Semi-annual Report

as at June 30, 2018

BIL 1856

BANQUE INTERNATIONALE À LUXEMBOURG

Semi-annual Report

as at June 30, 2018

Consolidated management report

Corporate governance (as of July 2, 2018)

Board of Directors

Chairman

Luc Frieden

Vice-Chairman

George Nasra	(up to July 2, 2018)
Peng Li	(as from July 2, 2018)

Members

Hugues Delcourt	Director and CEO
Nicholas Harvey	Director (up to July 2, 2018)
Maurice Lam	Director
Jing Li	Director (as from July 2, 2018)
Christian Schaack	Director
Vincent Thurmes	Director
Chris Van Aeken	Director (as from July 2, 2018)
Albert Wildgen	Director (up to July 2, 2018)
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

George Nasra (up to July 2, 2018)
Jing Li (as from July 2, 2018)

Members

Luc Frieden
Christophe Zeeb-Ichter

Board Audit and Compliance Committee

Chairman

Maurice Lam

Members

Nicholas Harvey (up to July 2, 2018)
Jing Li (as from July 2, 2018)
Vincent Thurmes

Board Risk Committee

Chairman	*Vice-Chairman*	*Members*
Christian Schaack	George Nasra (up to July 2, 2018) Jing Li (as from July 2, 2018)	Luc Frieden Vincent Thurmes Albert Wildgen (up to July 2, 2018) Chris Van Aeken (as from July 2, 2018)

Board Remuneration and Nominations Committee

Chairman	*Members*
George Nasra (up to July 2, 2018) Peng Li (as of July 2, 2018)	Nicholas Harvey (up to July 2, 2018) Jing Li (as from July 2, 2018) Christophe Zeeb-Ichter Fernand Welschbillig (remuneration sub-meeting)

Management Board

Chairman

Hugues Delcourt Chief Executive Officer

Vice-Chairman

Pierre Malevez (up to April 30, 2018)

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 the first half of 2018

Against the backdrop of a shareholder change and new regulatory requirements, Banque Internationale à Luxembourg ("BIL group", the "Bank") continued to implement its BIL2020 strategy in the first half of 2018 with a particular focus on the digital onboarding of clients.

GOVERNANCE

Legend Holdings Corporation ("Legend Holdings"), a Hong Kong-listed diversified investment group, signed an agreement with Precision Capital, a Luxembourg-based financial holding company, on September 1, 2017 to acquire the latter's 89.936% stake in BIL. The Grand Duchy of Luxembourg retains its 9.993% ownership of the Bank. Following the approval of the transaction by European, Chinese and Luxembourgish regulators, the transaction was closed on July 2, 2018.

This 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 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.

NEW INVESTMENT PRODUCTS IN LINE WITH NEW REGULATIONS

Regulatory change also continued to be a major topic in the first half of 2018. MiFID II and PRIIPs entered into force in January 2018, bringing profound changes to the way in which BIL interacts with clients. MiFID II required BIL to rethink its investment offering, revenue model and its relationship with third-party intermediaries. As a result, clients have been able to benefit from a new, simplified suite of investment products with a new accompanying pricing grid since the beginning of 2018.

In addition, BIL launched 12 new in-house BIL INVEST investment funds in March for use in mandated products and for distribution through execution-only and advisory services. The funds match BIL's asset allocation model and are open for subscription to all clients in Luxembourg, Belgium, France and Germany. These funds will help BIL achieve its BIL2020 strategy objective of becoming a well-known investment fund brand, available through digital channels in all core markets.

These regulatory and product changes required several procedural and operational adjustments in early 2018. These included an update to the Bank's General Terms and Conditions, new discount and claims policies as well as new tools. In addition to these MiFID II-related changes, the fourth Anti-Money Laundering directive (AML4) required changes to beneficial owner declarations at BIL in April 2018 while General Data Protection Regulation (GDPR) limited the handling of client data and gave clients more control over the use of their private data when it entered into force on May 25, 2018.

FURTHER STRENGTHENING OF THE DIGITAL OFFER

The new investment products not only enable BIL to be compliant with new regulations, the streamlined offer is also in line with the Bank's BIL2020 strategy. The reduced complexity of the product suite outlined above is a prerequisite for increased efficiency through automation and digitalisation. Indeed, increased digitalisation is a key focus of the BIL2020 strategy as it not only enables the Bank to make client services and processes more efficient but also strengthens BIL's overall competitive differentiation.

A key digitalisation milestone was met in April 2018 when BIL launched a more innovative, simple and secure version of its BILnet app. Clients can now carry out complex banking transactions in a simple manner via a LuxTrust authentication while a biometric fingerprint or PIN suffices for simpler transactions. BIL is also the first Luxembourgish bank to offer online account opening entirely from a smartphone or tablet in a matter of minutes via the new app. By answering a few questions, prospects can be identified during a webcam session, and the process ends with the electronic signature of the banking contract and the issuance of an International Bank Account Number (IBAN).

To make the new digital services available to as many clients as possible, free in-branch online banking training was provided to clients requiring special assistance. These clients - as well as those born before 1950 - have also been able to withdraw cash in the branches at no additional cost since April 1, 2018.

SUPPORTING INNOVATIVE COMPANIES IN LUXEMBOURG

In addition to the Bank's ongoing efforts to provide clients with innovative services, BIL also encourages entrepreneurship in Luxembourg in general. For example, BIL launched a dedicated innovation website (www.bil.com/innovation) in April 2018 which lists services, subsidy schemes and partnerships for innovative companies seeking a sponsor.

BIL is also a key sponsor of local start-up contests such as the regional semi-final of the Startup World Cup 2018 in March and the 4th annual Pitch Your Startup competition in May. Sniffy, a French company working out of the Luxfactory business incubator, received the BIL Innovation Award at the latter event with a cheque for EUR 20,000.

Of course BIL also continued to support its more traditional client base of established companies, for example, BIL structured and distributed a EUR 180 million syndicated loan in January 2018 by acting as the sole arranger, agent and security agent.

A STRONG COMMITMENT TO CSR

In addition to innovation, BIL also supports art and culture, education and healthcare as part of its Corporate Social Responsibility (CSR) policy. In the area of art and culture, Frank Jons' Zones of turbulences exhibition opened on 22 February at the Galerie Indépendance, followed by the annual Art2Cure exhibition on 22 June. The exhibited artwork is available for purchase and the proceeds will fund biomedical research projects in the Grand Duchy.

BIL also renewed its support for SOS Villages d'Enfants Monde with EUR 30,000 to help fund the SOS Kindergarten of Dosso, Niger. Finally, the Bank also sponsored Luxembourgish cyclist and BIL employee Ralph Diseviscourt, who came second in the challenging Race Across America in June.

EXTERNAL RECOGNITION

Once again, BIL's client-centric approach was acknowledged externally by numerous industry representatives. For example, BIL was again voted Best Bank in Luxembourg 2018 by Global Finance.

The corporate rating of BIL remained stable throughout the first half of 2018, confirming the Bank's strong financial fundamentals. When Legend Holdings announced its intention of buying a majority stake in BIL, this was welcomed by all rating agencies and contributed to Fitch's revision of BIL's outlook from stable to positive in December 2017.

COMMERCIAL FRANCHISES

The "Retail, Corporate and Wealth Management" business areas delivered a good performance during the first semester:

- Assets under Management (AuM) increased by 1% reaching EUR 39.79 billion compared with EUR 39.39 billion at the end of 2017. This increase resulted from new net inflows of EUR 0.14 billion mainly attributable to the Retail and Corporate business lines and from a positive market effect of EUR 0.26 billion;
- Customer deposits increased by 10.2% to EUR 18 billion compared with EUR 16.3 billion at year-end 2017. Excluding the EUR 1.5 billion deposit in the context of the purchase of Precision Capital's stake in BIL, client deposits grew by EUR 0.2 billion;
- Customer loans increased by 0.1% to EUR 13.1 billion. Commercial activities' loans increased by EUR 0.29 billion (+2.2% compared with year-end 2017), offset by a decrease of EUR 0.28 billion due to maturing institutional banking clients' loans from Treasury and Financial Markets.

PROFITABILITY

BIL reported a net income after tax of EUR 55 million in June 2018, compared with EUR 95 million in June 2017 after IFRS 9 restatement.

The positive evolution in first half 2018 results from:

- a positive performance of the core operating income from the commercial activities and TFM who reached EUR 88 million compared to EUR 83 million in June 2017 (+ 5%),

despite negative evolution due to:

- EUR 15 million capital gains from the investment Portfolio compared to EUR 40 million generated during the first half 2017,
- an increase of EUR 3.9 million in the contributions to the Deposit and Guarantee Scheme and the Resolution Fund (EUR 17.4 million versus EUR 13.5 million) and,
- the increased tax expenses compared to the first half of 2017 which included a write back of impairments on tax losses carried forward.

LONG-TERM COUNTERPARTY CREDIT RATINGS

In May 2018, Moody's confirmed BIL's ratings with a revised outlook from positive to stable (A2/Stable/P-1). Both Standard & Poor's and Fitch ratings remain unchanged (A-/Stable/A-2 and BBB+/ Positive/F2).

BIL group	Dec 2017	June 2018	Outcome
Moody's	A2 Positive	A2 Stable	Ratings confirmed with outlook revised to Stable on May 2018
S&P	A- Stable	A- Stable	Ratings confirmed on November 23, 2017
Fitch	BBB+ Positive	BBB+ Positive	Ratings confirmed with outlook revised to positive on December 7, 2017

2. Consolidated statement of income and consolidated balance sheet [1]

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of BIL group for the first half of 2018 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

CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

(in EUR million)	30/06/17 *as published*	30/06/17 *IFRS 9*	30/06/18 *IFRS 9*	Change versus 2017	%
Income	299	300	268	(31)	(10)%
Expenses	(189)	(189)	(198)	(9)	5%
Gross operating income	**111**	**111**	**71**	**(41)**	**(37)%**
Cost of risk and provisions for legal litigation	(5)	(10)	3	13	(126)%
Net income before tax	**106**	**101**	**73**	**(28)**	**(28)%**
Tax expense	(8)	(7)	(18)	(12)	175%
Net income	**98**	**95**	**55**	**(40)**	**(42)%**

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 2017	%
	30/06/17	30/06/18	30/06/17	30/06/18	30/06/17	30/06/18		
Income	315	285	(15)	(17)	300	268	(31)	(10)%
of which core operating income	*274*	*270*	*(15)*	*(17)*	*259*	*253*	*(6)*	*(2)%*
Expenses	(179)	(185)	(10)	(13)	(189)	(198)	(9)	5%
of which core operating expenses	*(179)*	*(185)*	*(6)*	*(10)*	*(185)*	*(195)*	*(10)*	*5%*
Gross operating income	136	100	(25)	(30)	111	71	(41)	(37)%
of which core gross operating income	*95*	*85*	*(21)*	*(26)*	*75*	*59*	*(16)*	*(21)%*
Cost of risk and provisions for legal litigation	(12)	3	2	0	(10)	3	13	(126)%
of which core operating cost of risk	*(12)*	*3*	*2*	*0*	*(10)*	*3*	*13*	*(126)%*
Net income before tax	124	103	(23)	(30)	101	73	(28)	(28)%
of which core operating net income before tax	*83*	*88*	*(19)*	*(26)*	*64*	*61*	*(3)*	*(5)%*
Tax expenses					(7)	(18)	(12)	175%
Net income					**95**	**55**	**(40)**	**(42)%**

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

Income

Income reached EUR 268 million at the end of June 2018 compared with EUR 300 million at the end of June 2017. The decrease of EUR 31 million was essentially due to a reduction in capital gains by EUR 25 million (EUR 15 million in June 2018 versus EUR 40 million in June 2017).

The decrease in core operating income (EUR 6 million) was mainly due to a lower contribution of TFM (EUR 6 million).

Commercial activities' contributions to the core operating income have remained stable compared with June 2017. Despite the low interest rate environment, net interest income increased by EUR 6 million through loans' growth (EUR 13.1 billion versus EUR 12.7 billion June 2017) and the continued billing of negative interest to certain client segments on the deposit side. Fee income remained consistent, despite the impact of the entry into force of MiFID II regulations. Other income decreased following a one-off transaction in 2017.

TFM contribution to the core operating income decreased by EUR 6 million. This decrease was mainly due to the realisation of capital gains on the Investment Portfolio which subsequently led to a reduction in recurring interest income and a lower contribution of Forex activities.

Group Center activities generated a negative contribution to the core operating income of EUR 17 million. Group Center was notably composed of the DGS and Resolution Funds contributions which increased from EUR 13.5 million in June 2017 to EUR 17.4 million in June 2018.

Expenses

Expenses totalled EUR 198 million, up by 5% compared with June 2017 (EUR 189 million).

Core operating expenses (excluding non-recurring items) also increased by EUR 10 million, primarily in Luxembourg influenced by higher depreciation in the context of the IT strategy. As previously mentioned, BIL continues to pursue the development of the new Core Banking System (CBS) and further digital developments. Effective cost control remained a key concern of the Bank resulting in stability in terms of staff and administrative expenses.

Gross operating income

Gross operating income amounted to EUR 71 million as of June 30, 2018. The decrease of EUR 41 million compared with June 2017 was largely due to lower capital gains (EUR 15 million versus EUR 40 million), higher contributions to DGS and Resolution Funds (EUR 17.4 million versus EUR 13.5 million) and depreciation on IT investments in line with the BIL2020 strategy.

Cost of risk

BIL group recorded a positive net write back of provisions on loans and advances and financial assets of EUR 3 million in June of 2018 mainly due to good management of the loan portfolio and past due exposures.

Net income before tax

Net income before tax stood at EUR 73 million at the end of June 2018.

Core operating income before tax reached EUR 61 million a decrease of 5% compared with June 2017. Excluding the negative evolution of DGS and Resolution Funds contributions (EUR 3.9 million), core operating income increased by 2% due to good results from the commercial activities (EUR 90 million in June 2018[1] versus EUR 81 million in June 2017).

Tax

The 2018 tax expenses stood at EUR 18 million. The evolution of tax expenses in June 2018 compared with June 2017 was mainly explained by the write back of impairments on tax losses carried forward recognised during 2017.

Net income

At the end of the first half of the year, the Bank generated a net profit of EUR 55 million.

[1] Please refer to Note 3.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET[1]

(in EUR billion)	31/12/17 *IFRS 9*	30/06/18 *IFRS 9*	Change versus 2017	%
ASSETS	**23.7**	**25.6**	**1.8**	**7.7%**
Loans and advances to credit institutions	3.4	5.0	1.5	44.6%
Loans and advances to customers	13.1	13.1	0.0	0.1%
Financial investments	6.1	6.3	0.1	1.8%
Positive fair value of derivative products	0.2	0.3	0.1	23.0%
Other assets	0.8	0.9	0.1	12.3%
LIABILITIES	**23.7**	**25.6**	**1.8**	**7.7%**
Amounts due to credit institutions	2.8	2.8	0.0	(1.1)%
Amounts due to customers	16.3	18.0	1.7	10.2%
Negative fair value of derivative products	0.4	0.4	0.0	(2.0)%
Debt securities	2.4	2.5	0.1	5.2%
Subordinated debts	0.3	0.3	0.0	0.8%
Other liabilities	0.3	0.4	0.0	8.8%
Shareholders' equity	1.3	1.3	0.0	2.5%

Asset movements

"Loans and advances to credit institutions" increased by EUR 1.5 billion (+44.6%) in line with the "amounts due to customers".

"Financial investments" reached EUR 6.3 million (+1.8%) at the end of June 2018. The Investment Portfolio is made up mainly of assets eligible for refinancing by the European Central Bank (ECB) qualifying as liquidity reserves under Basel III and the CRD IV Directive. These assets enable the Bank to fully comply with liquidity ratio requirements.

"Loans and advances to customers" remained stable. Commercial activities' loans increased by EUR 0.29 billion (+2.2% compared with year-end 2017), offset by a decrease of EUR 0.28 billion due to maturing institutional banking clients' loans from Treasury and Financial Markets. Outstanding mortgage loans increased by EUR 0.25 billion (+5.7%).

Liability movements

"Amounts due to customers" increased by EUR 1.7 billion (+10.2%) boosted by the Legend Holdings EUR 1.5 billion deposit in the context of the purchase of Precision Capital's stake in BIL. The purchase consideration has since left the bank and client deposits as well as amounts held with the central bank, have decreased accordingly.

"Shareholders' equity" increased by EUR 31 million (+2.5%). This increase was mainly due to the 2018 half-year net profit of EUR 55 million offset by the decrease of EUR 13 million in the revaluation reserves on assets classified under Hold-To-Collect and Sell, consequently to the realisation of capital gains on the bond portfolio.

3. Outlook

The acquisition of Precision Capital's 89.936% stake in BIL by Legend Holdings Corporation was completed in July 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 the future 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. Going forward, BIL will also consider an extension of its wealth management offering to Chinese clients thanks to the support and extensive network of Legend Holdings.

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

Risk Management

1. Key events of the first half of 2018

Corporate structure and risk profile

Since the end of 2014, important strategic initiatives have been undertaken at a group-wide level, impacting thus naturally BIL group's corporate structure and risk profile. All these initiatives have been carefully followed by the Bank's Risk Management department whose main objective is to oversee their implementation by ensuring, on an on-going basis, that the related risks are under control and compatible with the institution's risk appetite. Main events having impacted the Bank's risk profile evolution during the first semester of 2018 are described in the management report in the "Business Review and Results" section.

Regulatory environment

During the first half of 2018, BIL continued to invest time and resources to remain compliant with regulatory standards, and notably regarding the A-IRB framework. In this context, BIL has been working on different topics related to Pillar I internal models used by significant institutions within the Single Supervisory Mechanism (SSM). Within this framework, the main reviews that were made during the first semester were: the reviews of some specific A-IRB models (retail models: PD, LGD and CCF) and the review of Real Estate promotion exposures.

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. During the first half of 2018, the Bank continued to invest resources to comply with these new requirements. This translates notably in a benchmarking exercise that will be realised in September 2018.

During the first half of 2018, 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, and the validation of the new implied models. An important documentation notably the roadmap of this project will be delivered to the supervisor by the end of 2018.

BIL has adapted its accounting standard to the new IFRS 9 standard which replaces IAS 39. BIL uses the IFRS accounting framework for the production of annual and semi-annual consolidated financial statements as required by the Transparency Directive. Following the financial crisis, the IASB started the reform of the financial instruments accounting framework in order to address the following IAS 39 weaknesses: timeliness of recognition of credit losses and complexity of multiple impairment models. IFRS 9 introduces new rules regarding classification and measurement based on an entity's business model and the contractual cash flow characteristics of the individual financial asset. Regarding the different elements of the framework, the Bank is now up and running: all the business models and classifications have been set-up; the SPPI tests are in production; and the impairment assessment (Expected Credit Loss, "ECL") is in production with an in-house developed methodology.

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. The new standard is applicable from January 2018 and takes into account changes introduced by the BIS/EBA guidance. In addition, new EBA guidelines are currently analysed in order to deploy the different requirements for June 2019.

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 2018, the Bank is working on the fourth Recovery Plan, which will be sent to the regulators at the end of September. Regarding the Resolution Plan, in May 2018, the Bank completed several templates in order to provide general information on its governance, legal contracts and balance sheet composition. Finally, it is worth mentioning that the Bank frequently meets the Resolution Authority to discuss the different topics linked to the Resolution Plan.

During the first semester of 2018, the Bank participated in the 2018 EU-wide stress testing. At this stage, the Bank is explaining through different exchanges with the ECB the outcomes of the stressed projections.

Finally, regarding the credit topics, BIL has also worked on Anacredit in order to be fully compliant for the first submission in September 2018.

2. Credit risk

In this report, 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 end June 2018, the Bank's total credit risk exposure amounted to 28.7 billion compared to 25.9 billion at the end of 2017.

The main increases are concentrated on Central Governments (EUR +1.05 billion) and Individual, SME & Self Employed (EUR +1.02 billion) while exposures towards Securitisation and Others decreased respectively by EUR 50 million and EUR 3 million.

The tables below illustrate these exposure evolutions, broken down by both counterparty type and geographic axes.

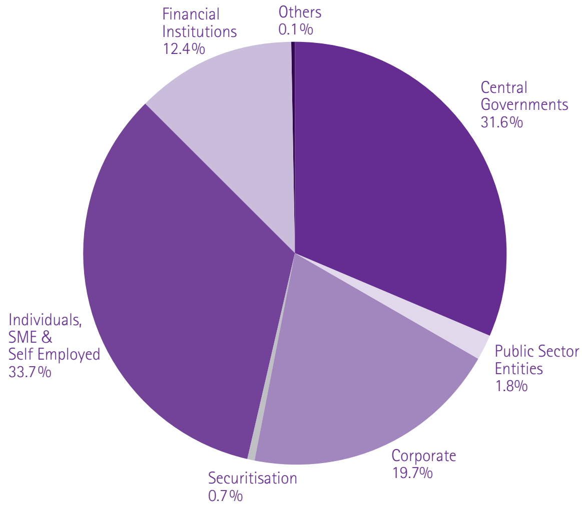
Exposure by type of counterparty

As at June 30, 2018, 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 33.7% of the overall exposure.

The Central Governments exposure weighting increased slightly compared with year-end 2017 and remained the second segment of the Bank's portfolio, representing 31.6% of the overall exposure.

EXPOSURES BY COUNTERPARTY CATEGORY

(in EUR million)	30/06/17	31/12/17	30/06/18	Variation
Central Governments	6,688	8,032	9,078	1,046
Public Sector Entities	1,933	501	524	22
Corporate	5,050	5,476	5,648	172
Securitisation	256	241	190	(50)
Individuals, SME & Self Employed	8,541	8,659	9,675	1,016
Financial Institutions	3,757	3,032	3,568	536
Others	35	5	2	(3)
TOTAL	**26,260**	**25,946**	**28,686**	**2,739**



Exposure by geographical region

As at June 30, 2018, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (46.8%), Switzerland (14.3%), France (9.8%), Belgium (5.3%) and Germany (4.1%).

EXPOSURES BY GEOGRAPHIC REGION

(in EUR million)	30/06/17	31/12/17	30/06/18	Variation
Belgium	1,385	1,440	1,519	78
France	2,571	2,684	2,807	123
Germany	1,447	1,352	1,179	(172)
Ireland	387	383	420	37
Italy	114	36	29	(6)
Luxembourg	12,642	13,207	13,417	210
Spain	729	734	846	111
Other EU countries	1,817	1,640	1,645	5
Rest of Europe	508	521	603	82
Switzerland	2,639	2,171	4,106	1,935
United States and Canada	742	768	777	10
Asia	304	129	182	53
Middle East	514	426	640	214
Australia	240	270	257	(13)
Others	220	185	259	74
TOTAL	**26,260**	**25,946**	**28,686**	**2,739**

Exposure to PIIGS

The breakdown of the government bond portfolio for PIIGS[1] by maturity bucket is provided hereafter:

	31/12/17	30/06/2018										
(in EUR million)		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Ireland	277	0	0	0	0	0	76	107	88	0	50	321
Spain	593	31	37	79	39	63	95	43	72	159	25	643
TOTAL	870	31	37	79	39	63	171	150	160	159	75	964

The Bank's portfolio exposure on Ireland and Spain has increased compared to year-end 2017 as it took market opportunities. These two countries have benefited from a favorable macroeconomic environment. At the end of June 2018, the Bank has no investment in Portuguese, Greek, and Italian government bonds.

Forbearance

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"). These measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

Once these 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" (GIP).

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 file 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 June 30, 2018, BIL group's forborne exposures amounted to EUR 258.9 million (including EUR 1.2 million as given banking guarantees) compared to EUR 283.4 million at year-end 2017 (including EUR 3.7 million as given banking guarantees).

The decrease is explained by the exit of forborne exposures after being classified as forborne for 2 years (3 years for non performing exposures) and the repayment of few major exposures.

[1] Namely Portugal, Italy, Ireland, Greece and Spain.

Credit quality of forborne financial assets

Information on forborne financial assets broken down by category (i.e. neither past due nor impaired, past due but not impaired and impaired) and counterparty type is disclosed in the following table.

(in EUR million)	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Corporate	26.3	4.6	40.8	71.7
Individuals, SME & Self Employed	146.6	20.0	16.8	183.4
Institutional clients	3.8	-	-	3.8
TOTAL	**176.7**	**24.6**	**57.6**	**258.9**

Forborne assets split by industry sector and geographical region

Breakdown of the forborne financial assets by industry sector and geographical region is disclosed hereafter:

SECTOR	BELGIUM	FRANCE	GERMANY	LUXEMBOURG	OTHERS	REST OF EUROPE	TOTAL
Accommodation and food service activities	-	-	1.7	3.4	-	-	**5.1**
Administrative and support service activities	-	-	0.8	0.3	-	-	**1.0**
Agriculture, forestry and fishing	-	-	-	0.7	-	-	**0.7**
Arts, entertainment and recreation	-	-	1.7	-	-	-	**1.7**
Construction	0.1	10.0	0.1	10.1	-	-	**20.2**
Electricity, gas, steam and air conditioning supply	-	-	-	35.7	-	-	**35.7**
Financial and insurance activities	-	-	-	47.5	1.4	9.4	**58.2**
Human health and social work activities	-	-	-	5.8	-	-	**5.8**
Information et communication	-	-	-	1.2	-	0.7	**1.9**
Manufacturing	-	-	-	0.6	-	-	**0.6**
Other service activities	-	-	1.9	0.2	-	-	**2.1**
Professional, scientific and technical activities	-	0.7	0.1	5.3	-	-	**6.1**
Real estate activities	5.8	29.8	2.2	9.0	-	44.8	**91.6**
Transportation and storage	-	-	-	0.1	-	-	**0.1**
Undefined activities	0.6	4.3	0.8	10.3	-	-	**16.0**
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	0.1	0.4	11.3	-	-	**11.8**
TOTAL	**6.5**	**44.9**	**9.7**	**141.5**	**1.4**	**54.9**	**258.9**

3. Market risk

Treasury and Financial Markets

VaR (10 days, 99%) per activity	30/06/17	31/12/17	30/06/18		
(in EUR million)	TOTAL		Interest rate & FX (trading and banking)[1]	Equities Trading	TOTAL
Average	0.40	0.38	0.36	0.01	0.36
End of period	0.37	0.58	0.26	0.01	0.26
Maximum	0.68	0.94	0.74	0.04	0.74
Limit	8		8		

Given the market environment (low interest rates, FX volatility, high level of stock market), the Bank only has a low exposure.

Investment Portfolio

BIL continued its investments in the portfolio during the first semester of 2018. The interest-rate risk of the Investment Portfolio is transferred and managed by the Treasury department or by the ALM department, depending on various criteria (i.e. maturity, sector).

The Investment Portfolio has a total nominal exposure of EUR 5.7 billion as at June 30, 2018 (versus EUR 5.6 billion as at December 31, 2017).

The majority of the bonds are classified in the Hold-To-Collect portfolio: EUR 4.2 billion as of June 30, 2018 (versus EUR 3.7 billion as at December 31, 2017). The remaining part is classified in Hold-to-Collect and Sell portfolio: EUR 1.5 billion (EUR 1.9 billion as at December 31, 2017).

As far as the Hold-to-Collect and Sell classified bond portfolio is concerned, the sensitivity of fair value (and the OCI reserve), to a one basis point widening of the spread, was EUR -0.7 million as at June 30, 2018 (compared with EUR -0.9 million per basis point as at December 31, 2017).

The following table discloses the sensitivity of the Investment Portfolio including Hold-to-Collect and Sell and Hold-to-Collect book.

	Notional amount			Rate bpv			Spread bpv		
(in EUR million)	30/06/17	31/12/17	30/06/18	30/06/17	31/12/17	30/06/18	30/06/17	31/12/17	30/06/18
Treasury	2,526	2,107	2,204	(0.11)	(0.08)	(0.07)	(0.98)	(0.91)	(0.96)
ALM	3,221	3,465	3,476	(1.32)	(1.32)	(1.17)	(2.25)	(2.28)	(2.25)

[1] Excluding asset & liability management (ALM).

4. Asset quality[1]

Non-impaired loans increased slightly during the first semester 2018 while impaired loans to customers and specific provisions decreased.

(in EUR thousands)	30/06/17 (IFRS9)	31/12/17 (IFRS9)	30/06/18
Gross amount of non-doubtful loans	12,228,266	12,739,242	12,894,604
Gross amount loans to customers classified as stage 3 (IFRS9)	698,582	665,988	515,008
Stage 3 ECL provisions	301,000	258,504	250,574
Asset quality ratio	5.40%	4.97%	3.84%
Coverage ratio	43.09%	38.82%	48.65%

The asset quality ratio amounts to 3.84% as at June 30, 2018 and has decreased when compared to the 2017 year-end situation (4.97%).

5. Solvency monitoring

See Note 8 of the interim condensed consolidated financial statements.

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

Consolidated management report

Interim condensed consolidated financial statements

Interim condensed consolidated financial statements

Report of the "réviseur d'entreprises agréé" on the review of interim financial information

To the Shareholders of Banque Internationale à Luxembourg S.A.
69, Route d'Esch
L-2953 Luxembourg
Grand Duchy of Luxembourg

Report on review of interim financial statements

INTRODUCTION

We have reviewed the accompanying condensed consolidated balance sheet of Banque Internationale à Luxembourg S.A. as of June 30, 2018 and the related condensed consolidated statements of operations, comprehensive income, changes in equity and cash flows for the six-month period then ended (collectively, the "interim financial statements") and the notes thereon.

The Board of Director's is responsible for the preparation and the fair presentation of the interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union. Our responsibility is to express a conclusion on the interim financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, as adopted by the Institut des Réviseurs d'Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

August 30, 2018

Consolidated balance sheet

ASSETS (in EUR)		IAS39 **31/12/17**	IFRS9 **31/12/17 (unaudited)**	IFRS9 **30/06/18**
I.	Cash, balances with central banks and demand deposits	2,795,735,288	2,795,735,288	4,167,948,858
II.	Financial assets held for trading	70,526,377	70,526,377	172,427,228
III.	Financial investments measured at fair value		2,114,499,397	1,690,261,532
	Financial assets at fair value through other comprehensive income		*2,096,467,651*	*1,672,374,257*
	Non-trading financial assets mandatorily at fair value through profit or loss		*18,031,746*	*17,887,275*
	Financial investments available for sale	4,178,699,775		
IV.	Loans and advances to credit institutions	653,467,381	653,431,145	819,741,062
V.	Loans and advances to customers	13,344,203,406	13,112,357,377	13,126,763,349
VI.	Financial investments measured at amortised cost		4,023,953,729	4,559,851,398
	Financial investments held to maturity	1,753,271,909		
VII.	Derivatives	227,748,388	227,748,388	280,122,438
VIII.	Fair value revaluation of portfolio hedged against interest rate risk	3,175,567	3,175,567	2,280,246
IX.	Investments in subsidaries, joint ventures and associates	25,225,654	23,687,019	23,284,362
X.	Investment property	114,161,786	114,161,786	111,001,218
XI.	Property, plant and equipment	111,832,558	111,832,558	105,043,667
XII.	Intangible fixed assets and goodwill	161,458,649	161,458,649	176,683,616
XIII.	Current tax assets	224,374	224,374	377,107
XIV.	Deferred tax assets	238,463,684	246,750,714	238,920,837
XV.	Other assets	74,322,139	74,322,139	75,416,635
TOTAL ASSETS		**23,752,516,935**	**23,733,864,507**	**25,550,123,553**

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

Consolidated management report

Interim condensed consolidated financial statements

LIABILITIES (in EUR)		IAS39 **31/12/17**	IFRS9 **31/12/17 (unaudited)**	IFRS9 **30/06/18**
I.	Amounts due to credit institutions	2,787,854,788	2,787,854,788	2,758,554,946
II.	Amounts due to customers	16,315,477,809	16,315,477,809	17,983,264,274
III.	Financial liabilities measured at fair value through profit or loss	776,333,210	776,333,210	859,831,909
IV.	Derivatives	384,294,457	384,294,457	376,631,385
V.	Fair value revaluation of portfolio hedged against interest rate risk	35,131,162	35,131,162	30,243,152
VI.	Debt securities	1,580,051,579	1,580,051,579	1,618,401,347
VII.	Subordinated debts	281,864,136	281,864,136	284,037,640
VIII.	Provisions and other obligations	67,858,620	74,367,028	72,073,925
IX.	Current tax liabilities	4,452,914	4,452,914	4,900,418
X.	Deferred tax liabilities	4,641,338	4,641,338	4,889,267
XI.	Other liabilities	228,254,924	228,254,924	265,190,792
TOTAL LIABILITIES		**22,466,214,937**	**22,472,723,345**	**24,258,019,055**

SHAREHOLDERS' EQUITY (in EUR)		IAS39 **31/12/17**	IFRS9 **31/12/17 (unaudited)**	IFRS9 **30/06/18**
XII.	Subscribed capital	141,212,330	141,212,330	141,212,330
XIV.	Additional paid-in capital	708,216,940	708,216,940	708,216,940
XV.	Treasury shares	(1,455,000)	(1,455,000)	(1,455,000)
XVI.	Reserves and retained earnings	275,198,005	264,797,080	380,561,048
XVII.	Net income for the year	116,643,342	123,064,142	55,003,857
CORE SHAREHOLDERS' EQUITY		**1,239,815,617**	**1,235,835,492**	**1,283,539,175**
XVII.	Gains and losses not recognised in the consolidated statement of income	46,486,381	25,305,670	8,565,323
	a) Financial instruments at fair value through other comprehensive income		46,131,161	33,291,531
	b) AFS reserve	65,617,927		
	c) Other reserves	(19,131,546)	(20,825,491)	(24,726,208)
GROUP EQUITY		**1,286,301,998**	**1,261,141,162**	**1,292,104,498**
XIX.	Non-controlling interest	0	0	0
TOTAL SHAREHOLDERS' EQUITY		**1,286,301,998**	**1,261,141,162**	**1,292,104,498**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**23,752,516,935**	**23,733,864,507**	**25,550,123,553**

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

Consolidated statement of income

(in EUR)		IAS39 **30/06/17**	IFRS9 **30/06/17 (unaudited)**	IFRS9 **30/06/18**
I.	Interest and similar income	255,281,603	255,281,603	276,460,903
	of which : Interest revenue calculated using the effective interest method	*202,365,565*	*202,365,565*	*191,997,925*
II.	Interest and similar expenses	(103,301,227)	(103,301,227)	(120,049,312)
III.	Dividend income	6,502	6,502	428,171
IV.	Net income from associates	1,443,464	5,875,476	811,624
V.	Net trading income		1,727,826	750,387
	Net trading income and net result of hedge accounting	5,317,131		
VI.	Net income on financial instruments measured at fair value and net result of hedge accounting		51,970,842	20,684,907
	Net income on investments	54,905,352		
VII.	Net income on derecognition of financial instruments at amortised cost		2,482,777	2,123,789
VIII.	Fee and commission income	117,649,921	117,649,921	120,737,334
IX.	Fee and commission expenses	(16,540,737)	(16,540,737)	(21,203,530)
X.	Other net income	(15,278,752)	(15,294,020)	(12,294,556)
INCOME		**299,483,257**	**299,858,963**	**268,449,717**
X.	Staff expenses	(107,383,776)	(107,383,776)	(106,987,748)
XI.	General and administrative expenses	(66,603,071)	(66,603,071)	(66,450,464)
XII.	Amortisation of tangible and intangible fixed assets	(14,539,618)	(14,539,618)	(24,431,769)
EXPENSES		**(188,526,465)**	**(188,526,465)**	**(197,869,981)**
GROSS OPERATING INCOME		**110,956,792**	**111,332,498**	**70,579,736**
XIV.	Impairments on financial instruments and provisions for credit commitments	(5,336,775)	(10,147,664)	2,646,727
XV.	Provisions for legal litigations	0	0	0
NET INCOME BEFORE TAX		**105,620,017**	**101,184,834**	**73,226,463**
XVI.	Tax expenses	(7,519,180)	(6,623,656)	(18,222,606)
NET INCOME FOR THE YEAR		**98,100,837**	**94,561,178**	**55,003,857**
	Net income - Group share	98,100,837	94,561,178	55,003,857
	Non-controlling interest	0	0	0

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

Consolidated statement of comprehensive income

(in EUR)	IAS39 **30/06/17**	IFRS9 **30/06/18**
NET INCOME FOR THE YEAR RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**98,100,837**	**55,003,857**
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**(39,391,997)**	**(16,740,352)**
Items that will not be reclassified to profit or loss	**194,825**	**3,334,999**
Actuarial gains (losses) on defined benefit pension plans	194,825	(774,917)
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		(83,454)
Fair value changes of equity instruments measured at fair value through other comprehensive income		4,193,370
Items that may be reclassified to profit or loss	**(39,586,822)**	**(20,075,351)**
Gains (losses) on net investment hedge	54,875	(39,372)
Translation adjustments	947,719	(685,152)
Gains (losses) on cash flow hedge	6,725,827	(3,146,462)
Fair value changes of debt instruments and loans & advances at fair value through other comprehensive income		(23,011,832)
Unrealised gains (losses) on available for sale financial investments	(55,618,849)	
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	(4,393,776)	0
Tax on items that may be reclassified to profit or loss	12,697,382	6,807,467
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**58,708,840**	**38,263,505**
Attributable to equity holders of the parent company	**58,708,840**	**38,263,505**
Attributable to non-controlling interests	0	0

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

Consolidated statement of changes in equity

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings[1]	Net income for the year	Core shareholders' equity
As at 01/01/17 - IAS39	**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)
Classification of income 2016				110,362,021	(110,362,021)	0
Interest on contingent convertible bond				(7,140,094)		(7,140,094)
Dividend received on own shares				28,858		28,858
Net income for the year					98,100,837	98,100,837
As at 30/06/17 - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**275,198,006**	**98,100,837**	**1,221,273,113**

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 - IAS39	**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	(5,124,472)		(467,871)			(5,592,343)
Net change in fair value through equity - Cash flow hedges		1,203,896				1,203,896
Translation adjustments	(10,410)			194,824	947,719	1,132,133
Cancellation of FV following AFS disposals	(36,022,924)		(3,925,905)			(39,948,829)
Cash flow hedge + Break in hedging		3,813,145				3,813,145
As at 30/06/17 - IAS39	**58,617,806**	**(3,013,902)**	**1,696,728**	**(13,450,811)**	**(13,879,861)**	**29,969,960**

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 - IAS39	**0**	**0**	**0**
As at 30/06/17 - IAS39	**0**	**0**	**0**

The notes are an integral part of these interim condensed 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 June 30, 2017, translation adjustments comprise an amount of EUR -51,909,052 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

CORE SHAREHOLDERS' EQUITY GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings[1]	Net income for the year	Core shareholders' equity
As at 31/12/17 - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**275,198,005**	**116,643,342**	**1,239,815,617**
Impact of adopting IFRS 9				(10,400,925)	6,420,800	(3,980,125)
As at 01/01/18 - IFRS9 (unaudited)	**141,212,330**	**708,216,940**	**(1,455,000)**	**264,797,080**	**123,064,142**	**1,235,835,492**
Classification of income 2017				123,064,142	(123,064,142)	0
Interest on contingent convertible bond				(7,299,442)		(7,299,442)
Realised performance on equities FVTOCI				(732)		(732)
Net income for the year					55,003,857	55,003,857
As at 30/06/18 - IFRS9	**141,212,330**	**708,216,940**	**(1,455,000)**	**380,561,048**	**55,003,857**	**1,283,539,175**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	Financial instruments at FV through OCI	Derivatives (CFH)	Associates	Other reserves	Translation adjustments[2]	Gains and losses not recognised in the consolidated statement of income
As at 31/12/17 - IAS39	**65,617,927**	**(4,041,386)**	**1,342,968**	**(6,408,082)**	**(10,025,046)**	**46,486,381**
Impact of adopting IFRS 9	(19,486,766)	(670,678)	(1,342,968)	323,122	(3,421)	(21,180,711)
As at 01/01/18 - IFRS9 (unaudited)	**46,131,161**	**(4,712,064)**	**0**	**(6,084,960)**	**(10,028,467)**	**25,305,670**
Net change in fair value through equity - FV through OCI	(1,854,851)			(754,262)		(2,609,112)
Net change in fair value through equity - Cash flow hedges		(2,521,457)				(2,521,457)
Translation adjustments	(4,685)			(104,109)	(685,148)	(793,942)
Cancellation of FV following FVTOCI disposals	(10,980,094)					(10,980,094)
Cash flow hedge + Break in hedging		164,258				164,258
As at 30/06/18 - IFRS9	**33,291,531**	**(7,069,263)**	**0**	**(6,943,331)**	**(10,713,615)**	**8,565,323**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the consolidated statement of income	Non-controlling interests
As at 01/01/18 - IFRS9	**0**	**0**	**0**
As at 30/06/18 - IFRS9	**0**	**0**	**0**

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

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 1,4 million according to Circular CSSF 14/599 and legal reserve for EUR 14,1 million.

[2] As at June 30, 2018, translation adjustments comprise an amount of EUR -43,684,632 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Consolidated cash flow statement

(in EUR)	IAS39 31/12/17	IFRS9 31/12/17 (unaudited)	IFRS9 30/06/18
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year	116,643,342	123,064,142	55,003,857
Net income attributable to minority interests	0	0	0
Adjustment for :			
- Depreciation and amortisation	38,667,086	38,667,086	27,786,456
- Impairment on bonds, equities and other assets	(10,939,909)	(22,646,061)	(6,674,699)
- Net gains / (losses) on investments	(4,538)	(32,149)	(292,024)
- Provisions (including collective impairment)	11,607,913	15,667,425	(1,880,222)
- Change in unrealised gains / (losses)	3,750,663	3,750,663	163,535
- Income / (expense) from associates	(2,912,673)	(2,717,007)	(811,624)
- Dividends from associates	5,646,292	5,646,292	1,214,280
- Deferred taxes	18,246,671	20,452,166	17,777,826
Changes in operating assets and liabilities	516,307,663	515,159,953	1,366,587,847
NET CASH FLOW FROM OPERATING ACTIVITIES	**697,012,510**	**697,012,510**	**1,458,875,232**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(79,193,238)	(79,193,238)	(32,671,350)
Sale of fixed assets	1,741,337	1,741,337	743,288
Sale of non-consolidated shares	43,204	43,204	1,000
Sale of subsidiaries	(235,752)	(235,752)	0
NET CASH FLOW FROM INVESTING ACTIVITIES	**(77,644,449)**	**(77,644,449)**	**(31,927,062)**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	(60,015,240)	(60,015,240)	0
NET CASH FLOW FROM FINANCING ACTIVITIES	**(60,015,240)**	**(60,015,240)**	**0**
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	**559,352,821**	**559,352,821**	**1,426,948,170**
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR	**2,439,655,439**	**2,439,655,439**	**2,969,899,355**
Net cash flow from operating activities	697,012,510	697,012,510	1,458,875,232
Net cash flow from investing activities	(77,644,449)	(77,644,449)	(31,927,062)
Net cash flow from financing activities	(60,015,240)	(60,015,240)	0
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents	(27,384,924)	(26,853,933)	3,054,649
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	**2,971,623,336**	**2,972,154,327**	**4,399,902,174**
ADDITIONAL INFORMATION			
Taxes paid	(388,274)	(388,274)	(151,259)
Dividends received	4,429,900	4,429,900	428,171
Interest received	508,027,813	508,027,813	271,102,943
Interest paid	(197,909,093)	(197,909,093)	(117,416,968)

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

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

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

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

(in EUR)	As at 01/01/17 (unaudited)	Acquisition – Reimbursement	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	As at 30/06/17 (unaudited)
Subordinated debts	**294,629,761**	0	0	(7,041,077)	0	**287,588,684**
Non-Subordinated debts	**0**	0	0	0	0	**0**
Subscribed capital	**141,212,330**	0	0	0	0	**141,212,330**
Additional paid-in capital	**708,216,940**	0	0	0	0	**708,216,940**
Treasury shares	**(1,455,000)**	0	0	0	0	**(1,455,000)**

(in EUR)	As at 01/01/18	Acquisition – Reimbursement	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	As at 31/06/18
Subordinated debts	**283,347,225**	0	0	2,452,861	0	**285,800,086**
Non-Subordinated debts	**0**	0	0	0	0	**0**
Subscribed capital	**141,212,330**	0	0	0	0	**141,212,330**
Additional paid-in capital	**708,216,940**	0	0	0	0	**708,216,940**
Treasury shares	**(1,455,000)**	0	0	0	0	**(1,455,000)**

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

Notes to the interim condensed consolidated financial statements

Preliminary note:

Presentation of the interim condensed consolidated financial statements

If the balance of an item is nil for the period under review as well as for the comparative period, this item is not included in the interim condensed consolidated financial statements. This rule applies to the presentation of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement as well as to the notes to the interim condensed consolidated financial statements.

Note 1: Accounting principles and rules of the interim condensed 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.

Until June 30, 2018, the BIL group was 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 was integrated in the consolidated financial statements of Precision Capital SA, comprising the smallest body of undertakings of which BIL was a subsidiary. The registered office of Precision Capital SA is located in Luxembourg at 15, Boulevard Franklin Roosevelt, L-2450 Luxembourg and its consolidated accounts were available at the same address.

As from July 1, 2018, the BIL group is integrated in the consolidated financial statements of Legend Holdings Corporation, comprising the largest body of undertakings of which BIL forms part as a subsidiary. The registered office of Legend Holdings Corporation is located at Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing, the People's Republic of China. The BIL group is integrated in the consolidated financial statements of Beyond Leap Limited, comprising the smallest body of undertakings of which BIL forms part as a subsidiary. The registered office of Beyond Leap Limited is located at 27/F., One Exchange Square, Central, Hong Kong, 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 interim condensed consolidated financial statements were approved on July 30, 2018 by the Management Board and by the Board of Directors on August 22, 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these interim condensed 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 interim condensed consolidated financial statements are prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union (EU) and endorsed by the European Commission (EC) up to June 30, 2018.

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

A summary of the main accounting policies is provided in the consolidated financial statements as at December 31, 2017. Nevertheless, the accounting policies related to financial instruments have been amended since January 1, 2018 following the entry into force of IFRS 9. Therefore, the section 1.7 of the annual report as at December 31, 2017 is replaced by the section 1.3 of this semi-annual report 2018.

1.1.2 Accounting estimates and judgements

In preparing the interim condensed 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 interim condensed 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 interim condensed consolidated financial statements.

Judgements are made principally in the following areas:
- Determination on whether BIL group controls the investee, including special purpose entities;
- Classification of financial instruments into the appropriate category for measurement purposes based on the instrument's characteristics and BIL's intention;
- Identification of impairment triggers;
- 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;
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- The appropriateness of designating derivatives as hedging instruments; and
- Existence of a present obligation with probable outflows in the context of litigation.

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;
- The measurement of hedge effectiveness in hedging relations;
- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets;
- Estimation of the recoverable amount of cash-generating units for goodwill impairment;
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets; and
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets.

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 interim condensed consolidated 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 June 30, 2018.

1.2.1. IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2018

- IFRS 9 "Financial instruments" (issued on July 24, 2014): refer to section 1.3 and 1.4 for changes brought by the standard and the related impacts.
- IFRS 15 "Revenue from contracts with customers" (issued on May 28, 2014) including amendments to IFRS 15 "effective date of IFRS 15" (issued on September 11, 2015) and clarifications to IFRS 15 (issued on April 12, 2016). The standard does not have a material impact on BIL.
- IFRIC 22 "Foreign currency transactions and advance consideration" (issued on December 8, 2016): the text clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. No impact on BIL.
- Amendments to IAS 40 "Transfers of investment property" (issued on December 8, 2016): the amendments clarify the application of paragraph 57 of IAS 40. No impact on BIL.
- Amendments to IFRS 2 "Classification and measurement of share-based payment transactions" (issued on June 20, 2016): the amendments clarify the classification and measurement of share-based payment transactions. No impact on BIL.
- Annual improvements to IFRS standards 2014-2016 cycle (issued on December 8, 2016) has been endorsed on February 26, 2018:
  - The amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" aims to delete short-term exceptions and has no impact on BIL.
  - The amendment to IAS 28 "Investments in associates and joint ventures" clarifies the election to measure at fair value through profit or loss an investment in an associate or a joint venture and has no impact on BIL.
  - The amendment to IFRS 12 "Disclosure of interests in other entities" clarifies the scope of the standard. No impact on BIL.
- Amendments to IFRS 4 "applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts" (issued on September 12, 2016). No impact on BIL.

1.2.2. IASB and IFRIC texts endorsed by the European Commission during the current period but not yet applicable as from January 1, 2018

Amendments to IFRS 9 "Prepayments features with negative compensation" (issued on October 12, 2017). This amendment is applicable as from January 1, 2019 and does not impact BIL.

1.2.3. IASB and IFRIC texts issued during previous periods and neither endorsed nor applicable as at January 1, 2018

- IFRIC 23 "Uncertainty over income tax treatments" (issued on June 7, 2017). This standard is applicable as from January 1, 2019.
- Amendments to IAS 28 "Long-term interests in associates and joint ventures" (issued on October 12, 2017). This standard is applicable as at January 1, 2019.
- Annual improvements to IFRS standards 2015-2017 Cycle (issued on December 12, 2017). These improvements are applicable as from January 1, 2019.
- IFRS 17, "Insurance contracts" (issued on May 18, 2017). The standard is applicable as from January 1, 2021.

1.2.4. IASB and IFRIC texts issued during the current period but not yet endorsed by the European Commission

- Amendments to IAS 19 "Plan amendment, curtailment or settlement" (issued on February 7, 2018). These amendments are applicable as from January 1, 2019.
- Amendments to references to the conceptual framework in IFRS standards (issued on March 29, 2018). These amendments are applicable as from January 1, 2020.

1.3. Accounting policies of financial instruments

Financial instruments' classification, measurement and impairment are monitored by IFRS 9 "Financial instruments" which is effective since January 1, 2018.

1.3.1 Classification of financial assets

The financial assets are classified and subsequently measured at amortised cost, at fair value through other comprehensive income (without recycling to P&L for equities), or at fair value through profit or loss. In addition, financial assets may, at initial recognition, be irrevocably designated as measured at fair-value through profit or loss ("P&L") if doing so eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch").

The classification is based on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Business models

The first element driving the classification of a financial asset is the business model. There are three types of business models: hold-to-collect (HTC), hold-to-collect and sell (HTCS) and other business models.

Financial assets that are within the business model "Hold-to-collect" (HTC) are managed to realise cash flows by collecting contractual payments over the life of the instrument. Sales are not an integral part of the business model but may be consistent with the HTC cash flows business model when they are insignificant even if frequent, infrequent even if significant in value, realised closed to the maturity of the instrument or due to an increase in credit risk.

Financial assets that are within the business model "Hold-to-collect and sell" (HTCS) are managed to realise cash flows by both collecting contractual cash flows and selling financial assets. Selling financial assets is integral to achieving the business model's objective and compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales.

Financial assets which are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets are included into the remaining business model category.

The Bank has documented its business models for both the loans and the securities through internal policies.

Contractual cash flow characteristics of a financial asset

The second element driving the classification of a financial asset is the contractual cash flow characteristics.

Contractual cash flows that are "solely payments of principal and interest" on the principal amount outstanding ("SPPI") allow the classification of financial assets either at amortised cost or at fair-value through OCI according to the business model.

Contractual cash flows that are not SPPI imply the measurement of financial assets at fair-value through profit or loss (no matter which business model is chosen).

Contractual cash flows that are "SPPI" are consistent with a basic lending arrangement meaning that the interests include the consideration for the time value of money, a compensation for credit risk, other basic lending risks (such as liquidity risk), and costs (for example, administrative costs), and include a potential profit margin that is consistent with a basic lending arrangement.

BIL has documented the following policies to cover the SPPI process for both loans and securities.

Changes in business model and reclassification of financial assets

Reclassification of financial assets could occur when, and only when there is a change in business model for managing financial assets. The affected financial assets are then reclassified accordingly to the business model and to the cash flow characteristics. Changes in business model are expected to be very infrequent, as they are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties.

In the event of a reclassification, the reclassification applies prospectively from the reclassification date. Any previously recognised gains, losses (including impairment gains or losses) or interest shall not be restated.

1.3.2 Classification of financial liabilities

All financial liabilities are classified as financial liabilities at amortised cost and subsequently measured as such, unless they fall into the following categories:

- Financial liabilities held for trading which are measured at fair value through profit or loss (including derivatives);
- Financial liabilities designated at fair value through profit or loss (also called Fair Value Option/"FVO"): an entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss in case: it eliminates or significantly reduces an accounting mismatch or in case a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis.

In addition, the recognition of the change in own credit risk related to financial liabilities designated at fair value through profit or loss is recorded in other comprehensive income while other portions of fair value change is reported to P&L.

Finally, financial liabilities are not subject to reclassification, they are irrevocably classified at initial recognition.

1.3.3 Measurement of financial assets

Initial measurement

All financial assets (except trade receivables) are initially recognized at their fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price.

If the Bank determines that the fair value at initial recognition differs from the transaction price, the instrument is accounted at that date as follows:

(a) at the measurement required by IFRS 9 §5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. The difference between the fair value at initial recognition and the transaction price is recorded as a gain or loss;

(b) in all other cases, at the measurement required by IFRS 9 §5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the deferred difference is recorded as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement

(a) Financial assets at amortised cost

Financial assets are classified and therefore subsequently measured at amortised cost when they meet the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC CF); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

(b) Financial assets at fair-value through other comprehensive income (FVOCI)

Financial assets are classified and therefore subsequently measured at fair value through other comprehensive income when they meet the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Equity instruments that the entity has irrevocably designated at FVOCI at initial recognition are subsequently measured at fair-value through other comprehensive income. This refers to an option let to the discretion of the Bank to irrevocably classify at initial recognition and measure equity instruments that are not held for trading. This election is made on an instrument-by-instrument (i.e. share-by-share) basis. BIL has elected the FVOCI option for the investments in equity as well as equity funds which are not open-ended.

(*c) Financial assets at fair-value through profit or loss (FVTPL)*

Financial assets are classified and measured at FVTPL because they meet one of the following conditions:
- They are financial assets held for trading;
- They are non-trading financial assets mandatorily at fair value through profit or loss. It includes equities which are not at FVTOCI, non-trading financial assets which failed the SPPI test, and non-trading financial assets managed on a fair-value basis;
- They are financial assets designated at fair value through profit or loss. Financial assets may be irrevocably designated by the entity at FVTPL at initial recognition in case of accounting mismatch.

1.3.4 Derecognition of financial assets

Derecognition consists in the removal of a previously recognised financial asset from the statement of financial position. In line with IFRS 9 §3.2.3, the Bank derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred, and the transfer qualifies for derecognition.

1.3.5 Impairment of financial instruments

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:

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

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;
- Dt represents the discount factor at the date t; and
- 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.

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 with less than 90 days past due; or with x notches downgrades.
  The thresholds for specifying a significant increase in credit risk, and therefore causing a shift from Stage 1 to Stage 2, are conditional on 2 elements:
  - The type of counterparty: high (resp. low) default portfolios treat in a similar way both retail and SME counterparts (resp. large corporates, banks and sovereigns);
  - The rating at origination: the rating masterscale is divided into 4 segments in terms of credit risk level – low, medium, speculative and high – and for which a specified threshold is calculated.

- Stage 3: Loan is either in default, or in pre-litigation, or underperforming and in forbearance.

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 regulatory (Basel) parameters for IFRS 9 purposes.

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 contractual cash flows 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).

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

IFRS 9 has replaced the existing standard IAS 39 since January 1, 2018. The standard is divided into 3 sections:

1.4.1 Section I – Classification and measurement of financial instruments

As a result of the application of the classification and measurement requirements of IFRS 9, the Bank made the following reclassifications on its Investment Portfolio :

- 210 positions of debt securities for a nominal of EUR 2.12 billion have been reclassified from available for sale under IAS 39 to amortized cost under IFRS 9;
  Debt securities that have been reclassified to amortized cost are of four types: Sovereign and Agencies, Local Authorities, Covered Bonds and ABS. For Sovereign and Agencies, Local Authorities and Covered Bonds, these are ECB eligible assets and they serve as liquidity reserve for the bank in the framework of the Liquidity Coverage Ratio requirements, so they are expected to be held till maturity. For ABS, the Investment Portfolio only invests in Primary market and investments are retained long-term, it is why it was decided to reclassify all ABS to amortized cost. Indeed, since the beginning of the portfolio, there was no sale in this asset type;

- 105 positions of debt securities for a nominal of EUR 1.57 billion currently classified in held to maturity under IAS 39 have been reclassified to amortized cost under IFRS 9;

- 192 positions of debt securities for a nominal of EUR 1.77 billion have been 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 have been reclassified to fair value through other comprehensive income under IFRS 9;
  These 7 debt securities are of three types: Sovereign Supra and Local Authorities. Even though these assets could be classified in HTC, since these exposures present a significant expected capital gain and that the portfolio has to deliver a reasonable risk-adjusted return, it was decided that these exposures will be classified in HTCS as they are expected to be sold in the coming 3 years;

- 15 positions of debts securities for a nominal of EUR 0.22 billion have been reclassified from loans and receivables under IAS 39 to amortized cost under IFRS 9.

Remaining securities have been reclassified as described hereunder :
- open-ended funds for less than EUR 0.02 billion have been 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 have been 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 have been reclassified to amortized cost under IFRS 9.

Classification impact on BIL's equity:
- debt securities' reclassification due to the application of the new business models impacted the OCI reserve for EUR -8.8 million before taxes;
- equities for which the Bank has elected the fair-value through OCI option led to a transfer of EUR -18.8 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 brought to a transfer of EUR +1.2 million before taxes from the OCI reserve to retained earnings.

The overall classification impact on BIL's equity is EUR -9.0 million before taxes of which EUR +19.4 million in retained earnings and EUR -28.4 million in the OCI reserve.

1.4.2 Section II – Impairments

Throughout 2017, the Bank has been testing the application of the ECL methodology for its 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 ECLs and assessing the appropriateness of 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, the Management Body received regular program updates, including the results of parallel ECL allowances.

IFRS 9 impairment impact: As at January 1, 2018, 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 is partially compensated by the reversal of the IAS 39 collective provisions (IBNR model) of EUR +29.3 million.

The retained earnings have been 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 had positively impact the OCI reserve for EUR +0.2 million before taxes, as the fair value of the instruments has not changed.

1.4.3 Section III – Hedging

When an entity first applies IFRS 9, it may choose to continue to apply the hedge accounting requirements of IAS 39 as its accounting policy until a formal standard on macro hedging is introduced. This policy shall apply to all of an entity's hedging relationships. At this stage, the Bank will retain the IAS 39 accounting policy requirements for hedging purposes.

Reclassification performed following to the entry into force of IFRS 9 has brought some new hedging opportunities.

1.4.4 Overall impact of IFRS 9

The First Time Adoption (FTA) consolidated impact amounts to EUR -33.4 million (before taxes) including the impairment and the classification impacts.

IFRS9 FTA OWN FUNDS RECONCILIATION (UNAUDITED)

	EQUITY	RESULT	OCI
IFRS 9 figures	**1,112,771,350**	**123,064,142**	**25,305,670**
IAS 39 figures	**1,123,172,275**	**116,643,342**	**46,486,381**
Delta	**(10,400,925)**	**6,420,800**	**(21,180,711)**
Reversal of collective provisioning	31,512,282	(2,228,141)	0
Deferred Tax / reversal of collective provisioning	(8,180,458)	584,698	0
Stage 1 ECL 12 months	(22,327,008)	(623,107)	0
Deferred Tax / Stage 1 ECL 12 months	5,694,214	299,530	0
Stage 2 ECL maturity	(15,462,251)	2,142,405	0
Deferred Tax / Stage 2 ECL maturity	4,021,683	(609,128)	0
Cancellation of AFS Reserve for Financial assets classified at amortized cost under IFRS9	0	0	(19,468,142)
Deferred Tax / Cancellation of AFS Reserve for Financial assets at amortized cost under IFRS 9	0	0	5,063,664
NRP[1] - Financial Assets at FVTOCI initially at amortized cost	0	0	12,049,082
NRP - Deferred Tax /Financial Assets at FVTOCI initially at amortized cost	0	0	(3,133,966)
OCR/FVO liabilities transfer from P&L to NRP	(762,918)	326,208	436,710
Deferred Taxes/OCR on FVO liabilities (transfer from P&L to NRP)	198,435	(84,847)	(113,588)
FVTPL on non SPPI Financial assets - Equities	396,637	825,456	(1,222,092)
Deferred Taxes / FVTPL on non SPPI Financial assets - Equities	(103,890)	(213,977)	317,866
Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	(27,611)	27,611	0
Deferred Taxes / Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	7,182	(7,182)	0
FV adjustement on Impaired Equities at FV through OCI (transfer from P&L to NRP)	18,875,260	(30,762)	(18,844,498)
Deferred Taxes / FV adjustment on Impaired Equities at FV through OCI (transfer from P&L to NRP)	(4,909,457)	8,002	4,901,454
Stage 1 ECL 12 months - Off-balance sheet items	(2,641,044)	(1,449,621)	0
Deferred Tax / Stage 1 ECL 12 months - Off-balance sheet items	683,721	378,582	0
Stage 2 ECL maturity - Off-balance sheet items	(367,326)	(964,259)	0
Deferred Tax / Stage 2 ECL maturity - Off-balance sheet items	95,341	246,909	0
FV adjustments following ECL computation	0	0	242,154
Deferred Taxes / FV adjustments following ECL computation	0	0	(62,966)
Stage 3 ECL maturity (new)	(22,165,066)	10,949,540	0
Deferred Tax / Stage 3 ECL maturity	5,765,134	(2,847,973)	0
Stage 3 ECL maturity - Off-balance sheet items	(929,390)	(153,370)	0
Deferred Tax / Stage 3 ECL maturity - Off-balance sheet items	241,734	39,892	0
Other impacts (Bourse de Luxembourg - IFRS 9 & IFRS15)	0	(195,666)	(1,342,968)
Conversion differences	(16,129)	0	(3,421)
TOTAL	**(10,400,925)**	**6,420,800**	**(21,180,711)**

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.

1.5. Change in previous year figures

The demand deposits as of December 31, 2017 which amounts to EUR 173,800,837 and that were classified under the caption "Loans and advances to credit institutions" in the annual report 2017 have been reclassified under the caption "Cash, balances with central banks and demand deposits" in this report. This reclassification is to align with the current financial regulatory reporting.

[1] Non realised performance.

Note 2: Material changes in scope of consolidation since January 1, 2018

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
N/A

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

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

B. Main changes in the Group's interest percentage

N/A

C. Changes in corporate names

N/A

Note 3: Business 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 2018, BIL kept the segmentation of its business lines:

- **"Retail Banking, Corporate & Institutional 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 such as DGS and Resolution Fund contributions.

INCOME (in EUR thousands)	**30/06/17 (IFRS 9) (unaudited)**			
	Income	***of which net income from associates***	***of which interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	252,770	*0*	*142,104*	80,602
Treasury and Financial Markets	62,020	*0*	*10,759*	43,301
Group Center	(14,931)	*5,875*	*(876)*	(22,718)
TOTAL	**299,859**	***5,875***	***151,987***	**101,185**
Net income before tax				101,185
Tax expenses				(6,624)
NET INCOME				**94,561**

	30/06/18 (IFRS 9)			
	Income	***of which net income from associates***	***of which interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	253,503	*0*	*147,799*	90,330
Treasury and Financial Markets	31,778	*0*	*10,086*	12,580
Group Center	(16,831)	*812*	*(1,045)*	(29,684)
TOTAL	**268,450**	***812***	***156,840***	**73,226**
Net income before tax				73,226
Tax expenses				(18,223)
NET INCOME				**55,004**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/17 (IFRS 9) (unaudited)		30/06/18 (IFRS 9)	
	Assets	Liabilities	Assets	Liabilities
Retail, Corporate and Weath Management	13,112,357	17,681,712	13,126,763	19,252,049
Treasury and Financial Markets	9,839,462	4,075,479	11,638,798	4,225,442
Group Center	782,046	715,532	784,563	780,528
TOTAL	**23,733,865**	**22,472,723**	**25,550,124**	**24,258,019**

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

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

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

Note 4: Subordinated debts and debt securities

Subordinated debts

ANALYSIS BY NATURE	*IAS39* 31/12/17	*IFRS9* 31/12/17 (unaudited)	*IFRS9* 30/06/18
Non-convertible subordinated debts [1]	132,256,388	132,256,388	134,420,976
Contingent convertible bond (compound instrument) [2]	149,607,748	149,607,748	149,616,664
TOTAL	**281,864,136**	**281,864,136**	**284,037,640**

Debt securities

ANALYSIS BY NATURE	*IAS39* 31/12/17	*IFRS9* 31/12/17 (unaudited)	*IFRS9* 30/06/18
Certificates of deposit	38,508,748	38,508,748	28,647,826
Non-convertible bonds	1,541,542,831	1,541,542,831	1,589,753,521
TOTAL	**1,580,051,579**	**1,580,051,579**	**1,618,401,347**

Financial liabilities measured at fair value through profit or loss

ANALYSIS BY NATURE	*IAS39* 31/12/17	*IFRS9* 31/12/17 (unaudited)	*IFRS9* 30/06/18
Non-subordinated liabilities	776,333,210	776,333,210	859,831,909
TOTAL	**776,333,210**	**776,333,210**	**859,831,909**

[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.

Note 5: Exchange rates

The main exchange rates used are the following:

		30/06/17		31/12/17		30/06/18	
		Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	AUD	1.4855	1.4435	1.5356	1.4811	1.5770	1.5705
Canadian Dollar	CAD	1.4796	1.4532	1.5057	1.4744	1.5351	1.5463
Swiss Franc	CHF	1.0927	1.0776	1.1718	1.1166	1.1566	1.1648
Danish Krone	DKK	7.4360	7.4367	7.4476	7.4391	7.4505	7.4479
Pound Sterling	GBP	0.8797	0.8606	0.8877	0.8758	0.8846	0.8796
Hong Kong Dollar	HKD	8.9125	8.5095	9.3746	8.8766	9.1454	9.4587
Japanese Yen	JPY	128.0075	122.1588	134.9569	127.2486	128.9623	130.8119
Norwegian Krone	NOK	9.5627	9.2178	9.8212	9.3791	9.5221	9.5957
Polish Zloty	PLN	4.2247	4.2499	4.1824	4.2446	4.3738	4.2426
Swedish Krona	SEK	9.6321	9.5997	9.8189	9.6466	10.4506	10.2391
Singapore Dollar	SGD	1.5708	1.5243	1.6029	1.5627	1.5892	1.6020
US Dollar	USD	1.1417	1.0941	1.1998	1.1387	1.1655	1.2065

Note 6: Material items in the statement of income

For the period ending June 30, 2018, the material items in the statement of income are the following:

- Income reached EUR 268 million at the end of June 2018 compared with EUR 299 million at the end of June 2017, essentially impacted by a decrease of net income on financial instruments which amounted to EUR 20.6 million as at June 30, 2018 compared to EUR 51.9 million as at June 30, 2017;
- The general expenses totalled EUR 198 million as at June 30, 2018 showing an increase of 5% compared with June 2017. This increase is mainly due to increased depreciation in the context of the IT strategy. The Bank continues to develop the new Core Banking System and enhance digitalization;
- The Bank recorded a positive net write back of provisions on loans and advances and financial assets of EUR 3 million in June 2018;
- 2017 tax expenses included a write back of impairments on tax losses carried forward which explain a large part of the tax expenses evolution.

Note 7: Post-balance sheet events

The acquisition of Precision Capital's 89.936% stake in BIL by Legend Holdings Corp. closed on July 2, 2018 following regulatory approval of the transaction. The transaction has therefore been successfully completed.

Note 8: Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

	31/12/17 (IAS39)	01/01/18 (IFRS9) (unaudited)	30/06/18 (IFRS9)
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,093,952,223**	**1,108,355,090**	**1,128,878,357**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**810,604,998**	**825,007,865**	**843,078,271**
Capital, share premium and own shares	847,974,270	847,974,270	847,974,270
Reserves, retained earnings and eligible result	385,664,387	378,733,106	389,126,371
Regulatory and transitional adjustments[1]	(423,033,659)	(401,699,511)	(394,022,370)
ADDITIONAL TIER 1 CAPITAL (AT1)	**150,000,000**	**150,000,000**	**150,000,000**
Contingent convertible bond (issued on June 30, 2014)	150,000,000	150,000,000	150,000,000
TIER 2 CAPITAL (T2)	**133,347,225**	**133,347,225**	**135,800,086**
Subordinated liabilities	133,347,225	133,347,225	135,800,086
IRB excess	0	0	0
RISK WEIGHTED ASSETS	**6,639,600,765**	**6,678,145,585**	**7,043,469,422**
Credit risk	5,713,253,463	5,752,905,867	6,120,403,516
Market risk	69,754,297	68,432,242	66,522,956
Operational risk	830,998,897	830,998,897	830,998,897
Credit Value Adjustment	25,594,108	25,808,579	25,544,053
SOLVENCY RATIOS			
Common Equity Tier 1 Capital ratio	12.21%	12.35%	11.97%
Tier 1 ratio	14.47%	14.60%	14.10%
Capital Adequacy ratio	16.48%	16.60%	16.03%

[1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1**	**31/12/17**	**01/01/18**	**30/06/18**
Goodwill and intangible assets	(161,458,649)	(161,458,649)	(176,683,616)
Deferred tax assets that rely on future probability	(176,179,924)	(222,570,681)	(213,161,681)
Fair value reserves related to gains or losses cash flow hedges	3,157,763	3,828,441	6,156,509
Gains or losses on liabilities at fair value resulting from own credit	(436,710)	(436,710)	(323,919)
Additional Value Adjustment	(1,458,903)	(3,573,402)	(3,379,274)
Defined benefit pension fund assets	(6,464,000)	(6,464,000)	(5,620,378)
AGDL reserves	(11,024,510)	(11,024,510)	(1,010,010)
Unrealised gains or losses measured at fair value	(69,168,726)	0	0
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1	**(423,033,659)**	**(401,699,511)**	**(394,022,370)**

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14/01 (abrogated) and BCE/2016/4).

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.

Note 9: 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 June 30, 2018, 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 Bank still retains a provision for risks related to a litigation in a tax matter.

Note 10: Fair value

A. BREAKDOWN OF FAIR VALUE

A.1. Fair value of assets	IFRS9 31/12/17 (unaudited)			IFRS9 30/06/18		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash, balances with central banks and demand deposits	2,795,735,288	2,795,735,288	0	4,167,948,858	4,167,948,858	0
Financial assets held for trading	70,526,377	70,526,377	0	172,427,228	172,427,228	0
Financial investments measured at fair value	2,114,499,397	2,114,499,397	0	1,690,261,532	1,690,261,532	0
Loans and advances to credit institutions	653,431,145	654,257,653	826,508	819,741,062	819,740,919	(143)
Loans and advances to customers	13,112,357,377	13,179,035,098	66,677,721	13,126,763,349	13,194,845,070	68,081,720
Financial investments measured at amortised cost	4,023,953,729	4,064,311,010	40,357,281	4,559,851,398	4,607,566,155	47,714,757
Derivatives	227,748,388	227,748,388	0	280,122,438	280,122,438	0
Fair value revaluation of portfolio hedged against interest rate risk	3,175,567	3,175,567	0	2,280,246	2,280,246	0
Investments in subsidaries, joint ventures and associates	23,687,019	23,687,019	0	23,284,362	23,284,362	0
Investment property	114,161,786	134,088,973	19,927,187	111,001,218	140,938,973	29,937,755
Property, plant and equipment	111,832,558	111,832,558	0	105,043,667	105,043,667	0
Intangible fixed assets and goodwill	161,458,649	161,458,649	0	176,683,616	176,683,616	0
Current tax assets	224,374	224,374	0	377,107	377,107	0
Deferred tax assets	246,750,714	246,750,714	0	238,920,837	238,920,837	0
Other assets	74,322,139	74,322,147	8	75,416,635	75,416,635	0
TOTAL	**23,733,864,507**	**23,861,653,212**	**127,788,705**	**25,550,123,553**	**25,695,857,643**	**145,734,089**

A.2. Fair value of liabilities	IFRS9 31/12/17 (unaudited)			IFRS9 30/06/18		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	2,787,854,788	2,788,524,471	(669,683)	2,758,554,946	2,757,972,839	(582,107)
Amounts due to customers	16,315,477,809	16,306,883,945	8,593,864	17,983,264,274	17,991,610,634	8,346,360
Financial liabilities measured at fair value through profit or loss	776,333,210	776,333,210	0	859,831,909	859,831,909	0
Derivatives	384,294,457	384,294,457	0	376,631,385	376,631,385	0
Fair value revaluation of portfolio hedged against interest rate risk	35,131,162	35,131,162	0	30,243,152	30,243,152	0
Debt securities	1,580,051,579	1,591,227,841	(11,176,262)	1,618,401,347	1,611,339,674	(7,061,673)
Subordinated debts	281,864,136	291,598,682	(9,734,546)	284,037,640	278,860,992	(5,176,648)
Provisions and other obligations	74,367,028	74,367,028	0	72,073,925	72,073,925	0
Current tax liabilities	4,452,914	4,452,914	0	4,900,418	4,900,418	0
Deferred tax liabilities	4,641,338	4,641,338	0	4,889,267	4,889,267	0
Other liabilities	228,254,924	228,254,924	0	265,190,792	265,190,792	0
TOTAL	**22,472,723,345**	**22,485,709,972**	**(12,986,627)**	**24,258,019,055**	**24,253,544,987**	**(4,474,068)**

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value.

Consolidated management report

Interim condensed consolidated financial statements

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	*IFRS9* 31/12/17 (unaudited)			
	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 investments measured at fair value	1,788,627,065	243,664,485	82,207,847	2,114,499,397
Derivatives	0	207,920,067	19,828,321	227,748,388
TOTAL	**1,826,669,261**	**481,423,383**	**104,681,518**	**2,412,774,162**

	IFRS9 30/06/18			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	45,460,153	55,984,934	70,982,141	172,427,228
Financial investments measured at fair value	1,381,642,766	223,588,391	85,030,375	1,690,261,532
Derivatives	0	260,622,095	19,500,343	280,122,438
TOTAL	**1,427,102,919**	**540,195,420**	**175,512,859**	**2,142,811,198**

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

B.2. Liabilities	*IFRS9* 31/12/17 (unaudited)			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities measured at fair value through profit or loss	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**

	IFRS9 30/06/18			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	624,702,876	235,129,033	859,831,909
Derivatives	0	342,988,574	33,642,811	376,631,385
TOTAL	**0**	**967,691,450**	**268,771,844**	**1,236,463,294**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1. Assets

No transfer was made between Level 1 and Level 2 on assets in 2017 and 2018.

C.2. Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2017 and 2018.

D. LEVEL 3 RECONCILIATION

D.1. Assets	*IFRS9* 31/12/17 (unaudited)					
	Opening	Total gains and losses in the statement of income	Gains and losses in OCI	Purchase	Sale	Settlement
Financial assets held for trading	4,537,636	(69,658)	0	1,545,791	(3,368,419)	0
Financial investments measured at fair value	132,624,553	(2,557,725)	0	2,760,404	0	(50,619,385)
Derivatives	20,494,158	(15,009,503)	0	14,343,666	0	0
TOTAL	**157,656,347**	**(17,636,886)**	**0**	**18,649,861**	**(3,368,419)**	**(50,619,385)**

	IFRS9 31/12/17 (unaudited)				
	Transfer in Level 3	Transfer out of Level 3	Conversion differences	Other	Closing
Financial assets held for trading	0	0	0	0	2,645,350
Financial investments measured at fair value	0	0	0	0	82,207,847
Derivatives	0	0	0	0	19,828,321
TOTAL	**0**	**0**	**0**	**0**	**104,681,518**

D.1. Assets	*IFRS9* 30/06/18					
	Opening	Total gains and losses in the statement of income	Gains and losses in OCI	Purchase	Sale	Settlement
Financial assets held for trading	2,645,350	935,257	0	67,697,600	(296,066)	0
Financial investments measured at fair value	82,207,847	4,323,498	0	0	0	(1,500,970)
Derivatives	19,828,321	(5,976,113)	0	5,648,135	0	0
TOTAL	**104,681,518**	**(717,358)**	**0**	**73,345,735**	**(296,066)**	**(1,500,970)**

	IFRS9 30/06/18				
	Transfer in Level 3	Transfer out of Level 3	Conversion differences	Other	Closing
Financial assets held for trading	0	0	0	0	70,982,141
Financial investments measured at fair value	0	0	0	0	85,030,375
Derivatives	0	0	0	0	19,500,343
TOTAL	**0**	**0**	**0**	**0**	**175,512,859**

D.2. Liabilities	IFRS9 31/12/17 (unaudited)				
	Opening	Total gains and losses in the statement of income	Purchase	Settlement	Sale
Financial liabilities held for trading	13,248	0	0	0	(13,248)
Financial liabilities measured at fair value through profit or loss	205,340,693	(6,707,469)	152,131,800	(153,901,545)	0
Derivatives	2,897,777	2,745,214	35,779,802	0	0
TOTAL	**208,251,718**	**(3,962,255)**	**187,911,602**	**(153,901,545)**	**(13,248)**

	IFRS9 31/12/17 (unaudited)			
	Transfer in Level 3	Transfer out of Level 3	Conversion differences	Closing
Financial liabilities held for trading	0	0	0	0
Financial liabilities measured at fair value through profit or loss	0	0	2,661,446	199,524,925
Derivatives	0	0	0	41,422,793
TOTAL	**0**	**0**	**2,661,446**	**240,947,718**

D.2. Liabilities	IFRS9 30/06/18				
	Opening	Total gains and losses in the statement of income	Purchase	Settlement	Sale
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities measured at fair value through profit or loss	199,524,925	(10,698,498)	154,728,362	(107,895,963)	0
Derivatives	41,422,793	(18,148,901)	10,368,919	0	0
TOTAL	**240,947,718**	**(28,847,399)**	**165,097,281**	**(107,895,963)**	**0**

	IFRS9 30/06/18			
	Transfer in Level 3	Transfer out of Level 3	Conversion differences	Closing
Financial liabilities held for trading	0	0	0	0
Financial liabilities measured at fair value through profit or loss	0	0	(529,793)	235,129,033
Derivatives	0	0	0	33,642,811
TOTAL	**0**	**0**	**(529,793)**	**268,771,844**

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

Banking bonds

For each position, the FRM department has obtained from Bloomberg the following information:

- the bid and ask spread;
- the issue size (with type of issuer and currency);
- number of contributors providing a direct observable price.

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

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

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

b) Securitisations: prices are not available on Bloomberg, therefore there is neither spread, nor contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.
c) The investors "buy and hold" behavior: some bonds are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid/ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

Structured bonds

Finalyse communicates for each product the type of data required for the valuation 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.

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.

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