# Semi-annual Report

as at June 30, 2020

BANQUE
INTERNATIONALE
À LUXEMBOURG

# Semi-annual Report

## as at June 30, 2020

# Consolidated management report

# Corporate governance (as of June 30, 2020)

## Board of Directors and Executive Committee

The Board of Directors has the overall responsibility for Banque Internationale à Luxembourg (BIL). Among its missions, the Board of Directors is responsible for setting and overseeing the overall business and risk strategy and policy including the risk tolerance/ appetite and the risk management framework. The Board of Directors is assisted by four specialised committees: the Board Strategy Committee, the Board Risk Committee, the Board Audit and Compliance Committee and the Board Remuneration and Nominations Committee.

The Board of Directors has delegated the daily management of BIL to the Management Board and the Chief Executive Officer (CEO).

The overall objective of the Management Board is to lead, direct and manage BIL in order to achieve the strategic aims and the business objectives set by the Board of Directors. The Management Board is composed of the Authorised Management members and is collegially responsible for the effective day-to-day management of BIL and typically decides on matters of strategic importance and significant impact in line with the regulatory framework. It meets on a weekly basis as an integral part of the Executive Committee and on an ad-hoc basis, as needed.

The Executive Committee consists of the CEO and the Management Board members and the heads of other support and business lines. It is in charge of running BIL and meets on a weekly basis with a majority of Management Board members.

The Management Board respectively the Executive Committee exercises its duties under the supervision of the Board of Directors.

## Board of Directors

### *Chairman*

**Luc Frieden**

### *Vice-Chairman*

**Peng Li**

### *Members*

| | |
|---|---|
| **Marcel Leyers** | Director and Chief Executive Officer |
| **Maurice Lam** | Director |
| **Jing Li** | Director |
| **Pierrot Rasqué** | Director |
| **Christian Schaack** | Director |
| **Vincent Thurmes** | Director |
| **Chris Van Aeken** | Director |
| **Michel Scharff** | Director, Staff Representative |
| **Serge Schimoff** | Director, Staff Representative |
| **Marc Terzer** | Director, Staff Representative |
| **Ashley Glover** | Director, Staff Representative |

## Board Strategy Committee

### *Chairman*

Jing Li

### *Members*

Luc Frieden
Vincent Thurmes

# Board Audit and Compliance Committee

| *Chairman* | *Members* |
|---|---|
| Maurice Lam | Jing Li<br>Pierrot Rasqué |

# Board Risk Committee

| *Chairman* | *Vice-Chairman* | *Members* |
|---|---|---|
| Christian Schaack | Jing Li | Luc Frieden<br>Vincent Thurmes<br>Chris Van Aeken |

# Board Remuneration and Nominations Committee

| *Chairman* | *Members* |
|---|---|
| Peng Li | Jing Li<br>Vincent Thurmes<br>Serge Schimoff (Remuneration matters) |

# Executive Committee

### *Chairman*

| | |
|---|---|
| **Marcel Leyers**[1] | Chief Executive Officer |

### *Members*

| | |
|---|---|
| **Stéphane Albert**[1] | Chief Risk Officer |
| **Yves Baguet**[1] | Chief Operating Officer |
| **Hans-Peter Borgh**[1] | Group Head International |
| **Olivier Debehogne**[1] | Head of Retail, Private Banking Luxembourg and Digital |
| **Martin Freiermuth** | Head of Products and Markets (up to May 31, 2020) |
| **Jérôme Nèble** | Head of Products and Markets (as from June 1, 2020) |
| **Emilie Hoël** | Head of Wealth Management |
| **Erwin Liebig** | Head of Strategy, Marketing and Data |
| **Jeffrey Dentzer** | Head of Corporate and Institutional Banking |
| **Bernard Mommens**[1] | Secretary General and General Counsel |
| **Nico Picard**[1] | Chief Financial Officer |
| **Karin Scholtes**[1] | Global Head of People, Culture and Communication |

### *Permanent Invitees*

| | |
|---|---|
| **Pia Haas** | Chief Internal Auditor |
| **Marie Bourlond** | Chief Compliance Officer |

[1] Member of the Management Board (Authorised Management).

# Business Review and Results

## 1. Highlights of the first half of 2020

Like everywhere in Europe, the first two quarters of 2020 were overshadowed by the Coronavirus pandemic in Luxembourg. Despite a nationwide lockdown from March 15 to May 11 which saw most businesses close, banks were required to stay open as their services are considered essential.

While BIL was the only bank in Luxembourg to keep all branches open throughout the pandemic, the Bank did its utmost to protect both clients and staff by restricting access to branches to appointments only and by strongly encouraging clients to use the Bank's digital channels (the BILnet website and mobile app) instead.

Generally speaking, all BIL Group entities took extensive measures to protect the safety and health of employees and clients whilst ensuring business continuity. This included restricting face-to-face meetings, splitting teams between different buildings, additional hygiene measures and remote working. The Bank rapidly put in place a remote working environment for all staff and provided 700 employees with laptop computers. At the height of the pandemic, around 85% of staff were working from home. Employees and managers were provided with e-learnings and other supporting material throughout the pandemic to help them adapt to this new working environment.

Thanks to these extensive protective measures, the number of infected employees was low and all departments and Group entities remained fully operational. It should also be noted that there was no cybersecurity incident or data leak despite the heightened cybersecurity risk during the pandemic; the IT security teams managed to fend off five major phishing attempts in April and May. This was also possible thanks to new anti-phishing measures implemented on BILnet in early April. In late June, further steps were taken to reduce fraudulent online credit card use in line with the European Payment Services Directive (PSD2).

As one of the major banks in Luxembourg, BIL strongly supported Government and Central Bank actions by making financing facilities available to corporate clients to minimise the negative effect of the economic slowdown on their activities. The Bank proactively accompanied clients affected by the crisis with financing solutions and constantly remained by their side to support them in any possible way.

While the pandemic slowed down certain developments due to the reallocation of IT resources, the implementation of the Bank's five-year strategic plan which was launched in 2019 continued throughout the first half of 2020, in particular in the key areas of digitalisation and investment services.

### A FULL SUITE OF ASSET MANAGEMENT SERVICES

Following the successful closing of BIL's private equity fund BIL PE I in January 2020, the Bank continues to offer private asset investments into its real estate fund BIL RE I which was launched in November 2019 and is scheduled to close in late 2020. This offering is unique as private clients can participate in a high-end, value-added real estate investment strategy which is usually reserved for institutional clients thanks to the low entry tickets (125 000 EUR).

In addition to launching its own funds, BIL extended its overall fund and portfolio management capacities thanks to an upgraded transaction platform. For example, BIL Group member BIL Manage Invest took over the fund and portfolio management for four BIL Invest Patrimonial funds as well as the brokerage function from Candriam in January 2020.

In late June, BIL offered clients extensive investment opportunities in healthcare, a sector which delivered strong earnings even before the pandemic. Clients could choose between structured products in EUR and USD, funds and equities.

More broadly, BIL is also assessing how to give greater weight to environmental, social and governance (ESG) criteria in its investment offer. BIL's sustainable finance strategy is centred around four of the seventeen United Nations Sustainable Development Goals (UN SDG) which are particularly aligned with the Bank's CSR strategy and its corporate values: Good Health and Well-Being, Industry, Innovation and Infrastructure, Climate Action and Peace, Justice and Strong Institutions.

In practice, BIL offers ESG investment solutions via the sustainable and responsible investment (SRI) label and thematic external funds focusing on one or more aspects of sustainable finance (e.g. water, smart energy, food, gender equality, etc.) and the Bank's fund structuring subsidiary BIL Manage Invest considers ESG criteria in its security selection process. For example, several sub-funds of BIL Invest UCITs promote ESG criteria in the context of the UN SDGs.

In addition, the Bank manages a selection of customised discretionary mandates. To further promote the Climate Action goal, BIL offers preferential borrowing rates for financing cars with a low impact on the environment and for households opting for renewable energies and/or energy efficiency.

The Bank also strengthened the internal organisation of its Products and Markets division by appointing Jérôme Nèble as the new Head of Products and Markets and a member of the Executive Committee. His new remit also includes the Bank's balance sheet management teams.

## CONTINUED DIGITALISATION OF SERVICES

Digitalisation and innovation are other key pillars of the Bank's strategy. The Bank took the lockdown as an opportunity to enhance its digital services, for example BIL introduced an electronic signature in May which enables both clients and employees to sign loan documents remotely. This was particularly welcomed by corporate clients in need of financial support due to the pandemic. While the lockdown accelerated certain developments such as the electronic signature, most other services were rolled out as planned.

Since January 21, 2020, clients have been able to pay with Apple products in shops and online. Apple Pay is a free, contactless payment service via an Apple device which means that clients no longer need to take their BIL credit or debit cards (BIL Visa and Vpay) with them.

Also in the area of payments, the Bank added 16 Gulf petrol stations to the Pay@Pump mobile payment service in March, bringing the total number of petrol stations to 47. The service was developed in cooperation with CarPay-Diem, and allows clients to pay for their petrol via the BILnet mobile app.

In addition, BIL launched a fully digital car leasing service in cooperation with ALD Automotive Luxembourg in early 2020 which offers operating lease agreements for a wide selection of customisable vehicles.

## PHYSICALLY CLOSER TO CUSTOMERS

While the Bank continues to increase its digital offer, the human touch of course remains very important. To ensure the Bank is as close to customers as possible, BIL is constantly striving to adapt its international offices and national branch network.

On a local level, the Bettembourg branch was relocated to the recently opened Shopping Park, 263 route de Luxembourg, while the representative offices in Bridel, Clervaux and Belvaux were closed on July 1, 2020. These developments were necessary due to changing consumer habits, demographics and urban planning as well as an increasingly widespread use of the internet and mobile technology.

On an international level, BIL further enhanced its presence in Asia in February with the acquisition of the Hong Kong-based wealth management firm Sino Suisse Financial Group (Hong-Kong) Limited, which was renamed BIL Wealth Management Limited. The new entity will provide financial advice and manage clients' assets with an open architecture concept through BIL Luxembourg, BIL Switzerland or other partner banks.

## LIVING UP TO OUR CORPORATE SOCIAL RESPONSIBILITY

While the Bank was still able to have its regular Corporate Social Responsibility (CSR) activities early in the year – notably Iva Mràzkovà's exhibition "Who owns the rain?" in the Independence gallery at the Bank's headquarters – the second quarter was dedicated to efforts to help the Grand Duchy of Luxembourg fight the Coronavirus pandemic.

With the help of our main shareholder Legend Holdings, BIL organised a shipment of 240 boxes of medical supplies from China which were donated to hospitals throughout the Grand Duchy of Luxembourg in April. This shipment consisted of 10 000 surgical masks, 10 000 other medical standard masks, 5 000 protective suits and 5 000 goggles. This initiative was much appreciated by the "Hôpitaux Robert Schuman" as they were struggling with supply shortages at the time.

In a similar, more local pandemic support effort, BIL staff members donated 70kg of medicine to "Médecins du Monde", an organisation providing healthcare to disadvantaged people in the Grand Duchy.

The Bank also donated money to multiple local charities in support of the production of protective suits for healthcare workers (Fondation Robert Schuman), a Coronavirus-related mental health hotline (La main tendue Angela) as well as for the provision of school supplies to refugee children affected by the lockdown (Passerell).

## BIL REINFORCED ITS COMPLIANCE FRAMEWORK

Banque Internationale à Luxembourg is constantly updating its policies and processes to adapt to changing anti-money laundering (AML) and counter-terrorism financing (CTF) regulations. The Bank is committed to ensuring the highest level of compliance standards at all times when it comes to the fight against money laundering and financing of terrorism, fully supporting the "Commission de Surveillance du Secteur Financier" (CSSF) in its supervisory mission.

During on-site inspections in 2017 and 2018, the CSSF identified certain weaknesses in the Bank's processes which were in place at the time. These inspections concerned a sample of clients from the Commonwealth of Independent States, thus representing a limited segment of customers whose inherent risk is generally to be considered high. As a result, the CSSF decided to impose an administrative sanction of EUR 4.6 million, which is a proportion of the Bank's total annual revenues. The fine is related to the Bank's processes which were in place at the time of the inspections.

No money laundering or terrorism financing activity was identified.

With the support of the new shareholder structure and under the leadership of the new CEO, BIL promptly took appropriate measures to remediate the identified weaknesses. The Bank has since defined a new and strict AML Risk Appetite Statement and related Wealth Management Compliance Guiding Principles, recruited additional compliance specialists and increased AML/CTF training and awareness. Compliance tools, i.e. the AML scoring engine, were upgraded and implemented.

### CHANGE OF AUDITOR

On December 13, 2019, the Board of Directors of BIL decided to appoint PricewaterhouseCoopers, société coopérative (PwC) as the new external auditor of BIL Group for the financial years 2020-2022. A key element for this decision lies with the fact that it is good governance to have the same world-wide external audit firm across the Legend Holdings Group, including BIL. PwC replaces Ernst & Young, covering the external audit of BIL and all BIL Group entities.

### COMMERCIAL FRANCHISES

In the midst of the global health crisis, the "Retail, Corporate and Wealth Management" business areas delivered a resilient performance during the first semester contrasted by the Assets under Management evolution:

- Assets under Management (AuM) reached EUR 41.4 billion compared with EUR 43.5 billion at the end of 2019. This decrease resulted from net new asset (NNA) outflows and market effect of EUR 1.46 billion and EUR 0.69 billion respectively. The negative NNA were essentially due to a few significant outflows of "non-strategic low profitability" clients partially offset by strong inflows in Retail and Private Banking Luxembourg.
- Customer deposits increased by 0.7% to EUR 19.1 billion compared with EUR 19 billion at year-end 2019, nuanced by an increase in current accounts as a consequence of less client spending during the "stay at home" period.
- Customer loans increased by 3.3% to EUR 15.2 billion mainly due to the commercial activities' contribution which grew by EUR 0.5 billion (+3% compared with year-end 2019 excluding impairment).

### PROFITABILITY

BIL reported a net income after tax of EUR 40 million in June 2020, compared with EUR 45 million in June 2019, down by 11%.

Net income before tax amounted to EUR 49 million, down by EUR 12 million compared with June 2019, influenced by a negative evolution of the non-recurring items of EUR 4 million, and a cost of risk evolution of EUR 21 million, offset by a good performance of the core operating revenues of EUR 15 million.

The non-recurring items were mainly composed of the capital gains from the Bank's Investment Portfolio (EUR 9.9 million in June 2020 in line with last year). During the first semester, the Bank withstood the impact of COVID-19 with EUR 4 million invested in increased hygiene measures (such as masks and hand sanitizers) to protect all employees, as well as in increased IT developments to ensure both a stable remote working environment for the Bank's employees and business continuity for our clients and in facility costs in the branch network.

Core gross operating income amounted to EUR 73 million in June 2020, a rise of EUR 14 million compared with June 2019. This 24% increase was mainly influenced by a good performance of the core operating revenues (+6%) and cost control measures which, limited cost growth (+1%).

Core operating net income before tax totalled EUR 44 million in June 2020 compared with EUR 51 million in June 2019, which represents a decrease of EUR 8 million (15%). This negative result was marked by a negative evolution of the cost of risk of EUR 21 million in the context of COVID-19 offset by a solid performance of the commercial business lines, Products and Markets and cost containment measures.

### LONG-TERM COUNTERPARTY CREDIT RATINGS

As at the end of June 2020, BIL's ratings by both Moody's and Standard & Poor's remain unchanged compared with December 31, 2019, at A2/Stable/P-1 and A-/Stable/A-2 respectively. The annual reviews with both rating agencies took place in May and June 2020 with rating actions expected in the last quarter of 2020.

| BIL Group | June 2020 | Outcome |
|---|---|---|
| Moody's | A2<br>Stable<br>P-1 | On November 18, 2019 Moody's Investors Service completed a periodic review of the ratings of the Bank and confirmed the ratings affirmed on May 7, 2018. |
| S&P | A-<br>Stable<br>A-2 | On November 22, 2019 S&P Global Ratings affirmed the ratings. |

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

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of BIL Group for the first half of 2020 were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union. The main accounting principles are described in Note 1 to the interim condensed 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) | 30/06/19 | 30/06/20 | Change versus 2019 | % |
|---|---|---|---|---|
| **Income** | **265** | **280** | **16** | **6%** |
| Interests and dividend income | 155 | 160 | 5 | 3% |
| Fees income | 95 | 113 | 18 | 19% |
| Other income | 14 | 7 | (8) | (54)% |
| **Expenses** | **(196)** | **(202)** | **(6)** | **3%** |
| **Gross operating income** | **68** | **78** | **10** | **14%** |
| Cost of risk and provisions for legal litigation | (8) | (29) | (21) | ns. |
| **Net income before tax** | **61** | **49** | **(12)** | **(19)%** |
| Tax expenses | (16) | (9) | 7 | (42)% |
| **Net income** | **45** | **40** | **(5)** | **(11)%** |

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

| (in EUR million) | Commercial activities and Products & Markets | | Group Center | | Total | | Change versus 2019 | % |
|---|---|---|---|---|---|---|---|---|
| | 30/06/19 | 30/06/20 | 30/06/19 | 30/06/20 | 30/06/19 | 30/06/20 | | |
| Income | 280 | 303 | (15) | (23) | 265 | 280 | 16 | 6% |
| *of which core operating income* | *269* | *294* | *(15)* | *(24)* | *254* | *269* | *15* | *6%* |
| Expenses | (189) | (194) | (7) | (8) | (196) | (202) | (6) | 3% |
| *of which core operating expenses* | *(189)* | *(193)* | *(6)* | *(4)* | *(195)* | *(197)* | *(1)* | *1%* |
| Gross operating income | 91 | 109 | (22) | (31) | 68 | 78 | 10 | 14% |
| *of which core gross operating income* | *80* | *101* | *(21)* | *(28)* | *59* | *73* | *14* | *24%* |
| Cost of risk and provisions for legal litigation | (8) | (29) | (0) | 0 | (8) | (29) | (21) | ns. |
| *of which core operating cost of risk* | *(8)* | *(29)* | *(0)* | *0* | *(8)* | *(29)* | *(21)* | *ns.* |
| Net income before tax | 83 | 80 | (22) | (31) | 61 | 49 | (12) | (19)% |
| *of which core operating net income before tax* | *73* | *71* | *(21)* | *(28)* | *51* | *44* | *(8)* | *(15)%* |
| Tax expenses | | | | | (16) | (9) | 7 | (42)% |
| **Net income** | | | | | **45** | **40** | **(5)** | **(11)%** |

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

### Income

In June 2020, total income amounted to EUR 280 million, up by EUR 16 million (6%) compared with June 2019 (EUR 265 million). Excluding the aforementioned non-recurring items evolution, core operating income amounted to EUR 269 million compared with EUR 254 million in 2019, an increase of EUR 15 million (6%).

Commercial activities' contributions to the core operating income increased significantly by EUR 20 million (+8%). In the first half of 2020, commercial activities were significantly impacted by the COVID-19 crisis. The lockdown period reduced business development (particularly relevant at the level of Wealth Management) and transactional activities (payments and brokerage) for all business lines. In addition, the persisting negative rates environment in EUR and decreasing USD rates pushed down interest margins. Despite low interest rates and the unprecedented economic environment in the first half of 2020, net interest income increased by EUR 4 million (+3%) compared with June 2019, thanks to continued loan growth across all business lines. Fee and commission income increased by EUR 16 million, up 17% since June 2019, essentially relating to strong loan growth, asset management fees and a real estate transaction realised by the family office.

Products and Markets (now groups Banking Book Management and Products and Markets following the appointment of Jérôme Nèble as the Head of Products and Markets on June 1, 2020) increased its contribution to the core operating income by EUR 4 million. Banking Book Management delivered a strong first semester benefitting from market volatility and spread tension on USD (Treasury) and from investment opportunities due to spread widening.

Group Center activities generated a negative core operating income of EUR 24 million compared with EUR 15 million in June 2019. Group Center is notably composed of the Deposit Guarantee Scheme (DGS) & Resolution Funds' contributions and the funding costs related to the issuance of senior non-preferred debts pursued since 2018. The negative evolution of EUR 9 million is due to the DGS & Resolution Funds' contributions which increased from EUR 13.5 million in June 2019 to EUR 18.0 million in June 2020 and a decline of rental revenues following the sale of the building complex "Les Terres Rouges" at the end of 2019.

### Expenses

Expenses of EUR 202 million increased slightly compared with June 2019 (EUR 196 million). Core operating expenses (excluding non-recurring items such as COVID-19 impacts) remained stable at EUR 197 million (+1% vs. June 2019).

The major evolution concerned depreciation & amortisation which increased by EUR 3.3 million in line with the IT investment program foreseen in the strategic plan of the Bank. Staff costs decreased slightly by EUR 1.3 million as did operating expenses by EUR 0.7 million following the renewal of cost containment measures already initiated last year. The core cost income ratio improved and reached 69.5%[1] at the end of June 2020 versus 72.% at the end of June 2019 driven by cost containment measures and higher revenues.

### Gross operating income

Gross operating income amounted to EUR 78 million compared with EUR 68 million in June 2019 (+14%). Excluding non-recurring items, core gross operating income rose by EUR 14 million, an increase of 24%, influenced by a good performance of core operating revenues (+6%) and cost control measures.

### Cost of risk

The adverse macroeconomic outlook impacted all market participants, businesses and the banking industry. As a result, BIL Group recorded net provisions on loans and advances and provisions for legal litigations of EUR 29 million (EUR 8 million in June 2019) which were largely influenced by the effects of the pandemic. This impact reflects the change in macroeconomic factors based on several scenarios, in accordance with the setup prior to the pandemic. It also incorporates specific features of the dynamics of the crisis in terms of credit and counterparty risk and in particular of the impact of lockdown measures on economic activity, the effects of Government support measures and of authorities' decisions. Reflecting macroeconomic anticipations based on several scenarios described in the Risk Management section, the cost of risk can be broken down into expected credit losses (ECL) of EUR 17 million and specific provisions of EUR 12 million.

### Net income before tax

Net income before tax stood at EUR 49 million, down by EUR 12 million (19%) compared to the first semester of 2019, largely influenced by the cost of risk.

### Tax

June 2020, tax expenses stood at EUR 9 million. The evolution of tax expenses is explained by the net income before tax evolution.

### Net income

In the context of an unprecedented health crisis, the Bank reported a net income of EUR 40 million showing considerable resilience when compared with June 2019 (EUR 45 million). At this stage, the long-term evolution of the pandemic is still unclear and will need to be monitored closely. The Bank has defined mitigating actions in order to protect its clients and fully respects all regulatory requirements.

[1] Cost income ratio annualised taking into account DGS & Resolution Funds' contributions at 50%.

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

| (in EUR billion) | 31/12/19 | 30/06/20 | Change versus 2019 | % |
|---|---|---|---|---|
| **ASSETS** | **28.1** | **29.8** | **1.8** | **6.3%** |
| Cash at central banks and loans and advances to credit institutions | 4.7 | 5.3 | 0.5 | 11.4% |
| Loans and advances to customers | 14.7 | 15.2 | 0.5 | 3.3% |
| Financial investments | 7.6 | 8.4 | 0.8 | 11.0% |
| Positive fair value of derivative products | 0.3 | 0.1 | (0.1) | (50.1)% |
| Other assets | 0.7 | 0.8 | 0.1 | 8.6% |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | **28.1** | **29.8** | **1.8** | **6.3%** |
| Amounts due to credit institutions | 3.1 | 4.3 | 1.2 | 37.8% |
| Amounts due to customers | 19.0 | 19.1 | 0.1 | 0.7% |
| Negative fair value of derivative products | 0.6 | 0.5 | (0.0) | (6.7)% |
| Debt securities | 3.2 | 3.6 | 0.4 | 13.4% |
| Subordinated debts | 0.2 | 0.1 | 0.0 | (18.3)% |
| Other liabilities | 0.3 | 0.4 | 0.1 | 34.0% |
| Shareholders' equity | 1.7 | 1.7 | 0.0 | 0.6% |

### ASSET MOVEMENTS

"Loans and advances to customers" amounted to EUR 15.2 billion compared with EUR 14.7, up by EUR 0.5 billion (+3.3%) compared with year-end 2019. Commercial activities' loans increased by EUR 460 million (+3% compared with year-end 2019 excluding impairment) with a positive contribution from all business lines. Outstanding mortgage loans increased by EUR 0.3 billion (+5.6%) and investment loans by EUR 0.2 billion (+2.4%). The Bank continued to support the projects of individual and business clients despite the current environment impacted by the COVID-19 crisis. To further support its clients, the Bank has also granted moratoria for total outstanding loans of EUR 1 billion at the end of June 2020 and supported the State-backed loans measures as part of the Luxembourgish Government's stabilisation programme, although with a low volume at this stage due to slow demand.

"Financial investments" rose by EUR 0.8 billion to EUR 8.4 billion as a result of an increase in BIL's excess cash, stemming from the substantial rise in amounts due to credit institutions and debt securities. The Investment Portfolio is made up mainly of assets eligible for refinancing by the European Central Bank (ECB) and qualifying as liquidity reserves under the current regulatory framework. These assets enable the Bank to fully comply with liquidity ratio requirements. As at June 30, 2020, the Liquidity Coverage Ratio (LCR) stands at 167% vs.139% at year-end 2019.

"Cash at central banks and loans and advances to credit institutions" amounted to EUR 5.3 billion, up by EUR 0.5 billion (+11.4%); this positive trend is in correlation with the growth of "Amounts due to credit institutions".

### LIABILITY MOVEMENTS

"Amounts due to credit institutions" reached EUR 4.3 billion, representing a growth of EUR 1.2 billion (+37.8%). This evolution stems from the participation in the TLTRO-III.4 of EUR 800 million and a growth of interbank loans by EUR 400 million. TLTRO outstanding at the end of June 2020 totalled EUR 1.5 billion including TLTRO-III.2 and TLTRO-III.3.

"Amounts due to customers" totalled EUR 19.1 billion in June 2020, representing a growth of 0.7% versus end of 2019. This limited growth occurred mainly in current accounts (EUR 0.7 billion) offset by a decrease in term deposits (EUR 0.4 billion) and savings accounts (EUR 0.1 billion).

"Debt securities" reached EUR 3.6 billion (+13.4% versus 2019). Following BIL's senior non-preferred bond issuance launched in September 2018, the Bank continued its long-term financing programme and issued a floating rate note (FRN) of EUR 300 million in January 2020.

"Subordinated debts" decreased by EUR 31 million following the call of the contingent convertible bond in June 2020 that had been in circulation from a 2014 issue with a coupon of 6.625%.

"Shareholders' equity" increased by EUR 9.5 million (+0.6%). This increase was mainly due to the 2020 net profit of EUR 40 million compensated by the negative evolution of revaluation reserves on financial instruments of EUR 24 million and coupon payments on other equity instruments.

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

# 3. Post-balance sheet events

There was no occurrence of a significant post-balance sheet event likely to have a major impact on the interim condensed consolidated financial statements of BIL.

# 4. Outlook

The significant worsening of the macroeconomic outlook as a result of the Coronavirus pandemic will impact all market participants, businesses and banks. As a result, we are expecting an impact on BIL's 2020 financials with lower revenues and higher costs of risk. It remains too early to quantify this potential impact as this will depend on a large range of external factors. Nevertheless, our capital and liquidity positions remain solid with significant buffers in excess of regulatory requirements.

BIL remains committed to its five-year strategic plan which was launched in July 2019. This plan not only maps the overall strategic aims for BIL Group but also defines the key priorities for the different business lines from 2020 to 2025. The Bank has started to analyse the impact of the pandemic and will adapt its plan in accordance with the changing environment. Both Legend Holdings and the Grand Duchy of Luxembourg are committed to providing the necessary support for the implementation of the plan.

In Luxembourg, which will continue to be BIL's core market, the Bank intends to defend its strong market share thanks to organic and semi-organic growth in all business areas. More specifically, BIL aims to enhance its reputation as an entrepreneur-friendly bank as well as an asset manager and trusted advisor.

Internationally, BIL intends to leverage the network and expertise of Legend Holdings to launch dedicated Wealth Management and Corporate and Investment Banking services. Concerning Wealth Management services more broadly, the Bank's expertise will be focused on key countries and key customer segments and a more selective approach will be applied to those with a lower growth potential.

All abovementioned initiatives will be supported by a new, reliable, modern core banking system. By streamlining internal processes, efficiency gains will be delivered over the next five years, improving the cost-income ratio of the Bank.

# Risk Management

## 1. KEY EVENTS OF THE FIRST HALF OF 2020

### Corporate structure and risk profile

Strategic initiatives are regularly undertaken at a Group level. Each initiative is carefully monitored by the Bank's risk management department whose main objective is to ensure that risks are continuously monitored and managed, and that they are consistent with the institution's risk appetite. Main evolutions are described in the "Business Review and Results" section of the management report.

### Regulatory environment

During the first half of 2020, BIL continued to invest time and resources in ensuring that it continues to comply with regulatory standards:

- To enhance their soundness, BIL has been monitoring the adequacy of its approved Pillar I internal models. The reviews relate to models that include the new definition of default and enhancements related to ECB supervision. In addition, the Bank has submitted documentation to the ECB for approval supporting an agreement to adopt the Foundation approach to Pillar I credit risk weighted assets (RWA) for corporate and financial institution counterparties and the Standard approach for Pillar I credit risk RWA for sovereign exposures.

- As part of its review of the Basel III framework, in the first half of 2020, the Bank analysed the various impacts of the reforms and submitted its findings to the ECB.

- In July 2018, the European Banking Authority (EBA) published its final guidelines on the management of interest rate risk arising from non-trading book activities. In 2020, the Bank continued to develop its related framework.

- In the context of the Bank Recovery and Resolution Directive, in 2020, the Bank upgraded its annual recovery plan, which will be submitted to the supervisory authorities at the end of September. Regarding the resolution part, BIL participated in various workshops with the resolution authority (the Single Resolution Board; SRB). A detailed version of BIL's Resolution Plan will be prepared by the SRB for the third quarter of 2020.

- The Bank is also fully committed to the BCBS 239 principles and has further structured its related initiative in three sections: (i) Overarching governance and infrastructure, (ii) Risk data aggregation capabilities and (iii) Risk reporting practices. The first two sections have been accelerated by the Data programme (Risk Foundation Master, data quality management and data exploitation capabilities) and the Data Office (committees, governance).

- The Bank was taking part in the 2020 EU-wide stress test exercise, but this was postponed until 2021 following the decision by the European Banking Authority (EBA) on March 12, 2020 in the context of the COVID-19 pandemic outbreak. This decision was supported by the ECB.

## 2. CREDIT RISK

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 and 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 higher credit risk quality. Therefore, counterparties presented hereafter are final counterparties, i.e. after taking into account any eligible guarantees.

As at June 30, 2020, the Bank's total credit risk exposure amounted to EUR 33.66 billion compared with EUR 31.89 billion at the end of 2019. The main increases are in Central Governments (EUR +1.30 billion), Individuals, SME and Self-Employed (EUR +387 million), Financial Institutions (EUR +76 million) and Corporate (EUR +24 million) while exposures to Securitisation (EUR -24 million) and Public Sector Entities (EUR -6 million) decreased.

### Exposure by type of counterparty

As at June 30, 2020 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 34.1% of overall exposure.

The *Central Governments* exposure weight increased slightly compared with the end of 2019 and remained the second largest segment of the Bank's portfolio, representing 31.1% of overall exposure.

Finally, overall exposure weight in Financial Institutions and Corporate decreased slightly compared with the end of 2019, representing 14.7% (15.2% year-end 2019) and 19.1% (20.1% year-end 2019), respectively.

| **Exposures by counterparty category** (in EUR million) | **30/06/19** | **31/12/19** | **30/06/20** | Variation |
|---|---|---|---|---|
| Central Governments | 8,498 | 9,157 | 10,461 | 1,304 |
| Public Sector Entities | 398 | 305 | 299 | (6) |
| Corporate | 6,064 | 6,414 | 6,438 | 24 |
| Securitisation | 96 | 69 | 45 | (24) |
| Individuals, SME & Self Employed | 10,513 | 11,084 | 11,471 | 387 |
| Financial Institutions | 4,350 | 4,858 | 4,934 | 76 |
| Others | 3 | 3 | 9 | 6 |
| **TOTAL** | **29,922** | **31,890** | **33,657** | **1,767** |

### Exposure by geographical region

As of June 30, 2020, the Bank's exposure remained concentrated in Europe, primarily in Luxembourg (51.0%), France (10.3%), Switzerland (9.3%), Belgium (6.9%) and Germany (5.7%).

| **Exposures by geographic region** (in EUR million) | **30/06/19** | **31/12/19** | **30/06/20** | Variation |
|---|---|---|---|---|
| Belgium | 1,832 | 1,996 | 2,329 | 333 |
| France | 3,043 | 3,162 | 3,457 | 295 |
| Germany | 1,421 | 1,433 | 1,928 | 495 |
| Ireland | 415 | 450 | 313 | (137) |
| Italy | 25 | 16 | 14 | (2) |
| Luxembourg | 14,390 | 16,501 | 17,172 | 671 |
| Spain | 804 | 842 | 701 | (141) |
| Other EU countries | 1,815 | 1,698 | 1,633 | (65) |
| Switzerland | 3,214 | 2,882 | 3,132 | 250 |
| Rest of Europe | 629 | 574 | 577 | 3 |
| United States and Canada | 833 | 893 | 938 | 45 |
| Asia | 334 | 386 | 385 | (1) |
| Middle East | 694 | 672 | 669 | (3) |
| Australia | 262 | 241 | 238 | (3) |
| Others | 211 | 144 | 171 | 27 |
| **TOTAL** | **29,922** | **31,890** | **33,657** | **1,767** |

### Losses on Immovable Property

The following table displays the limited losses recorded as at June 30, 2020 on exposures collateralised by residential and commercial immovable property for retail counterparties. These exposures are expressed in terms of Exposure-at-Default (EAD) and in millions of EUR.

| | **31/12/19** | | **30/06/20** | |
|---|---|---|---|---|
| **Collateralised by:** | **Sum of overall losses** | **Sum of the exposures** | **Sum of overall losses** | **Sum of the exposures** |
| Residential property | 0.82 | 6,632 | 0.93 | 6,975 |
| Commercial immovable property | 0.00 | 491 | 0.00 | 462 |

## 3. COVID-19

In view of the COVID-19 pandemic and the protective measures announced by the Luxembourgish Government, the Bank has taken measures to protect the health and safety of its employees and clients, whilst ensuring its business continuity. Moreover, the Bank has been and will remain fully engaged in supporting its customers in their business activities. Such support may include:

- **COVID-19 loans benefitting from the Luxembourg State guarantee:** The law ("loi visant à mettre en place un régime de garantie en faveur de l'économie luxembourgeoise dans le cadre de la pandémie COVID-19") was voted on April 18, 2020 and BIL entered into the agreement with the Luxembourgish State on April 21, 2020. The Luxembourgish State guarantee is eligible as unfunded credit protection for credit risk mitigation purposes (after the fulfilment of a 2-month probation period after the loan disbursement).

- **Moratoria granted in the context of the COVID-19 crisis:** In terms of granted moratoria, the number of loans is 2,882 as at June 30, 2020 representing an outstanding amount of EUR 1,027 million.

In addition, non-performing loans (NPL) amounted to EUR 578 million as at the end of June 2020 and have been stable since the beginning of the year (EUR 574 million as at the end of December 2019, respectively).

Specifically, regarding Lombard lending (loans collateralised by financial collateral), no cause for concern has been identified despite the high-level of volatility on financial markets during the second quarter of this year.

## 4. MARKET RISK

**Treasury and Financial Markets**

| **VaR (10 days, 99%) per activity** | **30/06/19** | **31/12/19** | **30/06/20** | | | |
|---|---|---|---|---|---|---|
| (in EUR million) | **TOTAL** | | **Fixed Income** | **FOREX** | **Equity** | **TOTAL** |
| | | | **Trading** | | | |
| Average | 0.40 | 0.23 | 0.16 | 0.10 | 0.00 | 0.19 |
| End of period | 0.27 | 0.09 | 0.27 | 0.12 | 0.00 | 0.29 |
| Maximum | 0.72 | 0.79 | 0.48 | 0.52 | 0.07 | 0.55 |
| Limit | 8.00 | 2.00 | 1.00 | 1.50 | 0.10 | 2.00 |

Regarding the Fixed Income as at June 30, 2020:
- The directional spread sensitivity (+1bp) is EUR -14,248 for a limit set at EUR 30,000 (EUR -9,573 as at December 2019);
- The absolute spread sensitivity (+1bp) is EUR 14,248 for a limit set at EUR 60,000 (EUR 22,050 as at December 2019).

Daily Treasury activity is monitored through sensitivity based on a +100bp parallel shift.

As at June 30, 2020, Treasury sensitivity was EUR 2.70 million compared with EUR 0.68 million in December 2019.

**Investment Portfolio**

The interest-rate risk of the Investment Portfolio is managed by the Treasury department or by the Asset and Liability Management (ALM) department, depending on various criteria (i.e. maturity, sector).

The Investment Portfolio had a total nominal exposure of EUR 7.6 billion as at June 30, 2020 (compared with EUR 6.7 billion as at December 31, 2019).

The majority of the bonds are classified in the "Hold-to-Collect" (HTC) portfolio measured at amortised cost: EUR 6.6 billion as at June 30, 2020 (EUR 5.7 billion as at December 31, 2019). The remaining part is classified in the "Hold-to-Collect and Sell" (HTC&S) portfolio measured at fair value through OCI : EUR 0.9 billion as at June 30, 2020 (EUR 1 billion as at December 31, 2019).

The fair value sensitivity of the HTC&S to a one basis point widening of the spread, was EUR -0.31 million as at June 30, 2020 (EUR -0.38 million per basis point as at December 31, 2019).

| (in EUR million) | **Notional amount** | | | **Rate bpv** | | | **Spread bpv** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **30/06/19** | **31/12/19** | **30/06/20** | **30/06/19** | **31/12/19** | **30/06/20** | **30/06/19** | **31/12/19** | **30/06/20** |
| Treasury | 347 | 261 | 185 | (0.01) | (0.01) | 0.00 | (0.07) | (0.05) | (0.02) |
| ALM | 725 | 740 | 700 | (0.02) | (0.01) | (0.02) | (0.38) | (0.33) | (0.29) |

BIL's liquidity remained solid throughout the first half of 2020. The consolidated Liquidity Coverage Ratio (LCR) increased from 139% (as at December 31, 2019) to 167% (as at June 30, 2020) and the Net Stable Funding Ratio (NSFR) remained stable at 113% as at the end of June 2020.

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## 5. ASSET QUALITY[1]

| (in EUR million) | **31/12/19** | **30/06/20** |
|---|---|---|
| Gross amount of non credit-impaired loans to customers | 14,669 | 15,169 |
| Credit-impaired loans to customers | 318 | 323 |
| Specific provisions | 214 | 217 |
| Asset quality ratio[2] | 2.12% | 2.08% |
| Coverage ratio[3] | 67.19% | 67.26% |
| | | |
| Total Stage 3 outstanding amount (note 4) | 574 | 578 |
| *of which stage 3 with specific provisions* | *318* | *323* |
| *of which stage 3 without provisions sufficiently collateralised* | *157* | *158* |
| *of which stage 3 (e.g. past-due, cure period)* | *99* | *97* |

## 6. SOLVENCY MONITORING

See Note 13 of the interim condensed consolidated financial statements.

[1] Rounding differences and percentages calculated on exact numbers.
[2] Credit-impaired loans as a percentage of total loans.
[3] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.

# Interim condensed consolidated financial statements

# Report on Review of interim condensed consolidated financial statements

**TO THE BOARD OF DIRECTORS OF BANQUE INTERNATIONALE À LUXEMBOURG**

We have reviewed the accompanying interim condensed consolidated financial statements of Banque Internationale à Luxembourg (the "Bank"), which comprise the consolidated balance sheet as at 30 June 2020, the consolidated statement of income and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended, and the notes to the interim condensed consolidated financial statements that include a summary of significant accounting policies and other explanatory information.

**BOARD OF DIRECTORS' RESPONSIBILITY FOR THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ"**

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE 2410 "Review of interim financial information performed by the independent auditor of the entity") as adopted for Luxembourg by the "Institut des Réviseurs d'Entreprises". This standard requires us to comply with relevant ethical requirements and conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework.

A review of interim condensed consolidated financial statements in accordance with ISRE 2410 is a limited assurance engagement. The "Réviseur d'entreprises agréé" performs procedures, primarily consisting of making inquiries of management and others within the Bank, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

**CONCLUSION**

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

Luxembourg,
26 August 2020

PricewaterhouseCoopers, Société coopérative
*Represented by*



Rima Adas

Julie Batsch

# Consolidated balance sheet

| ASSETS (in EUR) | | Notes | 31/12/19[1] | 30/06/20 (unaudited) |
|---|---|---|---|---|
| I. | Cash, balances with central banks and demand deposits | 11 | 3,541,542,203 | 3,997,854,469 |
| II. | Financial assets held for trading | 11 | 63,537,620 | 87,523,286 |
| III. | Financial investments measured at fair value | | 1,175,992,672 | 1,053,841,297 |
| | *Financial assets at fair value through other comprehensive income* | *4, 11* | *1,151,919,379* | *1,024,153,202* |
| | *Non-trading financial assets mandatorily at fair value through profit or loss* | *11* | *24,073,293* | *29,688,095* |
| IV. | Loans and advances to credit institutions | 4, 11 | 1,190,634,588 | 1,276,104,517 |
| V. | Loans and advances to customers | 4, 11 | 14,716,149,186 | 15,204,933,243 |
| VI. | Financial investments measured at amortised cost | 4, 11 | 6,392,840,867 | 7,348,746,012 |
| VII. | Derivatives | 11 | 294,432,450 | 146,814,928 |
| VIII. | Fair value revaluation of portfolios hedged against interest rate risk | 11 | 303,238 | 248,018 |
| IX. | Investments in subsidiaries and associates | | 28,171,467 | 27,134,789 |
| X. | Investment property | | 800,000 | 1,664,200 |
| XI. | Property, plant and equipment | | 143,421,250 | 136,488,110 |
| XII. | Intangible fixed assets and goodwill | | 230,867,591 | 245,555,874 |
| XIII. | Current tax assets | | 896,629 | 1,167,310 |
| XIV. | Deferred tax assets | | 200,258,183 | 193,317,102 |
| XV. | Other assets | | 79,995,974 | 119,428,372 |
| **TOTAL ASSETS** | | | **28,059,843,918** | **29,840,821,527** |

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

[1] Restated, refer to note 1, section "Presentation of derivatives in assets and liabilities".

| LIABILITIES (in EUR) | | Notes | 31/12/19[1] | 30/06/20 (unaudited) |
|---|---|---|---|---|
| I. | Amounts due to credit institutions | 11 | 3,095,841,613 | 4,265,872,582 |
| II. | Amounts due to customers | 11 | 18,987,047,358 | 19,117,644,369 |
| III. | Other financial liabilities | | 42,300,007 | 36,694,587 |
| IV. | Financial liabilities measured at fair value through profit or loss | 5, 11 | 923,354,039 | 957,648,683 |
| | *Liabilities held for trading* | | *0* | *1,288,453* |
| | *Liabilities designated at fair value* | | *923,354,039* | *956,360,230* |
| V. | Derivatives | 11 | 561,237,162 | 523,431,483 |
| VI. | Fair value revaluation of portfolios hedged against interest rate risk | 11 | 13,688,928 | 7,815,103 |
| VII. | Debt securities | 5, 11 | 2,267,418,784 | 2,661,992,058 |
| VIII. | Subordinated debts | 5, 11 | 169,079,812 | 138,104,519 |
| IX. | Provisions and other obligations | 10 | 50,098,880 | 49,320,271 |
| X. | Current tax liabilities | | 2,220,890 | 2,061,629 |
| XI. | Deferred tax liabilities | | 6,160,610 | 6,441,576 |
| XII. | Other liabilities | | 214,905,319 | 337,774,567 |
| **TOTAL LIABILITIES** | | | **26,333,353,402** | **28,104,801,427** |

| SHAREHOLDERS' EQUITY (in EUR) | | 31/12/19 | 30/06/20 (unaudited) |
|---|---|---|---|
| XIII. | Subscribed capital | 146,108,270 | 146,108,270 |
| XIV. | Additional paid-in capital | 760,527,961 | 760,527,961 |
| XV. | Other equity instruments | 173,592,617 | 173,592,617 |
| XVI. | Reserves and retained earnings | 521,826,621 | 628,755,320 |
| XVII. | Net income for the year/period | 113,068,966 | 39,700,113 |
| **SHAREHOLDERS' EQUITY** | | **1,715,124,435** | **1,748,684,281** |
| XVIII. | Gains and losses not recognised in the consolidated statement of income | 11,366,081 | (12,664,181) |
| | *Financial instruments at fair value through other comprehensive income* | *43,971,017* | *19,843,079* |
| | *Other reserves* | *(32,604,936)* | *(32,507,260)* |
| **GROUP EQUITY** | | **1,726,490,516** | **1,736,020,100** |
| XIX. | Non-controlling interests | 0 | 0 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,726,490,516** | **1,736,020,100** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **28,059,843,918** | **29,840,821,527** |

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

[1] Restated, refer to note 1, section "Presentation of derivatives in assets and liabilities".

# Consolidated statement of income

| (in EUR) | | Notes | 30/06/19 (unaudited) | 30/06/20 (unaudited) |
|---|---|---|---|---|
| I. | Interest and similar income | | 300,608,145 | 273,891,887 |
| | *of which : interest revenue calculated using the effective interest method* | | *214,694,023* | *210,772,641* |
| II. | Interest and similar expenses | | (145,588,622) | (113,586,960) |
| III. | Dividend income | | 69,558 | 5,686 |
| IV. | Net income from associates | | 2,250,731 | 381,665 |
| V. | Net trading income | | 55,328,175 | (9,218,550) |
| VI. | Net income on financial instruments measured at fair value and net result of hedge accounting | | (44,353,960) | 15,701,947 |
| VII. | Net income on derecognition of financial instruments at amortised cost | | 11,413,192 | 13,548,830 |
| VIII. | Fee and commission income | | 115,735,391 | 139,185,729 |
| IX. | Fee and commission expenses | | (20,276,398) | (25,720,533) |
| X. | Other net income | | (10,525,502) | (13,855,665) |
| **INCOME** | | **8** | **264,660,710** | **280,334,036** |
| XI. | Staff expenses | | (111,247,626) | (110,366,462) |
| XII. | General and administrative expenses | | (61,235,953) | (64,709,658) |
| XIII. | Amortisation of tangible, intangible and right-of-use assets | | (23,896,906) | (27,151,248) |
| **EXPENSES** | | **8** | **(196,380,485)** | **(202,227,368)** |
| **GROSS OPERATING INCOME** | | **8** | **68,280,225** | **78,106,668** |
| XIV. | Impairments | 7 | (7,774,192) | (29,269,870) |
| | *Net impairment on financial instruments and provisions for credit commitments* | | *(7,774,192)* | *(29,391,491)* |
| | *Net impairment of tangible, intangible and right-of-use assets* | | *0* | *121,621* |
| **NET INCOME BEFORE TAX** | | | **60,506,033** | **48,836,798** |
| XV. | Tax expenses | | (15,854,166) | (9,136,685) |
| **NET INCOME FOR THE PERIOD** | | | **44,651,867** | **39,700,113** |
| | Net income - Group share | | 44,651,867 | 39,700,113 |
| | Non-controlling interests | | 0 | 0 |

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

# Consolidated statement of comprehensive income

| (in EUR) | 30/06/19 (unaudited) | 30/06/20 (unaudited) |
|---|---|---|
| **NET INCOME FOR THE PERIOD RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME** | **44,651,867** | **39,700,113** |
| **GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME** | **16,824,042** | **(24,030,262)** |
| **Items that will not be reclassified to profit or loss** | **16,146,834** | **(24,009,742)** |
| Actuarial gains (losses) on defined benefit pension plans | (132,859) | (4,739,058) |
| Fair value changes of financial liabilities at fair value through profit or loss attribuable to changes in their credit risk | (54,879) | 201,328 |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | 16,524,819 | (20,368,433) |
| Tax on items that will not be reclassified to profit or loss | (190,247) | 896,421 |
| **Items that may be reclassified to profit or loss** | **677,208** | **(20,520)** |
| Gains (losses) on net investment hedge | (42,555) | (62,515) |
| Translation adjustments | (824,677) | (1,177,253) |
| Gains (losses) on cash flow hedge | (307,832) | 6,304,087 |
| Fair value changes of debt instruments and loans and advances at fair value through other comprehensive income | 2,100,756 | (4,711,518) |
| Tax on items that may be reclassified to profit or loss | (248,484) | (373,321) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **61,475,909** | **15,669,851** |
| **Attributable to equity holders of the parent company** | **61,475,909** | **15,669,851** |
| **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

| SHAREHOLDERS' EQUITY (in EUR) (unaudited) | Subscribed capital | Additional paid-in capital | Treasury shares | Other equity instruments | Reserves and retained earnings[1] | Net income for the period | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| **As at 01/01/19** | **141,212,330** | **708,216,940** | **(1,455,000)** | **0** | **400,677,236** | **130,814,616** | **1,379,466,122** |
| Classification of income 2018 | | | | | 130,814,616 | (130,814,616) | 0 |
| Interest on contingent convertible bond | | | | | (7,405,182) | | (7,405,182) |
| Changes in scope of consolidation | | | | | (309,269) | | (309,269) |
| Realised performance on equities at fair value through other comprehensive income | | | | | (55,216) | | (55,216) |
| Net income for the period | | | | | | 44,651,867 | 44,651,867 |
| **As at 30/06/19** | **141,212,330** | **708,216,940** | **(1,455,000)** | **0** | **523,722,185** | **44,651,867** | **1,416,348,322** |

| GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR) (unaudited) | Financial instruments at fair value through other comprehensive income | Cash flow hedge | Associates | Other reserves | Translation adjustments[2] | Gains and losses not recognised in the consolidated statement of income |
|---|---|---|---|---|---|---|
| **As at 01/01/19** | **37,378,103** | **(5,783,524)** | **0** | **(13,635,487)** | **(12,873,630)** | **5,085,462** |
| Net change in fair value through equity - fair value through other comprehensive income | 18,807,302 | | | | | 18,807,302 |
| Net change in fair value through equity - cash flow hedges | | (346,639) | | | | (346,639) |
| Translation adjustments | 388 | | | (99,645) | (864,232) | (963,489) |
| Cancellation of fair value following fair value through other comprehensive income disposals | (583,481) | | | | | (583,481) |
| Net change in other reserves | 0 | | | (129,206) | | (129,206) |
| Changes in scope of consolidation | 0 | 0 | | | 39,556 | 39,556 |
| **As at 30/06/19** | **55,602,312** | **(6,130,163)** | **0** | **(13,864,338)** | **(13,698,306)** | **21,909,505** |

| NON-CONTROLLING INTERESTS (in EUR) (unaudited) | Shareholders' equity | Gains/Losses not recognised in the consolidated statement of income | Non-controlling interests |
|---|---|---|---|
| **As at 01/01/19** | **0** | **0** | **0** |
| Other transfers | 0 | 0 | 0 |
| **As at 30/06/19** | **0** | **0** | **0** |

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

[1] Of which legal reserve for EUR 14.1 million.

[2] As at June 30, 2019, translation adjustments comprise an amount of EUR -49.210.295 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

| SHAREHOLDERS' EQUITY (in EUR) (unaudited) | Subscribed capital | Additional paid-in capital | Treasury shares | Other equity instruments[1] | Reserves and retained earnings[2] | Net income for the period | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| **As at 01/01/20** | **146,108,270** | **760,527,961** | **0** | **173,592,617** | **521,826,621** | **113,068,966** | **1,715,124,435** |
| Classification of income 2019 | | | | | 113,068,966 | (113,068,966) | 0 |
| Coupon on Additional Tier One Instrument | | | | | (6,140,267) | | (6,140,267) |
| Net income for the period | | | | | | 39,700,113 | 39,700,113 |
| **As at 30/06/20** | **146,108,270** | **760,527,961** | **0** | **173,592,617** | **628,755,320** | **39,700,113** | **1,748,684,281** |

| GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR) (unaudited) | Financial instruments at fair value through other comprehensive income | Cash flow hedge | Associates | Other reserves | Translation adjustments[3] | Gains and losses not recognised in the consolidated statement of income |
|---|---|---|---|---|---|---|
| **As at 01/01/20** | **43,971,017** | **(3,695,248)** | **0** | **(13,532,673)** | **(15,377,015)** | **11,366,081** |
| Net change in fair value through equity - fair value through other comprehensive income | (24,129,050) | | | | 0 | (24,129,050) |
| Net change in fair value through equity - cash flow hedges | | 4,684,924 | | | | 4,684,924 |
| Translation adjustments | 1,112 | | | (185,445) | (1,177,254) | (1,361,587) |
| Net change in other reserves | | | | (3,224,549) | | (3,224,549) |
| **As at 30/06/20** | **19,843,079** | **989,676** | **0** | **(16,942,667)** | **(16,554,269)** | **(12,664,181)** |

| NON-CONTROLLING INTERESTS (in EUR) (unaudited) | Shareholders' equity | Gains/Losses not recognised in the consolidated statement of income | Non-controlling interests |
|---|---|---|---|
| **As at 01/01/20** | **0** | **0** | **0** |
| Other transfers | 0 | 0 | 0 |
| **As at 30/06/20** | **0** | **0** | **0** |

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

[1] On November 14, 2019, BIL issued an additional tier 1 instrument (AT1) for a gross amount of EUR 175,000,000. This AT1 issuance is classified as "other equity instrument" in accordance with IAS 32. It qualifies as AT1 regulatory capital under the Capital Requirement Directive (CRD). The amount presented is net of issuance costs.

[2] Of which legal reserve for EUR 14.6 million.

[3] As at June 30, 2020, translation adjustments comprise an amount of EUR -57,897,611 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

# Consolidated cash flow statement

| (in EUR) | 30/06/19 (unaudited) | 30/06/20 (unaudited) |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net income for the period | 44,651,867 | 39,700,113 |
| Adjustment for : | | |
| - Depreciation and amortisation | 23,896,906 | 27,151,248 |
| - Impairment on tangible assets, intangible assets, right-of-use assets and goodwill | 0 | (121,621) |
| - Impairment on bonds, equities and other assets | (1,083,699) | 357,712 |
| - Net gains / (losses) on investments | 0 | (768,073) |
| - Provisions (including ECL) | 2,807,866 | 15,903,750 |
| - Change in unrealised gains / (losses) | 132,955 | (616,584) |
| - Income / (expense) from associates | (2,250,731) | (381,665) |
| - Dividends from associates | 1,214,280 | 1,418,342 |
| - Deferred taxes | 15,584,332 | 8,256,256 |
| - Other adjustments | (1,393,923) | 108,063 |
| Changes in operating assets and liabilities | (189,965,825) | 527,538,101 |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | **(106,405,972)** | **618,545,642** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of fixed assets | (36,326,159) | (34,952,262) |
| Sale of fixed assets | 0 | 1,631,710 |
| Sale of non-consolidated shares | 29,609 | 0 |
| Acquisition of subsidiaries | 0 | (2,741,993) |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | **(36,296,550)** | **(36,062,545)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Reimbursement of subordinated debts | 0 | (31,100,000) |
| Payments on lease liabilities | (3,753,738) | (4,281,228) |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | **(3,753,738)** | **(35,381,228)** |
| **NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS** | **(146,456,260)** | **547,101,869** |
| **CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD** | **3,552,363,665** | **3,785,288,673** |
| Net cash flow from operating activities | (106,405,972) | 618,545,642 |
| Net cash flow from investing activities | (36,296,550) | (36,062,545) |
| Net cash flow from financing activities | (3,753,738) | (35,381,228) |
| Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents | 2,914,204 | 9,337,097 |
| **CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD** | **3,408,821,609** | **4,341,727,639** |
| **ADDITIONAL INFORMATION** | | |
| Taxes paid | (828,941) | (1,245,009) |
| Dividends received | 69,558 | 5,686 |
| Interest received | 318,673,230 | 325,122,306 |
| Interest paid | (163,391,049) | (149,817,911) |

BIL group decided to classify operations relating to 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 shares.

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

**CFS - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES *(IAS7 AMENDMENT)***

| (in EUR) (unaudited) | As at 01/01/19 | Acquisition - Reimbursement | Changes resulting from the acquisition or loss of subsidiary control | Foreign exchange movement | Other changes | As at 30/06/19 |
|---|---|---|---|---|---|---|
| Subordinated debts | **287,412,587** | 0 | 0 | 406,856 | 0 | **287,819,443** |
| 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)** |
| Other equity instruments | **0** | 0 | 0 | 0 | 0 | **0** |

| (in EUR) (unaudited) | As at 01/01/20 | Acquisition - Reimbursement | Changes resulting from the acquisition or loss of subsidiary control | Foreign exchange movement | Other changes | As at 30/06/20 |
|---|---|---|---|---|---|---|
| Subordinated debts | **170,198,766** | (31,100,000) | 0 | 11,909 | 0 | **139,110,675** |
| Subscribed capital | **146,108,270** | 0 | 0 | 0 | 0 | **146,108,270** |
| Additional paid-in capital | **760,527,961** | 0 | 0 | 0 | 0 | **760,527,961** |
| Treasury shares | **0** | 0 | 0 | 0 | 0 | **0** |
| Other equity instruments | **173,592,617** | 0 | 0 | 0 | 0 | **173,592,617** |

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 may not be 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.
Minor differences between the figures in the notes to the interim condensed financial statements and the figures in the different interim primary consolidated statements are rounding differences only.

# 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 Luxembourgish public limited company (hereafter "BIL" or the "Bank"). Its registered office is situated at 69, route d'Esch, L-2953 Luxembourg.

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. 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 by the Management Board on July 29, 2020 and by the Board of Directors on August 10, 2020.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these interim consolidated financial statements are set out below.

The commonly used abbreviations below are:
- IASB: International Accounting Standards Board;
- IFRIC: International Financial Reporting Interpretations Committee;
- IFRS: International Financial Reporting Standards.

## ACCOUNTING RULES AND METHODS

### Basis of accounting

#### 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, 2020.

The interim condensed 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, 2019.

#### Accounting estimates and judgments

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 judgment. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the interim condensed consolidated financial statements.

Judgments are made principally in the following areas:
- Determination on whether BIL controls the investee, including special purpose entities (see 1.4);
- Financial instruments for which no quoted market prices on active markets are available are valued by means of valuation techniques. The determination as to whether or not there is an active market is based on criteria such as number of contributors, bid offer spread and issue size (see 1.8);
- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets and determination of the lease term of lease contracts (see 1.16, 1.17); and
- Existence of a present obligation with probable outflows in the context of litigation (see 1.25).

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

Estimates are principally made in the following areas:
- Measurement of the expected credit loss allowance (see 1.7.5);
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques and determination of the market value correction to adjust for market value and model uncertainty (see 1.8);
- The measurement of hedge effectiveness in hedging relations (see 1.13);
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see 1.19);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see 1.23); and
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.24).

Above references are made to Note 1 of *Consolidated Financial Statements included in the 2019 Annual Report.*

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.

## 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, 2020.

### IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2020

- Amendments to References to the Conceptual Framework in IFRS standards (issued on March 29, 2018). These amendments are applicable as from January 1, 2020. No impact for BIL;
- Amendments to IFRS 3 "Business Combinations" (issued on October 22, 2018). These amendments are applicable as from January 1, 2020. No impact for BIL;
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on October 31, 2018). These amendments are applicable as from January 1, 2020. No impact for BIL;
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7 issued on September 26, 2019). These amendments are applicable as from January 1, 2020. BIL has early adopted the Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 as published by the IASB in September 2019 and endorsed by the EU on 15 January 2020.

### IASB and IFRIC texts issued during previous periods and not yet endorsed nor applicable as at January 1, 2020

- IFRS 17, "Insurance contracts" (issued on May 18, 2017). The standard is applicable as from January 1, 2023 and may impact BIL.

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

- Amendments to IAS 1 "Presentation of Financial Statements" Classification of liabilities as current or non-current. These amendments are applicable as from January 1, 2022. No impact for BIL;
- Annual Improvements to IFRS Standards 2018-2020 Cycle (issued on May 14, 2020). These amendments are applicable as from January 1, 2022. No impact for BIL;
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" Onerous Contracts – Cost of Fulfilling a Contract. These amendments are applicable as from January 1, 2022. No impact for BIL;
- Amendments to IFRS 3 "Business Combinations" Reference to the Conceptual Framework. These amendments are applicable as from January 1, 2022. No impact for BIL;
- Amendments to IAS 16 "Property, Plant and Equipment" Proceeds before intended use. These amendments are applicable as from January 1, 2022. No impact for BIL;
- Amendments to IFRS 16 "Leases" COVID-19-related Rent Concessions (issued on May 28, 2020): These amendments are applicable as from June 1, 2020. No impact for BIL.

### Presentation of derivatives in Assets and Liabilities

In accordance with IAS 8, BIL has corrected the presentation of derivative instruments in the consolidated financial statements as at December 31, 2019 where the fair value of each derivative is presented net of upfront payments. The impact of the reclassification is as follows (corresponding notes are restated accordingly):

| (in EUR million) | | **31/12/19 (As published)** | **31/12/19 (Restated)** | **Difference** |
|---|---|---|---|---|
| Assets | VII. Derivatives | 334,980,807 | 294,432,450 | (40,548,357) |
| Liabilities | V. Derivatives | 601,785,519 | 561,237,162 | (40,548,357) |
| Shareholders' equity | | 0 | 0 | 0 |

# Note 2: Material changes in scope of consolidation since January 1, 2020



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

**Companies fully consolidated for the first time**
BIL Wealth Management Limited (since February 13, 2020)

**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

BIL Wealth Management Limited (formerly Sino Suisse Financial Group (Hong Kong) Limited until February 26, 2020).

# 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 2020, BIL kept the same reporting segmentation of its business lines:

**"Retail Banking, Corporate & Institutional Banking and Wealth Management"** are divided into three business lines: Retail, Private Banking Luxembourg & Digital; Corporate & Institutional Banking; and Wealth Management & International Corporate Development.

Following the appointment of Jérôme Neble as the new Head of "Products & Markets", "Financial Markets" was renamed **"Products & Markets"** and groups Banking Book Management and Products & Markets as previously reported.

**"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, Resolution Funds' contributions and funding costs (such as senior non-preferred debts).

| **INCOME**<br>(in EUR thousands) | **30/06/19** | | | |
|---|---|---|---|---|
| | **Income** | ***of which net income from associates*** | ***of which interest income and dividend income*** | **Net income before tax** |
| Retail, Corporate and Wealth Management | 255,056 | | *150,967* | 68,316 |
| Products & Markets | 24,824 | | *10,739* | 14,497 |
| Group Center | (15,219) | *2,251* | *(6,617)* | (22,307) |
| **TOTAL** | **264,661** | ***2,251*** | ***155,089*** | **60,506** |
| Net income before tax | | | | 60,506 |
| Tax expenses | | | | (15,854) |
| **NET INCOME** | | | | **44,652** |

| | **30/06/20** | | | |
|---|---|---|---|---|
| | **Income** | ***of which net income from associates*** | ***of which net interest income and dividend income*** | **Net income before tax** |
| Retail, Corporate and Wealth Management | 275,353 | | *154,922* | 62,091 |
| Products & Markets | 28,092 | | *12,690* | 18,017 |
| Group Center | (23,111) | *382* | *(7,302)* | (31,271) |
| **TOTAL** | **280,334** | ***382*** | ***160,310*** | **48,837** |
| Net income before tax | | | | 48,837 |
| Tax expenses | | | | (9,137) |
| **NET INCOME** | | | | **39,700** |

| **ASSETS AND LIABILITIES** (in EUR thousands) | 31/12/19 | | 30/06/20 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Retail, Corporate and Wealth Management | 14,716,149 | 20,376,578 | 15,204,933 | 20,533,823 |
| Products & Markets | 12,583,447 | 4,810,403 | 13,849,834 | 6,351,185 |
| Group Center | 760,248 | 1,146,372 | 786,055 | 1,219,794 |
| **TOTAL** | **28,059,844** | **26,333,353** | **29,840,822** | **28,104,802** |

Relations between product lines, in particular commercial product lines, financial markets and production and service centres 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: Quality of financial assets

## Loans and securities by stages

| | 31/12/19 | | | |
|---|---|---|---|---|
| | Net carrying amount | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Loans and advances to credit institutions | 1,188,985,238 | 1,649,350 | 0 | 1,190,634,588 |
| Loans and advances to customers | 11,909,598,596 | 2,456,839,055 | 349,711,535 | 14,716,149,186 |
| Debt securities | 7,242,171,214 | 241,541,287 | 9,193,318 | 7,492,905,819 |
| *Debt securities measured at amortised cost* | *6,196,348,685* | *187,298,864* | *9,193,318* | *6,392,840,867* |
| *Debt securities measured at fair value through other comprehensive income* | *1,045,822,529* | *54,242,423* | *0* | *1,100,064,952* |
| **TOTAL** | **20,340,755,048** | **2,700,029,692** | **358,904,853** | **23,399,689,593** |

| | 30/06/20 | | | |
|---|---|---|---|---|
| | Net carrying amount | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Loans and advances to credit institutions | 1,274,919,838 | 1,184,679 | 0 | 1,276,104,517 |
| Loans and advances to customers | 12,432,985,247 | 2,416,605,320 | 355,342,676 | 15,204,933,243 |
| Debt securities | 8,018,887,288 | 315,007,105 | 7,334,962 | 8,341,229,355 |
| *Debt securities measured at amortised cost* | *7,172,723,155* | *168,687,895* | *7,334,962* | *7,348,746,012* |
| *Debt securities measured at fair value through other comprehensive income* | *846,164,133* | *146,319,210* | *0* | *992,483,343* |
| **TOTAL** | **21,726,792,373** | **2,732,797,103** | **362,677,638** | **24,822,267,114** |

## Analysis of Loans and securities by stages

| | 31/12/19 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | | Accumulated impairments | | | Net carrying amount |
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Loans and advances to credit institutions | 1,189,002,529 | 1,717,620 | *0* | *(17,291)* | (68,270) | *0* | 1,190,634,588 |
| Loans and advances to customers | 11,943,631,507 | 2,469,135,242 | 573,920,973 | (34,032,911) | (12,296,187) | (224,209,438) | 14,716,149,186 |
| Debt securities | 7,243,754,534 | 242,247,705 | 21,759,703 | (1,583,320) | (706,418) | (12,566,385) | 7,492,905,819 |
| *Debt securities measured at amortised cost* | *6,197,908,866* | *187,937,802* | *21,759,703* | *(1,560,181)* | *(638,938)* | *(12,566,385)* | *6,392,840,867* |
| *Debt securities measured at fair value through other comprehensive income* | *1,045,845,668* | *54,309,903* | *0* | *(23,139)* | *(67,480)* | *0* | *1,100,064,952* |
| **TOTAL** | **20,376,388,570** | **2,713,100,567** | **595,680,676** | **(35,633,522)** | **(13,070,875)** | **(236,775,823)** | **23,399,689,593** |

| | 30/06/20 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | | Accumulated impairments | | | Net carrying amount |
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Loans and advances to credit institutions | 1,275,020,061 | 1,275,699 | 0 | (100,223) | (91,020) | 0 | 1,276,104,517 |
| Loans and advances to customers | 12,481,429,343 | 2,432,383,580 | 578,005,215 | (48,444,096) | (15,778,260) | (222,662,539) | 15,204,933,243 |
| Debt securities | 8,021,580,556 | 315,369,825 | 21,985,297 | (2,693,268) | (362,720) | (14,650,335) | 8,341,229,355 |
| *Debt securities measured at amortised cost* | *7,175,357,123* | *169,050,615* | *21,985,297* | *(2,633,968)* | *(362,720)* | *(14,650,335)* | *7,348,746,012* |
| *Debt securities measured at fair value through other comprehensive income* | *846,223,433* | *146,319,210* | *0* | *(59,300)* | *0* | *0* | *992,483,343* |
| **TOTAL** | **21,778,029,960** | **2,749,029,104** | **599,990,512** | **(51,237,587)** | **(16,232,001)** | **(237,312,874)** | **24,822,267,114** |

## Movements of loans and securities by stages (gross carrying amount)

| | 2019 | | | |
|---|---|---|---|---|
| | Outstanding amounts | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **DEBT SECURITIES AS AT JANUARY 1** | **6,177,867,641** | **283,293,650** | **19,917,195** | **6,481,078,486** |
| From Stage 1 to Stage 2 | (120,592,378) | 120,592,378 | | 0 |
| From Stage 2 to Stage 1 | 232,516,210 | (232,516,210) | | 0 |
| From Stage 2 to Stage 3 | | 0 | 0 | 0 |
| From Stage 3 to Stage 2 | | 0 | 0 | 0 |
| From Stage 1 to Stage 3 | 0 | | 0 | 0 |
| From Stage 3 to Stage 1 | 0 | | 0 | 0 |
| Purchase | 2,021,084,239 | 91,190,236 | 0 | 2,112,274,475 |
| Derecognition during the period other than write-offs | (1,147,071,826) | (19,519,230) | 0 | (1,166,591,056) |
| Modification of contractual cash flows | 0 | 0 | 2,415,010 | 2,415,010 |
| Changes in interest accrual | 2,765,544 | (95,277) | (772,916) | 1,897,351 |
| Changes in premium / discount | (19,196,164) | 2,169,787 | 0 | (17,026,377) |
| Changes in fair value | 80,316,326 | (3,155,522) | 0 | 77,160,804 |
| Write-offs | (604,045) | 0 | 0 | (604,045) |
| Conversion difference (FX change) | 16,668,987 | 287,893 | 200,414 | 17,157,294 |
| **DEBT SECURITIES AS AT DECEMBER 31** | **7,243,754,534** | **242,247,705** | **21,759,703** | **7,507,761,942** |

| | 2019 | | | |
|---|---|---|---|---|
| | Outstanding amounts | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **LOANS AND ADVANCES AS AT JANUARY 1** | **11,849,425,140** | **2,284,502,585** | **595,720,394** | **14,729,648,119** |
| From Stage 1 to Stage 2 | (796,149,576) | 796,149,576 | | 0 |
| From Stage 2 to Stage 1 | 518,487,534 | (518,487,534) | | 0 |
| From Stage 2 to Stage 3 | | (44,133,524) | 44,133,524 | 0 |
| From Stage 3 to Stage 2 | | 5,732,563 | (5,732,563) | 0 |
| From Stage 1 to Stage 3 | (45,991,505) | | 45,991,505 | 0 |
| From Stage 3 to Stage 1 | 18,185,273 | | (18,185,273) | 0 |
| Origination | 4,231,943,437 | 491,004,016 | 52,701,829 | 4,775,649,282 |
| Derecognition during the period other than write-offs | (2,688,043,227) | (552,666,805) | (133,995,719) | (3,374,705,751) |
| Modification of contractual cash flows | 0 | 0 | 6,113,648 | 6,113,648 |
| Changes in interest accrual | (84,557) | (1,304,616) | 0 | (1,389,173) |
| Changes in premium / discount | 109,746 | 0 | 0 | 109,746 |
| Changes in fair value | 4,295,040 | 0 | 0 | 4,295,040 |
| Write-offs | 0 | 0 | (14,885,313) | (14,885,313) |
| Conversion difference (FX change) | 40,456,731 | 10,056,601 | 2,058,941 | 52,572,273 |
| **LOANS AND ADVANCES AS AT DECEMBER 31** | **13,132,634,036** | **2,470,852,862** | **573,920,973** | **16,177,407,871** |

| | 2020 | | | |
|---|---|---|---|---|
| | Outstanding amounts | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **DEBT SECURITIES AS AT JANUARY 1** | **7,243,754,534** | **242,247,705** | **21,759,703** | **7,507,761,942** |
| From Stage 1 to Stage 2 | (156,885,997) | 156,885,997 | | 0 |
| From Stage 2 to Stage 1 | 104,039,821 | (104,039,821) | | 0 |
| From Stage 2 to Stage 3 | | 0 | 0 | 0 |
| From Stage 3 to Stage 2 | | 0 | 0 | 0 |
| From Stage 1 to Stage 3 | 0 | | 0 | 0 |
| From Stage 3 to Stage 1 | 0 | | 0 | 0 |
| Purchase | 1,776,447,181 | 18,562,050 | 0 | 1,795,009,231 |
| Derecognition during the period other than write-offs | (978,458,631) | 0 | 0 | (978,458,631) |
| Modification of contractual cash flows | (23,377,505) | 0 | 0 | (23,377,505) |
| Changes in interest accrual | (12,347,297) | 1,517,989 | 0 | (10,829,308) |
| Changes in premium / discount | 4,779,599 | (3,918,601) | 0 | 860,998 |
| Changes in fair value | 61,234,794 | 4,110,689 | 0 | 65,345,483 |
| Write-offs | 0 | 0 | 0 | 0 |
| Conversion difference (FX change) | 2,394,057 | 3,817 | 225,594 | 2,623,468 |
| **DEBT SECURITIES AS AT JUNE 30** | **8,021,580,556** | **315,369,825** | **21,985,297** | **8,358,935,678** |

| | 2020 | | | |
|---|---|---|---|---|
| | Outstanding amounts | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **LOANS AND ADVANCES AS AT JANUARY 1** | **13,132,634,036** | **2,470,852,862** | **573,920,973** | **16,177,407,871** |
| From Stage 1 to Stage 2 | (394,779,751) | 394,779,751 | | 0 |
| From Stage 2 to Stage 1 | 437,190,916 | (437,190,916) | | 0 |
| From Stage 2 to Stage 3 | | (18,618,446) | 18,618,446 | 0 |
| From Stage 3 to Stage 2 | | 22,581,098 | (22,581,098) | 0 |
| From Stage 1 to Stage 3 | (42,625,763) | | 42,625,763 | 0 |
| From Stage 3 to Stage 1 | 13,268,645 | | (13,268,645) | 0 |
| Origination | 2,402,830,971 | 235,396,119 | 46,329,397 | 2,684,556,487 |
| Derecognition during the period other than write-offs | (1,783,532,738) | (240,649,474) | (62,460,717) | (2,086,642,929) |
| Modification of contractual cash flows | (21,884) | 1,254,399 | 943,325 | 2,175,840 |
| Changes in interest accrual | (2,405,112) | (323,937) | 0 | (2,729,049) |
| Changes in premium / discount | 57,024 | 0 | 0 | 57,024 |
| Changes in fair value | 4,685,390 | 0 | 0 | 4,685,390 |
| Write-offs | (1,349,312) | 0 | (6,431,385) | (7,780,697) |
| Conversion difference (FX change) | (9,503,018) | 5,577,823 | 309,156 | (3,616,039) |
| **LOANS AND ADVANCES AS AT JUNE 30** | **13,756,449,404** | **2,433,659,279** | **578,005,215** | **16,768,113,898** |

# Note 5: Subordinated debts and debt securities

## Subordinated debts

| A. ANALYSIS BY NATURE | 31/12/19 | 30/06/20 |
|---|---|---|
| Non-convertible subordinated debts[1] | 138,035,616 | 138,104,519 |
| Contingent convertible bond (compound instrument)[2] | 31,044,196 | 0 |
| **TOTAL** | **169,079,812** | **138,104,519** |

## Debt securities

| A. ANALYSIS BY NATURE | 31/12/19 | 30/06/20 |
|---|---|---|
| Certificates of deposit | 20,828,172 | 29,414,379 |
| Non-convertible bonds | 2,246,590,612 | 2,632,577,679 |
| **TOTAL** | **2,267,418,784** | **2,661,992,058** |

## Debt securities held for trading

| A. ANALYSIS BY NATURE | 31/12/19 | 30/06/20 |
|---|---|---|
| Other bonds | 0 | 1,288,453 |
| **TOTAL** | **0** | **1,288,453** |

## Financial liabilities designated at fair value through profit or loss

| A. ANALYSIS BY NATURE | 31/12/19 | 30/06/20 |
|---|---|---|
| Non-subordinated liabilities | 923,354,039 | 956,360,230 |
| **TOTAL** | **923,354,039** | **956,360,230** |

[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. On November 14, 2019, the Bank partially bought back and cancelled the contingent convertible bond for an amount of EUR 118.9 million. On June 26, 2020, the Bank bought back and cancelled the remaining portion of the contingent convertible bond for an amount of EUR 31.1 million.

## Note 6: Exchange rates

The main exchange rates used are the following:

| | | 30/06/19 | | 31/12/19 | | 30/06/20 | |
|---|---|---|---|---|---|---|---|
| | | **Closing rate** | **Average rate** | **Closing rate** | **Average rate** | **Closing rate** | **Average rate** |
| Australian Dollar | AUD | 1.6238 | 1.5979 | 1.5977 | 1.6082 | 1.6324 | 1.6851 |
| Canadian Dollar | CAD | 1.4897 | 1.5030 | 1.4554 | 1.4811 | 1.5323 | 1.5129 |
| Swiss Franc | CHF | 1.1122 | 1.1287 | 1.0859 | 1.1117 | 1.0653 | 1.0626 |
| Danish Krone | DKK | 7.4637 | 7.4647 | 7.4718 | 7.4660 | 7.4521 | 7.4626 |
| Pound Sterling | GBP | 0.8951 | 0.8723 | 0.8489 | 0.8747 | 0.9094 | 0.8759 |
| Hong Kong Dollar | HKD | 8.8921 | 8.8659 | 8.7418 | 8.7671 | 8.6976 | 8.5689 |
| Japanese Yen | JPY | 122.6095 | 124.1520 | 121.8197 | 121.9665 | 120.8778 | 119.0088 |
| Norwegian Krone | NOK | 9.7148 | 9.7072 | 9.8434 | 9.8464 | 10.8717 | 10.8277 |
| Polish Zloty | PLN | 4.2477 | 4.2828 | 4.2541 | 4.2976 | 4.4404 | 4.4301 |
| Swedish Krona | SEK | 10.5586 | 10.5148 | 10.4658 | 10.5853 | 10.4694 | 10.6585 |
| Singapore Dollar | SGD | 1.5415 | 1.5346 | 1.5091 | 1.5251 | 1.5665 | 1.5465 |
| US Dollar | USD | 1.1387 | 1.1308 | 1.1224 | 1.1192 | 1.1222 | 1.1040 |

# Note 7: Net impairment allowances on financial assets

| Stage 1 | 30/06/19 | | |
| --- | --- | --- | --- |
| | Allowances | Write-backs | Total |
| Loans and advances to credit institutions measured at amortised cost | (21,250) | 30,005 | 8,755 |
| Loans and advances to customers measured at amortised cost | (8,948,632) | 7,906,708 | (1,041,924) |
| Normal debt securities measured at amortised cost | (689,497) | 646,628 | (42,869) |
| **Financial assets measured at amortised cost** | **(9,659,379)** | **8,583,341** | **(1,076,038)** |
| Normal debt securities measured at fair value through other comprehensive income | (243) | 16,463 | 16,220 |
| **Financial assets measured at fair value through other comprehensive income** | **(243)** | **16,463** | **16,220** |
| **Off-balance sheet commitments** | **(4,805,154)** | **3,301,527** | **(1,503,627)** |
| **TOTAL IMPAIRMENTS STAGE 1** | **(14,464,776)** | **11,901,331** | **(2,563,445)** |

| Stage 2 | 30/06/19 | | |
| --- | --- | --- | --- |
| | Allowances | Write-backs | Total |
| Loans and advances to credit institutions measured at amortised cost | (71,156) | 16,727 | (54,429) |
| Loans and advances to customers measured at amortised cost | (11,170,446) | 13,181,539 | 2,011,093 |
| Normal debt securities measured at amortised cost | (1,194,535) | 423,487 | (771,048) |
| **Financial assets measured at amortised cost** | **(12,436,137)** | **13,621,753** | **1,185,616** |
| Normal debt securities measured at fair value through other comprehensive income | (82,599) | 15 | (82,584) |
| **Financial assets measured at fair value through other comprehensive income** | **(82,599)** | **15** | **(82,584)** |
| **Off-balance sheet commitments** | **(1,457,799)** | **932,183** | **(525,616)** |
| **TOTAL IMPAIRMENTS STAGE 2** | **(13,976,535)** | **14,553,951** | **577,416** |

| Stage 3 | 30/06/19 | | | | |
| --- | --- | --- | --- | --- | --- |
| | Allowances | Write-backs | Losses | Recoveries | Total |
| Impaired loans and advances to credit institutions measured at amortised cost | 0 | 0 | 0 | 0 | 0 |
| Impaired loans and advances to customers measured at amortised cost | (11,188,448) | 13,280,922 | (6,119,849) | 0 | (4,027,375) |
| Impaired debt securities measured at amortised cost | (1,000,000) | 0 | 0 | 0 | (1,000,000) |
| **Impaired financial assets measured at amortised cost** | **(12,188,448)** | **13,280,922** | **(6,119,849)** | **0** | **(5,027,375)** |
| **Other receivables** | **(8,775)** | **0** | **(96,559)** | **0** | **(105,334)** |
| **Off-balance sheet commitments** | **(948,487)** | **293,033** | **0** | **0** | **(655,454)** |
| **TOTAL IMPAIRMENTS STAGE 3** | **(13,145,710)** | **13,573,955** | **(6,216,408)** | **0** | **(5,788,163)** |

| | |
| --- | --- |
| **TOTAL IMPAIRMENTS** | **(7,774,192)** |

| Stage 1 | 30/06/20 | | |
|---|---|---|---|
| | Allowances | Write-backs | Total |
| Loans and advances to credit institutions measured at amortised cost | (102,542) | 19,660 | (82,882) |
| Loans and advances to customers measured at amortised cost | (25,392,290) | 10,938,664 | (14,453,626) |
| Normal debt securities measured at amortised cost | (1,290,095) | 224,106 | (1,065,989) |
| **Financial assets measured at amortised cost** | **(26,784,927)** | **11,182,430** | **(15,602,497)** |
| Normal debt securities measured at fair value through other comprehensive income | (39,961) | 3,856 | (36,105) |
| **Financial assets measured at fair value through other comprehensive income** | **(39,961)** | **3,856** | **(36,105)** |
| **Off-balance sheet commitments** | **(6,564,927)** | **3,894,593** | **(2,670,334)** |
| TOTAL IMPAIRMENTS STAGE 1 | (33,389,815) | 15,080,879 | (18,308,936) |

| Stage 2 | 30/06/20 | | |
|---|---|---|---|
| | Allowances | Write-backs | Total |
| Loans and advances to credit institutions measured at amortised cost | (80,234) | 54,828 | (25,406) |
| Loans and advances to customers measured at amortised cost | (14,429,417) | 10,998,601 | (3,430,816) |
| Normal debt securities measured at amortised cost | (52,565) | 328,750 | 276,185 |
| **Financial assets measured at amortised cost** | **(14,562,216)** | **11,382,179** | **(3,180,037)** |
| Normal debt securities measured at fair value through other comprehensive income | (5,271) | 72,751 | 67,480 |
| **Financial assets measured at fair value through other comprehensive income** | **(5,271)** | **72,751** | **67,480** |
| **Off-balance sheet commitments** | **(1,553,341)** | **1,429,204** | **(124,137)** |
| TOTAL IMPAIRMENTS STAGE 2 | (16,120,828) | 12,884,134 | (3,236,694) |

| Stage 3 | 30/06/20 | | | | |
|---|---|---|---|---|---|
| | Allowances | Write-backs | Losses | Recoveries | Total |
| Impaired loans and advances to customers measured at amortised cost | (18,203,931) | 19,872,087 | (6,762,014) | 0 | (5,093,858) |
| Impaired debt securities measured at amortised cost | (2,000,000) | 0 | 0 | 0 | (2,000,000) |
| **Impaired financial assets measured at amortised cost** | **(20,203,931)** | **19,872,087** | **(6,762,014)** | **0** | **(7,093,858)** |
| **Other receivables** | **(30,229)** | **0** | **(125,214)** | **0** | **(155,443)** |
| **Off-balance sheet commitments** | **(1,063,252)** | **466,692** | **0** | **0** | **(596,560)** |
| TOTAL IMPAIRMENTS STAGE 3 | (21,297,412) | 20,338,779 | (6,887,228) | 0 | (7,845,861) |

| | |
|---|---|
| TOTAL IMPAIRMENTS | (29,391,491) |

# Note 8: Material items in the statement of income

For the period ending June 30, 2020, the material items in the statement of income are the following:

- Income reached EUR 280 million at the end of June 2020 compared with EUR 265 million at the end of June 2019. Capital gains remained stable with 2019 (EUR 9.9 million) and despite the unprecedented health crisis, core operating income increased by EUR 15 million (6%) compared with June 2019. Margin income and fee income increased significantly due to a resilient performance of the commercial business lines.
- General expenses totalled EUR 202 million as at June 30, 2020 showing a modest increase of 3% compared with June 2019. This increase was essentially linked to non-recurring items such as COVID-19 impacts as explained in the profitability section of the Business Review and Results. Core operating expenses remained stable compared with June 2019 at EUR 197 million (+1%). Depreciation and amortisation increased by EUR 3.3 million as foreseen in the IT investment plan. Staff costs decreased by EUR 1.3 million and general expenses by EUR 0.7 million in line with continued cost containment measures initiated since 2019.
- Gross operating income amounted to EUR 78 million compared with EUR 68 million in June 2019. Excluding non-recurring items, core gross operating income rose by 24%, thanks to the performance of the commercial business lines and successful cost control.
- The adverse macroeconomic outlook impacted all market participants in the first half of 2020, and the Bank was no exception. BIL recorded net provisions on loans and advances and provisions for legal litigations of EUR 29 million in June 2020 compared with EUR 8 million in June 2019. This increase of EUR 21 million reflects the change in macroeconomic factors following the onset of the pandemic.
- Net income before tax amounted to EUR 49 million, down by EUR 12 million compared with the first half of 2019, impacted by the negative evolution of the cost of risk of EUR 21 million and the negative contribution of the non-recurring items.

# Note 9: Post-balance sheet events

There was no occurrence of a significant post-balance sheet event likely to have a major impact on the interim condensed consolidated financial statements of BIL.

# Note 10: Litigation

**Banque Internationale à Luxembourg S.A. and Banque Internationale à Luxembourg (Suisse) S.A.**

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 setup put in place by BLMIS that culminated in its collapse. Some of these clawback actions were brought against Banque Internationale à Luxembourg S.A. and its subsidiary Banque Internationale à Luxembourg (Suisse) S.A., 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 S.A. on behalf of third parties.

With regard to the proceedings initiated by the liquidators of certain feeder funds, the Bankruptcy Court dismissed Common Law Claims and the Contract Claims but declined to dismiss the BVI Insolvency Claims based on the grounds raised by the defendants. The decision to dismiss the Common Law Claims and the Contract Claims is now on appeal to the District Court. The parties are in the process of briefing that appeal. In the meantime, the defendants filed a second motion to dismiss the BVI Insolvency Claims in the Bankruptcy Court. The liquidator filed an opposition to this second motion. The defence group filed a reply brief against this opposition.

With regard to the Madoff subsequent transferee action, this action had been dismissed by the Bankruptcy Court on the grounds of comity/extraterritoriality, but the Second Circuit Court of Appeals reversed the decision on February 25, 2019. Defendants have filed a petition for certiorari (permission to appeal) to the US Supreme Court, which was denied. The subsequent transferee action will now be returned to the Bankruptcy Court for further proceedings.

At this time, Banque Internationale à Luxembourg S.A. 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, 2020, 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 S.A.

# Note 11: Fair value

## A. BREAKDOWN OF FAIR VALUE

| A.1. Fair value of financial assets | 31/12/19 | | | 30/06/20 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Cash and balances with central banks and demand deposits | 3,541,542,203 | 3,541,542,203 | 0 | 3,997,854,469 | 3,997,854,469 | 0 |
| Financial assets held for trading | 63,537,620 | 63,537,620 | 0 | 87,523,286 | 87,523,286 | 0 |
| Financial investments measured at fair value | 1,175,992,672 | 1,175,992,672 | 0 | 1,053,841,297 | 1,053,841,297 | 0 |
| *Financial assets at fair value through other comprehensive income* | *1,151,919,379* | *1,151,919,379* | *0* | *1,024,153,202* | *1,024,153,202* | *0* |
| *Non-trading financial assets mandatorily at fair value through profit or loss* | *24,073,293* | *24,073,293* | *0* | *29,688,095* | *29,688,095* | *0* |
| Loans and advances to credit institutions | 1,190,634,588 | 1,190,638,992 | 4,404 | 1,276,104,517 | 1,276,179,923 | 75,406 |
| Loans and advances to customers | 14,716,149,186 | 14,890,428,129 | 174,278,943 | 15,204,933,243 | 15,523,272,612 | 318,339,369 |
| Financial investments measured at amortised cost | 6,392,840,867 | 6,492,917,578 | 100,076,711 | 7,348,746,012 | 7,418,354,318 | 69,608,306 |
| Derivatives | 294,432,450 | 294,432,450 | 0 | 146,814,928 | 146,814,928 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 303,238 | 303,238 | 0 | 248,018 | 248,018 | 0 |
| **TOTAL** | **27,375,432,824** | **27,649,792,882** | **274,360,058** | **29,116,065,770** | **29,504,088,851** | **388,023,081** |

| A.2. Fair value of financial liabilities | 31/12/19 | | | 30/06/20 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Amounts due to credit institutions | 3,095,841,613 | 3,099,337,370 | 3,495,757 | 4,265,872,582 | 4,266,877,685 | 1,005,103 |
| Amounts due to customers | 18,987,047,358 | 18,997,975,541 | 10,928,183 | 19,117,644,369 | 19,130,250,336 | 12,605,967 |
| Financial liabilities measured at fair value through profit or loss | 923,354,039 | 923,354,039 | 0 | 957,648,683 | 957,648,683 | 0 |
| Derivatives | 561,237,162 | 561,237,162 | 0 | 523,431,483 | 523,431,483 | 0 |
| Fair value revaluation of portfolios hedged against interest rate risk | 13,688,928 | 13,688,928 | 0 | 7,815,103 | 7,815,103 | 0 |
| Debt securities | 2,267,418,784 | 2,318,549,830 | 51,131,046 | 2,661,992,058 | 2,676,709,476 | 14,717,418 |
| Subordinated debts | 169,079,812 | 180,947,712 | 11,867,900 | 138,104,519 | 140,842,008 | 2,737,489 |
| **TOTAL** | **26,017,667,696** | **26,095,090,582** | **77,422,886** | **27,672,508,797** | **27,703,574,774** | **31,065,977** |

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

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

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### 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 a financial instrument which is not fair valued according to its classification and nature is considered as Level 2.

| B.1. Assets | 31/12/19 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 42,990,628 | 16,710,216 | 3,836,776 | 63,537,620 |
| Financial investments measured at fair value | 962,989,649 | 161,197,696 | 51,805,327 | 1,175,992,672 |
| Derivatives | 0 | 290,099,192 | 4,333,258 | 294,432,450 |
| **TOTAL** | **1,005,980,277** | **468,007,104** | **59,975,361** | **1,533,962,742** |

| | 30/06/20 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 47,381,207 | 31,405,562 | 8,736,517 | 87,523,286 |
| Financial investments measured at fair value | 902,138,421 | 120,125,811 | 31,577,065 | 1,053,841,297 |
| Derivatives | 0 | 141,808,290 | 5,006,638 | 146,814,928 |
| **TOTAL** | **949,519,628** | **293,339,663** | **45,320,220** | **1,288,179,511** |

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

| B.2. Liabilities | 31/12/19 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 728,044,065 | 195,309,974 | 923,354,039 |
| Derivatives | 0 | 557,644,003 | 3,593,159 | 561,237,162 |
| **TOTAL** | **0** | **1,285,688,068** | **198,903,133** | **1,484,591,201** |

| | 30/06/20 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities held for trading | 0 | 1,288,453 | 0 | 1,288,453 |
| Financial liabilities designated at fair value | 0 | 769,947,902 | 186,412,328 | 956,360,230 |
| Derivatives | 0 | 507,656,511 | 15,774,972 | 523,431,483 |
| **TOTAL** | **0** | **1,278,892,866** | **202,187,300** | **1,481,080,166** |

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

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## C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

### C.1. Assets

No transfer was made between Level 1 and Level 2 on assets and liabilities in 2019 and 2020.

### C.2. Liabilities

No transfer was made between Level 1 and Level 2 on assets and liabilities in 2019 and 2020.

## D. LEVEL 3 RECONCILIATION

| D.1. Assets | 31/12/19 | | | | |
|---|---|---|---|---|---|
| | Opening | Total gains and losses in statement of income | Gains and Losses in other comprehensive income- Realised & Unrealised | Purchase | Sale |
| Financial assets designated held for trading | 3,726,047 | 34,595 | 0 | 2,481,880 | (2,405,746) |
| Financial assets measured at fair value | 43,759,171 | 0 | 8,203,349 | 209,099 | (366,292) |
| Derivatives | 11,769,875 | (9,765,120) | 0 | 2,328,503 | 0 |
| **TOTAL** | **59,255,093** | **(9,730,525)** | **8,203,349** | **5,019,482** | **(2,772,038)** |

| | Settlement | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Other | Closing |
|---|---|---|---|---|---|---|
| Financial assets designated held for trading | 0 | 0 | 0 | 0 | 0 | 3,836,776 |
| Financial assets measured at fair value | 0 | 0 | 0 | 0 | 0 | 51,805,327 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 4,333,258 |
| **TOTAL** | **0** | **0** | **0** | **0** | **0** | **59,975,361** |

| D.1. Assets | 30/06/20 | | | | |
|---|---|---|---|---|---|
| | Opening | Total gains and losses in statement of income | Gains and Losses in other comprehensive income- Realised & Unrealised | Purchase | Sale |
| Financial assets designated held for trading | 3,836,776 | 629,449 | 0 | 5,407,795 | (1,137,503) |
| Financial assets measured at fair value | 51,805,327 | 0 | (20,549,734) | 321,461 | 0 |
| Derivatives | 4,333,258 | 230,052 | 0 | 443,328 | 0 |
| **TOTAL** | **59,975,361** | **859,501** | **(20,549,734)** | **6,172,584** | **(1,137,503)** |

| | Settlement | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Other | Closing |
|---|---|---|---|---|---|---|
| Financial assets designated held for trading | 0 | 0 | 0 | 0 | 0 | 8,736,517 |
| Financial assets measured at fair value | 0 | 0 | 0 | 11 | 0 | 31,577,065 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 5,006,638 |
| **TOTAL** | **0** | **0** | **0** | **11** | **0** | **45,320,220** |

| D.2. Liabilities | 31/12/19 | | | | |
|---|---|---|---|---|---|
| | Opening | Total gains and losses in statement of income | Purchase | Settlement | Sale |
| Financial liabilities designated at fair value | 176,317,399 | (6,691,744) | 148,802,615 | (127,197,108) | 0 |
| Derivatives | 52,654,649 | (49,416,381) | 354,891 | 0 | 0 |
| **TOTAL** | **228,972,048** | **(56,108,125)** | **149,157,506** | **(127,197,108)** | **0** |

| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Closing |
|---|---|---|---|---|
| Financial liabilities designated at fair value | 0 | 0 | 4,078,812 | 195,309,974 |
| Derivatives | 0 | 0 | 0 | 3,593,159 |
| **TOTAL** | **0** | **0** | **4,078,812** | **198,903,133** |

| D.2. Liabilities | 30/06/20 | | | | |
|---|---|---|---|---|---|
| | Opening | Total gains and losses in statement of income | Purchase | Settlement | Sale |
| Financial liabilities designated at fair value | 195,309,974 | (25,509,293) | 83,291,675 | (69,530,198) | 0 |
| Derivatives | 3,593,159 | 9,087,263 | 3,094,550 | 0 | 0 |
| **TOTAL** | **198,903,133** | **(16,422,030)** | **86,386,225** | **(69,530,198)** | **0** |

| | Transfer to Level 3 | Transfer from Level 3 | Conversion differences | Closing |
|---|---|---|---|---|
| Financial liabilities designated at fair value | 0 | 0 | 2,850,170 | 186,412,328 |
| Derivatives | 0 | 0 | 0 | 15,774,972 |
| **TOTAL** | **0** | **0** | **2,850,170** | **202,187,300** |

BIL has elaborated a procedure defining the criteria for an active market and the notions of observable and non-observable inputs.

**Banking bonds**

For each position, the Financial Risk Management (FRM) department has obtained the following information from Bloomberg:

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

Based on these criteria, FRM determined a threshold which it submitted to a market expert for review:

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

- The rarity of the issue: when the overall issuer debt is relatively low, or in the case of securities issued outside the Eurozone.
- Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor a contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.
- Investors "buy and hold" behaviour: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid/ask spread is low and there are sometimes limited contributors. This is particularly the case for issues from Qatar, Abu Dhabi and Luxembourg.

**Structured bonds**

Finalyse communicates the type of data required for the valuation of each product 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. 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 credit default swaps (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 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 S.A. whose valuation is determined based on observable and unobservable inputs such as multiples of comparable companies or financial statements of the company. A sensitivity analysis may lead to variations due to the COVID-19 pandemic including the fuel market volatility and the global economic context.

# Note 12: Credit Risk

### A. IFRS 9 PROVISIONING METHODOLOGY

The IFRS 9 expected credit losses methodology is described in section 12.2 Credit Risk of the 2019 Annual Report. In view of the COVID-19 pandemic, temporary adjustments to the IFRS 9 provisioning were made to the weighting of macroeconomic scenarios.

## Weighting of macroeconomic scenarios

For forecasting purposes, BIL uses external macroeconomic scenarios. These scenarios are built according to a combination of statistical and econometric methods. In accordance with IFRS 9, different macroeconomic scenarios are considered: a central (baseline) scenario, generally depicting a normal economic outlook, and alternative scenarios describing different business cycle dynamics.

**IFRS 9 methodology adjustment**

IFRS 9 methodological adjustment is applied to the low-default portfolio and short-term horizon (12 months). Weightings applied to macroeconomic scenarios are as follows:

| **Probability of occurrence ($\omega_i$)** | **Horizon** | **Baseline** | **Upside** | **Downside** |
|---|---|---|---|---|
| Low-default Portfolio | <= 12 months | 50% | 50% | 0% |
| | > 12 months | 60% | 20% | 20% |
| High-default Portfolio | <= 12 months | 60% | 20% | 20% |
| | > 12 months | 60% | 20% | 20% |

The modelling approach has been adjusted with a weighted-average probability of default ("PDs") in the ECL formula together with a 12-month threshold for the weighting scheme: up to this threshold, one considers an equal likelihood of occurrence (50%) for the baseline and the upside scenarios and, beyond the 12-month threshold, the weights are equivalent to those defined in the prevailing methodology (60% baseline, 20% upside and 20% downside).

In the current pandemic context, the choice of scenario weights is guided by both (i) a comparison of the Bank's internal forecasts with the ECB's and (ii) a progressive normalisation of the global economic activity.

## Macroeconomic forecasts

The two following tables respectively present the annual projections of the harmonised unemployment rate and the residential property price index considering three distinct scenarios (baseline, upside and downside).

| Harmonised unemployment rate (in %) | | | | | | |
|---|---|---|---|---|---|---|
| | Luxembourg | | | Eurozone | | |
| Year | Baseline | Upside | Downside | Baseline | Upside | Downside |
| 2020 | 6 | 5.8 | 6.1 | 9.4 | 9 | 10 |
| 2021 | 6.2 | 6 | 6.9 | 9.4 | 8.8 | 11.2 |
| 2022 | 6.2 | 6 | 7.3 | 8.5 | 7.9 | 10.8 |
| 2023 | 6.1 | 6 | 7.1 | 8 | 7.6 | 9.8 |
| 2024 | 6.1 | 6 | 6.9 | 7.7 | 7.4 | 9 |
| 2025 | 6 | 5.9 | 6.6 | 7.6 | 7.4 | 8.4 |

| Residential property price index (base 100 = 2019) | | | | | | |
|---|---|---|---|---|---|---|
| | Luxembourg | | | Eurozone | | |
| Year | Baseline | Upside | Downside | Baseline | Upside | Downside |
| 2020 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 2021 | 99.5 | 103.8 | 97.3 | 97.6 | 99.6 | 99.4 |
| 2022 | 101.8 | 106.0 | 92.6 | 99.3 | 102.4 | 91.8 |
| 2023 | 104.4 | 107.0 | 93.6 | 101.8 | 105.1 | 90.8 |
| 2024 | 106.6 | 108.3 | 96.6 | 104.3 | 107.5 | 92.7 |
| 2025 | 108.3 | 109.7 | 99.9 | 106.3 | 109.6 | 95.2 |

## ECL Sensitivity

The following table compares the reported ECL (Stage 1 and Stage 2) using scenario weighting, to the  ECL for each scenario (unweighted). The Stage 1 low-default portfolio is the segment which is more sensitive to macroeconomic scenarios.

| | Reported ECL[1] | ECL Sensitivity[2] | | |
|---|---|---|---|---|
| | | Baseline (100%) | Upside (100%) | Downside (100%) |
| Stage 1 | 60.5 | 68.1 | 51.1 | 99.7 |
| Stage 2 | 18.1 | 17.9 | 17 | 20.2 |
| **TOTAL** | **78.6** | **86.0** | **68.1** | **119.9** |

[1] The reported ECL apply a weighting of scenarios. Refer to ECL methodology.
[2] The ECL sensitivity presents the level of ECL for each scenario before any weighting.

### B. ANALYSIS OF BIL EXPOSURES

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

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

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

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

| **Exposures by geographic region**<br>(in EUR million) | **31/12/19** | **30/06/20** |
|---|---|---|
| Belgium | 1,996 | 2,329 |
| France | 3,162 | 3,457 |
| Germany | 1,433 | 1,928 |
| Ireland | 450 | 313 |
| Italy | 16 | 14 |
| Luxembourg | 16,501 | 17,172 |
| Spain | 842 | 701 |
| Other EU countries | 1,698 | 1,633 |
| Switzerland | 2,882 | 3,132 |
| Rest of Europe | 574 | 577 |
| United States and Canada | 893 | 938 |
| Asia | 386 | 385 |
| Middle East | 672 | 669 |
| Australia | 241 | 238 |
| Others | 144 | 171 |
| **TOTAL** | **31,890** | **33,657** |

| **Exposures by counterparty category**<br>(in EUR million) | **31/12/19** | **30/06/20** |
|---|---|---|
| Central Governments | 9,157 | 10,461 |
| Public Sector Entities | 305 | 299 |
| Corporate | 6,414 | 6,438 |
| Securitisation | 69 | 45 |
| Individuals, SME & Self Employed | 11,084 | 11,471 |
| Financial Institutions | 4,858 | 4,934 |
| Others | 3 | 9 |
| **TOTAL** | **31,890** | **33,657** |

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

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

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

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

| | 31/12/19 | | 30/06/20 | |
|---|---|---|---|---|
| (in EUR million) | Credit risk exposures[1] | Financial effect of the collateral | Credit risk exposures[1] | Financial effect of the collateral |
| Financial investments at FVOCI (excluding variable income securities) | 1,053 | 0 | 967 | 0 |
| Financial assets held-for-trading | 42 | 0 | 48 | 0 |
| Loans and advances measured at amortised cost | 18,927 | 2,653 | 19,812 | 2,658 |
| Financial investments measured at amortised cost | 6,265 | 0 | 7,105 | 0 |
| Derivatives | 225 | 252 | 209 | 170 |
| Other financial instruments measured at amortised cost | 374 | 1,504 | 392 | 1,616 |
| Commitments in respect of guarantees given | 1,664 | 89 | 1,714 | 83 |
| Commitments in respect of loans granted | 3,340 | 926 | 3,410 | 1,002 |
| **TOTAL** | **31,890** | **5,424** | **33,657** | **5,529** |

| **Maximum Credit Risk Exposure** (in EUR million) | 31/12/19 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Not applicable** | **Total** |
| Financial investments at FVOCI (excluding variable-income securities) | 999 | 54 | 0 | | 1,053 |
| Held-for trading portfolio (excluding variable-income securities) | | | | 42 | 42 |
| Loans and advances measured at amortised cost | 15,637 | 2,248 | 348 | | 18,233 |
| Financial investments measured at amortised cost | 5,855 | 235 | 13 | | 6,103 |
| Derivatives | | | | 226 | 226 |
| Other financial instruments measured at amortised cost | 1 | 0 | 0 | 371 | 372 |
| Commitments in respect of loans granted | 2,962 | 333 | 23 | | 3,318 |
| Commitments in respect of guarantees given | 1,589 | 89 | 7 | | 1,685 |
| **TOTAL** | **27,043** | **2,959** | **391** | **639** | **31,032** |

| **Maximum Credit Risk Exposure** (in EUR million) | 30/06/20 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Not applicable** | **Total** |
| Financial investments at FVOCI (excluding variable-income securities) | 810 | 157 | 0 | | 967 |
| Held-for trading portfolio (excluding variable-income securities) | | | | 49 | 49 |
| Loans and advances measured at amortised cost | 17,181 | 2,298 | 333 | | 19,812 |
| Financial investments measured at amortised cost | 6,880 | 217 | 7 | | 7,104 |
| Derivatives | | | | 209 | 209 |
| Other financial instruments measured at amortised cost | 1 | 0 | 0 | 392 | 393 |
| Commitments in respect of loans granted | 3,049 | 319 | 42 | | 3,410 |
| Commitments in respect of guarantees given | 1,631 | 69 | 13 | | 1,713 |
| **TOTAL** | **29,552** | **3,060** | **395** | **650** | **33,657** |

[1] Credit risk exposures net of the financial effect of the collateral. Collaterals here include financial collateral and netting agreements, however physical collaterals such as residential and commercial real estate are out of scope.

Consolidated management report

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## D. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS[1]

| (in EUR million) | 31/12/19 | | | | |
|---|---|---|---|---|---|
| | Credit quality of normal financial assets | | | | |
| | AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
| Financial investments at FVOCI (excluding variable income securities) | 951 | 102 | 0 | 0 | 1,053 |
| Financial assets held-for-trading | 28 | 5 | 0 | 9 | 42 |
| Loans and advances measured at amortised cost | 4,121 | 7,038 | 5,202 | 2,183 | 18,544 |
| Financial investments measured at amortised cost | 4,227 | 2,019 | 0 | 5 | 6,251 |
| Derivatives | 74 | 145 | 3 | 3 | 225 |
| Other financial instruments measured at amortised cost | 273 | 52 | 32 | 17 | 374 |
| Commitments in respect of guarantees given | 141 | 368 | 342 | 806 | 1,657 |
| Commitments in respect of loans granted | 333 | 1,471 | 949 | 559 | 3,312 |
| **TOTAL** | **10,148** | **11,200** | **6,528** | **3,582** | **31,458** |

| (in EUR million) | 30/06/20 | | | | |
|---|---|---|---|---|---|
| | Credit quality of normal financial assets | | | | |
| | AAA to AA- | A+ to BBB- | Non-investment grade | Unlisted | Total |
| Financial investments at FVOCI (excluding variable income securities) | 886 | 81 | 0 | 0 | 967 |
| Financial assets held-for-trading | 31 | 8 | 0 | 9 | 48 |
| Loans and advances measured at amortised cost | 4,539 | 7,456 | 5,194 | 2,266 | 19,455 |
| Financial investments measured at amortised cost | 5,261 | 1,826 | 0 | 10 | 7,097 |
| Derivatives | 87 | 119 | 2 | 2 | 210 |
| Other financial instruments measured at amortised cost | 261 | 55 | 63 | 8 | 387 |
| Commitments in respect of guarantees given | 149 | 394 | 325 | 837 | 1,705 |
| Commitments in respect of loans granted | 336 | 1,535 | 893 | 599 | 3,363 |
| **TOTAL** | **11,550** | **11,474** | **6,477** | **3,731** | **33,232** |

[1] The quality of financial assets is determined using internal credit ratings, or external ratings in the event that internal ratings are not available. Normal financial assets exclude exposures in default. Prior to being taken into account in the table, external ratings are converted into internal ratings by means of a correlation table based on default probabilities.

## E. PAST DUE BUT NOT IMPAIRED FINANCIAL ASSETS

| (in EUR million) | 31/12/19 | | |
|---|---|---|---|
| | Past due but not impaired assets | | |
| | < 30 days | 30 days <> 90 days | > 90 days |
| Loans and advances | 98,884,118 | 29,598,542 | 5,677,910 |
| **TOTAL** | **98,884,118** | **29,598,542** | **5,677,910** |

| (in EUR million) | 30/06/20 | | |
|---|---|---|---|
| | Past due but not impaired assets | | |
| | < 30 days | 30 days <> 90 days | > 90 days |
| Loans and advances | 25,044,497 | 18,097,499 | 6,465,208 |
| **TOTAL** | **25,044,497** | **18,097,499** | **6,465,208** |

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

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

## F. COLLATERAL AND OTHER CREDIT ENHANCEMENTS

| (in EUR million) | 31/12/19 | | | |
|---|---|---|---|---|
| | Effect of collateral and other credit enhancements on amount of allowances for credit-impaired debt instruments | | | |
| | Gross exposure | Impairments | Carrying amount | Collateral held and guarantees received |
| Debt securities measured at amortised cost | 21,759,703 | (12,566,385) | 9,193,318 | 9,193,318 |
| Loans and advances measured at amortised cost | 573,920,973 | (224,209,438) | 349,711,535 | 318,105,518 |
| **TOTAL CREDIT-IMPAIRED DEBT INSTRUMENTS** | **595,680,676** | **(236,775,823)** | **358,904,853** | **327,298,836** |

| (in EUR million) | 30/06/20 | | | |
|---|---|---|---|---|
| | Effect of collateral and other credit enhancements on amount of allowances for credit-impaired debt instruments | | | |
| | Gross exposure | Impairments | Carrying amount | Collateral held and guarantees received |
| Debt securities measured at amortised cost | 21,985,297 | (14,650,335) | 7,334,962 | 7,334,962 |
| Loans and advances measured at amortised cost | 578,005,215 | (222,662,539) | 355,342,676 | 330,195,107 |
| **TOTAL CREDIT-IMPAIRED DEBT INSTRUMENTS** | **599,990,512** | **(237,312,874)** | **362,677,638** | **337,530,069** |

## G. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

| | As at 01/01/19 | Increases due to origination or acquisition | Decreases due to derecognition | Changes due to change in credit risk (net) | Changes due to modification without derecognition (net) | Changes due to update in the institution's methodology for estimation (net) | Decreases in allowance account due to write-offs | Other adjustments | As at 31/12/19 | Recoveries directly recognised in profit or loss | Charge-offs directly recognised in profit or loss |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Allowances for financial assets without significant increase in credit risk since initial recognition (Stage 1)** | **(21,670,586)** | **(11,339,843)** | **5,213,356** | **(7,760,119)** | **0** | **0** | **0** | **(76,330)** | **(35,633,522)** | **n.a** | **n.a** |
| Debt securities at amortised cost | (1,075,402) | (336,527) | 128,623 | (267,275) | 0 | 0 | 0 | (9,600) | (1,560,181) | n.a | n.a |
| Debt securities at fair value through other comprehensive income | (38,868) | 0 | 9,196 | 6,641 | 0 | 0 | 0 | (108) | (23,139) | n.a | n.a |
| Loans and advances at amortised cost | (20,556,316) | (11,003,316) | 5,075,537 | (7,499,485) | 0 | 0 | 0 | (66,622) | (34,050,202) | n.a | n.a |
| **Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)** | **(17,429,339)** | **0** | **2,837,985** | **1,578,603** | **(60)** | **0** | **0** | **(58,064)** | **(13,070,875)** | **n.a** | **n.a** |
| Debt securities at amortised cost | (502,789) | 0 | 205 | (135,979) | 0 | 0 | 0 | (375) | (638,938) | n.a | n.a |
| Debt securities at fair value through other comprehensive income | (14) | 0 | 15 | (67,480) | 0 | 0 | 0 | (1) | (67,480) | n.a | n.a |
| Loans and advances at amortised cost | (16,926,536) | 0 | 2,837,765 | 1,782,062 | (60) | 0 | 0 | (57,688) | (12,364,457) | n.a | n.a |
| **Allowances for credit-impaired debt instruments (Stage 3)** | **(238,100,669)** | **(2,078,577)** | **2,710,940** | **(12,101,963)** | **(69,316)** | **0** | **14,499,955** | **(1,636,192)** | **(236,775,823)** | **0** | **(15,242,052)** |
| Debt securities at amortised cost | (7,235,140) | 0 | 0 | (5,249,485) | 0 | 0 | 0 | (81,760) | (12,566,385) | 0 | 0 |
| Loans and advances at amortised cost | (230,865,529) | (2,078,577) | 2,710,940 | (6,852,478) | (69,316) | 0 | 14,499,955 | (1,554,432) | (224,209,438) | 0 | (15,242,052) |
| **TOTAL ALLOWANCES FOR DEBT INSTRUMENTS** | **(277,200,594)** | **(13,418,420)** | **10,762,281** | **(18,283,479)** | **(69,376)** | **0** | **14,499,955** | **(1,770,587)** | **(285,480,220)** | **0** | **(15,242,052)** |
| Commitments and financial guarantees given (Stage 1) | 4,281,624 | 7,181,080 | (2,709,627) | (2,225,020) | 0 | 0 | 0 | 5,856 | 6,533,913 | 0 | 0 |
| Commitments and financial guarantees given (Stage 2) | 1,262,983 | 331,552 | (415,969) | 602,687 | 981 | 0 | 0 | 836 | 1,783,070 | 0 | 0 |
| Commitments and financial guarantees given (Stage 3) | 622,200 | 380,633 | (561,498) | 442,221 | 0 | 0 | (435,192) | 442,430 | 890,794 | 0 | 0 |
| **TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES** | **6,166,807** | **7,893,265** | **(3,687,094)** | **(1,180,113)** | **981** | **0** | **(435,192)** | **449,122** | **9,207,776** | **0** | **0** |

| | As at 01/01/20 | Increases due to origination or acquisition | Decreases due to derecognition | Changes due to change in credit risk (net) | Changes due to modification without derecognition (net) | Changes due to update in the institution's methodology for estimation (net) | Decreases in allowance account due to write-offs | Other adjustments | As at 30/06/20 | Recoveries directly recognised in profit or loss | Charge-offs directly recognised in profit or loss |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Allowances for financial assets without significant increase in credit risk since initial recognition (Stage 1)** | **(35,633,522)** | **(5,937,898)** | **3,195,618** | **(12,896,321)** | **0** | **0** | **0** | **34,536** | **(51,237,587)** | **n.a** | **n.a** |
| Debt securities at amortised cost | (1,560,181) | (234,747) | 91,545 | (922,786) | 0 | 0 | 0 | (7,799) | (2,633,968) | n.a | n.a |
| Debt securities at fair value through other comprehensive income | (23,139) | (15) | 766 | (36,856) | 0 | 0 | 0 | (56) | (59,300) | n.a | n.a |
| Loans and advances at amortised cost | (34,050,202) | (5,703,136) | 3,103,307 | (11,936,679) | 0 | 0 | 0 | 42,391 | (48,544,320) | n.a | n.a |
| **Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)** | **(13,070,875)** | **0** | **1,524,875** | **(4,637,432)** | **0** | **0** | **0** | **(48,569)** | **(16,232,001)** | **n.a** | **n.a** |
| Debt securities at amortised cost | (638,938) | 0 | 0 | 276,185 | 0 | 0 | 0 | 33 | (362,720) | n.a | n.a |
| Debt securities at fair value through other comprehensive income | (67,480) | 0 | 0 | 67,480 | 0 | 0 | 0 | 0 | 0 | n.a | n.a |
| Loans and advances at amortised cost | (12,364,457) | 0 | 1,524,875 | (4,981,097) | 0 | 0 | 0 | (48,602) | (15,869,281) | n.a | n.a |
| **Allowances for credit-impaired debt instruments (Stage 3)** | **(236,775,823)** | **(1,762,479)** | **3,837,323** | **(8,838,073)** | **0** | **0** | **6,435,746** | **(209,568)** | **(237,312,874)** | **0** | **(6,762,014)** |
| Debt securities at amortised cost | (12,566,385) | 0 | 0 | (2,000,000) | 0 | 0 | 0 | (83,950) | (14,650,335) | 0 | 0 |
| Loans and advances at amortised cost | (224,209,438) | (1,762,479) | 3,837,323 | (6,838,073) | 0 | 0 | 6,435,746 | (125,618) | (222,662,539) | 0 | (6,762,014) |
| **TOTAL ALLOWANCES FOR DEBT INSTRUMENTS** | **(285,480,220)** | **(7,700,377)** | **8,557,816** | **(26,371,827)** | **0** | **0** | **6,435,746** | **(223,600)** | **(304,782,462)** | **0** | **(6,762,014)** |
| Commitments and financial guarantees given (Stage 1) | 6,533,913 | 3,510,565 | (1,121,492) | 252,887 | 28,374 | 0 | 0 | (3,234) | 9,201,012 | 0 | 0 |
| Commitments and financial guarantees given (Stage 2) | 1,783,070 | 246,621 | (443,869) | 322,535 | (1,150) | 0 | 0 | (183) | 1,907,024 | 0 | 0 |
| Commitments and financial guarantees given (Stage 3) | 890,794 | 8,871 | (53,239) | 640,928 | 0 | 0 | 0 | 0 | 1,487,354 | 0 | 0 |
| **TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES** | **9,207,776** | **3,766,057** | **(1,618,600)** | **1,216,350** | **27,224** | **0** | **0** | **(3,417)** | **12,595,390** | **0** | **0** |

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

| | As at 31/12/19 | | | |
|---|---|---|---|---|
| | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity |
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 923,354,039 | (3,113) | (383,396) | 7,090,640 |

| | As at 30/06/20 | | | |
|---|---|---|---|---|
| | Carrying value | Variation in fair value due to change in credit risk | | Difference between the carrying value of the financial liability and the contractual amount due on maturity |
| | | During the period | Aggregate amount | |
| Banque Internationale à Luxembourg | 956,360,230 | (201,328) | (584,724) | (8,216,933) |

In 2019 and the first half of 2020, no change in the fair value of BIL's financial liabilities is attributable to changes in the credit risk relating to liabilities, except for liabilities designated at fair value through profit or loss.

For liabilities revalued at fair value against profit or loss, our own credit risk was determined on the basis of changes in financing costs. Own credit risk refers to changes in the issue costs under current conditions compared to initial conditions.

# Note 13: Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

| | 31/12/19 | 30/06/20 |
|---|---|---|
| **TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)** | **1,379,456,784** | **1,454,706,258** |
| | | |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **1,065,358,018** | **1,140,595,583** |
| Capital, share premium and own shares | 906,636,231 | 906,636,231 |
| Reserves, retained earnings and eligible result | 574,092,700 | 652,291,139 |
| Regulatory and transitional adjustments[1] | (415,370,913) | (418,331,788) |
| | | |
| **ADDITIONAL TIER 1 CAPITAL (AT1)** | **175,000,000** | **175,000,000** |
| Other equity instruments | 175,000,000 | 175,000,000 |
| | | |
| **TIER 2 CAPITAL (T2)** | **139,098,766** | **139,110,675** |
| Subordinated liabilities | 139,098,766 | 139,110,675 |
| | | |
| **RISK WEIGHTED ASSETS** | **8,542,978,422** | **8,918,367,606** |
| Credit Risk | 7,520,015,896 | 7,886,676,131 |
| Market Risk | 48,879,950 | 56,741,569 |
| Operational Risk | 951,701,480 | 951,701,480 |
| Credit Value Adjustments | 22,381,096 | 23,248,426 |
| | | |
| **SOLVENCY RATIOS** | | |
| Common Equity Tier 1 Capital ratio | 12.47% | 12.79% |
| Tier 1 ratio | 14.52% | 14.75% |
| Capital Adequacy ratio | 16.15% | 16.31% |

| [1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1** | 31/12/19 | 30/06/20 |
|---|---|---|
| Goodwill and intangible assets | (230,867,591) | (245,555,873) |
| Deferred tax assets that rely on future probability | (172,223,392) | (162,507,410) |
| Fair value reserves related to gains or losses cash flow hedges | 2,620,964 | (2,110,884) |
| Gains or losses on liabilities at fair value resulting from own credit risk | (383,396) | (584,724) |
| Additional Value Adjustment | (2,785,398) | (2,426,796) |
| IRB shortfall | (6,871,099) | 0 |
| Defined benefit pension fund assets | (4,861,001) | (5,146,101) |
| **TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1** | **(415,370,913)** | **(418,331,788)** |

The figures are computed according to Basel III rules (CRR 575/2013 as amended and CSSF Regulation 18-03).

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