which will be resorbed by future taxable profits. Those forecasts are based on subjective Bank's assumptions.

Refer to the Accounting policy Note 1.24 page 72 and to Note 9.2 to the consolidated financial statements.

How the matter was addressed in our audit

We performed the following procedures:
- We obtained the business plan prepared by the Bank for the period 2018 – 2020 as well as the assumptions made by the Bank to extrapolate the net income before tax beyond the horizon of the business plan;
- We assessed the consistency and reasonableness of these assumptions including back-testing of the assumptions made at prior year end;
- We evaluated whether updates in the Luxembourg tax laws and regulations have an impact on the assumptions made by the Management;
- For the deferred tax assets arising from tax losses carried forward from the former third party country's branch, we assessed whether the conditions for such tax losses to be incorporated to the basis of the consolidated tax losses carried forward are fulfilled.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Bank ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 BIL internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BIL ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the BIL to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been reappointed as "Réviseur d'Entreprises Agréé" by the Board of directors on 16 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the consolidated management report, is the responsibility of the Board of Directors. The information required by article 70bis paragraph 1 of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended, is consistent, at the date of this report, with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remain independent of the Bank in conducting the audit.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, April 9, 2018

Consolidated balance sheet

ASSETS (in EUR)		Notes	31/12/16	31/12/17
I.	Cash and balances with central banks	7.2	2,085,823,944	2,621,934,451
II.	Loans and advances to credit institutions	7.3	1,071,276,155	827,268,218
III.	Loans and advances to customers	7.4	12,042,999,820	13,344,203,406
IV.	Financial assets measured at fair value through profit or loss	7.5	79,801,733	70,526,377
V.	Financial investments	7.6	6,917,484,841	5,931,971,684
VI.	Derivatives	9.1	245,883,149	227,748,388
VII.	Fair value revaluation of portfolios hedged against interest rate risk		6,523,489	3,175,567
VIII.	Investments in associates	7.7	28,274,796	25,225,654
IX.	Investment property	7.8 / 7.12	120,762,712	114,161,786
X.	Property, plant and equipment	7.8 / 7.12	107,055,746	111,832,558
XI.	Intangible fixed assets and goodwill	7.9	121,944,143	161,458,649
XII.	Current tax assets	7.10	214,285	224,374
XIII.	Deferred tax assets	7.10 / 9.2	243,692,753	238,463,684
XIV.	Other assets	7.11	76,921,160	74,322,139
TOTAL ASSETS			**23,148,658,726**	**23,752,516,935**

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

LIABILITIES

(in EUR)		Notes	31/12/16	31/12/17
I.	Amounts due to credit institutions	8.1	2,216,090,000	2,787,854,788
II.	Amounts due to customers	8.2	16,129,249,400	16,315,477,809
III.	Financial liabilities measured at fair value through profit or loss	8.3	879,926,299	776,333,210
IV.	Derivatives	9.1	436,598,717	384,294,457
V.	Fair value revaluation of portfolios hedged against interest rate risk		48,683,055	35,131,162
VI.	Debt securities	8.4	1,529,888,297	1,580,051,579
VII.	Subordinated debts	8.5	293,936,368	281,864,136
VIII.	Provisions and other obligations	8.6	61,714,820	67,858,620
IX.	Current tax liabilities	8.7	3,878,602	4,452,914
X.	Deferred tax liabilities	8.7 / 9.2	2,759,526	4,641,338
XI.	Other liabilities	8.8	286,272,932	228,254,924
TOTAL LIABILITIES			**21,888,998,016**	**22,466,214,937**

SHAREHOLDERS' EQUITY

(in EUR)		Notes	31/12/16	31/12/17
XII,	Subscribed capital	9.7	141,212,330	141,212,330
XIII,	Additional paid-in capital		708,216,940	708,216,940
XIV,	Treasury shares		(1,455,000)	(1,455,000)
XV,	Reserves and retained earnings		231,962,461	275,198,005
XVI,	Net income for the year		110,362,021	116,643,342
CORE SHAREHOLDERS' EQUITY			**1,190,298,752**	**1,239,815,617**
XVII,	Gains and losses not recognised in the consolidated statement of income		69,361,958	46,486,381
	a) AFS reserve		*99,775,612*	*65,617,927*
	b) Other reserves		*(30,413,654)*	*(19,131,546)*
GROUP EQUITY			**1,259,660,710**	**1,286,301,998**
XVIII,	Non-controlling interest		0	0
TOTAL SHAREHOLDERS' EQUITY			**1,259,660,710**	**1,286,301,998**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**23,148,658,726**	**23,752,516,935**

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

Consolidated statement of income

(in EUR)		Notes	31/12/16	31/12/17
I.	Interest and similar income	11.1	480,781,377	509,866,565
II.	Interest and similar expenses	11.1	(181,347,393)	(203,594,375)
III.	Dividend income	11.2	9,253	4,429,900
IV.	Net income from associates	11.3	3,013,906	7,344,685
V.	Net trading income and net result of hedge accounting	11.4	23,322,626	14,847,310
VI.	Net income on investments (assets and liabilities not measured at fair value through profit or loss)	11.5	47,042,743	49,235,360
VII.	Fee and commission income	11.6	220,757,947	232,662,071
VIII.	Fee and commission expenses	11.6	(35,770,530)	(32,005,994)
IX.	Other net income	11.7	(16,426,653)	(30,156,108)
INCOME			**541,383,276**	**552,629,414**
X.	Staff expenses	11.8	(214,070,395)	(229,959,744)
XI.	General and administrative expenses	11.9 / 11.10	(128,610,493)	(135,009,146)
XII.	Amortisation of tangible and intangible fixed assets	11.11	(25,840,362)	(31,977,736)
EXPENSES			**(368,521,250)**	**(396,946,626)**
GROSS OPERATING INCOME			**172,862,026**	**155,682,788**
XIII.	Impairment on loans and provisions for credit commitments	11.12	(16,916,571)	(20,036,185)
XIV.	Provisions for legal litigation	11.13	0	234,317
NET INCOME BEFORE TAX			**155,945,455**	**135,880,920**
XV.	Tax expenses	11.14	(45,583,434)	(19,237,578)
NET INCOME FOR THE YEAR			**110,362,021**	**116,643,342**
	Net income - Group share		110,362,021	116,643,342
	Non-controlling interest		0	0

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

Consolidated statement of comprehensive income

(in EUR)	31/12/16	31/12/17
NET INCOME FOR THE YEAR RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	110,362,021	116,643,342
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	8,752,902	(22,875,576)
Items that will not be reclassified to profit or loss	**(1,274,715)**	**7,237,555**
Actuarial gains (losses) on defined benefit pension plans - Gross	898,039	9,821,629
Actuarial gains (losses) on defined benefit pension plans - Tax	(2,172,754)	(2,584,074)
Items that may be reclassified to profit or loss	**10,027,617**	**(30,113,131)**
Gains (losses) on net investment hedge	(35,352)	271,746
Translation adjustments	(341,316)	4,802,531
Gains (losses) on cash flow hedge	(5,515,095)	5,120,279
Unrealised gains (losses) on available for sale financial investments	9,272,791	(46,483,094)
Share of other recognised income & expense of investments in subsidiaries, joint ventures & associates	4,126,695	(4,747,536)
Tax on items that may be reclassified to profit or loss	2,519,894	10,922,943
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	119,114,923	93,767,766
Attributable to equity holders of the parent company	**119,114,923**	**93,767,766**
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 01/01/16	**141,224,090**	**708,297,160**	**(1,455,000)**	**174,680,099**	**134,269,101**	**1,157,015,450**
Dividend paid				(69,986,624)		(69,986,624)
Redemption for the year or liquidation	(11,760)	(80,220)				(91,980)
Classification of income 2015				134,269,101	(134,269,101)	0
Interest on contingent convertible bond				(7,033,763)		(7,033,763)
Dividend received on own shares				33,648		33,648
Net income for the year					110,362,021	110,362,021
As at 31/12/16	**141,212,330**	**708,216,940**	**(1,455,000)**	**231,962,461**	**110,362,021**	**1,190,298,752**

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 01/01/16	**89,146,369**	**(3,643,937)**	**1,963,809**	**(12,370,921)**	**(14,486,264)**	**60,609,056**
Net change in fair value through equity - Available for sale investments	40,827,001		4,126,695			44,953,696
Net change in fair value through equity - Cash flow hedges		(4,387,006)				(4,387,006)
Net change in other reserves				(1,139,169)		(1,139,169)
Translation adjustments	5,871			(135,545)	(341,316)	(470,990)
Cancellation of fair value following AFS disposals	(30,203,629)					(30,203,629)
Cash flow hedge - Break in hedging						0
AS AT 31/12/16	**99,775,612**	**(8,030,943)**	**6,090,504**	**(13,645,635)**	**(14,827,580)**	**69,361,958**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the consolidated statement of income	Non-controlling interests
AS AT 01/01/16	**0**	**0**	**0**
Changes in scope of consolidation	0	0	0
AS AT 31/12/16	**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, 2016, translation adjustments comprise an amount of EUR -54.637.249 relating to net investment hedges linked to foreign exchange differences in consolidated investments

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 01/01/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**231,962,461**	**110,362,021**	**1,190,298,752**
Dividend paid				(60,015,240)		(60,015,240)
Redemption for the year or liquidation						
Classification of income 2016				110,362,021	(110,362,021)	0
Interest on contingent convertible bond				(7,140,095)		(7,140,095)
Dividend received on own shares				28,858		28,858
Net income for the year					116,643,342	116,643,342
As at 31/12/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**275,198,005**	**116,643,342**	**1,239,815,617**

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 01/01/17	**99,775,612**	**(8,030,943)**	**6,090,504**	**(13,645,635)**	**(14,827,580)**	**69,361,958**
Net change in fair value through equity - Available for sale investments	(862,104)		(821,631)			(1,683,735)
Net change in fair value through equity - Cash flow hedges		1,168,211				1,168,211
Translation adjustments	(25,292)			865,133	4,802,534	5,642,375
Cancellation of FV following AFS disposals	(33,270,289)		(3,925,905)			(37,196,194)
Cash flow hedge + Break in hedging		2,821,346				2,821,346
Net change in other reserves				6,372,420		6,372,420
As at 31/12/17	**65,617,927**	**(4,041,386)**	**1,342,968**	**(6,408,082)**	**(10,025,046)**	**46,486,381**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the consolidated statement of income	Non-controlling interests
As at 01/01/17	**0**	**0**	**0**
Changes in consolidation scope	0	0	0
As at 31/12/17	**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 14,9 million according to Circular CSSF 14/599 and legal reserve for EUR 14,1 million.
[2] As at December 31, 2017, translation adjustments comprise an amount of EUR -41.914.723 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Consolidated cash flow statement

(in EUR)		31/12/16	31/12/17
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		110,362,021	116,643,342
Adjustment for :			
- Depreciation and amortisation	7.8 / 7.9	37,658,671	38,667,086
- Impairment on bonds, equities and other assets	11.5 / 11.12	2,344,088	(10,939,909)
- Net gains/(losses) on investments		(1,130,738)	(4,538)
- Provisions (including collective impairment)	7.11 / 8.6 / 8.8 / 11.12	(17,921,262)	11,607,913
- Change in unrealised gains/(losses)	11.4	378,423	3,750,663
- Income/(expense) from associates	7.7 / 11.3	(3,013,906)	(2,912,673)
- Dividends from associates	7.7	1,214,280	5,646,292
- Deferred taxes	11.14	44,642,450	18,246,671
- Other adjustments		(2,379,562)	0
Changes in operating assets and liabilities		504,833,361	516,307,663
NET CASH FLOW FROM OPERATING ACTIVITIES		**676,987,826**	**697,012,510**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	7.8 / 7.9	(59,519,810)	(79,193,238)
Sale of fixed assets	7.8 / 7.9	(205,853)	1,741,337
Purchase of non-consolidated shares		(3,844,755)	0
Sales of non-consolidated shares		601,908	43,204
Capital increase on non-consolidated subsidiaries		(20,000)	0
Sale of subsidiaries		0	(235,752)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(62,988,510)**	**(77,644,449)**
CASH FLOW FROM FINANCING ACTIVITIES			
Reimbursement of capital		(91,980)	0
Issuance of subordinated debts		140,929,757	0
Reimbursement of subordinated debts		(291,773,451)	0
Dividends paid		(69,986,624)	(60,015,240)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(220,922,298)**	**(60,015,240)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**393,077,018**	**559,352,821**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**2,042,876,070**	**2,439,655,439**
Net cash flow from operating activities		676,987,826	697,012,510
Net cash flow from investing activities		(62,988,510)	(77,644,449)
Net cash flow from financing activities		(220,922,298)	(60,015,240)
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents		3,702,351	(27,384,924)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**7.1**	**2,439,655,439**	**2,971,623,336**
ADDITIONAL INFORMATION			
Taxes paid		(1,090,282)	(388,274)
Dividends received	11.2	9,253	4,429,900
Interest received		482,594,055	508,027,813
Interest paid		(174,304,423)	(197,909,093)

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.

Changes in liabilities arising from financing activities (in EUR)	**As at 01/01/16**	**Acquisition - Reimbursement**	**Changes resulting from the acquisition or loss of subsidiary control**	**Foreign exchange movement**	**Other changes**	**As at 31/12/16**
Subordinated debts	**446,792,502**	(150,843,694)		(1,319,047)		**294,629,761**
Non-Subordinated debts	**0**					**0**
Subscribed capital	**141,224,090**	(11,760)				**141,212,330**
Additional paid-in capital	**708,297,160**	(80,220)				**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

Changes in liabilities arising from financing activities (in EUR)	**As at 01/01/17**	**Acquisition - Reimbursement**	**Changes resulting from the acquisition or loss of subsidiary control**	**Foreign exchange movement**	**Other changes**	**As at 31/12/17**
Subordinated debts	**294,629,761**			(11,282,536)		**283,347,225**
Non-Subordinated debts	**0**					**0**
Subscribed capital	**141,212,330**					**141,212,330**
Additional paid-in capital	**708,216,940**					**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

The notes are an integral part of these concolidated 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 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 S.A., comprising the smallest body of undertakings of which BIL forms part as a subsidiary. The registered office of Precision Capital S.A. 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 28, 2018, 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, 2017 and ending December 31, 2017.

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 RULES AND METHODS

1.1 Basis of accounting

1.1.1 Statement of compliance
BIL's consolidated financial statements have been prepared in accordance with all IFRSs as adopted by the European Union (EU) and endorsed by the European Commission (EC) up to December 31, 2017.

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 judgement. 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.

Judgements are made principally in the following areas:
- Determination on whether BIL controls the investee, including special purpose entities (see 1.4);
- 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 1.7);
- Identification of impairment triggers (see 1.7.5);
- 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 1.8);

- Determination of fair value for financial instruments measured at fair value by means of valuation techniques (see 1.8);
- The appropriateness of designating derivatives as hedging instruments (see 1.12); and
- Existence of a present obligation with probable outflows in the context of litigation (see 1.26).

These judgements are entered into the corresponding sections of the accounting policies.

Estimates are principally made in the following areas:
- Determination of the market value correction to adjust for market value and model uncertainty (see 1.8);
- The measurement of hedge effectiveness in hedging relations (see 1.12);
- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets (see 1.15, 1.16);
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see 1.18.2);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see 1.24); and
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.25).

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 principles and 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, 2017.

1.2.1 IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2017

- Amendments to IAS 7: Disclosure Initiative (issued on January 29, 2016 and endorsed on November 6, 2017): disclosure impact on BIL cash flow statement as from December 31, 2017;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on January 19, 2016 and endorsed on November 6, 2017): no impact on BIL financial reporting.
- Clarification of the scope of the disclosure requirements in IFRS 12: disclosure interests in other entities (issued in December 2016): no impact on BIL financial reporting.

1.2.2 IASB and IFRIC texts endorsed during the current year by the European Commission during the current period but not yet applicable as from January 1, 2017

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on September 12, 2016, and endorsed on November 3, 2017). BIL's main activity is banking products. Therefore, the amendment will have a limited impact on the Bank;
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on April 12, 2016, and endorsed on October 31, 2017). IFRS 15 is effective as from January 1, 2018 and establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. The Bank estimates that the impact of this standard and the clarification related will be limited on its financial reporting;
- IFRS 16 "Leases" (issued on January 13, 2016, and endorsed on October 31, 2017) will replace IAS 17 Leases (and related Interpretations) and will be effective as from January 1, 2019. The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. This standard may impact BIL financial reporting.

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

- IFRS 17 "Insurance Contracts" (issued on May 18, 2017) establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. No impact on BIL financial reporting;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7, 2017); it clarifies the accounting for uncertainties in income taxes when tax treatments involve uncertainty that affects the application of IAS 12. Requirements prescribed by the interpretation are already applied by the Bank;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on October 12, 2017): this amendment will be considered together with the IFRS 9 standard;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on October 12, 2017). The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. This amendment will be considered together with the IFRS 9 standard;
- Annual improvements to IFRS Standards 2015-2017 Cycle (issued on December 12, 2017). These amendments to IFRS 3 "Business combinations", IFRS 11 "Joint arrangements, IAS12 "Income taxes" and IAS 23 "Borrowing costs", do not impact BIL financial reporting.

1.2.4 New IFRS standards, IFRIC interpretations and amendments endorsed by the European Commission during previous years but not yet applicable as from January 1, 2017

- IFRS 9 "Financial instruments" (issued on July 24, 2014) replaces the existing standard IAS 39 as from January 1, 2018, please refer to section 1.3 for the impact on BIL financial reporting;
- IFRS 15 "Revenue from contracts with customers" (issued on May 28, 2014) replaces the existing standard IAS 18 as from January 1, 2018. BIL has concluded that the standard does not have an impact on BIL financial reporting.

1.3. Impact of the IFRS 9 standard applicable as from January 1, 2018

IFRS 9 replaces the existing standard IAS 39 as from January 1, 2018.

Section I – Classification and measurement of financial instruments

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an on-going basis. While there are no major changes in classification and measurement of financial liabilities, IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model under which an asset is held.

The assessment of the features of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Hence, the assessment is referred to as the "SPPI" test.

Financial assets are classified according to the Bank's business model for managing these assets and according to the contractual cash flow characteristics of the financial assets.

There are three portfolios for financial assets:

- Financial assets at amortised cost: financial assets whose business model is to collect cash flows and which passed the SPPI test;
- Financial assets at fair value through other comprehensive income: financial assets whose business model is to collect cash flows and sell, and which passed the SPPI test;
- Financial assets measured at fair value through profit or loss include:
  - financial assets held for trading such as:
    - > derivatives held for trading and assets that the Bank intends to sell immediately or in the near term,
    - > the non-trading financial assets mandatorily at fair-value through P&L (financial assets whose business model is to collect cash flows or to collect cash flows and sell but which did not pass the SPPI test),
    - > and financial assets designated at fair-value through profit or loss (to avoid an accounting mismatch).

The Bank's exposures are classified into two main portfolios:

- The first portfolio contains the dealing room exposures, notably the Investment Portfolio. The Bank splits the Investment Portfolio into two sub-portfolios which follow two different business models:
  - a portfolio of financial assets aimed at collecting contractual cash flows ("Hold To Collect" or HTC business model);
  - a business model based on collecting contractual cash flows and selling financial assets ("Hold To Collect and Sell" or HTC&S business model);
- The second portfolio concerns the loans activity, the business model depends on the way the Bank manages its loans. The objective of the Bank is clearly to only hold loans to collect contractual cash flows and not to sell them (HTC model).

These portfolios have been reviewed to define their classification and measurement under IFRS 9. All products (bonds, interbank exposures and loans) passed the SPPI test.

In parallel, the Bank has established relevant procedures, notably in relation with the "SPPI checks", and has reviewed the loans granting process in order to ensure that new production will be entirely SPPI compliant. Front office and support staff have been trained on the new processes and procedures related to IFRS 9.

The Bank's business models have been clearly defined for the two main concerned activities (Loans and Investment Portfolio) together with the SPPI criteria. As a consequence, IFRS 9 classification is already set up in BIL's Core Banking System based on a dedicated chart of account.

The Bank's business models have been validated by the Management Board, the Board Strategy Committee and the Board of Directors in line with BIL's strategy. The Bank is now ready to manage portfolios consistently within the new classifications. The Bank has also established an appropriate framework to deal with any potential future change in the business model.

As a result of the application of the classification and measurement requirements of IFRS 9, we expect to make the following reclassifications on our Investment Portfolio:

- 210 positions of debt securities for a nominal of EUR 2.12 billion will be reclassified from available for sale under IAS 39 to amortized cost under IFRS 9;
- 105 positions of debt securities for a nominal of EUR 1.57 billion currently classified in held to maturity under IAS 39 will be reclassified to amortized cost under IFRS 9;
- 192 positions of debt securities for a nominal of EUR 1.77 billion will be reclassified from available for sale under IAS 39 to fair value through other comprehensive income under IFRS 9;
- 7 positions of debt securities for a nominal of EUR 0.12 billion currently classified in held to maturity under IAS 39 will be reclassified to fair value through other comprehensive income under IFRS 9.

Remaining securities will be reclassified as described hereunder:
- Open ended funds for approximately EUR 0.01 billion will be reclassified from available for sale under IAS 39 to mandatorily at fair-value through P&L under IFRS 9;
- Equity securities classified as available for sale under IAS 39 will be reclassified to fair value through other comprehensive income under IFRS 9 as the Bank has irrevocably elected to present in other comprehensive income subsequent changes in the fair value of all its investments in equity instruments.

Financial instruments currently classified as Loans and Receivables under IAS 39 will be reclassified to amortized cost under IFRS 9.

Section II – Impairment
In addition to Pillar I models which focus on the unexpected credit loss, IFRS 9 also defines principles to estimate the Expected Credit Loss (ECL). Under IFRS 9, the ECL is a weighted average of credit losses, with the respective risks of a default occurring in a given time period. Two types of ECL are proposed:
- 12-month ECL: representing the ECL resulting from default events within 12 months on a financial instrument;
- Lifetime ECL: representing the ECL resulting from all possible default events over the expected lifetime of a financial instrument.

The use of 12-month ECL or Lifetime ECL depends on the evolution of the credit risk of the financial instrument.

The Expected Credit Loss (ECL) is computed as:

$$ECL = \sum_{t=1}^{M} (CPD_t - CPD_{t-1}) \times EAD_t \times LGD \times D_t$$

Where:
- CPDt represents the cumulative probability of default at the date t;
- EADt (Exposure At Default) represents the amount of a credit that the Bank is exposed at the date t;
- LGD (Loss Given Default) is defined as the loss rate in the event of default; and,
- Dt represents the discount factor at the date t;
- M represents the residual maturity of the financial instrument. M is capped at one for the 12-month ECL.

Every key parameter has been estimated based on BIL's internal models.

BIL's staging criteria
Financial assets are allocated into impairment stages. This classification depends on the assessment of increase in credit risk since origination or on whether the financial asset has defaulted.

Regarding the different criteria for a stage, it is sufficient to fulfil one of the criteria to be classified in the subsequent stage.

BIL has defined its staging criteria, as follows:
- **Stage 1**: Loan is either performing or with less than 30 days past due;
- **Stage 2**: Loan is either under forbearance but performing, or not performing, or with more than 30 days past due but will less than 90 days past due; or with x notches downgrades (depending of the rating and the counterparts); and
- **Stage 3**: Loan is either in default, or in pre-litigation, or underperforming and in forbearance.

BIL's main IFRS 9 ECL parameter approaches
The approach regarding the ECL parameter is different under Basel III and IFRS 9. BIL has defined several dimensions.

- **Probability of Default (PD)** - the measurement is assessed following the rules described below:
  - Under the Basel III approach, the average of default within the next 12 months. A regulatory floor is applied depending on the exposure class;
  - Under IFRS 9, depending on the financial instrument, the PD is measured either for the next 12 months (stage 1) or for its lifetime (stages 2 and 3).

Under the Basel III approach, the period of observation is estimated based on historical long-run average default rate. The Rating philosophy is mainly "through the cycle" (TTC), whereas under IFRS 9 approach, estimates are based on "point-in-time" (PIT) measures, at the reporting date, of current and expected future conditions reflecting future economic cycles.

- **Loss Given Default (LGD)** - under Basel III the measurement corresponds to the so-called "Downturn" LGD to reflect adverse economic scenarios. A regulatory floor is applied on the internal LGD measurement (Basel III view). Under IFRS 9, "Current" or "forward-looking" LGD is assessed in order to reflect impact of economic scenarios. Some other features also differentiate the two approaches:
  - Basel III considers both direct and indirect costs associated with collection of the exposure whereas IFRS 9 only considers costs directly attributable to the collection of recoveries;
  - The discount rate is based on weighted average cost of capital or risk-free rate (Basel III), whilst it is based on the effective interest rate of the financial instrument (IFRS 9);
  - Under Basel III, there is a period of observation of minimum five years for retail exposures, seven years for sovereign, corporate and bank exposures. No specific requirements about observation period or collection of historical data is used with the IFRS 9 approach.

- **Exposure at Default (EAD)**, the "Downturn" EAD for Basel III framework reflects what would be expected during a period of economic downturn, whereas IFRS 9 considers all the contractual terms over the lifetime of the instrument. With Basel III, the period of observation lasts minimum five years for retail exposures, seven years for sovereign, corporate and bank exposures. However, there is no specific requirements about observation period or collection of historical data used with IFRS 9.

- **Expected Loss** - the calculation method changes :
  - Basel III approach: PD x LGD x EAD
  - IFRS 9 approach:

$$\sum (CPD_t = CPD_{t-1}) \times EAD_t \times LGD$$

Basel III reflects downturn LGD and EAD, whereas IFRS 9 reflects an unbiased probability-weighted amount, determined by evaluating a range of possible outcomes.

BIL's overview of active models for IFRS 9 impairment

The Bank has 6 active PD models, of which:
- 2 are for Retail (private and professional);
- 3 for Corporates (small, medium and large); and
- 1 for Banks;
- For sovereign exposures, the Bank uses the Pillar I model.

There are no specific LGD models for IFRS 9. The Bank uses LGD estimates from Pillar I models (for Retail, Small and Medium Enterprises (SME), Other Corporates, Covered Bonds, Banks and Sovereign exposures) but removes the downturn, other margins of conservatism and indirect costs.

The Bank uses the same CCF model as developed for Pillar I (applied on retail exposures).

The Bank uses the same Haircut models as developed for Pillar I (on Financial Securities).

Key Activities

Throughout 2017, the Bank has been testing the application of the ECL methodology for our impacted portfolios through the application of an internal parallel run. This included testing the processes to forecast and probability weight the forward-looking factors used to calculate our ECLs and assessing the appropriateness of our staging criteria. During the year, the Bank also focused on updating all relevant internal controls and policies and continued to educate key stakeholders. Throughout the transition program, our Management Body received regular program updates, including the results of our parallel ECL allowances.

Section III – Hedge accounting

IFRS 9 introduces a reformed model for hedge accounting with enhanced risk management disclosures. While the IFRS 9 hedge accounting disclosures will be applicable in any case, the standard gives the choice of either retaining IAS 39 accounting policies for hedging purposes or switching to IFRS 9 hedge accounting. This choice remains until a formal standard on macro hedging is issued. At this stage, the Bank will retain the IAS 39 accounting policy requirements for hedging purposes.

Section IV – BIL's First Time Adoption

The First Time Adoption (FTA) consolidated impact is estimated to EUR -31.9 million (before taxes) and can be declined between impairment impact and classification impact.

Impairment impact:

As at January 1, 2018, Expected Credit Losses (hereafter "ECL") reached EUR 54.0 million of which:
- Stage 1: EUR -27.0 million;
- Stage 2: EUR -14.7 million;
- Additional ECL related to exposures in Stage 3 regarding specific provisions: EUR -12.3 million.

This ECL amount will be partially compensated by the reversal of the IAS 39 collective provisions (IBNR model) of EUR +29.3 million.

The retained earnings will be therefore negatively impacted by EUR -24.7 million before taxes.

In addition, the recognition of ECL decreasing the fair-value of HTC&S debt securities will positively impact the OCI reserve for EUR +0.2 million before taxes, as the fair value of the instruments has not changed.

Classification impact on BIL's equity:
- debt securities' reclassification due to the application of the new business models will impact the OCI reserve for EUR -7.4 million before taxes.
- equities for which the Bank has elected the fair-value through OCI option will lead to a transfer of EUR -20.4 million before taxes from retained earnings to OCI reserve.
- open-ended funds initially classified in the IAS 39 AFS portfolio and now classified at fair-value through P&L will bring to a transfer of EUR +0.9 million before taxes from the OCI reserve to retained earnings.

The overall classification impact on BIL's equity is EUR -7.4 million before taxes of which EUR +20.8 million in retained earnings and EUR -28.2 million in the OCI reserve.

IFRS 9 ratio:
The EU Parliament adopted, at the end of 2017, the amendment to the CRR allowing credit institutions to (partially) compensate the impact of the introduction of IFRS 9 on regulatory capital during the transitional period of 5 years (i.e., until 2022). The Bank decided not to apply such a phase-in alternative.

The IFRS 9 CET 1 ratio reached 12.79% as at January 1, 2018, after profit allocation.

1.4 Consolidation

1.4.1 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.

1.4.2 Associates

Associates are consolidated by the equity method. Associates are participating interests in which the parent company exerts a significant influence without having the control. In general, participating interests in which the parent company owns between 20 and 50% of the voting rights are classified in this category. Nevertheless, the IFRS 10 principles are used to determine whether BIL has the control over the entity or only exerts a significant influence.

The net result for the financial year on which is applied the owning percentage is booked as the result of the associate and the participation in the associate is booked in the balance sheet for an amount equal to the net assets, including value adjustments after applying the owning percentage.

Consolidation using the equity method ends when the amount of the participating interest reaches zero, except if the parent company has to take responsibility for or to guarantee commitments of the associate. If necessary, rules and accounting methods of associates are adapted to be consistent with those of the parent company.

1.4.3 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.

1.5 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.

1.6 Foreign currency translation and transactions

1.6.1 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.

1.6.2 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.

1.7 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.

1.7.1 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 unrealised 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.

1.7.2 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.

1.7.3 Financial instruments measured at fair value through profit or loss

1.7.3.1 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".

1.7.3.2 Liabilities held for trading

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

1.7.3.3 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.

1.7.3.4 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".

1.7.3.5 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.

1.7.4 Financial investments

1.7.4.1 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".

1.7.4.2 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".

1.7.5 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.

1.7.5.1 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.

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial 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.

1.7.5.2 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.

A1.7.5.3 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.

1.7.6 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.

1.8 Fair value of financial instruments

1.8.1 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.

1.8.2 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:

1.8.2.1 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.

1.8.2.2 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.

1.9 Interest and similar income and expenses

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.

Negative interest expense arising on financial liabilities resulting from a negative effective interest rate, are presented as a separate line item in the notes on the statement of income in "Interest income in liabilities". Negative interest income arising on financial assets resulting from a negative effective interest rate, are presented as a separate line item in the notes on the statement of income in "Interest expenses on assets" (See 11.1).

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.

1.10 Fee and commission income and expenses

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.

1.11 Insurance and reinsurance activities

1.11.1 Insurance

BIL's main activity is banking products.

1.11.2 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.

1.12 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.

1.13 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 gross 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".

1.14 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.

1.15 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".

1.16 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".

1.17 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.

1.18 Goodwill

1.18.1 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.

1.18.2 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.

1.19 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.

1.20 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.

1.20.1 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.

1.20.2 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.

1.21 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".

1.22 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.

1.23 Employee benefits

1.23.1 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.

1.23.2 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.

1.23.2.1 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.

1.23.2.2 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.

1.23.2.3 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.

1.23.3 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.

1.23.4 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.

1.24 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.

1.25 Share capital and treasury shares

1.25.1 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.

1.25.2 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.

1.25.3 Preferred shares

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

1.25.4 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.

1.26 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.

1.27 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 2016

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

Companies fully consolidated for the first time
N/A

Companies no longer fully consolidated
BIL Auto Lease SA (since December 19, 2017)
Privagest SA (since October 19, 2017)

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
Experta Corporate and Fund Services SA (formerly Experta Corporate and Trust Services SA) (since May 24, 2017)

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 PO Box 2192 CH-8002 Zürich	100
Belair House SA	2, boulevard Grande-Duchesse Charlotte L-1330 Luxembourg	100
BIL Asia Singapore Ltd (in liquidation)	9 Raffles Place #29-01 Republic Plaza Singapore 048619	100
BIL Manage Invest SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
BIL Reinsurance SA	69, route d'Esch L-2953 Luxembourg	100
Experta Corporate and Fund Services SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
I.B. Finance SA	69, route d'Esch L-2953 Luxembourg	100
Red Sky SA	69, route d'Esch L-2953 Luxembourg	100
Selskabet af 18 December 2013 A/S	Gronningen 17 DK-1270 Copenhagen	100
Société du 25 juillet 2013 SA (in liquidation)	Building Regus 54-56 avenue Hoche F-75008 Paris	100
Société Luxembourgeoise de Leasing - BIL-LEASE SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100

B. Non-consolidated subsidiaries

Name	Head office	% of capital held	Reason for exclusion
Audit-Trust SA	c/o Experta Corporate and Trust Services SA Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
BIL Trust Limited	PO Box 665 Roseneath/The Grange St Peter Port GY1 3SJ, Guernsey	100	insignificant
Compagnie Financière BIL SA & Cie S.e.c.s.	69, route d'Esch L-2953 Luxembourg	100	insignificant
Koffour SA	c/o Experta Corporate and Trust Services SA Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Lannage SA	c/o Experta Corporate and Trust Services SA Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Private II Wealth Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Valon SA	c/o Experta Corporate and Trust Services SA Valley Park B 42, rue de la Vallée 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 L-5365 Munsbach	35.20
Société de la Bourse de Luxembourg SA	35A, boulevard Joseph II 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 2017, BIL kept the segmentation of its business lines:

- **"Retail Banking, Corporate & Investment Banking and Wealth Management"**. Commercial activities are divided into three business lines: Retail & Digital Banking, Corporate & Institutional Banking, and Wealth & Investment Management.
- **"Treasury and Financial Markets"** (TFM) remained split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets, with dedicated teams supporting the commercial activities.
- **"Group Center"** 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.

INCOME (in EUR thousands)	31/12/16			
	Income	*of which net income from associates*	*of which net interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	467,153	*0*	*269,471*	134,636
Treasury and Financial Markets	86,675	*0*	*27,959*	49,924
Group Center	(12,445)	*3,014*	*2,013*	(28,615)
TOTAL	**541,383**	***3,014***	***299,443***	**155,945**
Net income before tax				155,945
Tax expenses				(45,583)
NET INCOME				**110,362**

	31/12/17			
	Income	*of which net income from associates*	*of which net interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	501,678	*0*	*290,689*	159,758
Treasury and Financial Markets	81,801	*0*	*23,070*	44,101
Group Center	(30,850)	*7,345*	*(3,057)*	(67,978)
TOTAL	**552,629**	***7,345***	***310,702***	**135,881**
Net income before tax				135,881
Tax expenses				(19,238)
NET INCOME				**116,643**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/16		31/12/17	
	Assets	Liabilities	Assets	Liabilities
Retail, Corporate and Wealth Management	12,043,000	17,516,211	13,344,203	17,681,712
Treasury and Financial Markets	10,364,117	3,606,985	9,632,775	4,075,479
Group Center	741,542	765,802	775,539	709,024
TOTAL	**23,148,659**	**21,888,998**	**23,752,517**	**22,466,215**

Consolidated management report

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OTHER SEGMENT INFORMATION (in EUR thousands)	31/12/16				
	Capital expenditures[1]	Depreciation and amortisation	Impairments[2]		Other non-cash expenses[3]
			Allowances	Write-backs	
Retail, Corporate and Wealth Management	59,520	(22,988)	(35,965)	21,553	0
Treasury and Financial Markets		(2,466)	(73)	108	0
Group Center		(386)	(6,346)	3,842	(13,960)
TOTAL	**59,520**	**(25,840)**	**(42,384)**	**25,503**	**(13,960)**

	31/12/17				
	Capital expenditures[1]	Depreciation and amortisation	Impairments[2]		Other non-cash expenses[3]
			Allowances	Write-backs	
Retail, Corporate and Wealth Management	79,193	(25,157)	(66,533)	46,344	0
Treasury and Financial Markets		(3,840)	(109)	136	0
Group Center		(2,981)	(5,329)	5,717	(22,159)
TOTAL	**79,193**	**(31,978)**	**(71,971)**	**52,197**	**(22,159)**

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.

GEOGRAPHIC BREAKDOWN (in EUR thousands)	Denmark	France	Luxembourg	Singapore	Switzerland	United Arab Emirates	Total
Staff (in average FTE)	35	0	1,844	0	117	10	2,006
Income	8,872	5	493,832	16	36,355	2,303	541,383
Net income before tax	980	(5)	157,077	16	(236)	(1,887)	155,945
Tax expenses	(33)	0	(45,023)	0	(527)	0	(45,583)
NET INCOME AS AT 31/12/16	**947**	**(5)**	**112,054**	**16**	**(763)**	**(1,887)**	**110,362**
Staff (in average FTE)	45	0	1,822	0	118	12	1,997
Income	9,921	0	503,570	0	35,567	3,571	552,629
Net income before tax	252	(10)	136,930	0	(1,189)	(102)	135,881
Tax expenses	98	0	(19,628)	0	292	0	(19,238)
NET INCOME AS AT 31/12/17	**350**	**(10)**	**117,302**	**0**	**(897)**	**(102)**	**116,643**

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. Capital expenditures including the acquisitions for the year in terms of tangible and intangible assets for which the allocation by business line is not available
2. 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.
3. 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.

LUXEMBOURG

Banque Internationale à Luxembourg

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 41 branches), wealth management, 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. BIL is currently owned by Precision Capital S.A. – a Luxembourg public limited company regulated by the CSSF (Luxembourg's financial regulator) – and the Grand Duchy of Luxembourg.

Belair House

Belair House launched its Family Office and Investment Management services in March, 2014. An independent Multi-family Office, Belair House offers a comprehensive and flexible range of solutions aimed at assisting wealthy families with protecting and growing their assets, generation after generation. Using a pragmatic and highly personalised approach, based on the principle of open architecture, the company offers wealthy families exclusively selected services, tailor-made to protect, expand and bequeath their wealth. Belair House operates as a financial sector professional (PSF) and is regulated by the CSSF (Luxembourg's financial regulator).

BIL Manage Invest

BIL Manage Invest (BMI) is a leading independent third party Management Company in Luxembourg providing specialised fund governance services to conventional (UCITS) and alternative investment funds (AIF). BMI brings regulatory infrastructure to a whole series of fund promoters looking for external Alternative Investment Fund Management (AIFM) solutions, targeting the financial, real estate and private equity asset classes.

Experta

Experta Corporate and Fund Services S.A., Luxembourg (Experta) was formed in 2002, following the decision to spin off BIL's corporate engineering business line after fifty years. The company is a wholly owned subsidiary of BIL, with long-standing experience in structuring solutions. Experta is a financial sector professional (PSF), regulated by the CSSF, and committed to providing global corporate services to international clients wishing to structure their assets, private equity and real estate investments.

BIL Lease

BIL Lease is a subsidiary that offers financial leasing solutions to corporate customers, for all professionally used movable capital equipment including IT systems, vehicles and various types of machinery.

SWITZERLAND

BIL (Suisse), a wholly-owned subsidiary of BIL group, has been a provider of wealth management services to private and corporate clients 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 investment services. The company 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.

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. Operating with moderate risk exposure, the branch's objective concerns the long-term development of a sound private banking activity. The company offers interesting and attractive wealth management services, including investment management, asset structuring and financial planning services covering inheritance, estate and retirement planning. The bank offers bespoke investment solutions to its customers.

UNITED ARAB EMIRATES

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. The branch works closely with the Luxembourg and Swiss-based units. As such, it can offer a comprehensive range of international financial structuring services on an open architecture basis, as well as meeting the service needs of family offices and independent external wealth managers. BIL Dubai offers a broad range of banking products, including bespoke financing solutions. For its wealth structuring services, BIL's Middle East branch can call on the BIL group's international expertise to propose specific financial solutions for customer projects.

Note 4: Material items in the consolidated statement of income

For the period ending December 31, 2017, the material items in the statement of income are the following:

- The total income of EUR 553 million at the end of December 2017 increased by EUR 11 million compared to December 31, 2016 impacted positively by an increase in interest margin, dividend income and a fees income increase related to the 4.5 % growth in Assets under Management.
- The expenses totalled EUR 397 million as at December 31, 2017 showing an increase of 8% compared with December 2016. This evolution is mainly due to an increase of staff costs following the salary indexation applied in January 2017, the continued implementation costs related to the Bank's IT strategy since 2016, and the non-recurring items mainly due to the signing of an agreement between Legend Holdings and Precision Capital on September 1, 2017 and additional expenses attributable to restructuring costs in Luxembourg.
- The specific value adjustments on loans reached EUR 22.3 million as at December 31, 2017 (up from EUR 14 million in 2016) in accordance with the Bank's provisioning policy and the Bank posted a net reversal of EUR 2.2 million of collective impairments on its loan books compared to a net allowance of EUR 3.0 million as of December 31, 2016.

Note 5: Post-balance sheet events

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

On September 1, 2017, the Bank announced the signing of an agreement between Precision Capital S.A. and Legend Holdings Corp. for the acquisition of 89.936% of Banque Internationale à Luxembourg.

On January 16, 2018, Legend Holdings' shareholders approved the proposed transaction.

The Bank is still waiting for the regulatory approval of the sale, that will open the way to the closing of the transaction.

Note 6: Litigation

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

Following the bankruptcy of Bernard Madoff's investment vehicle, Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and the liquidators of certain feeder funds, ultimately invested in BLMIS 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 72 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

With regard to the proceedings initiated by the liquidators of certain feeder funds, a motion to dismiss is being briefed on a consolidated basis with other defendants before the courts of New York City. Oral arguments have been held and defendants are now waiting for a ruling. These feeder funds also have initiated proceedings in their country of incorporation for which the claims have been rejected by the Courts of first degree and the Court of Appeal. The Privy Counsel in London confirmed furthermore the previous decisions.

The claims initiated by the liquidator of BLMIS have been dismissed and are now being appealed to the Court of Appeal on a consolidated basis with other defendants.

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

As at December 31, 2017, no material provision for clawback actions has been made. Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

Finally, in addition to the above, the allowance for provisions in 2017 stemmed from the recognition of provisions for risks related to a litigation in a tax matter.

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	31/12/16	31/12/17
Cash and balances with central banks	2,086,553,590	2,623,936,959
Loans and advances to credit institutions	337,244,911	327,003,215
Financial assets available for sale	15,856,938	20,683,162
TOTAL	**2,439,655,439**	**2,971,623,336**

B. OF WHICH RESTRICTED CASH	31/12/16	31/12/17
Mandatory reserves[1]	1,358,859,866	757,652,471
TOTAL RESTRICTED CASH	**1,358,859,866**	**757,652,471**

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 rates 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 over the 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	31/12/16	31/12/17
Cash in hand	44,185,505	49,003,505
Balances with central banks other than mandatory reserve deposits	682,902,101	1,815,280,983
Mandatory reserve deposit	1,358,736,338	757,649,963
TOTAL	**2,085,823,944**	**2,621,934,451**
of which included in cash and cash equivalents	*2,086,553,590*	*2,623,936,959*

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

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

7.3 Loans and advances to credit institutions

A. ANALYSIS BY NATURE	31/12/16	31/12/17
Nostro accounts	38,356,916	173,800,837
Cash collateral	178,017,264	244,671,351
Loans and other advances	854,901,975	408,796,030
TOTAL	**1,071,276,155**	**827,268,218**
of which included in cash and cash equivalents	*337,244,911*	*327,003,215*

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	31/12/16	31/12/17
Public sector	164,564,154	445,172,758
Other (primarily fixed advances and property loans)	11,838,439,129	12,844,111,774
Impaired loans	351,833,581	331,481,079
Less:		
Specific impairment of impaired loans and debt instruments	(280,295,805)	(247,288,252)
Collective impairment	(31,541,239)	(29,273,953)
TOTAL	**12,042,999,820**	**13,344,203,406**

B. ANALYSIS BY NATURE	31/12/16	31/12/17
On demand and short notice	1,551,226,840	1,639,972,080
Finance leases	163,401,149	160,412,066
Debt instruments	90,744,316	215,535,053
Other term loans	10,237,627,515	11,328,284,207
of which mortgage loans (real estate collateralised loans)	*7,643,571,676*	*8,153,061,431*
Advances that are not loans	0	0
TOTAL	**12,042,999,820**	**13,344,203,406**

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	31/12/16	31/12/17
Public sector	18,440,380	17,211,201
Credit institutions	42,248,643	35,859,618
Other	19,112,710	17,455,558
TOTAL	**79,801,733**	**70,526,377**

B. ANALYSIS BY NATURE	31/12/16	31/12/17
Bonds issued by public bodies	18,440,380	17,211,201
Other bonds and fixed-income instruments	61,204,811	53,265,460
Equities and other variable-income instruments	156,542	49,716
TOTAL	**79,801,733**	**70,526,377**

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, 2016 and 2017, 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	31/12/16	31/12/17
Public sector	4,092,351,411	4,061,428,588
Credit institutions	1,786,615,041	1,147,313,032
Other	1,033,926,409	718,667,710
Impaired financial investments	24,982,779	23,838,277
TOTAL BEFORE IMPAIRMENT	**6,937,875,640**	**5,951,247,605**
Specific and collective impairment on financial investments	(20,390,799)	(19,275,921)
TOTAL	**6,917,484,841**	**5,931,971,684**
of which included in cash and cash equivalents	*15,856,938*	*20,683,162*

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	
	31/12/16	31/12/17	31/12/16	31/12/17
Bonds issued by public bodies	3,722,746,236	2,536,817,830	369,605,175	1,524,610,758
Other bonds and fixed-income instruments	2,616,048,409	1,592,031,814	166,408,213	228,661,150
Equities and other variable-income instruments[1]	63,067,607	69,126,053	n.a.	n.a.
TOTAL BEFORE IMPAIRMENT	**6,401,862,252**	**4,197,975,697**	**536,013,388**	**1,753,271,908**
Specific and collective impairment on financial investments	(20,390,799)	(19,275,921)	0	0
TOTAL	**6,381,471,453**	**4,178,699,776**	**536,013,388**	**1,753,271,908**

7.7 Investments in associates

A. CARRYING VALUE	2016	2017
CARRYING VALUE AS AT JANUARY 1	**22,348,474**	**28,274,796**
- Share of result before tax	4,223,022	3,963,773
- Share of tax	(1,209,116)	(1,051,100)
- Dividend paid	(1,214,280)	(5,646,292)
- Gains and losses not recognised in the statement of income	4,126,696	(315,523)
CARRYING VALUE AS AT DECEMBER 31	**28,274,796**	**25,225,654**

B. LIST OF MAIN ASSOCIATES at 31/12/17

	Acquisition cost	Equity method valuation	Reference to website
Europay Luxembourg S.C.	260,823	704,283	
Société de la Bourse de Luxembourg SA	319,806	24,521,371	www.bourse.lu
TOTAL	**580,629**	**25,225,654**	

Financial statements of Europay Luxembourg S.C.

(in EUR)	31/12/16	31/12/17
Assets	10,318,586	10,967,226
Liabilities	8,850,591	8,966,422
Shareholders' equity	1,467,995	2,000,804
Revenue	(636,315)	362,862
Other comprehensive income	0	0
Net income	90,490	0
Total comprehensive income	90,490	0

2016 and 2017 figures have been estimated based on Lux GAAP financial statements.

Financial statements of Société de la Bourse de Luxembourg SA

(in EUR)	31/12/16	31/12/17
Assets	197,718,785	201,367,300
Liabilities	96,512,497	90,793,980
Shareholders' equity	101,206,288	110,573,320
Revenue	45,300,283	47,524,013
Other comprehensive income	(1,247,499)	(1,652,367)
Net income	13,680,308	13,220,243
Total comprehensive income	12,432,809	11,567,876

2017 figures have been estimated based on 2016 figures.

[1] The amount of variable-income securities recorded at cost amounted to EUR 2.3 million at December 31, 2017 (EUR 2.1 million as at December 31, 2016).

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 01/01/16	**306,514,286**	**144,811,905**	**0**	**132,529,828**	**583,856,019**
- Acquisitions	10,234,733	3,758,480	0	415,736	14,408,949
- Disposals	(1,477,535)	(432,688)	0	0	(1,910,223)
- Changes in the scope of consolidation	(458,039)	(56,091)	0	0	(514,130)
- Transfers and cancellations	(1,055,858)	(11,555,551)	0	0	(12,611,409)
- Translation adjustments	9,090	84,619	0	0	93,709
ACQUISITION COST AS AT 31/12/16 (A)	**313,766,677**	**136,610,674**	**0**	**132,945,564**	**583,322,915**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/16	**(217,006,317)**	**(129,871,176)**	**0**	**(364,543)**	**(347,242,036)**
- Booked	(7,486,222)	(3,353,963)	0	(11,818,309)	(22,658,494)
- Write-off	1,018,346	408,744	0	0	1,427,090
- Changes in the scope of consolidation	458,039	56,091	0	0	514,130
- Transfers and cancellations	993,249	11,541,234	0	0	12,534,483
- Translation adjustments	(10,698)	(68,932)	0	0	(79,630)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/16 (B)	**(222,033,603)**	**(121,288,002)**	**0**	**(12,182,852)**	**(355,504,457)**
NET CARRYING VALUE AS AT 31/12/16 (A) + (B)	**91,733,074**	**15,322,672**	**0**	**120,762,712**	**227,818,458**

	Land and buildings	Office furniture and other equipment		Investment property	Total
	Own use owner	Own use owner	Operating lease		
ACQUISITION COST AS AT 01/01/17	**313,766,677**	**136,610,674**	**0**	**132,945,564**	**583,322,915**
- Acquisitions	11,991,835	4,292,504	0	0	16,284,339
- Disposals	(1,463,102)	(136,746)	0	88,469	(1,511,379)
- Changes in the scope of consolidation	0	(121,525)	0	0	(121,525)
- Transfers and cancellations	(1,896,608)	(1,454,085)	0	(45)	(3,350,738)
- Translation adjustments	(36,163)	(885,980)	0	0	(922,143)
ACQUISITION COST AS AT 31/12/17 (A)	**322,362,639**	**138,304,842**	**0**	**133,033,988**	**593,701,469**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/2017	**(222,033,603)**	**(121,288,002)**	**0**	**(12,182,852)**	**(355,504,457)**
- Booked	(7,016,417)	(3,658,166)	0	(6,689,350)	(17,363,933)
- Write-off	0	0	0	0	0
- Changes in the scope of consolidation	0	120,603	0	0	120,603
- Transfers and cancellations	2,654,332	1,587,334	0	0	4,241,666
- Translation adjustments	36,163	762,833	0	0	798,997
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(226,359,525)**	**(122,475,398)**	**0**	**(18,872,202)**	**(367,707,124)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**96,003,114**	**15,829,444**	**0**	**114,161,786**	**225,994,344**

B. FAIR VALUE OF INVESTMENT PROPERTIES	31/12/16	31/12/17
Fair value subject to independent valuation at December 31	131,000,000	134,060,000
Fair value not subject to an independent valuation at December 31	29,018	28,973
TOTAL	**131,029,018**	**134,088,973**

The Esch Belval property was revalued in July 2017 by an independent valuator, CBRE Luxembourg.

The investment property consists exclusively in one office building called "Terres rouges" located in Esch Belval (South of Luxembourg).

The property consists in 5 office buildings with retail at the ground floor and a plot of land, with the following areas: 49,307 sq m of office, 1,421 sq m of retail, 2,379 sq m of archive and 1,443 internal parking spaces.

The property has been regularly assessed by CBRE, an independent valuator possessing the required qualification and experience and good market knowledge of the office building market in Luxembourg.

The property is 66% let to 6 tenants which are all considered to be fairly strong in terms of quality (mainly RBC, accounting for 81% of the revenues) as at December 31, 2017.

The valuation has been performed using the static capitalisation method.

Rents that could be achieved in the market at the date of valuation (Estimated Rental Value or ERV) have been estimated based primarily on lettings of comparable space, and also having regard to competitive space that is offered on the market.

The static capitalisation has been carried out in the form of a "Term and Reversion" valuation, with the current income based on contractual rents capitalised using the single rate of 6.25% until the end of the current contract, and the ERV capitalised in perpetuity thereafter using a yield of 9.25%. Term and Reversion gives a premium value to space that is let on long term secure leases to quality tenants.

The land has been assessed following a residual calculation and sale land comparables taking into account that the underground with the parking spots has already been constructed.

7.9 Intangible fixed assets and goodwill

	Positive goodwill [1]	Software / internally developped	Other intangible fixed assets [2]	Total
ACQUISITION COST AS AT 01/01/16	**63,392,042**	**133,741,326**	**29,506,276**	**226,639,644**
- Acquisitions	0	18,922,495	26,188,366	45,110,861
- Disposals	0	0	(6,306)	(6,306)
- Change in the scope of consolidation	0	(2,498,726)	(36,888)	(2,535,614)
- Transfers and cancellations	0	(1,520,784)	(8,126,643)	(9,647,427)
- Translation adjustments	229,778	0	81,951	311,729
ACQUISITION COST AS AT 31/12/16 (A)	**63,621,820**	**148,644,311**	**47,606,756**	**259,872,887**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/16	**(11,734,189)**	**(100,115,945)**	**(18,493,940)**	**(130,344,074)**
- Booked	0	(11,896,084)	(3,104,093)	(15,000,177)
- Change in the scope of consolidation	0	2,498,726	36,888	2,535,614
- Transfers and cancellations	0	57,261	4,841,630	4,898,891
- Translation adjustments	0	0	(18,998)	(18,998)
- Other	0	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/16 (B)	**(11,734,189)**	**(109,456,042)**	**(16,738,513)**	**(137,928,744)**
NET CARRYING VALUE AS AT 31/12/16 (A) + (B)	**51,887,631**	**39,188,269**	**30,868,243**	**121,944,143**

	Positive goodwill [1]	Software / internally developped	Other intangible fixed assets [2]	Total
ACQUISITION COST AS AT 01/01/17	**63,621,820**	**148,644,311**	**47,606,756**	**259,872,887**
- Acquisitions	0	29,075,893	33,833,006	62,908,899
- Disposals	0	0	0	0
- Change in the scope of consolidation	0	0	0	0
- Transfers and cancellations	0	0	80,735	80,735
- Translation adjustments	(1,766,316)	0	(680,955)	(2,447,271)
ACQUISITION COST AS AT 31/12/17 (A)	**61,855,504**	**177,720,204**	**80,839,542**	**320,415,250**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	**(11,734,189)**	**(109,456,042)**	**(16,738,513)**	**(137,928,744)**
- Booked	0	(13,215,601)	(8,087,552)	(21,303,153)
- Change in the scope of consolidation	0	0	0	0
- 'Transfers and cancellations	0	0	0	0
- Translation adjustments	0	0	274,304	274,304
- Other	0	0	992	992
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(11,734,189)**	**(122,671,643)**	**(24,550,769)**	**(158,956,601)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**50,121,315**	**55,048,561**	**56,288,773**	**161,458,649**

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 21.2 million goodwill from the acquisition of KBL (Switzerland) Ltd in 2015.

The impairment test on the goodwill from nordic market activities 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 costs, and after taxes. No further impairment is required as at the end of 2017 (goodwill valuation of EUR 65.5 million).
Sensisivity test : +1% increase of the discount rate generates EUR -8.2 million goodwill value whereas -1% decrease of this rate generates EUR +10.9 million goodwill value.
The impairment test on the goodwill from KBL (Switzerland) Ltd acquisition could not be based on a cash generating unit as KBLS has been merged into BILS and no "cash-generating unit" is identifiable as such. The only identifiable element linked to the business assets of ex KBLS are the original AUMs of this entity. Therefore, the impairment test has been based on the valuation of these AUMs. No impairment is deemed necessary as at the end of 2017.

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

7.10 Tax assets

	31/12/16	31/12/17
Current tax assets	214,285	224,374
Deferred tax assets (see Note 9.2)	243,692,753	238,463,684
TOTAL	**243,907,038**	**238,688,058**

7.11 Other assets

	31/12/16	31/12/17
Other assets*	76,662,706	74,060,682
Other assets specific to insurance activities	258,454	261,457
TOTAL	**76,921,160**	**74,322,139**

*ANALYSIS BY NATURE	31/12/16	31/12/17
Receivables - accrued income	3,584,668	4,662,086
Prepaid fees	1,793,586	1,157,877
Other receivables	46,534,421	42,444,917
Pension plan assets	4,130,000	6,464,000
Precious metals	9,669,132	0
Operating taxes	3,702,112	4,423,217
Other assets[1]	7,248,787	14,908,585
TOTAL	**76,662,706**	**74,060,682**

[1] Transactions linked to current business awaiting settlement.

7.12 Leasing

1. BIL as lessor

A. FINANCE LEASE

Gross investment in finance lease:	31/12/16	31/12/17
Less than 1 year	63,894,628	113,888,239
More than 1 year and less than 5 years	234,355,077	171,674,831
SUBTOTAL (A)	**298,249,705**	**285,563,070**
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASE (B)	**(135,028,576)**	**(124,600,082)**
NET INVESTMENT IN FINANCE LEASE (A)-(B)	**163,221,129**	**160,962,988**

Net investment in finance lease may be analysed as follows:	31/12/16	31/12/17
Less than 1 year	23,497,002	64,048,206
More than 1 year and less than 5 years	139,724,127	96,914,782
TOTAL	**163,221,129**	**160,962,988**

	31/12/16	31/12/17
Amount of doubtful debts on finance leases included in the loan loss provision at the end of the financial year	4,009,346	3,042,174
Estimated fair value of finance lease	163,221,129	160,962,988
Accumulated provision for irrecoverable minimum lease payments	2,946,620	2,702,099

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

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

- 76.62% of the assets are composed of vehicles, mainly passenger cars but also commercial vehicles;
- 9.58% of the assets are composed of IT equipment;
- 12.55% of the assets are composed of industrial equipment: machinery, medical equipment, etc.;
- 1.25% of the assets are composed primarily of office furniture.

B. OPERATING LEASE

BIL is the operating lessor of certain land and buildings. Relating information is detailed in Note 7.8.
55% of the Esch Belval property is rented by one lessee till at least end of 2029.

Future net minimum lease payments under operating lease	31/12/16	31/12/17
Less than 1 year	10,565,203	11,413,141
More than 1 year and less than 5 years	42,219,363	39,243,756
More than 5 years	80,650,519	64,963,887
TOTAL	**133,435,085**	**115,620,784**

The above payments relate to the operating lease of Esch Belval property. The premises rented are to be used for offices, archives and parking, for conducting the lessee's business activities. This lease agreement is considered as a contingent rent due to the rent adjustment linked to the consumer prices index. Indeed, the monthly rent is based on price/m2 which is adjusted every year on the anniversary date of the start date.

2. BIL as lessee

A. FINANCE LEASE

The Bank is not involved in any financial lease as at December 31, 2017.

B. OPERATING LEASE

Future net minimum lease payments under non-cancellable operating lease	31/12/16	31/12/17
Less than 1 year	8,687,538	8,361,826
More than 1 year and less than 5 years	27,963,297	25,581,102
More than 5 years	17,417,332	13,015,219
TOTAL	**54,068,167**	**46,958,147**

Lease and sublease payments recognised as an expense during the financial year: - minimum lease payments	8,357,841	8,190,746
TOTAL	**8,357,841**	**8,190,746**

7.13 Quality of financial assets

Analysis of normal loans and securities	Gross amount (A)	
	31/12/16	31/12/17
Normal loans and advances to credit institutions	1,071,276,155	827,268,218
Normal loans to customers	12,003,003,283	13,289,284,533
Normal financial investments held to maturity	536,013,388	1,753,271,909
Normal financial investments available for sale	6,376,879,473	4,174,137,418
of which bonds and fixed-income instruments	*6,338,794,645*	*4,128,849,644*
of which equities and other variable-income instruments	*38,084,828*	*45,287,774*
Collective impairment on normal loans[1]	(31,541,239)	(29,273,953)
TOTAL	**19,955,631,060**	**20,014,688,125**

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

Analysis of impaired loans and securities	Gross amount (B)		Specific loan loss allowance (C)		Net amount (B+C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Impaired loans and advances to customers	351,833,581	331,481,079	(280,295,805)	(247,288,252)	71,537,776	84,192,827
Impaired financial assets available for sale	24,982,779	23,838,278	(20,390,799)	(19,275,921)	4,591,980	4,562,357
of which equities and other variable-income instruments	*24,982,779*	*23,838,278*	*(20,390,799)*	*(19,275,921)*	*4,591,980*	*4,562,357*
TOTAL	**376,816,360**	**355,319,357**	**(300,686,604)**	**(266,564,173)**	**76,129,756**	**88,755,184**

Analysis of normal and impaired loans and securities	Gross amount (A+B)		Specific loan loss allowance (C)		Net amount (A+B+C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Loans and advances to credit institutions	1,071,276,155	827,268,218	0	0	1,071,276,155	827,268,218
Loans and advances to customers	12,354,836,864	13,620,765,612	(280,295,805)	(247,288,252)	12,074,541,059	13,373,477,360
Financial investments held to maturity	536,013,388	1,753,271,909	0	0	536,013,388	1,753,271,909
Financial investments available for sale	6,401,862,252	4,197,975,696	(20,390,799)	(19,275,921)	6,381,471,453	4,178,699,775
of which bonds and fixed-income instruments	*6,338,794,645*	*4,128,849,644*	*0*	*0*	*6,338,794,645*	*4,128,849,644*
of which equities and other variable-income instruments	*63,067,607*	*69,126,052*	*(20,390,799)*	*(19,275,921)*	*42,676,808*	*49,850,131*
Collective impairment on normal loans[1]	(31,541,239)	(29,273,953)	0	0	(31,541,239)	(29,273,953)
TOTAL	**20,332,447,420**	**20,370,007,482**	**(300,686,604)**	**(266,564,173)**	**20,031,760,816**	**20,103,443,309**

[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	31/12/16	31/12/17
On demand	519,707,730	706,752,417
Term	560,542,379	305,755,594
Cash collateral	58,583,532	73,751,595
Repurchase agreements	0	271,873,179
Central banks[1]	555,158,986	727,963,848
Other borrowings[2]	522,097,373	701,758,155
TOTAL	**2,216,090,000**	**2,787,854,788**

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	31/12/16	31/12/17
Demand deposits	10,219,221,388	10,113,681,654
Savings deposits	3,642,237,149	3,445,417,833
Term deposits	2,253,400,232	2,755,271,621
Cash collateral	14,311,012	1,106,701
TOTAL CUSTOMER DEPOSITS	**16,129,169,781**	**16,315,477,809**
Other borrowings	79,619	0
TOTAL CUSTOMER BORROWINGS	**79,619**	**0**
TOTAL	**16,129,249,400**	**16,315,477,809**

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 to the last tranche of TLTRO II for EUR 150 million in March 2017 (TLTRO transactions amount to EUR 700 million in 2017 and EUR 550 million in 2016).
[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	31/12/16	31/12/17
Other bonds	2,013,272	0
TOTAL	**2,013,272**	**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	31/12/16	31/12/17
Non-subordinated liabilities	877,913,027	776,333,210
TOTAL	**877,913,027**	**776,333,210**

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	31/12/16	31/12/17
Certificates of deposit	156,500,962	38,508,748
Non-convertible bonds	1,373,387,335	1,541,542,831
TOTAL	**1,529,888,297**	**1,580,051,579**

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 debts

A. ANALYSIS BY NATURE	31/12/16	31/12/17
Non-convertible subordinated debts[1]	144,346,452	132,256,388
Contingent convertible bond (compound instrument)[2]	149,589,916	149,607,748
TOTAL	293,936,368	281,864,136

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	31/12/16	31/12/17
Litigation[3]	8,423,322	21,744,022
Restructuring (included garden leave)	7,917,837	8,594,853
Defined benefit plans	27,478,512	19,742,287
Other long-term employee benefits (included jubilee and time saving account)	17,089,326	17,293,823
Provision for off-balance sheet credit commitments	24,200	16,800
Other provisions	781,623	466,835
TOTAL	61,714,820	67,858,620

B. ANALYSIS BY MOVEMENT	Litigation	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Other provisions
AS AT 01/01/16	9,857,950	18,777,216	51,275,043	24,200	1,068,000
Exchange differences	61,519	93	143,752	0	5,385
Additional provisions	1,248,067	5,157,054	3,478,921	0	385,211
Unused amounts reversed	(7,595)	(2,542,521)	(3,280,904)	0	0
Used during the year	(2,736,619)	(12,832,605)	(8,279,533)	0	(637,093)
Changes in the scope of consolidation	0	(641,400)	0	0	(39,880)
Transfers	0	0	(2,337)	0	0
Revaluation through reserves[4]	n.a.	n.a.	1,265,264	n.a.	n.a.
Other movements	0	0	(32,368)	0	0
AS AT 31/12/16	8,423,322	7,917,837	44,567,838	24,200	781,623
AS AT 01/01/17	8,423,322	7,917,837	44,567,838	24,200	781,623
Exchange differences	(453,586)	(44,422)	(1,116,083)	0	(23,730)
Additional provisions	15,904,665	8,183,695	5,395,059	0	264,547
Unused amounts reversed	(507,247)	0	(4,006,894)	(7,400)	(9,209)
Used during the year	(1,886,718)	(7,462,257)	(1,428,393)	0	(546,396)
Changes in the scope of consolidation	0	0	0	0	0
Transfers	263,586	0	0	0	0
Revaluation through reserves[4]	n.a.	n.a.	(6,375,417)	n.a.	n.a.
Other movements	0	0	0	0	0
AS AT 31/12/17	21,744,022	8,594,853	37,036,110	16,800	466,835

[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 litigation, including those for staff and tax-related litigation.
[4] See point 1.22 of Note 1.

C. ANALYSIS BY MATURITY

see Note 12.6

D. PROVISIONS FOR PENSIONS

a. Reconciliation of benefit obligations	31/12/16	31/12/17
Defined benefit obligations at the beginning of the year	298,557,490	293,733,316
Current service cost	11,620,538	12,342,190
Interest cost	3,685,536	2,580,862
Past service cost and gains and losses arising from settlements	(2,042,591)	253,000
Actuarial gains/losses	4,100,107	(4,325,258)
Stemming from changes in demographic assumptions	*538,474*	*283,000*
Stemming from changes in financial assumptions	*3,954,456*	*(1,904,784)*
Stemming from experience adjustments	*(392,823)*	*(2,703,474)*
Benefits paid	(17,418,954)	(18,987,006)
Out of which: amounts paid in respect of settlements	*0*	*0*
Pension plan participant contributions	824,682	1,154,354
Currency adjustment	429,023	(4,518,510)
Business combination and disposals	(4,124,443)	0
Other	(1,898,072)	(2,070,588)
DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR	**293,733,316**	**280,162,360**

b. Reconciliation of fair value of pension plan assets	31/12/16	31/12/17
Fair value of pension plan assets at the beginning of the year	270,000,806	270,384,969
Actual return on pension plan assets	8,683,560	6,793,166
Interest income	*3,513,609*	*2,450,308*
Return on pension plan assets (excluding interest income)	*5,169,951*	*4,342,859*
Employer contributions	12,155,787	13,095,445
Pension plan participant contributions	824,682	1,154,354
Benefits paid	(17,418,954)	(18,987,006)
Out of which: amounts paid in respect of settlements	*0*	*0*
Currency adjustment	326,532	(3,419,997)
Business combination and disposals	(2,240,001)	0
Other	(1,947,443)	(2,136,858)
FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR	**270,384,969**	**266,884,073**

c. Reconciliation of the effect of the asset ceiling	31/12/16	31/12/17
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**

NET LIABILITY	**(23,348,348)**	**(13,278,287)**

d. Funded status	31/12/16	31/12/17
Pension plan assets in excess of benefit obligation	(4,130,000)	(6,464,000)
Unrecognised assets	0	0

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e. Movement in net defined benefit pension liability or asset	31/12/16	31/12/17
Net liability at the beginning of the year	(28,556,684)	(23,348,348)
Net periodic pension cost recognised in the income statement	(9,799,410)	(12,792,014)
Remeasurements recognised in OCI	898,039	8,668,117
Employer contributions	12,155,787	13,095,445
Pension payments by employer	0	0
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	1,884,441	0
Currency adjustments	69,479	1,098,513
Other	0	0
NET LIABILITY AT THE END OF THE YEAR	**(23,348,348)**	**(13,278,287)**

f. Movement in the IAS 19 remeasurement reserve in equity	31/12/16	31/12/17
Recognised reserve at the beginning of the year	(19,129,439)	(18,231,400)
Remeasurements recognised in OCI	898,039	9,821,629
Transfers	0	0
RECOGNISED RESERVE AT THE END OF THE YEAR	**(18,231,400)**	**(8,409,771)**

g. Amounts recognised in the income statement	31/12/16	31/12/17
Current service cost	11,620,538	12,342,190
Net interest on the defined benefit liability/asset	171,927	130,554
Past service cost	(2,042,591)	253,000
Gains and losses arising from settlements	0	0
Other	49,536	66,270
ACTUARIALLY DETERMINED NET PERIODIC PENSION COST	**9,799,410**	**12,792,014**

h. Amounts recognised in other comprehensive income	31/12/16	31/12/17
Actuarial gains/losses on the defined benefit obligation	4,100,107	(4,325,258)
Actual return on plan assets (excluding amounts included in interest income)	(5,169,951)	(4,342,859)
Other	(156)	0
Currency adjustments	171,961	(1,153,512)
TOTAL OTHER COMPREHENSIVE INCOME	**(898,039)**	**(9,821,629)**

Actual return on pension plan assets (%)	31/12/16	31/12/17
	3.29%	2.53%

Breakdown of pension plan assets	31/12/16	31/12/17
Fixed income		
Quoted market price on an active market	64.78%	63.40%
Equities		
Quoted market price on an active market	15.80%	18.57%
Alternatives		
Quoted market price on an active market	1.17%	2.07%
Cash	2.01%	1.25%
Other	16.24%	14.71%
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%	10.28%
	Scenario DR +1%	(8.39%)

Expected rate of salary increase (including inflation)

DBO sensitivity to changes in expected rate of salary increase		
	Scenario SR -1%	(1.93%)
	Scenario SR +1%	3.58%

The Duration of the DBO of the pension plans in EUR as of December 31, 2017 is 6.38.
The Duration of the DBO of the Swiss pension plan as of December 31, 2017 is 19.7.

Expected contributions for next year	13,020,509

Additional descriptions

A. Description of the plan - Events in the financial year - Focus on risk exposures

In Luxembourg a new pension plan has been set up in 2017 for people hired as from June 1, 2017.
This new plan is not reported under the current note as the note 8.6D refers to a defined benefit plan.
Other pension plans are thus closed plans with membership depending on the hiring date.
These closed plans are two hybrid defined benefit (DB) / defined contribution (DC) pension plans and one DC with guaranteed return pension plan.
For retirees, pension plan is a DB plan (closed) for which no specific event occured in Luxembourg during the year 2017.
For all closed plans the risk exposure is actually an exposure to financial risk and for part of the plans to the longevity and inflation risks.
In Switzerland the pension plan is a DC pension plan with guaranteed return. No specific event occurred in Switzerland during the year 2017.

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	
	31/12/16	**31/12/17**	**31/12/16**	**31/12/17**
Discount rate	1.00%	1.00%	0.60%	0.70%
Salary increase	0.50% - 3.75%	0.50% - 5.50%	1.00%	1.00%
of which inflation	*1.80%*	*1.80%*	*0.50%*	*0.50%*

C. Description of ALM strategies

In Luxembourg the pension fund 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 vehicule local GAAP).
In Switzerland, the investment strategy is in the hands of the insurer.

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D. Description of funding arrangements

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

In the pension plans for "active people" hired before June 1, 2017, employer contributions are calculated according to an Aggregate Cost method.

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

For these 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.

For employees hired since June 1, 2017, the new plan is funded through a group insurance. It is reported under defined contributions expenses.

The Swiss 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.

8.7 Tax liabilities

ANALYSIS BY NATURE	31/12/16	31/12/17
Current tax liabilities	3,878,602	4,452,914
Deferred tax liabilities (see Note 9.2)	2,759,526	4,641,338
TOTAL	**6,638,128**	**9,094,252**

8.8 Other liabilities

	31/12/16	31/12/17
Other liabilities*	285,892,920	227,891,660
Other liabilities specific to insurance activities	380,012	363,264
TOTAL	**286,272,932**	**228,254,924**

*ANALYSIS BY NATURE	31/12/16	31/12/17
Accrued costs	12,605,725	10,979,225
Deferred income	14,352,940	12,404,017
Other payables[1]	190,816,652	134,786,900
Other granted amounts received	894,648	810,716
Salaries and social security costs (payable)	27,287,010	29,969,540
Other operating taxes	29,236,465	31,429,239
Other liabilities	10,699,480	7,512,023
TOTAL	**285,892,920**	**227,891,660**

[1] 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, and also comprises a provision of EUR 9.1 million in relation to the unavoidable costs of the onerous contract signed by BIL group with a third party.

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

9.1 Derivatives

A. ANALYSIS BY NATURE	31/12/16		31/12/17	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	166,645,200	148,033,962	156,907,356	199,269,667
Derivatives designated as fair value hedge	14,418,034	259,035,167	22,949,787	166,115,533
Derivatives designated as cash flow hedge	14,267,588	22,773,332	10,892,381	15,604,699
Derivatives designated as portfolio hedge against interest rate	50,552,327	6,756,256	36,998,864	3,304,558
TOTAL	245,883,149	436,598,717	227,748,388	384,294,457

B. DETAIL OF DERIVATIVES HELD FOR TRADING	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**8,340,073,537**	**8,330,161,798**	**133,955,815**	**117,902,210**
FX forward	7,669,735,604	7,662,540,271	117,185,692	105,150,872
Cross currency swap	81,084,700	80,411,539	10,341,555	6,471,808
FX options	589,253,233	587,209,988	6,428,568	6,279,530
Interest rate derivatives	**1,215,594,155**	**1,224,561,933**	**12,277,915**	**10,845,992**
Options-Caps-Floors-Collars-Swaptions	151,083,246	151,083,246	2,151,566	2,252,931
IRS	670,491,865	670,491,865	10,126,349	8,593,061
Interest futures	394,019,044	402,986,822	0	0
Equity derivatives	**547,933,075**	**515,034,805**	**20,411,470**	**19,285,760**
Equity futures	2,734,990	4,216,872	0	0
Equity options	380,392,236	348,445,886	8,814,810	15,842,865
Other equity derivatives	164,805,849	162,372,047	11,596,660	3,442,895
TOTAL	10,103,600,767	10,069,758,536	166,645,200	148,033,962

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**15,210,417,136**	**15,215,986,748**	**125,180,258**	**147,427,378**
FX forward	14,883,276,148	14,878,584,052	112,836,408	124,240,094
Cross currency swap	37,550,423	38,506,526	1,152,249	11,645,242
FX options	289,590,565	298,896,170	11,191,601	11,542,042
Interest rate derivatives	**729,675,315**	**756,227,191**	**9,505,012**	**9,480,447**
Options-Caps-Floors-Collars-Swaptions	171,780,915	171,780,915	2,636,045	2,640,212
IRS	540,409,803	541,109,803	6,868,967	6,840,235
Interest futures	17,484,597	43,336,473	0	0
Equity derivatives	**550,144,216**	**594,716,472**	**22,222,086**	**42,361,842**
Equity futures	2,621,820	154,734	0	0
Equity options	366,197,057	306,564,863	13,239,001	33,066,000
Other equity derivatives	181,325,339	287,996,875	8,983,085	9,295,842
TOTAL	16,490,236,667	16,566,930,411	156,907,356	199,269,667

C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,584,908,280**	**2,584,908,280**	**14,418,034**	**259,035,167**
IRS	2,584,908,280	2,584,908,280	14,418,034	259,035,167
TOTAL	**2,584,908,280**	**2,584,908,280**	**14,418,034**	**259,035,167**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,469,632,061**	**2,469,632,061**	**22,949,787**	**166,115,533**
IRS	2,469,632,061	2,469,632,061	22,949,787	166,115,533
TOTAL	**2,469,632,061**	**2,469,632,061**	**22,949,787**	**166,115,533**

D. DETAIL OF DERIVATIVES DESIGNATED AS CASH FLOW HEDGE	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**169,799,332**	**162,696,220**	**1,958,864**	**5,902,121**
Cross currency swap	135,996,154	130,103,112	1,481,478	5,902,121
Other currency derivatives	33,803,178	32,593,108	477,386	0
Interest rate derivatives	**380,868,953**	**380,868,953**	**12,308,724**	**16,871,211**
IRS	380,868,953	380,868,953	12,308,724	16,871,211
TOTAL	**550,668,285**	**543,565,173**	**14,267,588**	**22,773,332**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**130,686,572**	**137,132,318**	**4,268,213**	**6,179,702**
Cross currency swap	83,347,225	89,581,654	3,851,326	6,179,702
Other currency derivatives	47,339,347	47,550,664	416,887	0
Interest rate derivatives	**322,831,222**	**322,831,222**	**6,624,168**	**9,424,997**
IRS	322,831,222	322,831,222	6,624,168	9,424,997
TOTAL	**453,517,794**	**459,963,540**	**10,892,381**	**15,604,699**

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 2.8 million in 2017 (EUR 0.3 million in 2016) and are recorded in the statement of income as interests on derivatives used for hedging purposes.

Breakdown of derivatives designated as Cash Flow Hedge by residual maturity	31/12/16				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	2,212,129	8,393,596	2,700,503	961,360	**14,267,588**
Liabilities	1,005,370	9,093,784	6,938,043	5,736,135	**22,773,332**

	31/12/17				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	3,849,643	0	3,191,412	3,851,326	**10,892,381**
Liabilities	1,559,373	247,631	7,617,994	6,179,701	**15,604,699**

E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	27,959,806	32,724,754	960,425	35,306
Interest rate derivatives	468,141,326	468,141,326	49,591,902	6,720,950
TOTAL	496,101,132	500,866,080	50,552,327	6,756,256

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	14,449,062	16,922,772	337,898	7,574
Interest rate derivatives	423,546,538	423,546,538	36,660,966	3,296,984
TOTAL	437,995,600	440,469,310	36,998,864	3,304,558

9.2 Deferred tax

A. ANALYSIS	31/12/16	31/12/17
Net deferred tax assets	243,692,753	238,463,684
Deferred tax liabilities	(2,759,526)	(4,641,338)
DEFERRED TAX	240,933,227	233,822,346

B. MOVEMENTS	2016	2017
AS AT JANUARY 1	282,330,866	240,933,227
Movements during the financial year:		
- Amounts recognised in the statement of income	(17,495,598)	(18,304,370)
- Items directly computed by equity	(1,055,744)	8,280,906
- Effect of change in tax rates - statement of income	(27,146,853)	57,700
- Effect of change in tax rates - equity	2,537,643	337,909
- Exchange differences	30,730	(280,431)
- Other movements	1,732,183	2,797,405
AS AT DECEMBER 31	240,933,227	233,822,346

Deferred tax coming from balance sheet assets	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Cash, loans and loss provisions	7,888,137	(124,094)	7,275,263	(603,255)
Securities	(30,216,627)	0	(17,961,903)	0
Derivatives	2,441,846	0	1,110,061	0
Tangible and intangible fixed assets	5,893,338	186,437	5,523,553	(369,565)
TOTAL	(13,993,306)	62,343	(4,053,026)	(972,820)

Deferred tax coming from balance sheet liabilities	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Borrowings, deposits and issuance of debt securities	(1,292,372)	(2,744,241)	(1,295,972)	(2,801,006)
Provisions	(18,910,987)	6,143,133	(15,381,573)	3,539,438
Pensions	9,563,080	(1,070,840)	6,907,708	(154,702)
Other liabilities specific to insurance companies	(2,730,180)	(1,201,810)	(4,390,331)	(1,660,152)
TOTAL	(13,370,459)	1,126,242	(14,160,168)	(1,076,422)

Deferred tax coming from other items	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Tax losses carried forward	442,738,776	(61,180,121)	404,736,151	(38,008,256)
less: impairments	*(174,441,784)*	*16,186,361*	*(152,700,611)*	*21,810,828*
TOTAL	268,296,992	(44,993,760)	252,035,540	(16,197,428)

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 resulted 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 on tax losses generated before the fiscal reform of December 2016).

Based on these considerations, BIL has recognised the full amount of unused tax losses less impairments in order to recognise the net amount of unused tax lossess that can be used over a medium-term period.

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	
	31/12/16	31/12/17	31/12/16	31/12/17
Loans[1]	8,074	12,259	39	47
Interest received	0	0	0	0
Receivables	0	0	0	0
Deposits	13,984	14,416	208	221
Contingent convertible bond (compound instrument)	0	0	0	0
Interest paid	0	0	0	0
Derivatives - Total to receive	0	0	0	0
Derivatives - Total to deliver	0	0	0	0
Guarantees and commitments given by the Group	29	41	0	0
Guarantees and commitments given to the Group	3	3	0	0
Assets entrusted from third parties	10,707	10,135	0	0

	Associates		Other related parties	
	31/12/16	31/12/17	31/12/16	31/12/17
Loans[1]	37	0	119,220	546
Interest received	0	0	3,888	3
Receivables	990	990	0	0
Deposits	8,707	11,582	33,415	3,189
Contingent convertible bond (compound instrument)	0	0	150,000	0
Interest paid	(4)	(1)	0	(1)
Derivatives - Total to receive	0	0	42,541	40,416
Derivatives - Total to deliver	0	0	31,382	27,238
Guarantees and commitments given by the Group	0	0	30,000	0
Guarantees and commitments given to the Group	0	0	0	0
Assets entrusted from third parties	0	0	374,241	225,280

Advisory fees paid to Precision Capital SA amount to EUR -0.8 million in 2017 (EUR -0.8 million in 2016).

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

B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.8 "Staff expenses")

9.5 Securitisation

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.

9.6 Acquisitions and disposals of consolidated companies

A. MAIN ACQUISITIONS

Year 2016
None.

Year 2017
None.

B. MAIN DISPOSALS

Year 2016
Experta Immobilien A.G. (liquidated since November 30, 2016).

Year 2017
BIL Auto Lease SA (liquidated since December 19, 2017).
Privagest SA (liquidated since October 19, 2017).

9.7 Subscribed and authorised capital

By share category	31/12/16	31/12/17
Number of shares authorised and not issued[1]	2,982,681	2,982,681
Number of shares issued and fully paid up	2,017,319	2,017,319
Value per share (accounting par value)	EUR 70	EUR 70
Number of treasury shares	970	970

[1] As at December 31, 2017, the subscribed and paid-up capital of the Bank is EUR 141,212,330 (2016: EUR 141,212,330) represented by 2,017,319 shares (2016: 2,017,319 shares) with a par value of EUR 70 (2016: 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.

9.8 Exchange rates

The main exchange rates are the following:

		31/12/16		31/12/17	
		Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	AUD	1.4624	1.4852	1.5356	1.4811
Canadian Dollar	CAD	1.4196	1.4582	1.5057	1.4744
Swiss Franc	CHF	1.0743	1.0901	1.1718	1.1166
Danish Krone	DKK	7.4340	7.4444	7.4476	7.4391
Pound Sterling	GBP	0.8542	0.8228	0.8877	0.8758
Hong Kong Dollar	HKD	8.1949	8.5652	9.3746	8.8766
Japanese Yen	JPY	123.3914	120.4615	134.9569	127.2486
Norwegian Krone	NOK	9.0953	9.2571	9.8212	9.3791
Polish Zloty	PLN	4.4068	4.3666	4.1824	4.2446
Swedish Krona	SEK	9.5567	9.4731	9.8189	9.6466
Singapore Dollar	SGD	1.5264	1.5244	1.6029	1.5627
US Dollar	USD	1.0568	1.1035	1.1998	1.1387

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

10.1 Regular way trade

	31/12/16	31/12/17
Loans to be delivered	1,087,527,580	744,540,468
Borrowings to be received	1,210,212,918	863,398,833

10.2 Guarantees

	31/12/16	31/12/17
Guarantees given to credit institutions	149,777,873	132,613,597
Guarantees given to clients	644,827,009	583,108,576
Guarantees received from credit institutions	25,000,000	80,205,311
Guarantees received from clients	2,628,275,287	2,812,732,111

10.3 Loan commitments

	31/12/16	31/12/17
Unused credit lines granted to credit institutions	51,795,007	35,826,302
Unused credit lines granted to customers	2,070,589,810	1,842,462,861

10.4 Other commitments

	31/12/16	31/12/17
Banking activity - Other commitments given[1]	37,100,963,478	40,684,837,719
Banking activity - Other commitments received[2]	175,060,323,077	178,474,033,186

[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 170,4 billion as at December 31, 2017 and EUR 166,3 billion as at December 31, 2016.

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

11.1 Interest and similar income – Interest and similar expenses

	31/12/16	31/12/17
INTEREST AND SIMILAR INCOME	480,781,377	509,866,565
a) Interest and similar income of assets not measured at fair value through profit or loss	**322,295,253**	**309,986,506**
Cash and balances with central banks	15,446	0
Loans and advances to credit institutions	5,149,927	6,523,550
Loans and advances to customers	243,148,125	245,632,613
Financial assets available for sale	71,078,381	45,457,437
Investments held to maturity	2,903,374	12,372,906
b) Interest and similar income of assets measured at fair value through profit or loss	**157,754,749**	**195,174,185**
Financial assets held for trading	723,700	987,921
Derivatives held for trading	77,337,993	114,759,860
Derivatives used for hedging purposes	79,693,056	79,426,404
c) Interest income on liabilities	**731,375**	**4,705,874**
INTEREST AND SIMILAR EXPENSES	(181,347,393)	(203,594,375)
a) Interest and similar expenses of liabilities not measured at fair value through profit or loss	**(37,309,907)**	**(47,020,340)**
Amounts due to credit institutions	(7,365,463)	(14,896,668)
Amounts due to customers	(13,873,495)	(14,237,674)
Debt securities	(12,855,719)	(12,008,854)
Subordinated debts	(3,161,186)	(5,789,137)
Other	(54,044)	(88,007)
b) Interest and similar expenses of liabilities measured at fair value through profit or loss	**(143,059,268)**	**(155,908,182)**
Financial liabilities held for trading	(22)	(144)
Financial liabilities designated at fair value through profit or loss	(12,823,177)	(14,400,393)
Derivatives held for trading	(42,987,795)	(67,294,409)
Derivatives used for hedging purposes	(87,248,274)	(74,213,236)
c) Interest expenses on assets	**(978,218)**	**(665,853)**
NET INTEREST INCOME	299,433,984	306,272,190

11.2 Dividend income

	31/12/16	31/12/17
Financial assets available for sale	5,557	4,428,658
Financial assets held for trading	3,696	1,242
TOTAL	9,253	4,429,900

11.3 Net income from associates

	31/12/16	31/12/17
Income from associates before tax	4,223,022	8,395,785
Share of tax	(1,209,116)	(1,051,100)
TOTAL	3,013,906	7,344,685

11.4 Net trading income and net result of hedge accounting

	31/12/16	31/12/17
Net income from transactions	10,162,584	4,764,756
of which income from trading securities	*3,743,095*	*3,503,099*
of which income from trading derivatives	*6,419,489*	*1,261,657*
Net result of hedge accounting	(378,423)	(3,750,663)
Net result of financial instruments designated at fair value through profit or loss*	(406,979)	681,245
Change in own credit risk[1]	(222,304)	(326,208)
Net foreign exchange gain/(loss)	14,167,748	13,478,180
TOTAL	**23,322,626**	**14,847,310**

	31/12/16	31/12/17
* including hedging derivatives classified in the accounts as trading derivatives (accounting mismatch)	**5,530,148**	**(13,809,597)**

Result of hedge accounting	**31/12/16**	**31/12/17**
	Net gain/(loss)	**Net gain/(loss)**
Fair value hedge	**(359,917)**	**173,918**
Change in the fair value of the hedged item attributable to the hedged risk	24,267,147	(18,821,335)
Change in the fair value of the hedging derivatives	(24,627,064)	18,995,253
Portfolio hedge against interest rate risk	**(18,506)**	**(111,436)**
Change in the fair value of the hedged item	3,099,041	10,096,492
Change in the fair value of the hedging derivatives	(3,117,547)	(10,207,928)
Discontinuation of cash flow hedge accounting (cash flows not expected to occur)	**0**	**(3,813,145)**
TOTAL	**(378,423)**	**(3,750,663)**

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.)

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

	31/12/16	31/12/17
Gains on loans and advances	3,246,362	4,228,186
Gains on financial assets available for sale	44,931,641	55,597,540
Gains on tangible fixed assets	331,120	230,879
Gains on liabilities	0	233,600
TOTAL GAINS	**48,509,123**	**60,290,205**
Losses on financial assets available for sale	(1,483,464)	(10,829,423)
Losses on tangible fixed assets	(17,831)	(920)
Losses on liabilities	0	(251,310)
TOTAL LOSSES	**(1,501,295)**	**(11,081,653)**
NET IMPAIRMENT	**34,915**	**26,808**
TOTAL	**47,042,743**	**49,235,360**

The impact of net income on financial assets available for sale of EUR 44,768,117 as at December 31, 2017 (EUR 43,448,177 as at December 31, 2016) should be compared with the EUR -44,965,926 impact of the sale of securities on the AFS reserves as at as at December 31, 2017 (EUR -42,672,548 as at December 31, 2016).

Net impairment	Specific Risk		Total
	Allowances	**Write-backs**	
AS AT DECEMBER 31, 2016			
Available for sale securities	(72,618)	107,533	34,915
TOTAL	**(72,618)**	**107,533**	**34,915**
AS AT DECEMBER 31, 2017			
Available for sale securities	(109,442)	136,250	26,808
TOTAL	**(109,442)**	**136,250**	**26,808**

11.6 Fees and commissions income and expenses

	31/12/16			31/12/17		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Management of unit trusts and mutual funds	21,597,650	(4,335,578)	17,262,072	25,422,193	(1,262,786)	24,159,407
Administration of unit trusts and mutual funds	346,077	0	346,077	130,375	0	130,375
Insurance activity	8,109,007	0	8,109,007	7,461,447	0	7,461,447
Credit activity	19,673,359	(754,825)	18,918,534	21,023,372	(666,921)	20,356,451
Purchase and sale of securities	25,603,538	(10,607,031)	14,996,507	25,506,359	(11,964,094)	13,542,265
Purchase and sale of units trusts and mutual funds	5,947,749	(441,026)	5,506,723	7,991,328	(767,185)	7,224,143
Payment services	25,950,077	(902,574)	25,047,503	26,245,180	(750,229)	25,494,951
Commissions to non-exclusive brokers	0	(299,955)	(299,955)	0	(350,411)	(350,411)
Financial engineering	5,058,688	(176,011)	4,882,677	4,449,641	(138,657)	4,310,984
Services on securities other than safe keeping	3,249,047	(701,609)	2,547,438	3,189,340	(508,697)	2,680,643
Custody	29,116,764	(7,178,244)	21,938,520	27,776,550	(5,412,167)	22,364,383
Issues and placements of securities	2,957,060	0	2,957,060	4,488,349	(24,456)	4,463,893
Private banking	43,958,749	(7,860,436)	36,098,313	46,376,504	(7,114,804)	39,261,700
Clearing and settlement	21,390,642	(1,845,321)	19,545,321	24,910,526	(2,532,906)	22,377,620
Securities lending	0	(33,425)	(33,425)	427,329	(33,604)	393,725
Other	7,799,540	(634,495)	7,165,045	7,263,578	(479,077)	6,784,501
TOTAL	**220,757,947**	**(35,770,530)**	**184,987,417**	**232,662,071**	**(32,005,994)**	**200,656,077**

11.7 Other net income

	31/12/16	31/12/17
Operating taxes	2,525	4,433,912
Rental income	15,357,363	11,346,020
Other banking income[1]	2,032,823	0
Other income on other activities[2]	13,838,370	8,488,218
OTHER INCOME	**31,231,081**	**24,268,150**
Operating taxes	(3,270,084)	(3,866,585)
Maintenance and repair of investment property	(5,136,705)	(4,737,352)
Other bank charges[3]	(11,715,009)	(13,534,937)
Other expenses in relation to other activities[4]	(27,535,936)	(32,285,384)
OTHER EXPENSES	**(47,657,734)**	**(54,424,258)**
TOTAL	**(16,426,653)**	**(30,156,108)**

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)
Reimbursements received from the AGDL in 2016:	(2,032,823)
Advances paid to the AGDL and not reimbursed as at December 31, 2017	11,809,770

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 26.1 million were made in 2009 till 2016 and recorded under other net operating income. Lastly, no further reimbursements are expected from the AGDL in the future.

11.8 Staff expenses

A. STAFF EXPENSES

	31/12/16	31/12/17
Wages and salaries	(175,153,203)	(183,840,580)
Social security and insurance costs	(21,787,385)	(21,219,256)
Staff benefits	(11,313,144)	(13,974,816)
Restructuring expenses	(2,614,533)	(8,183,695)
Other expenses	(3,202,130)	(2,741,397)
TOTAL	**(214,070,395)**	**(229,959,744)**

B. WORKFORCE

(in average FTE)	31/12/16	31/12/17
Senior management	51	51
Employees	1,953	1,944
Other	2	2
TOTAL	**2,006**	**1,997**

[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 (Fonds de garantie des dépôts Luxembourg) and FRL (Fonds de résolution Luxembourg).
[4] This consists primarily of depreciation of investment property for EUR -6.7 million (EUR -11.8 million in 2016), provisions for litigation and extraordinary losses.

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(in average FTE) [1] as at 31/12/16	Luxembourg	Other Europe	Other non-Europe	Total BIL
Senior management	46	4	1	51
Employees	1,798	146	9	1,953
Other	0	2	0	2
TOTAL	**1,844**	**152**	**10**	**2,006**

(Average FTE) [1] as at 31/12/17	Luxembourg	Other Europe	Other non-Europe	Total BIL
Senior management	46	4	1	51
Employees	1,776	157	11	1,944
Other	0	2	0	2
TOTAL	**1,822**	**163**	**12**	**1,997**

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:

	31/12/16	31/12/17	31/12/16	31/12/17
	Remuneration		Retirement pensions	
Members of the administrative bodies	898,017	935,344	-	-
Members of the managerial bodies[2]	16,603,260	15,980,950	1,953,977	2,087,005
TOTAL	**17,501,277**	**16,916,294**	**1,953,977**	**2,087,005**

D. DEFINED CONTRIBUTION PLAN EXPENSES

	31/12/16	31/12/17
Defined contribution plan expenses	1,769,398	2,478,805
TOTAL	**1,769,398**	**2,478,805**

11.9 General and administrative expenses

	31/12/16	31/12/17
Occupancy	(8,509,553)	(8,050,551)
Operating leases	(8,098,303)	(7,918,537)
Professional fees	(20,761,411)	(20,237,177)
Marketing, advertising and public relations	(6,193,824)	(7,015,377)
Technology and system costs	(33,918,243)	(35,699,279)
Software costs and maintenance expenses	(9,082,928)	(12,760,398)
Repair and maintenance expenses	(69,632)	(41,695)
Operating taxes	(869,301)	(922,645)
Other general and administrative expenses[3]	(41,107,298)	(42,363,487)
TOTAL	**(128,610,493)**	**(135,009,146)**

[1] Breakdown by subsidiary's and branches' country of implementation.
[2] 2017 retirement pensions include EUR 1.5 million of defined benefit pension plan and EUR 0.5 million of defined contribution 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 for the services rendered by the independent auditor for the years 2016 and 2017 are as follows (VAT excluded):

	2016	2017
Statutory audit and Long Form Report	1,590,157	1,232,469
Other assurance services[1]	61,702	1,037,692
Other services	0	288,938
TOTAL	**1,651,859**	**2,559,098**

11.11 Amortisation of tangible and intangible fixed assets

	31/12/16	31/12/17
Depreciation on land and buildings	(7,486,222)	(7,016,417)
Depreciation on other tangible fixed assets	(863,727)	(831,739)
Depreciation on IT equipment	(2,490,236)	(2,826,427)
Depreciation on intangible fixed assets	(15,000,177)	(21,303,153)
TOTAL	**(25,840,362)**	**(31,977,736)**

11.12 Impairment on loans and provisions for credit commitments

Collective impairment	31/12/16			31/12/17		
	Allowances	**Write-backs**	**Total**	**Allowances**	**Write-backs**	**Total**
Loans	(4,563,916)	1,610,043	(2,953,873)	(3,630,732)	5,858,873	2,228,141
TOTAL	**(4,563,916)**	**1,610,043**	**(2,953,873)**	**(3,630,732)**	**5,858,873**	**2,228,141**

Specific impairment	31/12/16				
	Allowances	**Write-backs**	**Losses**	**Recoveries**	**Total**
Loans and advances to customers	(25,884,696)	23,595,663	(11,521,979)	0	(13,811,012)
Other receivables[2]	(279,043)	189,073	(61,717)	0	(151,686)
Commitments	0	0	n.a.	n.a.	0
TOTAL	**(26,163,739)**	**23,784,736**	**(11,583,696)**	**0**	**(13,962,698)**

Specific impairment	31/12/17				
	Allowances	**Write-backs**	**Losses**	**Recoveries**	**Total**
Loans and advances to customers	(34,239,299)	45,215,631	(33,451,498)	374,404	(22,100,762)
Other receivables[1]	(433,549)	370,318	(107,734)	0	(170,965)
Commitments	0	7,400	n.a.	n.a.	7,400
TOTAL	**(34,672,848)**	**45,593,349**	**(33,559,232)**	**374,404**	**(22,264,327)**

[1] 2017 figures include EUR 0.8 million of fees in the context of the transaction with Legend Holdings Corp.
[2] Is published in heading XIV. of the assets.

11.13 Provisions for legal litigation

Charges recognised under this item mainly comprise legal fees, provisions for existing litigation and write-backs of related provisions. 2017 figures are comprised of write-back of residual provision related to the Danish case which is definitively closed.

11.14 Tax expenses

	31/12/16	31/12/17
Income tax for current financial year	(942,417)	(889,684)
Deferred taxes	(44,238,529)	(18,160,561)
Tax on current financial year result (A)	**(45,180,946)**	**(19,050,245)**
Income tax for previous year	1,433	(101,223)
Deferred taxes for previous year	(403,921)	(86,110)
Provision for tax litigations	0	0
Other tax expenses (B)	**(402,488)**	**(187,333)**
TOTAL (A)+(B)	**(45,583,434)**	**(19,237,578)**

EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 29.22% as at December 31, 2016 and 27.08% as at December 31, 2017.
The effective BIL tax rate was 29,54% in 2016 and 14,82% in 2017.
The difference between both rates may be analysed as follows:

	31/12/16	31/12/17
NET INCOME BEFORE TAX	**155,945,455**	**135,880,920**
Tax base	**152,931,549**	**128,536,235**
Applicable tax rate at year-end	29.22%	27.08%
Theoretical corporate income tax at standard rate	**(44,686,599)**	**(34,807,612)**
Effect of different tax rates in other countries	(383,452)	(98,886)
Tax effect of non-deductible expenses	(1,140,201)	(5,333,676)
Tax effect of non-taxable income	(26,918)	(1,195,311)
Effect of change in tax rates[1]	(27,146,930)	57,700
Tax effect on the use of previous tax losses not recognised in the assets	27,300,000	21,810,828
Other	903,154	516,712
Tax on current financial year result	**(45,180,946)**	**(19,050,245)**
EFFECTIVE TAX RATE	**29.54%**	**14.82%**

[1] Review of the deferred tax assets due to the 2017 Luxembourg tax reform and the progressive reduction of the corporate income tax rate to 20.33% in 2017 and down to 19.26% in 2018.

Note 12: Notes on risk exposures (in EUR)

12.1 Fair value

A. BREAKDOWN OF FAIR VALUE

A.1 Fair value of assets	31/12/16			31/12/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks	2,085,823,944	2,085,823,944	0	2,621,934,451	2,621,934,451	0
Loans and advances to credit institutions	1,071,276,155	1,071,707,198	431,043	827,268,218	828,094,726	826,508
Loans and advances to customers	12,042,999,820	12,198,082,796	155,082,976	13,344,203,406	13,440,155,081	95,951,675
Financial assets held for trading	79,801,733	79,801,733	0	70,526,377	70,526,377	0
Financial assets available for sale	6,381,471,453	6,381,471,453	0	4,178,699,775	4,178,699,775	0
Investments held to maturity	536,013,388	551,715,571	15,702,183	1,753,271,909	1,793,629,190	40,357,281
Derivatives	245,883,149	245,883,149	0	227,748,388	227,748,388	0
Fair value revaluation of portfolios hedged against interest rate risk	6,523,489	6,523,489	0	3,175,567	3,175,567	0
Investments in associates	28,274,796	28,274,796	0	25,225,654	25,225,654	0
Other assets[1]	670,590,799	680,857,105	10,266,306	700,463,190	720,390,377	19,927,187
TOTAL	**23,148,658,726**	**23,330,141,234**	**181,482,508**	**23,752,516,935**	**23,909,579,586**	**157,062,651**

A.2 Fair value of liabilities	31/12/16			31/12/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	2,216,090,000	2,221,224,732	(5,134,732)	2,787,854,788	2,788,524,471	(669,683)
Amounts due to customers	16,129,249,400	16,116,968,509	12,280,891	16,315,477,809	16,306,883,945	8,593,864
Financial liabilities held for trading	2,013,272	2,013,272	0	0	0	0
Financial liabilities designated at fair value	877,913,027	877,913,027	0	776,333,210	776,333,210	0
Derivatives	436,598,717	436,598,717	0	384,294,457	384,294,457	0
Fair value revaluation of portfolios hedged against interest rate risk	48,683,055	48,683,055	0	35,131,162	35,131,162	0
Debt securities	1,529,888,297	1,548,719,665	(18,831,368)	1,580,051,579	1,591,227,841	(11,176,262)
Subordinated debt	293,936,368	306,123,963	(12,187,595)	281,864,136	291,598,682	(9,734,546)
Other liabilities	354,625,880	354,625,880	0	305,207,796	305,207,796	0
TOTAL	**21,888,998,016**	**21,912,870,820**	**(23,872,804)**	**22,466,214,937**	**22,479,201,564**	**(12,986,627)**

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.

[1] Other assets include the Esch Belval property whose fair value is classified as Level 3.

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	31/12/16			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	47,507,395	27,756,702	4,537,636	79,801,733
Financial assets available for sale - bonds	5,398,769,344	839,899,891	100,125,410	6,338,794,645
Financial assets available for sale - equities	0	10,177,665	32,499,143	42,676,808
Derivatives	0	225,388,991	20,494,158	245,883,149
TOTAL	**5,446,276,739**	**1,103,223,249**	**157,656,347**	**6,707,156,335**

	31/12/17			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	38,042,196	29,838,831	2,645,350	70,526,377
Financial assets available for sale - bonds	3,313,205,271	719,588,978	96,055,394	4,128,849,643
Financial assets available for sale - equities	0	18,019,759	31,830,373	49,850,132
Derivatives	0	207,920,067	19,828,321	227,748,388
TOTAL	**3,351,247,467**	**975,367,635**	**150,359,438**	**4,476,974,540**

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

B.2 Liabilities	31/12/16			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities held for trading	0	2,000,024	13,248	2,013,272
Financial liabilities designated at fair value	0	672,572,334	205,340,693	877,913,027
Derivatives	0	433,700,940	2,897,777	436,598,717
TOTAL	**0**	**1,108,273,298**	**208,251,718**	**1,316,525,016**

	31/12/17			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	576,808,285	199,524,925	776,333,210
Derivatives	0	342,871,664	41,422,793	384,294,457
TOTAL	**0**	**919,679,949**	**240,947,718**	**1,160,627,667**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1 Assets	31/12/16		31/12/17	
	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	4,669,588	0	0	0
TOTAL	**4,669,588**	**0**	**0**	**0**

C.2 Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2016 and 2017.

D. LEVEL 3 RECONCILIATION

D.1 Assets	31/12/16				
	Opening balance	Total gains and losses in the statement of income	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	4,530,863	(498,860)	0	2,886,249	(2,380,616)
Financial assets available for sale - bonds	22,494,285	0	0	50,573,484	0
Financial assets available for sale - equities	27,570,072	(1,729)	4,166,654	777,496	(13,350)
Derivatives	8,754,522	1,837,206	0	9,902,430	0
TOTAL	**63,349,742**	**1,336,617**	**4,166,654**	**64,139,659**	**(2,393,966)**

	31/12/16				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	0	0	0	0	4,537,636
Financial assets available for sale - bonds	(22,494,285)	49,551,926	0	0	100,125,410
Financial assets available for sale - equities	0	0	0	0	32,499,143
Derivatives	0	0	0	0	20,494,158
TOTAL	**(22,494,285)**	**49,551,926**	**0**	**0**	**157,656,347**

	31/12/17				
	Opening balance	Total gains and losses in the statement of income	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	4,537,636	(69,658)	0	1,545,791	(3,368,419)
Financial assets available for sale - bonds	100,125,410	(674,421)	0	47,177,889	0
Financial assets available for sale - equities	32,499,143	(1,883,304)	0	1,260,435	0
Derivatives	20,494,158	(15,009,503)	0	14,343,666	0
TOTAL	**157,656,347**	**(17,636,886)**	**0**	**64,327,781**	**(3,368,419)**

	31/12/17				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	0	0	0	0	2,645,350
Financial assets available for sale - bonds	(50,573,484)	0	0	0	96,055,394
Financial assets available for sale - equities	(45,901)	0	0	0	31,830,373
Derivatives	0	0	0	0	19,828,321
TOTAL	**(50,619,385)**	**0**	**0**	**0**	**150,359,438**

D.2 Liabilities	31/12/16			
	Opening balance	Total gains and losses in the statement of income	New issues	Settlement
Financial liabilities held for trading	0	0	13,248	0
Financial liabilities designated at fair value	160,550,174	(2,324,232)	127,992,987	(83,094,050)
Derivatives	20,800,868	(18,177,686)	274,595	0
TOTAL	**181,351,042**	**(20,501,918)**	**128,280,830**	**(83,094,050)**

	31/12/16			
	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	13,248
Financial liabilities designated at fair value	0	0	2,215,814	205,340,693
Derivatives	0	0	0	2,897,777
TOTAL	**0**	**0**	**2,215,814**	**208,251,718**

	31/12/17			
	Opening balance	Total gains and losses in the statement of income	New issues	Settlement
Financial liabilities held for trading	13,248	0	0	(13,248)
Financial liabilities designated at fair value	205,340,693	(6,707,469)	152,131,800	(153,901,545)
Derivatives	2,897,777	2,745,214	35,779,802	0
TOTAL	**208,251,718**	**(3,962,255)**	**187,911,602**	**(153,914,793)**

	31/12/17			
	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	0	2,661,446	199,524,925
Derivatives	0	0	0	41,422,793
TOTAL	**0**	**0**	**2,661,446**	**240,947,718**

BIL has 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. 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" behaviour: 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 sometimes 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 SA 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)	31/12/16	31/12/17
Belgium	1,428	1,440
France	3,045	2,684
Germany	1,344	1,352
Switzerland	938	2,171
Ireland	276	383
Italy	248	35
Luxembourg	13,306	13,207
Spain	680	734
Other EU countries	1,765	1,640
Rest of Europe	560	521
United States and Canada	632	768
Central and South America	19	31
Asia	273	129
Rest of the world	1,161	851
TOTAL	**25,675**	**25,946**

Exposures by counterparty category

(in EUR million)	31/12/16	31/12/17
Central Governments	6,308	8,032
Public Sector Entities	1,870	501
Corporate	5,067	5,476
Securitisation	325	241
Individuals, SME & Self Employed	8,250	8,659
Financial Institutions	3,852	3,032
Others	3	5
TOTAL	**25,675**	**25,946**

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[1]

(in EUR million)	31/12/16 Credit risk exposures[2]	31/12/16 Financial effect of the collateral	31/12/17 Credit risk exposures[1]	31/12/17 Financial effect of the collateral
Available for sale portfolio (excluding variable-income securities)	6,336	0	4,123	0
Held for trading portfolio (excluding variable-income securities)	48	0	38	0
Loans and advances (at amortised cost)	14,550	1,654	15,970	2,001
Financial assets held to maturity	536	0	1,753	0
Derivatives	160	57	212	44
Other financial instruments at cost	154	280	305	576
Commitments in respect of loans granted	2,752	41	2,256	165
Commitments in respect of guarantees given	1,139	106	1,289	77
TOTAL	**25,675**	**2,138**	**25,946**	**2,863**

C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS[1]

	31/12/16				
	Credit quality of normal financial assets				
(in EUR million)	AAA+ to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Available for sale portfolio (excluding variable-income securities)	3,598	1,796	74	868	6,336
Held for trading portfolio (excluding variable-income securities)	22	18	2	7	48
Loans and advances (at amortised cost)	2,579	5,911	4,461	1,185	14,137
Financial assets held to maturity	455	82	0	0	536
Derivatives	18	129	4	8	159
Other financial instruments at cost	39	59	0	56	154
Commitments in respect of loans granted	507	1,109	646	470	2,732
Commitments in respect of guarantees given	97	272	458	308	1,135
TOTAL	**7,313**	**9,376**	**5,645**	**2,902**	**25,237**

	31/12/17				
	Credit quality of normal financial assets				
(in EUR million)	AAA+ to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Available for sale portfolio (excluding variable-income securities)	2,902	1,221	0	0	4,123
Held for trading portfolio (excluding variable-income securities)	25	2	0	11	38
Loans and advances (at amortised cost)	3,575	6,117	4,448	1,405	15,545
Financial assets held to maturity	1,361	392	0	0	1,753
Derivatives	59	140	9	4	212
Other financial instruments at cost	144	61	55	45	305
Commitments in respect of loans granted	365	982	591	303	2,241
Commitments in respect of guarantees given	107	295	469	410	1,281
TOTAL	**8,538**	**9,210**	**5,572**	**2,178**	**25,498**

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.

[1] Data differ from those published in BIL's Annual Reports due to a reallocation of exposures from Commitments in respect of guarantees given towards Commitments in respect of loans granted.
[2] Credit risk exposures net of the financial effect of the collateral.

D. PAST DUE OR IMPAIRED FINANCIAL ASSETS

	31/12/16				
	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)	212,385,782	93,463,865	141,000,549	351,833,581	540,879,093
TOTAL	**212,385,782**	**93,463,865**	**141,000,549**	**351,833,581**	**540,879,093**

	31/12/17				
	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)	176,331,762	50,080,157	130,791,061	331,481,079	408,088,220
TOTAL	**176,331,762**	**50,080,157**	**130,791,061**	**331,481,079**	**408,088,220**

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	
	31/12/16	31/12/17
Cash	26,184,528	9,292,023
Debt instruments	1,153,774	1,283,678
TOTAL	**27,338,302**	**10,575,701**

In general, guarantees obtained are immediately converted into cash by BIL.

F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

	As at 01/01/16	Utilisation	Allowances	Write-backs
Specific allowances for financial assets individually assessed for impairment	**(294,997,836)**	**11,107,529**	**(25,957,314)**	**12,595,667**
Loans and advances to customers	(274,844,153)	10,999,996	(25,884,696)	12,595,667
Financial assets available for sale	(20,153,683)	107,533	(72,618)	0
of which equities and other variable-income instruments	*(20,153,683)*	*107,533*	*(72,618)*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(28,581,470)**	**0**	**(4,563,916)**	**1,610,043**
TOTAL	**(323,579,306)**	**11,107,529**	**(30,521,230)**	**14,205,710**

	Other adjustments	Transfers between allowances	As at 31/12/16	Recoveries recorded directly in profit or loss	Charges recorded directly in profit or loss
Specific allowances for financial assets individually assessed for impairment	**(3,434,650)**	**0**	**(300,686,604)**	**0**	**(11,521,979)**
Loans and advances to customers	(3,162,619)	0	(280,295,805)	0	(11,521,979)
Financial assets available for sale	(272,031)	0	(20,390,799)	0	0
of which equities and other variable-income instruments	*(272,031)*	*0*	*(20,390,799)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(5,896)**	**0**	**(31,541,239)**	**0**	**0**
TOTAL	**(3,440,546)**	**0**	**(332,227,843)**	**0**	**(11,521,979)**

	As at 01/01/17	Utilisation	Allowances	Write-backs
Specific allowances for financial assets individually assessed for impairment	**(300,686,604)**	**33,300,348**	**(34,348,741)**	**12,051,533**
Loans and advances to customers	(280,295,805)	33,164,098	(34,239,299)	12,051,533
Financial assets available for sale	(20,390,799)	136,250	(109,442)	0
of which equities and other variable-income instruments	*(20,390,799)*	*136,250*	*(109,442)*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(31,541,239)**	**0**	**(3,630,732)**	**5,858,873**
TOTAL	**(332,227,843)**	**33,300,348**	**(37,979,473)**	**17,910,406**

	Other adjustments	Transfers between allowances	As at 31/12/17	Recoveries recorded directly in profit or loss	Charges recorded directly in profit or loss
Specific allowances for financial assets individually assessed for impairment	**14,219,291**	**8,900,000**	**(266,564,173)**	**374,404**	**(33,451,498)**
Loans and advances to customers	13,131,221	8,900,000	(247,288,252)	374,404	(33,451,498)
Financial assets available for sale	1,088,070	0	(19,275,921)	0	0
of which equities and other variable-income instruments	*1,088,070*	*0*	*(19,275,921)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**39,144**	**0**	**(29,273,953)**	**0**	**0**
TOTAL	**14,258,435**	**8,900,000**	**(295,838,126)**	**374,404**	**(33,451,498)**

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

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

G. CREDIT RISK LINKED TO FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31/12/16	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
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	877,913,027	222,304	(762,918)	11,082,785

As at 31/12/17	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
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	776,333,210	326,208	(436,710)	(3,445,050)

In 2016 and 2017, 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, 2017 (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 measures 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 2017, BIL group's forborne exposures amounted to EUR 279.4 million (EUR 294.1 million in 2016) including EUR 7.4 million (EUR 5.1 million in 2016) as given banking guarantees.

J. INFORMATION ON SOVEREIGN DEBTS

For 2016 and 2017, this statement refers to bonds issued by central & local governments and governmental bodies.

As at 31/12/16	Available for sale			Held to maturity	Held for trading	
Country 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	54,991,714	*1,916,650*				
More than 5 years	61,718,001	*3,615,215*				
Belgium						
Less than 1 year	57,750,990	*31,463*				
Between 1 and 5 years	61,591,541	*1,451,861*	*(84,564)*			
More than 5 years	693,271,391	*37,102,969*	*(3,066,298)*			
Czech Republic						
Between 1 and 5 years	17,660,569	*1,554,820*	*(665,910)*			
More than 5 years	24,343,249	*4,372,942*	*(1,971,110)*			
Finland						
Between 1 and 5 years	22,957,907	*2,141,495*				
More than 5 years				51,351,180		
France						
Between 1 and 5 years	127,993,412	*5,653,297*				
More than 5 years	735,751,865	*30,681,874*	*(498,732)*	213,299,826		
Germany						
Between 1 and 5 years	10,212,876	*226,572*	*(109,508)*		5,140,750	*(8,550)*
More than 5 years	110,000,717	*5,122,891*	*(886,120)*	30,870,796	9,674,799	*(115,456)*
Ireland						
More than 5 years	120,706,384	*795,579*	*192,783*			
Italy						
More than 5 years	143,684,008	*(877,744)*	*(95,549)*			
Japan						
Between 1 and 5 years	40,696,639	*9,292*				
Latvia						
Between 1 and 5 years	15,788,242	*(800,954)*	*562,875*			
More than 5 years					285,592	*(12,300)*
Lithuania						
Between 1 and 5 years	41,468,620	*(541,209)*	*465,739*			
Luxembourg						
Between 1 and 5 years					804,293	*(16,400)*
More than 5 years	39,883,385	*8,748,539*	*(3,634,535)*		1,916,408	*(14,938)*
Mexico						
Between 1 and 5 years					26,333	*862*
Poland						
Between 1 and 5 years	40,448,818	*584,695*	*(175,124)*			
More than 5 years	35,269,346	*(341,785)*	*(32,322)*			
Qatar						
Less than 1 year	23,987,909	*(20,787)*	*3,978*			
Between 1 and 5 years	34,923,405	*(696,486)*	*450,122*			
More than 5 years	55,489,878	*(2,095,845)*	*948,107*			
Saudi Arabia						
Between 1 and 5 years					548,771	*(15,767)*
SUB-TOTAL	**2,570,590,866**	***98,635,344***	***(8,596,168)***	**295,521,802**	**18,396,946**	***(182,549)***

As at 31/12/16	Available for sale			Held to maturity	Held for trading	
Country 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	**2,570,590,866**	***98,635,344***	***(8,596,168)***	**295,521,802**	**18,396,946**	***(182,549)***
Slovakia						
Between 1 and 5 years	4,133,425	*134,631*				
More than 5 years	47,276,906	*2,527,340*	*(50,574)*	38,591,714		
South Korea						
Between 1 and 5 years	4,036,875	*27,702*				
More than 5 years				4,434,820		
Spain						
Less than 1 year	13,710,296	*3,731*				
Between 1 and 5 years	88,489,201	*1,093,883*	*(215,126)*			
More than 5 years	189,507,178	*924,087*	*(294,436)*	10,549,970		
Supranational						
More than 5 years	269,417,286	*16,391,322*	*(318,137)*	20,506,869	43,434	*149*
The Netherlands						
More than 5 years	88,411,304	*1,031,600*				
United States of America						
Less than 1 year	19,213,494	*2,230*				
Between 1 and 5 years	427,959,406	*(3,485,944)*				
TOTAL	**3,722,746,237**	***117,285,926***	***(9,474,441)***	**369,605,175**	**18,440,380**	***(182,400)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country 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						
Less than 1 year	52,269,457	*5,960*				
Between 1 and 5 years	59,545,005	*2,972,939*	*(244,814)*			
More than 5 years						
Belgium						
Less than 1 year	47,177,889	*(146)*				
Between 1 and 5 years	167,767,995	*7,370,373*	*(582,730)*			
More than 5 years	417,545,151	*13,588,506*	*(329,128)*	132,899,328		
Canada						
More than 5 years	85,172,796	*471,364*	*(254,033)*	39,274,484		
Czech Republic						
Between 1 and 5 years	41,131,569	*1,053,520*	*1,961,159*			
More than 5 years						
Finland						
Between 1 and 5 years	21,919,509	*1,257,908*				
More than 5 years				51,262,693		
France						
Less than 1 year	46,557,204	*(191,810)*				
Between 1 and 5 years	117,953,768	*71,449*	*(87,831)*	46,971,860		
More than 5 years	64,874,351	*253,655*		682,902,713		
Germany						
Less than 1 year	10,110,939	*(2,984)*	*15,320*			
Between 1 and 5 years	15,516,700	*2,144*	*464,196*			
More than 5 years	85,770,563	*3,143,986*	*(336,879)*	30,817,788	8,204,042	*(145,287)*
Ireland						
More than 5 years	169,886,466	*4,888,456*	*(1,631,401)*	107,025,227		
Italy						
More than 5 years						
Japan						
Between 1 and 5 years					165,481	*(1,817)*
Latvia						
Between 1 and 5 years						
More than 5 years						
Lithuania						
Between 1 and 5 years						
More than 5 years	7,140,701	*70,299*	*(33,650)*			
Luxembourg						
Between 1 and 5 years						
More than 5 years	38,858,393	*1,247,919*	*2,828,694*	4,978,355	4,764,808	*18,701*
Mexico						
More than 5 years						
Norway						
More than 5 years				9,124,982		
Poland						
Between 1 and 5 years	35,257,465	*227,019*	*(72,183)*			
More than 5 years	76,053,845	*2,408,341*	*(343,438)*	33,644,647		
Qatar						
Less than 1 year						
Between 1 and 5 years	17,882,982	*(200,779)*	*(148,618)*			
More than 5 years						
SUB-TOTAL	**1,578,392,748**	***38,638,119***	***1,204,664***	**1,138,902,077**	**13,134,331**	***(128,403)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country 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	**1,578,392,748**	***38,638,119***	***1,204,664***	**1,138,902,077**	**13,134,331**	***(128,403)***
Saudi Arabia						
Between 1 and 5 years						
More than 5 years	4,124,721	*(2,499)*	*(42,322)*			
Slovakia						
Less than 1 year	4,064,225	*61,934*				
Between 1 and 5 years						
More than 5 years	30,950,932	*1,053,970*	*(98,264)*	78,142,328		
South Korea						
Between 1 and 5 years						
More than 5 years				4,365,551		
Spain						
Less than 1 year						
Between 1 and 5 years	164,737,870	*2,534,822*	*210,442*	22,947,267		
More than 5 years	285,455,474	*5,084,834*	*(2,660,278)*	120,389,300		
Supranational						
Between 1 and 5 years	134,005,481	*7,793,363*	*(823,368)*		3,351,254	*(51,398)*
More than 5 years	48,793,933	*1,757,328*	*(209,063)*	35,634,725		
Sweden						
Between 1 and 5 years					312,928	*(2,710)*
The Netherlands						
More than 5 years						
United Arab Emirates						
Between 1 and 5 years					412,688	*(5,285)*
United States of America						
Less than 1 year	16,726,119	*(529,318)*				
Between 1 and 5 years	210,022,340	*(3,102,361)*		124,229,510		
More than 5 years	59,543,983	*(5,698)*				
TOTAL	**2,536,817,826**	***53,284,494***	***(2,418,189)***	**1,524,610,758**	**17,211,201**	***(187,796)***

12.3 Encumbered assets

A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

	31/12/16			
	Fair value of collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*	Fair value of encumbered collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*
Cash collateral	72,894,544	*72,894,544*	0	*0*
Debt securities	607,621,529	*200,881,452*	0	*0*
TOTAL	**680,516,073**	***273,775,996***	**0**	***0***

	31/12/17			
	Fair value of collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*	Fair value of encumbered collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*
Cash collateral	74,858,296	*74,858,296*	0	*0*
Debt securities	454,631,194	*0*	202,684,942	*202,684,942*
TOTAL	**529,489,490**	***74,858,296***	**202,684,942**	***202,684,942***

B. ENCUMBERED ASSETS

	31/12/16			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	48,330,646	*46,974,491*	48,911,076	*47,402,497*
of which: issued by general governments	*41,961,241*	*41,961,241*	*42,280,951*	*42,280,951*
of which: issued by financial corporations	*4,805,055*	*3,448,900*	*4,792,459*	*3,283,880*
of which: issued by non-financial corporations	*1,564,350*	*1,564,350*	*1,837,666*	*1,837,666*
AFS Debt securities	2,351,965,385	1,976,264,294	2,351,965,385	1,976,264,294
of which: issued by general governments	*1,698,361,768*	*1,337,267,986*	*1,698,361,768*	*1,337,267,986*
of which: issued by financial corporations	*651,894,148*	*637,668,878*	*651,894,148*	*637,668,878*
of which: issued by non-financial corporations	*1,709,469*	*1,327,430*	*1,709,469*	*1,327,430*
Loans and advances other than loans on demand	197,092,010	*197,092,010*	197,092,010	*197,092,010*
TOTAL	**2,597,388,041**	***2,220,330,795***	**2,597,968,471**	***2,220,758,801***

	31/12/17			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	773,695,654	*635,332,641*	800,917,542	*663,304,670*
of which: issued by general governments	*739,866,500*	*615,636,991*	*767,205,883*	*643,220,538*
of which: issued by financial corporations	*33,829,154*	*19,695,650*	*33,811,659*	*20,084,132*
of which: issued by non-financial corporations	*0*	*0*	*0*	*0*
AFS Debt securities	1,242,201,841	1,009,620,739	1,242,201,842	1,009,620,739
of which: issued by general governments	*694,540,412*	*475,319,079*	*694,540,413*	*475,319,079*
of which: issued by financial corporations	*441,819,057*	*428,459,288*	*441,719,057*	*428,459,288*
of which: issued by non-financial corporations	*105,842,372*	*105,842,372*	*105,842,372*	*105,842,372*
Loans and advances other than loans on demand	266,174,615	*266,174,615*	266,174,615	*266,174,615*
TOTAL	**2,282,072,110**	***1,911,127,995***	**2,309,293,999**	***1,939,100,024***

C. SOURCES OF ENCUMBRANCE

	31/12/16		
	Matching liabilities, contingent liabilities or securities lent	**Assets or collateral received encumbered**	***of which: collateral received re-used***
Derivatives	436,598,717	197,092,010	*0*
Repurchase agreements	548,869,444	548,869,444	*0*
of which: central banks	*548,869,444*	*548,869,444*	*0*
Collateralised deposits other than repurchase agreements	4,683,553	4,683,553	*0*
of which: central banks	*4,683,553*	*4,683,553*	*0*
Fair value of securities borrowed with non cash collateral	1,345,127,660	1,846,743,034	*0*
TOTAL	**2,335,279,374**	**2,597,388,041**	***0***

	31/12/17		
	Matching liabilities, contingent liabilities or securities lent	**Assets or collateral received encumbered**	***of which: collateral received re-used***
Derivatives	370,492,735	266,174,615	*0*
Repurchase agreements	968,050,401	966,274,519	*202,684,942*
of which: central banks	*696,177,222*	*696,177,222*	*0*
Collateralized deposits other than repurchase agreements	30,788,718	30,788,718	*0*
of which: central banks	*30,788,718*	*30,788,718*	*0*
Fair value of securities borrowed with non cash collateral	1,088,043,688	1,221,519,200	*0*
TOTAL	**2,457,375,542**	**2,484,757,052**	***202,684,942***

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 (GMSLA) 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.

Financial assets recognised at end of reporting period	31/12/16				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	245,883,149	0	245,883,149	72,894,544	172,988,605
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**245,883,149**	**0**	**245,883,149**	**72,894,544**	**172,988,605**

Financial liabilities recognised at end of reporting period	31/12/16				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	436,598,717	0	436,598,717	197,092,010	239,506,707
Repurchase agreements	548,869,444	0	548,869,444	548,869,444	0
Collateralised deposits other than repurchase agreements	4,683,553	0	4,683,553	4,683,553	0
TOTAL	**990,151,714**	**0**	**990,151,714**	**750,645,007**	**239,506,707**

Financial assets recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	227,748,388	0	227,748,388	74,858,296	152,890,092
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**227,748,388**	**0**	**227,748,388**	**74,858,296**	**152,890,092**

Financial liabilities recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	384,294,457	0	384,294,457	266,174,615	118,119,842
Repurchase agreements	968,050,401	0	968,050,401	966,274,519	1,775,882
Collateralised deposits other than repurchase agreements	30,788,718	0	30,788,718	30,788,718	0
TOTAL	**1,383,133,576**	**0**	**1,383,133,576**	**1,263,237,852**	**119,895,724**

12.4 Interest rate risk: breakdown by maturity until next interest rate repricing date[1]

A. ASSETS	31/12/16				
	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	2,086,553,591	0	0	0	0
Loans and advances to credit institutions	1,061,273,526	3,796,561	0	560,000	4,162,500
Loans and advances to customers	4,255,648,687	259,891,998	101,072,428	1,355,052,460	6,368,960,018
Financial assets held for trading	28,856,135	414,848	2,182,193	9,596,497	38,928,879
Financial assets designated at fair value	0	0	0	0	0
Financial assets available for sale	1,139,330,351	145,726,190	162,255,648	1,831,743,472	2,921,278,542
Investments held to maturity	0	0	0	17,455,025	515,686,550
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	**8,571,662,290**	**409,829,597**	**265,510,269**	**3,214,407,454**	**9,849,016,489**

	31/12/16				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(729,647)	n.a.	n.a.	2,085,823,944
Loans and advances to credit institutions	0	1,483,568	0	0	1,071,276,155
Loans and advances to customers	0	15,194,410	(983,137)	(311,837,044)	12,042,999,820
Financial assets held for trading	156,542	350,430	(683,791)	n.a.	79,801,733
Financial assets designated at fair value	0	0	0	n.a.	0
Financial assets available for sale	235,753	54,288,491	147,003,805	(20,390,799)	6,381,471,453
Investments held to maturity	0	2,871,813	0	0	536,013,388
Derivatives	n.a.	18,073,533	227,809,616	n.a.	245,883,149
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	6,523,489	n.a.	6,523,489
TOTAL	**392,295**	**91,532,598**	**379,669,982**	**(332,227,843)**	**22,449,793,131**

[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).

	31/12/17				
	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	2,623,936,959	0	0	0	0
Loans and advances to credit institutions	815,220,368	3,912,456	0	0	3,825,000
Loans and advances to customers	4,637,228,058	453,268,297	279,121,557	1,303,385,185	6,932,338,455
Financial assets held for trading	31,761,675	809,081	1,589,673	11,221,641	25,268,545
Financial assets designated at fair value	0	0	0	0	0
Financial assets available for sale	899,630,101	161,402,606	72,992,802	1,616,076,022	1,330,680,528
Investments held to maturity	0	0	0	233,418,419	1,508,596,424
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	**9,007,777,161**	**619,392,440**	**353,704,032**	**3,164,101,267**	**9,800,708,952**

	31/12/17				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(2,002,508)	n.a.	n.a.	2,621,934,451
Loans and advances to credit institutions	0	4,310,394	0	0	827,268,218
Loans and advances to customers	0	16,777,104	(1,353,045)	(276,562,205)	13,344,203,406
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets designated at fair value	0	0	0	n.a.	0
Financial assets available for sale	164,539	34,514,398	82,514,700	(19,275,921)	4,178,699,775
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,844,291	204,904,097	n.a.	227,748,388
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**214,255**	**87,830,361**	**288,937,749**	**(295,838,126)**	**23,026,828,091**

[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).

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B. LIABILITIES	31/12/16				
	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	1,142,754,479	293,712,662	130,522,545	565,160,000	83,323,110
Amounts due to customers	14,703,681,967	613,119,081	447,551,824	350,888,778	11,666,962
Financial liabilities held for trading	2,013,250	0	0	0	0
Financial liabilities designated at fair value	361,749,281	25,798,648	74,940,624	160,512,304	241,366,452
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	737,965,197	41,443,119	47,020,643	500,890,995	197,994,814
Subordinated debt	48,651,710	0	0	0	244,629,761
TOTAL	**16,996,815,884**	**974,073,510**	**700,035,636**	**1,577,452,077**	**778,981,099**

	31/12/16			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	617,204	0	2,216,090,000
Amounts due to customers	0	2,340,788	0	16,129,249,400
Financial liabilities held for trading	0	22	0	2,013,272
Financial liabilities designated at fair value	0	2,346,013	11,199,705	877,913,027
Derivatives	n.a.	40,122,423	396,476,294	436,598,717
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	48,683,055	48,683,055
Debt securities	0	4,573,529	0	1,529,888,297
Subordinated debt	0	654,897	0	293,936,368
TOTAL	**0**	**50,654,876**	**456,359,054**	**21,534,372,136**

[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).

	31/12/17				
	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	1,549,228,200	341,004,674	86,537,176	745,308,816	65,030,490
Amounts due to customers	14,576,574,444	907,237,153	299,194,184	527,831,918	1,586,617
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	305,177,153	16,128,111	71,751,987	143,392,603	240,355,191
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	639,777,356	61,710,239	156,855,797	581,681,332	135,581,038
Subordinated debt	49,609,127	0	0	0	232,488,487
TOTAL	**17,120,366,280**	**1,326,080,177**	**614,339,144**	**1,998,214,669**	**675,041,823**

	31/12/17			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	745,432	0	2,787,854,788
Amounts due to customers	0	3,053,493	0	16,315,477,809
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,228,447	344,066,010	384,294,457
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debt	0	(233,478)	0	281,864,136
TOTAL	**0**	**50,958,643**	**376,006,405**	**22,161,007,141**

C. NET POSITION	31/12/16					
	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	(8,425,153,594)	(564,243,913)	(434,525,367)	1,636,955,377	9,070,035,390	392,295

	31/12/17					
	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	(8,112,589,119)	(706,687,737)	(260,635,112)	1,165,886,598	9,125,667,129	214,255

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 2017, 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%)		**31/12/16**							
(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	0.84	1.00	1.00	0.81	0.01	0.01	0.01	0.01
	Maximum	1.22	1.48	1.45	1.32	0.03	0.02	0.04	0.02
Global	Average	0.91							
	Maximum	1.48							
	End of period	0.44							
	Limit	8.00							

VaR (10 days, 99%)		**31/12/17**							
(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	0.42	0.39	0.36	0.36	0.01	0.01	0.01	0.00
	Maximum	0.68	0.58	0.68	0.94	0.02	0.03	0.05	0.02
Global	Average	0.38							
	Maximum	0.94							
	End of period	0.58							
	Limit	8.00							

The treasury activity is subject to sensitivity limits (on December 31, 2017, the sensitivity (+1 %) is EUR -0.2 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)

- Exposures

Exposures include swapped and non-swapped positions.

	2016	2017
Investment Treasury Portfolio – AFS	2,947	2,107

- Interest rate sensitivity (+1 basis point)

  The portfolio's interest rate is managed by Treasury.

	2016	2017
Investment Treasury Portfolio – AFS	(0.10)	(0.08)

- Credit spread sensitivity

  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

	2016	2017
Investment Treasury Portfolio – AFS	(1.24)	(0.91)

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)		31/12/16							
		Interest rate [1 2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	(17)	(16)	(7)	6	(2)	(2)	(2)	(2)

(in EUR million)		31/12/17							
		Interest rate [1 4]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	19	(6)	(7)	4	(2)	(2)	(2)	(2)

1 Sensitivity (+1%).
2 On December 31, 2016, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
3 Sensitivity (+1 basis point).
4 On December 31, 2017, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.

b. Investment Portfolio (in EUR million)

- Exposures

	2016	2017
Investment ALM Portfolio – AFS	2,763	1,779

- Interest rate sensitivity (+1 basis point)
  The portfolio's interest rate is managed by the ALM.

	2016	2017
Investment ALM Portfolio – AFS	(0.95)	(0.10)

- Credit spread sensitivity
  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

	2016	2017
Investment ALM Portfolio – AFS	(1.71)	(0.99)

c. ALM equity – Sensitivity of listed equities (in EUR million)

ALM Equity Portfolio [1]	Market Value
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
December 31, 2016	0.00
December 31, 2017	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	31/12/16				
	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	2,086,553,590	0	0	0	0
Loans and advances to credit institutions	485,271,021	215,969,668	221,607,129	142,782,269	4,162,500
Loans and advances to customers	2,351,269,920	1,698,043,540	519,122,109	1,367,506,475	6,404,683,546
Financial assets held for trading	12,353	2,798,063	4,049,112	29,494,038	43,624,986
Financial assets available for sale	0	244,000,799	282,859,913	2,285,977,844	3,348,654,504
Investments held to maturity	0	0	0	17,455,025	515,686,550
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	**4,923,106,884**	**2,160,812,070**	**1,027,638,263**	**3,843,215,651**	**10,316,812,086**

	31/12/16				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(729,646)	n.a.	n.a.	2,085,823,944
Loans and advances to credit institutions	0	1,483,568	0	0	1,071,276,155
Loans and advances to customers	0	15,194,411	(983,137)	(311,837,044)	12,042,999,820
Financial assets held for trading	156,542	350,430	(683,791)	n,a,	79,801,733
Financial assets available for sale	39,076,896	54,288,491	147,003,805	(20,390,799)	6,381,471,453
Investments held to maturity	0	2,871,813	0	0	536,013,388
Derivatives	n.a.	18,073,533	227,809,616	n.a.	245,883,149
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	6,523,489	n.a.	6,523,489
TOTAL	**39,233,438**	**91,532,600**	**379,669,982**	**(332,227,843)**	**22,449,793,131**

[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	31/12/17				
	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	2,623,936,959	0	0	0	0
Loans and advances to credit institutions	509,848,992	175,624,304	133,659,528	0	3,825,000
Loans and advances to customers	2,500,526,777	2,062,507,065	742,000,161	1,331,014,777	6,969,292,772
Financial assets held for trading	3,986,197	2,386,721	4,164,945	33,674,110	26,438,642
Financial assets available for sale	65,465	169,739,465	126,994,374	2,056,287,117	1,688,900,439
Investments held to maturity	0	0	0	233,418,418	1,508,596,425
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	**5,638,364,390**	**2,410,257,555**	**1,006,819,008**	**3,654,394,422**	**10,197,053,278**

	31/12/17				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(2,002,508)	n.a.	n.a.	2,621,934,451
Loans and advances to credit institutions	0	4,310,394	0	0	827,268,218
Loans and advances to customers	0	16,777,104	(1,353,045)	(276,562,205)	13,344,203,406
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	38,959,738	34,514,398	82,514,700	(19,275,921)	4,178,699,775
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,844,291	204,904,097	n.a.	227,748,388
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**39,009,454**	**87,830,361**	**288,937,749**	**(295,838,126)**	**23,026,828,091**

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

B. LIABILITIES	31/12/16				
	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	369,197,943	866,212,838	145,402,792	751,336,113	83,323,110
Amounts due to customers	14,703,681,967	613,156,768	447,551,824	350,851,087	11,666,966
Financial liabilities held for trading	0	0	0	0	2,013,250
Financial liabilities designated at fair value	0	41,598,648	142,240,624	429,778,505	250,749,532
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	15,664,851	173,331,634	55,509,903	1,082,813,566	197,994,814
Subordinated debts	0	0	0	0	293,281,471
TOTAL	**15,088,544,761**	**1,694,299,888**	**790,705,143**	**2,614,779,271**	**839,029,143**

	31/12/16			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	617,204	0	2,216,090,000
Amounts due to customers	0	2,340,788	0	16,129,249,400
Financial liabilities held for trading	0	22	0	2,013,272
Financial liabilities designated at fair value	0	2,346,013	11,199,705	877,913,027
Derivatives	n.a.	40,122,423	396,476,294	436,598,717
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	48,683,055	48,683,055
Debt securities	0	4,573,529	0	1,529,888,297
Subordinated debts	0	654,897	0	293,936,368
TOTAL	**0**	**50,654,876**	**456,359,054**	**21,534,372,136**

[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	31/12/17				
	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	1,186,532,084	702,752,059	86,537,177	745,863,964	65,424,072
Amounts due to customers	14,576,574,444	906,690,506	299,194,190	527,831,918	2,133,258
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	22,618,111	110,076,992	394,362,249	249,747,693
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	14,997,085	84,319,595	336,800,779	1,000,559,348	138,928,955
Subordinated debts	0	0	0	0	282,097,614
TOTAL	**15,778,103,613**	**1,716,380,271**	**832,609,138**	**2,668,617,479**	**738,331,592**

	31/12/17			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	745,432	0	2,787,854,788
Amounts due to customers	0	3,053,493	0	16,315,477,809
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,228,447	344,066,010	384,294,457
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debts	0	(233,478)	0	281,864,136
TOTAL	**0**	**50,958,643**	**376,006,405**	**22,161,007,141**

C. NET POSITION	31/12/16					
	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	Undetermined maturity
Net liquidity gap	(10,165,437,877)	466,512,182	236,933,120	1,228,436,380	9,477,782,943	39,233,438

	31/12/17					
	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	Undetermined maturity
Net liquidity gap	(10,139,739,223)	693,877,284	174,209,870	985,776,943	9,458,721,686	39,009,454

[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).

[2] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

12.7 Currency risk

	31/12/16				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,577,962,755	486,522,089	1,962,188,062	1,121,985,820	23,148,658,726
Liabilities	18,185,192,646	750,787,290	3,324,537,241	888,141,549	23,148,658,726
NET ON-BALANCE SHEET POSITION	**1,392,770,109**	**(264,265,201)**	**(1,362,349,179)**	**233,844,271**	**0**
Off-balance sheet – receivable	2,732,517,851	903,935,328	3,959,663,353	2,006,546,775	9,602,663,307
Off-balance sheet – payable	4,088,682,845	635,454,193	2,618,400,775	2,247,617,723	9,590,155,536
NET OFF-BALANCE SHEET POSITION	**(1,356,164,994)**	**268,481,135**	**1,341,262,578**	**(241,070,948)**	**12,507,771**

	31/12/17				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,265,564,926	601,335,243	1,655,403,106	2,230,213,660	23,752,516,935
Liabilities	18,707,511,799	855,150,284	3,412,631,632	777,223,220	23,752,516,935
NET ON-BALANCE SHEET POSITION	**558,053,127**	**(253,815,041)**	**(1,757,228,526)**	**1,452,990,440**	**0**
Off-balance sheet – receivable	4,920,620,835	1,153,213,288	6,423,983,840	3,573,207,975	16,071,025,938
Off-balance sheet – payable	5,631,008,312	895,944,485	4,545,858,049	5,042,332,222	16,115,143,068
NET OFF-BALANCE SHEET POSITION	**(710,387,477)**	**257,268,803**	**1,878,125,791**	**(1,469,124,247)**	**(44,117,130)**

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12.8 Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

	31/12/16	31/12/17
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,049,711,520**	**1,093,952,223**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**755,081,759**	**810,604,998**
Capital, share premium and own shares	847,974,270	847,974,270
Reserves, retained earnings and eligible result	301,324,420	385,664,387
Regulatory and transitional adjustments[1]	(394,216,931)	(423,033,659)
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)	**144,629,761**	**133,347,225**
Subordinated liabilities	144,629,761	133,347,225
IRB excess	0	0
RISK WEIGHTED ASSETS[2]	**5,819,065,531**	**6,639,600,765**
Credit risk	4,942,486,363	5,713,253,463
Market risk	55,100,619	69,754,297
Operational risk	798,887,214	830,998,897
Credit Value Adjustment	22,591,335	25,594,108
SOLVENCY RATIOS		
Common Equity Tier 1 Capital ratio	12.98%	12.21%
Tier 1 ratio	15.55%	14.47%
Capital Adequacy ratio	18.04%	16.48%

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14/01).

[1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1**	**31/12/16**	**31/12/17**
Goodwill and intangible assets	(121,944,144)	(161,458,649)
Deferred tax assets that rely on future probability	(152,691,885)	(176,179,924)
Fair value reserves related to gains or losses cash flow hedges	6,946,258	3,157,763
Gains or losses on liabilities at fair value resulting from own credit	(985,222)	(436,710)
Additional Value Adjustment	(1,642,210)	(1,458,903)
Defined benefit pension fund assets	(4,130,000)	(6,464,000)
AGDL reserves	(14,156,000)	(11,024,510)
Unrealised gains or losses measured at fair value	(105,613,728)	(69,168,726)
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1	**(394,216,931)**	**(423,033,659)**

[2] Following an on-site JST (Joint Supervisory Team) review of the real estate promotion exposures which ended March 2018, the Bank is waiting for the final report from ECB (European Central Bank). It may lead to an increase of credit-related RWA, which is currently estimated to approximately EUR 200 million. This would reduce the CET1 ratio by around 35bps.

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 audit of the financial statements

OPINION

We have audited the financial statements of Banque Internationale à Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements » section of our report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each key audit matter, a description of how our audit addressed the matter is set out below:

1. Impairment of loans and advances to customers

Description

At 31 December 2017, the gross loans and advances of the Bank amounted to EUR 13,553 million against which an impairment allowance of EUR 269.9 million was booked (comprising impairment against specific loans and collective impairment).

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the estimation of the amount and timing of the future cash flows when determining impairment losses.

The Bank uses the following methods to assess the required impairment allowance:

- For significant loans and advances, impairment is assessed individually on a regular basis;
- Collective impairment is assessed for less significant loans or for loans which are not considered as impaired based on historical deterioration in the borrowers' internal grading.

In particular, the determination of impairment against loans and advance includes:

- The identification of impairment events and judgments used to calculate the impairment against specific loans and advances flagged on the Bank's Special Mention and Watch List. Those individual assessment for impairment are based on the borrower's financial performance, solvency and liquidity on a regular basis;
- The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations. Models used to estimate the existence of incurred loss events and the resulting expected write-offs depend to a certain degree on judgments in determining the inputs, methodologies and assumptions.

Refer to the Accounting policy Note 1.7.5 page 63 to the consolidated financial statements and to Note 7.4 to the financial statements.

How the matter was addressed in our audit

Controls testing:
We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of:
- Entity level controls over the modelling process, including model review and monitoring and approval of assumptions by the Credit committee and the Bank's Executive Committee;
- Controls over models outputs and approval of post model adjustments;
- For loans granted to wealth management customers, controls over the collateral breach monitoring, the valuation and haircut of assets held as collateral;
- Controls over the identification of impaired loans and advances and the calculation of the related impairment allowances.

Collective modelling assessment:
For collective impairment, we used our own risk specialists to:
- Assess the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio;
- Test, on a sample basis, extraction of data used in the models, including rating of loans and movements between various ratings

Test of details:
For loans which are individually assessed for impairment:
- We tested a sample of loans and advances (including loans which were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required;
- We obtained the Credit Special Mention and Watch list and considered the assumptions underlying the impairment identification used by the Bank, including expected cash flows and estimated recovery from any underlying collateral.

2. Valuation of unquoted financial assets

Description
As at 31 December 2017, the Bank is holding financial assets measured at fair value with level 3 inputs for an acquisition cost of EUR 20.5 million and with a fair value of EUR 31.7 million, included in the "Financial investments" caption of the balance sheet.

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the determination of the significant valuation inputs used to determine the fair value of the financial assets; in addition, for the valuation of the most significant investment the Bank used complex valuation model with data input based on comparative financial ratios from peers in the industry.

Refer to the Accounting policy Note 1.8 page 65 to the consolidated financial statements and to Note 12.1 to the financial statements.

How the matter was addressed in our audit

We performed the following procedures:
- For all significant financial assets that are subject to level 3 non-observable inputs, we obtained the valuation methods and related outcome applied by the Management;
- We assessed the appropriateness of the methods used and challenged the appropriateness of the key assumptions used in relation to non-observable inputs, using our valuation specialists where applicable;
- We reconciled input data to supporting evidence, such as Management's forecast of future profits and business plans, and assessed the relevance and reasonableness of the input data used including back-testing of prior year assumptions.

3. Onerous contract

Description
The Bank entered in 2012 into an agreement with a third party according to which the Bank has to generate a minimum level of revenue guaranteed to such third party during the lifetime of the contract.

As at 31 December 2017, the Bank holds a provision of EUR 9.1 million to cover the unavoidable costs of meeting the obligation imposed by the onerous contract upon its termination.

We considered this as a key audit matter as the Bank makes complex and subjective judgments with respect to the estimation of the amount of the unavoidable costs over the lifetime of the contract.

Refer to the Accounting policy Note 1.26 page 73 to the consolidated financial statements and to Note 8.8 to the financial statements.

How the matter was addressed in our audit

We performed the following procedures:
- We assessed the eligibility of the contract to be treated as an onerous contract according to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets);

- We obtained the forecast of expected income deficits and benefits from the onerous contract prepared by the Bank to determine the unavoidable costs over the lifetime of the agreement;
- We assessed the consistency and reasonableness of these assumptions including back testing of the assumptions made by the Bank at previous year ends.

4. Deferred tax assets recognition and impairment

Description

As at 31 December 2017, the deferred tax assets recognized in the balance sheet amounts to EUR 230.4 million of which EUR 49.0 million resulting from the loss perpetrated in 2011 by one of the former branch of the Bank in a third party country.

We considered this as a key audit matter as the Bank makes forecast to determine the amount of tax losses carried forward which will be resorbed by future taxable profits. Those forecasts are based on subjective Bank's assumptions.

Refer to the Accounting policy Note 1.24 page 72 to the consolidated financial statements and to Note 9.2 to the financial statements.

How the matter was addressed in our audit

We performed the following procedures:

- We obtained the business plan prepared by the Bank for the period 2018 – 2020 as well as the assumptions made by the Bank to extrapolate the net income before tax beyond the horizon of the business plan;
- We assessed the consistency and reasonableness of these assumptions including back-testing of the assumptions made at prior year end;
- We evaluated whether updates in the Luxembourg tax laws and regulations have an impact on the assumptions made by the Management;
- For the deferred tax assets arising from tax losses carried forward from the former third party country's branch, we assessed whether the conditions for such tax losses to be incorporated to the basis of the tax losses carried forward are fulfilled.

OTHER INFORMATION

The Board of directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements

TThe objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Bank internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the year and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have been reappointed as "Réviseur d'Entreprises Agréé" by the Board of directors on 16 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years.

The consolidated management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the consolidated management report, is the responsibility of the Board of Directors. The information required by article 70bis paragraph 1 of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended, is consistent, at the date of this report, with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remain independent of the Bank in conducting the audit.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, April 9, 2018

Balance sheet

ASSETS (in EUR)		Notes	31/12/16	31/12/17
I.	Cash and balances with central banks	7.2	1,693,919,996	2,373,662,973
II.	Loans and advances to credit institutions	7.3	1,109,399,582	939,718,691
III.	Loans and advances to customers	7.4	12,032,823,885	13,282,678,819
IV.	Financial assets measured at fair value through profit or loss	7.5	79,801,733	70,526,377
V.	Financial investments	7.6	6,940,892,013	5,987,410,656
VI.	Derivatives	9.1	247,475,993	226,454,079
VII.	Fair value revaluation of portfolios hedged against interest rate risk		6,523,489	3,175,567
VIII.	Investment property	7.8 / 7.12	29,018	28,973
IX.	Property, plant and equipment	7.8 / 7.12	105,716,773	110,396,837
X.	Intangible fixed assets	7.9	64,027,302	106,595,730
XI.	Current tax assets	7.10	2,006	87,604
XII.	Deferred tax assets	7.10 / 9.2	235,080,816	230,425,933
XIII.	Other assets	7.11	64,143,271	69,941,418
TOTAL ASSETS			**22,579,835,877**	**23,401,103,657**

The notes are an integral part of these financial statements.

LIABILITIES

(in EUR)		Notes	31/12/16	31/12/17
I.	Amounts due to credit institutions	8.1	2,530,755,382	3,055,045,143
II.	Amounts due to customers	8.2	15,335,173,535	15,762,793,784
III.	Financial liabilities measured at fair value through profit or loss	8.3	879,926,299	776,333,210
IV.	Derivatives	9.1	432,612,114	383,822,947
V.	Fair value revaluation of portfolios hedged against interest rate risk		48,683,055	35,131,162
VI.	Debt securities	8.4	1,529,888,297	1,580,051,579
VII.	Subordinated debts	8.5	293,936,368	281,864,136
VIII.	Provisions and other obligations	8.6	39,290,085	50,095,263
IX.	Current tax liabilities	8.7	174,946	141,790
X.	Other liabilities	8.8	252,425,174	208,782,889
TOTAL LIABILITIES			**21,342,865,255**	**22,134,061,903**

SHAREHOLDERS' EQUITY

(in EUR)		Notes	31/12/16	31/12/17
XI.	Subscribed capital	9.6	141,212,330	141,212,330
XII.	Additional paid-in capital		708,216,940	708,216,940
XIII.	Treasury shares		(1,455,000)	(1,455,000)
XIV.	Reserves and retained earnings		180,363,061	243,092,103
XV.	Net income for the year		129,855,518	112,602,416
CORE SHAREHOLDERS' EQUITY			**1,158,192,849**	**1,203,668,789**
XVI.	Gains and losses not recognised in the statement of income		78,777,773	63,372,965
	a) AFS reserve		*143,004,853*	*106,695,761*
	b) Other reserves		*(64,227,080)*	*(43,322,796)*
TOTAL SHAREHOLDERS' EQUITY			**1,236,970,622**	**1,267,041,754**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**22,579,835,877**	**23,401,103,657**

The notes are an integral part of these financial statements.

Statement of income

(in EUR)		Notes	31/12/16	31/12/17
I.	Interest and similar income	11.1	476,081,931	503,368,258
II.	Interest and similar expenses	11.1	(186,697,713)	(208,683,498)
III.	Dividend income	11.2	24,118,528	12,871,630
IV.	Net trading income and net result of hedge accounting	11.3	18,098,588	9,962,429
V.	Net income on investments (assets and liabilities not measured at fair value through profit or loss)	11.4	47,063,602	49,080,033
VI.	Fee and commission income	11.5	176,895,408	194,204,340
VII.	Fee and commission expenses	11.5	(24,046,581)	(25,336,797)
VIII.	Other net income	11.6	(21,415,851)	(35,099,184)
INCOME			**510,097,912**	**500,367,211**
IX.	Staff expenses	11.7	(183,187,116)	(198,826,183)
X.	General and administrative expenses	11.8/11.9	(111,706,955)	(122,818,035)
XI.	Amortisation of tangible and intangible fixed assets	11.10	(23,989,684)	(29,900,971)
EXPENSES			**(318,883,755)**	**(351,545,189)**
GROSS OPERATING INCOME			**191,214,157**	**148,822,022**
XII.	Impairment on loans and provisions for credit commitments	11.11	(16,460,076)	(19,572,760)
XIII.	Provisions for legal litigation	11.12	0	234,317
NET INCOME BEFORE TAX			**174,754,081**	**129,483,579**
XIV.	Tax expenses	11.13	(44,898,563)	(16,881,163)
NET INCOME FOR THE YEAR			**129,855,518**	**112,602,416**

The notes are an integral part of these financial statements.

Statement of comprehensive income

(in EUR)	31/12/16	31/12/17
NET INCOME FOR THE YEAR RECOGNISED IN THE STATEMENT OF INCOME	**129,855,518**	**112,602,416**
GAINS (LOSSES) NOT RECOGNISED IN THE STATEMENT OF INCOME	**25,271,562**	**(15,404,808)**
Items that will not be reclassified to profit or loss	**1,573,709**	**4,301,670**
Actuarial gains (losses) on defined benefit pension plans - Gross	2,335,265	5,813,854
Actuarial gains (losses) on defined benefit pension plans - Tax	(761,556)	(1,512,184)
Items that may be reclassified to profit or loss	**23,697,853**	**(19,706,478)**
Gains (losses) on net investment hedge	(35,352)	271,746
Translation adjustments	7,189,961	12,613,055
Gains (losses) on cash flow hedge	(5,515,095)	5,120,279
Unrealised gains (losses) on available for sale financial investments	19,613,271	(48,560,421)
Tax on items that may be reclassified to profit or loss	2,445,068	10,848,863
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**155,127,080**	**97,197,608**

The notes are an integral part of these financial statements.

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 01/01/16	**141,224,090**	**708,297,160**	**(1,455,000)**	**182,173,846**	**83,637,156**	**1,113,877,252**
Dividend paid				(69,986,624)		(69,986,624)
Redemption for the year or liquidation	(11,760)	(80,220)				(91,980)
Classification of income 2015				83,637,156	(83,637,156)	0
Interest on contingent convertible bond				(7,033,763)		(7,033,763)
Dividend received on own shares				33,648		33,648
Changes in scope of consolidation				(8,461,202)		(8,461,202)
Net income for the year					129,855,518	129,855,518
As at 31/12/16	**141,212,330**	**708,216,940**	**(1,455,000)**	**180,363,061**	**129,855,518**	**1,158,192,849**

GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Other reserves	Translation adjustments[2]	Gains and losses not recognised in the statement of income
As at 01/01/16	**122,109,956**	**(3,643,941)**	**(3,399,062)**	**(61,560,742)**	**53,506,211**
Net change in fair value through equity - Available for sale investments	51,098,509				51,098,509
Net change in fair value through equity - Cash flow hedges		(4,387,006)			(4,387,006)
Net change in other reserves			1,573,710		1,573,710
Translation adjustments	17			(1,284,765)	(1,284,748)
Changes in scope of consolidation	(0)			8,474,726	8,474,726
Cancellation of fair value following AFS disposals	(30,203,629)				(30,203,629)
Cash flow hedge - Break in hedging					
As at 31/12/16	**143,004,853**	**(8,030,947)**	**(1,825,352)**	**(54,370,781)**	**78,777,773**

The notes are an integral part of these 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, 2016, translation adjustments comprise an amount of EUR -54,637,249 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

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 01/01/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**180,363,061**	**129,855,518**	**1,158,192,849**
Dividend paid				(60,015,240)		(60,015,240)
Redemption for the year or liquidation						
Classification of income 2016				129,855,518	(129,855,518)	0
Interest on contingent convertible bond				(7,140,094)		(7,140,094)
Dividend received on own shares				28,858		28,858
Changes in scope of consolidation						0
Net income for the year					112,602,416	112,602,416
As at 31/12/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**243,092,103**	**112,602,416**	**1,203,668,789**

GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Other reserves	Translation adjustments [2]	Gains and losses not recognised in the statement of income
AS AT 01/01/17	**143,004,853**	**(8,030,947)**	**(1,825,352)**	**(54,370,781)**	**78,777,773**
Net change in fair value through equity - Available for sale investments	(3,042,847)				(3,042,847)
Net change in fair value through equity - Cash flow hedges		1,168,211			1,168,211
Translation adjustments	(8)			12,613,058	12,613,050
Cancellation of fair value following AFS disposals	(33,266,237)				(33,266,237)
Cash flow hedge + Break in hedging		2,821,346			2,821,346
Net change in other reserves			4,301,670		4,301,669
Changes in scope of consolidation					0
As at 31/12/17	**106,695,761**	**(4,041,390)**	**2,476,318**	**(41,757,723)**	**63,372,965**

The notes are an integral part of these financial statements.

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 14,9 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.

[2] As at December 31, 2017, translation adjustments comprise an amount of EUR -41,914,723 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

Cash flow statement

(in EUR)	Notes	31/12/16	31/12/17
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		129,855,518	112,602,416
Adjustment for:			
- Depreciation and amortisation	7.8 / 7.9	23,989,684	29,900,971
- Impairment on bonds, equities and other assets	11.4 / 11.11	2,394,646	(11,745,983)
- Net gains/(losses) on investments		(1,129,210)	789,573
- Provisions (including collective impairment)	7.11 / 8.6 / 8.8 / 11.11	(4,650,514)	11,569,977
- Change in unrealised gains/(losses)	11.3	378,423	3,750,663
- Deferred taxes	11.13	44,865,453	16,788,746
Changes in operating assets and liabilities		499,937,527	715,424,464
NET CASH FLOW FROM OPERATING ACTIVITIES		**695,641,527**	**879,080,827**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	7.8 / 7.9	(56,150,012)	(77,787,198)
Sale of fixed assets	7.8 / 7.9	(243,888)	1,829,176
Purchase of non-consolidated shares		(603,773)	0
Sales of non-consolidated shares		195,772	43,204
Capital increase on subsidiaries		(250,000)	0
Capital decrease on subsidiaries		12,756,845	0
Liquidation of subsidiaries		0	8,710
NET CASH FLOW FROM INVESTING ACTIVITIES		**(44,295,056)**	**(75,906,108)**
CASH FLOW FROM FINANCING ACTIVITIES			
Reimbursement of capital		(91,980)	0
Issuance of subordinated debts		140,929,757	0
Reimbursement of subordinated debts		(291,773,451)	0
Dividends paid		(69,986,624)	(60,015,240)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(220,922,298)**	**(60,015,240)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**430,424,173**	**743,159,479**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,608,342,676**	**2,038,918,316**
Net cash flow from operating activities		695,641,527	879,080,827
Net cash flow from investing activities		(44,295,056)	(75,906,108)
Net cash flow from financing activities		(220,922,298)	(60,015,240)
Effect of change in exchange rate on cash and cash equivalents		151,467	(19,416)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**7.1**	**2,038,918,316**	**2,782,058,379**
ADDITIONAL INFORMATION			
Taxes paid		141,790	(211,248)
Dividends received	11.2	24,118,528	12,871,630
Interest received		478,118,674	500,400,589
Interest paid		(179,381,656)	(201,834,711)

The Bank 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.

Changes in liabilities arising from financing activities (in EUR)	As at 01/01/16	Acquisition - Reimbursement	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	As at 31/12/16
Subordinated debts	**446,792,502**	(150,843,694)		(1,319,047)		**294,629,761**
Non-Subordinated debts	**0**					**0**
Subscribed capital	**141,224,090**	(11,760)				**141,212,330**
Additional paid-in capital	**708,297,160**	(80,220)				**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

Changes in liabilities arising from financing activities (in EUR)	As at 01/01/17	Acquisition - Reimbursement	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	As at 31/12/17
Subordinated debts	**294,629,761**			(11,282,536)		**283,347,225**
Non-Subordinated debts	**0**					**0**
Subscribed capital	**141,212,330**					**141,212,330**
Additional paid-in capital	**708,216,940**					**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

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

Notes to the financial statements of the parent company

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

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, 2017, 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 PO Box 2192 CH-8002 Zürich	100
Belair House SA	2, boulevard Grande-Duchesse Charlotte L-1330 Luxembourg	100
BIL Asia Singapore Ltd	9 Raffles Place #29-01 Republic Plaza Singapore 048619	100
BIL Manage Invest SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
BIL Reinsurance SA	69, route d'Esch L-2953 Luxembourg	100
BIL Trust Ltd	PO Box 665 Roseneath/The Grange St Peter Port GY1 3SJ, Guernsey	100
CD-PME, Société Luxembourgeoise de Capital-Développement pour les PME SA	7, rue du Saint-Esprit L-1475 Luxembourg	10
Compagnie Financière BIL SA & Cie S.e.c.s.	69, route d'Esch L-2953 Luxembourg	99.99
Europay Luxembourg S.C	10, rue Gabriel Lippmann L-5365 Munsbach	35.20
Experta Corporate and Fund Services SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
FS-B Sàrl	29, boulevard Prince Henri L-1724 Luxembourg	17.66
FS-T Sàrl	29, boulevard Prince Henri L-1724 Luxembourg	17.66

Name	Head office	% of capital held
I.B. Finance SA	69, route d'Esch L-2953 Luxembourg	100
Red Sky SA	69, route d'Esch L-2953 Luxembourg	100
Luxair, Société Luxembourgeoise de Navigation Aérienne SA	Aéroport de Luxembourg L-2987 Luxembourg	13.14
Private II Wealth Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Selskabet af 18 December 2013 A/S	Gronningen 17 DK-1270 Copenhagen	100
Société de la Bourse de Luxembourg SA	35A, boulevard Joseph II L-1840 Luxembourg	21.41
Société du 25 juillet 2013 SA	Building Regus 54-56 avenue Hoche F-75008 Paris	100
Société Luxembourgeoise de Leasing - BIL-LEASE SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Visalux S.C.	10, rue Gabriel Lippmann 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)	31/12/16		
	Income	*of which net interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	419,800	*259,849*	139,106
Treasury and Financial Markets	86,675	*27,959*	49,924
Group Center	3,623	*25,694*	(14,276)
TOTAL	**510,098**	***313,502***	**174,754**
Net income before tax			174,754
Tax expenses			(44,898)
NET INCOME			**129,856**

	31/12/17		
	Income	*of which net interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	456,105	*283,991*	159,053
Treasury and Financial Markets	81,801	*23,070*	43,758
Group Center	(37,539)	*495*	(73,327)
TOTAL	**500,367**	***307,556***	**129,484**
Net income before tax			129,484
Tax expenses			(16,882)
NET INCOME			**112,602**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/16		31/12/17	
	Assets	Liabilities	Assets	Liabilities
Retail, Corporate and Wealth Management	12,032,824	16,722,135	13,282,679	17,129,028
Treasury and Financial Markets	9,862,444	3,917,663	9,388,535	4,342,198
Group Center	684,568	703,067	729,890	662,836
TOTAL	**22,579,836**	**21,342,865**	**23,401,104**	**22,134,062**

OTHER SEGMENT INFORMATION (in EUR thousands)	31/12/16				
	Capital expenditures[1]	Depreciation and amortisation	Impairments[2]		Other non-cash expenses[3]
			Allowances	Write-backs	
Retail, Corporate and Wealth Management		(21,137)	(34,013)	19,726	0
Treasury and Financial Markets	56,150	(2,466)	(71)	108	0
Group Center		(387)	(6,015)	3,842	(15,559)
TOTAL	**56,150**	**(23,990)**	**(40,099)**	**23,676**	**(15,559)**

	31/12/17				
	Capital expenditures[1]	Depreciation and amortisation	Impairments[2]		Other non-cash expenses[3]
			Allowances	Write-backs	
Retail, Corporate and Wealth Management		(23,099)	(64,232)	44,284	0
Treasury and Financial Markets	77,787	(3,840)	(107)	1,011	0
Group Center		(2,962)	(5,106)	5,717	(18,399)
TOTAL	**77,787**	**(29,901)**	**(69,445)**	**51,012**	**(18,399)**

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.

GEOGRAPHIC BREAKDOWN (in EUR thousands)	Denmark	Luxembourg	Singapore	United Arab Emirates	Total
Staff (in average FTE)	35	1,770	0	10	1,815
Income	8,828	498,951	16	2,303	510,098
Net income before tax	942	175,683	16	(1,887)	174,754
Tax expenses	(33)	(44,865)	0	0	(44,898)
NET INCOME AS AT 31/12/16	**909**	**130,818**	**16**	**(1,887)**	**129,856**
Staff (in average FTE)	45	1,746	0	12	1,803
Income	9,877	486,919	0	3,571	500,367
Net income before tax	208	129,378	0	(102)	129,484
Tax expenses	98	(16,979)	0	0	(16,881)
NET INCOME AS AT 31/12/17	**305**	**112,399**	**0**	**(102)**	**112,602**

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] Capital expenditures including the acquisitions for the year in terms of tangible and intangible assets for which the allocation by business line is not available.
[2] 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.
[3] 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

For the period ending December 31, 2017, the material items in the statement of income are the following:

- The total income of EUR 500 million at the end of December 2017 decreased by EUR 10 million in comparison to December 31, 2016. This decrease was mainly due to an overall decrease in both net trading and dividend income, partly compensated by a fees income increase related to the 4.5 % growth in Assets under Management.
- The expenses totalled EUR 352 million as at December 31, 2017, showing an increase of 10 % compared with December 31, 2016. This increase is mainly due to staff costs which increased following the salary indexation applied in January 2017, the continued implementation costs related to the Bank's IT strategy since 2016, and the non-recurring items mainly due to the signing of an agreement between Legend Holdings and Precision Capital on September 1, 2017 and additional expenses attributable to restructuring costs in Luxembourg.
- The specific value adjustments on loans reached EUR 22.0 million as at December 31, 2017 (up from EUR 13.8 million compared to December 31, 2016) in accordance with the Bank's provisioning policy and the Bank posted a net reversal of EUR 2.5 million of collective impairments on its loan books compared to a net allowance of EUR 2.6 million as of December 31, 2016.

Note 5: Post-balance sheet events

Since the closure of the financial year, no event that might affect the financial or commercial situation of the group has occurred.
On September 1, 2017, the Bank announced the signing of an agreement between Precision Capital S.A. and Legend Holdings Corp. for the acquisition of 89.936% of Banque Internationale à Luxembourg.
On January 16, 2018, Legend Holdings' shareholders approved the proposed transaction.
The Bank is still waiting for the regulatory approval of the sale, that will open the way to the closing of the transaction.

Note 6: Litigation

Following the bankruptcy of Bernard Madoff's investment vehicle, Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and the liquidators of certain feeder funds, ultimately invested in BLMIS 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 72 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

With regard to the proceedings initiated by the liquidators of certain feeder funds, a motion to dismiss is being briefed on a consolidated basis with other defendants before the courts of New York City. Oral arguments have been held and defendants are now waiting for a ruling. These feeder funds also have initiated proceedings in their country of incorporation for which the claims have been rejected by the Courts of first degree and the Court of Appeal. The Privy Counsel in London confirmed furthermore the previous decisions.

The claims initiated by the liquidator of BLMIS have been dismissed and are now being appealed to the Court of Appeal on a consolidated basis with other defendants.

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

As at December 31, 2017, no material provision for clawback actions has been made. Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

Finally, in addition to the above, the allowance for provisions in 2017 stemmed from the recognition of provisions for risks related to a litigation in a tax matter.

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	31/12/16	31/12/17
Cash and balances with central banks	1,694,649,643	2,375,665,481
Loans and advances to credit institutions	328,411,736	385,709,736
Financial assets available for sale	15,856,937	20,683,162
TOTAL	**2,038,918,316**	**2,782,058,379**

B. OF WHICH RESTRICTED CASH	31/12/16	31/12/17
Mandatory reserves[1]	1,358,859,866	757,652,471
TOTAL RESTRICTED CASH	**1,358,859,866**	**757,652,471**

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 over the 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	31/12/16	31/12/17
Cash in hand	41,141,105	45,950,852
Balances with central banks other than mandatory reserve deposits	294,042,553	1,570,062,158
Mandatory reserve deposits	1,358,736,338	757,649,963
TOTAL	**1,693,919,996**	**2,373,662,973**
of which included in cash and cash equivalents	*1,694,649,643*	*2,375,665,481*

7.3 Loans and advances to credit institutions

A. ANALYSIS BY NATURE	31/12/16	31/12/17
Nostro accounts	84,523,730	168,655,166
Cash collateral	170,505,396	242,537,790
Loans and other advances	854,370,456	528,525,735
TOTAL	**1,109,399,582**	**939,718,691**
of which included in cash and cash equivalents	*328,411,736*	*385,709,736*

[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	31/12/16	31/12/17
Public sector	164,564,154	445,172,758
Other (primarily fixed advances and property loans)	11,828,102,027	12,781,518,763
Impaired loans	345,215,740	325,904,000
Less:		
Specific impairment of impaired loans and debt instruments	(274,740,690)	(242,051,248)
Collective impairment	(30,317,346)	(27,865,454)
TOTAL	**12,032,823,885**	**13,282,678,819**

B. ANALYSIS BY NATURE	31/12/16	31/12/17
On demand and short notice	1,806,378,127	1,744,116,237
Debt instruments	90,744,316	215,535,053
Other term loans	10,135,701,442	11,323,027,529
of which mortgage loans (real estate collateralized loans)	*7,633,138,871*	*8,143,982,427*
TOTAL	**12,032,823,885**	**13,282,678,819**

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	31/12/16	31/12/17
Public sector	18,440,380	17,211,201
Credit institutions	42,248,643	35,859,618
Other	19,112,710	17,455,558
TOTAL	**79,801,733**	**70,526,377**

B. ANALYSIS BY NATURE	31/12/16	31/12/17
Bonds issued by public bodies	18,440,380	17,211,201
Other bonds and fixed-income instruments	61,204,811	53,265,460
Equities and other variable-income instruments	156,542	49,716
TOTAL	**79,801,733**	**70,526,377**

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, 2016 and 2017 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	31/12/16	31/12/17
Public sector	3,985,559,921	3,985,158,485
Credit institutions	1,753,769,600	1,121,002,204
Other	1,189,969,434	869,812,626
Impaired financial investments	49,408,841	47,264,339
TOTAL BEFORE IMPAIRMENT	**6,978,707,796**	**6,023,237,654**
Specific and collective impairment on financial investments	(37,815,783)	(35,826,998)
TOTAL	**6,940,892,013**	**5,987,410,656**
of which included in cash and cash equivalents	*15,856,937*	*20,683,162*

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	
	31/12/16	31/12/17	31/12/16	31/12/17
Bonds issued by public bodies	3,615,954,746	2,460,547,727	369,605,175	1,524,610,758
Other bonds and fixed-income instruments	2,573,355,393	1,561,177,300	166,408,213	228,661,151
Equities and other variable-income instruments[1 2]	253,384,269	248,240,718	n.a.	n.a.
TOTAL BEFORE IMPAIRMENT	**6,442,694,408**	**4,269,965,745**	**536,013,388**	**1,753,271,909**
Specific and collective impairment on financial investments	(37,815,783)	(35,826,998)	0	0
TOTAL	**6,404,878,625**	**4,234,138,747**	**536,013,388**	**1,753,271,909**

7.7 Investments in participating interests

	31/12/16	31/12/17
Net carrying value	206,849,122	203,669,648

A. ANALYSIS BY COUNTERPART (NET CARRYING VALUE)	31/12/16	31/12/17
Banks	96,282,175	96,282,175
Other	110,566,947	107,387,473
TOTAL	**206,849,122**	**203,669,648**

B. ANALYSIS BY NATURE (NET CARRYING VALUE)	31/12/16	31/12/17
Unlisted equities and other variable-income instruments	206,849,122	203,669,648
TOTAL	**206,849,122**	**203,669,648**

[1] The amount of variable-income securities recorded at cost amounted to EUR 2,1 million as at December 31,2017 (EUR 2,0 million as at December 31,2016).
[2] Include investments in participating interests as described in Note 7.7.

7.8 Tangible fixed assets

A. NET CARRYING VALUE	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Investment property	Total
ACQUISITION COST AS AT 01/01/16	**306,514,286**	**123,550,549**	**88,828**	**430,153,663**
- Acquisitions	10,234,733	3,334,607	45	13,569,385
- Disposals	(1,477,535)	(293,454)	0	(1,770,989)
- Changes in the scope of consolidation	(458,039)	(56,091)	0	(514,130)
- Transfers and cancellations	(1,055,858)	(790,779)	0	(1,846,637)
- Translation adjustments	9,091	15,690	0	24,781
ACQUISITION COST AS AT 31/12/16 (A)	**313,766,678**	**125,760,522**	**88,873**	**439,616,073**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/16	**(217,006,318)**	**(110,013,578)**	**(59,855)**	**(327,079,751)**
- Booked	(7,486,222)	(2,882,508)	0	(10,368,730)
- Write-off	1,018,346	299,711	0	1,318,057
- Changes in the scope of consolidation	458,039	56,091	0	514,130
- Transfers and cancellations	993,249	776,462	0	1,769,711
- Translation adjustments	(10,697)	(13,002)	0	(23,699)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/16 (B)	**(222,033,603)**	**(111,776,824)**	**(59,855)**	**(333,870,282)**
NET CARRYING VALUE AS AT 31/12/16 (A) + (B)	**91,733,075**	**13,983,698**	**29,018**	**105,745,791**

	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Investment property	Total
ACQUISITION COST AS AT 01/01/17	**313,766,678**	**125,760,522**	**88,873**	**439,616,073**
- Acquisitions	11,991,834	3,556,445	0	15,548,279
- Disposals	(1,463,102)	(136,746)	0	(1,599,848)
- Changes in the scope of consolidation	0	0	0	0
- Transfers and cancellations	(1,896,608)	(1,451,695)	(45)	(3,348,348)
- Translation adjustments	(36,163)	(18,965)	0	(55,128)
ACQUISITION COST AS AT 31/12/17 (A)	**322,362,639**	**127,709,561**	**88,828**	**450,161,028**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	**(222,033,603)**	**(111,776,824)**	**(59,855)**	**(333,870,282)**
- Booked	(7,016,418)	(3,133,580)	0	(10,149,998)
- Write-off	0	0	0	0
- Changes in the scope of consolidation	0	0	0	0
- Transfers and cancellations	2,654,332	1,584,944	0	4,239,276
- Translation adjustments	36,164	9,622	0	45,786
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(226,359,525)**	**(113,315,838)**	**(59,855)**	**(339,735,218)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**96,003,114**	**14,393,723**	**28,973**	**110,425,810**

7.9 Intangible fixed assets

	Internally-developed software	Other intangible fixed assets[1]	Total
ACQUISITION COST AS AT 01/01/16	**133,741,328**	**18,264,430**	**152,005,758**
- Acquisitions	18,922,495	23,658,132	42,580,627
- Disposals	0	0	0
- Change in the scope of consolidation	(2,498,726)	(36,888)	(2,535,614)
- Transfers	(1,520,784)	(3,288,714)	(4,809,498)
- Translation adjustments	0	6,180	6,180
ACQUISITION COST AS AT 31/12/16 (A)	**148,644,313**	**38,603,140**	**187,247,453**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/16	**(100,115,945)**	**(12,074,345)**	**(112,190,290)**
- Booked	(11,896,084)	(1,724,870)	(13,620,954)
- Change in the scope of consolidation	2,498,726	36,888	2,535,614
- Transfers	57,261	3,701	60,962
- Translation adjustments	0	(5,483)	(5,483)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/16 (B)	**(109,456,042)**	**(13,764,109)**	**(123,220,151)**
NET CARRYING VALUE AS AT 31/12/16 (A) + (B)	**39,188,271**	**24,839,031**	**64,027,302**

	Internally-developed software	Other intangible fixed assets[1]	Total
ACQUISITION COST AS AT 01/01/17	**148,644,313**	**38,603,140**	**187,247,453**
- Acquisitions	29,075,891	33,163,028	62,238,919
- Disposals	0	0	0
- Change in the scope of consolidation	0	0	0
- Transfers	0	80,735	80,735
- Translation adjustments	0	(3,088)	(3,088)
ACQUISITION COST AS AT 31/12/17 (A)	**177,720,204**	**71,843,815**	**249,564,019**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	**(109,456,042)**	**(13,764,109)**	**(123,220,151)**
- Booked	(13,215,601)	(6,535,374)	(19,750,975)
- Change in the scope of consolidation	0	0	0
- Transfers	0	0	0
- Translation adjustments	0	2,837	2,837
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(122,671,643)**	**(20,296,646)**	**(142,968,289)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**55,048,561**	**51,547,169**	**106,595,730**

7.10 Tax assets

	31/12/16	31/12/17
Taxes / Current	2,006	87,604
Deferred tax assets (see Note 9.2)	235,080,816	230,425,933
TOTAL	**235,082,822**	**230,513,537**

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

7.11 Other assets

	31/12/16	31/12/17
Other assets*	64,143,271	69,941,418
TOTAL	64,143,271	69,941,418

* ANALYSIS BY NATURE	31/12/16	31/12/17
Receivables - accrued income	3,324,507	4,338,402
Prepaid fees	645,289	388,133
Other receivables	43,744,626	39,541,552
Pension plan assets	4,130,000	6,464,000
Operating taxes	3,568,154	4,191,304
Other assets[1]	8,730,695	15,018,027
TOTAL	64,143,271	69,941,418

7.12 Leasing

1. BIL as lessor

OPERATING LEASE

Since the contribution in kind of Esch-Belval property to Red Sky SA in 2015, BIL does no longer act as an operating lessor.

2. BIL as lessee

A. FINANCIAL LEASE

The Bank is not involved in any financial lease as at December 31, 2016 and as at December 31, 2017.

B. OPERATING LEASE

Future net minimum lease payments under non-cancellable operating lease:	31/12/16	31/12/17
Less than 1 year	4,760,924	4,844,738
More than 1 year and less than 5 years	15,684,756	15,895,515
More than 5 years	11,164,336	9,087,916
TOTAL	31,610,016	29,828,169

Lease and sublease payments recognised as an expense during the financial year: - minimum lease payments	4,250,324	4,397,330
TOTAL	4,250,324	4,397,330

[1] Transactions linked to current business awaiting settlement.

7.13 Quality of financial assets

Analysis of normal loans and securities	Gross amount (A)	
	31/12/16	31/12/17
Normal loans and advances to credit institutions	1,109,399,582	939,718,691
Normal loans to customers	11,992,666,181	13,226,691,521
Normal financial investments held to maturity	536,013,388	1,753,271,909
Normal financial investments available for sale	6,393,285,567	4,222,701,405
of which bonds and fixed-income instruments	*6,189,310,139*	*4,021,725,027*
of which equities and other variable-income instruments	*203,975,428*	*200,976,378*
Collective impairment on normal loans[1]	(30,317,346)	(27,865,454)
TOTAL	**20,001,047,372**	**20,114,518,072**

Analysis of impaired loans and securities	Gross amount (B)		Specific loan loss allowance (C)		Net amount (B+C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Impaired loans and advances to customers	345,215,740	325,904,000	(274,740,690)	(242,051,248)	70,475,050	83,852,752
Impaired financial assets available for sale	49,408,841	47,264,340	(37,815,783)	(35,826,998)	11,593,058	11,437,342
of which equities and other variable-income instruments	*49,408,841*	*47,264,340*	*(37,815,783)*	*(35,826,998)*	*11,593,058*	*11,437,342*
TOTAL	**394,624,581**	**373,168,340**	**(312,556,473)**	**(277,878,246)**	**82,068,108**	**95,290,094**

Analysis of normal and impaired loans and securities	Gross amount (A+B)		Specific loan loss allowance (C)		Net amount (A+B+C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Loans and advances to credit institutions	1,109,399,582	939,718,691	0	0	1,109,399,582	939,718,691
Loans and advances to customers	12,337,881,921	13,552,595,521	(274,740,690)	(242,051,248)	12,063,141,231	13,310,544,273
Financial investments held to maturity	536,013,388	1,753,271,909	0	0	536,013,388	1,753,271,909
Financial investments available for sale	6,442,694,408	4,269,965,745	(37,815,783)	(35,826,998)	6,404,878,625	4,234,138,747
of which bonds and fixed-income instruments	*6,189,310,139*	*4,021,725,027*	*0*	*0*	*6,189,310,139*	*4,021,725,027*
of which equities and other variable-income instruments	*253,384,269*	*248,240,718*	*(37,815,783)*	*(35,826,998)*	*215,568,486*	*212,413,720*
Collective impairment on normal loans[1]	(30,317,346)	(27,865,454)	n.a.	n.a.	(30,317,346)	(27,865,454)
TOTAL	**20,395,671,953**	**20,487,686,412**	**(312,556,473)**	**(277,878,246)**	**20,083,115,480**	**20,209,808,166**

[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	31/12/16	31/12/17
On demand	524,050,263	721,008,660
Term	572,118,355	472,361,048
Cash collateral	61,013,532	73,751,595
Repurchase agreements	0	271,873,179
Central banks[1]	555,158,986	727,963,848
Other borrowings[2]	818,414,246	788,086,813
TOTAL	**2,530,755,382**	**3,055,045,143**

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	31/12/16	31/12/17
Demand deposits	9,421,860,039	9,556,057,349
Savings deposits	3,642,602,252	3,449,056,824
Term deposits	2,256,400,232	2,756,572,910
Cash collateral	14,311,012	1,106,701
TOTAL	**15,335,173,535**	**15,762,793,784**

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 to the last tranche of the TLTRO II for EUR 150 million in March 2017 (TLTRO transactions amount to EUR 700 million in 2017 and EUR 550 million in 2016).

[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	31/12/16	31/12/17
Other bonds	2,013,272	0
TOTAL	**2,013,272**	**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	31/12/16	31/12/17
Non-subordinated liabilities	877,913,027	776,333,210
TOTAL	**877,913,027**	**776,333,210**

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	31/12/16	31/12/17
Certificates of deposit	156,500,962	38,508,748
Non-convertible bonds	1,373,387,335	1,541,542,831
TOTAL	**1,529,888,297**	**1,580,051,579**

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 debts

A. ANALYSIS BY NATURE	31/12/16	31/12/17
Non-convertible subordinated debts[1]	144,346,452	132,256,388
Contingent convertible bond (compound instrument)[2]	149,589,916	149,607,748
TOTAL	**293,936,368**	**281,864,136**

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	31/12/16	31/12/17
Litigation[3]	2,592,121	16,889,020
Restructuring (including garden leave)	6,994,000	7,882,348
Defined benefit plans	13,073,000	8,387,000
Other long-term employee benefits (including jubilee and time saving account)	16,606,764	16,920,095
Provision for off-balance sheet credit commitments	24,200	16,800
TOTAL	**39,290,085**	**50,095,263**

B. ANALYSIS BY MOVEMENT	Litigation	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Other provisions
AS AT 01/01/16	**4,357,104**	**10,933,522**	**33,061,413**	**24,200**	**163,889**
Exchange differences	300	21,637			1,741
Additional provisions	1,031,600	4,765,054	3,493,078		
Unused amounts reversed	(1,157,595)		(3,267,171)		
Used during the year	(1,639,288)	(8,084,813)	(3,607,556)		(125,750)
Changes in the scope of consolidation		(641,400)			(39,880)
Revaluation through reserves[4]	n.a.	n.a.		n.a.	n.a.
AS AT 31/12/16	**2,592,121**	**6,994,000**	**29,679,764**	**24,200**	**0**
AS AT 01/01/17	**2,592,121**	**6,994,000**	**29,679,764**	**24,200**	**0**
Exchange differences	244				
Additional provisions	15,375,000	7,496,215	2,415,589		
Unused amounts reversed	(507,247)	0	(1,838,710)	(7,400)	
Used during the year	(834,684)	(6,607,867)	(1,428,394)		
Changes in the scope of consolidation					
Transfers	263,586				
Revaluation through reserves[4]	n.a.	n.a.	(3,521,154)	n.a.	n.a.
AS AT 31/12/17	**16,889,020**	**7,882,348**	**25,307,095**	**16,800**	**0**

[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 litigation, including those for staff and tax-related litigation.
[4] See point 1.22 of Note 1 to the Consolidated financial statements.

C. ANALYSIS BY MATURITY

see Note 12.6

D. 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	31/12/16	31/12/17
Defined benefit obligations at the beginning of the year	235,738,000	235,671,000
Current service cost	9,572,044	9,394,004
Interest cost	3,349,709	2,234,415
Past service cost and gains and losses arising from settlements	140,000	253,000
Actuarial gains / (losses)	2,742,283	(2,079,249)
Stemming from changes in demographic assumptions	*0*	*274,000*
Stemming from changes in financial assumptions	*3,321,000*	*(848,000)*
Stemming from experience adjustments	*(578,560)*	*(1,505,249)*
Benefits paid	(14,240,000)	(13,789,000)
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	0	0
Other	(1,631,036)	(1,699,170)
DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR	**235,671,000**	**229,985,000**

b. Reconciliation of fair value of pension plan assets	31/12/16	31/12/17
Fair value of pension plan assets at the beginning of the year	223,779,000	226,728,000
Actual return on pension plan assets	8,338,000	5,932,000
Expected return on pension plan assets	*3,260,453*	*2,197,395*
Actuarial gains / (losses)	*5,077,548*	*3,734,605*
Employer contributions	10,482,036	10,890,170
Benefits paid	(14,240,000)	(13,789,000)
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	0	0
Other	(1,631,036)	(1,699,170)
FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR	**226,728,000**	**228,062,000**

c. Reconciliation of the effect of the asset ceiling	31/12/16	31/12/17
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
EFFECT OF THE ASSET CEILING AT THE END OF THE YEAR	**0**	**0**

NET LIABILITY	**(8,943,000)**	**(1,923,000)**

d. Funded status	31/12/16	31/12/17
Pension plan assets in excess of benefit obligation	(4,130,000)	(6,464,000)
Unrecognised assets	0	0

e. Movement in net defined benefit pension liability or asset	31/12/16	31/12/17
Net liability at the beginning of the year	(11,959,000)	(8,943,000)
Net periodic pension cost recognised in the income statement	(9,801,301)	(9,684,024)
Remeasurements recognised in OCI	2,335,265	5,813,854
Employer contributions	10,482,036	10,890,170
NET LIABILITY AT THE END OF THE YEAR	**(8,943,000)**	**(1,923,000)**

f. Movement in the IAS 19 remeasurement reserve in equity	31/12/16	31/12/17
Recognised reserve at the beginning of the year	(4,802,293)	(2,467,028)
Remeasurements recognised in OCI	2,335,265	5,813,854
Transfers	0	0
RECOGNISED RESERVE AT THE END OF THE YEAR	**(2,467,028)**	**3,346,826**

g. Amounts recognised in the income statement	31/12/16	31/12/17
Current service cost	9,572,044	9,394,004
Net interest on the defined benefit liability/asset	89,256	37,020
Past service cost	140,000	253,000
ACTUARIALLY DETERMINED NET PERIODIC PENSION COST	**9,801,301**	**9,684,024**

h. Amounts recognised in other comprehensive income	31/12/16	31/12/17
Actuarial gains/losses on the defined benefit obligation	2,742,283	(2,079,249)
Actual return on plan assets (excluding amounts included in interest income)	(5,077,548)	(3,734,605)
Change in the effect of the asset ceiling	0	0
TOTAL OTHER COMPREHENSIVE INCOME	**(2,335,265)**	**(5,813,854)**

Actual return on pension plan assets (%)	31/12/16	31/12/17
	3.70%	2.61%

Breakdown of pension plan assets	31/12/16	31/12/17
Fixed-income		
Quoted market price on an active market	76.74%	73.69%
Unquoted	0.00%	0.00%
Equities		
Quoted market price on an active market	18.40%	21.30%
Unquoted	0.00%	0.00%
Alternatives		
Quoted market price on an active market	1.38%	2.41%
Unquoted	0.00%	0.00%
Cash	2.19%	1.29%
Real estate	0.00%	0.00%
Other	1.29%	1.31%
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 %	7.46%
	Scenario DR + 1 %	(6.49%)

Expected rate of salary increase (including inflation)

DBO sensitivity to changes in expected rate of salary increase		
	Scenario SR - 1 %	(1.77%)
	Scenario SR + 1 %	3.69%

The Duration of the pension plans DBO as of December 31, 2017 is 6.99.

Expected contributions for next year	10,890,170

Additional descriptions

A. Description of the plan - Events in the financial year - Focus on risk exposures
In Luxembourg, a new pension plan has been set up in 2017, for people hired as from June 1, 2017.
This new plan is not reported under the current note as it is a defined contribution plan (step rate contribution).
Other pension plans are thus closed plans with membership depending on the hiring date.
These closed plans are two hybrid defined benefit (DB) / defined contribution (DC) pension plans and one DC with guaranteed return pension plan.

For retirees, pension plan is a DB plan (closed) for which no specific event occurred in Luxemburg during the year 2017.
For all closed plans, the 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:

	31/12/16	31/12/17
Discount rate	1.00%	1.00%
Salary increase	0.50% - 3.75%	0.50% - 5.50%
Inflation	1.80%	1.80%

C. Description of ALM strategies
In Luxembourg, pension fund 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 Luxembourg, closed pension plans are funded through pension fund arrangements.
In the pension plans for "active people" hired before June 1, 2017, employer contributions are calculated according to an Aggregate Cost method.
In the pension plans for "retirees", pensions are fully funded.
For these 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.

For employees hired since June 1, 2017, the new plan is funded through a group insurance. It is reported under defined contributions expenses.

8.7 Tax liabilities

ANALYSIS BY NATURE	31/12/16	31/12/17
Current tax liabilities	174,946	141,790
TOTAL	174,946	141,790

8.8 Other liabilities

ANALYSIS BY NATURE	31/12/16	31/12/17
Accrued costs	1,668,116	2,587,180
Deferred income	14,017,651	12,181,803
Other payables[1]	175,424,004	130,236,151
Other granted amounts received	894,648	810,716
Salaries and social security costs (payable)	27,175,582	29,855,451
Other operating taxes	26,197,712	27,716,988
Other liabilities	7,047,461	5,394,600
TOTAL	252,425,174	208,782,889

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

9.1 Derivatives

A. ANALYSIS BY NATURE	31/12/16		31/12/17	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	168,715,430	144,047,359	156,029,934	198,798,157
Derivatives designated as fair value hedge	14,418,034	259,035,167	22,949,787	166,115,533
Derivatives designated as cash flow hedge	13,790,202	22,773,332	10,475,494	15,604,699
Derivatives of portfolio hedge	50,552,327	6,756,256	36,998,864	3,304,558
TOTAL	247,475,993	432,612,114	226,454,079	383,822,947

[1] As at December 31, 2016 and 2017, 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, and also comprise a provision of 9.1 million in relation to the unavoidable costs of the onerous contract signed by BIL Group with a third party.

B. DETAIL OF DERIVATIVES HELD FOR TRADING

	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**8,423,449,594**	**8,403,043,748**	**136,026,045**	**113,915,607**
FX forward	7,695,353,257	7,674,446,054	119,133,789	101,115,389
Cross currency swap	81,084,700	80,411,539	10,341,555	6,471,808
FX options	647,011,637	648,186,155	6,550,701	6,328,410
Interest rate derivatives	**1,215,594,155**	**1,224,561,933**	**12,277,915**	**10,845,992**
Options-Caps-Floors-Collars-Swaptions	151,083,246	151,083,246	2,151,566	2,252,931
IRS	670,491,865	670,491,865	10,126,349	8,593,061
Interest futures	394,019,044	402,986,822	0	0
Equity derivatives	**547,933,075**	**515,034,805**	**20,411,470**	**19,285,760**
Equity futures	2,734,990	4,216,872	0	0
Equity options	380,392,236	348,445,886	8,814,810	15,842,865
Other equity derivatives	164,805,849	162,372,047	11,596,660	3,442,895
TOTAL	**10,186,976,824**	**10,142,640,486**	**168,715,430**	**144,047,359**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**15,288,852,694**	**15,296,926,404**	**124,302,836**	**146,955,868**
FX forward	14,926,313,476	14,933,519,374	111,958,986	123,768,584
Cross currency swap	37,550,423	38,506,526	1,152,249	11,645,242
FX options	324,988,795	324,900,504	11,191,601	11,542,042
Interest rate derivatives	**729,675,315**	**756,227,191**	**9,505,012**	**9,480,447**
Options-Caps-Floors-Collars-Swaptions	171,780,915	171,780,915	2,636,045	2,640,212
IRS	540,409,803	541,109,803	6,868,967	6,840,235
Interest futures	17,484,597	43,336,473	0	0
Equity derivatives	**550,144,216**	**594,716,472**	**22,222,086**	**42,361,842**
Equity futures	2,621,820	154,734	0	0
Equity options	366,197,057	306,564,863	13,239,001	33,066,000
Other equity derivatives	181,325,339	287,996,875	8,983,085	9,295,842
TOTAL	**16,568,672,225**	**16,647,870,067**	**156,029,934**	**198,798,157**

C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE

	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,584,908,280**	**2,584,908,280**	**14,418,034**	**259,035,167**
IRS	2,584,908,280	2,584,908,280	14,418,034	259,035,167
TOTAL	**2,584,908,280**	**2,584,908,280**	**14,418,034**	**259,035,167**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,469,632,061**	**2,469,632,061**	**22,949,787**	**166,115,533**
IRS	2,469,632,061	2,469,632,061	22,949,787	166,115,533
TOTAL	**2,469,632,061**	**2,469,632,061**	**22,949,787**	**166,115,533**

D. DETAIL OF DERIVATIVES DESIGNATED AS CASH FLOW HEDGE	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**135,996,154**	**130,103,112**	**1,481,478**	**5,902,121**
Cross currency swap	135,996,154	130,103,112	1,481,478	5,902,121
Interest rate derivatives	**380,868,953**	**380,868,953**	**12,308,724**	**16,871,211**
IRS	380,868,953	380,868,953	12,308,724	16,871,211
TOTAL	**516,865,107**	**510,972,065**	**13,790,202**	**22,773,332**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**83,347,225**	**89,581,654**	**3,851,326**	**6,179,702**
Cross currency swap	83,347,225	89,581,654	3,851,326	6,179,702
Interest rate derivatives	**322,831,222**	**322,831,222**	**6,624,168**	**9,424,997**
IRS	322,831,222	322,831,222	6,624,168	9,424,997
TOTAL	**406,178,447**	**412,412,876**	**10,475,494**	**15,604,699**

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 2.8 million in 2017 (EUR 0.3 million in 2016) and are recorded in the statement of income as interests on derivatives used for hedging purposes.

Breakdown of derivatives designated as Cash Flow Hedge by residual maturity	31/12/16				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	1,734,743	8,393,596	2,700,503	961,360	**13,790,202**
Liabilities	1,005,370	9,093,784	6,938,043	5,736,135	**22,773,332**

	31/12/17				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	3,432,756	0	3,191,412	3,851,326	**10,475,494**
Liabilities	1,559,373	247,631	7,617,993	6,179,702	**15,604,699**

E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE	31/12/16			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	27,959,806	32,724,754	960,425	35,306
Interest rate derivatives	468,141,326	468,141,326	49,591,902	6,720,950
TOTAL	**496,101,132**	**500,866,080**	**50,552,327**	**6,756,256**

	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	14,449,062	16,922,772	337,898	7,574
Interest rate derivatives	423,546,538	423,546,538	36,660,966	3,296,984
TOTAL	**437,995,600**	**440,469,310**	**36,998,864**	**3,304,558**

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9.2 Deferred tax

A. ANALYSIS	31/12/16	31/12/17
Net deferred tax assets	235,080,816	230,425,933
Deferred tax liabilities	0	0
DEFERRED TAX	235,080,816	230,425,933

B. MOVEMENTS	2016	2017
AS AT JANUARY 1	275,359,016	235,080,816
Movements during the financial year:		
- Amounts recognised in the statement of income	(17,680,875)	(16,705,583)
- Items directly computed by equity	(861,328)	9,009,400
- Effect of change in tax rates - statement of income	(27,184,578)	(83,163)
- Effect of change in tax rates - equity	2,544,845	327,275
- Exchange differences	0	(219)
- Other movements	2,903,736	2,797,407
AS AT DECEMBER 31	235,080,816	230,425,933

Deferred tax coming from balance sheet assets	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Cash, loans and loan loss provisions	7,802,840	(177,850)	7,145,888	(656,952)
Securities	(29,923,464)	0	(17,742,820)	0
Derivatives	2,441,846	0	1,110,061	0
Tangible and intangible fixed assets	4,856,268	(836,670)	4,817,067	(38,982)
Other non allocated	0	0	0	0
TOTAL	(14,822,510)	(1,014,520)	(4,669,804)	(695,934)

Deferred tax coming from balance sheet liabilities	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Borrowings, deposits and issuance of debt securities	(1,292,372)	(2,744,241)	(1,295,971)	(2,801,006)
Provisions	(19,405,204)	5,655,589	(15,740,315)	3,664,887
Pensions	5,958,978	(656,302)	4,068,442	(378,352)
TOTAL	(14,738,598)	2,255,046	(12,967,844)	485,529

Deferred tax coming from other items	31/12/16		31/12/17	
	Balance sheet	P&L	Balance sheet	P&L
Tax losses carried forward	439,083,708	(61,441,022)	400,105,366	(38,978,340)
less: impairments	*(174,441,784)*	*16,186,361*	*(152,041,784)*	*22,400,000*
TOTAL	264,641,924	(45,254,661)	248,063,582	(16,578,340)

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 resulted 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 on tax losses generated before the fiscal reform of December 2016).

Based on these considerations, BIL has recognised the full amount of unused tax losses less impairments in order to recognise the net amount of unused tax lossess that can be used over a medium-term period.

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	
	31/12/16	31/12/17	31/12/16	31/12/17
Loans[1]	5,261	6,467	318,412	375,853
Interest received	0	0	2,514	2,166
Receivables	0	0	0	0
Deposits	11,882	12,066	350,836	296,480
Contingent convertible bond (compound instrument)	0	0	0	0
Interest paid	0	0	(3,349)	(4,139)
Other income – fee and commission expense	0	0	215	919
Derivatives - Total to receive	0	0	0	0
Derivatives - Total to deliver	0	0	0	0
Guarantees and commitments given by the Group	28	36	198,774	225,040
Guarantees and commitments given to the Group	3	3	16,615	17,471
Assets entrusted from third parties	10,429	10,043	0	0

	Associates		Other related parties	
	31/12/16	31/12/17	31/12/16	31/12/17
Loans[1]	37	0	121,850	6,314
Interest received	0	0	3,888	3
Receivables	990	990	0	0
Deposits	8,707	11,582	35,516	5,539
Contingent convertible bond (compound instrument)	0	0	150,000	0
Interest paid	(4)	(1)	0	(1)
Other income – fee and commission expense	0	0	0	0
Derivatives - Total to receive	0	0	42,541	40,416
Derivatives - Total to deliver	0	0	31,382	27,238
Guarantees and commitments given by the Group	0	0	30,002	5
Guarantees and commitments given to the Group	0	0	0	0
Assets entrusted from third parties	0	0	374,520	225,373

Advisory fees paid to Precision Capital SA amount to EUR -0.8 million in 2017 (EUR -0.8 million in 2016).

B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.7 "Staff expenses")

9.5 Securitisation

As at December 31, 2016 and December 31, 2017, the Bank 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.

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9.6 Subscribed and authorised capital

By share category	31/12/16	31/12/17
Number of shares authorised and not issued[1]	2,982,681	2,982,681
Number of shares issued and fully paid up	2,017,319	2,017,319
Value per share (accounting par value)	EUR 70	EUR 70
Number of treasury shares	970	970

9.7 Exchange rates

The main exchange rates used are the followings:

		31/12/16		31/12/17	
		Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	AUD	1.4624	1.4852	1.5356	1.4811
Canadian Dollar	CAD	1.4196	1.4582	1.5057	1.4744
Swiss Franc	CHF	1.0743	1.0901	1.1718	1.1166
Danish Krone	DKK	7.4340	7.4444	7.4476	7.4391
Pound Sterling	GBP	0.8542	0.8228	0.8877	0.8758
Hong Kong Dollar	HKD	8.1949	8.5652	9.3746	8.8766
Japanese Yen	JPY	123.3914	120.4615	134.9569	127.2486
Norwegian Krone	NOK	9.0953	9.2571	9.8212	9.3791
Polish Zloty	PLN	4.4068	4.3666	4.1824	4.2446
Swedish Krona	SEK	9.5567	9.4731	9.8189	9.6466
Singapore Dollar	SGD	1.5264	1.5244	1.6029	1.5627
US Dollar	USD	1.0568	1.1035	1.1998	1.1387

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

10.1 Regular way trade

	31/12/16	31/12/17
Loans to be delivered	1,092,676,959	788,338,222
Borrowings to be received	1,215,378,283	907,180,068

10.2 Guarantees

	31/12/16	31/12/17
Guarantees given to credit institutions	149,777,873	162,259,310
Guarantees given to customers	638,178,064	576,950,075
Guarantees received from credit institutions	16,615,385	17,470,501
Guarantees received from customers	2,628,275,287	2,812,732,111

[1] As at December 31, 2017, the subscribed and paid-up capital of the Bank is EUR 141,212,330 (2016: EUR 141,212,330) represented by 2,017,319 shares (2016: 2,017,319 shares) with a par value of EUR 70 (2016: 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.

10.3 Loan commitments

	31/12/16	31/12/17
Unused credit lines granted to credit institutions	51,795,007	35,826,302
Unused credit lines granted to customers	1,984,172,645	1,771,481,167

10.4 Other commitments

	31/12/16	31/12/17
Banking activity - Other commitments given[1]	37,297,258,349	40,879,877,918
Banking activity - Other commitments received[2]	172,576,793,932	176,105,812,222

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

11.1 Interest and similar income - Interest and similar expenses

	31/12/16	31/12/17
INTEREST AND SIMILAR INCOME	476,081,931	503,368,258
a) Interest and similar income of assets not measured at fair value through profit or loss	**316,908,294**	**303,624,886**
Cash and balances with central banks	15,434	0
Loans and advances to credit institutions	5,172,850	6,719,805
Loans and advances to customers	239,620,180	240,903,166
Financial assets available for sale	69,196,456	43,629,009
Investments held to maturity	2,903,374	12,372,906
b) Interest and similar income of assets measured at fair value through profit or loss	**157,870,789**	**194,028,392**
Financial assets held for trading	723,700	987,921
Derivatives held for trading	77,454,033	114,837,850
Derivatives used for hedging purposes	79,693,056	78,202,621
c) Interest income on liabilities	**1,302,848**	**5,714,980**
INTEREST AND SIMILAR EXPENSES	(186,697,713)	(208,683,498)
a) Interest and similar expenses of liabilities not measured at fair value through profit or loss	**(42,664,209)**	**(52,042,289)**
Amounts due to credit institutions	(10,340,321)	(18,759,990)
Amounts due to customers	(16,289,999)	(15,426,508)
Debt securities	(12,855,719)	(12,008,854)
Subordinated debts	(3,161,186)	(5,789,137)
Other	(16,984)	(57,800)
b) Interest and similar expenses of liabilities measured at fair value through profit or loss	**(143,055,286)**	**(155,975,356)**
Financial liabilities held for trading	(22)	(144)
Financial liabilities designated at fair value through profit or loss	(12,823,177)	(14,400,393)
Derivatives held for trading	(42,989,983)	(67,361,583)
Derivatives used for hedging purposes	(87,242,104)	(74,213,236)
c) Interest expenses on assets	**(978,218)**	**(665,853)**
NET INTEREST INCOME	289,384,218	294,684,760

[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 168 billion as at December 31, 2017 and EUR 163.8 billion as at December 31, 2016.

11.2 Dividend income

	31/12/16	31/12/17
Financial assets available for sale	24,114,832	12,870,387
Financial assets held for trading	3,696	1,243
TOTAL	24,118,528	12,871,630

11.3 Net trading income and net result of hedge accounting

	31/12/16	31/12/17
Net income from transactions	10,162,584	4,764,756
of which income from trading securities	*3,743,095*	*3,503,099*
of which income from trading derivatives	*6,419,489*	*1,261,657*
Net result of hedge accounting	(378,423)	(3,750,663)
Net result of financial instruments designated at fair value through profit or loss*	(406,979)	681,245
Change in own credit risk[1]	(222,304)	(326,208)
Net foreign exchange gain/(loss)	8,943,710	8,593,299
TOTAL	18,098,588	9,962,429

	31/12/16	31/12/17
* including hedging derivatives classified in the accounts as trading derivatives (accounting mismatch)	5,530,148	(13,809,597)

Result of hedge accounting	31/12/16	31/12/17
	Net gain/(loss)	Net gain/(loss)
Fair value hedge	**(359,917)**	**173,918**
Change in the fair value of the hedged item attributable to the hedged risk	24,267,147	(18,821,335)
Change in the fair value of the hedging derivatives	(24,627,064)	18,995,253
Portfolio hedge against interest rate risk	**(18,506)**	**(111,436)**
Change in the fair value of the hedged item	3,099,041	10,096,492
Change in the fair value of the hedging derivatives	(3,117,547)	(10,207,928)
Discontinuation of cash flow hedge accounting (cash flows not expected to occur)	**0**	**(3,813,145)**
TOTAL	(378,423)	(3,750,663)

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.)

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

	31/12/16	31/12/17
Gains on loans and advances	3,246,362	4,228,186
Gains on financial assets available for sale	44,902,441	55,493,289
Gains on tangible fixed assets	324,852	230,248
TOTAL GAINS	**48,473,655**	**59,951,723**
Losses on financial assets available for sale	(1,433,606)	(11,524,129)
Losses on tangible fixed assets	(13,091)	(920)
Losses on liabilities	0	(251,310)
TOTAL LOSSES	**(1,446,697)**	**(11,776,359)**
NET IMPAIRMENT	**36,644**	**904,669**
TOTAL	**47,063,602**	**49,080,033**

The impact of net income on financial assets available for sale of EUR 43,969,160 as at December 31, 2017 (EUR 43,468,835 as at December 31, 2016) should be compared with the EUR -44,960,450 impact of the sale of securities on the AFS reserves as at as at December 31, 2017 (EUR -42,672,548 as at December 31, 2016).

Net impairment	Specific Risk		Total
	Allowances	Write-backs	
AS AT DECEMBER 31, 2016			
Available for sale securities	(70,889)	107,533	36,644
TOTAL	**(70,889)**	**107,533**	**36,644**
AS AT DECEMBER 31, 2017			
Available for sale securities	(106,581)	1,011,250	904,669
TOTAL	**(106,581)**	**1,011,250**	**904,669**

11.5 Fees and commissions income and expenses

	31/12/16			31/12/17		
	Income	Expenses	Net	Income	Expenses	Net
Management of unit trusts and mutual funds	13,946,341	(638,034)	13,308,307	19,646,262	(798,450)	18,847,812
Administration of unit trusts and mutual funds	346,077	0	346,077	130,375	0	130,375
Insurance activity	7,947,217	0	7,947,217	7,361,900	0	7,361,900
Credit activity	19,247,203	(682,744)	18,564,459	20,719,319	(659,124)	20,060,195
Purchase and sale of securities	18,571,205	(8,239,378)	10,331,827	19,744,714	(9,658,106)	10,086,608
Purchase and sale of units trusts and mutual funds	4,429,389	(441,026)	3,988,363	6,324,369	(767,185)	5,557,184
Payment services	25,722,814	(902,242)	24,820,572	26,043,939	(749,938)	25,294,001
Commissions to non-exclusive brokers	0	(299,955)	(299,955)	0	(350,411)	(350,411)
Services on securities other than safe keeping	2,904,802	(701,609)	2,203,193	2,981,059	(508,697)	2,472,362
Custody	15,341,770	(2,453,217)	12,888,553	16,406,732	(2,797,449)	13,609,283
Issues and placements of securities	2,957,060	0	2,957,060	4,488,349	(24,456)	4,463,893
Private banking	38,691,622	(7,755,194)	30,936,428	39,959,440	(6,564,555)	33,394,885
Clearing and settlement	21,392,272	(1,777,923)	19,614,349	24,970,413	(2,070,238)	22,900,175
Securities lending	0	(33,425)	(33,425)	427,329	(33,604)	393,725
Other	5,397,636	(121,833)	5,275,803	5,000,140	(354,584)	4,645,556
TOTAL	**176,895,408**	**(24,046,581)**	**152,848,827**	**194,204,340**	**(25,336,797)**	**168,867,543**

11.6 Other net income

	31/12/16	31/12/17
Operating taxes	0	4,433,912
Rental income	77,110	8,910
Other banking income[1]	2,032,823	0
Other income on other activities[2]	5,690,651	2,833,084
OTHER INCOME	**7,800,584**	**7,275,906**
Operating taxes	(3,048,024)	(3,767,080)
Maintenance and repair of investment property	(52,386)	(114,865)
Other bank charges[3]	(11,714,548)	(13,534,937)
Other expenses in relation to other activities[4]	(14,401,477)	(24,958,208)
OTHER EXPENSES	**(29,216,435)**	**(42,375,090)**
TOTAL	**(21,415,851)**	**(35,099,184)**

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)
Reimbursements received from the AGDL in 2016:	(2,032,823)
Advances paid to the AGDL and not reimbursed as at December 31, 2017	11,809,770

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 26.1 million were made in 2009 till 2016 and recorded under other net operating income. Lastly, no further reimbursements are expected from the AGDL in the future.

11.7 Staff expenses

A. STAFF EXPENSES

	31/12/16	31/12/17
Wages and salaries	(146,634,706)	(159,862,981)
Social security and insurance costs	(18,947,630)	(18,822,101)
Staff benefits	(10,794,090)	(10,902,695)
Restructuring expenses	(4,765,054)	(7,496,215)
Other expenses	(2,045,636)	(1,742,191)
TOTAL	**(183,187,116)**	**(198,826,183)**

B. WORKFORCE

(in average FTE)	31/12/16	31/12/17
Senior management	43	43
Employees	1,772	1,760
TOTAL	**1,815**	**1,803**

[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 extraordinary losses and provisions for litigation.

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:

	31/12/16	31/12/17	31/12/16	31/12/17
	Remuneration		Retirement pensions	
Members of the administrative bodies	756,666	819,000	0	0
Members of the managerial bodies[1]	13,797,435	13,962,900	1,829,867	1,917,934
TOTAL	**14,554,101**	**14,781,900**	**1,829,867**	**1,917,934**

D. DEFINED CONTRIBUTION PLAN EXPENSES

	31/12/16	31/12/17
Defined contribution plan expenses	1,683,312	2,212,407
TOTAL	**1,683,312**	**2,212,407**

11.8 General and administrative expenses

	31/12/16	31/12/17
Occupancy	(7,391,869)	(7,077,059)
Operating leases	(4,250,324)	(4,397,330)
Professional fees	(19,338,831)	(19,302,058)
Marketing, advertising and public relations	(5,227,178)	(5,999,966)
Technology and system costs	(28,904,461)	(31,256,661)
Software costs and maintenance expenses	(8,180,123)	(12,008,382)
Other general and administrative expenses[2]	(38,414,169)	(42,776,579)
TOTAL	**(111,706,955)**	**(122,818,035)**

11.9 Independent auditor's fees

The fees for the services rendered by the independent auditor for the years 2016 and 2017 are as follows (VAT excluded):

	2016	2017
Statutory audit and Long Form Report	946,978	668,731
Other assurance services[3]	61,702	1,007,272
Other services	0	53,536
TOTAL	**1,008,680**	**1,729,538**

11.10 Amortisation of tangible and intangible fixed assets

	31/12/16	31/12/17
Depreciation on land and buildings	(7,486,222)	(7,016,417)
Depreciation on other tangible fixed assets	(588,041)	(561,083)
Depreciation on IT equipment	(2,294,467)	(2,572,496)
Depreciation on intangible fixed assets	(13,620,955)	(19,750,975)
TOTAL	**(23,989,684)**	**(29,900,971)**

[1] 2017 retirement pensions include EUR 1.5 million of defined benefit pension plan and EUR 1.4 million of defined contribution plan.
[2] This heading primarily comprises the cost of financial information, various types of insurance cover and the transport of valuables.
[3] 2017 figures include EUR 0.8 million of fees in the context of the transaction with Legend Holdings Corp.

11.11 Impairment on loans and provisions for credit commitments

Collective impairment	31/12/16			31/12/17		
	Allowances	Write-backs	Total	Allowances	Write-backs	Total
LOANS	(4,183,794)	1,560,867	(2,622,927)	(3,091,018)	5,542,243	2,451,225

Specific impairment	31/12/16				
	Allowances	Write-backs	Losses	Recoveries	Total
Loans and advances to customers	(24,438,842)	22,007,553	(11,405,860)	0	(13,837,149)
Commitments	0	0	n.a.	n.a.	0
TOTAL	(24,438,842)	22,007,553	(11,405,860)	0	(13,837,149)

Specific impairment	31/12/17				
	Allowances	Write-backs	Losses	Recoveries	Total
Loans and advances to customers	(33,000,684)	43,841,998	(33,247,103)	374,404	(22,031,385)
Commitments	0	7,400	n.a.	n.a.	7,400
TOTAL	(33,000,684)	43,849,398	(33,247,103)	374,404	(22,023,985)

11.12 Provisions for legal litigation

Charges recognised under this item mainly comprise legal fees, provisions for existing litigation and write-backs of related provisions. 2017 figures are comprised of write-back of residual provision related to the Danish case which is definitively closed in 2017.

11.13 Tax expenses

	31/12/16	31/12/17
Income tax for current financial year	(33,110)	8,805
Deferred taxes	(44,461,468)	(16,946,758)
Tax on current financial year result (A)	**(44,494,578)**	**(16,937,953)**
Income tax for previous year	0	(101,223)
Deferred taxes for previous year	(403,985)	158,013
Other tax expenses (B)	**(403,985)**	**56,790**
TOTAL (A)+(B)	(44,898,563)	(16,881,163)

EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 29.22% as at December 31, 2016 and 27.08% as at December 31, 2017.
The effective BIL tax rate was 25.46% in 2016 and 13.08% in 2017.
The difference between both rates may be analysed as follows:

NET INCOME BEFORE TAX	31/12/16	31/12/17
NET INCOME BEFORE TAX	174,754,081	129,483,579
Tax base	**174,754,081**	**129,483,579**
Applicable tax rate at year-end	29.22%	27.08%
Theoretical corporate income tax at standard rate	**(51,063,142)**	**(35,064,153)**
Effect of different tax rates in other countries	(478,640)	(17,143)
Tax effect of non-deductible expenses	(1,090,932)	(5,290,231)
Tax effect of non-taxable income	7,019,274	1,194,774
Effect of change in tax rates[1]	(27,184,576)	(83,163)
Tax effect on the use of previous tax losses not recognised in the assets	27,300,000	22,400,000
Other	1,003,438	21,963
Tax on current financial year result	**(44,494,578)**	**(16,937,953)**
EFFECTIVE TAX RATE	25.46%	13.08%

[1] Review of the deferred tax assets due to the 2017 Luxembourg tax reform and the progressive reduction of the corporate income tax rate to 20.33% in 2017 and down to 19.26% in 2018.

Note 12: Notes on risk exposures (in EUR)

12.1 Fair value

A. BREAKDOWN OF FAIR VALUE

A.1 Fair value of assets	31/12/16			31/12/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks	1,693,919,996	1,693,919,996	0	2,373,662,973	2,373,662,973	0
Loans and advances to credit institutions	1,109,399,582	1,109,729,114	329,532	939,718,691	940,545,199	826,508
Loans and advances to customers	12,032,823,885	12,186,784,479	153,960,594	13,282,678,819	13,375,831,766	93,152,947
Financial assets held for trading	79,801,733	79,801,733	0	70,526,377	70,526,377	0
Financial assets available for sale	6,404,878,625	6,404,878,625	0	4,234,138,747	4,234,138,747	0
Investments held to maturity	536,013,388	551,715,571	15,702,183	1,753,271,909	1,793,629,190	40,357,281
Derivatives	247,475,993	247,475,993	0	226,454,079	226,454,079	0
Fair value revaluation of portfolios hedged against interest rate risk	6,523,489	6,523,489	0	3,175,567	3,175,567	0
Other assets	468,999,186	468,999,186	0	517,476,495	517,476,495	0
TOTAL	**22,579,835,877**	**22,749,828,186**	**169,992,309**	**23,401,103,657**	**23,535,440,393**	**134,336,736**

A.2 Fair value of liabilities	31/12/16			31/12/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	2,530,755,382	2,535,890,114	(5,134,732)	3,055,045,143	3,055,714,826	(669,683)
Amounts due to customers	15,335,173,535	15,322,892,644	12,280,891	15,762,793,784	15,752,809,692	9,984,092
Financial liabilities held for trading	2,013,272	2,013,272	0	0	0	0
Financial liabilities designated at fair value	877,913,027	877,913,027	0	776,333,210	776,333,210	0
Derivatives	432,612,114	432,612,114	0	383,822,947	383,822,947	0
Fair value revaluation of portfolios hedged against interest rate risk	48,683,055	48,683,055	0	35,131,162	35,131,162	0
Debt securities	1,529,888,297	1,548,719,665	(18,831,368)	1,580,051,579	1,591,227,841	(11,176,262)
Subordinated debt	293,936,368	306,123,963	(12,187,595)	281,864,136	291,598,682	(9,734,546)
Other liabilities	291,890,205	291,890,205	0	259,019,942	259,019,942	0
TOTAL	**21,342,865,255**	**21,366,738,059**	**(23,872,804)**	**22,134,061,903**	**22,145,658,302**	**(11,596,399)**

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 of the Consolidated financial statements).

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	31/12/16			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	47,507,395	27,756,702	4,537,636	79,801,733
Financial assets available for sale - bonds	5,252,793,368	836,391,361	100,125,410	6,189,310,139
Financial assets available for sale - equities	0	183,174,210	32,394,276	215,568,486
Derivatives	0	226,981,835	20,494,158	247,475,993
TOTAL	**5,300,300,763**	**1,274,304,108**	**157,551,480**	**6,732,156,351**

	31/12/17			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	38,042,196	29,838,831	2,645,350	70,526,377
Financial assets available for sale - bonds	3,210,479,221	715,190,412	96,055,394	4,021,725,027
Financial assets available for sale - equities	0	180,689,307	31,724,413	212,413,720
Derivatives	0	206,625,758	19,828,321	226,454,079
TOTAL	**3,248,521,417**	**1,132,344,308**	**150,253,478**	**4,531,119,203**

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

B.2 Liabilities	31/12/16			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	2,000,024	13,248	2,013,272
Financial liabilities designated at fair value	0	672,572,334	205,340,693	877,913,027
Derivatives	0	429,714,337	2,897,777	432,612,114
TOTAL	**0**	**1,104,286,695**	**208,251,718**	**1,312,538,413**

	31/12/17			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	576,808,285	199,524,925	776,333,210
Derivatives	0	342,400,154	41,422,793	383,822,947
TOTAL	**0**	**919,208,439**	**240,947,718**	**1,160,156,157**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1 Assets	31/12/16		31/12/17	
	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	4,669,588	0	0	0
TOTAL	**4,669,588**	**0**	**0**	**0**

C.2 Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2016 and 2017.

D. LEVEL 3 RECONCILIATION

D.1 Assets	31/12/16				
	Opening balance	Total gains and losses in the statement of income	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	4,530,863	(498,860)	0	2,886,249	(2,380,616)
Financial assets available for sale - bonds	22,494,285	0	0	50,573,484	0
Financial assets available for sale - equities	27,483,476	0	4,166,654	757,496	(13,350)
Derivatives	8,754,522	1,837,206	0	9,902,430	0
TOTAL	**63,263,146**	**1,338,346**	**4,166,654**	**64,119,659**	**(2,393,966)**

	31/12/16				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	0	0	0	0	4,537,636
Financial assets available for sale - bonds	(22,494,285)	49,551,926	0	0	100,125,410
Financial assets available for sale - equities	0	0	0	0	32,394,276
Derivatives	0	0	0	0	20,494,158
TOTAL	**(22,494,285)**	**49,551,926**	**0**	**0**	**157,551,480**

	31/12/17				
	Opening balance	Total gains and losses in the statement of income	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	4,537,636	(69,658)	0	1,545,791	(3,368,419)
Financial assets available for sale - bonds	100,125,410	(674,421)	0	47,177,889	0
Financial assets available for sale - equities	32,394,276	(1,883,304)	0	1,259,342	0
Derivatives	20,494,158	(15,009,503)	0	14,343,666	0
TOTAL	**157,551,480**	**(17,636,886)**	**0**	**64,326,688**	**(3,368,419)**

	31/12/17				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	0	0	0	0	2,645,350
Financial assets available for sale - bonds	(50,573,484)	0	0	0	96,055,394
Financial assets available for sale - equities	(45,901)	0	0	0	31,724,413
Derivatives	0	0	0	0	19,828,321
TOTAL	**(50,619,385)**	**0**	**0**	**0**	**150,253,478**

D.2 Liabilities	31/12/16			
	Opening balance	Total gains and losses in the statement of income	New issues	Settlement
Financial liabilities held for trading	0	0	13,248	0
Financial liabilities designated at fair value	160,550,174	(2,324,232)	127,992,987	(83,094,050)
Derivatives	20,800,868	(18,177,686)	274,595	0
TOTAL	**181,351,042**	**(20,501,918)**	**128,280,830**	**(83,094,050)**

	31/12/16			
	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	13,248
Financial liabilities designated at fair value	0	0	2,215,814	205,340,693
Derivatives	0	0	0	2,897,777
TOTAL	**0**	**0**	**2,215,814**	**208,251,718**

	31/12/17			
	Opening balance	Total gains and losses in the statement of income	New issues	Settlement
Financial liabilities held for trading	13,248	0	0	(13,248)
Financial liabilities designated at fair value	205,340,693	(6,707,469)	152,131,800	(153,901,545)
Derivatives	2,897,777	2,745,214	35,779,802	0
TOTAL	**208,251,718**	**(3,962,255)**	**187,911,602**	**(153,914,793)**

	31/12/17			
	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	0	2,661,446	199,524,925
Derivatives	0	0	0	41,422,793
TOTAL	**0**	**0**	**2,661,446**	**240,947,718**

BIL has 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. 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" behaviour: 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 sometimes 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 SA 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)	31/12/16	31/12/17
Belgium	1,426	1,439
France	3,017	2,661
Germany	1,343	1,352
Switzerland	524	1,953
Ireland	276	383
Italy	248	34
Luxembourg	13,428	13,329
Spain	679	734
Other EU countries	1,753	1,635
Rest of Europe	557	520
United States and Canada	523	692
Central and South America	9	2
Asia	273	129
Rest of the world	1,130	849
TOTAL	**25,186**	**25,712**

Exposures by counterparty category

(in EUR million)	31/12/16	31/12/17
Central Governments	5,808	7,683
Public Sector Entities	1,870	501
Corporate	5,140	5,544
Securitisation	325	241
Individuals, SME & Self Employed	8,077	8,404
Financial institutions	3,965	3,334
Other	1	5
TOTAL	**25,186**	**25,712**

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[1]

	31/12/16		31/12/17	
(in EUR million)	Credit risk exposures[2]	Financial effect of the collateral	Credit risk exposures[2]	Financial effect of the collateral
Available for sale portfolio (excluding variable-income securities)	6,189	0	4,022	0
Held for trading portfolio (excluding variable-income securities)	48	0	38	0
Loans and advances (at amortised cost)	14,142	1,599	15,797	1,954
Financial assets held to maturity	536	0	1,753	0
Derivatives	163	58	214	51
Other financial instruments at cost	190	280	303	576
Commitments in respect of loans granted	2,785	30	2,273	127
Commitments in respect of guarantees given	1,133	92	1,312	67
TOTAL	**25,186**	**2,059**	**25,712**	**2,775**

[1] Data differ from those published in BIL's Annual Reports due to a reallocation of exposures from Commitments in respect of guarantees given towards Commitments in respect of loans granted.
[2] Credit risk exposures net of the financial effect of the collateral.

C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS[1]

(in EUR million)	31/12/16 Credit quality of normal financial assets AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Available for sale portfolio (excluding variable-income securities)	3,456	1,791	74	868	6,189
Held for trading portfolio (excluding variable-income securities)	21	18	2	7	48
Loans and advances (at amortised cost)	2,186	5,941	4,316	1,290	13,733
Financial assets held to maturity	454	82	0	0	536
Derivatives	18	133	4	7	162
Other financial instruments at cost	39	103	0	48	190
Commitments in respect of loans granted	507	1,159	619	480	2,765
Commitments in respect of guarantees given	97	272	451	309	1,129
TOTAL	**6,778**	**9,499**	**5,466**	**3,009**	**24,752**

(in EUR million)	31/12/17 Credit quality of normal financial assets AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Available for sale portfolio (excluding variable-income securities)	2,806	1,216	0	0	4,022
Held for trading portfolio (excluding variable-income securities)	25	2	0	11	38
Loans and advances (at amortised cost)	3,326	6,321	4,221	1,506	15,374
Financial assets held to maturity	1,361	392	0	0	1,753
Derivatives	59	143	8	3	213
Other financial instruments at cost	120	88	51	45	304
Commitments in respect of loans granted	365	1,033	543	316	2,257
Commitments in respect of guarantees given	107	325	462	412	1,306
TOTAL	**8,169**	**9,520**	**5,285**	**2,293**	**25,267**

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.

[1] Data differ from those published in BIL's Annual Reports due to a reallocation of exposures from Commitments in respect of guarantees given towards Commitments in respect of loans granted.

D. PAST DUE OR IMPAIRED FINANCIAL ASSETS

	31/12/16				
	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)	210,071,609	93,395,861	140,980,444	345,215,740	540,879,093
TOTAL	**210,071,609**	**93,395,861**	**140,980,444**	**345,215,740**	**540,879,093**

	31/12/17				
	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)	175,472,817	50,080,157	130,791,061	325,904,000	408,088,220
TOTAL	**175,472,817**	**50,080,157**	**130,791,061**	**325,904,000**	**408,088,220**

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	
	31/12/16	31/12/17
Cash	26,184,528	9,292,023
Debt instruments	1,153,774	1,283,678
TOTAL	**27,338,302**	**10,575,701**

In general, guarantees obtained are immediately converted into cash by BIL.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

	As at 01/01/16	Utilisation	Allowances	Write-backs
Specific allowances for financial assets individually assessed for impairment	**(306,744,068)**	**11,107,529**	**(24,509,732)**	**11,007,557**
Loans and advances to customers	(269,163,672)	10,999,996	(24,438,843)	11,007,557
Financial assets available for sale	(37,580,396)	107,533	(70,889)	0
of which equities and other variable-income instruments	*(37,580,396)*	*107,533*	*(70,889)*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(27,693,017)**	**0**	**(4,183,794)**	**1,560,867**
TOTAL	**(334,437,085)**	**11,107,529**	**(28,693,526)**	**12,568,424**

	Other adjustments	Transfers between allowances	As at 31/12/16	Recoveries recorded directly in profit or loss	Charges recorded directly in profit or loss
Specific allowances for financial assets individually assessed for impairment	**(3,417,760)**	**0**	**(312,556,474)**	**0**	**(11,405,860)**
Loans and advances to customers	(3,145,729)	0	(274,740,691)	0	(11,405,860)
Financial assets available for sale	(272,031)	0	(37,815,783)	0	0
of which equities and other variable-income instruments	*(272,031)*	*0*	*(37,815,783)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(1,402)**	**0**	**(30,317,346)**	**0**	**0**
TOTAL	**(3,419,162)**	**0**	**(342,873,820)**	**0**	**(11,405,860)**

	As at 01/01/17	Utilisation	Allowances	Write-backs
Specific allowances for financial assets individually assessed for impairment	**(312,556,474)**	**33,970,953**	**(33,107,265)**	**10,882,295**
Loans and advances to customers	(274,740,691)	32,959,703	(33,000,684)	10,882,295
Financial assets available for sale	(37,815,783)	1,011,250	(106,581)	0
of which equities and other variable-income instruments	*(37,815,783)*	*1,011,250*	*(106,581)*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(30,317,346)**	**0**	**(3,091,018)**	**5,542,243**
TOTAL	**(342,873,820)**	**33,970,953**	**(36,198,283)**	**16,424,538**

	Other adjustments	Transfers between allowances	As at 31/12/17	Recoveries recorded directly in profit or loss	Charges recorded directly in profit or loss
Specific allowances for financial assets individually assessed for impairment	**14,032,245**	**8,900,000**	**(277,878,246)**	**374,404**	**(33,247,103)**
Loans and advances to customers	12,948,129	8,900,000	(242,051,248)	374,404	(33,247,103)
Financial assets available for sale	1,084,116	0	(35,826,998)	0	0
of which equities and other variable-income instruments	*1,084,116*	*0*	*(35,826,998)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**667**	**0**	**(27,865,454)**	**0**	**0**
TOTAL	**14,032,912**	**8,900,000**	**(305,743,700)**	**374,404**	**(33,247,103)**

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 31/12/16	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
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	877,913,027	222,304	(762,918)	11,082,785

As at 31/12/17	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
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	776,333,210	326,208	(436,710)	(3,445,050)

In 2016 and 2017, 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, 2017 (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, the Bank 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 measures 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 2017, the Bank's forborne exposures amounted to EUR 279.4 million (EUR 294.1 million in 2016) including EUR 7.4 million (EUR 5.1 million in 2016) as given banking guarantees.

J. INFORMATION ON SOVEREIGN DEBTS

For 2016 and 2017, this statement refers to bonds issued by central & local governments and governmental bodies.

As at 31/12/16	Available for sale			Held to maturity	Held for trading	
Country 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	54,991,714	*1,916,650*				
More than 5 years	61,718,001	*3,615,215*				
Belgium						
Less than 1 year	57,750,990	*31,463*				
Between 1 and 5 years	61,591,541	*1,451,861*	*(84,564)*			
More than 5 years	693,271,391	*37,102,969*	*(3,066,298)*			
Czech Republic						
Between 1 and 5 years	17,660,569	*1,554,820*	*(665,910)*			
More than 5 years	24,343,249	*4,372,942*	*(1,971,110)*			
Finland						
Between 1 and 5 years	22,957,907	*2,141,495*				
More than 5 years				51,351,180		
France						
Between 1 and 5 years	127,993,412	*5,653,297*				
More than 5 years	735,751,865	*30,681,874*	*(498,732)*	213,299,826		
Germany						
Between 1 and 5 years	10,212,876	*226,572*	*(109,508)*		5,140,750	*(8,550)*
More than 5 years	110,000,717	*5,122,891*	*(886,120)*	30,870,796	9,674,799	*(115,456)*
Ireland						
Less than 1 year						
Between 1 and 5 years						
More than 5 years	120,706,384	*795,579*	*192,783*			
Italy						
Less than 1 year						
More than 5 years	143,684,008	*(877,744)*	*(95,549)*			
Japan						
Between 1 and 5 years	40,696,639	*9,292*				
More than 5 years						
Latvia						
Between 1 and 5 years	15,788,242	*(800,954)*	*562,875*			
More than 5 years					285,592	*(12,300)*
Lithuania						
Between 1 and 5 years	41,468,620	*(541,209)*	*465,739*			
More than 5 years						
Luxembourg						
Between 1 and 5 years					804,293	*(16,400)*
More than 5 years	39,883,385	*8,748,539*	*(3,634,535)*		1,916,408	*(14,938)*
Mexico						
Between 1 and 5 years					26,333	*862*
Norway						
More than 5 years						
Poland						
Less than 1 year						
Between 1 and 5 years	40,448,818	*584,695*	*(175,124)*			
More than 5 years	35,269,346	*(341,785)*	*(32,322)*			
SUB-TOTAL	**2,456,189,674**	***101,448,462***	***(9,998,375)***	**295,521,802**	**17,848,175**	***166,782***

As at 31/12/16	Available for sale			Held to maturity	Held for trading	
Country 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	**2,456,189,674**	***101,448,462***	***(9,998,375)***	**295,521,802**	**17,848,175**	***166,782***
Qatar						
Less than 1 year	23,987,909	*(20,787)*	*3,978*			
Between 1 and 5 years	34,923,405	*(696,486)*	*450,122*			
More than 5 years	55,489,878	*(2,095,845)*	*948,107*			
Saudi Arabia						
Between 1 and 5 years					548,771	*(15,767)*
More than 5 years						
Slovakia						
Less than 1 year						
Between 1 and 5 years	4,133,425	*134,631*				
More than 5 years	47,276,906	*2,527,340*	*(50,574)*	38,591,714		
South Korea						
Between 1 and 5 years	4,036,875	*27,702*				
More than 5 years				4,434,820		
Spain						
Less than 1 year	13,710,296	*3,731*				
Between 1 and 5 years	88,489,201	*1,093,883*	*(215,126)*			
More than 5 years	189,507,178	*924,087*	*(294,436)*	10,549,970		
Supranational						
Between 1 and 5 years						
More than 5 years	269,417,284	*16,391,322*	*(318,137)*	20,506,869	43,434	*149*
Sweden						
More than 5 years						
The Netherlands						
More than 5 years	88,411,304	*1,031,600*				
United Arab Emirates						
Between 1 and 5 years						
United States of America						
Between 1 and 5 years	340,381,411	*(3,243,151)*				
TOTAL	**3,615,954,746**	***117,526,489***	***(9,474,441)***	**369,605,175**	**18,440,380**	***(182,400)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country Maturity date	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						
Less than 1 year	52,269,457	*5,960*				
Between 1 and 5 years	59,545,005	*2,972,939*	*(244,814)*			
More than 5 years						
Belgium						
Less than 1 year	47,177,889	*(146)*				
Between 1 and 5 years	167,767,995	*7,370,373*	*(582,730)*			
More than 5 years	417,545,151	*13,588,506*	*(329,128)*	132,899,328		
Canada						
More than 5 years	85,172,796	*471,364*	*(254,033)*	39,274,484		
Czech Republic						
Between 1 and 5 years	41,131,569	*1,053,520*	*1,961,159*			
More than 5 years						
Finland						
Between 1 and 5 years	21,919,509	*1,257,908*				
More than 5 years				51,262,693		
France						
Less than 1 year	46,557,204	*(191,810)*				
Between 1 and 5 years	117,953,768	*71,449*	*(87,831)*	46,971,860		
More than 5 years	64,874,351	*253,655*		682,902,713		
Germany						
Less than 1 year	10,110,939	*(2,984)*	*15,320*			
Between 1 and 5 years	15,516,700	*2,144*	*464,196*			
More than 5 years	85,770,563	*3,143,986*	*(336,879)*	30,817,788	8,204,042	*(145,287)*
Ireland						
More than 5 years	169,886,466	*4,888,456*	*(1,631,401)*	107,025,227		
Italy						
More than 5 years						
Japan						
Between 1 and 5 years					165,481	*(1,817)*
Latvia						
Between 1 and 5 years						
More than 5 years						
Lithuania						
Between 1 and 5 years						
More than 5 years	7,140,701	*70,299*	*(33,650)*			
Luxembourg						
Between 1 and 5 years						
More than 5 years	38,858,393	*1,247,919*	*2,828,694*	4,978,355	4,764,808	*18,701*
Mexico						
Between 1 and 5 years						
Norway						
More than 5 years				9,124,982		
Poland						
Between 1 and 5 years	35,257,465	*227,019*	*(72,183)*			
More than 5 years	76,053,845	*2,408,341*	*(343,438)*	33,644,647		
Qatar						
Less than 1 year						
Between 1 and 5 years	17,882,982	*(200,779)*	*(148,618)*			
More than 5 years						
SUB-TOTAL	**1,578,392,748**	***38,638,119***	***1,204,664***	**1,138,902,077**	**13,134,331**	***(128,403)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country 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	**1,578,392,748**	***38,638,119***	***1,204,664***	**1,138,902,077**	**13,134,331**	***(128,403)***
Saudi Arabia						
Between 1 and 5 years						
More than 5 years	4,124,721	*(2,499)*	*(42,322)*			
Slovakia						
Less than 1 year	4,064,225	*61,934*				
Between 1 and 5 years						
More than 5 years	30,950,932	*1,053,970*	*(98,264)*	78,142,328		
South Korea						
Between 1 and 5 years						
More than 5 years				4,365,551		
Spain						
Less than 1 year						
Between 1 and 5 years	164,737,870	*2,534,822*	*210,442*	22,947,267		
More than 5 years	285,455,474	*5,084,834*	*(2,660,278)*	120,389,300		
Supranational						
Between 1 and 5 years	134,005,481	*7,793,363*	*(823,368)*		3,351,254	*(51,398)*
More than 5 years	48,793,933	*1,757,328*	*(209,063)*	35,634,724		
Sweden						
More than 5 years					312,928	*(2,710)*
The Netherlands						
More than 5 years						
United Arab Emirates						
Between 1 and 5 years					412,688	*(5,285)*
United States of America						
Between 1 and 5 years	210,022,340	*(3,102,361)*		124,229,510		
TOTAL	**2,460,547,724**	***53,819,510***	***(2,418,189)***	**1,524,610,757**	**17,211,201**	***(187,796)***

12.3 Encumbered assets

A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

	31/12/16			
	Fair value of collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*	Fair value of encumbered collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*
Cash collateral	75,324,544	*75,324,544*	0	*0*
Debt securities	607,621,529	*200,881,452*	0	*0*
TOTAL	**682,946,073**	***276,205,996***	**0**	***0***

	31/12/17			
	Fair value of collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*	Fair value of encumbered collateral received or own debt securities issued available for encumbrance	*of which: central bank eligible*
Cash collateral	74,858,296	*74,858,296*	0	*0*
Debt securities	454,631,194	*0*	202,684,942	*202,684,942*
TOTAL	**529,489,490**	***74,858,296***	**202,684,942**	***202,684,942***

B. ENCUMBERED ASSETS

	31/12/16			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	48,330,646	*46,974,491*	48,911,076	*47,402,497*
of which: issued by general governments	*41,961,241*	*41,961,241*	*42,280,951*	*42,280,951*
of which: issued by financial corporations	*4,805,055*	*3,448,900*	*4,792,459*	*3,283,880*
of which: issued by non-financial corporations	*1,564,350*	*1,564,350*	*1,837,666*	*1,837,666*
AFS Debt securities	2,351,965,385	*1,976,264,293*	2,351,965,385	*1,976,264,293*
of which: issued by general governments	*1,698,361,768*	*1,337,267,985*	*1,698,361,768*	*1,337,267,985*
of which: issued by financial corporations	*651,894,148*	*637,668,878*	*651,894,148*	*637,668,878*
of which: issued by non-financial corporations	*1,709,469*	*1,327,430*	*1,709,469*	*1,327,430*
Loans and advances other than loans on demand	189,580,142	*189,580,142*	189,580,142	*189,580,142*
TOTAL	**2,589,876,173**	***2,212,818,926***	**2,590,456,603**	***2,213,246,932***

	31/12/17			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	773,695,654	*635,332,641*	801,017,542	*663,304,670*
of which: issued by general governments	*739,866,500*	*615,636,991*	*767,205,883*	*643,220,538*
of which: issued by financial corporations	*33,829,154*	*19,695,650*	*33,811,659*	*20,084,132*
of which: issued by non-financial corporations	*0*	*0*	*0*	*0*
AFS Debt securities	1,242,201,841	*1,009,620,739*	1,242,201,842	*1,009,620,739*
of which: issued by general governments	*694,540,412*	*475,319,079*	*694,540,413*	*475,319,079*
of which: issued by financial corporations	*441,819,057*	*428,459,288*	*441,819,057*	*428,459,288*
of which: issued by non-financial corporations	*105,842,372*	*105,842,372*	*105,842,372*	*105,842,372*
Loans and advances other than loans on demand	264,041,054	*264,041,054*	264,041,054	*264,041,054*
TOTAL	**2,279,938,549**	***1,908,994,434***	**2,307,260,438**	***1,936,966,463***

C. SOURCES OF ENCUMBRANCE

	31/12/16		
	Matching liabilities, contingent liabilities or securities lent	Assets or collateral received encumbered	*of which: collateral received re-used*
Derivatives	432,612,117	189,580,142	*0*
Repurchase agreements	548,869,444	548,869,444	*0*
of which: central banks	*548,869,444*	*548,869,444*	*0*
Collateralised deposits other than repurchase agreements	4,683,553	4,683,553	*0*
of which: central banks	*4,683,553*	*4,683,553*	*0*
Fair value of securities borrowed with non cash collateral	1,345,127,660	1,846,743,034	*0*
TOTAL	**2,331,292,774**	**2,589,876,173**	***0***

	31/12/17		
	Matching liabilities, contingent liabilities or securities lent	Assets or collateral received encumbered	*of which: collateral received re-used*
Derivatives	383,822,947	264,041,054	*0*
Repurchase agreements	968,050,401	966,274,519	*202,684,942*
of which: central banks	*696,177,222*	*696,177,222*	*0*
Collateralised deposits other than repurchase agreements	30,788,718	30,788,718	*0*
of which: central banks	*30,788,718*	*30,788,718*	*0*
Fair value of securities borrowed with non cash collateral	1,088,043,688	1,221,519,200	*0*
TOTAL	**2,470,705,754**	**2,482,623,491**	***202,684,942***

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 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 (GMSLA) 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.

Financial assets recognised at end of reporting period	31/12/16				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	247,475,993	0	247,475,993	75,324,544	172,151,449
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**247,475,993**	**0**	**247,475,993**	**75,324,544**	**172,151,449**

Financial liabilities recognised at end of reporting period	31/12/16				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	432,612,114	0	432,612,114	189,580,142	243,031,972
Repurchase agreements	548,869,444	0	548,869,444	548,869,444	0
Collateralised deposits other than repurchase agreements	4,683,553	0	4,683,553	4,683,553	0
TOTAL	**986,165,111**	**0**	**986,165,111**	**743,133,139**	**243,031,972**

Financial assets recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	226,454,079	0	226,454,079	74,858,296	151,595,783
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**226,454,079**	**0**	**226,454,079**	**74,858,296**	**151,595,783**

Financial liabilities recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	383,822,947	0	383,822,947	264,041,054	119,781,893
Repurchase agreements	968,050,401	0	968,050,401	966,274,519	1,775,882
Collateralised deposits other than repurchase agreements	30,788,718	0	30,788,718	30,788,718	0
TOTAL	**1,382,662,066**	**0**	**1,382,662,066**	**1,261,104,291**	**121,557,775**

12.4 Interest rate risk: breakdown by maturity until next interest rate repricing date[1]

A. ASSETS	31/12/16				
	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	1,694,649,643	0	0	0	0
Loans and advances to credit institutions	1,100,392,517	540,000	0	2,720,000	4,162,500
Loans and advances to customers	4,353,748,151	208,669,084	86,315,803	1,319,976,456	6,355,114,131
Financial assets held for trading	28,856,135	414,848	2,182,193	9,596,497	38,928,879
Financial assets designated at fair value	0	0	0	0	0
Financial assets available for sale	1,293,116,093	116,082,753	152,860,988	1,716,527,913	2,921,278,542
Investments held to maturity	0	0	0	17,455,025	515,686,550
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	**8,470,762,539**	**325,706,685**	**241,358,984**	**3,066,275,891**	**9,835,170,602**

	31/12/16				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(729,647)	n.a.	n.a.	1,693,919,996
Loans and advances to credit institutions	0	1,584,565	0	0	1,109,399,582
Loans and advances to customers	0	15,041,433	(983,137)	(305,058,036)	12,032,823,885
Financial assets held for trading	156,542	350,430	(683,791)	n.a.	79,801,733
Financial assets designated at fair value	0	0	0	n.a.	0
Financial assets available for sale	28,248	52,859,986	189,939,885	(37,815,783)	6,404,878,625
Investments held to maturity	0	2,871,813	0	0	536,013,388
Derivatives	n.a.	17,609,569	229,866,424	n.a.	247,475,993
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	6,523,489	n.a.	6,523,489
TOTAL	**184,790**	**89,588,149**	**424,662,870**	**(342,873,819)**	**22,110,836,691**

[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).

A. ASSETS	31/12/17				
	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	2,375,665,481	0	0	0	0
Loans and advances to credit institutions	805,380,863	68,912,456	2,160,000	55,000,000	3,825,000
Loans and advances to customers	4,735,319,514	395,518,353	236,522,557	1,243,186,859	6,927,040,824
Financial assets held for trading	31,761,675	809,081	1,589,673	11,221,641	25,268,545
Financial assets designated at fair value	0	0	0	0	0
Financial assets available for sale	1,052,350,378	126,219,180	51,657,193	1,552,168,323	1,330,680,528
Investments held to maturity	0	0	0	233,418,418	1,508,596,425
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	**9,000,477,911**	**591,459,070**	**291,929,423**	**3,094,995,241**	**9,795,411,322**

	31/12/17				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(2,002,508)	n.a.	n.a.	2,373,662,973
Loans and advances to credit institutions	0	4,440,372	0	0	939,718,691
Loans and advances to customers	0	16,360,459	(1,353,045)	(269,916,702)	13,282,678,819
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets designated at fair value	0	0	0	n.a.	0
Financial assets available for sale	28,197	33,488,494	123,373,452	(35,826,998)	4,234,138,747
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,501,326	203,952,753	n.a.	226,454,079
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**77,913**	**86,174,825**	**328,845,157**	**(305,743,700)**	**22,883,627,162**

[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	31/12/16				
	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	1,163,418,382	313,273,267	166,177,294	804,010,193	83,323,110
Amounts due to customers	13,907,350,709	612,227,019	447,551,824	353,888,778	11,666,962
Financial liabilities held for trading	2,013,250	0	0	0	0
Financial liabilities designated at fair value	361,749,281	25,798,648	74,940,624	160,512,304	241,366,452
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	737,965,197	41,443,119	47,020,643	500,890,995	197,994,814
Subordinated debt	48,651,710	0	0	0	244,629,761
TOTAL	**16,221,148,529**	**992,742,053**	**735,690,385**	**1,819,302,270**	**778,981,099**

	31/12/16			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	553,136	0	2,530,755,382
Amounts due to customers	0	2,488,243	0	15,335,173,535
Financial liabilities held for trading	0	22	0	2,013,272
Financial liabilities designated at fair value	0	2,346,013	11,199,705	877,913,027
Derivatives	n.a.	40,396,853	392,215,261	432,612,114
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	48,683,055	48,683,055
Debt securities	0	4,573,529	0	1,529,888,297
Subordinated debt	0	654,897	0	293,936,368
TOTAL	**0**	**51,012,693**	**452,098,021**	**21,050,975,050**

[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	31/12/17				
	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	1,570,353,654	350,622,718	89,754,379	978,532,094	65,030,490
Amounts due to customers	14,022,989,429	906,645,091	299,194,184	529,131,918	1,586,617
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	305,177,153	16,128,111	71,751,987	143,392,603	240,355,191
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	639,777,356	61,710,239	156,855,797	581,681,332	135,581,038
Subordinated debt	49,609,127	0	0	0	232,488,487
TOTAL	**16,587,906,719**	**1,335,106,159**	**617,556,347**	**2,232,737,947**	**675,041,823**

	31/12/17			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	751,808	0	3,055,045,143
Amounts due to customers	0	3,246,545	0	15,762,793,784
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,550,686	343,272,261	383,822,947
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debt	0	(233,478)	0	281,864,136
TOTAL	**0**	**51,480,310**	**375,212,656**	**21,875,041,961**

C. NET POSITION	31/12/16					
	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	(7,750,385,990)	(667,035,368)	(494,331,401)	1,246,973,621	9,056,189,503	184,790

	31/12/17					
	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	(7,587,428,808)	(743,647,089)	(325,626,924)	862,257,294	9,120,369,499	77,913

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 2017, 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%)		31/12/16							
(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	0.84	0.99	1.00	0.84	0.01	0.01	0.01	0.01
	Maximum	1.22	1.48	1.48	1.50	0.03	0.02	0.04	0.02
Global	Average	0.92							
	Maximum	1.55							
	End of period	0.43							
	Limit	8.00							

VaR (10 days, 99%)		31/12/17							
(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	0.42	0.38	0.36	0.36	0.01	0.01	0.01	0.00
	Maximum	0.68	0.58	0.68	0.94	0.02	0.03	0.05	0.02
Global	Average	0.38							
	Maximum	0.94							
	End of period	0.58							
	Limit	8.00							

The treasury activity is subject to sensitivity limits (on December 31, 2017, the sensitivity (+1 %) is EUR -0.2 million, for a limit of EUR 20 million).

b. Investment Treasury Portfolio (in EUR million)

- Exposure

Exposures include swapped and non-swapped positions.

	31/12/16	31/12/17
Investment Treasury Portfolio – AFS	2,947	2,107

[1] IR: interest-rate
[2] FX: forex
[3] IR & FX: without ALM
[4] EQT: equity

- Interest rate sensitivity (+1 basis point)

The portfolio's interest rate is managed by Treasury

	31/12/16	31/12/17
Investment Treasury Portfolio – AFS	(0.10)	(0.08)

- Credit spread sensitivity

This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

	31/12/16	31/12/17
Investment Treasury Portfolio – AFS	(1.24)	(0.91)

B. ALM INTEREST RATE RISK, EQUITY AND CREDIT SPREAD RISK

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)		31/12/16							
		Interest rate [1 2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	(15)	(17)	(8)	7	(2)	(2)	(2)	(2)

(in EUR million)		31/12/17							
		Interest rate [1 4]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	19	(7)	(9)	3	(2)	(2)	(2)	(2)

b. Investment Portfolio (in EUR million)

- Exposures

	31/12/16	31/12/17
Investment ALM Portfolio – AFS	2,726	1,679

- Interest rate sensitivity (+1 basis point)

  The portfolio's interest rate is managed by the ALM.

	31/12/16	31/12/17
Investment ALM Portfolio – AFS	(0.95)	(0.09)

- Credit spread sensitivity

  This measure estimates the portfolio sensitivity if the spread increases by 1 basis point.

	31/12/16	31/12/17
Investment ALM Portfolio – AFS	(1.71)	(0.98)

[1] Sensitivity (+1 %).
[2] On December 31, 2016, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
[3] Sensitivity (+1 basis point).
[4] On December 31, 2017, 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 2011	57.21
December 31, 2012	59.48
December 31, 2013	0.00
December 31, 2014	0.00
December 31, 2015	0.00
December 31, 2016	0.00
December 31, 2017	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	31/12/16				
	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	1,694,649,643	0	0	0	0
Loans and advances to credit institutions	521,133,451	215,969,668	221,607,129	144,942,269	4,162,500
Loans and advances to customers	2,445,069,386	1,651,120,626	504,365,484	1,332,430,471	6,390,837,658
Financial assets held for trading	12,353	2,798,063	4,049,112	29,494,038	43,624,986
Financial assets available for sale	0	214,357,362	273,465,253	2,170,762,285	3,348,654,504
Investments held to maturity	0	0	0	17,455,025	515,686,550
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	**4,660,864,833**	**2,084,245,719**	**1,003,486,978**	**3,695,084,088**	**10,302,966,198**

	31/12/16				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(729,647)	n.a.	n.a.	1,693,919,996
Loans and advances to credit institutions	0	1,584,565	0	0	1,109,399,582
Loans and advances to customers	0	15,041,433	(983,137)	(305,058,036)	12,032,823,885
Financial assets held for trading	156,542	350,430	(683,791)	n,a,	79,801,733
Financial assets available for sale	192,655,133	52,859,986	189,939,885	(37,815,783)	6,404,878,625
Investments held to maturity	0	2,871,813	0	0	536,013,388
Derivatives	n.a.	17,609,569	229,866,424	n.a.	247,475,993
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	6,523,489	n.a.	6,523,489
TOTAL	**192,811,675**	**89,588,149**	**424,662,870**	**(342,873,819)**	**22,110,836,691**

[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	31/12/17				
	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	2,375,665,481	0	0	0	0
Loans and advances to credit institutions	500,009,487	240,624,304	135,819,528	55,000,000	3,825,000
Loans and advances to customers	2,593,618,233	2,009,757,121	699,401,161	1,270,816,451	6,963,995,141
Financial assets held for trading	3,986,197	2,386,721	4,164,945	33,674,110	26,438,642
Financial assets available for sale	0	134,556,039	105,658,765	1,992,379,418	1,688,900,439
Investments held to maturity	0	0	0	233,418,417	1,508,596,426
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	**5,473,279,398**	**2,387,324,185**	**945,044,399**	**3,585,288,396**	**10,191,755,648**

	31/12/17				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks	0	(2,002,508)	n.a.	n.a.	2,373,662,973
Loans and advances to credit institutions	0	4,440,372	0	0	939,718,691
Loans and advances to customers	0	16,360,459	(1,353,045)	(269,916,702)	13,282,678,819
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	191,609,138	33,488,494	123,373,452	(35,826,998)	4,234,138,747
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,501,326	203,952,753	n.a.	226,454,079
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**191,658,854**	**86,174,825**	**328,845,157**	**(305,743,700)**	**22,883,627,162**

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

B. LIABILITIES	31/12/16				
	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	608,368,070	868,323,579	166,177,294	804,010,193	83,323,110
Amounts due to customers	13,907,350,709	612,264,706	447,551,824	353,851,087	11,666,966
Financial liabilities held for trading	0	0	0	0	2,013,250
Financial liabilities designated at fair value	0	41,598,648	142,240,624	429,778,505	250,749,532
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	15,664,851	173,331,634	55,509,903	1,082,813,566	197,994,814
Subordinated debt	0	0	0	0	293,281,471
TOTAL	**14,531,383,630**	**1,695,518,567**	**811,479,645**	**2,670,453,351**	**839,029,143**

	31/12/16			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	553,136	0	2,530,755,382
Amounts due to customers	0	2,488,243	0	15,335,173,535
Financial liabilities held for trading	0	22	0	2,013,272
Financial liabilities designated at fair value	0	2,346,013	11,199,705	877,913,027
Derivatives	n.a.	40,396,853	392,215,261	432,612,114
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	48,683,055	48,683,055
Debt securities	0	4,573,529	0	1,529,888,297
Subordinated debt	0	654,897	0	293,936,368
TOTAL	**0**	**51,012,693**	**452,098,021**	**21,050,975,050**

[1] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

B. LIABILITIES	31/12/17				
	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	1,207,657,538	712,370,104	89,754,380	979,087,241	65,424,072
Amounts due to customers	14,022,989,429	906,098,444	299,194,190	529,131,918	2,133,258
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	22,618,111	110,076,992	394,362,249	249,747,693
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	14,997,085	84,319,595	336,800,779	1,000,559,348	138,928,955
Subordinated debt	0	0	0	0	282,097,614
TOTAL	**15,245,644,052**	**1,725,406,254**	**835,826,341**	**2,903,140,756**	**738,331,592**

	31/12/17			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	751,808	0	3,055,045,143
Amounts due to customers	0	3,246,545	0	15,762,793,784
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,550,686	343,272,261	383,822,947
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debt	0	(233,478)	0	281,864,136
TOTAL	**0**	**51,480,310**	**375,212,656**	**21,875,041,961**

C. NET POSITION	31/12/16					
	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	(9,870,518,797)	388,727,152	192,007,333	1,024,630,737	9,463,937,055	192,811,675

	31/12/17					
	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	(9,772,364,654)	661,917,931	109,218,058	682,147,640	9,453,424,056	191,658,854

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

	31/12/16				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,591,171,358	483,173,630	1,832,178,680	673,312,209	22,579,835,877
Liabilities	18,152,940,970	735,661,452	3,067,284,098	623,949,357	22,579,835,877
NET ON-BALANCE SHEET POSITION	**1,438,230,388**	**(252,487,822)**	**(1,235,105,418)**	**49,362,852**	**0**
Off-balance sheet – receivable	2,722,663,902	904,407,615	3,962,406,141	2,067,907,907	9,657,385,565
Off-balance sheet – payable	4,026,088,690	654,846,368	2,698,688,684	2,255,986,001	9,635,609,743
NET OFF-BALANCE SHEET POSITION	**(1,303,424,788)**	**249,561,247**	**1,263,717,457**	**(188,078,094)**	**21,775,822**

	31/12/17				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,331,149,407	598,846,819	1,570,930,620	1,900,176,811	23,401,103,657
Liabilities	18,499,494,688	844,372,397	3,375,185,470	682,051,102	23,401,103,657
NET ON-BALANCE SHEET POSITION	**831,654,719**	**(245,525,578)**	**(1,804,254,850)**	**1,218,125,709**	**0**
Off-balance sheet – receivable	4,929,143,066	1,149,126,976	6,410,525,833	3,657,124,028	16,145,919,903
Off-balance sheet – payable	5,621,926,502	907,691,767	4,617,389,197	5,015,747,040	16,162,754,506
NET OFF-BALANCE SHEET POSITION	**(692,783,436)**	**241,435,209**	**1,793,136,636**	**(1,358,623,012)**	**(16,834,603)**

12.8 Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

	31/12/16	31/12/17
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,025,524,910**	**1,032,564,192**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**730,895,149**	**749,216,967**
Capital, share premium and own shares	847,974,270	847,974,270
Reserves, retained earnings and eligible result	259,140,834	306,465,068
Regulatory and transitional adjustments[1]	(376,219,955)	(405,222,371)
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)	**144,629,761**	**133,347,225**
Subordinated liabilities	144,629,761	133,347,225
IRB excess	0	0
RISK WEIGHTED ASSETS[2]	**5,893,930,647**	**6,750,671,370**
Credit risk	5,103,635,033	5,919,973,228
Market risk	62,224,640	68,432,242
Operational risk	705,097,245	736,457,321
Credit Value Adjustment	22,973,729	25,808,579
SOLVENCY RATIOS		
Common Equity Tier 1 Capital ratio	12.40%	11.10%
Tier 1 ratio	14.95%	13.32%
Capital Adequacy ratio	17.40%	15.30%

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14/01).

[1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1**	**31/12/16**	**31/12/17**
Goodwill and intangible assets	(64,027,302)	(106,595,730)
Deferred tax assets that rely on future probability	(149,549,917)	(172,500,212)
Fair value reserves related to gains or losses cash flow hedges	6,946,258	3,157,763
Gains or losses on liabilities at fair value resulting from own credit	(985,222)	(436,710)
Additional Value Adjustment	(1,639,816)	(1,457,137)
Defined benefit pension fund assets	(4,130,000)	(6,464,000)
AGDL reserves	(14,156,000)	(11,024,510)
Unrealised gains or losses measured at fair value	(148,677,956)	(109,901,835)
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1	**(376,219,955)**	**(405,222,371)**

[2] Following an on-site JST (Joint Supervisory Team) review of the real estate promotion exposures which ended March 2018, the Bank is waiting for the final report from ECB (European Central Bank). It may lead to an increase of credit-related RWA, which is currently estimated to approximately EUR 200 million. This would reduce the CET1 ratio by around 30bps.

Proposed allocation of 2017 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	112,602,416
Allocation to "Legal reserve"[1]	0
Allocation to "Retained earnings"	(112,602,416)
TOTAL	**0**

[1] No additional allocation is mandatory since the legal reserve already amounts to 10 % of the subscribed capital.