Semi-annual Report

as at 30 June 2023

1856

BANQUE INTERNATIONALE À LUXEMBOURG

Semi-annual Report

as at 30 June 2023

Consolidated management report

Corporate governance (as of 30 June 2023)

Board of Directors and Executive Committee

The Board of Directors (the "BOD") of Banque Internationale à Luxembourg ("BIL" or the "Bank") has the overall responsibility for BIL. It defines, monitors and bears the responsibility for the implementation of robust central administration, governance and internal control arrangements ensuring a sound and prudent management of the Bank. Among its missions, the BOD is responsible for setting and overseeing the overall business and risk strategy including the risk appetite statements and the risk management framework of BIL.

The BOD 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 BOD delegated the daily management of the Bank to the Management Board (the "MB") and the Chief Executive Officer (the "CEO").

The MB consists of the MB members authorised by the Supervisor (the "Authorised Managers"), including the CEO, who chairs the MB meetings.

The overall objective of the MB is to lead, direct and manage BIL, in order to achieve the strategy and the business objectives in line with the risk appetite set by the BOD. The MB is collegially responsible for the effective day-to-day management of the Bank. It meets in principle on a weekly basis as an integral part of the Executive Committee and on an ad-hoc basis, as needed.

The Executive Committee (the "ExCo") consists of the Authorised Managers, including the CEO who chairs the ExCo meetings, as well as designated heads of support functions and business lines. The Chief Compliance Officer as well as the Chief Internal Auditor are permanent invitees to the ExCo, with direct reporting lines also to the BOD Chair and to the Chair of the Board Audit and Compliance Committee (amongst other Directors).

Board of Directors

Chair

Luc Frieden	Independent Director (up to 17 March 2023)
Jing Li	Director, VP, Managing Director of Overseas Investment of Legend Holdings Corporation (Chair ad interim as from 17 March 2023)

Vice-Chair

Peng Li	Director, Chief Executive Officer of Legend Holdings Corporation

Members

Ashley Glover	Director, Staff Representative
Maurice Lam	Independent Director
Marcel Leyers	Director and Chief Executive Officer
Michel Scharff	Director, Staff Representative (up to 16 June 2023)
Benoît Migeaux	Director, Staff Representative (as from 1 August 2023)
Charles Q. Li	Independent Director
Pierrot Rasqué	Director, Luxembourg State Representative
Claude Steffen	Director, Staff Representative
Marc Terzer	Director, Staff Representative
Vincent Thurmes	Director, Luxembourg State Representative
Chris Van Aeken	Independent Director

Board Strategy Committee

Chair	*Members*
Jing Li	Luc Frieden (up to 17 March 2023) Vincent Thurmes

Board Audit and Compliance Committee

Chair	*Members*
Maurice Lam	Jing Li Pierrot Rasqué

Board Risk Committee

Chair	*Vice-Chair*	*Members*
Chris Van Aeken	Jing Li	Luc Frieden (up to 17 March 2023) Charles Q. Li Vincent Thurmes

Board Remuneration and Nominations Committee

Chair	*Members*
Peng Li	Jing Li Michel Scharff (Remuneration matters) (up to 16 June 2023) Claude Steffen (Remuneration matters) (as from 16 June 2023) Vincent Thurmes

Executive Committee

Chair

Marcel Leyers[1]	Chief Executive Officer

Members

Hédi Ben Mahmoud[1]	Chief Risk Officer (as from 20 April 2023)[2]
Hans-Peter Borgh	Group Head International
Olivier Gorin	Chief Transformation Officer
Jeffrey Dentzer[1]	Chief of the Luxembourg Market and Corporate and Institutional Banking
Emilie Hoël	Head of Wealth Management
Bernard Mommens[1]	Secretary General and General Counsel
Jérôme Nèble	Head of Strategy and Financial Markets
Nico Picard[1]	Chief Financial Officer
Karin Scholtes[1]	Global Head of People, Culture and Communication
Xin Chen	Head of China Market (up to 27 January 2023)

Permanent Invitees

Marie Bourlond	Chief Compliance Officer
Pia Haas	Chief Internal Auditor

[1] Member of the Management Board (Authorised Management)
[2] Hédi Ben Mahmoud has been appointed designated Chief Risk Officer as of 16 January 2023 and member of the MB subject to the ECB Approval which was received on 20 April 2023.

Business Review and Results

1. Highlights of the first half of 2023

During the first half of 2023, BIL stayed on track of its 5-year strategic plan roll out, in a context of economic slowdown, persistent inflation and monetary tightening.

The international context remained marked by high pressure on consumer prices, although global inflation showed signs of easing, thanks to the fall of energy prices. Monetary authorities in many regions remain committed to reducing underlying inflationary pressures and interest rate levels have been raised rapidly and sharply. In the euro zone, this increase is having the effect of reducing the financing capacity of households and businesses. Moreover, the difficulties of several banks in the United States and Europe have rocked the markets. If we zoom in on Luxembourg's economy, the first months of 2023 were marked by a downward trend in industry and construction. Construction has been affected by the current downturn in the real estate sector – a decrease in transactions, building permits, sales prices and loans – which coincides with the sharp rise in interest rates. Notwithstanding, the economy remained resilient, in part thanks to Government measures to support consumption, and with good performances from the services and financial sectors. For the banking sector, this new environment is a double-edged sword. On the one hand, interest rates, when negative, represented an added cost on liquidity. They are back to being positive and this is favourable for banks. On the other hand, rising interest rates slow down the economy and, as a consequence, slow down lending activity. In this context, BIL's priority remains to support its clients and protect its business while focusing on its transformative 5-year strategic plan, Energise Create Together 2025, launched during the second half of 2019. This plan is laying the foundations for the BIL of tomorrow, stronger and sustainable with a future-proof business model.

In 2023, BIL's priorities remain twofold:

- To stand close to its clients and support their projects, and hence continue to grow its commercial activities,
- To stay on track of its strategic 5-year roadmap, Energise Create Together 2025 with a clear focus on working towards the go-live of its new core banking system, the Bank's future technological backbone.

BRINGING HIGH-VALUE SERVICES TO ENTREPRENEURS AND INVESTOR

BIL continued to further integrate private and corporate banking services dedicated to its entrepreneurial clientele. The development of BIL Group's new corporate finance advisory platform, leveraging on the joint expertise of its Luxembourg and Switzerland teams, is one of the key levers defined in the Energise Create Together 2025 strategy.

BIL Corporate Finance, provides a unique service offering to entrepreneurs and family-owned corporate clients in lending and advisory services in the context of strategic transactions such as acquisition, major investment, transmission and management buy-out and recorded significant deals in 2023: a EUR 112.5 million financing of a global marketing and communications group for luxury and lifestyle industry leaders and a EUR 80 million sustainable financing of an industrial Group. BIL Corporate Finance platform, launched in 2022 in its Luxembourg and Swiss locations, brings a wealth of experience in terms of products, sectors, and geographies, covering the Benelux region, Switzerland, France, Germany and China.

To bring new sophisticated investment products to its clients, BIL entered in a partnership in 2022 with BlackRock that will expand the Bank's private market offering. With this collaboration, the Bank gains access to an extensive range of private market products and will have the support of experts to select the most appropriate products for its Wealth Management clients. BIL offered clients exclusive access to BlackRock Private Equity ELTIF fully-funded. As of 30 June 2023, the Bank exceeded the initial target, showing a clear interest of its clientele for such products.

In terms of sustainable investment, BIL made significant progress in developing its ESG investment product offering. Since May 2023, BIL Invest Equities Europe and BIL Invest Bonds EUR Corp. Investment Grade are now MiFID-ESG compliant and eligible as Article 8 products under the Sustainable Financial Disclosure Regulation. This comes in addition to its four BIL Invest Patrimonial funds that were already Article 8.

IMPROVING SERVICES THROUGH PHYSICAL AND DIGITAL BANKING INTEGRATION

Luxembourg is BIL's core market, where it can enhance its unique business model combining retail, private, corporate and institutional banking services to deliver added value to entrepreneurial clients and to continue bolstering its strong position as one of the leading banks in Luxembourg. Thanks to a greater specialisation of its client-facing employees in the Retail banking activity, BIL aims to better meet client expectations in a rapidly changing industry while gaining efficiency. Business services, mortgages, consumer loans, savings and investments, payments, and accounts management: banking services are diverse and have changed significantly with digital transformation. Specialisation means that depending on the nature of their project, clients can rely on the support of an expert relationship manager to find solutions that meet their needs.

In addition, BIL continued to invest in its branch and digital services. The Bank strives to optimise its branch locations throughout Luxembourg, to ensure its physical presence where it is most convenient for its clients be that close to their workplace or their preferred shopping destination. In addition, the Bank modernised each location with a stylish interior design concept, integrating physical and digital offering. Case in point, the new branch located Boulevard Royal, one of the main thoroughfares of Luxembourg City, was inaugurated in March 2023. The branch network is complemented by BILhome, the Bank's fully remote branch where relationship managers are available by appointment, phone, or video conference. Clients can also enjoy the convenience of the self-service online platform BILnet, with many operations that can be done anytime, anywhere, on the mobile application.

In line with the Energise Create Together 2025 strategy, BIL also focused its efforts on offering the best daily banking services to its clients. The Bank continued to expand its digital services by adding Google Pay to its mobile payment services in May 2023. Google Pay allows clients to store their BIL Visa credit card within Google Wallet and make payments anywhere contactless payments are accepted using Android and WearOS devices. Now with Google Pay, in addition to Apple Pay, Payconiq, Fitbit Pay and Garmin Pay, BIL offers the broadest selection of mobile payment solutions to its clients. Digital services will be given a new boost in the months and years that will follow the launch of its new core banking system in 2023.

2. Russia - Ukraine conflict

BIL Group is closely monitoring the ongoing conflict between Russia and Ukraine.

In response to these events, the Group is rigorously applying the measures necessary to strictly enforce all international sanctions and restrictions as and when they are announced.

From a risk management perspective, BIL's exposure to Russia remains relatively small. The direct impacts of the conflict on the first half of 2023 interim condensed consolidated financial statements of BIL Group remain limited. Credit exposure towards Russia represents 0.3% of total exposures as at 30 June 2023. All exposures are collateralised and all collateral is located in Western Europe.

3. ESG (Environmental, Social and Governance)

BIL is committed to the sustainable development of its activities and those of its clients. The Bank has a clear sustainability strategy, integrated fully in the Bank's Energise Create Together 2025 Strategy, and is making indisputable progress in the sustainable action that it takes. BIL has been working on a concrete ESG roadmap for more than two years. The support of a dedicated ESG team and the engagement of the Bank's key stakeholders have enabled the roll-out of the first short and medium-term actions, regulatory projects and ambitions.

In early 2023, BIL, enhanced its ESG governance by creating a new ESG Strategic Steering Committee which now covers all ESG projects. The main objective is to further involve the business side of the Bank to drive this transformation, not only from a regulatory perspective, but also from a commercial and strategic approach.

Hence, the Towards Sustainability Committee has been complemented with a top-level decision-making committee composed of seven permanent members, also members of the Executive Committee and the Group Head of Sustainability.

The ESG Strategic Steering Committee meets every six weeks to manage all initiatives. It manages the ESG strategic programme for BIL Group. The Committee does not interfere with existing governance bodies and ensures that decisions are submitted to the appropriate governance body (e.g., New Product Committee (NPC), Asset Liability Management Committee (ALCO), Green Bond Committee, etc.) and that the Bank's management bodies are regularly informed with regards the ESG programme implementation. Data management and training were identified as the main enablers of the ESG programme, with dedicated resources to assist the programme.

The ESG programme, is organised around three pillars to support and implement the Bank's sustainability strategy:

- ESG Strategy & Governance: implies ESG target setting, client engagement approaches and integration of ESG aspects in business model and strategy, as expected by the regulator.
- ESG products and services: as a financial intermediary, BIL plays a crucial role in transforming corporate models, by integrating ESG considerations into the financial instruments and solutions offered to its clients and therefore contributing towards the transition through the investments offered to clients and the projects the Bank finances. The Bank's objective is twofold: identify material ESG risks to which clients are exposed and identify growth opportunities in line with the Bank's business ambition of becoming a key transition facilitator.

- ESG at Corporate level: includes all projects that involve the integration of ESG factors into the Bank's processes or activities without direct impact on clients, as well as the more "traditional" Corporate Social Responsibility (CSR) initiatives (donations & community support, social & environmental impact). The Towards Sustainability Committee, a bi-monthly meeting with the entire ESG community, remains a regular platform for exchange and information on ESG initiatives throughout the Bank.

During the first half of this year, the following achievements can be mentioned for each pillar:

ESG STRATEGY & GOVERNANCE

To ensure ESG awareness and ownership at Executive Committee and Board level, two dedicated ESG sessions were organised for the Bank's management bodies:
- On 7 February 2023, the Executive Committee and the Board of Directors attended an ESG training session focusing on the ESG regulatory landscape, which provided an in-depth look at the regulations with which the Bank must comply and explained the opportunities, challenges and interdependencies arising from them.
- On 6 March 2023, the Executive Committee held an in-depth workshop to discuss ESG objectives and climate strategy. 13 objectives were discussed, divided into 5 categories: (i) reducing financed emissions, (ii) integrating ESG into business objectives, (iii) improving environmental impact, (iv) improving social impact and (v) ensuring good governance. The management bodies approved the proposed categories of objectives and gave their support to continue working on more quantitative objectives to present them to the Strategy Committee and the Board of Directors in the second half of 2023.

At the same time, the ESG programme is also coordinating the creation of an ESG dashboard that will enable the Bank's management bodies to guide the Bank through an increasingly complex sustainability landscape and support decision-making processes over the coming years by addressing the following issues:
- information relating to the Bank's balance sheet (such as loans, derivatives transactions, investments), and
- information relating to the Bank's commercial operations.

True to its commitment to transparency, BIL published its second sustainability report prepared in accordance with the standards of the Global Reporting Initiative (GRI). In addition, and for the first time, the Bank published the report relating to the United Nations Principles for Responsible Banking (UN PRB), to which BIL is a signatory since 2021.

To prepare for the next reporting exercise, BIL launched its second stakeholder engagement plan in May 2023 (the previous plan dates from April 2021) to confirm or identify new sustainability themes in its materiality matrix, which will form the framework for the 2023 non-financial reporting exercise. The results are currently being analysed and will feed into the reporting process in the second half of the year.

The Bank has also prepared its 'Communication on Progress' report in line with its signature of the United Nations Global Compact in November 2021. This report should be submitted before the end of 2023.

Finally, the Bank launched a solicited rating process to obtain an external assessment of its ESG performance and implementation roadmap. The Bank has chosen to be assessed by Sustainalytics and is in the process of collecting data.

ESG PRODUCTS AND SERVICES

One of BIL's priorities in 2023 continues to be on regulatory requirements. After the implementation of Level 1 requirements, BIL has been working on the Level 2 requirements of the European Regulation (EU) 2019/2088, the so-called Sustainable Finance Disclosure Regulation (SFDR) regarding website, pre-contractual and periodic reporting disclosures. The last milestone for this regulation was the mandatory statement on the Principal Adverse Impacts (PAI) of the Bank's investment decisions, which can be found here:

https://www.bil.com/Documents/documentation-legale/sustainability-factors-en.pdf.

The statement describes how the Group considers Principal Adverse Impacts (PAIs) of its investment decisions on sustainability factors, it summarises investment due diligence policies in relation to the associated processes and shows the calculation of the PAI indicators.

The ESG programme also launched a new initiative in April 2023 to define a sustainable investment framework. This framework will make it possible to classify direct lines as sustainable (or not) and thus broaden the current ESG investment offer, which is currently limited to Article 8 with principal adverse impact consideration and Article 9 funds (as defined by SFDR). To do this, criteria must be defined to assess that the investment makes a positive contribution to an environmental or social objective, provided that such investments do not significantly harm any one of those objectives and that the investee companies follow good governance practices (SFDR definition (Art. 2.17)). Delivery is scheduled for September 2023.

With regard to MiFID ESG, sessions were held in February and March 2023 to train all investment advisors on ESG topics, including the MiFID ESG obligations. These were followed by voluntary training for personal and private bankers, which took place in May 2023 to ensure the correct collection of sustainability preferences. Once the Bank's new core banking system is up and running, further training with representatives from the front offices is planned.

In March 2023, BIL entered into a contract with an additional ESG Data Provider to meet the need for data solutions. This new partnership will enable BIL to access important ESG data to primarily meet mandatory reporting requirements. This data will also feed into other investment projects and initiatives.

Finally, the Bank launched its first allocation and impact report relating to its 2022 green bond activity. The report has been reviewed by external auditors and is available on the Bank's website:

https://www.bil.com/Documents/EMTN/Allocation-and-Impact-Report-31122022.pdf.

Green bonds continued to successfully attract investors with EUR 155 million raised during the first semester of 2023. Total green bonds outstanding at 30 June 2023 amounted to EUR 247 million equivalent.

In terms of developing its sustainable product offering, the Bank received CSSF approval for two additional funds: BIL Invest Equities Europe and BIL Invest Bonds EUR Corporate Investment Grade, which now qualify as Article 8 funds as defined by the SFDR. These funds consider principal adverse impacts, which make them eligible for customers who have expressed a preference for sustainability. The Bank now has six BIL Invest Funds, which qualify as Article 8 funds with consideration of principal adverse impacts. Of these, four (BIL Invest Patrimonial Funds) are in the process of renewing the LuxFLAG label for 2023, and two other funds newly approved as Article 8 funds by the CSSF are in the process of applying for the LuxFLAG label for 2023.

Other sustainable financing initiatives and new product developments are in the pipeline and should see the light of day by the end of 2023.

With regard to green financing initiatives, the Bank has worked jointly on its product and service offering for retail and corporate customers.

As far as individual customers are concerned, a roadmap has been drawn up to develop the Bank's green financing offering. As a first step, the Bank has focused on increasing the visibility of its existing green loans. A brand-new page dedicated to "Green Loans" went live on the website in July 2023, showcasing a new partnership with a Luxembourg artisan to support customers wishing to install photovoltaic installations and heat pumps. In a second phase, the Bank will consider how to develop this offer in terms of both products and services.

The ESG lending workgroup also looked at the process for collecting clients' energy performance certificates to guarantee the collection of this documentation, which is becoming an essential part of the Bank's physical and transition risk management, regulatory reporting requirements and will also be used for future pricing reflections.

As regards the corporate segment, workshops were organised to clarify the role of advisors in supporting our customers in terms of energy transition, and in assessing ESG-related risks and opportunities. Next steps have been defined as follows:
- Corporate advisors will be trained to discuss transition plans with their clients;
- A transition assessment questionnaire will be drafted;
- The launch of the questionnaire and the first customer engagement meetings will take place after the Bank goes live with its new core banking system. Advisors will start with corporate clients with the highest Greenhouse Gas (GHG) emissions.

As in 2022, BIL launched the calculation of its financed emissions in order to monitor progress as well as help reflect on its climate strategy. Results are expected in September 2023.

The credit risk team also continued working on enhancing the risk management tools:
- ESG Borrower Assessment: this is a qualitative methodology used to classify a counterparty's exposures using an ESG Credit Impact Score, a combination of the Sector Materiality Score, the Counterparty Score and the Transaction Score. It is the overall assessment used in the credit decision. The Bank will use the ESG Credit Impact Score as an additional consideration alongside the existing credit score. After a pilot period, the assessment was put in production in May 2023 to be applied to all MidCorp and Corporates on a risk-based approach. By the end of this year, it is also foreseen to extend this assessment to the Real Estate sector.

Finally, BIL's Investment Portfolio also continues to integrate Environmental and Social (E/S) considerations, where Green, Social and Sustainable bonds now account for 20.16% of the total Portfolio, for a total amount of EUR 1,811 million as of 30 June 2023.

On the risk management side, the Bank continued to implement the EU recommendations on the management of ESG risks

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

(Please refer to section 1 of the Risk Management report for more information).

ESG AT CORPORATE LEVEL

In anticipation of the upcoming Corporate Sustainability Due Diligence Directive (CSDDD), a first gap analysis has been completed to identify how due diligence on human rights would affect bank processes. Four main scopes have been identified: (i)) Management of Human Capital, (ii)) Client processes, (iii) Assessment of Human Rights Violations in Investment, Onboarding and Lending Processes and (iv) Procurement where the Bank needs to ensure that suppliers behave in a way that is consistent with human rights.

The procurement team has been trained to take ESG factors into account in the procurement process and will revise the procurement policy to incorporate these best practices.

In terms of diversity, to mark International Women's Day, BIL signed the "Women in Finance Charter", supported by the Ministry of Finance, to promote greater participation by women at all levels of organisations in the Luxembourg financial sector. By signing this charter, BIL is committed to achieving a better balance in the representation of women and men, particularly in its management and senior management functions.

As part of the Diversity Day, BIL organised an interactive conference on intercultural communication, with the aim of raising awareness of cultural differences and the added value of cultural diversity within a team. BIL also renewed its sponsorship of Luxembourg Pride held at the beginning of July.

The Bank also took part in the "Relais pour la Vie", organised by the Cancer Foundation, with the support of in-house communities BIL Runners and BIL Volunteers. BIL employees supported the BIL Runners team by donating over EUR 3,000 to the Cancer Foundation.

Following the terrible earthquake that hit Turkey and Syria in February 2023, BIL responded to the urgent need expressed by the Turkish Embassy by organising an in-house charity collection enabling the equivalent of three vans to be donated to aid those affected.

Within the framework of the "Woch vun de Suen", BIL employees devoted some of their time to introduce young primary school children to financial literature. BIL also welcomed around 15 students from Lycée Michel-Rodange, who were able to interact with several employees of the Bank from different departments. In particular, to learn about the missions and operations of a bank in general, but also about the role of the financial sector in sustainable development, and more specifically what BIL does in terms of sustainability.

Additional visits to the BIL sorting centre were organised in order to continually raise employee awareness of the importance of sorting and recycling.

In the first half of 2023, BIL also implemented the carbon footprint of canteen meals. Every first week of the month, the carbon footprint of the meals served in the canteen is displayed to raise employees' awareness of the carbon footprint of their diets.

The Bank also launched its third exercise of its carbon footprint measurement aimed at a more detailed calculation on a broader scope.

Finally, BIL continued to roll out initiatives and communications to raise awareness of sustainable development, including monthly 'mYCo2' workshops enabling all employees to calculate their personal carbon footprint and understand the global challenges that the Bank and society are facing.

Details of the Bank's commitments and the various initiatives undertaken to meet its commitments can be found in the Bank's Sustainability report available on www.bil.com.

4. Key Figures

COMMERCIAL FRANCHISES

Despite a complex macroeconomic environment and geopolitical uncertainty, the "Lux Market & CIB and Wealth Management" business areas performance remained sound during the first half of 2023:

- Assets under Management (AuM) reached EUR 44.1 billion compared with EUR 43.5 billion at the end of 2022. This increase resulted from a positive market effect of EUR 0.97 billion and a limited decrease of Net New Assets (NNAs) by EUR 0.36 billion.
- Customer deposits decreased by 6.8% to EUR 19.6 billion compared with EUR 21 billion at year-end 2022, mainly due to a decrease in current accounts, as favourable interest rates incentivise clients to move their deposits from current accounts to more remunerative products and proceed to the early repayment of their variable rate loans. In early 2023, the Bank has also faced higher volatility in terms of institutional client deposits from a limited number of its institutional client depositors (mainly public sector entities) in line with their cash management needs.

- Customer loans slightly decreased by 0.2% to EUR 16.4 billion compared with year-end 2022. This decrease is linked to the continued general slowdown in mortgage loan production in Luxembourg, impacted by the rapid rise in interest rates and delays in new construction projects caused by the current downturn in the real estate sector, the rising cost of raw materials, supply chain disruption and early reimbursement as clients are using their excess of liquidity to deleverage their investment profile.

PROFITABILITY

BIL Group reported a net income after tax of EUR 103 million in June 2023 compared with EUR 68 million in 2022, up by EUR 34 million, driven by solid revenues from commercial activities and a good cost control of expenses (+4%) offset by a negative evolution of the cost of risk which includes prudent provisioning in line with the interest rate increase and inflation.

Non-recurring items before tax generated a negative contribution in June 2023 of EUR 2 million compared with a positive impact of EUR 42 million in June 2022. In 2023, non-recurring items before tax were mainly composed of the remeasurement at fair value of an investment property with a reduction of the fair value by EUR 4 million (compared with a fair value increase of EUR 28 million recognised as at June 2022), capital gains realised on the Bank's Investment Portfolio of EUR 2 million (compared with EUR 17 million in June 2022) and limited restructuring costs.

Core gross operating income (excluding non-recurring items) amounted to EUR 141 million in June 2023, an increase of EUR 111 million compared with EUR 30 million in June 2022. This evolution was mainly influenced by an increase in core operating revenues (EUR 120 million) resulting from Commercial Activities and Financial Markets (EUR 85 million) and Group Center (EUR 35 million) offset by a limited increase of core operating expenses of EUR 9 million.

Core operating net income before tax totalled EUR 121 million versus EUR 35 million in June 2022, which represents an increase of EUR 85 million. This evolution was marked by an increase of the core gross operating income by EUR 111 million and an increase of the core cost of risk by EUR 26 million.

LONG-TERM COUNTERPARTY CREDIT RATINGS

As at the end of June 2023, BIL's ratings by both Moody's and Standard & Poor's remain unchanged compared with 31 December 2022, at A2/Stable/P-1 and A-/Stable/A-2 respectively.

BIL Group	June 2023	Outcome
Moody's	A2 Stable P-1	On 19 July 2023, Moody's Investors Service affirmed BIL's ratings following completion of a periodic review of the Bank's ratings.
S&P	A- Stable A-2	On 27 October 2022, S&P Global Ratings affirmed BIL's ratings that follows the affirmation of the ratings on the 25 January 2022 in line with the revised "Financial Institutions Rating methodology" published in December 2021.

The most recently published rating agency reports are available on: www.bil.com/en/bil-group/investor-relations.

5. 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 2023 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[1]

CONSOLIDATED STATEMENT OF INCOME GLOBAL VIEW

(in EUR million)	30/06/22	30/06/23	Change versus June 2022	%
Revenues	**301**	**374**	**73**	**24%**
Interest and dividend income	155	271	115	74%
Fees income	111	106	(5)	(5)%
Other income	34	(2)	(37)	(106)%
Expenses	**(227)**	**(235)**	**(9)**	**4%**
Staff expenses	(118)	(127)	(9)	7%
General expenses	(81)	(83)	(1)	2%
Amortisation	(28)	(26)	1	(5)%
Gross operating income	**74**	**139**	**65**	**88%**
Cost of risk and impairment on goodwill	3	(21)	(24)	ns.
Net income before tax	**77**	**118**	**41**	**53%**
Tax expenses	(9)	(15)	(7)	77%
Net income	**68**	**103**	**34**	**50%**

CONTRIBUTION TO THE CONSOLIDATED STATEMENT OF INCOME BY BUSINESS LINE

(in EUR million)	Commercial activities and Financial Markets		Group Center		Total		Change versus June 2022	%
	30/06/22	30/06/23	30/06/22	30/06/23	30/06/22	30/06/23		
Revenues	314	383	(14)	(9)	301	374	73	24%
of which core operating revenues	*296*	*381*	*(41)*	*(6)*	*255*	*376*	*120*	*47%*
Expenses	(211)	(219)	(15)	(16)	(227)	(235)	(9)	4%
of which core operating expenses	*(211)*	*(219)*	*(14)*	*(15)*	*(225)*	*(234)*	*(9)*	*4%*
Gross operating income	103	164	(29)	(26)	74	139	65	88%
of which core gross operating income	*85*	*162*	*(55)*	*(21)*	*30*	*141*	*111*	*369%*
Cost of risk and impairment on goodwill	3	(21)	(0)	(0)	3	(21)	(24)	ns.
of which core operating cost of risk	*5*	*(21)*	*(0)*	*(0)*	*5*	*(21)*	*(26)*	*ns.*
Net income before tax	106	144	(29)	(26)	77	118	41	53%
of which core operating net income before tax	*90*	*142*	*(55)*	*(21)*	*35*	*121*	*85*	*242%*
Tax expenses					(9)	(15)	(7)	77%
Net income					**68**	**103**	**34**	**50%**

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

Revenues

As at 30 June 2023, total revenues amounted to EUR 374 million, up by EUR 73 million (+24%) compared with June 2022 (EUR 301 million). Revenue contributions are presented by business segment and by accounting category in Note 3.

As mentioned in the profitability section core operating revenues (excluding non-recurring items) stood at EUR 376 million, up by EUR 120 million (+47%) compared with EUR 255 million in June 2022.

Commercial activities' contribution to the core operating revenues increased by EUR 65 million (+23%) compared with June 2022. Despite the difficult macroeconomic environment and a subdued growth context, largely supported by the increase of the interest rates commercial activities, better performed than in June 2022. Indeed, commercial activities net interest income was up by 46% at the end of June 2023 thanks to higher margins on deposits and lending activities. Fee and commission income (brokerage and management fees) was down by 6% compared with June 2022, as clients remain cautious in terms of loans and investments as confirmed by the commercial franchise evolution.

Financial Markets' core operating revenues amounted to EUR 37 million, up by EUR 20 million compared with June 2022. This growth, supported by the rising interest rate environment compared to previous years, positively impacted all Banking Book Management activities by EUR 17 million. In addition, Market activities' revenues benefitted from an increase in volume of structured investment product activity, specifically through the Leonteq A.G. platform.

Group Center activities generated negative core operating revenues of EUR 6 million in June 2023 compared with negative core operating revenues of EUR 41 million in June 2022. Group Center is notably composed of the Deposit Guarantee Scheme (DGS) & Resolution Funds' contributions, the funding costs related to the issuance of Tier 2 and senior non-preferred debts and other items not attributable to the commercial business lines. The positive evolution of EUR 35 million compared to June 2022 can mainly be explained by higher interests on the Bank's own funds (EUR 19 million), the positive revaluation of the BIL Reinsurance S.A. portfolio by EUR 8.4 million and lower contributions to the DGS & Resolution Funds by EUR 3.8 million.

Expenses

Expenses amounted to EUR 235 million, up by 4% compared with June 2022 (EUR 227 million), similar with the evolution of the core operating expenses. Staff costs increased by EUR 9 million mainly at BIL Luxembourg level following the salary indexations applied in April 2022, February 2023 and April 2023.

General expenses increased slightly by EUR 1 million driven by transition costs to the new core banking system (e.g., multiple platforms to support development and application testing), and additional costs in training and marketing.

At BIL Group level, depreciation and amortisation decreased slightly by EUR 1 million compared with June 2022.

The cost income ratio[1] reached 60.9% in June 2023 compared with 72.4% in June 2022. The core cost income ratio (excluding non-recurring items) stood at 60.4% compared with 84% in June 2022 thanks to the core operating revenues increase.

Gross operating income

Gross operating income amounted to EUR 139 million compared with EUR 74 million in June 2022. Excluding non-recurring items, core gross operating income increased by EUR 111 million, mainly influenced by the significant increase in core operating revenues (EUR 85 million) at Commercial Activities and Financial Markets level offset by a limited increase of core operating expenses by EUR 9 million.

Cost of risk

BIL Group recorded net provisions on loans and advances and impairment on goodwill of EUR 21 million compared with a net reversal of provisions on loans and advances and impairment on goodwill of EUR 3 million in June 2022, an overall negative evolution of the cost of risk by EUR 24 million.

Impairment on goodwill

As at 30 June 2022, BIL Group recorded an impairment of EUR 2 million (on a gross amount before impairment of EUR 22 million) on the goodwill linked to the cash-generating unit ("CGU") "ex-KBLS".

No additional impairment is required as at 30 June 2023 as no additional trigger was identified.

[1] Cost income ratio annualised to consider DGS & Resolution Funds' contributions at 50%.

Expected Credit Losses (ECL)

The core cost of risk (excluding non-recurring items) totalled EUR 21 million in June 2023 compared with a net reversal of provisions of EUR 5 million in June 2022. As a reminder, 2022 core cost of risk was positively influenced by the decrease in non-performing loans due to the proactive management of the credit portfolios.

Even if the Bank does not see the effects at this stage, the Bank considers that the uncertainties surrounding developments in the economic situation are tending to increase and deemed it appropriate to take note of them in a conservative manner. Adopting a prudent provisioning approach, the Bank maintained in 2023 the scenario weighting for ECL computations, reducing the weight of the optimistic scenario to 10% and increasing the weight of the adverse scenario to 30% applied since June 2022.

Stage 1

Stage 1 ECL decreased at the end of June 2023 by EUR 23 million mainly influenced by a decrease of net exposures in line with the balance sheet evolution, the transfers from Stage 1 to Stage 2 classifications and the implementation of IFRS 9 Probability of Default recalibration.

Stage 2

Stage 2 ECL increased at the end of June 2023 by EUR 11 million driven by a growth in Stage 2 exposures (EUR 267 million compared with December 2022 – please refer to part 4 Asset quality in the Risk Management section). Started at the end of 2022, the qualitative review related to variable rate individual borrowers pre-identified as vulnerable has been finalised during the first semester resulting in limited files downgraded to Stage 2 as at 30 June 2023. Since the beginning of 2023, an additional layer of prudence was introduced to anticipate potential credit losses on Property Developers in the context of rising interest rates, decreasing property prices and a slowdown of the real estate market resulting in further classifications in Stage 2.

Stage 3

Stage 3 ECL increased by EUR 33 million at the end of June 2023 influenced by an increase of respective exposures from EUR 568 million year-end 2022 to EUR 600 million in June 2023. In addition, the Bank applied a new IFRS 9 Loss Given Default (LGD) model for mortgage loans "LGD secured parameters" with a forward-looking component which explains a large part of the ECL increase. The total impairments in Stage 3 amounted EUR 250 million as of June 2023 compared with EUR 217 million end of 2022.

Net income before tax

Net income before tax stood at EUR 118 million, up by EUR 41 million (+53%) compared with the first semester of 2022, positively influenced by a marked increase in gross operating income of EUR 65 million offset by the increase in the cost of risk and impairment on goodwill of EUR 24 million.

Tax expenses

As at June 2023, tax expenses amounted to EUR 15 million. The change in tax expenses is in line with the increase in net income before tax.

Net income

BIL Group reported a net income of EUR 103 million in June 2023, a strong performance when compared with June 2022 (EUR 68 million).

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET[1]

(in EUR billion)	31/12/22	30/06/23	Change versus 2022	%
ASSETS	**32.4**	**30.8**	**(1.6)**	**(5.0)%**
Cash at central banks and loans and advances to credit institutions	5.5	3.4	(2.1)	(37.6)%
Loans and advances to customers	16.5	16.4	(0.0)	(0.2)%
Financial investments	8.8	9.4	0.5	6.2%
Positive fair value of derivative products	0.8	0.8	(0.1)	(7.4)%
Other assets	0.8	0.8	0.0	(0.6)%
LIABILITIES	**32.4**	**30.8**	**(1.6)**	**(5.0)%**
Amounts due to credit institutions	3.4	3.0	(0.4)	(11.5)%
Amounts due to customers	21.0	19.6	(1.4)	(6.8)%
Negative fair value of derivative products	0.4	0.3	(0.1)	(22.1)%
Debt securities	4.7	4.8	0.1	2.5%
Subordinated debts	0.2	0.3	0.1	40.5%
Other liabilities	0.4	0.4	0.0	10.6%
Shareholders' equity	2.3	2.3	0.1	2.4%

ASSET MOVEMENTS

"Cash at central banks and loans and advances to credit institutions" amounted to EUR 3.4 billion, down by EUR 2.1 billion (-37.6%). This reduction in BIL's excess liquidity mainly stems from the decrease in "Amounts due to customers" (EUR -1.4 billion) and "Amounts due to credit institutions" (EUR -0.4 billion).

"Loans and advances to customers" amounted to EUR 16.4 billion as of 30 June 2023 compared with EUR 16.5 billion at the end of 2022, down by 0.2%. Outstanding mortgage loans decreased by EUR 0.1 billion (- 1.9%) offset by an increase in investment loans by EUR 0.1 (+0.8%) billion. This decrease is linked to the continued general slowdown in mortgage loan production in Luxembourg, impacted by the rapid rise in interest rates and delays in new construction projects caused by the current downturn in the real estate sector, the rising cost of raw materials and supply chain disruption and early reimbursement as clients are using their excess of liquidity to deleverage their investment profiles.

"Financial investments" rose by EUR 0.5 billion to EUR 9.4 billion in June 2023, as higher new investments measured at amortised cost, were partially offset by sales and maturities generated during the first semester of 2023. The bulk of this increase (i.e., around EUR 350 million) has a maturity below one year in order to benefit from the inverted yield curve. All these new investments are either Level 1 or Level 2 LCR. The Investment Portfolio is mainly made up of assets eligible for refinancing by the European Central Bank (ECB) and qualifying as liquidity reserves under the regulatory framework. These assets enable the Bank to fully comply with liquidity ratio requirements, keeping a comfortable liquidity position translating into a Liquidity Coverage Ratio (LCR) of 154.4% as of 30 June 2023 in line with previous months.

LIABILITY MOVEMENTS

"Amounts due to credit institutions" amounted to EUR 3 billion, down by EUR 0.4 billion (-11.5%) compared to year-end 2022. This decrease stems mainly from the early repayment of the last remaining TLTRO tranche III.10 of EUR 0.25 billion and a decrease in interbank deposits and repurchase agreements of EUR 0.16 billion.

"Amounts due to customers" totalled EUR 19.6 billion in June 2023, representing a decrease of EUR 1.4 billion versus the end of 2022 (-6.8%). This decrease occurred mainly in current accounts (EUR -2.3 billion), partially offset by the growth in fixed term deposits (EUR 0.8 billion) as favourable interest rates incentivise clients to move their deposits from current accounts to more remunerative products and proceed to the early repayment of variable rate loans. In early 2023, the Bank also witnessed higher volatility in terms of institutional client deposits from a limited number of its institutional client depositors (mainly public sector entities) depending on their cash management needs.

"Debt securities" increased by 2.5% to reach EUR 4.8 billion compared with year-end 2022. In the first half of 2023 and as part of its long-term funding programme the Bank issued EUR 60 million in Senior Non-Preferred and EUR 397 million in Senior Preferred notes. Since the inauguration of its Green Bond Framework in May 2022, a key element in BIL's sustainability strategy, BIL has issued a total of EUR 247 million green bonds of which EUR 155 million have been issued since the beginning of 2023.

"Subordinated debt" increased by 40.5% in the first half of 2023 following a debt issuance of EUR 100 million in February 2023 maturing in 2033 (callable in 2028) and eligible as Tier 2 capital.

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

"Shareholders' equity" increased by EUR 54 million (+2.4%). This increase was mainly due to the half-year 2023 net profit of EUR 103 million, the positive evolution of the revaluation reserves of EUR 15 million offset by the dividend paid on the 2022 year-end net profit of EUR 60 million and by the coupon payments on AT1 instruments.

6. Post-balance sheet events

At the time of preparation of these interim condensed consolidated financial statements, there have been no significant post-balance sheet events that could affect the financial or commercial situation of the Group subsequent to the closing date.

7. Outlook

ENERGISE CREATE TOGETHER 2025: A CLEAR FOCUS ON TRANSFORMATION AND REMAINING CLOSE TO CLIENTS

The first half of 2023 saw BIL dedicated to working towards the launch of its new core banking system, BIL's future technological backbone. This investment, a milestone in the life of the Bank, will be key to pursue its transformation. The new core banking system will allow BIL to be even more agile and responsive to customer needs and to adapt to the digital world without losing its human touch.

The macroeconomic and geopolitical environment in which BIL operates has changed significantly impacting the Bank and its franchise. Increased interest rates represent a favourable environment and provide room for the Bank to continue investing into its structural strategic transformations, including the development of a future-proof and robust operating model.

At the same time, rising interest rates and inflation also pose challenges for the economy, which could have a knock-on effect on banks in general. In this complex context, it is BIL's utmost priority to continue supporting its entrepreneurial clients as a trusted advisor and transition facilitator, while ensuring sound risk management and the long-term sustainability of its business model.

Risk Management

1. Key events of the first half of 2023

CORPORATE STRUCTURE AND RISK PROFILE

Strategic initiatives are regularly undertaken at Group level. Each initiative is closely monitored by the Bank's Risk Management department whose main objective is to ensure that risks are identified, continuously monitored, managed and consistent with the Group's risk appetite.

MAIN WORKS REALISED BY THE RISK TEAMS IN LINE WITH THE DIFFERENT REGULATORY REQUIREMENTS

During the first half of 2023, BIL continued to invest significant time and resources in order to strengthen the risk management framework and processes and to ensure continued compliance with the regulatory corpus.

Regarding credit risk, and in parallel with the preparation of the new core banking system project, the Bank:
- Stepped up its proactive approach to clients in an environment characterised by increasing risks (among others: rapid and steady rise in interest rates, significant slowdown in real estate market transactions);
- Continued to dynamically manage its credit portfolios to pursue de-risking (with the aim of reducing non-performing and impaired exposures), while maintaining adequate and conservative provisioning for its credit risks;
- Continued implementation of the Credit Risk & ECL ("Expected Credit Loss") Roadmap to meet regulatory expectations and further strengthen risk management.

Specifically, the Bank implemented the following measures during the reporting period:
- Two customer outreach programmes were carried out, with the dual objective of reassessing our risks in the light of changing and deteriorating operating conditions, and considering the implementation of any corrective measures to ensure the proper repayment of our loans:
  - The first (Q1 2023) focused on residential loans to individuals in Luxembourg, covering 755 customers and loans of EUR 432 million;
  - The second (Q2 2023) targeted loans to property developers in Luxembourg, covering 88 development projects and EUR 713 million of loans.

In a context marked by a continued rise in interest rates and a gloomy real estate market, the Bank will repeat this type of preventive action in the second half of 2023, particularly in its residential real estate portfolio (RRE).

As a result of these client outreach programmes and the increased periodic review of our loans, transfers of exposures in "Stage 2" or "Stage 3" classifications have been recorded:
- EUR 56 million of loans were downgraded in the RRE portfolio (of which EUR 51 million in Stage 2 and EUR 5 million in Stage 3) and the management overlay of EUR 1.7 million (prudently established at 31 December 2022 in anticipation of the completion of the Q1 2023 outreach programme) was fully released;
- The review of loans to property developers resulted in the transfer of EUR 226 million of loans to Stage 2;
- Non-performing loans amounted to EUR 501 million as at June 2023 compared with EUR 568 million at year-end 2022;
- The Bank managed to reduce its Forborne Exposures (FB) to EUR 549 million in June 2023 compared with EUR 563 million year-end 2022, in particular as a result of the reinforcement of its workout team.

At the same time, the Bank intensified its efforts to further improve the identification of vulnerable clients in its IFRS 9 models as part of its Credit Risk Framework & ECL Roadmap initiative:
- The early warning system was strengthened with the inclusion of corporate, bank and institutional counterparties. It encompasses the embedment of adverse news regarding these counterparties. Adverse news is media articles where the names of the Bank's counterparties appear alongside pre-selected keywords with a negative connotation;
- An ESG (Environmental, Social and Governance) assessment was introduced for new large credit transactions with our corporate clients, aiming at identification and measurement of their ESG risk impacts, in order to support the credit-decision process at loan origination;
- The Bank is also finalising the implementation of the "Soft Collection Centre", which will centralise the management of material overdue payments of more than 20 days. This "Soft Collection Centre" will be deployed gradually during the second half of the year, with a "soft launch" expected during the summer.

The IFRS 9 staging policy has been complemented by the introduction and implementation of the concept of qualitative "Significant Increases in Credit Risk" (SICR) and by the launch of a new tool allowing a more flexible and faster calculation of the net present value of restructured loans. Finally, the IFRS 9 approaches were refined with a generalisation of the forward-looking "Loss Given Default" (LGD) for mortgage-backed loans.

Moreover, on the Credit Risk Pillar I model framework, BIL has continued to invest time and resources in ensuring that it complies with the regulatory corpus, most notably, the European Banking Authority Internal Ratings Based (IRB) Repair programme:

- In 2022, the Joint Supervisory Team (JST) appointed Internal Model Investigation mission assessed the Retail/Wealth models and LGD Mid Corporate model, submitted in 2021, for approval by the ECB. In June 2023, the Bank received the draft decision letter for approval. The new approaches will be deployed by the end of 2023. Additionally, the next Internal Model Investigation for the new Mid Corporate models Probability of Default and Credit Conversion Factor (PD-CCF) should occur at the end of 2023 – beginning of 2024;
- In order to further simplify the model landscape, the Large Corporate exposures (obligors with turnover above or equal to EUR 250 million) will be monitored using the Standardised approach as per the revised Basel framework (as for Financial Institutions) with the homologation file to be sent to the ECB at the end of September 2023;
- Beyond regulatory matters, in the first semester of 2023, the Bank launched a new project to redesign the Risk-Adjusted Return on Capital (RAROC) tool. A new web-application is now in production, providing a more agile framework for business and control functions. In this context, other works will be realising: (i) Enhancing the visibility on profitability on different dimensions such as client relationships, sectors, countries, etc., (ii) Including the concept of economic capital in addition to regulatory capital, (iii) Reassessing the hurdle rate, how it is applied in order to ensure that hurdle rates are aligned with strategy (e.g. through different hurdle rates for different sectors) and, (iv) Assessing of indirect revenues and their monitoring after the granting of loans.

Finalisation of Basel III framework, also called the Basel IV framework: The Bank continued to analyse the different impacts and has participated in the Quantitative Impact Study (QIS) on Basel IV using the exposures at 2022 year-end. The first outcomes present a relatively limited impact.

Interest Rate Risk in the Banking Book (IRRBB): The Bank has developed its non-maturing deposit, prepayment and stress test models and risk follow-up tools (in cooperation with the Asset and Liability Management department (ALM). Specifically, the Bank has conducted back-testing and analysis of the non-maturing deposit model in the new interest rate paradigm. In this context, a tactical review of the model has been performed and a more structural revision is on-going under the supervision of the ALM Committee. In addition, a "beta approach" has been introduced to determine the repricing profile of the non-maturing deposits sensitive segments and adjustable rate loans.

The ICLAAP process (Internal Capital and Liquidity Adequacy Assessment) is strongly embedded in the decision-making process of the Bank and currently covers different components including: (i) Risk Cartography, (ii) Risk Appetite Framework (RAF), (iii) Economic Capital (ECAP) computation and (iv) Capital and Liquidity Planning, in addition to the Capital and Liquidity Adequacy Statements confirmed at Board-level. The ICLAAP process, and specifically its risk cartography workstream, is in line with the Bank's strategy and the various ongoing projects, including the "Three Lines of Defence" (3-LoD) project:

- In this context, during the first half of 2023, the Bank submitted the 2022 annual end-of-cycle report to the regulatory authorities after determining that the Bank is still adequately capitalised considering the available management actions at hand that will allow the Bank to sail across different scenarios of increasing severity. The Bank's liquidity position was also assessed as adequate, as demonstrated through the Bank's business strategy and funding plan, its current adequate risk identification and quantification process, the strong liquidity indicators, its efficient liquidity tools, its reporting process and the sound quality assurance and validation process;
- The Bank has also launched the 2023 exercise putting in place a clear roadmap that will allow a proper assessment of the capital adequacy and liquidity position of the Bank in view of the turbulent macroeconomic conditions and considering more severe scenarios. The main initial focus is on enhancing the risk identification and assessment process that will result in increased risk sensitivity and including an important input from the different stakeholders across the different lines of business;
- The ICLAAP process is nowadays a dynamic exercise that evolves and aligns with the Bank's strategy and that builds on the current market developments and incorporates their different indicators as part of the developed scenarios. It plays a key role in the determination of the risk profile of the Bank and includes a sound and comprehensive assessment of the risks for capital and liquidity;
- The Bank has in place sound, effective and complete strategies and processes to assess, maintain and distribute internal capital on the different risks. It will ensure they all remain up-to-date. The amounts, types and distribution of internal capital are adequate to cover the nature and level of risks to which the Bank is exposed or might be exposed to and finally the Bank has implemented appropriate arrangements, strategies, processes and mechanisms to comply with all different regulatory requirements namely the ECB ICAAP and ILAAP guides and international best practices;
- Moreover, from an ILAAP perspective, the Bank will continue to implement robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons and its liquidity currently provides sufficient coverage of liquidity risks.

Bank Recovery and Resolution Directive (BRRD): After the last submission of the 2022 Recovery Plan in September 2022, the Bank is currently working on developing the 2023 Recovery Plan focusing on key priorities, including among others, continuing to enhance its Overall Recovery Capacity (ORC) and the number of recovery options available in times of stress, while also completing the panel of scenarios with an increasing severity for the stress tests. In this way, the Bank is setting up all the tools it could use according to different and increasing levels of stress. It should be highlighted that:

- As last year and aiming at accounting for the cyber threats affecting the banking industry worldwide, the Bank is in the process of developing an idiosyncratic stress scenario involving a cyber incident with severe financial implications, in order to identify the options that are available to counter such events, to assess whether these options are sufficiently robust and if their nature is sufficiently varied to cope with the shock. This scenario is one of four scenarios to be included in the 2023 Recovery Plan, which cover in addition to the idiosyncratic scenario, a systemic and a combined scenario and a real estate scenario. Given the on-going geopolitical developments, the Bank will also account for a further deterioration in the situation as part of the aforementioned scenarios;
- Moreover, the Bank is continuing to reinforce the operationality of the Recovery Plan, notably through a Board-level dry-run exercise, which is part of a formal testing programme. The dry-run exercise will aim at testing different chapters of the Recovery Plan and in particular the operationality of several liquidity and capital recovery options. The Bank will also focus on synergies between the different crisis management frameworks, especially when it comes to testing.

Regarding the resolution component, in June 2023, a detailed version of BIL's Resolvability Progress Report was provided to the Single Resolution Board (SRB). In accordance with the SRB expectations, the progress that was achieved was in line with the 2023 work priorities as communicated by the SRB in December 2022.

From a governance and quality control perspective, there has been significant progress to onboard all stakeholders into the resolution planning activities this year. A detailed training programme has been put in place and is being delivered throughout the year. Progress also continues to be made regarding, among others, the Financial Markets Infrastructure Contingency Plan, Service Catalogue (including a library of all services, critical staff and systems critical for the continuity of operations in resolution), retention and motivational schemes for critical staff, and same for liquidity and funding where the Bank has put in place a collateral identification and mobilisation memorandum that can be relied on in a resolution scenario. It is also important to highlight the significant progresses made to the Business Reorganisation Plan (BRP) and initial planning steps have been taken relating to information sharing for the Bank's variant strategy. A detailed testing programme is in place and will be delivered throughout the year, noting that a combined "Bail-in Data and Communication" dry-run was carried out in May 2023 and the planned tests covering Management Information Systems (MIS) and Data, internal and external execution processes, BRP and others will be conducted to further demonstrate the effectiveness and operational feasibility of the Resolution Plan.

To summarise, the first half of 2023 has been an important period for the Bank which has made solid and steady progress at different levels of the project, while the **Bank's main objective is on becoming fully resolvable at the end of 2023**.

With regard the Basel Committee on Banking Supervision (BCBS) 239 principles, the Bank has further pursued related initiatives in three sections: (i) Overarching governance and infrastructure, (ii) Risk data aggregation capabilities and, (iii) Risk reporting practices. The Bank aims, through this project, at strengthening the data governance framework, enhancing the enterprise-wide risk data aggregation capabilities and optimising the internal risk reporting practices. The roadmap that the Bank is following shows the progression on the global project improving the entire reporting architecture and monitoring the compliance level of the existing risk reports.

2023 ECB Stress Test Exercise: On the 31 January 2023 ECB/ EBA launched the 2023 EBA/ Single Supervisory Mechanism (SSM) Stress Test for 99 Significant Institutions. By request of the ECB, BIL participated in the SSM Stress Test. On the 21 June 2023, BIL's early termination was accepted, meaning that BIL is not requested to go beyond the June deadline. At the end of July, outcomes of the Exercise have been disclosed for all participating banks. For BIL, the results show that it has a solid solvency situation and that the Bank has demonstrated its resilience under very stressed situations.

Environmental, Social and Governance (ESG) matters are of increasing importance in the banking world, a priority for BIL. At the end of 2022- beginning of 2023, the Bank set up a comprehensive ESG programme for the sustainable development of its activities and those of its clients. The Bank has a clear sustainability strategy, integrated fully in the Bank's Energise Create Together 2025 Strategy, and is making indisputable progress in the sustainable action that it takes. The main objective is to further engage the business side of the Bank to drive this transformation, not only from a regulatory perspective, but also from a commercial and strategic approach.

On the risk management side, the Bank continued to implement the different elements of the ESG risk framework:
- ESG Pillar III: the report has been published on BIL.com, with a dedicated ESG section including the new qualitative tables and quantitative templates relative to ESG risk disclosures;
- ECB Recommendations: the monitoring of the different findings and deliverables is handled by the ESG Strategic Steering Committee. A status has been presented during the ESG Steerco on 30 June, no delays have been highlighted;
- ESG Cartography: the 2023 ESG Cartography will be merged this year with the Global Risk Cartography, but with a dedicated ESG section, especially including the medium to long-term horizon in all areas of climate-related and environmental risk assessments;
- ESG Stress Test: during the first semester of 2023, two high-level assessments of the ESG scenarios, focusing on the Climate and Environmental side, were released to provide an initial overview of the impacts on classical financial risks: Credit Risk, Market Risk and Liquidity Risk.

Risk Management is a key stakeholder in the new core banking system project at different levels: (i) as a first line user and direct contributor to the project for all Risk Management processes and tools and (ii) as a second Line of Defence (2nd LoD) oversight function. Based on this framework, Risk Management is performing functional and technical risk assessments. These assessments allow to identify, among others, "very high" and "high" residual risks for which 1st LoD ownership is established and action plans and target dates are set and monitored.

2. Credit risk

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

- 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 credit or to the maximum amount that BIL is committed to as a result of guarantees issued to third parties;
- The netting and financial collaterals (including cash, bond and other financial security) are deducted from net carrying amount for repurchase/reverse repurchase agreements; The netting and cash collateral amounts are deducted for other types of products;
- For derivatives a potential future exposure (PFE) add-on is added to account for potential future changes in the value of the trades.

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

The substitution principle applies where the credit risk exposure is guaranteed by a third party with a lower risk weighting. Therefore, counterparties presented below are final counterparties, i.e. after taking into account any eligible guarantees. As at 30 June 2023, the Bank's total credit risk exposure amounted to EUR 35.40 billion compared with EUR 36.74 billion at the end of 2022. The decrease in exposures is mainly influenced by Central Governments (EUR -1.3 billion).

EXPOSURE BY TYPE OF COUNTERPARTY

As at 30 June 2023, Individuals, SME and Self-Employed exposure weight increased from 33.6% to 34.5% of the overall exposure compared with year-end, representing the Bank's largest portfolio. The Central Governments segment is the second largest segment of the Bank's portfolio, representing 29.7% of the overall exposure compared with 32.3% at year-end 2022. Finally, it is also worth noting that Corporate exposure weight increased compared with the end of 2022 to 19.4% from 18.5% and the weight of Financial Institutions increased to 14.0% from 13.2% of the overall exposure.

Exposures by counterparty category (in EUR million)	**31/12/22**	**30/06/23**	Variation
Individuals, SME & Self Employed	12,338	12,212	(126)
Central Governments	11,856	10,511	(1,345)
Corporate	6,804	6,883	79
Financial Institutions	4,844	4,951	107
Public Sector Entities	639	643	4
Securitisation	189	199	10
Others	70	9	(61)
TOTAL	**36,740**	**35,408**	**(1,332)**

EXPOSURE BY GEOGRAPHIC REGION

As at 30 June 2023, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (54.2%), France (9.9%), Germany (6.9%), Belgium (6.8%) and Switzerland (5.8%).

Exposures by geographic region (in EUR million)	**31/12/22**	**30/06/23**	Variation
Luxembourg	20,077	19,196	(881)
France	3,681	3,501	(180)
Germany	2,507	2,443	(64)
Belgium	2,342	2,393	51
Switzerland	2,531	2,037	(494)
United States and Canada	1,267	1,290	23
Other EU countries	1,170	1,219	49
Spain	941	984	43
Others	644	764	120
China	371	419	48
Rest of Europe	455	390	(65)
Middle East	382	297	(85)
Asia	229	288	59
Australia	42	96	54
Russia	101	91	(10)
TOTAL	**36,740**	**35,408**	**(1,332)**

LOSSES ON IMMOVABLE PROPERTY

The following table displays the limited losses recorded as at 30 June 2023 on exposures collateralised by residential and commercial immovable property regarding retail counterparties. These exposures are expressed in terms of Exposure-at-Default (EAD) and in millions of euros.

	31/12/22		30/06/23	
Collateralised by:	**Sum of overall losses**	**Sum of the exposures**	**Fixed Income**	**FOREX**
Residential property	0.00	7,054	2.00	6,933
Commercial immovable property	0.00	430	0.00	415

3. Market risk

TREASURY AND FINANCIAL MARKETS ACTIVITIES

The following table displays the Value at Risk (VaR) for the Trading and the Treasury activities as at 30 June 2023:

VaR (10 days, 99%) per activity (in EUR million)		31/12/22		30/06/23	
		TOTAL		TOTAL	
		FOREX (Trading)	**Treasury (Banking Book)**	**FOREX (Trading)**	**Treasury (Banking Book)**
Global Trading	Average	0.09	0.42	0.13	0.94
	End of period	0.29	1.18	0.29	1.39
	Maximum	0.12	1.13	0.14	1.17
	Limit	**2.00**	**1.50**	**1.00**	**6.00**

The Trading market activities VaR limit has been lowered to reflect the business strategy evolution (focus on client flows management, servicing, offering access to competitive pricing and optimising profitability with lower risk profile).

The Treasury VaR limit has been recalibrated in view of the recent interest rate hikes.

Daily Treasury activities are monitored through sensitivity limits, based on a +100bp parallel shift.

As at 30 June 2023, Treasury sensitivity was EUR 2.9 million compared with EUR 4.1 million in December 2022.

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 9.0 billion as at 30 June 2023 (compared with EUR 8.4 billion as at 31 December 2022).

Most of the bonds are classified in the "Hold-to-Collect" (HTC) portfolio measured at amortised cost: EUR 8.6 billion as at 30 June 2023 (EUR 8.0 billion as at 31 December 2022). The remaining part is classified in the "Hold-to-Collect and Sell" (HTC&S) portfolio measured at fair value through other comprehensive income (OCI): EUR 0.4 billion as at 30 June 2023 (EUR 0.4 billion as at 31 December 2022).

The fair value sensitivity of the HTC&S portfolio to a 1 basis point widening of the spread (booked to the OCI reserve), was EUR 0.1 million as at 30 June 2023 (EUR 0.2 million per basis point as at 31 December 2022).

(in EUR million)	Notional amount		Rate bpv		Spread bpv	
	31/12/22	30/06/23	31/12/22	30/06/23	31/12/22	30/06/23
Treasury	307	432	(0.01)	(0.00)	(0.13)	(0.14)
ALM	95	0	(0.00)	0.00	(0.03)	0.00

BIL's liquidity remained solid throughout the first half of 2023. The consolidated Liquidity Coverage Ratio (LCR) amounted to 154.4% (as at 30 June 2023) and the Net Stable Funding Ratio (NSFR) amounted to 124% (as at 30 June 2023).

4. Asset quality[1]

(in EUR million)		31/12/22	30/06/23
Net loans and advances to customers	a	16,483	16,448
ECL stage 1, 2, 3	b	297	321
Gross loans and advances to customers	c=a+b	**16,780**	**16,769**
ECL stage 1, 2, 3 / Gross loans and advances to customers	b/c	1.77%	1.91%
FOCUS ON STAGE 3			
Total stage 3 outstanding amount	d	568	600
ECL stage 3	e	217	250
Coverage ratio stage 3	e/d	**38.20%**	**41.67%**
Total collateral and guarantees	g	308	319
Coverage ratio stage 3 including collateral	(e+g)/d	**92.43%**	**94.83%**
Asset quality ratio (stage 3 / Gross loans and advances to customers)	d/c	**3.38%**	**3.58%**
ECL stage 3 / total ECL (stage 1, 2, 3)	e/b	**73.06%**	**77.88%**
FOCUS ON STAGE 1 AND STAGE 2			
Total stage 1 outstanding amount	f	13,131	12,821
ECL stage 1	h	47	31
Coverage ratio stage 1	h/f	**0.36%**	**0.24%**
Total stage 2 outstanding amount	i	3,081	3,348
ECL stage 2	j	**33**	**40**
Coverage ratio stage 2	j/i	**1.07%**	**1.19%**
ECL (stage 1, 2) / total ECL (stage 1, 2, 3)	(h+j)/b	**26.94%**	**22.12%**
FOCUS ON COST OF RISK (ALL STAGES)			
Net impairment on loans and advances to customers	k	(9)	(26)
Cost of Risk (in bps – annualised)	k/c	**5**	**31**
Non-recurring items		**0**	**0**
Net impairment on loans and advances to customers excl. non-recurring items	l	(9)	(26)
Cost of risk excluding non-recurring items (in bps – annualised)	l/c	**5**	**31**

Rounding differences and percentages calculated on exact numbers.

5. Solvency monitoring

See Note 6.3 of the interim condensed consolidated financial statements.

Alternative Performance Measures (APMs)

The Consolidated Management Report section of the Semi-Annual Report includes certain financial metrics which BIL considers to constitute "Alternative Performance Measures" (APMs) as specified by CSSF Circular 16/636 and in accordance to ESMA Guidelines. The below APMs are provided in addition and not as an alternative to, the financial performance measures reflected in the Financial Statements and prepared in accordance with the International Financial Reporting Framework Standards (IFRS), as adopted by the European Union.

Alternative Performance Measures (APMs)	Definition	Reason for use
(Core) Operating Revenues	Operating revenues = Interest and dividend income + Fee income + Other income Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's operating performance.
(Core) Operating Expenses	Operating expenses = Staff expenses + General expenses + Amortisation Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's operating cost.
(Core) Gross Operating income	Gross operating income = Operating revenues - Operating expenses Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's operating performance.
(Core) Cost of Risk	Net impairment on financial instruments and provisions for credit commitments Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's cost of risk level
(Core) Operating income	Operating income = Gross operating income net of impairments and provisions for legal litigation Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's operating performance before tax.
(Core) Operating net income before tax	Net income = Operating income net of income from associates and before tax expenses Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Representative measure of BIL's operating performance before tax.
(Core) Cost/Income Ratio (CIR)	(Core) Cost to income ratio = (Core) operating expenses divided by (Core) operating revenues Core: excluding non-recurring items as presented in the Management Report Profitability Section.	Measure of operational efficiency in the banking sector.
Asset Quality Ratio	Total Stage 3 outstanding loans and advances to customers divided by total gross loans and advances to customers as presented in the Risk Management Report Asset Quality Section.	Representative measure of the risk level in % of the volume of outstanding loans.
Coverage Ratio	Expected credit losses divided by the total outstanding of related loans to customers by stage as presented in the Risk Management Report Asset Quality Section.	Measure of provisioning for doubtful loans.

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") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 30 June 2023, the consolidated statement of income and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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.

RESTRICTION ON USE

This report, including the conclusion, has been prepared for and only for the Board of Directors in accordance with the terms of our engagement letter and is not suitable for any other purpose. We do not accept any responsibility to any other party to whom it may be distributed.

Luxembourg,
24 August 2023
PricewaterhouseCoopers, Société coopérative
Represented by

Rima Adas — Julie Batsch

Consolidated balance sheet

ASSETS (in EUR)	**Notes**	**31/12/22**	**30/06/23** **(unaudited)**
Cash, balances with central banks and demand deposits	6.1	4,373,270,737	2,561,723,127
Financial assets held for trading	6.1	15,786,368	15,561,782
Financial investments measured at fair value	6.1	952,672,603	955,663,628
Financial assets at fair value through other comprehensive income	*6.1*	*924,933,017*	*925,385,840*
Non-trading financial assets mandatorily at fair value through profit or loss	*6.1*	*27,739,586*	*30,277,788*
Loans and advances to credit institutions	6.1	1,098,751,999	854,614,276
Loans and advances to customers	6.1	16,482,938,323	16,447,940,255
Financial investments measured at amortised cost	6.1	7,883,172,234	8,426,453,565
Derivatives	6.1	840,231,612	777,874,009
Fair value revaluation of portfolios hedged against interest rate risk	6.1	11,872	4,152
Investment property		59,748,312	41,743,846
Property, plant and equipment		116,724,076	110,746,689
Intangible fixed assets and goodwill		357,525,588	373,278,710
Current tax assets		1,295,968	1,858,060
Deferred tax assets		151,927,538	138,532,018
Other assets		78,253,205	95,018,368
TOTAL ASSETS		**32,412,310,435**	**30,801,012,485**

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

LIABILITIES (in EUR)	**Notes**	**31/12/22**	**30/06/23 (unaudited)**
Amounts due to credit institutions	6.1	3,397,961,782	3,006,243,465
Amounts due to customers	6.1	21,040,952,316	19,606,389,050
Other financial liabilities		30,997,505	27,738,440
Financial liabilities measured at fair value through profit or loss	4.1, 6.1	2,014,665,341	2,502,884,853
Liabilities designated at fair value	*4.1, 6.1*	*2,014,665,341*	*2,502,884,853*
Derivatives	6.1	418,687,606	326,007,105
Debt securities	4.2, 6.1	2,654,048,520	2,282,029,783
Subordinated debts	4.3, 6.1	243,236,959	341,707,894
Provisions and other obligations		49,391,972	46,945,358
Current tax liabilities		1,129,834	2,321,236
Deferred tax liabilities		10,091,719	10,189,358
Other liabilities		273,283,273	316,299,931
TOTAL LIABILITIES		**30,134,446,827**	**28,468,756,473**

SHAREHOLDERS' EQUITY (in EUR)	**31/12/22**	**30/06/23 (unaudited)**
Subscribed capital	146,108,270	146,108,270
Share premium	760,527,961	760,527,961
Other equity instruments	174,315,856	174,433,138
Reserves and retained earnings	817,236,900	905,713,631
Net income	152,932,361	102,927,781
SHAREHOLDERS' EQUITY	**2,051,121,348**	**2,089,710,781**
Gains and losses not recognised in the consolidated statement of income	226,742,260	242,545,231
Financial instruments at fair value through other comprehensive income	*238,292,334*	*253,565,924*
Other reserves	*(11,550,074)*	*(11,020,693)*
GROUP EQUITY	**2,277,863,608**	**2,332,256,012**
TOTAL SHAREHOLDERS' EQUITY	**2,277,863,608**	**2,332,256,012**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**32,412,310,435**	**30,801,012,485**

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

Consolidated statement of income

(in EUR)	Notes	30/06/22 (unaudited)	30/06/23 (unaudited)
Interest and similar income	5.1	253,341,782	636,111,159
of which : interest revenue calculated using the effective interest method		*187,631,483*	*527,096,116*
Interest and similar expenses	5.1	(98,214,019)	(365,601,434)
Dividend income		16,126	19,763
Net trading income	5.2	(167,241,680)	83,667,901
Net income on financial instruments measured at fair value and net result of hedge accounting	5.3	175,419,126	(69,685,637)
Net income on derecognition of financial instruments at amortised cost	5.4	22,681,673	3,054,268
Fee and commission income	5.5	137,248,605	132,092,789
Fee and commission expenses	5.5	(26,203,401)	(26,477,951)
Other net income	5.6	3,565,162	(19,128,411)
REVENUES		**300,613,374**	**374,052,447**
Staff expenses		(118,116,587)	(126,789,972)
General and administrative expenses		(81,190,652)	(82,528,098)
Amortisation of tangible, intangible and right-of-use assets		(27,511,334)	(26,057,106)
EXPENSES		**(226,818,573)**	**(235,375,176)**
GROSS OPERATING INCOME		**73,794,801**	**138,677,271**
Impairments		3,156,754	(20,662,174)
Net impairment on financial instruments and provisions for credit commitments	*5.7*	*5,142,068*	*(20,662,174)*
Impairment on goodwill	*5.8*	*(1,985,314)*	*0*
NET INCOME BEFORE TAX		**76,951,555**	**118,015,097**
Tax expenses		(8,509,612)	(15,087,316)
NET INCOME		**68,441,943**	**102,927,781**

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

Consolidated statement of comprehensive income

(in EUR)	30/06/22 (unaudited)	30/06/23 (unaudited)
NET INCOME FOR THE PERIOD RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**68,441,943**	**102,927,781**
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**(2,117,440)**	**15,802,970**
Items that will not be reclassified to profit or loss	**17,848,535**	**18,292,835**
Actuarial gains (losses) on defined benefit pension plans	8,794,672	1,852,089
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	1,360,157	483,542
Fair value changes of equity instruments measured at fair value through other comprehensive income	9,414,061	17,058,756
Fair value changes of land and buildings - transfer to investment property	212,371	(441,101)
Tax on items that will not be reclassified to profit or loss	(1,932,726)	(660,451)
Items that may be reclassified to profit or loss	**(19,965,975)**	**(2,489,865)**
Translation adjustments	(2,186,646)	399,271
Gains (losses) on cash flow hedge	1,915,986	(1,567,527)
Fair value changes of debt instruments and loans and advances at fair value through other comprehensive income	(25,602,809)	(2,281,575)
Tax on items that may be reclassified to profit or loss	5,907,494	959,966
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**66,324,503**	**118,730,751**
Attributable to equity holders of the parent company	66,324,503	118,730,751
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, GROUP (unaudited)	Subscribed capital	Share Premium	Other equity instruments	Reserves and retained earnings	Net income	Shareholders' equity
As at 01/01/22	**146,108,270**	**760,527,961**	**174,081,292**	**709,178,093**	**135,446,251**	**1,925,341,867**
Dividend paid				(18,054,808)		(18,054,808)
Classification of income				135,446,251	(135,446,251)	0
Interest on contingent convertible bond			117,282	(4,711,032)		(4,593,750)
Realised performance on equities at fair value through other comprehensive income				(16)		(16)
Net income for the period					68,441,943	68,441,943
As at 30/06/22	**146,108,270**	**760,527,961**	**174,198,574**	**821,858,488**	**68,441,943**	**1,971,135,236**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (unaudited)	Financial instruments at fair value through other comprehensive income	Cash flow hedge	Other reserves	Translation adjustments	Gains and losses not recognised in the consolidated statement of income
As at 01/01/22	**196,346,769**	**1,032,736**	**(3,847,213)**	**(17,328,429)**	**176,203,863**
Net change in fair value through equity - fair value through other comprehensive income	(9,784,459)				(9,784,459)
Net change in fair value through equity - cash flow hedges		(477,847)			(477,847)
Translation adjustments	3,394	1,915,986	(218,911)	(2,186,646)	(486,177)
Net change in other reserves			8,324,780		8,324,780
Changes in scope of consolidation	48,594		257,669		306,263
As at 30/06/22	**186,614,298**	**2,470,875**	**4,516,325**	**(19,515,075)**	**174,086,423**

There are no non-controlling interests as at 30 June 2022.

The "Other equity instruments" are mainly composed of an additional tier 1 instrument (AT1) issued on 14 November 2019 for a gross amount of EUR 175,000,000. This AT1 issuance is classified as an "other equity instrument" in accordance with IAS 32. It is qualified as AT1 regulatory Capital Requirement Directive (CRD). The amount presented is net of issuance costs.

The reserves and retained earnings include a legal reserve of EUR 14.6 million.

The translation adjustments comprise an amount of EUR -57,418,151 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

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

SHAREHOLDERS' EQUITY, GROUP (unaudited)	Subscribed capital	Share Premium	Other equity instruments	Reserves and retained earnings	Net income	Shareholders' equity
As at 01/01/23	**146,108,270**	**760,527,961**	**174,315,856**	**817,236,900**	**152,932,361**	**2,051,121,348**
Dividend paid				(60,008,754)		(60,008,754)
Classification of income				152,932,361	(152,932,361)	0
Coupon on Additional Tier One Instrument			117,282	(4,269,930)		(4,152,648)
Realised performance on equities at fair value through other comprehensive income				(176,946)		(176,946)
Net income for the period					102,927,781	102,927,781
As at 30/06/23	**146,108,270**	**760,527,961**	**174,433,138**	**905,713,631**	**102,927,781**	**2,089,710,781**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (unaudited)	Financial instruments at fair value through other comprehensive income	Cash flow hedge	Other reserves	Translation adjustments	Gains and losses not recognised in the consolidated statement of income
As at 01/01/23	**238,292,334**	**3,769,310**	**4,279,712**	**(19,599,096)**	**226,742,260**
Net change in fair value through equity - fair value through other comprehensive income	15,273,046				15,273,046
Net change in fair value through equity - cash flow hedges		(1,176,586)			(1,176,586)
Translation adjustments	544		(40,603)	399,271	359,212
Net change in other reserves			1,347,299		1,347,299
As at 30/06/23	**253,565,924**	**2,592,724**	**5,586,408**	**(19,199,825)**	**242,545,231**

There are no non-controlling interests as at 30 June 2023.

The “Other equity instruments” are mainly composed of an additional tier 1 instrument (AT1) issued on 14 November 2019 for a gross amount of EUR 175,000,000. This AT1 issuance is classified as an “other equity instrument” in accordance with IAS 32. It is qualified as AT1 regulatory Capital Requirement Directive (CRD). The amount presented is net of issuance costs.

The reserves and retained earnings include a legal reserve of EUR 14.6 million.

The translation adjustments comprise an amount of EUR -41,750,266 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

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

Consolidated cash flow statement

(in EUR)	30/06/22 (unaudited)	30/06/23 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	68,441,943	102,927,782
Adjustment for :		
- Depreciation and amortisation	27,511,334	26,057,106
- Impairment on tangible assets, intangible assets, right-of-use assets and goodwill	1,985,314	0
- Impairment on bonds, equities and other assets	(9,124,791)	32,552,438
- Net gains / (losses) on investments	(548,351)	(7,836,672)
- Provisions (including ECL)	(818,850)	(15,400,339)
- Change in unrealised (gains) / losses	(28,345,771)	11,011,982
- Deferred taxes	7,034,936	13,850,762
- Other adjustments	376,984	(131,000)
Changes in operating assets and liabilities	1,179,015,112	(1,979,872,470)
Transactions related to interbank and customers transactions	*1,836,757,023*	*(1,807,772,831)*
Transactions related to other financial assets and liabilities	*(686,631,353)*	*(195,696,869)*
Transactions related to other non-financial assets and liabilities	*28,889,442*	*23,597,230*
NET CASH FLOW FROM OPERATING ACTIVITIES	**1,245,527,860**	**(1,816,840,411)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(53,290,795)	(36,022,279)
Sale of fixed assets	47,177	16,910,160
Purchase of non-consolidated shares	(197,179)	0
Sale of non-consolidated shares	0	280,014
Sale of subsidiaries	1,054,905	0
NET CASH FLOW FROM INVESTING ACTIVITIES	**(52,385,892)**	**(18,832,105)**
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of subordinated debts	0	100,000,000
Payments on lease liabilities	(4,001,896)	(3,329,306)
Dividend paid	(18,054,808)	(60,008,754)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(22,056,704)**	**36,661,940**
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	**1,171,085,264**	**(1,799,010,576)**
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD	**6,171,141,452**	**4,904,108,640**
Net cash flow from operating activities	1,245,527,860	(1,816,840,411)
Net cash flow from investing activities	(52,385,892)	(18,832,105)
Net cash flow from financing activities	(22,056,704)	36,661,940
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents	13,852,706	(81,407)
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	**7,356,079,422**	**3,105,016,657**
ADDITIONAL INFORMATION		
Taxes paid	(1,636,126)	(613,350)
Dividends received	16,126	19,763
Interest received	263,595,650	617,924,482
Interest paid	(106,383,446)	(300,847,647)

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

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

(in EUR) (unaudited)	**As at 01/01/22**	Acquisition / (Reimbursement)	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	**As at 30/06/22**
Subordinated debts	**238,292,425**	0	0	7,981,764	0	**246,274,189**
Subscribed capital	**146,108,270**	0	0	0	0	**146,108,270**
Share premium	**760,527,961**	0	0	0	0	**760,527,961**
Other equity instruments	**174,081,292**	0	0	0	117,282	**174,198,574**

(in EUR) (unaudited)	**As at 01/01/23**	Acquisition / (Reimbursement)	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	**As at 30/06/23**
Subordinated debts	**243,755,860**	100,000,000	0	(1,725,674)	0	**342,030,186**
Subscribed capital	**146,108,270**	0	0	0	0	**146,108,270**
Share premium	**760,527,961**	0	0	0	0	**760,527,961**
Other equity instruments	**174,315,856**	0	0	0	117,282	**174,433,138**

On 1 February 2023, BIL issued a subordinated debt for a notional amount of EUR 100 million, eligible as Tier 2 capital since 27 February 2023.

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-1470 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 1701, B-17, Raycom Info Tech Park, No. 2, Ke Xue Yuan South Road, Haidian District, Beijing 100190. 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 Suite 06, 70/F Two International Finance Centre, No.8 Finance Street, Central, Hong Kong, and its consolidated financial statements 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 9 August 2023 and by the Board of Directors on 21 August 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The commonly used abbreviations below are:
- IASB: International Accounting Standards Board;
- IFRIC: International Financial Reporting Interpretations Committee;
- FRS: 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 17 July 2023). The consolidated financial statements are prepared on a "going- concern basis" and are presented in euro (EUR) unless otherwise stated.

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 (refer to note 1.3*);
- 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 (refer to note 1.7* and refer to note 6.1);
- Investment properties for which no quoted market prices on active markets are available are valued by means of valuation techniques (refer to note 5.6);
- Determination of the useful life and the residual value of property, plant and equipment, and intangible assets and determination of the lease term of lease contracts (refer to notes 1.15*, 1.16*, 1.20*); and
- Existence of a present obligation with probable outflows in the context of litigation (refer to notes 1.24* and 7.1).

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 note 1.6.5* and refer to note 6.2);
- 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 (refer to note 1.7* and refer to note 6.1);
- Determination of fair value for investment properties measured at fair value by means of valuation techniques (refer to note 1.15* and 5.6);
- The measurement of hedge effectiveness in hedging relations (refer to notes 1.12* and 6.1);
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (refer to notes 1.18* and 5.8);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (refer to note 1.22*); and
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (refer to note 1.23*).

*Above references are made to Note 1 to the consolidated financial statements included in the 2022 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 30 June 2023.

IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2023

- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021). Impact for BIL. Refer to the paragraph "Impact of the IFRS 17 Insurance Contracts standard applicable as from 1 January 2023".
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021). No impact for BIL.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021). No impact for BIL.
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021). No impact for BIL.
- IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020). Impact for BIL has been assessed. Refer to the paragraph "Impact of the IFRS 17 Insurance Contracts standard applicable as from 1 January 2023".

IASB and IFRIC texts issued during previous periods but neither endorsed nor applicable as at 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements:
- Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020);
- Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and
- Non-current Liabilities with Covenants (issued on 31 October 2022). No impact for BIL.

IASB and IFRIC texts issued during the current period but neither endorsed not applicable

- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). No impact for BIL;
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022). No impact for BIL;
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). No impact for BIL.

Impact of the IFRS 17 Insurance Contracts standard applicable as from 1 January 2023

As from 1 January 2023, IFRS 17 "Insurance Contracts" replaced IFRS 4 "Insurance Contracts". IFRS 17 applies to insurance contracts issued, reinsurance contracts issued and held and investment contracts with discretionary participation features issued (if the entity also issues insurance contracts). The definition of an insurance contract is unchanged from IFRS 4, with the exception of the assessment of the risk of loss for the insurer which must be performed on a present value basis.

The Group, who is mainly active in the financial sector, performed during the year 2022 an assessment of the impact of the new standard on insurance contract IFRS 17 "Insurance Contracts".

At BIL Group level, IFRS 17 adoption was assessed as immaterial to BIL Group consolidated financial statements based on the following results with only two group entities falling in the scope of the new standard:

- BIL Reinsurance, a Luxembourgish reinsurance company 100% held by BIL Luxembourg, issues reinsurance contracts. For the year 2022, the total gross premiums issued amounts to EUR 6 million with most of the contracts (80%) being short-term (less than one year) and benefitting from the premium allocation approach that does not significantly differ from the accounting under the former standard IFRS 4. Other contracts are considered as immaterial as at 1 January 2023 and continuous monitoring is performed as group level to identify any material insurance that may fall under IFRS 17 requirements.
- BIL Luxembourg, a Luxembourgish credit institution, head office of BIL Group issues a portfolio of loans with death waivers that qualify as insurance contracts under IFRS 17. According to IFRS 17:8A, BIL Luxembourg elects to apply IFRS 9 on this portfolio of loans with death waiver as of 1 January 2023 instead of IFRS 17 and will continue to account these loans under IFRS 9. However, loans with death waivers held under the business model "Hold-to-collect" ("HTC") that were unbundled under IFRS 4 (unbundling of the deposit component from the insurance contract), do not comply anymore with the "solely payment of principal and interests" ("SPPI" test") since unbundling under IFRS 17 is not an option anymore.The portfolio of loans with death waivers where unbundling is not permitted, qualifies for IFRS 17:8A and is fully accounted under IFRS 9 principles, shall be measured under fair value through profit or loss as of 1 January 2023.

The impact on equity (before tax) of the measurement at fair value through profit or loss compared with the amortised cost is estimated at EUR -5.3 on an amount of outstanding loans of EUR 141 million as at 1 January 2023 (transition date) and at EUR -4.9 million on an amount of outstanding loans of EUR 139 million as at 30 June 2023.

The impact is expected to lower during the second half of the year 2023 due to the short duration of the portfolio. Thus, BIL chose to maintain the amortised cost measurement method and to perform a continuous assessment of the impact.

Based on the above, there is no impact of IFRS 17 on BIL Group financial statements on transition date as at 1 January 2023 that requires specific disclosures according to IAS 8 and IFRS 17.

Update of the Accounting policies following IFRS 17 entry into force

Accounting policies related to Insurance and reinsurance activities (Refer to Note 1 of the Consolidated Financial Statements as at 31 December 2022 included in the BIL Group Annual Report) are modified as follows:

Insurance: BIL Group mainly leads banking activities. Some of the financial products distributed or invested by the group may include components that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). In that case, BIL Group will use the policy election to apply either IFRS 17 or IFRS 9 to such contracts on a portfolio basis, the choice for each portfolio being irrevocable.

Reinsurance: BIL Group leads reinsurance activities mainly to reinsure its own risks (reinsurance captive). Reinsurance contracts with third parties meeting the definition of insurance risk are measured and accounted for in accordance with IFRS 17. The use of the Premium Allocation Approach ("PAA") for the measurement of reinsurance contracts is applied if criteria for such approach are met.

Benchmark Reform and IFRS related amendments

Many financial instruments and financial contracts are valued using benchmarks. A benchmark determination which is accurate, robust and integer is crucial. In 2013, IOSCO (International Organisation of Securities Commissions) published a set of principles for financial benchmarks. These principles are intended to promote the reliability of benchmark determinations and improve governance, quality and accountability mechanisms. In the Euro area, the benchmark reform was accelerated by the adoption of the European Regulation (EU) 2016/1011 (the "Benchmark Regulation" or "BMR") which codifies the IOSCO Principles into EU law.

This Benchmark Regulation introduces "a common framework to ensure the accuracy and integrity of indices used as benchmarks in financial instruments and financial contracts, or to measure the performance of investment funds in the Union".

It has as an objective:

- To contribute to the proper functioning of the internal market;
- To achieve a high level of consumer and investor protection;
- To restore confidence in benchmarks;
- To improve the quality and governance of benchmarks produced and used in the EU.

The Regulation applies to providers of benchmarks, the contributors of input data and the user of a benchmark within the Union.

Exposure of BIL to Interest Rate Benchmarks and Initiatives with regards to the Benchmark Reform

Banque Internationale à Luxembourg, as a Benchmark user, is required to comply with the Benchmark Regulation and ensure that it only uses benchmarks issued by authorised administrators.

The following financial products issued and commercialised by BIL are mainly impacted by the Benchmark Reform:
- Interest Rate Derivatives referencing LIBOR (classified under "Derivatives");
- Floating Rate Note Assets referencing LIBOR (classified under "Financial Investments measured at amortised cost" and under "Financial investments measured at fair value");
- EMTN Issuances referencing LIBOR (classified under "Debt securities" and "Subordinated debts");
- Structured Products referencing LIBOR (classified under "Financial liabilities measured at fair value through profit or loss");
- Loans referencing LIBOR (classified under "Loans and advances to credit institutions" and "Loans and advances to customers");
- Sight Deposits referencing EONIA (classified under "Amounts due to credit institutions" and "Amounts due to customers").

Net Asset Exposure of BIL Luxembourg as at 30 June 2023

Data as at 30 June 2023	Net Asset Exposure[1]	
(in EUR million)	Maturity H2 2023	Maturity beyond 2023
USD LIBOR	0	56
o.w Interest Rate Derivatives	0	0
o.w Debt Instruments	0	0
o.w Loans	0	56

In response to the Libor transition, the Bank has undertaken significant efforts to achieve various milestones. Notably, in 2021, it successfully completed the transition of contracts referencing EONIA, GBP, CHF, and JPY Libor. Subsequently, the Bank continued its efforts in 2022 and 2023, navigating the complexities of the Libor process with diligence and commitment. By April 2023, all EUREX OTC Clear trades referencing USD had been converted to SOFR. Since the end of 2021, the Bank has maintained a commitment to cease issuing debt instruments referencing Libor. Instead, it actively offers alternative solutions that comply with the benchmark regulation. Client collaboration remains a key focus during the transition. Ongoing discussions with clients aim to convert the few remaining loan contracts referencing Libor to alternative solutions that align with their needs.

Other entities

The exposures to IBOR Reform from other BIL Group subsidiaries are immaterial.

Benchmark Reform implementation

In order to ensure compliance with the Benchmark Regulation and successful implementation of the Benchmark Reform, BIL Group has set up a project aimed at ensuring, that all aspects of the regulation, development and implementation receive appropriate senior level oversight and approval.

The initiatives of the Bank comprise:
- Including robust fallback clauses in our contracts;
- Integration of regulatory requirements in our prospectuses;
- Maintaining a robust written plan defining the actions that BIL would take in the event that benchmarks materially change, cease to be provided or the administrator (or the benchmark itself in the case of third country benchmarks) has not been registered or will no longer be registered on the ESMA register;
- Signature of the ISDA Fallback Protocol;
- Benchmark exposure management and limits;
- Discussions and negotiations with clients and counterparties;
- Communications with all involved Business Lines;
- IT Implementation;
- Membership in the Luxembourg Banker's Association ("ABBL") Working Group.

IFRS and reporting impacts

In the context of the Benchmark Reform, the impacts on the financial instruments are covered by the two following sets of IFRS amendments:

IFRS IBOR Reform (Phase 1) amendments:

In September 2019, the IASB published the "Phase 1" amendments to IAS 39 and IFRS 7, amending the hedge accounting requirements so that hedges affected by the IBOR reform can continue despite the uncertainty before the hedged and hedging items are modified to comply with the new benchmark rates at transition date. These amendments are applied since 31 December 2019.

[1] Positive figures for net asset exposure and negative figures for net liability exposure.

IFRS IBOR Reform (Phase 2) amendments:

In August 2020, the IASB published the "Phase 2" amendments to IFRS 9, IAS 39 and IFRS 7. These amendments introduce changes that are applicable on transition date to the new benchmark rates.

In particular:
- For financial instruments at amortised cost, it allows to treat the changes in contractual cash-flows as any variable rate if some conditions (changes strictly limited to IBOR reform) are respected;
- For hedge accounting, it notably allows continuation of hedging relationships subject to modification of hedging documentation and provides some relief in respect of separately identifiable risk components and of hedge ineffectiveness tests.

These amendments have been applied by the Group since 1 January 2021. As at 30 June 2023, the impacts of IBOR Reform on the interim consolidated financial statements are immaterial. Potential financial impacts in the scope of the IFRS "IBOR Reform" amendments are considered within the internal project set-up within the Group.

Note 2: Scope of consolidation

				31/12/22		30/06/23	
Name	Country	Activity	Reason for non-inclusion	Consolidation method	% of capital held	Consolidation method	% of capital held
Head office and branches							
Banque Internationale à Luxembourg S.A.	Luxembourg	bank					
Consolidated subsidiaries							
Banque Internationale à Luxembourg (Suisse) S.A.	Switzerland	bank		full consolidation	100	full consolidation	100
Belair House S.A.	Luxembourg	financial services		full consolidation	100	full consolidation	100
BIL Manage Invest S.A.	Luxembourg	financial services		full consolidation	100	full consolidation	100
BIL Reinsurance S.A.	Luxembourg	financial services		full consolidation	100	full consolidation	100
BIL Wealth Management Limited	China	financial services		full consolidation	100	full consolidation	100
IB Finance S.A.	Luxembourg	financial services		full consolidation	100	full consolidation	100
Société du 25 juillet 2013 S.A. (in liquidation)	France	financial services		full consolidation	100	full consolidation	100
Société Luxembourgeoise de Leasing - BIL-LEASE S.A.	Luxembourg	leasing		full consolidation	100	full consolidation	100
Non-consolidated subsidiaries							
BIL Private Invest Management S.à r.l.	Luxembourg	financial services	insignificant	not consolidated	100	not consolidated	100
Biltrust Limited	Guernsey	financial services	insignificant	not consolidated	100	not consolidated	100
Private II Wealth Management S.à r.l.	Luxembourg	financial services	insignificant	not consolidated	100	not consolidated	100

[1] On 7 July 2022 BIL Danmark, filial af Banque Internationale à Luxembourg S.A. was closed.
[2] Pursuant to the Sale and Purchase Agreement (SPA) signed on 23 March 2021 between BIL and the buyer, ZEDRA, to sell BIL Fund & Corporate Services S.A. (BFCS) and its fully-owned subsidiary Audit Trust S.à r.l. The transaction closed on 15 March 2022.

Note 3: Information by business segment

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 2023, BIL kept the same reporting segmentation of its business lines as put in place in January 2021:
- **"Retail Banking, Corporate & Institutional Banking and Wealth Management"** were renamed and are now reported as "Luxembourg Market & CIB" and "Wealth Management" and divided into three business lines: Luxembourg Market & CIB (i.e., Retail Banking, Wealth Management Luxembourg (previously Private Banking Luxembourg) and CIB including the international dimension of the CIB business line) and Wealth Management International which includes wealth management services for cross border clients from Luxembourg and Switzerland;
- **"Financial Markets"** is divided into the Banking Book Management (namely the Investment Portfolio, Treasury, Long-Term Funding, Asset Liability Management) and Market activities (Investment Management and Market Access);
- **"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 and subordinated debts).

INCOME (in EUR thousands)	30/06/22				
	Revenues	***of which interest and dividend income***	***of which fees income***	***of which other income***	**Net income before tax**
Luxembourg Market & CIB and Wealth Management	279,960	*160,471*	*110,024*	*9,465*	83,843
Financial Markets	34,307	*4,692*	*727*	*28,888*	22,257
Group Center	(13,654)	*(10,019)*	*294*	*(3,929)*	(29,148)
TOTAL	**300,613**	***155,144***	***111,045***	***34,424***	**76,952**
Net income before tax					76,952
Tax expenses					(8,510)
NET INCOME					**68,442**

	30/06/23				
	Revenues	***of which interest and dividend income***	***of which fees income***	***of which other income***	**Net income before tax**
Luxembourg Market & CIB and Wealth Management	344,109	*233,871*	*103,956*	*6,282*	119,085
Financial Markets	39,215	*27,628*	*1,030*	*10,556*	24,564
Group Center	(9,272)	*9,030*	*629*	*(18,930)*	(25,634)
TOTAL	**374,052**	***270,529***	***105,615***	***(2,092)***	**118,015**
Net income before tax					118,015
Tax expenses					(15,087)
NET INCOME					**102,928**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/22		30/06/23	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Luxembourg Market & CIB and Wealth Management	16,482,938	24,155,127	16,447,940	22,467,449
Financial Markets	14,839,571	4,822,102	13,248,304	4,562,021
Group Center	1,089,801	1,157,217	1,104,768	1,439,286
TOTAL	**32,412,310**	**30,134,446**	**30,801,012**	**28,468,756**

Note 4: Notes on the consolidated balance sheet

4.1 Other financial liabilities designated at fair value ("FV") though profit or losss

ANALYSIS BY NATURE	31/12/22	30/06/23
Non-subordinated liabilities	2,014,665,341	2,502,884,853
TOTAL	**2,014,665,341**	**2,502,884,853**

BIL Group primarily uses the fair value option (FVO) to eliminate or at least significantly reduce the measurement or recognition inconsistency (also known as the accounting mismatch) that would arise from measuring financial assets or liabilities or recognising the gains and losses on these assets and liabilities on a different basis. The fair value of unlisted financial instruments was determined using pricing tools and procedures established by Group Risk Management. These pricing tools are discounted cash flow models that allow the current value to be determined on the basis of an interest rate curve that is applicable to similar securities and takes into account the Bank's own credit rating. The evolution between 31 December 2022 and 30 June 2023 is explained both by net new issuance of structured products and fair value changes.

4.2 Debt securities

ANALYSIS BY NATURE	31/12/22	30/06/23
Certificates of deposit	2,512,575	2,934,409
Non-convertible bonds	2,651,535,945	2,279,095,374
TOTAL	**2,654,048,520**	**2,282,029,783**

4.3 Subordinated debts

ANALYSIS BY NATURE	31/12/22	30/06/23
Non-convertible subordinated debts	243,236,959	341,707,894
TOTAL	**243,236,959**	**341,707,894**

The list of non-convertible subordinated debts is available upon request.

On 1 February 2023, BIL issued a subordinated debt for a notional amount of EUR 100 million, eligible as Tier 2 capital since 27 February 2023.

Note 5: Notes on the consolidated statement of income

5.1 Interest and similar income – Interest and similar expenses

	30/06/22	30/06/23
INTEREST AND SIMILAR INCOME	253,341,782	636,111,159
a) Interest and similar income of assets not measured at fair value through profit or loss	**170,422,108**	**414,578,087**
Cash and balances with central banks	0	3,082,426
Loans and advances to credit institutions	2,324,523	48,947,004
Loans and advances to customers	138,150,164	280,718,015
Financial investments measured at fair value	5,882,758	12,485,616
Financial investments measured at amortised cost	23,947,809	69,164,831
Other	116,854	180,195
b) Interest and similar income of assets measured at fair value through profit or loss	**56,663,651**	**220,490,629**
Financial assets held for trading	138,257	108,992
Derivatives held for trading	39,199,167	107,683,415
Derivatives used for hedging purposes	17,326,227	112,698,222
c) Interest income on liabilities	**26,256,022**	**1,042,443**
INTEREST AND SIMILAR EXPENSES	(98,214,019)	(365,601,434)
a) Interest and similar expenses of liabilities not measured at fair value through profit or loss	**(19,766,955)**	**(196,157,890)**
Amounts due to credit institutions	(4,646,767)	(63,988,778)
Amounts due to customers	(2,922,418)	(106,452,848)
Debt securities	(8,280,811)	(18,124,869)
Subordinated debts	(3,731,975)	(7,412,524)
Lease liability	(172,348)	(174,447)
Other	(12,636)	(4,424)
b) Interest and similar expenses of liabilities measured at fair value through profit or loss	**(64,238,179)**	**(169,351,970)**
Financial liabilities designated at fair value through profit or loss	(20,961,795)	(57,926,760)
Derivatives held for trading	(9,276,325)	(59,827,420)
Derivatives used for hedging purposes	(34,000,059)	(51,597,790)
c) Interest expenses on assets	**(14,208,885)**	**(91,574)**
NET INTEREST INCOME	155,127,763	270,509,724

5.2 Net trading income

	30/06/22	30/06/23
Net income from trading transactions	3,571,333	6,383,587
of which income from trading securities	*2,530,229*	*1,534,094*
of which income from trading derivatives	*1,041,104*	*4,849,493*
Net income from hedging derivatives classified in the accounts as trading derivatives (accounting mismatch)	(176,684,803)	71,856,562
Net foreign exchange gain/(loss)	5,871,790	5,427,752
TOTAL	(167,241,680)	83,667,901

The net income from hedging derivatives classified in the accounts as trading derivatives is mainly impacted by derivatives hedging financial liabilities designated at fair value through profit or loss (refer to note 5.3).

The important variances in the net income from hedging derivatives classified as trading derivatives (accounting mismatch) and in the net income on financial liabilities designated at fair value through profit or loss from year to year or period to period may arise due to market conditions and their impacts on the fair value of structured bonds issued and related hedging derivatives.

5.3 Net income on financial instruments measured at FV and net result of hedge accounting

	30/06/22	30/06/23
Net income on financial investments measured at fair value through other comprehensive income	5,070,572	1,916,061
Net income on financial investments at fair value through profit or loss	(6,234,126)	1,541,173
of which financial investments mandatorily fair value through profit or loss	*(6,234,126)*	*1,541,173*
Net income on financial liabilities designated at fair value through profit or loss	175,736,909	(72,799,147)
NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE	**174,573,355**	**(69,341,913)**

Fair value hedge	**845,452**	**(343,405)**
Change in the fair value of the hedged item attributable to the hedged risk	(528,599,335)	141,051,697
Fair value revaluation (+: gains/ -: losses) / Derivative Financial Instruments / Derivative Financial Instruments - Fair Value Hedge	529,444,787	(141,395,102)
Portfolio hedge against interest rate risk	**319**	**(319)**
Fair value revaluation - Portfolio hedge - Hedged items	(78,286)	(7,720)
Fair value revaluation - Derivatives - Portfolio hedge	78,605	7,401
NET RESULT OF HEDGE ACCOUNTING	**845,771**	**(343,724)**

TOTAL	**175,419,126**	**(69,685,637)**

The important variances in the net income from hedging derivatives classified as trading derivatives (accounting mismatch) and in the net income on financial liabilities designated at fair value through profit or loss from year to year or period to period may arise due to market conditions and their impacts on the fair value of structured bonds issued and related hedging derivatives.

5.4 Net income on derecognition of financial instruments measured at amortised cost

	30/06/22	30/06/23
Net income on loans and advances measured at amortised cost	**664,309**	**144,352**
Gains on loans and advances measured at amortised cost	*664,309*	*144,352*
Losses on loans and advances measured at amortised cost	*0*	*0*
Net income on financial investments measured at amortised cost	**22,017,364**	**2,864,842**
Gains on financial investments measured at amortised cost	*56,964,425*	*50,712,722*
Losses on financial investments measured at amortised cost	*(34,947,061)*	*(47,847,880)*
Net income on financial liabilities at amortised cost	**0**	**45,074**
Gains on financial liabilities at amortised cost	*0*	*45,074*
Losses on financial liabilities at amortised cost	*0*	*0*
TOTAL	**22,681,673**	**3,054,268**

5.5 Fee and commission income and expenses

	30/06/22		
	Income	Expenses	Net
Management of unit trusts and mutual funds	14,854,060	(5,059,139)	9,794,921
Insurance activity	3,240,177	(404,905)	2,835,272
Credit activity	14,463,818	(578,812)	13,885,006
Purchase and sale on securities	10,077,684	(2,915,902)	7,161,782
Purchase and sale of unit trusts and mutual funds	2,752,252	(281,211)	2,471,041
Payment services	17,522,509	(314,673)	17,207,836
Commissions to non-exclusive brokers	0	(94,850)	(94,850)
Financial engineering	693,746	(42,401)	651,345
Services on securities other than safe keeping	2,973,481	(203,806)	2,769,675
Custody	13,238,263	(2,428,344)	10,809,919
Issues and placements of securities	9,589,147	(5,754,030)	3,835,117
Private banking	29,993,318	(5,331,228)	24,662,090
Clearing and settlement	11,201,359	(1,728,687)	9,472,672
Securities lending	0	(47,783)	(47,783)
Other	6,648,791	(1,017,630)	5,631,161
TOTAL	**137,248,605**	**(26,203,401)**	**111,045,204**

	30/06/23		
	Income	Expenses	Net
Management of unit trusts and mutual funds	15,077,429	(5,979,134)	9,098,295
Insurance activity	2,616,078	(527,604)	2,088,474
Credit activity	13,996,771	(710,262)	13,286,509
Purchase and sale on securities	7,826,934	(2,183,097)	5,643,837
Purchase and sale of unit trusts and mutual funds	2,418,898	(170,337)	2,248,561
Payment services	18,385,099	(260,922)	18,124,177
Commissions to non-exclusive brokers	0	(60,180)	(60,180)
Financial engineering	116,829	(8,040)	108,789
Services on securities other than safe keeping	2,642,635	(198,780)	2,443,855
Custody	13,925,484	(2,596,971)	11,328,513
Issues and placements of securities	12,424,599	(8,388,203)	4,036,396
Private banking	26,014,846	(3,118,555)	22,896,291
Clearing and settlement	10,258,291	(1,635,638)	8,622,653
Securities lending	40,594	(47,723)	(7,129)
Other	6,348,303	(592,506)	5,755,797
TOTAL	**132,092,789**	**(26,477,951)**	**105,614,839**

5.6 Other net income

	30/06/22	30/06/23
Operating taxes	0	340,227
Rental income	38,681	101,628
Other rental income	14,368	0
Gains on tangible fixed assets	47,177	768,414
Technical margins insurance companies (income)	3,503,640	3,498,903
Fair value adjustments on investment property	27,500,000	0
Other income on other activities	7,561,055	11,716,238
OTHER INCOME	**38,664,921**	**16,425,410**
Operating taxes	(2,943,875)	(3,083,384)
Other bank charges	(22,400,000)	(18,575,095)
Technical margins insurance companies (expenses)	(4,963,828)	(3,532,262)
Fair value adjustments on investment property	0	(3,600,000)
Other expenses on other activities	(4,792,056)	(6,763,081)
OTHER EXPENSES	**(35,099,759)**	**(35,553,821)**
TOTAL	**3,565,162**	**(19,128,411)**

The other income on other activities consists primarily of write-backs of provisions and extraordinary operating income.

The other bank charges consist of contributions paid to the Fonds de garantie des dépôts Luxembourg, the Single Resolution Fund and the Fonds de résolution Luxembourg.

The other expenses on other activities consist primarily of provisions for litigation and extraordinary loss.

The fair value adjustment on investment property of EUR -3.6 million for the period ended 30 June 2023 corresponds to the remeasurement of a land classified under investment property which forms part of the headquarter perimeter of the Group.

The fair value of the main investment property amounts to EUR 39.1 million as at 30 June 2023 (EUR 42.7 million as at 31 December 2022) including an acquisition cost of EUR 10.3 million and is based on the valuation report of a mandated external expert. The valuation method from the expert is based on the cost approach and the valuation inputs are mainly sensitive to the following assumptions:
- Rental market prices;
- Price per square metre; and
- Construction costs.

This revaluation was done in application of the "highest and best use for non-financial assets" principle of IFRS 13 considering an increase of the constructible potential of this investment property.

[1] This consists primarily of write-backs of provisions and extraordinary operating income.
[2] This consists of contributions paid to the Fonds de garantie des dépôts Luxembourg, the Single Resolution Fund and the Fonds de résolution Luxembourg.
[3] This consists primarily of provisions for litigation and extraordinary loss.

5.7 Impairment on financial instruments and provisions for credit commitment

	30/06/22			
	Stage 1	Stage 2	Stage 3	Total
Cash, balances with central banks and other demand deposits	**(157,563)**	**23,012**	**0**	**(134,551)**
Financial assets measured at amortised cost	**735,521**	**(1,633,174)**	**5,024,738**	**4,127,085**
Loans and advances to credit institutions measured at amortised cost	(95,923)	(18,153)	0	(114,076)
Loans and advances to customers measured at amortised cost	3,635,368	(1,653,088)	5,030,373	7,012,653
Debt securities measured at amortised cost	(2,803,924)	38,067	(5,635)	(2,771,492)
Financial assets measured at fair value through other comprehensive income	**(74,480)**	**0**	**0**	**(74,480)**
Debt securities measured at fair value through other comprehensive income	(74,480)	0	0	(74,480)
Other receivables	**0**	**0**	**228,450**	**228,450**
Off-balance sheet commitments	**590,681**	**594,025**	**(189,142)**	**995,564**
TOTAL IMPAIRMENTS	**1,094,159**	**(1,016,137)**	**5,064,046**	**5,142,068**

	30/06/23			
	Stage 1	Stage 2	Stage 3	Total
Cash, balances with central banks and other demand deposits	**22,561**	**33,466**	**0**	**56,027**
Financial assets measured at amortised cost	**20,568,634**	**(8,655,157)**	**(34,340,206)**	**(22,426,729)**
Loans and advances to credit institutions measured at amortised cost	981,321	(5,368)	(30,180)	945,773
Loans and advances to customers measured at amortised cost	16,269,495	(7,635,730)	(34,310,026)	(25,676,261)
Debt securities measured at amortised cost	3,317,818	(1,014,059)	0	2,303,759
Financial assets measured at fair value through other comprehensive income	**87,213**	**(64,900)**	**0**	**22,313**
Debt securities measured at fair value through other comprehensive income	87,213	(64,900)	0	22,313
Other receivables	**0**	**0**	**326,325**	**326,325**
Off-balance sheet commitments	**3,163,155**	**(2,078,981)**	**275,716**	**1,359,890**
TOTAL IMPAIRMENTS	**23,841,563**	**(10,765,572)**	**(33,738,165)**	**(20,662,174)**

As at 30 June 2023, Management Overlays accounted for as at 31 December 2022 were reversed and proactive credit risk management measures, whose results are included in the ECL modelled output, were introduced. Refer to Note 6.2.1.

5.8 Impairment on goodwill

On 30 June 2023, the carrying amount of the goodwill from the acquisition of KBL (Switzerland) Ltd in 2015 amounted to EUR 21.2 million (CHF 20.8 million). This goodwill is allocated to the CGU "KBLS" represented by ex-KBL (Switzerland) Assets under Management (AuM) (Level 3 measurement).

The impairment test is based on the valuation of the related AuM through multiples observed from transactions related to comparable business.

There is no additional impairment on the ex-KBLS goodwill as at 30 June 2023 as the recoverable amount was above the carrying amount (the impairment test has led to an impairment on the ex-KBLS goodwill as at 30 June 2022 of EUR 2 million (CHF 2 million), as the recoverable amount was below the carrying amount).

The recoverable amount of the goodwill from the acquisition of KBL (Switzerland) Ltd is measured at EUR 24.5 million (CHF 23.9 million) as at 30 June 2023 against EUR 20.9 million (CHF 20.8 million) as at 30 June 2022.

The sensitivity test is performed on the recoverable amount, +/- 10bps on multiples generates a EUR +/-1.8 million increase/decrease of goodwill valuation and +/-5% on AuM generates EUR +/-1.2 million increase/decrease of goodwill valuation.

Note 6: Notes on risk management and other information on financial instruments

6.1 Fair value

6.1.1 Breakdown of fair value

Fair value of financial assets	31/12/22			30/06/23		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks and demand deposits	4,373,270,737	4,373,270,737	0	2,561,723,127	2,561,723,127	0
Financial assets held for trading	15,786,368	15,786,368	0	15,561,782	15,561,782	0
Financial investments measured at fair value	952,672,603	952,672,603	0	955,663,628	955,663,628	0
Financial assets at fair value through other comprehensive income	*924,933,017*	*924,933,017*	*0*	*925,385,840*	*925,385,840*	*0*
Non-trading financial assets mandatorily at fair value through profit or loss	*27,739,586*	*27,739,586*	*0*	*30,277,788*	*30,277,788*	*0*
Loans and advances to credit institutions	1,098,751,999	1,098,751,999	0	854,614,276	854,608,655	(5,621)
Loans and advances to customers	16,482,938,323	15,651,898,383	(831,039,940)	16,447,940,255	15,661,640,643	(786,299,612)
Financial investments measured at amortised cost	7,883,172,234	7,812,298,971	(70,873,263)	8,426,453,565	8,344,581,291	(81,872,274)
Derivatives	840,231,612	840,231,612	0	777,874,009	777,874,009	0
Fair value revaluation of portfolios hedged against interest rate risk	11,872	11,872	0	4,152	4,152	0
TOTAL	**31,646,835,748**	**30,744,922,545**	**(901,913,203)**	**30,039,834,794**	**29,171,657,287**	**(868,177,507)**

Fair value of financial liabilities	31/12/22			30/06/23		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	3,397,961,782	3,379,822,666	(18,139,116)	3,006,243,465	3,005,670,259	(573,206)
Amounts due to customers	21,040,952,316	20,963,642,721	(77,309,595)	19,606,389,050	19,578,465,230	(27,923,820)
Financial liabilities measured at fair value through profit or loss	2,014,665,341	2,014,665,341	0	2,502,884,853	2,502,884,853	0
Derivatives	418,687,606	418,687,606	0	326,007,105	326,007,105	0
Debt securities	2,654,048,520	2,560,406,379	(93,642,141)	2,282,029,783	2,197,574,291	(84,455,492)
Subordinated debts	243,236,959	241,255,756	(1,981,203)	341,707,894	340,268,029	(1,439,865)
TOTAL	**29,769,552,524**	**29,578,480,469**	**(191,072,055)**	**28,065,262,150**	**27,950,869,767**	**(114,392,383)**

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.

6.1.2 Analysis of the fair value of financial assets and liabilities

The table below provides an analysis of the fair value of financial instruments measured at fair value after their initial recognition, grouped in three levels from 1 to 3, according to the degree of observability of the fair value:

- Level 1: fair value measurements are based on (unadjusted) prices quoted on active markets for similar assets or liabilities.
- Level 2: fair value measurements are based on data other than the quoted prices included in Level 1, which are observable for the assets or liabilities, either directly (e.g. prices) or indirectly (e.g. price derivatives).
- Level 3: fair value measurements are based on valuation techniques that include assets or liabilities data that are not based on observable market data (non-observable data).

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

Assets	31/12/22			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value				
Loans and advances to credit institutions	0	1,098,751,999	0	1,098,751,999
Loans and advances to customers	0	15,651,898,383	0	15,651,898,383
Financial assets measured at fair value				
Financial assets held for trading	0	13,125,963	2,660,405	15,786,368
Financial investments measured at fair value	614,166,023	38,186,640	300,319,940	952,672,603
Financial assets at fair value through other comprehensive income	*614,166,023*	*13,940,501*	*296,826,493*	*924,933,017*
Non-trading financial assets mandatorily at fair value through profit or loss	*0*	*24,246,139*	*3,493,447*	*27,739,586*
Derivatives	0	833,533,783	6,697,829	840,231,612
TOTAL	**614,166,023**	**17,635,496,768**	**309,678,174**	**18,559,340,965**

	31/12/23			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value				
Loans and advances to credit institutions	0	854,608,655	0	854,608,655
Loans and advances to customers	0	15,661,640,643	0	15,661,640,643
Financial assets measured at fair value				
Financial assets held for trading	0	10,302,391	5,259,391	15,561,782
Financial investments measured at fair value	394,457,232	244,153,178	317,053,218	955,663,628
Financial assets at fair value through other comprehensive income	*394,457,232*	*217,399,038*	*313,529,570*	*925,385,840*
Non-trading financial assets mandatorily at fair value through profit or loss	*0*	*26,754,140*	*3,523,648*	*30,277,788*
Derivatives	0	759,474,464	18,399,545	777,874,009
TOTAL	**394,457,232**	**17,530,179,331**	**340,712,154**	**18,265,348,717**

Liabilities	31/12/22			
	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value				
Amounts due to credit institutions	0	3,379,822,666	0	3,379,822,666
Amounts due to customers	0	20,963,642,721	0	20,963,642,721
Financial liabilities measured at fair value				
Financial liabilities designated at fair value	0	1,267,945,417	746,719,924	2,014,665,341
Derivatives	0	340,605,314	78,082,292	418,687,606
TOTAL	**0**	**25,952,016,118**	**824,802,216**	**26,776,818,334**

Liabilities	31/12/23			
	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value				
Amounts due to credit institutions	0	3,005,670,259	0	3,005,670,259
Amounts due to customers	0	19,578,465,230	0	19,578,465,230
Financial liabilities measured at fair value				
Financial liabilities designated at fair value	0	1,510,462,676	992,422,177	2,502,884,853
Derivatives	0	293,354,802	32,652,303	326,007,105
TOTAL	**0**	**24,387,952,967**	**1,025,074,480**	**25,413,027,447**

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

Level 3 financial assets measured at fair value are composed mainly of equity instruments.

6.1.3 Transfer between Level 1 and Level 2

No transfer was made between Level 1 and Level 2 on financial assets and financial liabilities in 2022 and in the first half of 2023.

6.1.4 Level 3 reconciliation

Assets	31/12/22								
	Opening	Total gains and losses in consolidated statement of income	Gains and losses in other comprehensive income-realised & unrealised	Purchase	Sale	Settlement	Transfer to Level 3	Conversion differences	Closing
Financial assets designated held for trading	6,039,311	(913,483)	0	687,085	(3,152,508)	0	0	0	2,660,405
Financial assets measured at fair value	243,388,047	86,732	51,673,225	5,159,387	0	(182,744)	192,018	3,275	300,319,940
Derivatives	5,518,297	(4,292,982)	0	5,472,514	0	0	0	0	6,697,829
TOTAL	**254,945,655**	**(5,119,733)**	**51,673,225**	**11,318,986**	**(3,152,508)**	**(182,744)**	**192,018**	**3,275**	**309,678,174**

	31/12/23								
	Opening	Total gains and losses in consolidated statement of income	Gains and losses in other comprehensive income-realised & unrealised	Purchase	Sale	Settlement	Transfer to Level 3	Conversion differences	Closing
Financial assets designated held for trading	2,660,405	380,643	0	2,933,864	(715,521)	0	0	0	5,259,391
Financial assets measured at fair value	300,319,940	30,201	16,761,115	423,671	0	(482,823)	0	1,114	317,053,218
Derivatives	6,697,829	(3,213,292)	0	14,915,008	0	0	0	0	18,399,545
TOTAL	**309,678,174**	**(2,802,448)**	**16,761,115**	**18,272,543**	**(715,521)**	**(482,823)**	**0**	**1,114**	**340,712,154**

Liabilities	31/12/22							
	Opening	Total gains and losses in consolidated statement of income	Purchase	Sale	Settlement	Transfer to Level 3	Conversion differences	Closing
Financial liabilities designated at fair value	561,344,383	(66,375,547)	433,916,144	(186,853,010)	0	0	4,687,954	746,719,924
Derivatives	18,750,077	32,821,983	26,510,232	0	0	0	0	78,082,292
TOTAL	**580,094,460**	**(33,553,564)**	**460,426,376**	**(186,853,010)**	**0**	**0**	**4,687,954**	**824,802,216**

Liabilities	31/12/23							
	Opening	Total gains and losses in consolidated statement of income	Purchase	Sale	Settlement	Transfer to Level 3	Conversion differences	Closing
Financial liabilities designated at fair value	746,719,924	23,153,237	635,753,777	(412,438,626)	0	0	(766,135)	992,422,177
Derivatives	78,082,292	(54,584,389)	9,154,400	0	0	0	0	32,652,303
TOTAL	**824,802,216**	**(31,431,152)**	**644,908,177**	**(412,438,626)**	**0**	**0**	**(766,135)**	**1,025,074,480**

6.1.5 Valuation techniques used for Level 2 and Level 3 instruments

Description	Valuation techniques (Level 2 and Level 3 instruments)
Unlisted equity securities	- Unobservable transaction prices - Net asset method - Income approach (Discounted Cash Flow method) - Market approach (Comparable company valuation multiples)
Derivatives and Structured Bonds	- Use of quoted market prices or dealer quotes for similar instruments - Discounted cash-flow models - For interest rate swaps, present value of the estimated future cash flows based on observable yield curves - For foreign currency forwards, present value of future cash flows based on the forward exchange rates at the balance sheet date - For foreign currency options, options pricing models (Black-Scholes, Garman-Kohlhagen and others models)

6.1.6 Valuation techniques, valuation inputs and relationships used for Level 3 instruments

Description	Unobservable inputs (Level 3 instruments)	Impact on valuation and sensitivity of level (Level 3 instruments)
Unlisted equity securities	- multiples of comparable - discount rate used for discounting cash-flows - expected cash-flows - discount / haircut	The most significant stand-alone Level 3 equity instruments is BIL's participation into Luxair group whose valuation is determined based on observable and unobservable inputs.
Derivatives and Structured Bonds	- credit spreads - liquidity premiums - illiquidity adjustment	The effects of sensitivity mostly impact structured issuances recognised at fair value through profit or loss (Fair-value option). These effects are however offset by a reverse sensitivity at the level of the economic hedge measured at fair value through profit or loss (no accounting mismatch). The net sensitivity to unobservable inputs is not considered as significant.

The Bank has developed a procedure to define the notions of an active market (such as the bid & ask) spread, the issuance size, the number of prices, contributors and of observable and non-observable inputs.

Level 3 financial assets held for trading are the result of buy backs of the Bank's structured bonds issued.

6.2 Credit risk

6.2.1 Expected credit losses measurement

6.2.1.1 Expected Credit Losses (ECL) methodology

Definition of credit risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make the required payments. The risk includes loss of principal and interest, disruption of cash flows, and increased collection costs. (Credit risk also includes the occurrence of these events). Facilities can be analysed by the nature of the client/counterparty's obligations or by the following characteristics:

- Type and purpose of the facility;
- Funded vs. unfunded;
- Committed vs. uncommitted;
- Secured vs. unsecured;
- Direct vs. contingent;
- Outstanding vs. undrawn;
- IFRS 9 classification (stages 1, 2 or 3).

Definition of default

Default is defined as the inability of a borrower or guarantor to meet its obligations vis-à-vis one or more creditors at any given time or on a continuing basis. The Bank must include all products and positions that are potentially at risk. Default is defined in the Basel II context (Art. 178 CRR) as follows:

"A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse to actions such as the realisation of the collateral (if held);
- The obligor is more than 90 days past due on any material credit obligation to the Bank Group. The materiality of a past due credit obligation is assessed using a threshold, which comprises two components: an absolute component and a relative component. The past due credit obligation is considered material when both the absolute and relative components are exceeded for more than 90 consecutive days."

The absolute component is a limit in terms of the sum of all past due amounts owed by the obligor to BIL Group (hereinafter the past due 'credit obligation') and is set at:

- EUR 100 for retail exposures;
- EUR 500 for exposures other than retail exposures.

The relative component is a limit in terms of the amount of the past due credit obligation in relation to the total amount of all on-balance sheet exposures to that obligor for BIL Group, excluding equity exposures and is set at 1%.

Write-off policy

Problem loans are written off, in full or in part, as soon as the Bank considers that there is no reasonable expectation of recovery of the outstanding balance (or part thereof), whether or not the legal claim against the borrower remains. Write-offs are normally made by using previously recognised provisions for loan losses. Write-offs are approved by the Default Committee.

Low credit risk exemption

The low credit risk exemption of IFRS 9 is not used by the Bank.

IFRS 9 Staging Assessment

The transition to the IFRS 9 credit loss provisioning standard has impacted the way we classify a financial instrument according to its credit risk dynamics over time – the so-called Staging process. Basically, there are three IFRS 9 Stages, which can be broadly conceptualised as follows:

- Stage 1 groups financial instruments that have a performing status and for which no significant deterioration in credit quality has occurred since their origination;
- Stage 2 comprises financial instruments that have experienced a significant increase in credit risk (SICR) since their origination;
- Stage 3 covers financial instruments having a credit-impaired status.

This classification requires BIL to clearly define both quantitative and qualitative approaches for assessing both a significant increase in credit risk and a credit-impaired status for its financial instruments which are within the scope of IFRS 9.

Significant increase in credit risk

A first way to assess a SICR event is to compare the credit quality of a given exposure at two different points in time (i) at origination and (ii) at the reporting date when IFRS 9 ECL are to be calculated. More specifically, an SICR is considered to be effective if the difference between the two previous ratings – (ii) minus (i) – is higher than (or equal to) a pre-determined threshold that depends on the type of exposure (e.g. retail, corporates and so on). Such thresholds correspond to expected average downgrades that have been quantitatively defined using historical credit ratings.

Some qualitative elements are also used to determine the SICR of a particular exposure, counterparty, portfolio or sub-portfolio as set-out in BIL Group IFRS 9 staging policy. The latter are based on internal credit risk management practices which aim at targeting exposures that are subject to (i) forbearance measures, (ii) the occurrence of past-due events, and (iii) potential financial difficulties. In particular, the client outreach programmes and other proactive credit risk management measures aim to identify qualitative elements that could trigger a SICR.

Credit-impaired status

As for Stage 2 assessment, some qualitative or backstop indicators are used to identify credit-impaired (or Stage 3) exposures. Basically, two cases can be distinguished: (i) the exposure is either in a default (or non-performing) which is triggered by various unlikeliness-to-pay events and (ii) a past-due event (higher than 90 days) occurs.

Cure Period

Conversely, if the quantitative and/or qualitative factors of a given exposure improve, its corresponding IFRS 9 Stage may improve over time. Nevertheless, some cure (or probation) periods may apply, particularly in the following circumstances:

- Exit from forborne non-performing to forborne performing status: a one-year period has elapsed since the extension of forbearance;
- Exit from forbearance: a minimum two-year period has elapsed from the date the forborne exposure was considered as performing;
- Exit from Stage 2 (resp. Stage 3) due to a 30 (resp. 90) days past due: a cure period of 30 (resp. 90) days is applied.

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques

Modelled ECL (Stage 1, Stage 2 and certain Stage 3 credit risk exposures)

In addition to Pillar I models which focus on the unexpected credit loss, IFRS 9 also defines principles to estimate the Expected Credit Loss (ECL). Under IFRS 9, the ECL is a probability-weighted average of credit losses, considering the respective weight of several representative macroeconomic scenarios. Moreover, two types of ECL are proposed:

- 12-month ECL: representing the ECL resulting from default events within 12 months on a financial instrument – applicable to Stage 1 exposures only;
- Lifetime ECL: representing the ECL resulting from all possible default events over the expected lifetime of a financial instrument – applicable to both Stage 2 and Stage 3 exposures.

The Expected Credit Loss (ECL) is computed as follows:

$$ECL = \sum_{i=1}^{3}\sum_{t=1}^{M} \omega_i \times \left(CPD_{i,t} - CPD_{i,t-1}\right) \times EAD_{i,t} \times LGD \times D_t$$

Where:

- ω_i is the weight (or probability of occurrence) assigned to the macroeconomic scenario i (three distinct scenarios are calibrated: baseline, upside and downside);
- $CPD_{i,t}$ represents the cumulative probability of default at the date t in the scenario i;
- $EAD_{i,t}$ (Exposure At Default) represents the amount of a credit that the Bank is exposed to at the date t in the scenario i;
- LGD (Loss Given Default) is defined as the loss rate in the event of default;
- D_t represents the discount factor at the date t, and;
- M represents the residual maturity of the financial instrument (M is capped at a 12-month horizon for Stage 1 exposures).

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

IFRS 9 ECL parameter approaches

Contrary to regulatory (or Pillar I) credit risk parameters, IFRS 9 ones must exhibit the following properties:

(i) Incorporate forward-looking information by relying on a relevant set of business/financial cycle indicators that are projected according to several macroeconomic scenarios;

(ii) Remain unbiased with respect to ex-post observed credit risk parameters.

Looking first at the Probability of Default (PD) parameters, it is clear that they fully respect these two requirements. On the one hand, forward-looking information is incorporated by relying on both econometric models and the calibration of three distinct macroeconomic scenarios. On the other hand, the historical observation of average default rates is used as an essential component in forecasting PDs.

Secondly, the IFRS 9 Loss Given Default (LGD) parameters are not biased in that they do not include neither conservatism margins nor downturn effects (contrary to the regulatory parameters). Except for mortgage loans, IFRS 9 LGDs remain constant over time as one does not observe apparent or statistically significant correlation with macroeconomic indicators. In the specific case of mortgage loans, a forward-looking mechanism operates in a distinct way according to the Stage of the underlying exposure:

- For Stage 1 and Stage 2 exposures, an unsecured LGD parameter is used since the eligible collaterals are deducted from the EAD parameters (cf. below for the description of the underlying forward-looking mechanism), and;
- For Stage 3 exposures, a secured LGD parameter is applied by means of a calibrated macroeconometric model.

Finally, Exposure At Default (EAD) is also satisfying the two requirements. More specifically, forward-looking information is tackled through two components:

- The amortisation scheme of a given loan over time and;
- The inclusion of eligible collaterals – in case of mortgage exposures notably, collateral values are evolving over time by considering scenario-conditional forecasts of residential property prices (at country-level).

<u>BIL's overview of active models for IFRS 9 impairment</u>

The Bank has 6 active PD models:

- 2 for Retail (private and professional);
- 3 for Corporates (small, medium and large); and
- 1 for Sovereigns.

Except for Stage 3 mortgage loans (as previously indicated), there are no specific LGD models for IFRS 9 in that the Bank uses LGD estimates from Pillar I models. Importantly, one removes several components – conservatism margins, downturn effects and indirect costs, notably – from regulatory parameters so as to be compliant with the IFRS 9 requirements. The Bank uses the same CCF (Credit Conversion Factor) models as developed for Pillar I and these latter are applied to the EAD parameters in the case of undrawn amounts.

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

Expert-judgment ECL (Stage 3 credit exposures only)

BIL Group estimates provisions for some credit impaired exposures within Stage 3 that are not measured through models. These exposures are assessed individually within the dedicated committees and the related provisions are calculated using expert judgment to take into account the specifics of each exposure and associated collateral and other credit enhancements.

The provisions are calculated using the discounted expected future cash flow method. Cash flows from collateral and other credit enhancements are included in the measurement of ECL of the related financial asset when it is a part or integral to the contractual terms of the financial asset. Due to individual assessment, specific factors are taken into consideration and have a larger impact than macroeconomic factors.

Forward-Looking parameters

In accordance with the IFRS 9 requirements, BIL Group considers forward-looking information for measuring Expected Credit Losses (ECL). Basically, this consists in using a combination of relevant macro-financial indicators (i.e. useful for explaining the dynamics of IFRS 9 credit risk parameters) and several representative macroeconomic scenarios that are regularly updated over time.

BIL has mainly identified strong dependencies between certain macroeconomic factors and historical default rates (or PD models) by distinguishing high- and low-default risk portfolios.

High Default Portfolios (HDP) consider retail counterparts and small and mid-size enterprises using internal default data. The main macroeconomic indicators for forecasting the occurrence of default events for the HDP segment being (i) labour market indicators (unemployment) and (ii) opinion surveys data from Luxembourgish private economic agents (households and the manufacturing sector).

Low Default Portfolios (LDP) consider three distinct types of exposures (large corporates, banking institutions and sovereigns) using external default data (source: Moody's Analytics). In this regard, the cyclical dynamics of corporate and banking default rates can be apprehended by means of equity prices measured at both the Eurozone and US levels, as well as by using monetary aggregates and market-based risk measures reflecting the build-up or the materialisation of financial vulnerabilities in the euro area notably. For sovereign exposures, the IFRS 9 PD parameters are projected according to the scenario-conditional forecasts of three macroeconomic indicators in the eurozone: the real GDP growth, the unemployment rate and the public debt to GDP ratio.

Additional forward-looking components are considered in the ECL modelling process, especially for addressing some credit risk mitigation effects in the case of residential and commercial mortgage loans. Specifically, collateral valuation is directly impacted over time by residential property prices that are forecasted for five different countries (or zones): Luxembourg, Germany, France, Belgium and the euro area as a whole.

6.2.1.2 Macroeconomic indicators for each scenario

In order to measure ECL as a probability-weighted amount of expected losses, BIL uses three distinct macroeconomic scenarios covering a wide range of potential future economic conditions:

- A baseline (or central) scenario which describes the most likely path of the economy over the projection horizon;
- A downside (or adverse) scenario which describes the impact of the materialisation of some of the risks weighing on the baseline scenario, resulting in a much less favourable economic path. More precisely, this downside scenario corresponds to a recession period which is characterised by the following sequence of events: financial asset prices plummet, real GDP growth becomes negative and labour market conditions strongly deteriorate with a surge in unemployment;

- An upside (or optimistic) scenario which reflects the impact of the materialisation of some of the upside risks for the economy, resulting in a much more favourable economic path than in the baseline scenario;
- These macroeconomic scenarios are derived from an external database (source: Moody's Analytics). They are built according to a combination of statistical methods and theoretical economic foundations. In addition, they are updated on a monthly basis and regularly compared with other external (and publicly available) data, such as those released by international organisations and national statistical offices (European Central Bank, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, STATEC).

Finally, it is important to underline that, according to the Moody's statistical methodology, the scenarios have a constant weight (or probability of occurrence) over time: 60% for the baseline scenario and 20% for each of the two alternatives. Accordingly, these are the macroeconomic forecasts – i.e. the dynamics of the projected indicators – which are regularly updated in light of the business cycle fluctuations and the most recent economic events or assumptions. Post-model adjustment may be applied on the weighting of scenarios. Refer to the section on ECL Post-Model Adjustments and Management Overlays of this note.

		LUXEMBOURG						EUROZONE					
		December 2022			June 2023			December 2022			June 2023		
In %		Baseline	Upside	Downside	Baseline	Upside	Downside	Baseline	Upside	Downside	Baseline	Upside	Downside
Real GDP	2022	1.60	1.60	1.60	1.60	1.60	1.60	3.30	3.30	3.30	3.60	3.60	3.60
	2023	1.10	3.00	(3.00)	1.40	2.10	0.20	0.50	2.20	(3.40)	0.80	1.40	(0.30)
	2024	3.10	3.50	0.60	3.10	4.90	(2.30)	2.40	2.90	0.00	1.50	3.20	(3.60)
	2025	2.40	2.10	4.00	1.90	1.70	2.60	2.30	2.10	3.90	2.00	1.80	2.70
	2026	2.80	2.70	3.30	2.50	2.30	3.60	1.90	1.90	2.50	1.90	1.80	3.10
	2027				2.40	2.40	2.50				1.70	1.70	1.80
Unemployment	2022	4.80	4.80	4.80	4.80	4.80	4.80	6.70	6.70	6.70	6.70	6.70	6.70
	2023	5.10	5.10	5.90	5.00	5.00	5.10	7.10	6.80	8.30	6.70	6.60	7.10
	2024	4.80	4.80	7.10	5.00	5.00	5.80	7.10	6.60	9.50	6.90	6.50	8.90
	2025	4.80	4.70	6.90	5.10	5.00	6.10	7.00	6.60	8.90	6.90	6.50	9.10
	2026	5.00	4.80	6.30	5.10	5.00	6.10	7.00	6.70	8.10	6.90	6.50	8.40
	2027				5.20	5.00	6.10				6.80	6.50	7.70
Consumer Prices	2022	8.40	8.40	8.40	8.20	8.20	8.20	8.40	8.40	8.40	8.40	8.40	8.40
	2023	4.30	4.30	1.70	2.90	3.00	2.60	6.60	6.50	4.00	5.60	5.60	4.80
	2024	2.20	2.10	0.00	2.30	2.20	(0.30)	2.20	2.20	0.00	2.50	2.40	(0.60)
	2025	1.90	1.90	1.50	1.90	1.80	0.30	1.90	1.90	1.40	2.00	2.00	0.70
	2026	2.00	2.00	1.70	2.10	2.10	1.70	2.00	2.00	1.80	1.90	1.90	1.60
	2027				2.10	2.10	2.10				2.10	2.00	2.00
Stock Prices	2022	(5.20)	(5.20)	(5.20)	(2.10)	(2.10)	(2.10)	(5.20)	(5.20)	(5.20)	(4.70)	(4.70)	(4.70)
	2023	(25.80)	(19.20)	(50.60)	(4.30)	(0.80)	(15.90)	0.30	8.20	(28.10)	12.50	16.10	(0.10)
	2024	6.10	12.50	13.40	(1.80)	5.30	(24.70)	2.70	4.50	8.30	3.20	9.60	(19.70)
	2025	10.60	8.20	25.50	15.90	16.20	31.30	4.20	2.90	19.50	1.40	1.00	20.80
	2026	9.50	6.90	18.40	12.70	13.00	21.40	5.70	3.50	11.50	5.00	3.30	15.60
	2027				6.50	3.90	11.70				4.20	2.30	6.30
Residential Property Prices	2022	10.30	10.30	10.30	6.90	6.90	6.90	7.00	7.00	7.00	7.10	7.10	7.10
	2023	5.90	6.10	2.60	(4.40)	(4.30)	(4.80)	(0.10)	1.00	(4.80)	(2.50)	(2.20)	(4.10)
	2024	6.40	7.90	1.40	(0.60)	(0.20)	(6.00)	2.10	4.20	(3.60)	(0.10)	1.70	(7.10)
	2025	5.10	5.20	3.50	5.70	6.50	1.30	4.10	4.80	1.80	3.40	4.60	(0.90)
	2026	5.10	5.30	4.70	4.40	5.00	2.80	4.80	4.80	4.80	5.10	5.50	3.20
	2027				4.10	4.00	4.10				5.00	5.10	5.10

6.2.1.3 ECL Sensitivity

The following table compares the reported ECL by stage and by different weighting of scenarios.

(in EUR million)	Scenarios weights			31/12/22		
	Baseline	Upside	Downside	Stage 1	Stage 2	Total
Reported ECL	60%	10%	30%	65	33	**98**
Modelled ECL	60%	20%	20%	61	32	**92**
Stressed ECL	100%	0%	0%	55	30	**85**
	0%	100%	0%	47	28	**75**
	0%	0%	100%	90	40	**130**
	80%	0%	20%	62	32	**94**
	60%	5%	35%	67	33	**100**
	60%	0%	40%	69	34	**103**

(in EUR million)	Scenarios weights			30/06/23		
	Baseline	Upside	Downside	Stage 1	Stage 2	Total
Reported ECL	60%	10%	30%	42	46	**88**
Modelled ECL	60%	20%	20%	39	44	**83**
Stressed ECL	100%	0%	0%	35	42	**77**
	0%	100%	0%	32	41	**73**
	0%	0%	100%	61	55	**116**
	80%	0%	20%	40	44	**84**
	60%	5%	35%	44	46	**90**
	60%	0%	40%	45	47	**92**

The reported ECL as at 31 December 2022 excludes ECL Management Overlays.

Refer to the section "ECL Post-Model Adjustments, Management Overlays and other ECL considerations" for details on macroeconomic scenarios weighting.

6.2.1.4 ECL Post-Model Adjustments, Management Overlays and other ECL considerations

ECL models are evolving and may need to be proactively adjusted to capture new events in changing circumstances not yet modelled. The Group has introduced since 2020 "Management Overlays" and/or "Post-model adjustments" to reflect the new circumstances such as the COVID-19 pandemic and the deteriorated macroeconomic environment following the Russia-Ukraine conflict. New circumstances are also directly captured through targeted credit risk management practices.

ECL Post-Model Adjustment – Adjustment of the weighting of Macroeconomic Scenarios

The Group has implemented a Post-Model Adjustment since 30 June 2022 on its modelled ECL where it reviewed the weighting of each macroeconomic scenario:

- The modelled ECL are calculated based on three macroeconomic scenarios (Baseline, Downside and Upside), where the following weightings are applied: 60% for the baseline scenario and 20% for each of the 2 alternative ones. (Refer to section "Macroeconomic indicators for each scenario");
- The Reported ECL are calculated based on a review of the macroeconomic scenarios weightings, reducing the weight of the upside scenario to 10% and increasing the weight of the downside scenario to 30%.

The implementation of an ECL Post-Model Adjustment (PMA) to the macroeconomic scenario weighting is supported by the current macroeconomic outlook which is surrounded by heightened uncertainty and risks predominantly tilted to the downside, notably with:

- The pursuing Russia-Ukraine military conflict and its adverse spillover effects on the global economy;
- The rapidly rising interest rates driven by the tightening of monetary policies by central banks in a prolonged inflationary environment, and;
- Growing concerns about the euro area financial stability and more specifically in Luxembourg due to the build-up of vulnerabilities in the real estate market and its strong interconnectedness with the whole economy via the banking sector (e.g. property prices in Luxembourg have started to decline after a peak in 2022 Q3 and the households/ businesses remain highly indebted comparatively to those in other euro area member countries).

The impact of the Post-Model Adjustment on the modelled ECL (stage 1 and stage 2 exposures) as at 30 June 2023 amounts to EUR 4.3 million and is calculated at Group level with major contributor being BIL Luxembourg, head office of the Group.

Refer to the section "ECL Sensitivity" for the detailed figures between the modelled ECL under the standard weighting of macroeconomic scenarios and the reported ECL after the review of the weighting of the macroeconomic scenarios and to the below table for the details of the adjustments made to the modelled ECL.

ECL Management Overlays

The Bank's models have been constructed and calibrated using historical data and statistical analyses as well as forward-looking economic scenarios. The added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio/segment.

As a result, adjustments to the Modelled ECL are required under the form of management overlays.

ECL Management Overlay (Outreach Programme on vulnerable clients to increase of interest rates)

As at 31 December 2022, the Bank has decided to implement a management overlay for an amount of EUR 1.8 million as an additional layer of prudence to anticipate potential credit losses on variable rate retail mortgage borrowers pre-identified as vulnerable in a context of increasing interest rates (exposures of EUR 236 million). This management overlay only applies to BIL S.A., the Group's parent company, and does not impact other group entities.

As at 30 June 2023, this management overlay is lifted as the results of the corresponding outreach programme results are directly captured by the model output.

<u>ECL Management Overlay (Origination Date)</u>

As at 31 December 2022, the Bank has addressed through a management overlay a deficiency identified in its ECL methodology where the Significant Increase in Credit Risk for some exposures was not calibrated based on the date of issuance of a Credit line Commitment but based on the first drawdown date, resulting in a management overlay for a total amount of EUR 1 million. This management overlay is applied at the Group level and mainly concerns BIL S.A., the parent company of the Group. In addition, the Bank has classified the related exposures into the right risk buckets or IFRS 9 stages (moving from Stage 1 to Stage 2 or from Stage 2 to Stage 1). Refer to the Note 6.2.2 on Movement on Loans and Securities by Stages for details on the staging movements on the exposures.

As at 30 June 2023, this management overlay is fully reversed as the solution to the deficiency is fully implemented in the ECL modelled.

This table summarises the impact of the management overlays and post-model adjustments on the stock of ECL (Stage 1 and Stage 2):

	Stage	31/12/22	30/06/23
ECL Modelled	Stage 1	60,048,275	39,238,846
	Stage 2	32,394,384	44,238,406
ECL Post-Model Adjustment (Scenario Weighting)	Stage 1	4,281,787	2,867,265
	Stage 2	1,199,036	1,444,751
ECL Management Overlay (Outreach Programme)	Stage 1	1,445,817	
	Stage 2	308,743	
ECL Management Overlay (Origination Date)	Stage 1	(476,851)	
	Stage 2	1,502,820	
TOTAL	**Stage 1**	**65,299,028**	**42,106,111**
	Stage 2	**35,404,983**	**45,683,156**

Other ECL considerations

ECL models are evolving in order to address new macroeconomic, geopolitical or ESG conditions but also to reflect more experience in credit risk management practices.

Since 30 June 2023, the Bank limits the use of management overlays and considers the "ex-ante" ECL impacts of its proactive credit risk management, reflecting, where appropriate a significant increase in credit risk ("SICR"). As at 30 June 2023, the Bank applies such proactive measures primarily to two portfolios leading to an increase of Stage 2 exposures and related ECL:

- Retail mortgage borrowers with variable interest rates, pre-identified as vulnerable in a context of rising interest rates (Exposures identified with a SICR for an amount of EUR 239 million);
- Luxembourg property developers loan portfolio (Exposures identified with a SICR for an amount of EUR 226 million).

The Bank also proceeded to the following updates of its IFRS 9 provisioning models:

- Recalibration of the probability of default econometric models using longer time-period resulting in an overall increase of Stage 1 ECL;
- Introduction of a secured loss given default model for credit-impaired exposures (Stage 3) collateralised by mortgage and resulting in an overall increase of Stage 3 ECL.

6.2.2 Credit risk exposures

The geographic region is determined according to the country of risk of the counterparty. Credit risk includes the counterparty risk associated with on-balance sheet and confirmed off-balance sheet items. Credit risks are evaluated after taking into account the effect of guarantees and collateral received as well as impairment. The risks cover all entities in which BIL is a majority shareholder.

Exposures by counterparty category (in EUR million)	**31/12/22**	**30/06/23**	**Variation**
Individuals, SME & Self Employed	12,338	12,212	(126)
Central Governments	11,856	10,511	(1,345)
Corporate	6,804	6,883	79
Financial Institutions	4,844	4,951	107
Public Sector Entities	639	643	4
Securitisation	189	199	10
Others	70	9	(61)
TOTAL	**36,740**	**35,408**	**(1,332)**

Exposures by geographic region (in EUR million)	**31/12/22**	**30/06/23**	**Variation**
Luxembourg	20,077	19,196	(881)
France	3,681	3,501	(180)
Germany	2,507	2,443	(64)
Belgium	2,342	2,393	51
Switzerland	2,531	2,037	(494)
United States and Canada	1,267	1,290	23
Other EU countries	1,170	1,219	49
Spain	941	984	43
Others	644	764	120
China	371	419	48
Rest of Europe	455	390	(65)
Middle East	382	297	(85)
Asia	229	288	59
Australia	42	96	54
Russia	101	91	(10)
TOTAL	**36,740**	**35,408**	**(1,332)**

Credit risk exposures are shown as follows:
- Balance sheet assets other than derivative contracts are valued at their net value (i.e. the carrying value after deduction of any 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.

6.2.2.1 Exposures by stage and ratings

Stage 1 Credit Risk Exposure (in EUR million)	31/12/22						30/06/23					
	AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Default	TOTAL	AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Default	TOTAL
Commitments in respect of guarantees given	149	361	673	426	0	1,609	146	271	572	423	0	1,412
Commitments in respect of loans granted	432	1,193	782	565	0	2,972	532	1,266	700	508	0	3,006
Financial investments at FVOCI (excluding variable income securities)	301	269	0	50	0	620	290	280	0	0	0	570
Financial investments at amortised cost	6,224	1,966	34	31	0	8,255	6,602	1,903	138	30	0	8,673
Loans and advances at amortised cost	4,636	7,299	5,013	1,185	0	18,133	3,341	6,864	4,506	1,063	0	15,774
Other financial instruments at amortised cost	322	42	21	0	0	385	371	59	17	0	0	447
TOTAL Stage 1 Exposures	**12,064**	**11,130**	**6,523**	**2,257**	**0**	**31,974**	**11,282**	**10,643**	**5,933**	**2,024**	**0**	**29,882**

Stage 2 Credit Risk Exposure (in EUR million)	31/12/22						30/06/23					
	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL
Commitments in respect of guarantees given	1	21	81	26	0	129	1	25	122	35	0	183
Commitments in respect of loans granted	48	36	274	14	0	372	37	39	255	59	0	390
Financial investments at FVOCI (excluding variable income securities)	0	0	0	0	0	0	0	31	0	0	0	31
Financial investments at amortised cost	10	67	15	0	0	92	7	27	0	0	0	34
Loans and advances at amortised cost	174	333	1,914	76	0	2,497	22	578	2,481	149	0	3,230
Other financial instruments at amortised cost	0	0	0	1	0	1	0	0	0	0	0	0
TOTAL Stage 2 Exposures	**233**	**457**	**2,284**	**117**	**0**	**3,091**	**67**	**700**	**2,858**	**243**	**0**	**3,868**

Stage 3 Credit Risk Exposure (in EUR million)	31/12/22						30/06/23					
	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL
Commitments in respect of guarantees given	6	0	4	0	21	31	5	0	4	0	23	32
Commitments in respect of loans granted	0	0	2	0	22	24	0	0	0	0	24	24
Financial investments at FVOCI (excluding variable income securities)	0	0	0	0	0	0	0	0	0	0	0	0
Financial investments at amortised cost	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances at amortised cost	24	0	0	0	330	354	30	1	15	4	321	371
Other financial instruments at amortised cost	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL Stage 3 Exposures	**30**	**0**	**6**	**0**	**373**	**409**	**35**	**1**	**19**	**4**	**368**	**427**

Credit Risk Exposure without staging (in EUR million)	31/12/22						30/06/23					
	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL	AAA to AA-	A+ to BBB-	Non investment grade[1]	Unrated	Default	TOTAL
Derivatives	18	1,233	5	10	0	1,266	35	1,138	7	51	0	1,231
Financial assets held-for-trading	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL Exposures without staging	**18**	**1,233**	**5**	**10**	**0**	**1,266**	**35**	**1,138**	**7**	**51**	**0**	**1,231**

TOTAL All Stages	**12,345**	**12,820**	**8,818**	**2,384**	**373**	**36,740**	**11,419**	**12,482**	**8,817**	**2,322**	**368**	**35,408**

The loans and advances at amortised cost classified under the “non-investment grade” category are mainly linked to financing facilities granted to Luxembourg SMEs, private individuals and corporates. The non-investment grade ratings related to these exposures are not provided by external credit assessment institutions but derive from the Bank’s quantitative models to estimate a counterparty’s probability of default. In some cases, the output of these models has been modified by the competent decision-making authority (“rating overrides”). These exposures are largely collateralised but the internal ratings do not take into account the value of the collateral.

6.2.2.2 Collateral and other credit enhancements

31/12/22 (in EUR million)	Gross exposure	Credit Risk Mitigation (CRM)				Total CRM	Net exposure	ECL
		Guarantee	Netting agreements[3]	Financial collateral	Physical collateral			
Financial investments at FVOCI (excluding variable income securities)	619	4	0	0	0	4	615	0
Financial assets held-for-trading	0	0	0	0	0	0	0	0
Loans and advances at amortised cost	21,904	247	19	1,640	8,180	10,086	11,818	275
Financial investments at amortised cost	8,348	1,060	0	0	0	1,060	7,288	9
Derivatives	1,267	0	0	0	0	0	1,267	0
Other financial instruments at amortised cost	902	0	516	0	0	516	386	0
Commitments in respect of guarantees given	1,839	14	0	90	17	121	1,718	4
Commitments in respect of loans granted	3,568	288	17	608	499	1,412	2,156	15
TOTAL	**38,447**	**1,613**	**552**	**2,338**	**8,696**	**13,199**	**25,248**	**303**

30/06/23 (in EUR million)	Gross exposure	Credit Risk Mitigation (CRM)				Total CRM	Net exposure	ECL
		Guarantee	Netting agreements	Financial collateral	Physical collateral			
Financial investments at FVOCI (excluding variable income securities)	601	0	0	0	0	0	601	0
Financial assets held-for-trading	0	0	0	0	0	0	0	0
Loans and advances at amortised cost	20,094	233	19	1,252	8,113	9,617	10,477	282
Financial investments at amortised cost	8,707	1,093	0	0	0	1,093	7,614	7
Derivatives	1,231	0	0	0	0	0	1,231	0
Other financial instruments at amortised cost	860	0	413	0	0	413	447	0
Commitments in respect of guarantees given	1,699	14	0	84	17	115	1,584	3
Commitments in respect of loans granted	3,622	281	18	537	440	1,276	2,346	13
TOTAL	**36,814**	**1,621**	**450**	**1,873**	**8,570**	**12,514**	**24,300**	**305**

The gross exposure is defined as the exposure before adjusting any specific provision and credit risk mitigation effect.

Credit risk mitigation is eligible as per internal policies.

Netting agreements are used for repurchase agreements and derivatives financial instruments, offsetting the value of multiple positions or payments.

6.2.2.3 Past due but not impaired financial assets

	31/12/22		
	Past due but not impaired assets		
	< 30 days	30 days <> 90 days	> 90 days
Loans and advances	67,107,175	59,566,073	10,854,185
TOTAL	**67,107,175**	**59,566,073**	**10,854,185**

	30/06/23		
	Past due but not impaired assets		
	< 30 days	30 days <> 90 days	> 90 days
Loans and advances	121,626,417	34,113,051	24,598,238
TOTAL	**121,626,417**	**34,113,051**	**24,598,238**

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.

6.2.2.4 Credit risk mitigation for credit-impaired assets

	31/12/22			
	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
Loans and advances measured at amortised cost	567,513,387	(217,240,818)	350,272,569	308,184,227
TOTAL CREDIT-IMPAIRED DEBT INSTRUMENTS	**567,513,387**	**(217,240,818)**	**350,272,569**	**308,184,227**

	30/06/23			
	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
Loans and advances measured at amortised cost	600,521,880	(249,650,853)	350,871,027	319,139,223
TOTAL CREDIT-IMPAIRED DEBT INSTRUMENTS	**600,521,880**	**(249,650,853)**	**350,871,027**	**319,139,223**

Type of assets obtained during the period by taking possession of the guarantees held	Carrying value	
	31/12/22	30/06/23
Equity instrument	368,392	337,160
Other assets	2,712,181	3,520,359
TOTAL	**3,080,573**	**3,857,519**

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

6.2.2.5 Movements cash, balances with central banks and other demand deposits, loans and securities by stages (gross carrying amount)

	2022			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Cash, balances with central banks and demand deposits as at 1 January	**5,952,873,874**	**36,252,475**	**0**	**5,989,126,349**
From Stage 1 to Stage 2	0	0		0
From Stage 2 to Stage 1	29,108,381	(29,108,381)		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
Origination	99,793,424	118	0	99,793,542
Derecognition during the period other than write-offs	(1,728,627,516)	(6,580,319)	0	(1,735,207,835)
Changes in interest accrual	1,481,807	0	0	1,481,807
Conversion difference (FX change)	18,508,970	(12,492)	0	18,496,478
Other movements	(314,263)	0	0	(314,263)
Cash, balances with central banks and demand deposits as at 31 December	**4,372,824,677**	**551,401**	**0**	**4,373,376,078**

	2023			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Cash, balances with central banks and demand deposits as at 1 January	**4,372,824,677**	**551,401**	**0**	**4,373,376,078**
From Stage 1 to Stage 2	0	0		0
From Stage 2 to Stage 1	338,191	(338,191)		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
Origination	22,098,019	105,509	0	22,203,528
Derecognition during the period other than write-offs	(1,834,318,606)	(70,301)	0	(1,834,388,907)
Changes in interest accrual	712,899	0	0	712,899
Write-offs	(76)	0	0	(76)
Conversion difference (FX change)	(131,127)	0	0	(131,127)
Cash, balances with central banks and demand deposits as at 30 June	**2,561,523,977**	**248,418**	**0**	**2,561,772,395**

	2022			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances as at 1 January	14,234,288,180	2,553,026,462	593,325,909	17,380,640,551
From Stage 1 to Stage 2	(1,189,827,179)	1,189,827,179		0
From Stage 2 to Stage 1	621,199,110	(621,199,110)		0
From Stage 2 to Stage 3		(44,319,187)	44,319,187	0
From Stage 3 to Stage 2		36,458,239	(36,458,239)	0
From Stage 1 to Stage 3	(89,318,591)		89,318,591	0
From Stage 3 to Stage 1	20,370,963		(20,370,963)	0
Origination	3,925,334,616	538,729,905	55,254,600	4,519,319,121
Derecognition during the period other than write-offs	(3,336,964,121)	(571,227,714)	(148,222,127)	(4,056,413,962)
Changes in interest accrual	(865,729)	(2,911,116)	0	(3,776,845)
Changes in fair value	(301,804)	(9,111,830)	0	(9,413,634)
Write-offs	0	0	(10,200,966)	(10,200,966)
Conversion difference (FX change)	44,472,606	12,025,851	547,395	57,045,852
Other movements	2,689,474	0	0	2,689,474
Loans and advances as at 31 December	14,231,077,525	3,081,298,679	567,513,387	17,879,889,591

	2023			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances as at 1 January	14,231,077,525	3,081,298,679	567,513,387	17,879,889,591
From Stage 1 to Stage 2	(1,389,929,738)	1,389,929,738		0
From Stage 2 to Stage 1	1,033,398,396	(1,033,398,396)		0
From Stage 2 to Stage 3		(41,686,820)	41,686,820	0
From Stage 3 to Stage 2		12,557,854	(12,557,854)	0
From Stage 1 to Stage 3	(57,305,816)		57,305,816	0
From Stage 3 to Stage 1	8,107,396		(8,107,396)	0
Origination	2,439,512,819	276,966,469	26,855,388	2,743,334,676
Derecognition during the period other than write-offs	(2,640,605,747)	(342,112,559)	(71,443,612)	(3,054,161,918)
Changes in interest accrual	3,369,616	0	0	3,369,616
Changes in fair value	0	(1,532,649)	0	(1,532,649)
Write-offs	0	0	(813,111)	(813,111)
Conversion difference (FX change)	47,974,008	5,492,828	82,442	53,549,278
Loans and advances as at 30 June	13,675,598,459	3,347,515,144	600,521,880	17,623,635,483

	2022			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Debt securities as at 1 January	**8,040,694,054**	**194,205,334**	**21,985,297**	**8,256,884,685**
From Stage 1 to Stage 2	(10,889,000)	10,889,000		0
From Stage 2 to Stage 1	141,005,445	(141,005,445)		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	3,898,906,521	0	0	3,898,906,521
Derecognition during the period other than write-offs	(2,872,256,125)	(12,817,901)	(21,985,297)	(2,907,059,323)
Changes in interest accrual	2,523,416	(449,267)	0	2,074,149
Changes in premium / discount	46,709,116	544,510	0	47,253,626
Changes in fair value	(781,491,095)	(5,775,902)	0	(787,266,997)
Conversion difference (FX change)	9,899,857	0	0	9,899,857
Debt securities as at 31 December	**8,475,102,189**	**45,590,329**	**0**	**8,520,692,518**

	2023			
	Outstanding amounts			
	Stage 1	Stage 2	Stage 3	Total
Debt securities as at 1 January	**8,475,102,189**	**45,590,329**	**0**	**8,520,692,518**
From Stage 1 to Stage 2	(42,947,630)	42,947,630		0
From Stage 2 to Stage 1	25,889,000	(25,889,000)		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	2,290,536,184	0	0	2,290,536,184
Derecognition during the period other than write-offs	(1,949,137,600)	0	0	(1,949,137,600)
Changes in interest accrual	2,252,328	(373,505)	0	1,878,823
Changes in premium / discount	15,858,986	(38,288)	0	15,820,698
Changes in fair value	143,165,937	(3,271,901)	0	139,894,036
Conversion difference (FX change)	25,678,875	0	0	25,678,875
Debt securities as at 31 December	**8,986,398,269**	**58,965,265**	**0**	**9,045,363,534**

As at 31 December 2022, the impact of the management overlay "Origination Date" (Refer to Note 6.2.1) on the staging of exposures is a transfer of EUR 832 million (EUR 816 million as at 1 January 2022) from Stage 1 to Stage 2 exposures and a transfer of EUR 187 million (EUR 200 million as at 1 January 2022) from Stage 2 to Stage 1 exposures with a net impact of EUR +645 million (EUR +616 million as at 1 January 2022) from Stage 1 to Stage 2. These movements from staging for the year 2022 in the above table relate to this correction and not to a significant increase in credit risk that occurred during the year 2022.

As at 30 June 2023, some transfer of loans and advances from Stage 1 to Stage 2 are related to specific proactive credit risk management measures. Refer to Note 6.2.1.

6.2.2.6 Movements in allowances for credit losses

	As at 01/01/22	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 31/12/22	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)	**(46,516,956)**	**(29,121,300)**	**15,342,814**	**3,380,684**	**(261,841)**	**0**	**0**	**(127,287)**	**(57,303,886)**	**n.a**	**n.a**
Cash, balances with central banks and demand deposits	(4,469)	0	0	(51,337)	0	0	0	0	(55,806)	n.a	n.a
Debt securities at amortised cost	(1,908,142)	(3,389,542)	688,302	(4,103,350)	0	0	0	1,976	(8,710,756)	n.a	n.a
Debt securities at fair value through other comprehensive income	(27,741)	(113,388)	132,915	(231,472)	0	0	0	86	(239,600)	n.a	n.a
Loans and advances at amortised cost	(44,576,604)	(25,618,370)	14,521,597	7,766,843	(261,841)	0	0	(129,350)	(48,297,725)	n.a	n.a
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**(31,095,043)**	**0**	**3,995,828**	**(6,232,616)**	**(155,211)**	**0**	**0**	**313,377**	**(33,173,664)**	**n.a**	**n.a**
Cash, balances with central banks and demand deposits	(87,510)	0	0	48,129	0	0	0	(10,154)	(49,535)	n.a	n.a
Debt securities at amortised cost	(916,917)	0	1,003	430,841	0	0	0	21,669	(463,404)	n.a	n.a
Debt securities at fair value through other comprehensive income	0	0	0	0	0	0	0	0	0	n.a	n.a
Loans and advances at amortised cost	(30,090,616)	0	3,994,825	(6,711,586)	(155,211)	0	0	301,862	(32,660,725)	n.a	n.a
Allowances for credit-impaired debt instruments (Stage 3)	**(240,106,046)**	**(2,215,241)**	**2,546,528**	**(3,770,135)**	**0**	**0**	**11,348,713**	**14,955,363**	**(217,240,818)**	**229,237**	**(11,097,781)**
Cash, balances with central banks and demand deposits	0	0	0	0	0	0	0	0	0	n.a	n.a
Debt securities at amortised cost	(17,596,888)	0	0	(5,635)	0	0	0	17,602,523	0	0	0
Debt securities at fair value through other comprehensive income	0	0	0	0	0	0	0	0	0	n.a	n.a
Loans and advances at amortised cost	(222,509,158)	(2,215,241)	2,546,528	(3,764,500)	0	0	11,348,713	(2,647,160)	(217,240,818)	229,237	(11,097,781)
TOTAL ALLOWANCES FOR DEBT INSTRUMENTS	**(317,718,045)**	**(31,336,541)**	**21,885,170**	**(6,622,067)**	**(417,052)**	**0**	**11,348,713**	**15,141,453**	**(307,718,369)**	**229,237**	**(11,097,781)**
Commitments and financial guarantees given (Stage 1)	(7,378,176)	(6,778,240)	2,054,617	4,059,905	0	0	0	46,754	(7,995,140)	0	0
Commitments and financial guarantees given (Stage 2)	(3,559,788)	(435,054)	822,999	952,928	0	0	0	(12,403)	(2,231,318)	0	0
Commitments and financial guarantees given (Stage 3)	(2,024,237)	(357,591)	226,093	(825,798)	0	0	0	(35,954)	(3,017,487)	0	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**(12,962,201)**	**(7,570,885)**	**3,103,709**	**4,187,035**	**0**	**0**	**0**	**(1,603)**	**(13,243,945)**	**0**	**0**

	As at 01/01/23	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 30/06/22	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)	**(57,303,886)**	**(9,223,084)**	**7,073,026**	**22,828,465**	**0**	**0**	**0**	**(432,404)**	**(37,057,883)**	**n.a**	**n.a**
Cash, balances with central banks and demand deposits	(55,806)	0	0	22,561	0	0	0	0	(33,245)	n.a	n.a
Debt securities at amortised cost	(8,710,756)	(1,423,420)	756,521	3,984,717	0	0	0	58,410	(5,334,527)	n.a	n.a
Debt securities at fair value through other comprehensive income	(239,600)	(45,789)	24,960	108,042	0	0	0	240	(152,147)	n.a	n.a
Loans and advances at amortised cost	(48,297,725)	(7,753,875)	6,291,545	18,713,145	0	0	0	(491,054)	(31,537,964)	n.a	n.a
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**(33,173,664)**	**0**	**2,420,814**	**(11,107,405)**	**0**	**0**	**0**	**385,073**	**(41,475,183)**	**n.a**	**n.a**
Cash, balances with central banks and demand deposits	(49,535)	0	0	33,466	0	0	0	46	(16,023)	n.a	n.a
Debt securities at amortised cost	(463,404)	0	1,984	(1,016,043)	0	0	0	(24,662)	(1,502,125)	n.a	n.a
Debt securities at fair value through other comprehensive income	0	0	0	(64,900)	0	0	0	0	(64,900)	n.a	n.a
Loans and advances at amortised cost	(32,660,725)	0	2,418,830	(10,059,928)	0	0	0	409,689	(39,892,135)	n.a	n.a
Allowances for credit-impaired debt instruments (Stage 3)	**(217,240,818)**	**(4,799,480)**	**811,723**	**(29,704,117)**	**0**	**0**	**813,111**	**468,728**	**(249,650,853)**	**0**	**(1,461,443)**
Cash, balances with central banks and demand deposits	0	0	0	0	0	0	0	0	0	n.a	n.a
Debt securities at amortised cost	0	0	0	0	0	0	0	0	0	0	0
Debt securities at fair value through other comprehensive income	0	0	0	0	0	0	0	0	0	n.a	n.a
Loans and advances at amortised cost	(217,240,818)	(4,799,480)	811,723	(29,704,117)	0	0	813,111	468,728	(249,650,853)	0	(1,461,443)
TOTAL ALLOWANCES FOR DEBT INSTRUMENTS	**(307,718,369)**	**(14,022,564)**	**10,305,563**	**(17,983,056)**	**0**	**0**	**813,111**	**421,397**	**(328,183,919)**	**0**	**(1,461,443)**
Commitments and financial guarantees given (Stage 1)	(7,995,140)	(2,261,685)	617,735	4,807,105	0	0	0	11,359	(4,820,626)	0	0
Commitments and financial guarantees given (Stage 2)	(2,231,318)	(811,283)	36,303	(1,304,001)	0	0	0	4,703	(4,305,596)	0	0
Commitments and financial guarantees given (Stage 3)	(3,017,487)	(380,833)	16,630	639,919	0	0	0	(1)	(2,741,772)	0	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**(13,243,945)**	**(3,453,801)**	**670,668**	**4,143,023**	**0**	**0**	**0**	**16,061**	**(11,867,994)**	**0**	**0**

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6.2.2.7 Own credit risk linked to financial liabilities designated at fair value through profit or loss

	31/12/22			
	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	2,014,665,341	(1,541,036)	(1,546,169)	(195,626,583)

	30/06/23			
	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	2,502,884,853	(483,542)	(2,029,711)	(120,786,385)

In 2022 and the first half of 2023, 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, BIL's 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.

6.2.2.8 Information on forborne exposures

BIL closely monitors its forborne exposures, in accordance with regulatory requirements.

Forborne exposures are debt contracts for which forbearance measures have been extended.

Forbearance measures consist of concessions to a debtor that is experiencing or is about to experience difficulties in meeting its financial commitments ("financial difficulties"). These measures include, in particular, the granting of extensions, deferrals, renewals or changes in credit terms and conditions, including the repayment schedule.

When these criteria are met, the credit files are flagged as being restructured and are added to a list that is closely monitored by the "Gestion Intensive et Particulière" (GIP) team.

In order to comply with the regulatory requirements, BIL Group has set up procedures (1) to identify the criteria leading to the forborne classification, (2) to classify the Bank's existing exposures between forborne and non-forborne and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files level to identify those that should be classified as forborne under the regulatory definition. The granting of forbearance measures is likely to constitute an impairment trigger aligned with IFRS 9 requirements.

For credit files in forbearance and in the case of early repayment, the costs related to these transactions are ere either borne by the debtor (in one shot or spread over the term of the new loan) or recognised directly in the Bank's profit and loss.

As at 30 June 2023, BIL Group's forborne exposures amounted to EUR 549 million (EUR 563 million as at 31 December 2022) including EUR 26 million (EUR 18 million as at 31 December 2022) as given banking guarantees.

6.3 Solvency ratios

	31/12/22	30/06/23
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,881,055,132**	**1,940,059,624**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,462,818,173**	**1,422,915,634**
Capital, share premium and own shares	906,636,231	906,636,231
Reserves, retained earnings and eligible result	1,133,454,699	1,148,258,862
Regulatory and transitional adjustments	(577,272,757)	(631,979,459)
ADDITIONAL TIER 1 CAPITAL (AT1)	**175,000,000**	**175,000,000**
Other equity instruments	175,000,000	175,000,000
TIER 2 CAPITAL (T2)	**243,236,959**	**342,143,990**
Subordinated liabilities	243,236,959	342,143,990
RISK WEIGHTED ASSETS	**10,425,514,075**	**10,436,587,917**
Credit Risk	9,402,677,230	9,400,106,548
Market Risk	17,260,030	13,921,221
Operational Risk	1,000,537,499	1,000,537,499
Credit Value Adjustments	5,039,316	22,022,649
SOLVENCY RATIOS		
Common Equity Tier 1 Capital ratio	14.03%	13.63%
Tier 1 ratio	15.71%	15.31%
Capital Adequacy ratio	18.04%	18.59%

REGULATORY AND TRANSITIONAL ADJUSTMENTS - COMMON EQUITY TIER 1	31/12/22	30/06/23
Goodwill and intangible assets	(308,764,699)	(331,345,642)
Deferred tax assets that rely on future probability	(122,639,638)	(113,429,651)
Fair value reserves related to gains or losses cash flow hedges	(3,769,310)	(2,592,724)
Gains or losses on liabilities at fair value resulting from own credit risk	(1,160,554)	(1,523,501)
Other regulatory adjustments	(49,333,212)	(59,234,509)
Additional Value Adjustment	(90,827,753)	(107,742,648)
Transitional provisions related to introduction of IFRS 9	18,627,334	7,456,234
IRB shortfall	(1,910,925)	(1,896,913)
Defined benefit pension fund assets	(17,494,000)	(21,670,105)
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS - COMMON EQUITY TIER 1	**(577,272,757)**	**(631,979,459)**

The figures are computed in accordance with the Basel III rules, the Capital Requirements Regulation (CRR) 575/2013 as amended and the CSSF Regulation 18-03. The solvency ratios are calculated in accordance with the transitory prescriptions of the article 473bis of the EU Regulation 2017/2395 (as modified by the EU Regulation 2020/873) applied starting 30 September 2020.

The solvency ratios as at 31 December 2022 and published in the Consolidated Financial Statements as at 31 December 2022 were restated following the subsequent formal decision of the relevant body in charge on 27 April 2023, confirming the final profit or loss and the dividend distribution and allowing inclusion in Common Equity Tier 1 (CET1), the eligible result for the year 2022 for an amount of EUR 71,028,004.

Note 7: Additional information

7.1 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, and based on the "clawback principle", claim the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse. Some of these clawback actions were brought against Banque Internationale à Luxembourg 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 regards to the legal proceedings initiated by the liquidators of certain feeder funds: the Bankruptcy Court dismissed all claims (including Common Law Claims, Contract Claims and BVI Insolvency Claims) except for claims for constructive trust against so-called Knowledge Defendants, i.e., specific defendants alleged to have had knowledge of the Madoff fraud. BIL is alleged to be Knowledge Defendant in two cases because, it is alleged, the knowledge of a specific intermediary should be attributed to BIL (among many other defendants). The decision to dismiss other claims was appealed to the District Court (Judge Broderick) and Judge Broderick has affirmed the dismissals, in favour of BIL. The liquidators have appealed this decision to the Second Circuit Court of Appeals.

The only claim remaining against BIL is a claim for constructive trust (based on the allegation that BIL is a Knowledge Defendant). The Knowledge Defendants as a group appealed the decision declining to dismiss this claim, which was affirmed by the District Court. The Knowledge Defendants are seeking interlocutory appeal of that decision to the Second Circuit Court of Appeals. In addition, in November 2021, BIL filed a motion in the Bankruptcy Court to dismiss the constructive trust claim for lack of personal jurisdiction. In connection with that motion, the Bankruptcy Court has allowed limited discovery on the issue of personal jurisdiction. The Liquidators have served discovery requests on amongst other banks including BIL and BIL has produced documents in response to those requests. The Bankruptcy Court has in this respect ordered the deposition of a representative of the Bank to testify under oath about document preservations measures taken by the Bank both at the time Madoff collapsed (December 2008) and at the time the Bank learned of the lawsuit (November 2010). The deposition, which is not unusual in US litigation, took place on the 14 December 2022. On 17 March 2023, the Bankruptcy Court granted certain motions for discovery sanctions with respect to, amongst others, BIL. On 2 May 2023, the Liquidators filed their opposition to BIL's motion to dismiss. That motion remains pending before the Bankruptcy Court.

With regards 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 in February 2019. Following an unsuccessful petition for certiorari (permission to appeal) to the US Supreme Court, this action has been returned to the Bankruptcy Court for further proceedings. The Bank filed a motion to dismiss with the Bankruptcy Court for lack of personal jurisdiction on 2 September 2022, which has been denied on 14 March 2023. This case will now proceed into a discovery phase. Pursuant to a Case Management Plan agreed between the parties, fact discovery will continue until September 2025.

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 30 June 2023, no material provision for clawback actions has been made.

7.2 Post-balance sheet events

At the time of preparation of these interim condensed consolidated financial statements, there have been no significant post-balance sheet events that could affect the financial or commercial situation of the Group subsequent to the closing date.

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