Annual Report 2018

BIL 1856

BANQUE INTERNATIONALE À LUXEMBOURG

A new investment offering

2018 was marked by the completion of the acquisition of Precision Capital's majority stake in BIL by Legend Holdings. The combination of the two shareholders, the State of Luxembourg and Legend Holdings is excellent for BIL and its clients, as it combines a strong and a stable anchoring in Luxembourg and Europe with the technological and international know how of Legend Holdings.

Regulatory changes also remained a major topic in 2018. BIL took the entry into force of MiFID II in January as an opportunity to not only increase investor protection in line with the regulation but also to remodel and streamline its investment offer to better meet its clients' needs.

This streamlined offer is part of the BIL 2020 strategic objective of becoming a well-known investment fund brand. For example, BIL's clients can now benefit from 12 new in-house BIL INVEST investment funds for use in mandated products and for distribution through execution-only and advisory services.

The new shareholders are committed to the BIL 2020 strategy and immediately offered the support of their venture capital fund manager Legend Capital for enhancing BIL's investment offer. We were very pleased to see a promising first outcome of this collaboration in the form of the new BIL PE I fund of funds that was incorporated as a Reserved Alternative Investment Fund (RAIF) in September. BIL PE I offers BIL's clients a unique opportunity to access the Chinese private equity market alongside reputable companies such as Legend Holdings and SK Group.

A solid business performance

BIL once again reported a solid net income after tax of EUR 131 million in 2018, compared with EUR 124 million in 2017 (+5%). We are also pleased to report a good result regarding the loan volumes of the Retail Banking, Wealth Management and Corporate & Institutional Banking business lines that increased by +5.2% compared with year-end 2017.

Our Assets under Management (AuM) increased by 0.2%, reaching EUR 39.5 billion thanks to new net inflows of EUR 0.95 billion, but impacted by a negative market effect. Growth in customer deposits was also strong at 5.8%, reaching EUR 17.3 billion compared with EUR 16.3 billion at year-end 2017.

Confident outlook despite slowing global growth

As just mentioned, AuM growth was dented by a negative market effect of EUR 0.87 billion due to corrections in equity markets in the last quarter of 2018. This increased volatility was due to uncertainties surrounding a possible no-deal Brexit, Italy's difficulties to obtain budgetary approval by the European Commission, the imposition of US-Chinese tariffs and new emission standards in Germany which had a negative impact on Europe's main growth engine.

These adverse conditions occurred just as the macro cycle was peaking and economies were starting to slow down. As a result, equity markets finished the year in negative territory, which affected our clients' portfolios. Even though growth is slowing, market fundamentals (balance sheets, valuations, earning expectations) remain strong and we generally retain a positive outlook on the global macroeconomic environment.

We would like to take this opportunity to thank our clients for their unwavering support and confidence as well as all the employees of the Bank for their strong engagement and commitment to deliver the best possible service to our clients.

We are convinced that 2019 will be a challenging year but that the Bank will remain strong and focused on what it does best in serving its clients.

Hugues Delcourt
Chief Executive Officer

Luc Frieden
Chairman of the
Board of Directors

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Corporate governance (as of December 31, 2018)

Board of Directors and Executive Committee

The Board of Directors is responsible overall for BIL. Among its missions, the Board of Directors is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/appetite and the Risk Management framework.

Subsequent to the new organization of the Bank approved in September 2018, BIL is run by the Executive Committee as from October 1, 2018.

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

The Management Board is composed of the Authorised Management members and is collegially responsible for the effective day-to-day management of BIL and typically deciding on matters of strategic importance and significant impact in line with the regulatory framework. It meets on a weekly basis as an integral part of the Executive Committee and on an ad-hoc basis, as needed.

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

Board of Directors

Chairman

Luc Frieden

Vice-Chairman

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

Members

Hugues Delcourt	Director (up to April 26, 2019) and CEO (up to April 30, 2019)
Marcel Leyers[1]	Director and CEO
Nicholas Harvey	Director (up to July 2, 2018)
Maurice Lam	Director
Jing Li	Director (as from July 2, 2018)
Pierrot Rasqué	Director (as from August 6, 2018)
Christian Schaack	Director
Vincent Thurmes	Director
Chris Van Aeken	Director (as from July 2, 2018)
Albert Wildgen	Director (up to July 2, 2018)
Christophe Zeeb-Ichter	Director (up to August 6, 2018)
Michel Scharff	Director, Staff Representative
Serge Schimoff	Director, Staff Representative
Marc Terzer	Director, Staff Representative (as from October 24, 2018)
Donny Wagner	Director, Staff Representative (up to September 30, 2018)
Fernand Welschbillig	Director, Staff Representative

[1] Director as from April 26, 2019, CEO as from May 1, 2019 (subject to AGM and prudential approvals, as applicable).

Board Strategy Committee

Chairman	*Members*
George Nasra (up to July 2, 2018) Jing Li (as from July 2, 2018)	Luc Frieden Vincent Thurmes (as from August 6, 2018) Christophe Zeeb-Ichter (up to August 6, 2018)

Board Audit and Compliance Committee

Chairman	*Members*
Maurice Lam	Nicholas Harvey (up to July 2, 2018) Jing Li (as from July 2, 2018) Pierrot Rasqué (as from August 6, 2018) Vincent Thurmes (up to August 6, 2018)

Board Risk Committee

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

Board Remuneration and Nominations Committee

Chairman	*Members*
George Nasra (up to July 2, 2018) Peng Li (as from July 2, 2018)	Nicholas Harvey (up to July 2, 2018) Jing Li (as from July 2, 2018) Vincent Thurmes (as from August 6, 2018) Christophe Zeeb-Ichter (up to August 6, 2018) Fernand Welschbillig (sub-meeting Remuneration)

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Executive Committee

Chairman

Hugues Delcourt [1]	Chief Executive Officer (up to April 30, 2019)
Marcel Leyers [1]	Chief Executive Officer (as from May 1, 2019) [2]

Vice-Chairman

Pierre Malevez [1]	(up to April 30, 2018)

Members

Stéphane Albert [1]	Chief Risk Officer
Yves Baguet [1]	Chief Operating Officer
Hans-Peter Borgh [1]	Head of Wealth Management and International Corporate Development
Olivier Debehogne [1]	Head of Retail, Private Banking Luxembourg and Digital
Martin Freiermuth	Head of Products and Markets (as from October 1, 2018)
Emilie Hoël	Head of Strategy, Corporate Development and Marketing (as from October 1, 2018)
Marcel Leyers [1]	Head of Corporate and Institutional Banking
Bernard Mommens [1]	Secretary General & General Counsel
Nico Picard [1]	Chief Financial Officer
Karin Scholtes [3]	Global Head of People, Culture and Communication (as from October 1, 2018)
Claude Schon [1]	Head of Treasury and Financial Markets (up to September 30, 2018)

Permanent Invitees

Pia Haas	Chief Internal Auditor
Marie Bourlond	Chief Compliance Officer (as from October 1, 2018)

[1] Authorised Management Board Members
[2] Subject to prudential approval
[3] Authorised Management Board Member since February 14, 2019

Business Review and Results

1. Highlights of 2018 and early 2019

Against the background of a shareholder change and new regulatory requirements, BIL continued to implement its BIL2020 strategy in 2018 with a particular focus on the constant improvement of its client experience, including its digital offering and onboarding as well as the launch of new in-house investment funds.

GOVERNANCE

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

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

NEW INVESTMENT PRODUCTS IN LINE WITH NEW REGULATIONS

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

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

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

In September 2018, BIL offered investors an unusual opportunity by issuing the first senior non-preferred bond in Luxembourg. Some 30 European institutional investors subscribed to the issue for a total of EUR 300,000,000 with a 5-year duration.

Thanks to the new shareholder, BIL now has Legend Capital, an outstanding Venture Capital fund manager, as a sister company. In order to give its clients the opportunity to benefit from Legend Capital's proven track record, extensive network and unique experience in the Chinese private equity market, the Bank launched the BIL PE I fund of funds that was incorporated in the form of a Reserved Alternative Investment Fund (RAIF) in September 2018.

The aim is to offer clients long-term capital appreciation by capturing the full extent of Legend Capital's private equity know-how within one single diversified fund. To this end, BIL PE I will invest equally in three Legend Capital funds with a strong emphasis on China. In November, Legend Capital and BIL held joint roadshows targeted at BIL clients and external financial intermediaries at a series of dedicated events.

FURTHER STRENGTHENING OF THE DIGITAL OFFER

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

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

In October 2018, BIL's app was further updated to give clients access to the areas of BILnet in a consultation mode without a LuxTrust token. Further upgrades included the simplified and secure validation of banking transactions and payments via Garmin Pay/Fitbit Pay. Third-party agents now also have the same user experience as account holders.

To make the new digital services available to as many clients as possible, free in-branch online banking training was provided to clients requiring special assistance.

Generally speaking, BIL is increasingly integrating its digital services into its traditional service suite in the branches by offering clients modern service centres with dedicated remote banking areas. To this end, BIL's Strassen branch was renovated in July 2018 and a new Mondorf-les-Bains branch was opened in October 2018.

SUPPORTING INNOVATIVE COMPANIES IN LUXEMBOURG

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

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

Of course BIL also continued to support its more traditional client base of established companies. For example, BIL structured and distributed a EUR 180 million syndicated loan in January 2018 by acting as the sole arranger, agent and security agent. In mid-October, BIL led the syndication of a senior loan of EUR 92.5 million for a French software consultancy firm as the coordinator, mandated lead arranger and agent.

A STRONG COMMITMENT TO CSR

In addition to innovation, BIL also supports art and culture, education and healthcare as part of its Corporate Social Responsibility (CSR) policy.

In the area of art and culture, Frank Jons' Zones of turbulences exhibition opened on February 22, 2018 at the Galerie Indépendance, followed by the annual Art2Cure exhibition on June 22. The proceeds of the art sale will fund biomedical research projects in the Grand Duchy. On October 11, 2018, the third exhibition of Gust Graas at BIL "Œuvres 2003-2018", was opened. 400 people attended the event, including the Minister of Finance Pierre Gramegna and the State Secretary of Culture Guy Arendt.

In addition to hosting changing exhibitions by visiting artists at the Galerie Indépendance, BIL also owns an extensive art collection. In 2018, the Bank loaned the full "Winterreise" series of paintings by Joseph Probst to the Musée de la Ville de Luxembourg.

In the area of education, BIL renewed its support for "SOS Villages d'Enfants Monde" with EUR 30,000 to help fund the "SOS Kindergarten of Dosso", Niger. As part of its healthcare support, BIL donated medicine and hygiene products as well as EUR 5,000 to the charity for homeless people "Médecins du Monde". Finally, the Bank also sponsored Luxembourgish cyclist and BIL employee Ralph Diseviscourt, who came second in the challenging Race Across America in June.

In recognition of these extensive CSR activities, BIL's "SRE - Responsible Business" certification was renewed by Luxembourg's National Institute for Sustainable Development and Corporate Social Responsibility (INDR).

EXTERNAL RECOGNITION

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

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

BREXIT

In March 2017, the British Government invoked article 50 of the Treaty of the European Union, effectively launching the withdrawal process of the United Kingdom from the European Union ("Brexit"). The withdrawal is still expected to take place on the date of entry of a withdrawal agreement or failing that 2 years after notification.

BIL is planning for possible impacts, as requested by the EBA in June 2018.

A thorough review of the potential impact of Brexit over BIL operations has been conducted during the last quarter of 2018. We identified a number of processes that will likely be impacted if no deal becomes effective, in particular:
- Clients residing in the UK (ca. EUR 606 million in terms of assets);
- Legal matters (e.g. new ISDA & GMRA);
- Risk matters (credit portfolio, internal models, counterparty risks);
- Operational matters (cash correspondent, broker list authorisations, etc.);
- Compliance matters (e.g. cross border rules, data storage, etc.);
- Tax matters (VAT treatment, income tax, double tax treaties);
- HR matters (UK citizens employed by the Bank).

Brexit also represents a strong business opportunity as many UK corporates announced their intent to relocate in the EU area. In order to address the main issues relating to Brexit, a formal governance has been put in place to monitor the impact analysis and mitigation actions until more clarity is provided to European institutions and clients (including a follow-up committee organised every two weeks, and a steering committee organised every two months).

2. Key figures

COMMERCIAL FRANCHISES

The "Retail, Corporate and Wealth Management" business areas delivered a good performance in 2018 nevertheless impacted by negative market conditions on the Assets under Management side:

- Assets under Management (AuM) increased by 0.2% reaching EUR 39.5 billion compared with EUR 39.4 billion at the end of 2017. This increase resulted from new net inflows of EUR 0.95 billion mainly due to Retail & Corporate activities and from a negative market effect of EUR 0.87 billion.
- Customer deposits increased by 5.8%, reaching EUR 17.3 billion compared with EUR 16.3 billion at year-end 2017.
- Customer loans increased by 0.3% to EUR 13.4 billion. Commercial activities' loans increased by EUR 0.68 billion (+5.2% compared with year-end 2017 excluding impairment), offset by a decrease of maturing institutional clients' loans from Treasury and Financial Markets.

PROFITABILITY

BIL reported a solid net income after tax of EUR 131 million in 2018, compared with EUR 124 million in 2017 after restatement (+5%). A significant part of this increase was influenced by non-recurring items and by the accounting policy change related to investment properties.

The positive evolution in 2018 results from:

- A stable core operating income from the commercial business lines standing at EUR 500 million despite the macroeconomic environment in particular low interest rates and MiFID II regulations;
- The fair value revaluation of investment properties for EUR 35 million compared with EUR 10 million in 2017 restated according to BIL's accounting policies, aligned with those of its majority shareholder Legend Holdings;
- Additional expenses recognised in 2017 following the sale of Precision Capital's majority stake in BIL to Legend Holdings and a provision for risks related to a litigation in a tax matter.

Despite negative evolutions due to:

- Capital gains from the TFM portfolio of EUR 16 million compared with EUR 40 million in 2017;
- A decrease of core operating revenues from TFM,
- An increase of the core operating expenses to EUR 389 million compared with EUR 371 million in 2017, induced mainly by investment amortisation in the context of the implementation of the IT strategy and regulatory projects;
- An increase of EUR 4 million in contributions to the Deposit Guarantee Scheme and Resolution Funds (EUR 17 million versus EUR 13 million).

LONG-TERM COUNTERPARTY CREDIT RATINGS

In May 2018, Moody's confirmed BIL's ratings with a revised outlook from positive to stable (A2/Stable/P-1). Both Standard & Poor's and Fitch confirmed ratings in 2018 which remain unchanged compared with year-end 2017 (A-/Stable/A-2 and BBB+/Positive/F2).

BIL group	Dec 2017	Dec 2018	Outcome
Moody's	A2 Positive	A2 Stable	Ratings confirmed with outlook revised to Stable on May 7, 2018
S&P	A- Stable	A- Stable	Ratings confirmed on December 20, 2018
Fitch	BBB+ Positive	BBB+ Positive	Positive outlook confirmed on November 23, 2018

3. Business line segmentation

In 2018, the Bank kept the segmentation of its business lines:

- "Retail Banking, Corporate & Investment Banking and Wealth Management". Commercial activities are divided into three business lines: Retail & Digital Banking, Corporate & Institutional Banking, and Wealth & Investment Management.
- Treasury and Financial Markets (TFM) remained split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets, with dedicated teams supporting the commercial activities.
- Group Center mainly includes dividends from unconsolidated shareholdings and the results of non-operating entities as well as certain types of costs not attributable to the other business lines mentioned above.

4. Consolidated statement of income and consolidated balance sheet

PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

The consolidated financial statements of BIL group for 2018 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The main accounting principles are described in Note 1 of the consolidated financial statements. Unless stated otherwise, all amounts are expressed in euro (EUR).

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME [1 2]

In the financial statements as at December 31, 2018, BIL changed the measurement of property held for investment (see note 1.2.7) and amended the calculation of provisions for pensions (see note 1.2.7). The impacts of these changes have been applied retrospectively to the 2017 published results which are restated below.

In December 2018, net income for BIL group totalled EUR 131 million, an increase of EUR 6 million compared with December 2017 after restatement.

CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

(in EUR million)	31/12/17 as published	31/12/17 after restatement	31/12/18	Change versus 2017 after restatement	%
Income	553	562	573	11	2%
Expenses	(397)	(396)	(398)	(2)	1%
Gross operating income	**156**	**166**	**175**	**9**	**5%**
Cost of risk and provisions for legal litigation	(20)	(20)	(19)	1	(6)%
Net income before tax	**136**	**146**	**156**	**10**	**7%**
Tax expense	(19)	(22)	(26)	(4)	17%
Net income	**117**	**124**	**131**	**6**	**5%**

CONTRIBUTION TO THE CONSOLIDATED STATEMENT OF INCOME BY BUSINESS LINE

(in EUR million)	Commercial activities and Treasury and Financial Markets		Group Center		Total		Change versus 2017 after restatement	%
	31/12/17 after restatement	31/12/18	31/12/17 after restatement	31/12/18	31/12/17 after restatement	31/12/18		
Income	583	551	(21)	22	562	573	11	2%
of which Core operating income	*543*	*535*	*(16)*	*(14)*	*527*	*521*	*(6)*	*(1)%*
Expenses	(359)	(379)	(37)	(20)	(396)	(398)	(2)	1%
of which Core operating expenses	*(359)*	*(377)*	*(12)*	*(12)*	*(371)*	*(389)*	*(18)*	*5%*
Gross operating income	224	173	(58)	2	166	175	9	5%
of which Core gross operating income	*184*	*159*	*(28)*	*(27)*	*156*	*132*	*(23)*	*(15)%*
Cost of risk and provisions for legal litigation	(20)	(18)	0	(1)	(20)	(19)	1	(6)%
of which Core operating cost of risk	*(20)*	*(18)*	*0*	*(1)*	*(20)*	*(19)*	*1*	*(6)%*
Net income before tax	204	155	(57)	1	146	156	10	7%
of which Core operating net income before tax	*163*	*141*	*(27)*	*(28)*	*136*	*114*	*(22)*	*(16)%*
Tax expense					(22)	(26)	(4)	17%
Net income					**124**	**131**	**6**	**5%**

[1] Variation and percentages calculated on exact numbers may bring rounding differences.
[2] The Bank has not restated financial statements as of December 31, 2017 for financial instruments in the scope of IFRS9.

Income

In 2018, total income amounted to EUR 573 million, up 2% or EUR 11 million in comparison with year-end 2017 (EUR 562 million); part of this growth as previously mentioned is composed of the positive contribution of non-recurring items compensated by a decrease in terms of capital gains.

The slight decrease in core operating income (EUR 521 million compared with EUR 527 million in 2017) is mainly due to a lesser contribution from TFM activities.

Commercial activities' contributions to the core operating income decreased by EUR 2 million compared with December 2017. Despite the low interest rate environment, net interest income increased by EUR 9 million through commercial activities' loans growth (EUR 13.9 billion versus EUR 13.2 billion December 2017). Fee and commission income remained consistent with a limited decrease of EUR 3 million due to transactional volumes suffering in the aftermath of MiFID II regulations. Other income decreased by EUR 8 million following a one-off transaction in 2017.

TFM contributions to the core operating income decreased by EUR 6 million compared with 2017. The interest margin on BIL's Investment Portfolio decreased consequently to the realisation of significant capital gains in 2017 (EUR 40 million) and 2018 (EUR 16.3 million), and to the progressive replacement of maturing bonds by lower yielding assets.

Group Center activities generated a negative contribution to the core operating income of EUR 14 million but remained in line with 2017. Group Center was notably composed of the DGS and Resolution Funds contributions which increased from EUR 13.5 million in December 2017 to EUR 17.4 million in December 2018 and the funding costs related to the senior non-preferred debt issued in September, 2018.

Expenses

Expenses totalled EUR 398 million stable with 2017 at EUR 396 million.

Core operating expenses (excluding non-recurring items influenced mainly by additional costs incurred by the acquisition of the 89.936% stake in BIL by Legend Holdings Corporation) increased by EUR 18 million.

This evolution mainly in BIL Luxembourg was influenced by higher amortisation of EUR 12 million compared with 2017 associated with the continued implementation of the IT strategy and ongoing regulatory projects.

Dedicated to further improving the customer onboarding experience and the efficiency of our processes, the Bank also increased support teams across certain areas notably in Digital Banking, Client Data Servicing and Robot Process Automation with a moderate increase of staff costs compared to 2017.

Gross operating income

Gross operating income amounted to EUR 175 million compared with EUR 166 million in 2017 (+5%). Excluding non-recurring items, the core gross operating income decreased by EUR 23 million, largely due to higher expenses.

Cost of risk and provisions for legal litigation

BIL group recorded net provisions on loans and advances and on provisions for legal litigations of EUR 19 million, slightly lower compared with 2017. This good performance reflects the low risk profile of the Bank's core commercial activities. BIL's problem loans represented 2.23% of gross loans at the end of December 2018 compared with 2.39% at the end of December 2017.

Net income before tax

Net income before tax stood at EUR 156 million compared with EUR 146 million in 2017 (+7%). Core operating net income before tax reached EUR 114 million, a decrease of 16% compared with December 2017.

Tax expenses

The 2018 tax expenses stood at EUR 26 million. The evolution of tax expenses in 2018 compared with 2017 is mainly explained by a write back of impairments on tax losses carried forward recognised during 2017.

Net income

Net income after tax reached EUR 131 million (+5% compared with 2017) despite a very low interest rate environment and increasing regulatory demands. The Bank continued to make further progress in line with the BIL2020 strategy.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET [1]

(in EUR billion)	31/12/17 after restatement	31/12/18	Change versus 2017 after restatement	%
ASSETS	**23.8**	**25.5**	**1.7**	**7.2%**
Loans and advances to credit institutions	3.4	4.4	0.9	26.3%
Loans and advances to customers	13.3	13.4	0.0	0.3%
Financial investments	5.9	6.5	0.6	10.2%
Positive fair value of derivative products	0.2	0.3	0.1	27.5%
Other assets	0.8	0.9	0.1	11.8%
LIABILITIES	**23.8**	**25.5**	**1.7**	**7.2%**
Amounts due to credit institutions	2.8	2.9	0.2	5.7%
Amounts due to customers	16.3	17.3	1.0	5.8%
Negative fair value of derivative products	0.4	0.5	0.1	30.9%
Debt securities	2.4	2.8	0.4	17.4%
Subordinated debts	0.3	0.3	0.0	1.2%
Other liabilities	0.3	0.3	0.0	(0.9)%
Shareholders' equity	1.3	1.4	0.1	5.7%

In 2018, the consolidated balance sheet increased by EUR 1.7 billion or 7.2%.

ASSET MOVEMENTS

"Loans and advances to customers" increased by 0.3% to EUR 13.4 billion. Commercial activities' loans increased by EUR 0.68 billion (+5.2% compared with year-end 2017 excluding impairment), offset by a decrease of institutional clients' loans from Treasury and Financial Markets. Driven by the Bank's continued desire to support the projects of both individuals and businesses, mortgage loans increased by EUR 0.5 billion (+10.6%) and investment loans by EUR 0.1 billion (+2%) compared with 2017.

"Financial investments" include the financial assets measured at amortised cost and at fair value through OCI and reached EUR 6.5 billion. In 2018, the financial investments increased by 10.2% or EUR 0.6 billion, due to higher replacement in new investments which compensated sales and positions reaching maturity.

"Loans and advances to credit institutions" increased by EUR 0.9 billion (+26.3%). The liquidity surplus of the Bank placed in central banks, follows a prudent liquidity management in the context of the current market environment with low levels in credit spreads.

"Other assets" increased by 11.8% reaching EUR 0.9 billion. Part of this evolution is related to "non-current assets and disposal groups held for sale". BIL has started a sale process of the building complex "Les Terres Rouges". This building was originally built by BIL to house its subsidiary active in fund administration. Since the sale of this subsidiary in 2012, this building was held as investment property. As holding substantial investment property on BIL's books is not part of BIL's strategy, BIL has chosen to proceed with this transaction, that may be closed during 2019. Such a transaction will have no impact on BIL's business position as it is a non-core asset.

LIABILITY MOVEMENTS

"Amounts due to customers" increased by EUR 1 billion (+5.8%), stemming from the growth in new clients and net new assets in both Retail & Corporate banking. This evolution occurred mainly in term deposits (EUR 0.6 billion) and current accounts (EUR 0.2 billion).

"Debt securities" increased by EUR 0.4 billion (+17.4%). Against the backdrop of ongoing regulatory reforms, the EU issued a directive changing the creditor hierarchy. This directive came into force in Luxembourg in July 2018, introducing a new class of debt. Following this, BIL successfully launched the first senior non-preferred bond issue in Luxembourg for EUR 300 million.

"Shareholders' equity" increased by EUR 75 million (+5.7%). This increase was mainly due to the 2018 net profit of EUR 131 million compensated by the First Time Adoption of IFRS9 standard applicable as from January 1, 2018 for EUR 25 million and the decrease of EUR 28 million of the revaluation reserves on assets.

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

5. Movements in share capital

At the end of the year 2018, the Bank's share capital was fixed at EUR 141,212,330 represented by 2,017,319 fully paid shares (no changes compared to 2017). In 2018, the Bank held 970 BIL treasury shares with a value of EUR 1,455,000.

6. Research and development

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

To this end, BIL will further leverage the network and expertise of its majority shareholder Legend Holdings. In particular, BIL intends to collaborate further with its sister company Legend Capital, an outstanding Venture Capital fund manager.

BIL continues to research innovative technologies and supports their development in startups through partnerships with business incubators such as Technoport. Going forward, BIL intends to intensify its collaboration with startups to provide innovative services in particular to promote open banking.

At a systemic level, BIL is currently developing a new core banking system which will optimise clients' experience and make processes more efficient.

7. Post-balance sheet events

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

8. Strategic outlook

BIL aims to grow its brand domestically and internationally, further enhance its client offering and achieve sustainable growth. Going forward, the majority shareholder Legend Holdings and the Grand Duchy of Luxembourg are committed to providing financial and operational support to help BIL achieve this goal.

In 2019, a new five-year plan will be launched in continuation of the BIL2020 strategy. BIL will carry on with its programme to upgrade its core banking system which will require significant IT developments. Digital capabilities will continue to be enhanced while ensuring regulatory compliance at all times.

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

Risk Management

1. INTRODUCTION

1.1 Key events of 2018

Corporate structure and risk profile

Since late 2014, important strategic initiatives were undertaken at a group-wide level. All these initiatives have been monitored by the Bank's Risk Management department of which the main objective is to ensure that risks are continuously under control and compatible with the institution's Risk Appetite.

BIL group's Risk Management department monitored the Bank's activities and risk profile throughout 2018 in line with the BIL strategy. The ongoing implementation of new regulatory requirements was one of the challenges of the year.

1.2 Main regulatory changes in 2018

In 2018, BIL continued to invest time and resources in ensuring that it is and will always be compliant with regulatory standards notably regarding the **A-IRB framework**. Within this framework, the following reviews that were made during the year are: (i) Specialised lending and, (ii) New Default Definition (NDD). Moreover, the Risk teams enhanced some models notably regarding LGD Retail and LGD SME.

In the context of the **Targeted Review of Internal Models** (TRIM), BIL has been monitoring the adequacy and appropriateness of approved Pillar I internal models used by significant institutions within the Single Supervisory Mechanism (SSM), thereby enhancing their soundness. The ECB uses the TRIM process to assess whether the models comply with regulatory standards and seeks to harmonize supervisory practices.

In the context of the **Basel III revisions**, some topics were published by the Basel Committee ahead of the so-called Basel IV requirements. In 2018, the Bank has analyzed the different impacts and submitted to the ECB the survey regarding these impacts.

In 2018, as mentioned, BIL also kept working on the **New Default Definition**. This project is structured by different components such as the IT deployment, a review of some of the practices, and the reviews and validations of the new implied models.

BIL has submitted to the ECB the first **Anacredit** report which provides with more granularity some data regarding the credit exposures.

IFRS 9 «Financial Instruments» is a new accounting standard applicable to BIL as from January 1, 2018:

- It is mandatory for BIL to use the IFRS accounting framework for the production of financial reports as required by the Transparency Directive;
- IFRS 9 replaces IAS 39. Following the financial crisis, the IASB started the reform of the financial instruments accounting framework in order to address the following IAS 39 weaknesses: Timeliness of recognition of credit losses and complexity of multiple impairment models;
- All financial instruments are within the scope of IFRS 9;
- IFRS 9 introduces new rules regarding the classification and measurement based on the entity's business model and the contractual cash flow characteristics of the individual financial asset;
- It also contains a new impairment model which will result in earlier recognition of losses;
- BIL elected as a policy choice permitted under IFRS 9 to continue to apply hedge accounting in accordance with IAS 39.

Regarding IFRS 9 standards, the Bank has deployed the different elements of the framework: All the business models and the classifications have been set up, the SPPI tests are in production and the impairment calculation model (ECL) is also in production using a third-party tool with a methodology developed in-house. The Bank actively monitors the evolution of the ECL.

In July 2018, the EBA published the final guidelines on the management of interest rate risk arising from the non-trading book activities. This text refers to the Interest Rate Risk on the Banking Book (IRRBB) and follows the previous releases of the EBA (2015) and BCBS (2016). It refers to the current or prospective risk to the capital and the earnings of the bank, arising from the impact of adverse movements in interest rates on the banking book. The new standards will be applicable from June 2019.

The **Bank Recovery and Resolution Directive** (2014/59/EU), published in May 2014, was transposed into Luxembourgish law in late 2015. In this context, in 2018, the Bank elaborated its fourth Recovery Plan, which was sent to the regulators at the end of September. Regarding the resolution part, BIL has participated in different meetings with the Single Resolution Board. Moreover, in May, the Bank completed several files in order to provide general information notably on its governance, legal contracts and balance sheet items. In January 2019, the Bank held discussions with the Resolution Authority, which is the Single Resolution Board (SRB), in order to establish the 2019 roadmap and then, to develop a detailed version of the BIL's Resolution Plan.

During the first semester 2018, the Bank has participated in the **2018 EU-wide stress testing**. The purposes of this exercise were:
- Contributing to the overall SREP to determine an adequate level of capital;
- Fostering banks' own stress testing and risk management capabilities;
- Supporting other supervisory activities, for instance the planning of on-site and internal model inspections or the assessment of recovery and resolution plans;
- Providing a quantitative assessment of Bank risk profiles with a view to identifying vulnerabilities to adverse market developments;
- Fostering market discipline and contributing to market confidence. The exercise ended in October 2018 and the Bank has proven its capacity and resilience regarding strong adverse situations implied by the ECB methodology.

Concerning liquidity, the Bank participated in the yearly SSM Liquidity Exercise which consists of producing several liquidity indicators such as the LCR, the maturity ladder and the funding evolution for five consecutive days. Furthermore, BIL reviewed its framework of internal liquidity stress tests in line with market practices by:
- Updating the stress assumptions,
- Developing several scenarios and,
- Extending the survival period to 3 months.

Finally, the Bank will participate in the ECB Sensitivity Analysis of Liquidity Risk – Stress Test 2019 (LiST).

Regarding Operational Risk, an ECB on-site mission started in the last quarter of 2018 to finish at the beginning of April 2019. Finally, the Bank took part in various ad hoc regulatory exercises such as the benchmarking exercise on credit risk parameters.

2. RISK MANAGEMENT MISSIONS, ORGANISATION AND GOVERNANCE

2.1 Missions

The main missions of the Risk Management function are to:
- **Ensure that all risks are under control** by identifying, measuring, assessing, mitigating and monitoring them on an on-going basis. Global risk policies and procedures define the framework for controlling all types of risks by describing the methods used and the defined limits, as well as the escalation procedures;
- **Provide to the Management Body (the Board of Directors, the Board Risk Committee and the Management Board) and all other relevant stakeholders** a comprehensive, objective and relevant overview of the risks;
- **Ensure that the risk limits are compatible** with the Bank's strategy, business model and structure through an effective Risk Appetite Framework, which defines the level of risk the Bank is willing to take in order to achieve its strategic and financial goals;
- **Ensure compliance with banking regulation requirements** by submitting regular reports to the supervisory bodies, taking part in regulatory discussions and analysing all new requirements related to Risk Management.

2.2 Risk Management Governance

General principles

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

BIL group Risk Management framework relies on a robust governance allowing a prudent and sound management of risks. This governance structure is defined by:
- The responsibilities of the Board of Directors (assisted by the Board Risk Committee) and the Management Board and their roles in decision-taking and risk management;
- A set of Management Committees related to risk topics of which at least one member of the Management Board is a member, and the description of the mission of these committees in decision-taking;
- Other formalised Risk Committees including experts and operational teams taking decisions related to the Bank's risk monitoring as well as specific practices;
- Consistent with the Bank's Risk Appetite, charters, policies, procedures and reporting explaining:
  - The activities;
  - The definition of limits for risk-taking by operational units;
  - The process of detection;
  - The assessment and measurement of the risks induced by the Bank's activities;
  - The reporting to the Management.

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

BIL group's Risk Management governance is based on a clear decision-making process supported by committees.

Board of Directors

Among its missions, the Board of Directors is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/ appetite and the Risk Management framework.

According to CSSF circular 12/552 (as amended), the Board of Directors makes a critical assessment of the internal governance mechanisms and approves them by taking into account:
- The balance between the incurred risks, the ability of the establishment to manage these risks, own funds and internal and regulatory reserves;
- The strategies and guiding principles with a view to improve and adapt them to internal and external, current and anticipated changes;
- The manner in which the Management Board meets its responsibilities (for instance by ensuring corrective measures are implemented);
- The effectiveness and efficiency of internal control mechanisms;
- The adequacy of organisational and operational structures.

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

Board Risk Committee

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

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

Management Board

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

Indeed, according to Circular CSSF 12/552 (as amended), the Management Board "is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. This management shall be exercised in compliance with the strategies and guiding principles laid down by the board of directors and the existing regulations, taking into account and safeguarding the institution's long-term financial interests, solvency and liquidity situation. (...) The members of the authorised management shall be authorised to effectively determine the business direction. Consequently, where management decisions are taken by management committees which are larger than solely the authorised management, the authorised management shall be part of it and have a veto right."

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

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

Risk Committees

Risk Management Committees stand and receive their mandate from the Management Board within a precise and defined scope. They facilitate the development and implementation of sound practices of governance and decisions. Their attributions and roles, their members and other rules defining how they are functioning, are described in a specific form. At least one member of the Management Board is part of the Risk Committees. These Risk Committees may make decisions related to the overall risk process, the Board of Directors and the Management Board are however not exempted from their responsibilities.

Risk Management organisation

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

In order to support the Bank to reach its defined objectives as well as the expected regulatory developments, the organisation of the Risk Management department has been reviewed to align with the new organisation of the Bank.

In this context, the missions of the Risk Management are described as follows:

- As a control function, Risk Management aims to contribute to the sustainable development of BIL by proposing its risk appetite and setting up a risk management, monitoring and follow-up system;
- As an independent function, Risk management also collaborates with the BIL's business lines, the latter acting as the first line of defence regarding risk associated with their processes and transactions they initiate.

The roles of the Risk Management can also be viewed through different objectives and tasks:

- Risk Framework and Risk Appetite: Establishment of a risk framework and risk appetite for BIL to the management body through risk policies, guidelines and risk indicators;
- Challenge first lines of defence by analyzing:
  - Risks in BIL's credit portfolio (credit risk) by examining counterparties and credit requests,
  - Risks of financial and market activities (market risk and liquidity risk);
  - Operational risks including information security.
  - Control and monitoring: Control the risk framework through the monitoring of risks;
- Systems and reporting: Maintain the risk systems and data to ensure the production of regulatory and internal reports;
- SREP: Deploy and monitor the SREP components (Risk Appetite, ICAAP, ILAAP, Stress tests, Recovery Plan, ...);
- Quantitative models: Develop and maintain quantitative models related to risk management (capital and provisions).

Regarding these objectives and tasks, some Organisation changes took place in 2018:

- A Deputy Chief Risk Officer has been appointed;
- The Project and Risk System team was created in order to coordinate the risk view in the different bank's projects;
- Loans Services team is a part of Risk department;
- A merger between Enterprise and Financial Risk Management has been decided in order to improve the synergies on some important topics of which: RAF, ICAAP, ILAAP, IRRBB, Recovery Plan and;
- A new head of Credit Data Science and a new Head of Internal Validation have been appointed and their two respective teams have been strengthened.

RISK MANAGEMENT ORGANISATIONAL CHART

At the Management Board level, the overall Risk Management framework is under the Chief Risk Officer (CRO)'s responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board/ Executive Committee enabling the capture and management of the Bank's overall risk profile. These different risk teams are described in deeper details hereafter.

Credit Risk Management

This team is composed of five different sub-teams:

- The **Banks & Countries, Private Banking Analyses** team is in charge of the assessment and the monitoring of the risk related to banks and sovereign counterparts on one side and private banking counterparts on the other side;
- The **Retail, Midcorp, Real Estate Analyses** team is in charge of retail and midcorp counterparts on one side and for the real estate specialised counterparts on the other side;
- The **Corporate Analyses** team is in charge of the assessment and the monitoring of the risk related to corporate and institutional counterparts, including providing support for complex files to the other teams;
- **Gestion Intensive et Particulière** (GIP) manages the assets deemed to be "sensitive" by a proactive approach, in order to minimise the potential losses for the Bank in case of default of counterparty. The team has two main purposes : on one hand it is responsible for (i) Identification of credit files showing early signs of difficulties and proactively propose, in collaboration with business lines, action plans to mitigate the risks. The second role is to be in charge of (ii) Assisting front-office teams in managing complex non-performing exposures requiring negotiations of forbearance solutions;
- Additionally, a new **Credit Support** team was set up in 2018 with the main aim of defining and updating credit policies and procedures and also to providing support to the other CRM teams regarding the processing of recommendations (Internal Audit, JST…). It aims also to provide support on decisions about principles and methodology referring to credit risk (e.g. approval of reports of model validation) and to give advice on risks topics requiring transversal opinion and on issues of regulatory monitoring, results of stress-testing among others.

The five teams are in charge of the segmentation of BIL counterparts, of assigning internal ratings to them and of monitoring their corresponding portfolio.

Credit Data Science

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

The Credit Data Science team is responsible for the development and the maintenance of all the models related to credit risk quantification implemented in the context of:

- The credit risk management and monitoring;
- The computation of regulatory capital requirements (Pillar 1);
- The general and specific provisioning calculation according to the IFRS 9 standard;
- The forecasting of the risk parameters used in the stress test process.

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

This team is composed of three different sub-teams:

- **The IRBA team** is in charge of the development of internal models for the Credit Risk parameters related to the Pillar 1 and of the monitoring of these parameters, according to the last regulatory guidelines;
- **The IFRS9 team** is in charge of all modeling activities related to the new accounting standard IFRS9;
- **The Credit DevOps** team is responsible of coordinating transverse projects involving other BIL stakeholders such as core banking IT, advanced analytics. The DevOps team is also supporting the IRBA and IFRS9 teams on ad hoc projects.

Reporting and Validation

The reporting and Validation team is composed of three teams:

- **The Credit Risk Calculation & Reporting team** is in charge of the development and maintenance of the data and risk systems used for the calculation of the credit risk capital requirements and the corresponding regulatory reporting. These teams are also responsible for the production of regulatory and internal reports related to Credit Risk such as the COREP, Large Exposures and covers ad hoc requests from regulatory authorities. This team is composed of three different sub-teams:
  - **The Credit Risk Quality Control team** is responsible for operational quality control (known as level 1) and regulations (so-called second level) for data and processes related to Basel risk parameters;
  - **The Credit Risk Reporting team** is in charge of monitoring credit risk figures, producing regulatory reporting (e.g. COREP, Large exposures, Past Due, IFRS 7) as well as any internal credit risk reporting, external demands or periodical credit risk reporting (ECB, EBA, CSSF, etc.);
  - **The Reporting Application Management Risk team** mainly works with the Moody's RAY software which serves to produce, among others, the Basel COREP and Large Exposures reports and the Moody's RCO software which is used to calculate the IFRS9 staging for the exposures and to produce the Expected Credit Losses (ECL). The team is responsible for the software's expertise in terms of data, parameterisation and calculation engines (i.e. Basel, Economic IRBA, ECL provisions and Large Exposures).

- **The Internal Validation team** aims to ensure the robustness and soundness of the internal rating systems by validating all the BIL risk quantification models under Pillar 1 and the BIL risk quantification under Pillar 2 and IFRS 9. The unit is responsible for independently verifying that models proposed for use by model owners are fit for purpose through the whole model lifecycle, and that the associated model risks are appropriately identified and mitigated. In order to do so, Internal Validation has explicit authority and independence to provide effective challenging to related stakeholders, presenting issues and highlighting deficiencies. The key aspects of models validated by the internal validation unit include model design, data quality, model implementation, and model performance, and use-tests.
- **The Model Governance team** is in charge of overseeing compliance with the Model Risk Management Framework of the Bank. This unit ensures the documentation is in place for each model, that the model inventory and issue tracking tool is maintained and updated regularly, and provides challenge where appropriate to the Model Owners and Developers. Moreover, the Model Governance unit is responsible for organising the model risk committees by preparing agendas, writing minutes, and archiving documents. The unit is the central repository for all charters and policies related to the Model Risk Management Framework.

Enterprise and Financial Risk Management

Enterprise and Financial Risk Management is composed of two teams.

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

  Moreover, this team is responsible for the prudential consolidation of the risks of the Bank and regulatory monitoring. In line with this requirement, the Enterprise Risk Management department ensures the regulatory monitoring, activity monitoring, and coordination of transversal projects related thereto; the realisation of regulatory transversal reports (Pillar III Report, Annual Report, Long Form Report, etc.) and the prudential risk consolidation for the Bank and its subsidiaries/ branches. Beyond these tasks, the team ensures the development and deployment of the quantitative and functional approaches for internal customers: Other risk teams and/or their Business Line teams. Two recent tasks include the NMD and Prepayment projects within the IRRBB framework and risk analyses of customer portfolios.
- **The Financial Risk Management (FRM) team** is in charge of the definition of charters, policies and guidelines and their application to financial market activities (banking with ALM, trading, liquidity and collateral management). Moreover, this department is responsible for identifying, analysing, monitoring and reporting on risks and results on these topics at BIL Luxembourg and BIL group level. Furthermore, FRM is the functional responsible of the main tools (Kondor+, Bloomberg), interfaces of the Dealing Room and the FRM datamart (FRMD).

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

Operational Risk Management

The Operational Risk Management team handles the management of Operational Risk and Insurance & Reinsurance.

- **The Operational Risk (OR) team** is in charge of:
  - Developing & monitoring the set up of a risk event collection system and the overseeing of operational risk matrices assessment (RCSA);
  - Putting in place, for BIL and its subsidiaries / branches, a system of control and actions to ensure an adequate operational risk exposure (internal fraud, external fraud, processes, systems, products, etc.) in line with the risk appetite as defined by the Bank;
  - Preventing the Bank from any operational risk exposure by taking part of new products and/or projects from the beginning.
- **The Insurance & Reinsurance team** is in charge of:
  - The establishment and regular updating of the insurance programme (BIL and employee coverage) within the Bank and its subsidiaries / branches;
  - A centralised management of insurance policies and claims within the Bank and its subsidiaries, acting as a single contact for both brokers and the insured;
  - Developing a comprehensive approach by ensuring the adequacy of the policy and insurance framework including the own reinsurance company of BIL (captive) for risk analysis.

Information Security and Business Continuity

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

- **The Security Risk Regulation team** ensures the establishment and maintenance of a global and transversal overview of various aspects of the Bank's Information Security to provide BIL with adequate protection and prevent threats (theft, loss, destruction, alteration , inaccessibility, etc.) which could affect this information. This team performs regular controls on effective access rights to systems compared to declared and validated access in the Identity and Access Management tool. This team also performs information security risk analyses (with the support of other security stakeholders such as IT Security and Physical Security officers) when applicable and in particular for new projects or when contracting with critical third parties. Finally, this team chairs the Management Committee "Security Committee" to oversee the risks linked to the BIL's information security and the security incidents, and make recommendations for decisions on projects with a potential link to the security of information assets;
- **The Security Risk Prevention team** is in charge of validating and controlling access according to the rules and principles set out in memo NS0032 (Access Management Policy) to ensure the security of systems and applications. This team is also in charge of maintaining the referential or resources available in the Identity and Access Management system;
- **The Business Continuity team** establishes and maintains the continuity plan (Business Continuity Plan), its alignment with the IT Recovery Plan (Disaster Recovery Plan) and performs an annual review of Business Impact Analysis with Business Lines in order to maintain an up-to-date continuity plan.

Project and Risk System

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

This unit is composed of two different teams:

- The **Project** team aims to have a centralised and coordinated management of these projects ensuring:
  - A structured and centralised approach to anticipation and prioritisation;
  - Solutions designs and deliveries within the projects fit Risk Management requirements and processes with a transversal forward looking assessment;
  - A consolidated tracking of status/budgets of the projects including their respective deliverables/milestones with regular updates to Risk Management top management;
  - Proper and continuous communication and organisation among participants, within and outside Risk Management.
- In addition to the projects management, the Project & Risk System unit is also responsible for the **risk system**. The Risk Systems team is in charge of ensuring the coherence of the different actions and initiatives around the risk system. This team, together with the Project team, oversees IT projects and developments in order to maintain the risk systems and data to ensure the monitoring of risks. The Risk System team is the central point of contact within the Bank for matters related to the risk systems.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

Loans Services

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

Loans Services is:
- Accountable for the management of operational and legal risks related to the implementation and the maintenance of all credits granted by the Bank;
- Accountable for the disbursement of loans consecutively to their implementation in full adequacy with the decisions of the credit authorities and committees;
- Guarantor of the operational efficiency of the Bank, reflected in the capacity to implement our loans and credits in conditions of form and time consistent with the expectations of business lines.

Loans Services is divided into four dedicated sub-teams.
- The **Retail and Employee Loans** team is in charge of:
  - The implementation of retail loans composed of a standardised small to medium sized loans, mainly consumption and housing loans (in Luxembourg or the Greater Region);
  - The management of all life cycle events (disbursement, partial or full release of sureties, renewal of sureties, interest rates changes, repayment programs deferrals, etc. related to Retail and Corporate loans);
  - The final validation of mortgage deeds securing cross border loans.
- The **Bank Guarantee & Corporate Banking Loans** team is in charge of:
  - Implementing business loans granted to small and midsized companies in Luxembourg, these loans are also standard and are mainly investment loans and overdraft facilities;
  - Managing the issuance of bank guarantees as well as the received bank guarantee portfolio.
- The **Private, Large Corporate and Institutional Banking Loans** team is in charge of:
  - Implementing Private banking loans, mainly Lombard loans and investment loans secured by assets deposited in BIL;
  - Implementing tailor-made structured multiform facilities or cross-border mortgage loans for international wealth management clients and High Net Worth Individuals;
  - Implementing tailor-made structured or syndicated facilities for large corporate or institutional clients.
- The **Project and Monitoring** team is in charge of:
  - Maintaining, updating and improving the Bank's risk monitoring system of stock of credit and security packages throughout their life cycle;
  - Maintaining, updating and improving the Bank's system for monitoring the operational efficiency of the Loans Services line;
  - Maintaining, updating and improving the quality monitoring system;
  - Representing Loans Services as Project Business Owner in all projects;
  - Representing Loans Services as application Owner for tools related to the Bank's activity.

Credit Risk Control Unit

The Credit Risk Control Unit (CRCU), as the first line of defence of BIL, is an independent functional unit whose prime objective is to ensure the robustness of the Bank's internal rating systems as part of the Model Risk Management scope.

The composition of the CRCU relates to four units of the BIL Risk Management Organisation:
- Credit Data Science;
- Credit Risk Calculation & Reporting unit of which: (i) Credit Risk Quality Control team and, (ii) Credit Risk Reporting team;
- Model Governance.

The CRCU is independent from the personnel and management functions, responsible for originating or renewing exposures and from the Internal Validation team.

Pursuant to the Article 190 of CRR, the CRCU is responsible for the design, implementation, oversight, and the performance of all models, as defined within the Model Risk Management Framework of BIL group. It regularly produces and analyses reports on the output of the internal rating systems.

3. CREDIT RISK

3.1 Definition

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make required payments. The risk includes lost principal and interest, disruption to cash flows, and increased collection costs.

Facilities have characteristics that can be examined by the nature of the client/counterparty's obligations or from a number of perspectives, for instance:
- Type and purpose of the facility;
- Funded vs. unfunded;
- Committed vs. uncommitted;
- Secured vs. unsecured;
- Direct vs. contingent;
- Outstanding vs. undrawn;
- Classification in IFRS 9 Staging (1, 2 or 3).

3.2 Risk policy

BIL group's Risk Management department has established a general policy and procedural framework in line with the Bank's Risk Appetite. This framework guides the analysis, decision making and monitoring of credit risk. The Risk Management department manages the loan issuance process by chairing credit and risk committees. As part of its monitoring tasks, the Credit Risk Management unit supervises changes in the Bank's portfolios' credit risks by regularly analysing loan applications and reviewing counterparties' ratings. The Risk Management department also draws up and implements the policy on provisions and participates in the Default Committee that assesses the default cases and related potential provisions.

3.3 Organisation and Governance

BIL group's Risk Management department oversees the Bank's credit risk, under the supervision of the Management Board and dedicated committees.

The Risk Policy Committee defines the general risk policies, as well as specific credit policy in different areas or for certain types of counterparty, and sets the rules for granting loans, supervises the counterparties' ratings and monitors exposures. The Risk Policy Sub-Committee validates all changes in procedures or risk policies, principles and calculation methods referring to risk.

In order to streamline the decision-making process, the Management Board delegates its decision-making authority to credit committees. This delegation is based on specific rules, depending on the counterparty's category, rating level and credit risk exposure. The Board of Directors remains the ultimate decision-making body for the largest loan applications. The Credit Risk Management department carries out an independent analysis of each credit application presented to the credit committees, including determining the counterparty's rating, and stating the main risk indicators. It also carries out a qualitative analysis of the transaction.

Alongside the supervision of the issuance process, various committees are tasked with overseeing specific risks:
- The Default Committee identifies and tracks counterparties in default, in accordance with Basel regulations, by applying the rules in force at BIL, determines the amount of allocated specific provisions and monitors the risk cost. This committee supervises credit files deemed "sensitive" and placed under surveillance by being filed as "special mention" or put on "watchlists";
- The Rating Committee: The main task of this committee is the approval of any changes in the operational rating process in accordance with the rating methodology, the approval of Internal Rating System reports performed by the Data Management and Quality team and the review of rating overrides and not rated counterparties;
- The Model Risk Committee ensures the monitoring of BIL's internal rating systems' performance through time (i.e. backtesting, benchmarking, model validation) and decides all the strategic choices related to this matter (e.g. new model development, material changes etc.).

3.4 Risk Measurement

Credit Risk Measurement is primarily based on internal rating systems introduced and developed within the Basel framework. Each counterparty is assigned an internal rating by credit risk analysts, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk borne by the counterparty, expressed by means of an internal rating scale. Rating assessment is a key factor in the loan issuance process.

Ratings are reviewed at least once a year, making it possible to identify counterparties requiring closer attention of the Default Committee.

To manage the general credit risk profile and the limit concentration of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable level for each one of these. Limits by economic sector and by product may also be imposed by the Risk Management department. The latter actively monitors these limits, which it can reduce at any time, in light of changes in the related risks. The Risk Management department may freeze specific limits at any time in order to take the latest events into account.

Focus on the forbearance measures

BIL closely monitors forborne exposures, in line with European Directives and EBA Guidelines.

Management of forborne exposures is constantly updated to meet the latest changes in guidelines.

Forbearance measures can be defined as restructured repayment conditions of a temporary nature elaborated to remedy financial difficulties. They are only applied to debtors facing or being about to face difficulties in meeting their financial commitments. These concessions aim to revert the exposure to a situation of sustainable repayment.

Forbearance solutions involve the implementation of short-term and / or long-term measures with regard to viability considerations. Short term measures (generally < 2 years) include:

- Payment of interest only;
- Reduced payment for a limited period;
- Grace period;
- Arrears / interest capitalisation.

whereas long-term measures include:

- Interest rate reduction;
- Extension of maturity of the loan;
- Rescheduled payments;
- Debt consolidation.

This list of measures is not exhaustive.

Once forbearance conditions are met and viable solutions are applied, exposures are flagged as such in the core banking system. From that moment, they undergo the different probation periods and have to fulfil the specific requirements to become performing and get out of forbearance.

Forbearance lists are closely followed and reported on a monthly basis.

As at end 2018, BIL group's forborne exposures amounted to EUR 293 million including EUR 2 million as given bank guarantees.

3.5 Risk Exposure [1]

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

- The net carrying value of balance sheet assets other than derivative products (i.e. the carrying value after deduction of specific provisions);
- The mark-to-market valuation of derivative products;
- The total off-balance sheet commitments corresponding to unused lines of liquidity or to the maximum amount that BIL is committed to as a result of guarantees given to third parties.

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

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

As at December 31, 2018, the Bank's total credit risk exposure amounted to 28.30 billion. Compared to year-end 2017, the exposure increase is observed among Individual, SME and Self-Employed (+1.2 billion), Financial Institutions (+0.83 billion), Central Governments (+0.33 billion) and Corporate (+0.17 billion) portfolios while exposures to Public Sector Entities (-0.11 billion) and Securitisation (-0.10 billion) decreased.

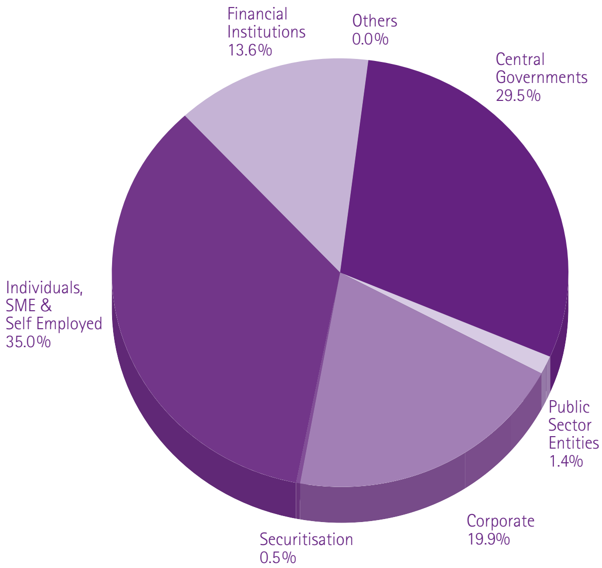
Please note that from this reporting date onwards, exposures to regional governments and local authorities which were previously part of Public Sector Entities are now included in the Central Governments segment. The actual increase in the Central Governments segment is of 0.35 billion as exposure to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

Exposure by type of counterparty

In 2018 and in line with BIL group's business model and strategy, the *Individuals, SME and Self Employed* segment remained the Bank's largest portfolio, representing around 35% of the overall exposure.

The *Central Governments* exposure weighting slightly decreased compared with the previous year and remained the second segment of the Bank's portfolio, representing 29.5% of the overall exposure.

Exposures to Financial Institutions increased compared to end of 2017, representing 13.6% of the overall exposures, while the weight of Corporate decreased slightly from 21.1% to 19.9%.

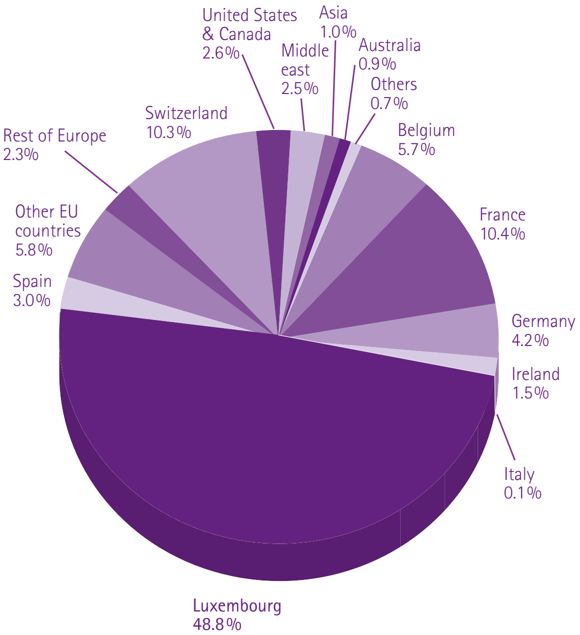


[1] Variation and percentages calculated on exact numbers may bring rounding differences.

Exposures by counterparty category (in EUR million)	**31/12/17**	**31/12/18**	**Variation**
Central Governments	8,032	8,358	326
Public Sector Entities	501	393	(108)
Corporate	5,476	5,642	166
Securitisation	241	140	(101)
Individuals, SME & Self Employed	8,659	9,907	1,248
Financial Institutions	3,032	3,861	829
Others	5	4	(1)
TOTAL	**25,946**	**28,305**	**2,359**

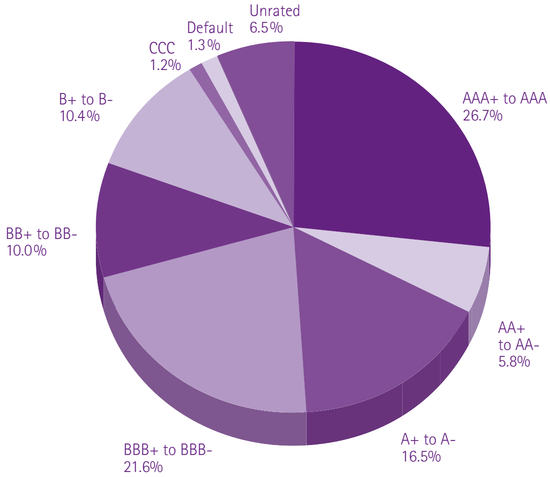
Exposure by geographical region

As at December 31, 2018, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (48.8%), France (10.4%), Switzerland (10.3%), Belgium (5.7%) and Germany (4.2%).



Exposure by rating

The credit risk profile of the Bank has remained stable since year-end 2017 and is of good quality. Indeed, the Investment Grade (IG) exposures represent 70.60% of the total credit risk exposure, of which 26.68% lies within the AAA+ to AAA range.



Exposure to Ireland and Spain

	31/12/17	31/12/18											
(in EUR million)		**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2031**	**TOTAL**
Ireland	277	0	0	0	0	0	76	107	88	0	50	15	**336**
Spain	593	30	23	66	55	26	67	44	80	160	113	0	**664**
TOTAL	**870**	**30**	**23**	**66**	**55**	**26**	**143**	**151**	**168**	**160**	**163**	**15**	**1,000**

Losses on Immovable Property

The following table displays the losses recorded in 2018 on exposures collateralised by residential and commercial immovable property regarding retail counterparties. These exposures are expressed in terms of Exposure-at-Default (EAD) and in millions of EUR.

	31/12/17		31/12/18	
Collateralised by:	**Sum of overall losses**	**Sum of the exposures**	**Sum of overall losses**	**Sum of the exposures**
Residential property	0.52	4,315	0.07	4,653
Commercial immovable property	0.36	391	0.00	374

Large exposures

According to its letter dated November 22, 2012, the CSSF has granted a total exemption for BIL's exposure towards its subsidiaries in the calculation of large exposure limits, in accordance with the former Circular 06/273 (part XVI, point 24), as amended.

Asset Quality

(in EUR million)	31/12/17	31/12/18
Gross amount of non credit-impaired loans to customers	13,289	13,362
Credit-impaired loans to customers	331	292
Specific provisions	247	224
Asset quality ratio[1]	2.43%	2.14%
Coverage ratio[2]	74.60%	76.65%

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

4.1 Definitions

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

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

[1] Credit-impaired loans as a percentage of total loans.
[2] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.

Liquidity risk measures BIL's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates.

Assets & Liabilities Management covers all the banking[1] book's structural risks, namely interest rate risk, foreign exchange risk and liquidity risk.

Counterparty risk measures BIL's daily exposure to an external counterparty.

4.2 Risk Policy

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

4.3 Organisation and Governance

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

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

4.4 Risk Measurement and Exposures

Market Risk

Risk measurement

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

BIL applies sensitivity and VaR approaches to accurately measure the market risk inherent to its various portfolios and activities.
- General interest rate risk and currency risk are measured through historical VaR;
- Trading portfolio equity risk is measured through historical VaR;
- Non-linear risks are measured through historical VaR;
- Specific interest rate risk (spread risk) is measured through sensitivities.

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

[1] In order to be compliant with the EBA and BIS regulations, the Bank set up the Interest Rate Risk in the Banking Book (IRRBB) principles during 2017 and continues to implement the latest developments relating to the EBA release of July 2018. The IRRBB refers to the current or prospective risk to the Bank's capital and its earnings, arising from the impact of adverse movements in interest rates on its banking book. The Bank implemented the two complementarity methods of measuring the potential impact of IRRBB: changes in expected earnings and changes in economic value.

In 2018, the hypothetical back-testing calculated on the trading portfolio revealed four downward back-testing exceptions following market data variations:
- decrease of USD interest rates;
- decrease of EUR interest rates;
- decrease of the EUR/USD exchange rate;
- decrease of the GBP/USD exchange rate.

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

Risk exposure

Treasury and Financial Markets

The detailed IR&FX VaR used for Treasury and Financial Markets activities (ALM not included) is disclosed in the table below. The average Value at Risk was EUR 0.30 million in 2018, compared with EUR 0.38 million in 2017.

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

VaR (10 days, 99%)		2018							
		IR[1] & FX[2] (trading and banking)[3]				EQT[4] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.40	0.31	0.27	0.22	0.01	0.01	0.01	0.01
	Maximum	0.74	0.47	0.75	0.41	0.04	0.02	0.07	0.04
Global	Average	0.30							
	Maximum	0.75							
	End of period	0.12							
	Limit	8.00							

As of December 31, 2018, the spread sensitivity (+1bp) for the capital markets activity amounted to EUR (10,789) for a limit set at EUR (60,000). The average for 2018 amounted to EUR (3,823).

Asset and Liability Management

The role of the ALM unit in terms of interest rate risk management is to reduce the volatility of the income statement, thereby safeguarding the gross margin generated by the business lines.

The sensitivity of the net present value of ALM positions to a change in interest rates is currently used as the main indicator for setting limits and monitoring risks.

As at December 31, 2018, the ALM sensitivity amounted to EUR 6 million (vs. EUR 4 million as at end 2017).

Throughout 2018, the ALM department managed its rate position in order to keep a neutral sensitivity.

The limit of interest rate sensitivity for a 100 bp parallel shift was EUR 81 million as at December 31, 2018 (identical to last year's limit).

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

Investment Portfolio

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

The Investment Portfolio had a total nominal exposure of EUR 5.91 billion as at December 31, 2018 (against EUR 5.57 billion as at December 31, 2017). Following IFRS 9 introduction, the majority of the bonds are classified in the "Financial investments measured at amortised cost" portfolio: EUR 4.6 billion as at December 31, 2018. The remaining part is classified in the "Financial investment at fair value through OCI" portfolio: EUR 1.31 billion as at December 31, 2018.

As far as the "Financial investment at fair value through OCI" (FVTOCI) portfolio is concerned, the sensitivity of fair value (and the OCI reserve), to a one basis point widening of the spread, was EUR (0.57) million as at December 31, 2018 (compared with EUR (1.91) million per basis point as at December 31, 2017).

Investment portfolio (in EUR million)

	Notional amount		Rate bpv		Spread bpv	
	31/12/17 AFS	31/12/18 FVTOCI	31/12/17 AFS	31/12/18 FVTOCI	31/12/17 AFS	31/12/18 FVTOCI
Treasury	2,107	514	(0.08)	(0.02)	(0.91)	(0.15)
ALM	1,779	798	(0.10)	(0.69)	(1.10)	(0.42)

Liquidity Risk

The liquidity management process is based upon covering funding requirements with available liquidity reserves. Funding requirements are assessed carefully, dynamically and comprehensively by taking the existing and planned on- and off-balance sheet asset and liability transactions into consideration. Reserves are constituted with assets eligible for refinancing with the central banks to which BIL has access (Banque Centrale du Luxembourg (BCL) and Swiss National Bank (SNB)).

Risk measurement and risk exposure

The internal liquidity management framework includes indicators enabling the assessment of BIL's resilience to liquidity risk. These indicators include liquidity ratios and liquidity gaps, which compare liquidity reserves with liquidity needs. These ratios are sent to the CSSF and to the BCL, on a daily and a weekly basis respectively.

Each day, a liquidity report containing the liquidity projection up to five days and a daily estimate LCR solo is sent to the Chief Risk Officer, the Chief Financial Officer, the ALM and treasury teams and the Risk Management.

In addition, a weekly stress liquidity report is sent to the Chief Executive Officer, the Chief Risk Officer, the ALM Committee members, the Risk Management, the ALM and Treasury teams. In 2018, the framework of BIL's liquidity stress was totally reviewed with the objective to quantify and anticipate the vulnerability of BIL to liquidity and refinancing risk regarding the Bank's specificities. In particular, they are considered as an early warning signal of the LCR evolution within the next three months. The liquidity risk is captured through three scenarios:

- Market-wide, which focuses on a depreciation of the Bank's assets and additional margin calls because of adverse market conditions;
- Idiosyncratic, which highlights a loss of confidence from BIL's counterparties;
- Combined, which is a mix of the two previous scenarios.

Stress	Market-Wide 3M		Idiosyncratic 3M	
In EUR million	Cumulated funding gap	Cumulated buffer	Cumulated funding gap	Cumulated buffer
31/12/2018	2,464	4,572	3,783	4,705

Stress	Combined 3M	
In EUR million	Cumulated funding gap	Cumulated buffer
31/12/2018	3,968	4,572

The stress results are presented to the ALCO with the other main liquidity indicators (e.g. LCR, NSFR, variation customer deposits, etc).

This excess cash is partially invested through the Bank's bond portfolio seen as a liquidity buffer. This portfolio is mainly composed of Central Bank-eligible bonds which are also compliant with the Basel III package requirements, i.e. the LCR and NSFR.

Liquidity Coverage Ratio (LCR)

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

In EUR billion	31/12/17	31/12/18
Stock of HQLA	4.44	4.42
Net Cash Outflows	3.38	3.3
LCR ratio	131%	134%
Limit	100%	100%

The LCR increased from 131% as of December 31, 2017 to 134% as of December 31, 2018.

The balance-sheet structure being stable from 2017 to 2018, the increase of the ratio mainly comes from the rise of placement to the Swiss National Bank and in parallel, from the drop of placement to the Banque Centrale of Luxembourg (BCL). The excess of liquidity remains stable.

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

Net Stable Funding Ratio (NSFR)

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

(in EUR billion)	31/12/17	31/12/18
Available Stable Funding (ASF)	15.22	16.42
Required Stable Funding (RSF)	13.94	15.18
NSFR ratio	109%	108%
Limit	100%	100%

Asset Encumbrance

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

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

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

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

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

This ratio measures the asset encumbrance of credit institutions in Europe in a harmonised way. The overall weighted average encumbrance ratio calculated and published regularly by the EBA (27.9% in 2018 for the reference period December 2017) is an available benchmark. By comparison, BIL's ratio is around 14% (cf. table below) and reflects a low/moderate level of asset encumbrance compared to other institutions. It is worth mentioning that the limit in the Risk Appetite Framework remains at a level of 25%.

(in EUR million)		
LEVEL OF ASSET ENCUMBRANCE	**31/12/17**	**31/12/18**
Encumbered assets	2,282	3,439
Collateral received re-used	203	184
TOTAL AMOUNT	**2,485**	**3,623**
Ratio[1]	**10%**	**14%**
Limit	**25%**	**25%**

CREDIT QUALITY OF UNENCUMBERED DEBT SECURITIES[2]	**31/12/17**	**31/12/18**
Step 1 (AAA to AA-)	2,316	2,004
of which eligible as LA for LCR	*1,977*	*1,799*
Step 2 (A+ to A-)	1,057	1,317
of which eligible as LA for LCR	*728*	*1,077*
Step 3 (BBB+ to BBB-)	918	1,058
of which eligible as LA for LCR	*868*	*998*
Non-rated securities	317	247
of which eligible as LA for LCR	*66*	*41*
TOTAL AMOUNT	**4,608**	**4,626**
of which eligible as LA for LCR	*3,639*	*3,915*

SOURCES OF ENCUMBRANCE	**31/12/17**	**31/12/18**
OTC Derivatives	370	502
Repurchase agreements	999	1,245
Collateral swaps	645	775
Securities Lending	443	301
Central Bank Reserves	758	550
TOTAL AMOUNT	**3,215**	**3,373**

CONTINGENT ENCUMBRANCE[3]	**31/12/17**	**31/12/18**
OTC Derivatives	79	72
Repurchase agreements	299	403
Collateral swaps	217	322
Securities Lending	149	125
TOTAL AMOUNT	**745**	**922**

As of December 31, 2018, EUR 3.6 billion of BIL group's balance sheet assets were encumbered and the asset encumbrance ratio was 14%. The yearly variation of the ratio is explained mainly by the addition of the central bank reserves (EUR 0.55 billion) as encumbered assets and the increase of repos (+EUR 0.25 billion). Key sources of encumbrance are the participation to the ECB Targeted Long Term Refinancing Operations (TLTRO) (EUR 0.7 billion), collateral swaps (EUR 0.78 billion) and repos (EUR 0.55 billion).

[1] Asset encumbrance ratio = (Encumbered assets + Collateral received re-used) / (Total assets + Total collateral received).
[2] Assets and collateral received available for encumbrance.
[3] Additional amount of encumbered assets resulting from a decrease by 30% of the fair value encumbered assets.

5. OPERATIONAL RISK AND INFORMATION SECURITY

5.1. Definition

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

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

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

5.2 Risk Policy

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

This framework is implemented through a preventive approach via the Risk and Control Self-Assessment (RCSA) and since 2017 through some Key Risk Indicators (KRI) under implementation throughout 2018.

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

In terms of operational risk, BIL's management conducted a review of the Operational Risk Global Policy in September 2016 (required every three years) and already includes minor changes.

In addition, it is worth noting that at the end of 2015, BIL has decided to build its Cyber Security Strategy with the help of an external consulting firm. Therefore, in 2016, the internal governance and policies related to Cyber Security topics (i.e. covering both IT Security and Information Security perimeters) have been reviewed. Finally, end of 2017, the Bank began its validation process for all these documents (i.e. charters, policies and procedures) required to support this framework.

The aim of the BIL Information Security Charter is to define the high level objectives in each domain of Information Security – as defined in ISO/IEC 27001:2013 and the corresponding roles defined in the CSSF circular 12/552 – that must be fulfilled to ensure the security of the information of the Bank. The Charter also defines the high level responsibilities of the different actors within BIL's Information Security.

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

5.3 Organisation and Governance

BIL's Operational Risk Management framework relies on strong governance, with clearly defined roles and responsibilities.

The following committees are responsible for operational risk at BIL:

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

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

- The Security Committee (SC) is mandated by the Management Board to oversee the risks with regards to BIL's Information Security including its subsidiaries and branches, as well as all risks of deficiency of confidentiality, availability, or integrity of the Bank's information assets. It is also in charge of overseeing security incidents, taking decisions on any project which could have a potential impact on the security of BIL's information assets and ensuring that the implementation and support of a global Business Continuity Plan (BCP) follows the strategy defined by the Management Board;
- The Compliance, Audit and Risk (CAR) Committee is a quarterly committee which covers aspects of compliance, audit and risk between BIL and its main IT provider. It brings together BIL Chief Compliance Officer, BIL Head of Audit, BIL Head of Risk Management and/or their substitutes (BIL Head of Operational Risk Management or BIL Head of Corporate Information Security) and their equivalents from its main IT provider.

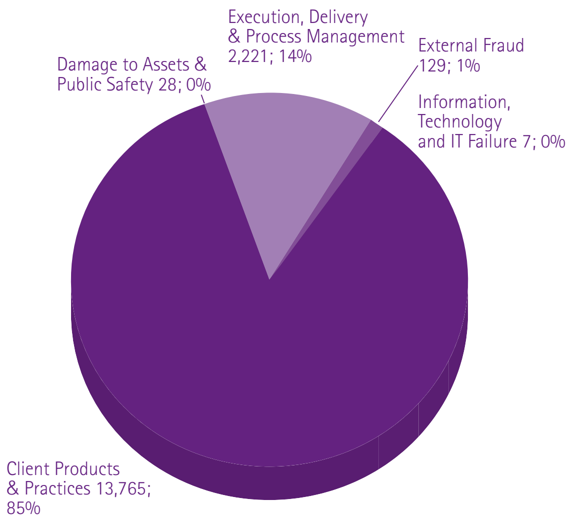
5.4 Risk measurement and management

The operational risk framework relies on the following elements.

Operational Risk Event Data Collection

- According to the Basel Committee, the systematic recording and monitoring of operational incidents is a fundamental aspect of risk management: "Historical data on banking losses may provide significant information for assessing the Bank's operational risk exposure and establishing a policy to limit/ manage risk";
- Regardless of the approach used to calculate the capital, data collection is required. Having a relevant procedure in place ensures that BIL complies with the Basel Committee's requirements, the guidelines for reporting operational incidents have been reviewed in 2018 to be in line with the organisation of the Bank. At the same time, recording incidents provides information that may be used to improve the internal control system and determine the Bank's operational risk profile;
- The split of BIL group's gross losses for the year 2018 by risk event type is disclosed in the chart below. The total gross impact is calculated on an absolute value basis, including losses, profits and excluding recoveries. This explains possible differences with other regulatory reports which are only based on a losses point of view.

Gross impact in EUR thousand and share in %



Execution, Delivery & Process Management incidents represent only 14% (vs 89.7% in 2017) of the total amount of BIL group's operational risk losses. Losses related to these incidents were mainly incurred due to human errors and the main operational risk lies in the wrong execution of instructions.

The incidents linked to the Client Products & Business Practices category represents 85% (vs 8.5% in 2017) of the total amount of operational incidents. The significant increase of the category is solely related to one significant incident (Tax claim) that accounts for 100% of the losses of the category.

In 2018, the Bank recorded 26 operational incidents related to External Fraud among which 8 have been stopped by the Bank (fraud attempts) for a risk exposure amount of EUR 226,953. Four frauds were executed for an effective loss of EUR 129,157 due to a recovery of EUR 39,094. The internal procedure on treatment of clients' instructions was reviewed to strengthen the call-back procedure.

No internal fraud was detected in 2018.

In the Information, Technology and Infrastructures category (9% of the incident number but 0% of the losses) the operational incidents were linked to disturbances in the IT systems. BIL does not estimate the related financial impacts except if they have direct financial consequences for clients. The main impact is calculated in man/days cost.

In the Damage to Assets & Public Safety category, a recovery of EUR 31,394 was obtained on the loss of EUR 58,915 observed during the year. The remaining loss of EUR 27,521 has not been recovered due to the insurance excess or the (partial) exclusion of the case from the insurance contracts.

Incidents reported includes also data breaches (4) and IT security incidents (42).

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

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

Self-assessment of risks and associated controls

A pre-defined Risk Control Self-Assessment (RCSA) exercise is performed each year to identify the most significant operational risk areas of the Bank. Within a 2-year plan, all departments of the Bank performed a RCSA exercise. This assessment which is forward-looking, provides a good overview of the various activities and existing checks and can lead to the definition of mitigating actions. The results of these assessments are reported to the management during the ICC meeting. The guideline for RCSA has been reviewed at the beginning of 2018 without significant changes.

Definition and follow-up of action plans

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

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

Calculation of the regulatory capital requirements

BIL group applies the standardised Basel approach to calculate the regulatory capital requirements for operational risk. This approach consists in applying a percentage (called the "beta factor", ranging from 12% to 18%) to an appropriate activity indicator, calculated for each of the eight business lines defined by the Basel Committee (i.e. corporate finance, commercial banking, retail banking, trading and sales, asset management, agency services, retail brokerage, payment and settlement).

The relevant indicator is defined by the regulator and is based on the operational results (capital gains, dividend and exceptional revenue excluded) of the underlying business lines, using an average over the past three years. The calculation is updated at the end of each year. The amount of operational risk-weighted assets has increased compared between December 31, 2017 and December 31, 2018 from EUR 831.0 million to EUR 836.6 million.

6. REGULATORY CAPITAL ADEQUACY – PILLAR 1

6.1 Weighted risks

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

For credit risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. Central Governments, Banks, Corporate, SMEs and Retail) for the assessment of its risk-weighted assets (RWA).

When it comes to market risk, the Bank has adopted the standardised method. This choice is based on the Bank's very moderate trading activity, whose sole purpose is to assist BIL's customers by providing the best service relating to the purchase or sale of bonds, foreign currencies, equities and structured products.

The standardised method is also used for the calculation of the weighted operational risks of the Bank.

At the end of 2018, the Bank's total RWAs amounted to EUR 8 billion, compared with EUR 6.6 billion at end 2017.

RWA growth of EUR 1,395 million (+21%) is mainly driven by credit risk (EUR + 1,398 million).

Meanwhile, the market risk RWAs decreased by EUR 8 million and the operational risk RWAs increased by EUR 6 million in 2018.

(in EUR million)	31/12/17	31/12/18	Variation
Weighted credit risks	5,713	7,111	24%
Weighted market risks	70	62	-11%
Weighted operational risks	831	837	1%
Weighted CVA risks	26	25	-4%
TOTAL WEIGHTED RISKS	6,640	8,035	21%

6.2 Capital adequacy ratios

(in EUR million)	31/12/17	31/12/18
Common Equity Tier 1 Capital (CET1)	811	968
Additional Tier One Capital	150	150
Total Own Funds	1,094	1,255
Risk Weighted Assets	6,640	8,035
Common Equity Tier 1 Capital Ratio (CET1)	12.21%	12.04%
TOTAL CAPITAL RATIO	16.48%	15.62%

Common Equity Tier 1 Capital including partial profit allocation for EUR 113.5 million in 2018.

7. INTERNAL CAPITAL ADEQUACY – PILLAR 2

Article 73 of Directive 2013/36/EU defines the ICAAP as a set of *"[...] sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed".*

The ICAAP is an internal instrument, which allows BIL group to hold the internal capital it deems appropriate in order to cover all the risks to which it is or could be exposed as a result of its business model and strategic plan, this being framed by its Risk Appetite and its risk bearing capacity.

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

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

The main building blocks of BIL group's ICAAP

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

This objective is achieved through the development of a sound and comprehensive framework based on the following key components:

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

Consolidated financial statements

Report of the "réviseur d'entreprises agréé"

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

Report on the audit of the consolidated financial statements

OPINION

We have audited the consolidated financial statements of Banque Internationale à Luxembourg S.A. (the "Bank" or the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

1. Impairment of loans and advances to customers

Description

At 31 December 2018, the gross loans and advances to customers of the Group amount to EUR 13,654.3 million against which an impairment of EUR 268.3 million is recorded (see Note 7.4 to the consolidated financial statements).

We considered this as a key audit matter as the measurement of impairment under IFRS 9 requires complex and subjective judgments and estimates by the Group's management. The Group uses the following methods to assess the required impairment allowance:

- The expected credit loss (ECL) allowance is measured for all loans and advances based on the principles laid down by IFRS 9 and adapted by the Bank in its ECL calculation process, model and tool;
- For defaulted loans and advances, impairment is assessed individually on a regular basis.

In particular, the determination of impairment against loans and advances to customers requires:

- The use of judgments and estimates for the design and setup of the internal rating system which form the basis of the allocation of loans and advances within the 3 buckets (stage 1, stage 2, stage 3) foreseen by IFRS 9;
- Accounting interpretations and modelling assumptions used to build the models that serve as a basis to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- The use of judgments and assumptions regarding the amount and timing of future cash flows as well as the value and recoverability of related collateral for defaulted loans and advances.

Refer to the Accounting policy Note 1.8.5 and to Note 7.4 to the consolidated financial statements.

How the matter was addressed in our audit

We tested the design and operating effectiveness of key controls across the processes relevant to the ECL calculation. This included testing of:

- Entity level controls over the ECL modelling process, including model review and governance;
- Controls over the incorporation of multiple economic scenarios by the Credit committee and the Group's Executive Committee;
- Controls over allocation of loans and advances into stages, including quarterly movements between stages, and the identification of defaulted loans and advances;
- Controls over data accuracy and completeness.

We also performed the following substantive audit procedures:

- We verified that the data used as a basis to calculate the ECL are complete and accurate; we also tested, on a sample basis, extractions of data used in the models, including rating of loans and movements between various ratings;
- We tested a sample of loans and advances (including an extended sample of loans included into the Credit Watchlist) to form our own assessment as to whether they are classified in the appropriate bucket (staging methodology adjusted by manual entries, as the case may be);
- With the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in ECL models. This included assessing the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models, as well as challenging the forward looking macro-economic scenarios;
- We performed an overall assessment of the ECL provision levels by stage as well as their variations during the period to determine if they were reasonable considering the Group's portfolio, risk profile, credit risk management practices and the macroeconomic environment;
- We performed substantive audit procedures on a sample of defaulted loans and advances, consisting of key items. We examined in a critical manner the assumptions used by the Group to determine expected cash flows and estimated recovery from any underlying collateral.

2. Impairment of goodwill

Description

As at 31 December 2018, the gross amount of goodwill (arising in a business combination) amounted to EUR 62.6 million against which an impairment allowance of EUR 11.7 million was recorded.

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

Recoverable values are primarily measured from a Dividend Discount Model ("DDM") valuation method which, in practice, represents an estimation of fair value less costs of disposal. Other cross-check methods such as the "Net asset value + multiple of Assets under management" might be used to corroborate the results of the DDM method applied to the wealth management units.

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

Refer to the Accounting policy Note 1.20 and to Note 7.11 to the consolidated financial statements.

How the matter was addressed in our audit

We performed the following procedures:

- We assessed whether the CGUs identified by the Bank that should be subject to impairment testing are aligned with our understanding of the Bank's activities;
- We obtained the goodwill valuation methodology applied by the Bank;
- We assessed whether or not the valuation methodology used by the Bank is reasonable in the circumstances, giving consideration to the:
  - (I) nature of the entity being valued;
  - (II) premise of value;
  - (III) business, industry, and environment in which the entity operates; and
  - (IV) common practices among valuation experts.
- We identified, verified and tested significant assumptions used by the Bank for each CGU and evaluated whether the information used:
  - (I) was reasonably available at the time of the analysis;
  - (II) was appropriate given the circumstances; and
  - (III) gave consideration to observable market prices.
- We also assessed the consistency and reasonableness of these assumptions by back-testing the assumptions made at prior year end;
- We verified the arithmetical accuracy of the calculation performed by the Group.

3. Deferred tax assets recognition and impairment

Description

As at 31 December 2018, the deferred tax assets recognized in the consolidated balance sheet amounts to EUR 220.6 million of which EUR 50.0 million resulting from the loss perpetrated in 2011 by one of the former branches of the Bank in a third party country.

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

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

How the matter was addressed in our audit

We performed the following procedures:

- We obtained (1) the budget prepared by the Bank for 2019 and (2) the business plan prepared by the Bank for the period 2020 – 2025 as well as the assumptions made by the Bank to extrapolate the net income before tax beyond the horizon of the business plan;
- We assessed the consistency and reasonableness of these assumptions including back-testing of the assumptions made at prior year end;
- We evaluated whether updates in the Luxembourg tax laws and regulations have an impact on the assumptions made by the Management;
- For the deferred tax assets arising from tax losses carried forward from the former third party country's branch, we assessed whether the conditions for such tax losses to be incorporated to the basis of the consolidated tax losses carried forward are fulfilled;
- We verified the arithmetical accuracy of the computations, included the corporate income tax rate used.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

RESPONSIBILITIES OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ" FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

We also:

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have been reappointed as "Réviseur d'Entreprises Agréé" by the Board of directors on 8 December 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is six years.

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

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

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

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, April 5, 2019

Consolidated balance sheet

ASSETS (in EUR)		Notes	IAS39 01/01/17[1]	IAS39 31/12/17[1]	IFRS9 31/12/18
I.	Cash, balances with central banks and demand deposits	7.2	2,124,180,859	2,795,735,288	3,281,434,826
II.	Financial assets held for trading	7.5	79,801,733	70,526,377	126,889,819
III.	Financial investments measured at FV	7.6	6,381,471,453	4,178,699,775	1,498,024,806
	Financial assets at FV through OCI	*7.6.2*			*1,476,561,341*
	Financial assets designated at fair value through P/L	*7.6.1*	*0*	*0*	*0*
	Non-trading financial assets mandatorily at FV through PL	*7.6.1*			*21,463,465*
	Financial investments available for sale		*6,381,471,453*	*4,178,699,775*	
IV.	Loans and advances to credit institutions	7.3	1,032,919,239	653,467,381	1,075,243,576
V.	Loans and advances to customers	7.4	12,042,999,820	13,344,203,406	13,386,056,162
VI.	Financial investments measured at amortised cost	7.7			5,039,541,719
	Financial investments held to maturity		536,013,388	1,753,271,909	
VII.	Derivatives	9.1	245,883,149	227,748,388	290,313,542
VIII.	Fair value revaluation of portfolios hedge against interest rate risk		6,523,489	3,175,567	1,470,569
IX.	Investments in subsidaries, joint ventures and associates	7.8	28,274,796	25,225,654	24,580,236
X.	Investment property	7.10	131,760,000	134,820,000	800,000
XI.	Property, plant and equipment	7.9	107,055,746	111,832,558	106,587,651
XII.	Intangible fixed assets and goodwill	7.11	121,944,143	161,458,649	194,083,757
XIII.	Current tax assets	7.12	214,285	224,374	201,980
XIV.	Deferred tax assets	7.12	239,297,190	233,836,509	225,453,739
XV.	Other assets	7.13	76,921,160	76,400,794	62,015,329
XVI.	Non-current assets and disposal groups held for sale	7.16	0	0	171,859,785
TOTAL ASSETS			**23,155,260,450**	**23,770,626,629**	**25,484,557,496**

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

LIABILITIES (in EUR)		Notes	IAS39 01/01/17[1]	IAS39 31/12/17[1]	IFRS9 31/12/18
I.	Amounts due to credit institutions	8.1	2,216,090,000	2,787,854,788	2,945,818,913
II.	Amounts due to customers	8.2	16,129,249,400	16,315,477,809	17,267,224,127
III.	Financial liabilities measured at fair value through profit or loss	8.3	879,926,299	776,333,210	832,445,114
	Financial liabilities measured at fair value through P/L		*2,013,272*	*0*	*0*
	Financial liabilities designated at fair value		*877,913,027*	*776,333,210*	*832,445,114*
IV.	Derivatives	9.1	436,598,717	384,294,457	503,183,727
V.	Fair value revaluation of portfolios hedged against interest rate risk		48,683,055	35,131,162	24,826,064
VI.	Debt securities	8.4	1,529,888,297	1,580,051,579	1,933,985,745
VII.	Subordinated debts	8.5	293,936,368	281,864,136	285,345,888
VIII.	Provisions and other obligations	8.6	50,344,612	58,643,944	53,116,313
IX.	Current tax liabilities	8.7	3,878,602	4,452,914	1,878,972
X.	Deferred tax liabilities	8.7 / 9 2	4,556,551	8,699,564	4,876,126
XI.	Other liabilities	8.8	286,272,933	228,254,924	245,969,510
XII.	Liabilities included in disposal groups held for sale	7.16 / 8.9	0	0	1,335,413
TOTAL LIABILITIES			**21,879,424,834**	**22,461,058,487**	**24,100,005,912**

SHAREHOLDERS' EQUITY (in EUR)		Notes	IAS39 01/01/17[1]	IAS39 31/12/17[1]	IFRS9 31/12/18
XIII.	Subscribed capital	9.7	141,212,330	141,212,330	141,212,330
XIV.	Additional paid-in capital		708,216,940	708,216,940	708,216,940
XV.	Treasury shares		(1,455,000)	(1,455,000)	(1,455,000)
XVI.	Reserves and retained earnings		358,499,388	291,372,912	400,677,236
XVII.	Net income for the year		0	124,405,334	130,814,616
CORE SHAREHOLDERS' EQUITY			**1,206,473,658**	**1,263,752,516**	**1,379,466,122**
XVIII.	Gains and losses not recognised in the consolidated statement of income		69,361,958	45,815,626	5,085,462
	Financial instruments at FV through OCI				*37,378,103*
	AFS reserve		*99,775,612*	*65,617,927*	
	Other reserves		*(30,413,654)*	*(19,802,301)*	*(32,292,641)*
GROUP EQUITY			**1,275,835,616**	**1,309,568,142**	**1,384,551,584**
XIX.	Non-controlling interests		0	0	0
TOTAL SHAREHOLDERS' EQUITY			**1,275,835,616**	**1,309,568,142**	**1,384,551,584**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**23,155,260,450**	**23,770,626,629**	**25,484,557,496**

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

Consolidated statement of income

(in EUR)		Notes	IAS39 31/12/17[1]	IFRS9 31/12/18
I.	Interest and similar income	11.1	509,866,565	599,792,004
	of which : Interest revenue calculated using the effective interest method		*386,005,526*	*397,872,067*
II.	Interest and similar expenses	11.1	(203,594,375)	(288,020,901)
III.	Dividend income	11.2	4,429,900	528,860
IV.	Net income from associates	11.3	7,344,685	1,767,360
V.	Net trading income	11.4	4,107,131	(23,000,395)
VI.	Net income on financial instruments measured at fair value and net result of hedge accounting	11.5	55,535,105	48,899,351
VII.	Net income on derecognition of financial instruments at amortised cost	11.6	4,210,476	4,432,829
VIII.	Fee and commission income	11.7	232,662,071	236,177,692
IX.	Fee and commission expenses	11.7	(32,005,994)	(38,804,305)
X.	Other net income	11.8	(20,265,224)	31,545,750
INCOME			**562,290,340**	**573,318,245**
XI.	Staff expenses	11.9	(229,130,073)	(214,620,530)
XII.	General and administrative expenses	11.10	(135,009,146)	(139,560,588)
XIII.	Amortisation of tangible and intangible fixed assets	11.12	(31,977,736)	(44,080,327)
EXPENSES			**(396,116,955)**	**(398,261,445)**
GROSS OPERATING INCOME			**166,173,385**	**175,056,800**
XIV.	Impairments on financial instruments and provisions for credit commitments	11.13	(20,036,185)	(18,122,023)
XV.	Provisions for legal litigations	11.14	234,317	(510,000)
NET INCOME BEFORE TAX			**146,371,517**	**156,424,777**
XVI.	Tax expenses	11.15	(21,966,183)	(25,610,161)
NET INCOME FOR THE YEAR			**124,405,334**	**130,814,616**
	Net income - Group share		124,405,334	130,814,616
	Non-controlling interests		0	0

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

Consolidated statement of comprehensive income

(in EUR)	IAS39 31/12/17[1]	IFRS9 31/12/18
NET INCOME FOR THE YEAR RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**124,405,334**	**130,814,616**
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**(22,875,576)**	**(19,549,457)**
Items that will not be reclassified to profit or loss	**7,237,555**	**11,886,152**
Actuarial gains (losses) on defined benefit pension plans	9,821,629	(9,269,163)
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		(56,427)
Fair value changes of equity instruments measured at fair value through other comprehensive income		20,188,302
Tax on items that will not be reclassified to profit or loss	(2,584,074)	1,023,440
Items that may be reclassified to profit or loss	**(30,113,131)**	**(31,435,609)**
Gains (losses) on net investment hedge	271,746	(117,986)
Translation adjustments	4,802,531	(2,845,166)
Gains (losses) on cash flow hedge	5,120,279	(1,330,129)
Fair value changes of debt instruments and loans and advances at fair value through other comprehensive income		(37,187,356)
Unrealised gains (losses) on available for sale financial investments	(46,483,094)	
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	(4,747,536)	0
Tax on items that may be reclassified to profit or loss	10,922,943	10,045,028
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**101,529,758**	**111,265,159**
Attributable to equity holders of the parent company	**101,529,758**	**111,265,159**
Attributable to non-controlling interests	0	0

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

Consolidated statement of changes in equity

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	**Subscribed capital**	**Additional paid-in capital**	**Treasury shares**	**Reserves and retained earnings [1]**	**Net income for the year**	**Core shareholders' equity**
As at 01/01/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**358,499,388**	**0**	**1,206,473,658**
Dividend paid				(60,015,240)		(60,015,240)
Classification of income						0
Interest on contingent convertible bond				(7,140,094)		(7,140,094)
Changes in scope of consolidation						0
Dividend received on own shares				28,858		28,858
Net income for the year					124,405,334	124,405,334
As at 31/12/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**291,372,912**	**124,405,334**	**1,263,752,516**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	**Securities AFS**	**Derivatives (CFH)**	**Associates**	**Other reserves**	**Translation adjustments [3]**	**Gains and losses not recognised in the consolidated statement of income**
As at 01/01/17[2] - IAS39	**99,775,612**	**(8,030,943)**	**6,090,504**	**(13,645,635)**	**(14,827,580)**	**69,361,958**
Net change in fair value through equity - Available for sale investments	(862,104)		(821,631)			(1,683,735)
Net change in fair value through equity - Cash flow hedges		1,168,211				1,168,211
Translation adjustments	(25,292)			865,133	4,802,534	5,642,375
Cancellation of FV following AFS disposals	(33,270,289)		(3,925,905)			(37,196,194)
Cash flow hedge + Break in hedging		2,821,346				2,821,346
Net change in other reserves				5,701,665		5,701,665
As at 31/12/17[2] - IAS39	**65,617,927**	**(4,041,386)**	**1,342,968**	**(7,078,837)**	**(10,025,046)**	**45,815,626**

NON-CONTROLLING INTERESTS (in EUR)	**Core shareholders' equity**	**Gains/Losses not recognised in the consolidated statement of income**	**Non-controlling interests**
As at 01/01/17[2] - IAS39	**0**	**0**	**0**
Conversion variations	0	0	0
Changes in consolidation scope	0	0	0
As at 31/12/17[2] - IAS39	**0**	**0**	**0**

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

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 14.9 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.
[2] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.
[3] As at December 31, 2017, translation adjustments comprise an amount of EUR -41,914,723 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings [1]	Net income for the year	Core shareholders' equity
As at 31/12/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**291,372,912**	**124,405,334**	**1,263,752,516**
IMPACT OF ADOPTING IFRS 9	**0**	**0**	**0**	**(10,093,323)**	**6,113,197**	**(3,980,126)**
As at 01/01/18 - IFRS 9	**141,212,330**	**708,216,940**	**(1,455,000)**	**281,279,589**	**130,518,531**	**1,259,772,390**
Classification of income 2017				130,518,531	(130,518,531)	
Interest on contingent convertible bond				(7,299,443)		(7,299,443)
Changes in scope of consolidation				7,966		7,966
Realised performance on equities FVTOCI				(3,829,407)		(3,829,407)
Net income for the year					130,814,616	130,814,616
As at 31/12/18 - IFRS 9	**141,212,330**	**708,216,940**	**(1,455,000)**	**400,677,236**	**130,814,616**	**1,379,466,122**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	Financial instruments at FV through OCI	Derivatives (CFH)	Associates	Other reserves	Translation adjustments [3]	Gains and losses not recognised in the consolidated statement of income
As at 31/12/17[2] - IAS39	**65,617,927**	**(4,041,386)**	**1,342,968**	**(7,078,837)**	**(10,025,046)**	**45,815,626**
IMPACT OF ADOPTING IFRS 9	**(19,486,766)**	**(670,678)**	**(1,342,968)**	**323,122**	**(3,421)**	**(21,180,711)**
As at 01/01/18 - IFRS 9	**46,131,161**	**(4,712,064)**	**0**	**(6,755,715)**	**(10,028,467)**	**24,634,915**
Net change in fair value through equity - FV through OCI	(1,566,590)					(1,566,590)
Net change in fair value through equity - Cash flow hedges		(1,235,718)				(1,235,718)
Translation adjustments	(9,635)			(305,912)	(2,845,163)	(3,160,710)
Cancellation of FV following FVTOCI disposals	(7,168,930)					(7,168,930)
Cash flow hedge + Break in hedging		164,258				164,258
Net change in other reserves	(7,903)			(6,573,860)		(6,581,763)
Changes in scope of consolidation						
As at 31/12/18 - IFRS 9	**37,378,103**	**(5,783,524)**	**0**	**(13,635,487)**	**(12,873,630)**	**5,085,462**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains/Losses not recognised in the consolidated statement of income	Non-controlling interests
As at 01/01/18 - IFRS 9	**0**	**0**	**0**
Conversion variations	0	0	0
Other transfers	0	0	0
Changes in consolidation scope	0	0	0
As at 31/12/18 - IFRS 9	**0**	**0**	**0**

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

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 1.4 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.
[2] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.
[3] As at December 31, 2018, translation adjustments comprise an amount of EUR -47,246,127 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Consolidated cash flow statement

(in EUR)		IAS39 31/12/17[1]	IFRS9 31/12/18
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		124,405,334	130,814,616
Adjustment for :			
- Depreciation and amortisation	7.9 / 7.11	31,977,736	44,080,327
- Impairment on bonds, equities and other assets	11.5 / 11.6 / 11.13	(10,939,909)	(24,226,511)
- Net gains / (losses) on investments		(4,538)	(1,553,372)
- Provisions (including collective impairment)	8.6 / 11.13	10,778,242	(14,630,218)
- Change in unrealised gains / (losses)	11.4	779,087	(35,127,656)
- Income / (expense) from associates	7.8 / 11.3	(2,912,673)	(1,767,360)
- Dividends from associates	7.8	5,646,292	1,214,280
- Deferred taxes	11.15	20,975,276	24,569,595
Changes in operating assets and liabilities		516,307,663	514,059,719
NET CASH FLOW FROM OPERATING ACTIVITIES		**697,012,510**	**637,433,420**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	7.9 / 7.11	(79,193,238)	(71,505,179)
Sale of fixed assets	7.9 / 7.11	1,741,337	2,271,551
Purchase of non-consolidated shares		0	(48,237)
Sales of non-consolidated shares		43,204	2,855,244
Capital increase on non-consolidated subsidiaries		0	(332,170)
Sale of subsidiaries		(235,752)	685,679
NET CASH FLOW FROM INVESTING ACTIVITIES		**(77,644,449)**	**(66,073,112)**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(60,015,240)	0
NET CASH FLOW FROM FINANCING ACTIVITIES		**(60,015,240)**	**0**
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS		**559,352,821**	**571,360,308**
CASH & CASH EQUIVALENT AT THE BEGINNING OF YEAR		**2,439,655,439**	**2,972,154,330**
Net cash flow from operating activities		697,012,510	637,433,420
Net cash flow from investing activities		(77,644,449)	(66,073,112)
Net cash flow from financing activities		(60,015,240)	0
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents		(26,853,930)	8,849,027
CASH & CASH EQUIVALENT AT THE END OF THE YEAR	**7.1**	**2,972,154,330**	**3,552,363,665**
ADDITIONAL INFORMATION			
Taxes paid		(388,274)	(1,667,480)
Dividends received	11.2	4,429,900	528,860
Interests received		508,027,813	568,648,548
Interests paid		(197,909,093)	(257,612,393)

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

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

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

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

Changes in liabilities arising from financing activities (in EUR)	**As at 01/01/18**	**Acquisition – Reimbursement**	**Changes resulting from the acquisition or loss of subsidiary control**	**Foreign exchange movement**	**Other changes**	**As at 31/12/18**
Subordinated debts	**283,347,225**			4,065,362		**287,412,587**
Subscribed capital	**141,212,330**					**141,212,330**
Additional paid-in capital	**708,216,940**					**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

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

[1] Refer to note 1.2.7 for details of restatements made on opening and closing balances for year 2017.

Notes to the consolidated financial statements

Presentation of the consolidated financial statements

If the balance of an item is nil for the financial year under review as well as for the comparative year, this item is not included in the (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 change in equity, the (consolidated) cash flow statement, as well as to the notes to the (consolidated) financial statements.

Note 11

Notes on the consolidated statement of income

Note 12

Notes on risk exposures

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

GENERAL INFORMATION

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

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

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

The purpose of BIL is to undertake all banking and financial operations, for its own account or for the account of third parties, in Luxembourg or abroad – including the establishment of subsidiaries, branches and representative offices – and to carry out all financial, industrial and commercial operations, as well as to take deposits of funds and to hold items of value on deposit.

These financial statements were approved for publication by the Board of Directors on March 22, 2019, and signed by Hugues Delcourt, Chief Executive Officer of BIL group.

These annual accounts cover the period beginning January 1, 2018 and ending December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

1. ACCOUNTING RULES AND METHODS

1.1 Basis of accounting

1.1.1 Statement of compliance

BIL's consolidated financial statements have been prepared in accordance with all IFRS as adopted by the European Union (EU) and endorsed by the European Commission (EC) up to December 31, 2018.

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

1.1.2 Accounting estimates and judgements

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

Judgements are made principally in the following areas:
- Determination on whether BIL controls the investee, including special purpose entities (see 1.4);
- Classification of financial instruments into the appropriate category ("Held-to-Collect", "Held-to-Collect-and-Sell", "Held-for-trading", "Designated at Fair Value through P&L" and "Mandatorily at Fair Value through P&L") for measurement purposes based on the instrument's characteristics and BIL's intention (see 1.8.3);
- Measurement of the expected credit loss allowance (see 1.8.5);

- Financial instruments for which no quoted market prices on active markets are available are valued by means of valuation techniques. The determination as to whether or not there is an active market is based on criteria such as number of contributors, bid offer spread and issue size (see 1.9);
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques (see 1.9);
- The appropriateness of designating derivatives as hedging instruments (see 1.14); and
- Existence of a present obligation with probable outflows in the context of litigation (see 1.26).

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

Estimates are principally made in the following areas:
- Determination of the market value correction to adjust for market value and model uncertainty (see 1.9);
- The measurement of hedge effectiveness in hedging relations (see 1.14);
- Determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets (see 1.17, 1.18);
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see 1.20.2);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see 1.24); and
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.25).

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

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

The overview of the texts below is made up to the reporting date of December 31, 2018.

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

- IFRS 9 "Financial instruments" (issued on July 24, 2014): refer to notes 1.2.6 and 1.3 for changes brought by the standard and the related impacts;
- IFRS 15 "Revenue from contracts with customers" (issued on May 28, 2014) including amendments to IFRS 15 "effective date of IFRS 15" (issued on September 11, 2015) and clarifications to IFRS 15 (issued on April 12, 2016). The standard does not have a material impact on BIL;
- IFRIC 22 "Foreign currency transactions and advance consideration" (issued on December 8, 2016): the text clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. No impact on BIL;
- Amendments to IAS 40 "Transfers of investment property" (issued on December 8, 2016): the amendments clarify the application of paragraph 57 of IAS 40. No impact on BIL;
- Amendments to IFRS 2 "Classification and measurement of share-based payment transactions" (issued on June 20, 2016): the amendments clarify the classification and measurement of share-based payment transactions;
- Annual improvements to IFRS standards 2014-2016 cycle (issued on December 8, 2016) has been endorsed on February 26, 2018:
  - The amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" aims to delete short-term exceptions and has no impact on BIL;
  - The amendment to IAS 28 "Investments in associates and joint ventures" clarifies the election to measure at fair value through profit or loss an investment in an associate or a joint venture and has no impact on BIL;
  - The amendment to IFRS 12 "Disclosure of interests in other entities" clarifies the scope of the standard. No impact on BIL.
- Amendments to IFRS 4 "applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts" (issued on September 12, 2016). No impact for BIL.

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

- IFRS 16 "Leases" (issued on January 13, 2016, and endorsed on October 31, 2017) will replace IAS 17 Leases (and related Interpretations) and will be effective as from January 1, 2019. The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. Refer to note 1.4 for the impact on BIL financial reporting.

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

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

- IFRIC 23 "Uncertainty over income tax treatments" (issued on June 7, 2017). This standard is applicable as from January 1, 2019. The requirements prescribed by the interpretation are already applied by the Bank.

1.2.4 IFRS and IFRIC texts issued during previous periods and neither endorsed by the European Commission nor applicable as at January 1, 2018

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

1.2.5. IFRS and IFRIC texts issued during the current period and neither endorsed by the European Commission nor applicable as at January 1, 2018

- Amendments to IAS 19 "Plan amendment, curtailment or settlement" (issued on February 7, 2018). These amendments are applicable as from January 1, 2019;
- Amendments to References to the Conceptual Framework in IFRS standards (issued on March 29, 2018). These amendments are applicable as from January 1, 2020;
- Amendments to IFRS 3 "Business Combinations" (issued on October 22, 2018). These amendments are applicable as from January 1, 2020;
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on October 31, 2018). These amendments are applicable as from January 1, 2020.

1.2.6 Change in accounting policies on Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. BIL elected as a policy choice permitted under IFRS 9 to continue apply hedge accounting in accordance with IAS 39.

The Bank does not apply IFRS 9 retrospectively and hence, has not restated comparative information for 2017. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed in note 1.3.

The 2018 annual report contains the accounting policies on financial instruments under IFRS 9. For accounting policies on financial instruments under IAS 39 and applied to 2017 comparative information of this report, please refer to the 2017 annual report (note 1.7 of the consolidated financial statements).

CHANGES TO CLASSIFICATION AND MEASUREMENT

To determine their classification and measurement, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVTOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition;
- Financial assets at FVTPL.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in other comprehensive income (OCI) with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in note 1.8 and the quantitative impact of applying IFRS 9 as at January 1, 2018 in note 1.3.

CHANGES IN THE IMPAIRMENT CALCULATION

The adoption of IFRS 9 has changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

The details of the Bank's impairment method are disclosed in note 1.8 and the quantitative impact of applying IFRS 9 as at January 1, 2018 in note 1.3.

1.2.7 Restatements made in accordance with IAS 8

1.2.7.1 Investment properties

Compared to previous consolidated financial statements, in the consolidated financial statements as at December 31, 2018, BIL has changed its accounting policy for the measurement of property held for investment where it switches from the cost model to the fair value model as permitted by IAS 40.

In accordance with IAS 8 BIL has voluntary changed the measurement model of investment property from cost to fair value in order (i) to align with the accounting policies of its new shareholder Legend Holdings and (ii) to provide more relevant information about the Bank's financial position.

1.2.7.2 Provisions for pensions

Compared to previous financial statements, in the financial statements as at December 31, 2018, BIL has corrected the calculation of the provisions for pensions where obligations are calculated considering employees historical occupancy rate instead of considering each employee with a full time occupancy rate.

1.2.7.3 Impact of restatements made in accordance with IAS 8

In accordance with IAS 8, the changes made have been applied retrospectively and impact the financial position of BIL as disclosed in the table hereunder.

(in EUR)		01/01/17	01/01/17 restated	Impact of restatement of provisions for pensions	Impact of restatement of investment properties
X.	Investment property	120,762,712	131,760,000	0	10,997,288
XIV.	Deferred tax assets	243,692,753	239,297,190	(2,957,391)	(1,438,172)
XV.	Other assets	76,921,160	76,921,160	0	0
TOTAL ASSETS		**23,148,658,726**	**23,155,260,450**	**(2,957,391)**	**9,559,116**
VIII.	Provisions and other obligations	61,714,820	50,344,612	(11,370,208)	0
X.	Deferred tax liabilities	2,759,526	4,556,551	0	1,797,025
XVI.	Reserves and retained earnings	342,324,482	358,499,388	8,412,817	7,762,090
XVII.	Net income for the year	0	0	0	0
XVIII.	Gains and losses not recognised in the consolidated statement of income	69,361,958	69,361,958	0	0
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**23,148,658,726**	**23,155,260,450**	**(2,957,391)**	**9,559,115**

(in EUR)		31/12/17	31/12/17 restated	Impact of restatement of provisions for pensions	Impact of restatement of investment properties
X.	Investment property	114,161,786	134,820,000	0	20,658,214
XIV.	Deferred tax assets	238,463,684	233,836,509	(2,937,396)	(1,689,779)
XV.	Other assets	74,322,139	76,400,794	2,078,655	0
TOTAL ASSETS		**23,752,516,935**	**23,770,626,629**	**(858,741)**	**18,968,435**
VIII.	Provisions and other obligations	67,858,620	58,643,944	(9,214,676)	0
X.	Deferred tax liabilities	4,641,338	8,699,564	0	4,058,226
XVI.	Reserves and retained earnings	275,198,005	291,372,912	8,412,817	7,762,090
XVII.	Net income for the year	116,643,342	124,405,334	613,873	7,148,119
XVIII.	Gains and losses not recognised in the consolidated statement of income	46,486,381	45,815,626	(670,755)	0
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**23,752,516,935**	**23,770,626,629**	**(858,741)**	**18,968,435**

1.2.8 Presentation of advances on demand to credit institutions

The advances on demand to credit institutions as of January 1, 2017 and December 31, 2017 which respectively amounts to EUR 38,356,916 and EUR 173,800,837 and that were classified under the caption "Loans and advances to credit institutions" in the annual report 2017 have been reclassified under the caption "Cash, balances with central banks and demand deposits" in this report. This reclassification is to align with the current financial regulatory reporting.

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

IFRS 9 has replaced the existing standard IAS 39 since January 1, 2018. BIL has elected as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39 as endorsed by the European Commission.

BIL does not apply IFRS 9 retrospectively and hence has not restated comparative information for 2017 for financial instruments in the scope of the standard. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed below.

The standard is divided into 3 sections:

1.3.1 Section I – Classification and measurement of financial instruments

As a result of the application of the classification and measurement requirements of IFRS 9, the Bank made the following reclassifications on its Investment Portfolio as of January 1, 2018:

- 210 positions of debt securities for a nominal of EUR 2.12 billion have been reclassified from available for sale under IAS 39 to amortized cost under IFRS 9.

  Debt securities that have been reclassified to amortized cost are of four types: Sovereign and Agencies, Local Authorities, Covered Bonds and ABS. For Sovereign and Agencies, Local Authorities and Covered Bonds, these are ECB eligible assets and they serve as liquidity reserve for the Bank in the framework of the Liquidity Coverage Ratio requirements, so they are expected to be held till maturity. For ABS, the Investment Portfolio only invests in Primary market and investments are retained long-term, it is why it was decided to reclassify all ABS to amortized cost. Indeed, since the beginning of the portfolio, there was no sale in this asset type. In addition all these instruments meet the SPPI criterion;

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

  All debt securities included in the held-to-maturity portfolio as of January 1, 2018 met the SPPI criterion and therefore elected to classify at amortised cost;

- 192 positions of debt securities for a nominal of EUR 1.77 billion have been reclassified from available for sale under IAS 39 to fair value through other comprehensive income under IFRS 9.

  These instruments are managed within a business model of collecting contractual cash flows and selling the financial assets;

- 7 positions of debt securities for a nominal of EUR 0.12 billion previously classified in held to maturity under IAS 39 have been reclassified to fair value through other comprehensive income under IFRS 9.

  These 7 debt securities are of three types: Sovereign, Supra and Local Authorities. Even though these assets could be classified in HTC, since these exposures present a significant expected capital gain and that the portfolio has to deliver a reasonable risk-adjusted return, it was decided that these exposures will be classified in HTC&S as they are expected to be sold in the coming 3 years;

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

  These 15 debt instruments are held in a "hold-to-collect" business model and meet the SPPI criterion. They have been reclassified from "Loans and advances to customers" to "Financial Investments at amortised cost" to align with the new measurement category under IFRS 9;

Remaining securities have been reclassified as described hereunder :

- Open-ended funds for less than EUR 0.02 billion have been reclassified from available for sale under IAS 39 to mandatorily at fair-value through P&L under IFRS 9.

  These investments in open-ended funds do not qualify for the definition of equity instruments for which the FVTOCI option can apply;

- Equity securities for a nominal of EUR 0.03 billion and classified as available for sale under IAS 39 have been reclassified to fair value through other comprehensive income under IFRS 9 as the Bank has irrevocably elected to present in other comprehensive income subsequent changes in the fair value of all its investments in equity instruments.

Financial instruments classified as Loans and Receivables under IAS 39 have been reclassified to amortized cost under IFRS 9.

Classification impact on BIL's equity:
- Debt securities' reclassification due to the application of the new business models impacted the OCI reserve for EUR -8.8 million before taxes;
- Equities for which the Bank has elected the fair-value through OCI option led to a transfer of EUR -18.8 million before taxes from retained earnings to OCI reserve;
- Open-ended funds initially classified in the IAS 39 AFS portfolio and now classified at fair-value through P&L brought to a transfer of EUR +1.2 million before taxes from the OCI reserve to retained earnings.

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

The following table reconciles the carrying amounts of financial assets, from previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39	IFRS9 - 01/01/2018															
ASSET (in EUR thousands)	31/12/17	Cash, balances with central banks and demand deposits	Financial assets held for trading	Financial assets at FV through OCI	Non-trading financial assets mandatorily at FV through PL	Loans and advances to credit institutions	Loans and advances to customers	Financial investments measured at amortised cost	Derivatives	Fair value revaluation of Portfolio hedge against interest rate risk	Investments in subsidaries, joint ventures and associates	Investment property	Property, plant and equipment	Intangible fixed assets and goodwill	Current tax assets	Deferred tax assets	Other assets
Cash and balances with central banks	2,795,735	2,795,735															
Loans and advances to credit institutions	653,467					653,467											
Loans and advances to customers	13,344,203						13,128,668	215,535									
Financial assets measured at fair value through profit or loss	70,526		70,526														
Financial investments available for sale	4,178,700			1,961,134	18,032			2,199,534									
Financial investments held to maturity	1,753,272			123,285				1,629,987									
Derivatives	227,748								227,748								
Fair value revaluation of portfolios hedged against interest rate risk	3,176									3,176							
Investments in associates	25,226										25,226						
Investment property	134,820											134,820					
Property, plant and equipment	111,833												111,833				
Intangible fixed assets and goodwill	161,459													161,459			
Current tax assets	224														224		
Deferred tax assets	233,837															233,837	
Other assets	76,401																76,401
Fair value adjustments following IFRS9 adoption				12,291				(19,468)			(1,539)						
ECL				(242)		(36)	(45,585)	(1,635)									
Reversal of IAS39 collective provision							29,274										
Deferred tax assets adjustment following IFRS9 adoption																8,287	
TOTAL ASSETS	**23,770,627**	**2,795,735**	**70,526**	**2,096,468**	**18,032**	**653,431**	**13,112,357**	**4,023,953**	**227,748**	**3,176**	**23,687**	**134,820**	**111,833**	**161,459**	**224**	**242,124**	**76,401**

	IAS 39	IFRS9 - 01/01/2018										
LIABILITIES (in EUR thousands)	**31/12/17**	**Amounts due to credit institutions**	**Amounts due to customers**	**Liabilities designated at fair value**	**Derivatives**	**Fair value revaluation of portfolios hedged against interest rate risk**	**Debt securities**	**Subordinated debts**	**Provisions and other obligations**	**Current tax liabilities**	**Deferred tax liabilities**	**Other liabilities**
Amounts due to credit institutions	2,787,855	2,787,855										
Amounts due to customers	16,315,478		16,315,478									
Financial liabilities measured at fair value through profit or loss	776,333			776,333								
Derivatives	384,294				384,294							
Fair value revaluation of portfolios hedged against interest rate risk	35,131					35,131						
Debt securities	1,580,052						1,580,052					
Subordinated debts	281,864							281,864				
Provisions and other obligations	58,644								58,644			
Current tax liabilities	4,453									4,453		
Deferred tax liabilities	8,700										8,700	
Other liabilities	228,255											228,255
ECL on off balance sheet									6,508			
TOTAL LIABILITIES	**22,461,058**	**2,787,855**	**16,315,478**	**776,333**	**384,294**	**35,131**	**1,580,052**	**281,864**	**65,152**	**4,453**	**8,700**	**228,255**

As at January 1, 2018 BIL has classified a portion of its previous "Financial investments available for sale" portfolio to the "Financial investments measured at amortised cost" portfolio. The fair value of these financial instruments that BIL still held as at December 31,2018 amounts to EUR 1,772,223,416. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been EUR 6,871,994 before taxes.

1.3.2 Section II – Impairment

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

IFRS 9 impairment impact: As at January 1, 2018, ECL reached EUR 54.0 million of which:
- Stage 1: EUR -27.0 million;
- Stage 2: EUR -14.7 million;
- Additional ECL related to exposures in Stage 3 regarding specific provisions: EUR -12.3 million.

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

The retained earnings have been therefore negatively impacted by EUR -24.7 million before taxes.

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

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at January 1, 2018.

Debt instruments and commitments given subject to impairment per IFRS 9 (in EUR as of 01/01/18)	Exposure as per IAS 39[1]	Loss allowance as per IAS 39 / IAS 37	Exposure as per IFRS 9[1]	Loss allowance Stage 1[2]	Loss allowance Stage 2[2]	Loss allowance Stage 3[2]	Total loss allowance IFRS 9[1]
Balance sheet exposures (in EUR thousands)							
Cash and balances with central banks	2,795,735	0	2,795,735	0	0	0	0
Loans and advances to credit institutions	653,467	0	653,431	(12)	(24)	0	(36)
Loans and advances to customers	13,128,668	(276,562)	13,112,357	(21,242)	(13,127)	(258,504)	(292,873)
Debt securities at amortised cost	1,968,807	0	4,023,954	(1,612)	(22)	0	(1,635)
Debt securities at fair value through OCI	4,128,850	0	2,064,649	(97)	(146)	0	(242)
sub-total (balance-sheet)	**22,675,527**	**(276,562)**	**22,650,127**	**(22,963)**	**(13,320)**	**(258,504)**	**(294,786)**
Off-balance sheet exposures (in EUR thousands)	**Nominal amount**		**Nominal amount**				
Loan commitments given	1,878,289	(17)	1,878,289	(3,021)	(1,189)	(821)	(5,030)
Financial guarantees given	715,722	0	715,722	(1,074)	(143)	(279)	(1,495)
sub-total (off-balance sheet)	**2,594,011**	**(17)**	**2,594,011**	**(4,094)**	**(1,331)**	**(1,100)**	**(6,525)**
TOTAL	**25,269,539**	**(276,579)**	**25,244,138**	**(27,057)**	**(14,651)**	**(259,604)**	**(301,311)**

[1] Carrying amount (gross carrying amount net of impairment loss or fair value

[2] Difference on the gross amount of loss allowance/ECL may arise with the table "Own funds reconciliation". These differences are due conversion differences included in the above table and presented separately in the "own funds reconciliation" table.

1.3.3 Section III – Hedge Accounting

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

1.3.4 Section IV – Impact of IFRS 9 on own funds

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

OWN FUNDS RECONCILIATION (in EUR thousands)	EQUITY	OCI
IFRS 9 figures	**1,259,772**	**24,635**
IAS 39 figures	**1,263,753**	**45,816**
Delta	**(3,980)**	**(21,181)**
Reversal of collective provisioning	29,284	0
Deferred Tax / reversal of collective provisioning	(7,596)	0
Stage 1 ECL 12 months	(22,950)	0
Deferred Tax / Stage 1 ECL 12 months	5,994	0
Stage 2 ECL maturity	(13,320)	0
Deferred Tax / Stage 2 ECL maturity	3,413	0
Cancellation of AFS Reserve for Financial assets classified at amortized cost under IFRS9	0	(19,468)
Deferred Tax / Cancellation of AFS Reserve for Financial assets at amortized cost under IFRS 9	0	5,064
NRP - Financial Assets at FVTOCI initially at amortized cost	0	12,049
NRP - Deferred Tax /Financial Assets at FVTOCI initially at amortized cost	0	(3,134)
OCR/FVO liabilities transfer from P&L to OCI	(437)	437
Deferred Taxes/OCR on FVO liabilities (transfer from P&L to OCI)	114	(114)
FVTPL on non SPPI Financial assets - Equities	1,222	(1,222)
Deferred Taxes / FVTPL on non SPPI Financial assets - Equities	(318)	318
Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	0	0
Deferred Taxes / Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	0	0
FV adjustement on Impaired Equities at FV through OCI (transfer from P&L to OCI)	18,844	(18,844)
Deferred Taxes / FV adjustment on Impaired Equities at FV through OCI (transfer from P&L to OCI)	(4,901)	4,901
Stage 1 ECL 12 months - Off-balance sheet items	(4,091)	0
Deferred Tax / Stage 1 ECL 12 months - Off-balance sheet items	1,062	0
Stage 2 ECL maturity - Off-balance sheet items	(1,332)	0
Deferred Tax / Stage 2 ECL maturity - Off-balance sheet items	342	0
FV adjustments following ECL computation	0	242
Deferred Taxes / FV adjustments following ECL computation	0	(63)
Stage 3 ECL maturity (new)	(11,216)	0
Deferred Tax / Stage 3 ECL maturity	2,917	0
Stage 3 ECL maturity - Off-balance sheet items	(1,083)	0
Deferred Tax / Stage 3 ECL maturity - Off-balance sheet items	282	0
Other impacts (Bourse de Luxembourg - IFRS 9 & IFRS15)	(196)	(1,343)
Conversion differences	(16)	(3)
TOTAL	**(3,980)**	**(21,181)**

IFRS 9 PHASE-IN RATIO

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

1.4 Impact of the IFRS 16 standard applicable as from January 1, 2019

IFRS 16 "Leases" replaces the existing standard IAS 17 "Leases" as from January 1, 2019.

BIL plans to apply the new standard under the modified approach in accordance with IFRS 16 where:

- The lease liabilities of existing leases prior to first-time application of IFRS 16 are calculated based on the remaining lease term as of January 1, 2019;
- The interest rate used to discount future lease payments is an incremental borrowing rate ("IBR") as defined in IFRS 16;
- The remaining leases whose terms are below twelve months as of January 1, 2019 are considered as short-term leases.

BIL also plans not to apply IFRS 16 recognition requirements for the leases where (i) the term is below twelve months, or (ii) the underlying asset is not material to BIL. The assessment of whether the underlying asset is material and is within the scope or excluded from the recognition requirements of IFRS 16 is based on the concept of materiality in the Conceptual Framework and IAS 1.

For leases that meet IFRS 16 recognition requirements, the lease term corresponds to the ended contractual date of the lease except if the Bank is reasonably certain to exercise a contractual termination or renewal option. In case a contractual option will be exercised, the lease term applicable for IFRS 16 recognition requirements takes into account the effect of the option.

The discount rate used to calculate the right-of-use asset and the lease liability is the interest rate implicit in the lease (IRIIL) when determinable. In case the IRIIL is not determinable, the Bank uses the IBR. As a general rule, for property leases, the Bank will use the IBR and it is not practicable to use the IRIIL for such leases. The IBR is determined at commencement of the lease.

The Bank has analyzed the existing leases (as lessee) within the Group that meet the recognition requirements of IFRS 16 and concluded that the main part is composed of property leases taken such as branch and administrative offices.

The estimated impacts of IFRS 16 as of January 1, 2019 are as follows:

- Increase of property, plan and equipment (through the recognition of right-of-use assets) comprised between EUR 38,000,000 and EUR 42,000,000;
- Increase of other liabilities (through the recognition of lease liabilities) comprised between EUR 38,000,000 and EUR 42,000,000.

The impacts on the income statement as from the financial year 2019 will be as follows:

- Decrease of "General and administrative expenses";
- Increase of "Amortization of tangible and intangible fixed assets";
- Increase of "Interest and similar expenses".

1.5 Consolidation

1.5.1 Subsidiaries

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

According to IFRS 10, an investor controls an investee if and only if the investor has all of the following elements:

- Power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of the investor's returns.

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

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

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

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

When BIL loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

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

1.5.2 Associates

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

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

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

1.5.3 Business combinations

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

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

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

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

1.6 Offsetting financial assets and financial liabilities

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

1.7 Foreign currency translation and transactions

1.6.1 Foreign currency translation

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

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

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

1.7.2 Foreign currency transactions

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

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

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

1.8 Financial instruments

1.8.1 Measurement methods

AMORTISED COST AND EFFECTIVE INTEREST RATE

The amortised cost is the amount at which the financial asset and financial liability is measured at initial recognition.

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

INITIAL MEASUREMENT

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

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

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

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

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

1.8.2 Recognition and derecognition of financial instruments

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

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

BIL derecognises financial assets when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred and the transfer qualifies for derecognition.

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

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

1.8.3 Classification and subsequent measurement of financial assets

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

The classification is based on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The Bank has documented its business models for both the loans and the securities through internal policies.

1.8.3.1 Debt instruments

1.8.3.1.1 Business models

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

HOLD-TO-COLLECT (HTC)

Financial assets that are within the business model "Hold-to-collect" (HTC) are managed to realise cash flows by collecting contractual payments over the life of the instrument. Sales are not an integral part of the business model but may be consistent with the HTC cash flows business model when they are insignificant even if frequent, infrequent even if significant in value, realised closed to the maturity of the instrument or due to an increase in credit risk. The total nominal value of sales, excluding sales aiming at mitigating credit or concentration risks and sales close to maturity, does not exceed in average 5% of the total nominal value of the portfolios within the business model HTC on a long term view, as measured on the portfolio size. During a current year, the total nominal value of sales should not exceed 10% of the portfolios within the business model HTC.

HTC financial assets are recorded under the items "Loans and advances to credit institutions", "Loans and advances to customers" and "Financial Investments measured at amortised costs".

HOLD-TO-COLLECT-AND-SELL (HTC&S)

Financial assets that are within the business model "Hold-to-collect and sell" (HTC&S) are managed to realise cash flows by both collecting contractual cash flows and selling financial assets. Selling financial assets is integral to achieving the business model's objective and compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. HTC&S financial assets are recorded under the item "Financial assets at fair value through other comprehensive income".

OTHER BUSINESS MODELS

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

These financial assets are either held-for-trading, designated at fair value through profit or loss or mandatorily at fair value through profit or loss and are recorded under the items "Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss" and "Derivatives".

- Held-for-trading
  Held-for-trading financial instruments are securities acquired for generating a profit from short-term fluctuations in price or dealer margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists;
- Designated at fair value through profit or loss (also called Fair Value Option/"FVO")
  They are financial assets designated at fair value through profit or loss. Financial assets may be irrevocably designated by the entity at FVTPL at initial recognition in case of accounting mismatch;
- Mandatorily at fair value through profit or loss
  Financial assets mandatorily at fair-value through profit or loss include equities which are not at FVTOCI, non-trading financial assets which failed the SPPI test, and non-trading financial assets managed on a fair-value basis.

1.8.3.1.2 Contractual cash flow characteristics of a financial asset

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

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

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

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

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

1.8.3.1.3 Changes in business model and reclassification of financial assets

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

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

1.8.3.2 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

BIL measures all equity investments at fair value through profit or loss, except where BIL has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income.

1.8.3.3 Subsequent measurement

(a) Financial assets at amortised cost

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

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

Interest on financial assets at amortised cost is recognised using the effective interest rate method and is recorded under the item "Interest revenue calculated using the effective interest method" in the consolidated statement of income.

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

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

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

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

Interest on debt instruments at FVTOCI is recognised using the effective interest rate method and recorded under the item item "Interest revenue calculated using the effective interest method" in the consolidated statement of income. Dividend received from equity instruments at FVTOCI are recorded under the item "Dividend Income" in the consolidated statement of income.

Unrealised gains and losses from changes in the fair value of financial instruments at FVTOCI are recorded within equity. When debt instruments at FVTOCI are disposed, the Bank recycles the related accumulated fair value adjustments in the consolidated statement of income under the item "Net income on financial instruments measured at fair value and net result of hedge accounting" while gains and losses on equity instruments at FVTOCI are never recycled to profit or loss.

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

Gains and losses on financial assets at FVTPL are included in the "Net trading income" item in the consolidated statement of income.

Interest on debt instruments at FVTPL is recognised using the effective interest rate method and recorded under the item item "Interest revenue calculated using the effective interest method" in the consolidated statement of income. Dividend are recognised on equity instruments at FVTPL and recorded under the item "Dividend Income".

Unrealised gains and losses from changes in the fair value of financial instruments at FVTPL are recorded in the consolidated statement of income under the item "Net income on financial instruments at fair value and net result of hedge accounting".

1.8.4 Classification and subsequent measurement of financial liabilities

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

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

Financial liabilities at amortised cost are recorded under items "Amounts due to credit institutions", "Amounts due to customers", "Debt securities" and "Subordinated debts".

Financial liabilities held for trading and designated at FVPTL are recorded under the item "Financial liabilities at fair value through profit or loss".

Fair value changes on financial liabilities at FVTPL are reported to P&L similarly to financial assets at FVPTL, while the recognition of the change in own credit risk is recorded in other comprehensive income.

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

BORROWINGS

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

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

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

1.8.5 Impairment of financial instruments

IMPAIRMENT ASSESSMENT

BIL assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. BIL recognises a loss allowance fur such losses at each reporting date. The measurement of ECL reflects a weighted average of credit losses, with the respective risks of a default occurring in a given time period.

Note 12.2 provides more details of how the expected credit loss allowance is measured.

ACCOUNTING TREATMENT OF THE IMPAIRMENT

Impairment losses and releases are recorded as an adjustment of the financial asset's gross carrying value and provision for ECLs for undrawn loan commitments are recorded under the item "Provision and other obligations"

BIL recognises changes in ECL in the consolidated statement of income and reports them as "Impairment on financial instruments and provisions for credit commitments".

When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the consolidated statement of income under the item " Impairment on financial instruments and provisions for credit commitments " and the loss is recorded under the same item.

1.8.6 Derivatives

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

BIL reports derivatives as assets when fair value is positive and as liabilities when fair value is negative under item "Derivatives".

BIL treats some derivatives embedded in other financial instruments as separate derivatives:
- when their risks and characteristics are not closely related to those of the host contract; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the consolidated statement of income.

For derivatives in a hedge relation, please refer to note 1.13.

1.9 Fair value of financial instruments

1.9.1 Valuation principles as per IFRS 13

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices on an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions.

The valuation model should take into account all factors that market participants would consider when pricing the financial instrument. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities measured at fair value are categorised into one of three fair value hierarchy levels. The following definitions used by the Bank for the hierarchy levels are in line with IFRS 13:
- Level 1: quoted prices (unadjusted) on active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

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

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

1.9.2 Valuation techniques used by the Bank

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

1.9.2.1 Financials instruments measured at fair value (financial assets held for trading, financial investments measured at fair value, financial liabilities at fair value, derivatives)

A. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE FOR WHICH RELIABLE QUOTED MARKET PRICES ARE AVAILABLE

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted on an active market for identical instruments with no adjustments qualifies for inclusion in Level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices on inactive markets or the use of quoted spreads.

B. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE FOR WHICH NO RELIABLE QUOTED MARKET PRICES ARE AVAILABLE AND FOR WHICH VALUATIONS ARE OBTAINED BY MEANS OF VALUATION TECHNIQUES

Financial instruments for which no quoted market prices are available on an active market are valued by means of valuation techniques. The models used by the Bank range from standard market models (discount models) to in-house developed valuation models.

In order for a fair value to qualify for Level 2 inclusion, observable market data should be significantly used. The market data incorporated in the Bank's valuation models are either directly observable data (prices), indirectly observable data (spreads) or own assumptions about unobservable market data. Fair value measurements that rely significantly on own assumptions qualify for Level 3 disclosure.

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

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

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

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

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

Loans and advances, financial investments measured at amortised cost and liabilities at amortised cost are valued based on the following valuation principles.

GENERAL PRINCIPLES

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

INTEREST-RATE PART

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

CREDIT RISK PART

Credit spreads changes since inception are reflected in the fair value.

1.10 Financial guarantees, letters of credit and undrawn loan commitments

BIL issues financial guarantees, letter of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized recognised in the consolidated statement of income and an ECL provision.

The premium received is recognised in the consolidated statement of income under the item "Fee and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, BIL is required to provide a loan with a pre-specified terms to the customer. Similar to financial guarantee contracts, undrawn loan commitments are under the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, are not recorded on in the balance sheet. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 12.2

1.11 Interest and similar income and expenses

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

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

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

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

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

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

1.12 Fee and commission income and expenses

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

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed. For asset management operations, revenue consists principally of unit trust and mutual fund management and administration fees. Revenue from asset management is recognised as earned when the service is provided. Performance fees are recognised when all underlying conditions are met and thus acquired.

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

1.13 Insurance and reinsurance activities

1.13.1 Insurance

BIL's main activity is banking products.

1.13.2 Reinsurance

BIL's reinsurance contracts with third parties containing enough insurance risk to be classified as an insurance contract continue to be accounted for in accordance with local GAAP.

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

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

1.14 Hedging derivatives

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

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

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

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

1.15 Hedge of the interest-rate risk exposure of a portfolio

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

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

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

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

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

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

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

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

1.16 Day one profit or loss

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

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

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

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

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

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

1.17 Tangible fixed assets

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

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

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

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

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

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

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

Depreciation on assets (excluding investment properties) given in operating lease are booked under "Other net income".

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

Investment properties are recorded at their fair value. The market value is determined on the basis of appraisals by independent external experts. The statement of income for a given year records the change in value for each property.

Fair value changes on investment properties are calculated by comparison with their latest market value recorded in the balance sheet of the previous financial year and are included under "Other net income".

Capital gains and losses on disposals of property and equipment and investment property are determined by reference to their carrying amount and are included under " Other net income ".

1.18 Intangible assets

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

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

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

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

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

1.19 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

1.20 Goodwill

1.20.1 Measurement of goodwill

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

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

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

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

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

1.20.2 Impairment of goodwill

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

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

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

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

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

1.21 Other assets

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

1.22 Leases

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

1.22.1 BIL is the lessee

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

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

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

1.22.2 BIL is the lessor

BIL grants both operating and finance leases.

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

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

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

1.23 Sale and repurchase agreements and lending of securities

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

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

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

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

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

1.24 Deferred tax

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

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

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

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

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

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

1.25 Employee benefits

1.25.1 Short-term benefits

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

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

1.25.2 Post-employment benefits

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

1.25.2.1 Defined benefit plans

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

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

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

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

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

1.25.2.2 Defined contribution pension plans

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

1.25.2.3 Post-employment medical care

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

1.25.3 Other long-term benefits

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

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

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

1.25.4 Termination benefits

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

1.26 Provisions

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

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

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

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

1.27 Share capital and treasury shares

1.27.1 Share issue costs

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

1.27.2 Dividends on BIL's ordinary shares

BIL recognises its dividends on its ordinary shares as a liability from the date upon which they are declared.

1.27.3 Preferred shares

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

1.27.4 Treasury shares

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

1.28 Fiduciary activities

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

1.29 Cash and cash equivalents

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

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

2.1 Changes compared with 2017

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

Companies fully consolidated for the first time
N/A

Companies no longer fully consolidated
BIL Asia Singapore Ltd (since November 14, 2018)

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

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

B. Main changes in the Group's interest percentage
N/A

C. Changes in corporate names
N/A

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

A. Fully consolidated subsidiaries

Name	Head office	% of capital held
Banque Internationale à Luxembourg (Suisse) SA	Beethovenstrasse 48 PO Box 2192 CH-8002 Zürich	100
Belair House SA	2, boulevard Grande-Duchesse Charlotte L-1330 Luxembourg	100
BIL Manage Invest SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
BIL Reinsurance SA	69, route d'Esch L-2953 Luxembourg	100
Experta Corporate and Fund Services SA (BIL Fund & Corporate Services SA as from February 15, 2019)	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
IB Finance SA	69, route d'Esch L-2953 Luxembourg	100
Red Sky SA	69, route d'Esch L-2953 Luxembourg	100
Selskabet af 18 December 2013 A/S (in liquidation)	Gronningen 17 DK-1270 Copenhagen	100
Société du 25 juillet 2013 SA (in liquidation)	54-56 avenue Hoche Building Regus F-75008 Paris	100
Société Luxembourgeoise de Leasing - BIL-LEASE SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100

B. Non-consolidated subsidiaries

Name	Head office	% of capital held	Reason for non-inclusion
Audit Trust SARL	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
BIL PE Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Biltrust Limited	PO Box 665 Roseneath/The Grange St Peter Port GY1 3SJ, Guernsey	100	insignificant
Koffour SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Lannage SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Private II Wealth Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant
Valon SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100	insignificant

C. Associates accounted for by the equity method

Name	Head office	% of capital held
Europay Luxembourg S.C.[2]	2-4, rue Edmond Reuter L-5326 Contern	52.20
Société de la Bourse de Luxembourg SA	35A, boulevard Joseph II L-1840 Luxembourg	21.41

[1] Experta Corporate and Fund Services SA was renamed BIL Fund & Corporate Services SA as from February 15, 2019.
[2] BIL has more than 50% voting rights of Europay Luxembourg S.C. but does not meet the criteria set out by IFRS 10 to consolidate the entity.

Note 3: Business and geographic reporting

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

In 2018, BIL kept the segmentation of its business lines:

- **"Retail Banking, Corporate & Institutional Banking and Wealth Management"**. Commercial activities are divided into three business lines: Retail & Digital Banking, Corporate & Institutional Banking, and Wealth & Investment Management.
- **"Treasury and Financial Markets" (TFM)** remained split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets, with dedicated teams supporting the commercial activities.
- **"Group Center"** mainly includes dividends from unconsolidated shareholdings and the results of non-operating entities as well as certain types of costs not attributable to the other business lines mentioned above such as DGS and Resolution Fund Contributions.

INCOME (in EUR thousands)	31/12/17			
	Income	***of which net income from associates***	***of which interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	501,678		*290,689*	159,758
Treasury and Financial Markets	81,801		*23,070*	44,101
Group Center	(21,188)	*7,345*	*(3,056)*	(57,488)
TOTAL	**562,290**	***7,345***	***310,702***	**146,372**
Net income before tax				146,372
Tax expenses				(21,966)
NET INCOME				**124,405**

	31/12/18			
	Income	***of which net income from associates***	***of which net interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	499,377	*0*	*295,300*	142,665
Treasury and Financial Markets	52,045	*0*	*22,964*	12,588
Group Center	21,896	*1,767*	*(5,964)*	1,172
TOTAL	**573,318**	***1,767***	***312,300***	**156,425**
Net income before tax				156,425
Tax expenses				(25,610)
NET INCOME				**130,815**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/17		31/12/18	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Retail, Corporate and Wealth Management	13,344,203	17,681,712	13,386,056	18,630,887
Treasury and Financial Markets	9,632,775	4,075,479	11,247,617	4,508,116
Group Center	793,649	703,867	850,884	961,002
TOTAL	**23,770,627**	**22,461,058**	**25,484,557**	**24,100,005**

OTHER SEGMENT INFORMATION
(in EUR thousands)

31/12/17	Capital expenditures [1]	Depreciation and amortisation	Impairments[2] Allowances	Impairments[2] Write-backs	Other non-cash expenses[3]
Retail, Corporate and Wealth Management		(25,157)	(66,533)	46,344	0
Treasury and Financial Markets	79,193	(3,840)	(109)	136	0
Group Center		(2,981)	(5,329)	5,717	(21,329)
TOTAL	**79,193**	**(31,978)**	**(71,971)**	**52,197**	**(21,329)**

31/12/18	Capital expenditures[1]	Depreciation and amortisation	Impairments[2] Allowances	Impairments[2] Write-backs	Other non-cash expenses[3]
Retail, Corporate and Wealth Management		(32,242)	(150,244)	131,919	0
Treasury and Financial Markets	70,898	(4,522)	(12)	216	0
Group Center		(7,316)	0	(510)	(16,521)
TOTAL	**70,898**	**(44,080)**	**(150,257)**	**131,625**	**(16,521)**

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

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

GEOGRAPHIC BREAKDOWN
(in EUR thousands)

	Denmark	France	Luxembourg	Switzerland	United Arab Emirates	Total
Staff (in average FTE)	45	0	1,822	118	12	1,997
Income	9,921	0	513,231	35,567	3,571	562,290
Net income before tax	252	(10)	147,421	(1,189)	(102)	146,372
Tax expenses	98	0	(22,357)	293	0	(21,966)
NET INCOME AS AT 31/12/17	**350**	**(10)**	**125,064**	**(896)**	**(102)**	**124,405**
Staff (in average FTE)	49	0	1,843	114	15	2,021
Income	10,710	0	529,099	29,971	3,539	573,319
Net income before tax	(1,364)	(11)	162,428	(4,468)	(160)	156,425
Tax expenses	267	0	(25,874)	(3)	0	(25,610)
NET INCOME AS AT 31/12/18	**(1,097)**	**(11)**	**136,554**	**(4,471)**	**(160)**	**130,815**

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

[1] Capital expenditures including the acquisitions for the year in terms of tangible and intangible assets for which the allocation by business line is not available
[2] Include impairments on tangible and other intangible assets, impairments on securities, impairments on loans and provisions for credit commitments and impairments on goodwill with a breakdown between allowances and write-backs.
[3] Include IFRS2 costs, net allowances to provisions for restructuring costs, net allowances to provisions related to IAS 19 and capital losses on exchange of assets.

LUXEMBOURG

Banque Internationale à Luxembourg

BIL has been serving retail and business customers since 1856. A bank of systemic importance, it is a key player in the Luxembourg market. Recognised as a cornerstone of the Luxembourg financial centre, BIL plays an active role in developing the local economy. Through its retail banking (with a network of 41 branches), wealth management, corporate banking and financial markets activities, the Bank boasts one of the best credit ratings in Luxembourg's banking sector (A-) and is among the country's top three banks. The European Central Bank has confirmed BIL's systemic importance. BIL is owned by Legend Holdings, as majority shareholder – a leading diversified investment group, headquartered in Beijing (China) and listed on the Hong Kong Stock Exchange – and the Grand Duchy of Luxembourg, as minority shareholder.

Belair House

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

BIL Manage Invest

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

BIL Fund & Corporate Services (formerly Experta Corporate and Fund Services)

Experta Corporate and Fund Services SA, Luxembourg (Experta Luxembourg) was formed in 2002, following the decision to spin off BIL's corporate engineering business line after fifty years. The company is a wholly owned subsidiary of BIL, with long-standing experience in structuring solutions. Experta Luxembourg is a financial sector professional (PSF), regulated by the CSSF (Luxembourg's financial supervisor), and committed to providing global fund and corporate services to international clients wishing to structure their financial assets, private equity and real estate investments. On February 15, 2019 Experta Corporate and Fund Services SA, Luxembourg changed its name to BIL Fund & Corporate Services SA to reflect the repositioning of its activities in the fund and corporate industries.

BIL Lease

Société Luxembourgeoise de Leasing, BIL Lease SA is a wholly-owned subsidiary dedicated to the management of leasing services, since 1991. The subsidiary offers financial leasing solutions to corporate customers, for all professionally used movable capital equipment including IT systems, vehicles and various types of machinery.

SWITZERLAND

BIL (Suisse)

BIL (Suisse) SA, a wholly-owned subsidiary of the BIL group, has been a provider of wealth management services to private and corporate clients for more than 25 years. Specialised in financial analysis and management, it is active in Switzerland's three main financial centres, Zurich, Geneva and Lugano, and offers a full range of investment services. The company supports its customers in structuring, protecting and growing their assets. Flexible and efficient, BIL (Suisse) offers personalised services including asset management and investment advice. Similarly, it undertakes to find innovative and transparent solutions tailored to specific requirements, while simultaneously protecting its customers. BIL (Suisse) is also a partner of choice for Independent Financial Advisers (IFA) providing a robust and independent set of services that supports the work they conduct with their clients.

DENMARK

BIL Denmark

BIL Denmark branch is specialised in wealth management and asset management services. The Scandinavian community of entrepreneurs and senior executives is a key market for the Bank. Operating with moderate risk exposure, the branch's objective concerns the long-term development of a sound private banking activity. The branch offers interesting and attractive wealth management services, including investment management, asset structuring and financial planning services covering inheritance, estate and retirement planning. The branch offers bespoke investment solutions to its customers.

UNITED ARAB EMIRATES

BIL Dubai

In the Middle East, the BIL Dubai branch focuses in particular on regional very high net worth customers, both with respect to their family and their business activities. The branch works closely with the Luxembourg and Swiss-based BIL entities.

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

Note 4: Material items in the consolidated statement of income

For the period ending December 31, 2018, the material items in the statement of income are the following:

- Income reached EUR 573 million at the end of December 2018 compared with EUR 562 million at the end of December 2017 after restatement. Margin income and fee income remained stable in 2018. The core operating revenue from the commercial business lines reached EUR 500 million in line with 2017 despite a very low interest rate environment. Other net income increased significantly essentially due to the increase of fair value of investment properties.
- The general expenses totalled EUR 398 million as at December 31, 2018 showing a slight increase of 1% compared with December 2017 (EUR 396 million), essentially due to higher depreciation in the context of the IT strategy and ongoing regulatory projects.

Note 5: Post-balance sheet events

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

Note 6: Litigation

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

Following the bankruptcy of Bernard Madoff's investment vehicle, Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and the liquidators of certain feeder funds, ultimately invested in BLMIS instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff.

In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse. Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 72 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

With regard to the proceedings initiated by the liquidators of certain feeder funds, on January 13, 2017, the redeemer defendants as a group filed a consolidated motion to dismiss all claims on various grounds. After briefing was completed in 2017, the Court heard oral arguments with respect to the motion to dismiss on January 25, 2018. On August 6, 2018, the Court issued a decision addressing two threshold jurisdictional issues. After the parties agreed that the Court could address other issues while reserving judgement on the personal jurisdiction issue, the Court entered a second decision on December 6, 2018 granting in part and denying in part the consolidated motion to dismiss. As of today, the Court has not yet entered a final order implementing its decisions on the consolidated motion to dismiss.

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

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

As at December 31, 2018, no material provision for clawback actions has been made. Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

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

7.1 Cash and cash equivalents

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

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Cash and balances with central banks	2,623,936,959	3,140,763,074
Other demand deposits	173,800,837	143,417,792
Loans and advances to credit institutions	153,733,372	268,182,799
Financial assets available for sale	20,683,162	
TOTAL	**2,972,154,330**	**3,552,363,665**

B. OF WHICH RESTRICTED CASH	31/12/17	31/12/18
Mandatory reserves[1]	757,652,471	549,515,381
TOTAL RESTRICTED CASH	**757,652,471**	**549,515,381**

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

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

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

7.2 Cash and balances with central banks and demand deposits

All loans and advances to credit institutions are held under the business model held-to-collect and are measured at amortised cost.

ANALYSIS BY NATURE	31/12/17	31/12/18
Cash in hand	49,003,505	44,384,753
Balances with central banks other than mandatory reserve deposits	1,815,280,983	2,544,124,145
Mandatory reserve deposits	757,649,963	549,506,894
Other demand deposits	173,800,837	143,419,034
TOTAL	**2,795,735,288**	**3,281,434,826**
of which included in cash and cash equivalents	*2,797,737,796*	*3,284,180,866*

7.3 Loans and advances to credit institutions

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Cash collateral	244,671,351	322,922,693
Loans and other advances	408,796,030	752,377,457
Impaired loans and other advances	0	0
Less:		
Impairment stage 1		(34,832)
Impairment stage 2		(21,742)
Impairment stage 3		0
TOTAL	**653,467,381**	**1,075,243,576**
of which included in cash and cash equivalents	*153,733,372*	*268,182,799*

B. QUALITATIVE ANALYSIS
see Note 7.15

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

D. ANALYSIS OF THE FAIR VALUE
see Note 12.1

7.4 Loans and advances to customers

All loans and advances to customers are held under the business model held-to-collect and are measured at amortised cost.

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	445,172,758	124,643,058
Other	12,844,111,774	12,933,984,517
Impaired loans[1]	331,481,079	595,720,394
Less:		
specific impairment on impaired loans	(247,288,252)	
collective impairment	(29,273,953)	
impairment stage 1		(20,521,484)
impairment stage 2		(16,904,794)
impairment stage 3		(230,865,529)
TOTAL	**13,344,203,406**	**13,386,056,162**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
On demand and short notice	1,639,972,080	608,951,522
Finance Leases	160,412,066	163,712,127
Debt instruments	215,535,053	
Other term loans	11,328,284,207	12,613,392,513
of which: loans collateralized by immovable property	*8,153,061,431*	*8,666,025,981*
of which: credit for consumption	*393,822,735*	*453,874,747*
TOTAL	**13,344,203,406**	**13,386,056,162**

C. QUALITATIVE ANALYSIS
see Note 7.15

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

E. ANALYSIS OF THE FAIR VALUE
see Note 12.1

[1] Impaired loans as of December 31, 2018 include all loans classified as stage 3 under IFRS9. Impaired loans as of December 31, 2017 only include loans with specific provisioning under IAS 39 and therefore are not comparable.

7.5 Financial assets held for trading

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	17,211,201	23,096,213
Credit institutions	35,859,618	83,048,075
Other	17,455,558	20,745,531
TOTAL	**70,526,377**	**126,889,819**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	17,211,201	23,096,213
Other bonds and fixed-income instruments	53,265,460	103,639,015
Equity and other variable income instruments	49,716	154,591
TOTAL	**70,526,377**	**126,889,819**

C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

7.6 Financial investments measured at fair value

	31/12/17	31/12/18
Non-trading financial investments mandatorily at FV through P/L		21,463,465
Financial investments at FV through OCI		1,476,561,341
Financial investments available for sale	4,178,699,775	
TOTAL	**4,178,699,775**	**1,498,024,806**

7.6.1 Non-trading financial investments mandatorily at FV through P&L

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector		0
Credit institutions		0
Other		21,463,465
TOTAL		**21,463,465**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies		0
Other bonds and fixed-income instruments		0
Equity and variable income instruments		21,463,465
TOTAL		**21,463,465**

C. QUALITATIVE ANALYSIS

see Note 7.15

D. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

7.6.2 Financial investments at FV through OCI / Financial investments available for sale

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	2,536,817,830	934,837,387
Credit institutions	1,011,683,172	404,463,511
Other	625,636,417	137,299,325
Impaired financial investments	23,838,277	0
Less :		
Impairment stages 1, 2, 3 of financial investments		(38,882)
Specific and collective impairment on financial investments available for sale	(19,275,921)	
TOTAL	**4,178,699,775**	**1,476,561,341**
of which included in cash and cash equivalents	*20,683,162*	*0*

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	2,536,817,830	934,837,387
Other bonds and fixed-income instruments	1,592,031,814	497,886,049
Equity and variable income instruments	69,126,052	43,876,787
Impairment stages 1, 2, 3 of financial investments		(38,882)
Specific and collective impairment on financial investments available for sale	(19,275,921)	
TOTAL	**4,178,699,775**	**1,476,561,341**

C. QUALITATIVE ANALYSIS
see Note 7.15

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

7.7 Financial investments measured at amortised cost / held to maturity

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	1,524,610,758	3,148,818,603
Credit institutions	135,629,860	1,017,929,015
Other	93,031,291	861,690,237
Impaired Financial Investments	0	19,917,195
Less :		
impairment stage 1		(1,075,402)
impairment stage 2		(502,789)
impairment stage 3		(7,235,140)
TOTAL	**1,753,271,909**	**5,039,541,719**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	1,524,610,758	3,148,044,746
Other bonds and fixed-income instruments	228,661,151	1,891,496,973
TOTAL	**1,753,271,909**	**5,039,541,719**

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

D. ANALYSIS OF THE FAIR VALUE
see Note 12.1

7.8 Investments in associates

A. CARRYING VALUE	31/12/17	31/12/18
CARRYING VALUE AS AT DECEMBER 31, 2017		25,225,654
Impact of adopting IFRS 9 & IFRS 15 as at January 1, 2018		(1,538,635)
CARRYING VALUE AS AT JANUARY 1	28,274,796	23,687,019
Change in consolidation scope		340,137
Share of result before tax	3,963,773	2,385,753
Share of tax	(1,051,100)	(618,393)
Dividend paid	(5,646,292)	(1,214,280)
Gains and losses not recognised in the statement of income	(315,523)	0
CARRYING VALUE AS AT DECEMBER 31	25,225,654	24,580,236

B. LIST OF ASSOCIATES at 31/12/18	Acquisition cost	Equity method valuation	Reference to website
Europay Luxembourg S.C.	592,993	1,019,692	
Société de la Bourse de Luxembourg SA	319,806	23,560,544	www.bourse.lu
TOTAL	912,799	24,580,236	

Financial Statements of Europay Luxembourg S.C.

(in EUR)	31/12/17	31/12/18
Assets	10,967,226	14,921,866
Liabilities	8,966,422	12,860,628
Shareholder's equity	2,000,804	2,061,238
Revenue	8,173,628	8,877,010
Total comprehensive income	362,862	619,474

2017 and 2018 figures have been estimated based on Lux GAAP financial statements.

Financial Statements of Société de la Bourse de Luxembourg SA

(in EUR)	31/12/17	31/12/18
Assets	203,893,691	206,514,718
Liabilities	100,507,131	100,913,287
Shareholder's equity	103,386,560	105,601,431
Revenue	49,812,762	47,697,293
Net income	10,931,494	8,216,645
Total comprehensive income	0	0

Europay Luxembourg S.C., has been incorporated for an unlimited period on May 30, 1989. The Company is a cooperative society with limited liability.
The purpose of the company is to act as a principal member of Mastercard and to promote the development of Mastercard programs in Luxembourg.
The Company is located at 2-4 rue Edmond Reuter, L-5326 Contern (Luxembourg) and is registered under the trade register RCS B 30.764. The financial year begins on January 1 and ends on December 31 of each year.

Société de la Bourse de Luxembourg SA has been incorporated for an unlimited period on April 5, 1928. BIL participated as a founding stakeholder of the company.
The purpose of the company is to list securities, make them available for trading and disseminate information to the market. The company complement its offering with reporting services.
The Company is located at 35A boulevard Joseph II Street, L-1840 Luxembourg and is registered under the trade register RCS B 06.222. The financial year begins on January 1 and ends on December 31 of each year.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

7.9 Property, plant and equipment

	Land and buildings	Office furniture and other equipment	Total
	Own use owner	Own use owner	
ACQUISITION COST AS AT 01/01/17	**313,766,677**	**136,610,672**	**450,377,349**
- Acquisitions	11,991,835	4,292,504	16,284,339
- Disposals	(1,463,102)	(136,746)	(1,599,848)
- Changes in the scope of consolidation	0	(121,525)	(121,525)
- Transfers and cancellations	(1,896,608)	(1,454,085)	(3,350,693)
- Translation adjustments	(36,163)	(885,978)	(922,141)
ACQUISITION COST AS AT 31/12/17 (A)	**322,362,639**	**138,304,842**	**460,667,481**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	**(222,033,603)**	**(121,288,000)**	**(343,321,603)**
- Booked	(7,016,417)	(3,658,166)	(10,674,583)
- Changes in the scope of consolidation	0	120,603	120,603
- Transfers and cancellations	2,654,332	1,587,334	4,241,666
- Translation adjustments	36,163	762,831	798,995
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(226,359,525)**	**(122,475,398)**	**(348,834,922)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**96,003,114**	**15,829,444**	**111,832,558**

	Land and buildings	Office furniture and other equipment	Total
	Own use owner	Own use owner	
ACQUISITION COST AS AT 01/01/18	**322,362,639**	**138,304,842**	**460,667,481**
- Acquisitions	7,512,385	2,705,976	10,218,361
- Disposals	(1,403,858)	(10,045,863)	(11,449,721)
- Transfers and cancellations	0	(211,157)	(211,157)
- Translation adjustments	13,545	394,525	408,070
ACQUISITION COST AS AT 31/12/18 (A)	**328,484,711**	**131,148,323**	**459,633,034**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/18	**(226,359,525)**	**(122,475,398)**	**(348,834,922)**
- Booked	(7,053,407)	(8,064,135)	(15,117,542)
- Write-off	0	10,045,863	10,045,863
- Transfers and cancellations	1,008,816	210,056	1,218,872
- Translation adjustments	(13,062)	(344,591)	(357,654)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/18 (B)	**(232,417,178)**	**(120,628,205)**	**(353,045,383)**
NET CARRYING VALUE AS AT 31/12/18 (A) + (B)	**96,067,533**	**10,520,118**	**106,587,651**

7.10 Investment property

	2017	2018
ACQUISITION COST AS AT 01/01	**131,504,564**	**131,592,988**
- Acquisitions	0	607,307
- Disposals	88,469	0
- Transfers and cancellations	(45)	0
- Transfer to non-current assets and disposal groups held for sale[1]	0	(132,111,467)
ACQUISITION COST AS AT 31/12 (A)	**131,592,988**	**88,828**
FAIR VALUE ADJUSTMENTS AS AT 01/01	**255,436**	**3,227,012**
Post-acquisition adjustments		
- Reevaluation Investment Property	2,971,576	35,332,693
- Transfer to non-current assets and disposal groups held for sale[1]	0	(37,848,533)
FAIR VALUE ADJUSTMENTS AS AT 31/12 (B)	**3,227,012**	**711,172**
NET CARRYING VALUE AS AT 31/12 (A) + (B) + (C)	**134,820,000**	**800,000**

The Esch Belval property was revalued in September 2018 by an independent valuator, CBRE Luxembourg.

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

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

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

The property is 72% let to 8 tenants which are all considered to be fairly strong in terms of quality (mainly RBC, accounting for 72% of the revenues) as at December 31, 2018.

The valuation has been performed using the static capitalisation method.

The static capitalisation has been carried out in the form of a "Term and Reversion" valuation, with the current income based on contractual rents capitalised using the single rate of 6.00% until the end of the current contract, and the ERV capitalised in perpetuity thereafter using a yield of 8.50%. Term and Reversion gives a premium value to space that is let on long term secure leases to quality tenants.

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

[1] Please refer to note 7.16

7.11 Intangible fixed assets and goodwill

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

	Positive goodwill [1]	Software / internally developped	Other intangible fixed assets [2]	Total
ACQUISITION COST AS AT 01/01/18	**61,855,504**	**177,720,204**	**80,839,542**	**320,415,250**
Acquisitions	0	32,892,674	27,786,837	60,679,511
Transfers and cancellations	0	0	(1,561,853)	(1,561,853)
Translation adjustments	766,896	0	311,413	1,078,309
ACQUISITION COST AS AT 31/12/18 (A)	**62,622,400**	**210,612,878**	**107,375,939**	**380,611,217**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/18	**(11,734,189)**	**(122,671,643)**	**(24,550,769)**	**(158,956,601)**
Booked	0	(17,828,576)	(11,134,209)	(28,962,785)
Transfers and cancellations	0	0	1,561,853	1,561,853
Translation adjustments	0	0	(169,927)	(169,927)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/18 (B)	**(11,734,189)**	**(140,500,219)**	**(34,293,052)**	**(186,527,460)**
NET CARRYING VALUE AS AT 31/12/18 (A) + (B)	**50,888,211**	**70,112,659**	**73,082,887**	**194,083,757**

[1] Origin of goodwill:
- EUR 30.7 million goodwill from the acquisition of Bikuben Girobank International SA Luxembourg in 2001.
- Fully depreciated EUR 6.3 million goodwill from the acquisition of Petersen-Hinrichsen Holding Danmark at the end of year 2000.
- EUR 20.2 million goodwill from the acquisition of KBL (Switzerland) Ltd in 2015

The impairment test on the goodwill from nordic market activities has been performed on the relating cash generating unit based on the discounted cash flow methodology with indefinite lifetime assumption. Cash flows are assumed to be stable. They have been computed as revenue of the generating unit less direct and indirect costs, and after taxes. No further impairment is required as at the end of 2018 (goodwill valuation of EUR 51.9 million).

Sensisivity test : +1% increase of the discount rate generates EUR -6.5 million goodwill value whereas -1% decrease of this rate generates EUR +8.7 million goodwill value.

The impairment test on the goodwill from KBL (Switzerland) Ltd acquisition could not be based on a cash generating unit as KBLS has been merged into BILS and no "cash-generating unit" is identifiable as such. The only identifiable element linked to the business assets of ex KBLS are the original AUMs of this entity. Therefore, the impairment test has been based on the valuation of these AUMs. No impairment is deemed necessary as at the end of 2018.

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

7.12 Tax assets

	31/12/17	31/12/18
Current tax assets	224,374	201,980
Deferred tax assets (see Note 9.2)	233,836,509	225,453,739
TOTAL	**234,060,883**	**225,655,719**

7.13 Other assets

	31/12/17	31/12/18
Other assets*	76,139,337	61,736,210
Other assets specific to insurance activities	261,457	279,119
TOTAL	**76,400,794**	**62,015,329**

*ANALYSIS BY NATURE	31/12/17	31/12/18
Receivables	4,662,086	4,381,148
Prepaid fees	1,157,877	844,248
Other receivables[1]	42,444,917	35,976,611
Pension plan assets	8,542,655	4,430,001
Operating taxes	4,423,217	8,230,146
Other assets[1]	14,908,585	7,874,056
TOTAL	**76,139,337**	**61,736,210**

[1] Mainly composed of transactions linked to current business awaiting settlement.

7.14 Leasing

1. BIL as lessor

A. FINANCE LEASE

Gross investment in finance lease:	31/12/17	31/12/18
Less than 1 year	113,888,239	115,584,057
More than 1 year and less than 5 years	171,674,831	177,721,082
SUBTOTAL (A)	**285,563,070**	**293,305,139**
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASE (B)	**(124,600,082)**	**(129,593,012)**
NET INVESTMENT IN FINANCE LEASE (A)-(B)	**160,962,988**	**163,712,127**

Net investment in finance lease may be analysed as follows:	31/12/17	31/12/18
Less than 1 year	64,048,206	64,514,764
More than 1 year and less than 5 years	96,914,782	99,197,363
TOTAL	**160,962,988**	**163,712,127**

	31/12/17	31/12/18
Amount of doubtful debts on finance leases included in the loan loss provision at the end of the financial year	3,042,174	2,218,297
Estimated fair value of finance leases	160,962,988	163,712,127
Accumulated provision for irrecoverable minimum lease payments	2,702,099	1,834,898

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

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

- 76.51% of the assets is composed of vehicles, mainly passenger cars but also commercial vehicles;
- 6.27% of the assets is composed of IT equipment;
- 16.68% of the assets is composed of industrial equipment : machinery, medical equipment, etc;
- 0.54% of the assets is composed primarily of office furniture.

B. OPERATING LEASE

BIL is the operating lessor of certain land and buildings, relating information is detailed in Note 7.10.
55% of the Esch Belval property is rent by one lessee till at least end of 2029.

Future net minimum lease payments under operating lease	31/12/17	31/12/18
Less than 1 year	9,116,269	9,852,123
More than 1 year and less than 5 years	31,376,267	37,371,752
More than 5 years	51,907,070	45,807,885
TOTAL	**92,399,606**	**93,031,760**

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

2. BIL as lessee

A. FINANCE LEASE

The Bank is not involved in any financial lease as at December 31, 2018.

B. OPERATING LEASE

Future net minimum lease payments under non-cancellable operating lease	31/12/17	31/12/18
Less than 1 year	8,361,826	9,063,362
More than 1 year and less than 5 years	25,581,102	26,255,611
More than 5 years	13,015,219	9,073,878
TOTAL	**46,958,147**	**44,392,851**

Lease and sublease payments recognised as an expense during the financial year: - minimum lease payments	8,190,746	8,939,673
TOTAL	**8,190,746**	**8,939,673**

7.15 Quality of financial assets

Analysis of normal loans and securities	31/12/17
	Gross amount (A)
Normal loans and advances to credit institutions	653,467,381
Normal loans and advances to customers	13,289,284,533
Normal financial investments held to maturity	1,753,271,909
Normal financial investments available for sale	4,174,137,418
of which bonds and fixed-income instruments	*4,128,849,644*
of which equities and other variable income instruments	*45,287,774*
Collective impairment on normal loans	(29,273,953)
TOTAL	**19,840,887,288**

Analysis of impaired loans and securities	31/12/17		
	Carrying amount (B)	Specific loan loss allowance (C)	Net amount (B+C)
Impaired loans and advances to customers	331,481,078	(247,288,252)	84,192,826
Impaired financial investments available for sale	23,838,278	(19,275,921)	4,562,357
of which equities and other variable income instruments	*23,838,278*	*(19,275,921)*	*4,562,357*
TOTAL	**355,319,356**	**(266,564,173)**	**88,755,183**

Analysis of normal and impaired loans and securities	31/12/17		
	Carrying amount (A+B)	Specific loan loss allowance (C)	Net amount (A+B+C)
Loans and advances to credit institutions	653,467,381	0	653,467,381
Loans and advances to customers	13,620,765,611	(247,288,252)	13,373,477,359
Financial investments held to maturity	1,753,271,909	0	1,753,271,909
Financial investments available for sale	4,197,975,696	(19,275,921)	4,178,699,775
of which bonds and fixed-income instruments	*4,128,849,644*	*0*	*4,128,849,644*
of which equities and other variable income instruments	*69,126,052*	*(19,275,921)*	*49,850,131*
Collective impairment on normal loans	(29,273,953)	0	(29,273,953)
TOTAL	**20,196,206,644**	**(266,564,173)**	**19,929,642,471**

Loans and securities by stages	31/12/18			
	Net carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to credit institutions	1,065,766,106	9,477,470	0	1,075,243,576
Loans and advances to customers	10,763,102,717	2,258,098,580	364,854,865	13,386,056,162
Debt securities	6,176,753,371	282,790,847	12,682,055	6,472,226,273
Debt securities measured at amortised cost	*4,929,948,551*	*96,911,113*	*12,682,055*	*5,039,541,719*
Debt securities measured at fair value through OCI	*1,246,804,820*	*185,879,734*	*0*	*1,432,684,554*
TOTAL	**18,005,622,193**	**2,550,366,897**	**377,536,920**	**20,933,526,011**

Analysis of normal and impaired loans and securities by stages	31/12/18						
	Gross carrying amount			Accumulated impairment			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Loans and advances to credit institutions	1,065,800,938	9,499,212	0	(34,832)	(21,742)	0	1,075,243,576
Loans and advances to customers	10,783,624,202	2,275,003,373	595,720,394	(20,521,484)	(16,904,794)	(230,865,529)	13,386,056,162
Debt securities	6,177,867,641	283,293,650	19,917,195	(1,114,270)	(502,803)	(7,235,140)	6,472,226,273
Debt securities measured at amortised cost	*4,931,023,953*	*97,413,902*	*19,917,195*	*(1,075,402)*	*(502,789)*	*(7,235,140)*	*5,039,541,719*
Debt securities measured at fair value through OCI	*1,246,843,688*	*185,879,748*	*0*	*(38,868)*	*(14)*	*0*	*1,432,684,554*
TOTAL	**18,027,292,780**	**2,567,796,235**	**615,637,589**	**(21,670,586)**	**(17,429,339)**	**(238,100,669)**	**20,933,526,010**

7.16 Non-current assets held for sale

Following the decision of the relevant decision-making bodies to sell Red Sky SA, this entity is therefore presented as "Non-current asset and disposal groups held for sale" in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". The sale is expected to occur within twelve months from closing date December 31, 2018. Red Sky SA is currently presented under the segment "Group Center" and its main asset is represented by the building "Les Terres Rouges" classified as investment property before transfer to held for sale.

The table below provides details of the asset held for sale and liabilities directly associated with the assets held for sale in the balance sheet. Please refer to note 7.10.

	31/12/18
Investment property	169,960,000
Other assets	1,899,785
TOTAL ASSETS HELD FOR SALE	**171,859,785**
TOTAL LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE	**1,335,413**

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

8.1 Amounts due to credit institutions

A. ANALYSIS BY NATURE	31/12/17	31/12/18
On demand	706,752,417	475,731,873
Term	305,755,594	404,181,640
Cash Collateral	73,751,595	57,506,598
Repurchase agreements	271,873,179	551,261,603
Central banks[1]	727,963,848	695,281,496
Other borrowings[2]	701,758,155	761,855,703
TOTAL	**2,787,854,788**	**2,945,818,913**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

8.2 Amounts due to customers

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Demand deposits	10,113,681,654	10,355,007,030
Saving deposits	3,445,417,833	3,467,923,846
Term deposits	2,755,271,621	3,417,585,761
Cash collateral	1,106,701	8,663,048
TOTAL CUSTOMER DEPOSITS	**16,315,477,809**	**17,249,179,685**
Other borrowings	0	18,044,442
TOTAL CUSTOMER BORROWINGS	**0**	**18,044,442**
TOTAL	**16,315,477,809**	**17,267,224,127**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

[1] The Management Board decided to participate to the last tranche of the TLTRO II (Targeted Longer-Term Refinancing Operations) for EUR 150 million in March 2017. As at December 31, 2018, TLTRO transactions amount to EUR 700 million.
[2] Other borrowings represent day-to-day cash management operations.

8.3 Financial liabilities measured at fair value through profit or loss

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

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Non-subordinated liabilities	776,333,210	832,445,114
TOTAL	**776,333,210**	**832,445,114**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

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

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

8.4 Debt securities

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Certificates of deposit	38,508,748	19,480,219
Non-convertible bonds	1,541,542,831	1,914,505,526
TOTAL	**1,580,051,579**	**1,933,985,745**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

8.5 Subordinated debts

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Non-convertible subordinated debts[1]	132,256,388	135,720,308
Contingent convertible bond (compound instrument)[2]	149,607,748	149,625,580
TOTAL	**281,864,136**	**285,345,888**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

[1] List available upon request.
[2] On June 30, 2014, the Bank issued a EUR 150 million contingent convertible bond eligible as additional Tier 1 capital.

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8.6 Provisions and other obligations

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Litigation[1]	21,744,022	7,334,509
Restructuring (included garden leave)	8,594,853	6,829,474
Defined benefit plans	11,355,287	14,873,718
Other long-term employee benefits (included jubilee and time saving account)	16,466,147	16,154,642
Provision for off-balance sheet credit commitments	16,800	6,166,807
Other provisions[2]	466,835	1,757,163
TOTAL	**58,643,944**	**53,116,313**

B. ANALYSIS BY MOVEMENT	Litigation	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Other provisions (including onerous contracts)
AS AT 01/01/17 - IAS39	**8,423,322**	**7,917,837**	**33,197,630**	**24,200**	**781,623**
Exchange differences	(453,586)	(44,423)	(1,116,083)	0	(23,730)
Additional provisions	15,904,665	8,183,695	5,412,473	0	264,547
Revaluation through reserves[3]	0	0	(5,468,869)	0	0
Unused amounts reversed	(507,247)	0	(4,853,979)	(7,400)	(9,209)
Used during the year	(1,886,718)	(7,462,257)	(1,428,393)	0	(546,396)
Transfers	263,586	0	2,078,655	0	0
AS AT 31/12/17 - IAS39	**21,744,022**	**8,594,853**	**27,821,434**	**16,800**	**466,835**

AS AT 31/12/17 - IAS39	**21,744,022**	**8,594,853**	**27,821,434**	**16,800**	**466,835**
IMPACT OF ADOPTING IFRS 9	0	0	0	6,508,408	0
AS AT 01/01/18	**21,744,022**	**8,594,853**	**27,821,434**	**6,525,208**	**466,835**
Exchange differences	183,871	13,182	406,986	23,978	3,963
Additional provisions	1,318,339	4,892,272	5,118,125	0	1,842,478
Changes due to change in credit risk	n.a.	n.a.	n.a.	(3,700,552)	n.a.
Increases due to origination or acquisition	0	0	0	6,385,658	0
Decreases due to derecognition	0	0	0	(3,067,485)	0
Revaluation through reserves[3]	0	0	8,861,280	0	0
Unused amounts reversed	(528,410)	0	(9,810,543)	0	(160,298)
Used during the year	(15,383,313)	(6,670,833)	(1,422,922)	0	(372,415)
Changes in the scope	0	0	0	0	(23,400)
Transfers	0	0	54,000	0	0
AS AT 31/12/18	**7,334,509**	**6,829,474**	**31,028,360**	**6,166,807**	**1,757,163**

[1] Provisions for legal litigation, including those for staff and tax-related litigation.
[2] The heading "Other provisions" comprises a provision for EUR 1.48 million in relation to the unavoidable costs of an onerous contract signed by BIL group with a third party.
[5] See point 1.22 of Note 1.

C. ANALYSIS BY MATURITY

see Note 12.6

D. PROVISIONS FOR PENSIONS

a. Reconciliation of defined benefit obligations	31/12/17	31/12/18
Defined benefit obligations at the beginning of the year	283,168,952	269,696,843
Current service cost	11,593,340	10,967,824
Interest cost	2,475,218	2,430,595
Past service cost and gains and losses arising from settlements	253,000	(418,790)
Actuarial gains/losses	(3,402,916)	(1,611,353)
Stemming from changes in demographic assumptions	*265,510*	*1,133,000*
Stemming from changes in financial assumptions	*(1,856,951)*	*(1,908,805)*
Stemming from experience adjustments	*(1,811,476)*	*(835,548)*
Benefits paid	(18,987,006)	(23,602,018)
Out of which: amounts paid in respect of settlements	*0*	*0*
Pension plan participant contributions	1,154,354	1,200,391
Currency adjustment	(4,518,510)	1,868,767
Business combination and disposals	0	0
Other	(2,039,588)	(1,969,162)
DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR	**269,696,843**	**258,563,097**

b. Reconciliation of fair value of pension plan assets	31/12/17	31/12/18
Fair value of pension plan assets at the beginning of the year	270,384,969	266,884,074
Actual return on pension plan assets	6,793,166	(7,993,365)
Interest income	*2,450,308*	*2,479,267*
Return on pension plan assets (excluding interest income)	*4,342,859*	*(10,472,632)*
Employer contributions	13,095,445	12,157,132
Pension plan participant contributions	1,154,354	1,200,391
Benefits paid	(18,987,006)	(23,602,018)
Out of which: amounts paid in respect of settlements	*0*	*0*
Currency adjustment	(3,419,997)	1,468,694
Business combination and disposals	0	0
Other	(2,136,858)	(1,995,531)
FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR	**266,884,074**	**248,119,377**

c. Reconciliation of the effect of the asset ceiling	31/12/17	31/12/18
Effect of the asset ceiling at the beginning of the year	0	0
Interest on the effect of the asset ceiling	0	0
Change in the effect of the asset ceiling	0	0
Other	0	0
EFFECT OF THE ASSET CEILING AT THE END OF THE YEAR	**0**	**0**

NET LIABILITY	**(2,780,770)**	**(10,443,720)**

d. Funded status	31/12/17	31/12/18
Pension plan assets in excess of benefit obligation	(8,542,655)	(4,430,001)
Unrecognised assets	0	0

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e. Movement in net defined benefit pension liability or asset	31/12/17	31/12/18
Net liability at the beginning of the year	(12,783,983)	(2,781,770)
Net periodic pension cost recognised in the income statement	(11,937,520)	(10,557,730)
Remeasurements recognised in OCI	7,745,775	(8,861,279)
Employer contributions	13,095,445	12,157,132
Pension payments by employer	0	0
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	0	0
Currency adjustments	1,098,513	(400,073)
Other	1,000	0
NET LIABILITY AT THE END OF THE YEAR	**(2,780,770)**	**(10,443,720)**

f. Movement in the IAS 19 remeasurement reserve in equity	31/12/17	31/12/18
Recognised reserve at the beginning of the year	(18,231,400)	(9,316,320)
Remeasurements recognised in OCI	8,915,080	(9,269,162)
Transfers	0	0
RECOGNISED RESERVE AT THE END OF THE YEAR	**(9,316,320)**	**(18,585,482)**

g. Amounts recognised in the income statement	31/12/17	31/12/18
Current service cost	11,593,340	10,967,824
Net interest on the defined benefit liability/asset	24,910	(48,672)
Past service cost	253,000	(418,790)
Gains and losses arising from settlements	1,000	0
Other	66,270	57,368
ACTUARIALLY DETERMINED NET PERIODIC PENSION COST	**11,937,520**	**10,557,730**

h. Amounts recognised in other comprehensive income	31/12/17	31/12/18
Actuarial gains/losses on the defined benefit obligation	(3,402,916)	(1,611,353)
Actual return on plan assets (excluding amounts included in interest income)	(4,342,859)	10,472,632
Other	0	0
Currency adjustments	(1,169,305)	407,883
TOTAL OTHER COMPREHENSIVE INCOME	**(8,915,080)**	**9,269,162**

Actual return on pension plan assets (%)	31/12/17	31/12/18
	2.53%	-3.10%

Breakdown of pension plan assets	31/12/17	31/12/18
Fixed income		
Quoted market price on an active market	63.40%	63.86%
Equities		
Quoted market price on an active market	18.57%	15.77%
Alternatives		
Quoted market price on an active market	2.07%	2.20%
Cash	1.25%	1.51%
Other	14.71%	16.66%
TOTAL	**100.00%**	**100.00%**

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

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

Discount rate

DBO sensitivity to changes in discount rate		
	Scenario DR -1%	10.24%
	Scenario DR +1%	-8.15%

Expected rate of salary increase (including inflation)

DBO sensitivity to changes in expected rate of salary increase		
	Scenario SR -1%	-1.86%
	Scenario SR +1%	3.66%

The duration of the DBO of the pension plans in EUR as of December 31, 2018 is 6.99 (6.38 in 2017).
The duration of the DBO of the Swiss pension plan as of December 31, 2018 is 20.1 (19.7 in 2017).

Expected contributions for next year	12,223,670

Additional descriptions

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

People hired from June 1, 2017 partake in a new pension plan outsourced to an external insurance company and which is not reported under the current note as the note 8.6D refers to a defined benefit plan.
Other pension plans are thus closed plans with membership depending on the hiring date.
These closed plans are two hybrid defined benefit (DB)/ defined contribution (DC) pension plans and one DC with guaranteed return pension plan. In 2018, no specific event occurred regarding pension plan provision for active people. However, the basis of these people obligations has been modified considering now employees historical occupancy rate, which has led to a restatement of 2017 figures.
For retirees, pension plans is a DB plan (closed) for which no specific event occurred during the year 2018.
For all closed plans the risk exposure is actually an exposure to financial risk and for part of the plans to the longevity and inflation risks.
In Switzerland, the pension plan is a DC pension plan with guaranteed return. A plan amendment occurred in 2018 due to a decision of the Board of the multi-employer foundation to reduce the non-mandatory conversion factors for the retirement pensions. This led to a plan amendment gain of KCHF 858 (KEUR 746). This gain is a past service income and has to be recorded in the statement of income in the financial year 2018.

B. Methods and assumptions used in preparing the sensitivity analysis

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

	Luxembourg		Switzerland	
	31/12/17	**31/12/18**	**31/12/17**	**31/12/18**
Discount rate	1.00%	1.00%	0.70%	0.90%
Salary increase (age based since 2015 and inflation excluded)	0.50% - 5.50%	0.50% - 5.50%	1.00%	1.00%
of which inflation	*1.80%*	*1.80%*	*0.50%*	*0.50%*

C. Description of ALM strategies

In Luxembourg the pension fund investment strategy is based on ALM objectives trying to align as far as possible assets maturities with liabilities profile and is also based on return objectives with limited risks exposure.
Investment strategy also aims at protecting the funding surplus (surplus according to Funding vehicule local GAAP).
In Switzerland, the investment strategy is in the hands of the insurer.

D. Description of funding arrangements

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

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

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

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

Asset ceiling under IAS 19 does not apply.

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

The Swiss pension plan is funded through a multi-employer foundation.

This pension plan is subject to asset ceiling under IAS 19 however the plan shows a Net liability.

8.7 Tax liabilities

ANALYSIS BY NATURE	31/12/17	31/12/18
Current tax liabilities	4,452,914	1,878,972
Deferred tax liabilities (see Note 9.2)	8,699,564	4,876,126
TOTAL	**13,152,479**	**6,755,098**

8.8 Other liabilities

	31/12/17	31/12/18
Other liabilities*	227,891,660	245,590,248
Other liabilities specific to insurance activities	363,264	379,262
TOTAL	**228,254,924**	**245,969,510**

*ANALYSIS BY NATURE	31/12/17	31/12/18
Accrued costs	10,979,225	11,017,419
Deferred income	12,404,017	14,458,203
Other payables[1]	134,786,900	141,824,120
Other granted amounts received	810,716	736,764
Salaries and social security costs (payable)	29,969,540	31,491,845
Other operating taxes	31,429,239	40,650,230
Other liabilities	7,512,023	5,411,667
TOTAL	**227,891,660**	**245,590,248**

8.9 Liabilities included in disposal groups held for sale

see Note 7.16

[1] The heading "Other payables" mainly comprises the amounts of the coupons to be paid to clients of the parent company, the amounts of stock exchange transactions and transactions being liquidated, and also comprises a provision of EUR 4.2 million in relation to the unavoidable costs of the onerous contract signed by BIL group with a third party.

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

9.1 Derivatives and hedging activities

Derivatives instruments are split in two categories:
- Derivatives held for trading;
- Derivatives designated in a hedge relationship.

The Bank applies hedge accounting in four separate strategies where derivatives and non-derivatives instruments are used as hedging elements:

Fair value hedge

The fair value hedge strategies are used to hedge the interest rate risk arising from a portion of the investment portfolio. Generally speaking:
- The hedged items are fixed-rate bonds exposed to a change in fair value due to the movement in market interest rates;
- The hedging items are receive-floating interest rate swaps.

Only the interest rate risk is hedged.

The interest rate risk is determined as the change in fair value of the bonds arising from changes in the relevant yield curves.

Two different hedge ratios are computed to assess the effectiveness of each fair value hedge strategy.
- At the initiation of the strategy, the ratio between the interest rate sensitivity (+100bps) of each item must be in the range [90% ; 110%] (prospective test);
- At the end of each month, the ratio between the evolution of the fair value arising from the interest rate risk of each item must be in the range [80% ; 125%] (retrospective test).

Sources of ineffectiveness arise from the floating leg of the hedging instruments.

Cash flow hedge

Interest rate risk
The cash flow hedge is used to hedge the interest rate risk arising from revolving instruments. Generally speaking:
- The hedged items are revolving short-term money market loans and deposits exposed to a change in earnings due to the movement in market interest rates;
- The hedging items are interest rate swaps.

Only the interest rate risk is hedged.

The interest rate risk is determined as the change in the earnings arising from changes in the benchmark interest rates when the contract is renewed.

The efficiency assessment is based on the comparison between the cash flows (interest and nominal) generated by the short-term loans and deposits and the cash flows generated by the floating legs of the interest rate swaps. For each currency and index, the cumulative amount of cash flows of interest rate swaps must not exceed the cumulative amount of cash flows of the short-term instrument.

Foreign currency risk
The cash flow hedge is used to hedge the foreign currency risk arising from the exposure to impaired loans and collateralised by assets denominated in a different currency to the notional of the loan. Generally speaking:
- The hedged items are the probable future increase or decrease of impairment of loans due to foreign exchange variation of the collateral denominated in a different currency of the notional of the loan;
- The hedging items are long positions denominated in the currency of the loans.

Only the foreign currency risk is hedged.

The foreign currency risk is determined as the change in value of the collateral of the impaired loans due to foreign exchange variation.

The Bank aims to set the hedge ratio to 100% and the efficiency assessment is made on a quarterly basis.

Portfolio hedge

The carve out is used to hedge the interest rate risk arising from loans and deposits not already hedged within the fair value or the cash flow hedge framework. Generally speaking:
- The hedged items are loans and deposits in the banking book exposed to a change in fair value due to the movement in market interest rates;
- The hedging items are interest rate swaps.

Only the interest rate risk is hedged.

The interest rate risk is determined as the change in fair value arising from changes in the relevant yield curves.

The efficiency assessment is based on a cumulative gap of the hedged instruments and the fixed-rate legs of the interest rate swaps. For each predetermined bucket, the amount of interest rate swaps must not exceed the amount of the loans and the deposits.

Sources of ineffectiveness arise from the floating leg of the hedging instruments.

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Net investment in foreign operations

The Bank hedges the currency risk arising from its net investment in foreign operations using foreign currency-denominated liabilities. The Bank has net investments in a number of foreign locations and currencies and designates the hedged risk as the risk of the foreign currency changes against the EUR, in order to reduce fluctuations in the value of the Bank's net investment in its subsidiaries due to movements in the EUR exchange rate. The effective portion of foreign exchange gains and losses on the hedging instruments is recognised in OCI. The Bank aims to set the hedge ratio to 100% and the efficiency assessment is made on a monthly basis.

A. ANALYSIS BY NATURE	31/12/17		31/12/18	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	156,907,356	199,269,667	243,863,819	298,024,829
Derivatives designated as fair value hedge	22,949,787	166,115,533	16,756,604	194,799,362
Derivatives designated as cash flow hedge	10,892,381	15,604,699	3,026,845	8,779,884
Derivatives designated as portfolio hedge against interest rate risk	36,998,864	3,304,558	26,666,274	1,579,652
TOTAL	**227,748,388**	**384,294,457**	**290,313,542**	**503,183,727**

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

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**17,309,863,444**	**17,305,213,890**	**221,993,357**	**223,623,364**
FX forward	17,050,932,232	17,042,676,485	220,094,614	216,909,079
Cross currency swap	44,378,652	46,029,479	1,234,492	6,291,749
FX options	214,552,560	216,507,926	664,251	422,536
Interest rate derivatives	**764,509,678**	**770,125,590**	**10,072,276**	**10,587,186**
Options-Caps-Floors-Collars-Swaptions	138,008,917	131,350,703	3,013,838	3,018,006
IRS	609,630,132	610,330,132	7,058,438	7,569,180
Interest futures	16,870,629	28,444,755	0	0
Equity derivatives	**504,978,579**	**532,861,257**	**11,798,186**	**63,814,279**
Equity futures	7,086,137	532,625	0	0
Equity options	304,629,337	268,334,478	6,594,962	22,498,356
Other equity derivatives	193,263,105	263,994,154	5,203,224	41,315,923
TOTAL	**18,579,351,701**	**18,608,200,737**	**243,863,819**	**298,024,829**

C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,469,631,061**	**2,589,632,061**	**22,949,787**	**166,115,533**
IRS	2,469,632,061	2,589,632,061	22,949,787	166,115,533
TOTAL	**2,469,631,061**	**2,589,632,061**	**22,949,787**	**166,115,533**

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**3,289,092,379**	**3,289,092,379**	**16,756,604**	**194,799,362**
IRS	3,289,092,379	3,289,092,379	16,756,604	194,799,362
TOTAL	**3,289,092,379**	**3,289,092,379**	**16,756,604**	**194,799,362**

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

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**178,451,849**	**180,734,993**	**1,452,369**	**4,844,334**
Cross currency swap	87,412,587	89,581,654	888,039	4,844,334
Other currency derivatives	91,039,262	91,153,339	564,330	0
Interest rate derivatives	**55,148,483**	**55,148,483**	**1,574,476**	**3,935,550**
IRS	55,148,483	55,148,483	1,574,476	3,935,550
TOTAL	**233,600,332**	**235,883,476**	**3,026,845**	**8,779,884**

Cash flows in respect of the hedging instruments relating to the statement of income are recorded therein on a continual basis as interest is paid.
Interest generated by derivatives designated as cash flow hedge amounted to EUR 3.5 million in 2018 (EUR 2.8 million in 2017) and are recorded in the statement of income as interests on derivatives used for hedging purposes.

Breakdown of derivatives designated as Cash Flow Hedge by residual maturity	31/12/17				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	3,849,643	-	3,191,412	3,851,326	**10,892,381**
Liabilities	1,559,373	247,631	7,617,994	6,179,701	**15,604,699**

	31/12/18				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	564,330	-	1,574,476	888,039	**3,026,845**
Liabilities	-	202,413	3,733,137	4,844,334	**8,779,884**

E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE RISK	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	14,449,062	16,922,772	337,898	7,574
Interest rate derivatives	423,546,538	423,546,538	36,660,966	3,296,984
TOTAL	**437,995,600**	**440,469,310**	**36,998,864**	**3,304,558**

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	3,976,010	4,690,432	274,586	249
Interest rate derivatives	382,633,574	382,633,574	26,391,688	1,579,403
TOTAL	**386,609,584**	**387,324,006**	**26,666,274**	**1,579,652**

In accordance with IFRS 7R.44Z, the following tables (F to M) are only disclosed for the first year of application of IFRS 9, i.e. for year 2018. Comparative figures for 2017 are therefore not presented in the below tables.

F. MATURITY PROFILE OF HEDGING INTRUMENTS USED IN MICRO FAIR VALUE HEDGE RELATIONSHIP	31/12/18			
	< 1 year	1 to 5 years	> 5 years	Total
Micro Fair Value Hedge for FVTOCI debt instruments *Interest rate swaps (Notional amount)*	8,741,259	618,773,846	412,000,000	1,039,515,105
Micro Fair Value Hedge for Amortized Cost debt instruments *Interest rate swaps (Notional amount)*	25,000,000	607,623,280	1,435,390,259	2,068,013,538
Micro Fair Value Hedge for Corporate Loans *Interest rate swaps (Notional amount)*	0	48,706,294	132,857,442	181,563,736
TOTAL	**33,741,258**	**1,275,103,420**	**1,980,247,701**	**3,289,092,379**

G. MATURITY PROFILE OF HEDGING INTRUMENTS USED IN MICRO CASH FLOW HEDGE RELATIONSHIP	31/12/18			
	< 1 year	1 to 5 years	> 5 years	Total
1. Derivatives instruments				
"Cross currency interest rate swaps Notional (in EUR)"	*0*	*0*	*89,581,654*	*89,581,654*
Average fixed rate			*5,01%*	
2. Non-derivative instruments			9,901,869	9,901,869
TOTAL	**0**	**0**	**99,483,523**	**99,483,523**

H. HEDGED ITEMS IN A FAIR VALUE HEDGE RELATIONSHIP	31/12/18	
	Carrying amount of hedged items	Accumulated amount of fair value adjustments on the hedged items
Micro fair value hedges		
Fixed rate Loans	*181,529,069*	*(1,256,532)*
Fixed rate FVTOCI debt securities	*1,150,638,643*	*8,255,839*
Fixed rate amortized cost debt securities	*2,163,077,685*	*24,769,310*
TOTAL	**3,495,245,397**	**31,768,617**

For dynamic macro fair value hedges against interest rate risk, the net accumulated amount of fair value adjustment on the hedged items amounts to EUR (23 355 495) booked in "Fair value revaluation of portfolio hedged against interest rate risk" captions for an amount 1 470 569 EUR in assets and 24 826 064 EUR in liabilities. Hedged items are designated as an amount of currency assets or liabilities.

[1] For dynamic macro-hedging, the maturity profile of hedging instruments is not disclosed in accordance with IFRS7.23C. Refer to hedge accounting strategies described hereabove in section 9.1.

I. HEDGED ITEMS IN A CASH FLOW HEDGE RELATIONSHIP	31/12/18		
	Change in FV of hedged item in the year used for ineffectiveness measurement	Cash Flow Hedge reserve	
		Continuing hedge	Discontinued Hedges
Macro Cash Flow Hedge	(783,723)	(2,490,339)	222,000
Micro Cash Flow Hedge	(1,129,572)	(4,105,297)	
TOTAL	**(1,913,295)**	**(6,595,636)**	**222,000**

J. HEDGE EFFECTIVENESS FOR FAIR VALUE HEDGE RELATIONSHIPS	31/12/18		
	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged Instrument	Hedging Instrument	
Micro Fair Value Hedge relationships	35,164,331	(35,092,058)	72,273
Portfolio Fair Value Hedge	8,655,760	(8,711,070)	(55,310)
TOTAL	**43,820,091**	**(43,803,128)**	**16,963**

K. HEDGE EFFECTIVENESS FOR CASH FLOW HEDGE RELATIONSHIPS	31/12/18					
	Notional amount	Carrying value		Change in FV of hedging instruments in the year used for ineffectiveness measurement		
		Assets	Liabilities	Total	Effective portion	Hedge ineffectiveness
Macro Cash Flow Hedge	55,148,483	1,574,632	3,930,843	783,723	783,723	0
Micro Cash Flow Hedge	99,483,523	9,696,074	6,477,707	1,538,713	1,538,713	0
TOTAL	**154,632,006**	**11,270,706**	**10,408,550**	**2,322,436**	**2,322,436**	**0**

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

L. DETAIL OF HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS AGAINST FOREIGN EXCHANGE MOVEMENTS

HEDGING INSTRUMENTS	31/12/18			
	Carrying amount of hedging instruments	Changes in fair value of hedging instruments used for measuring hedge ineffectiveness		
		Effective portion recognized in OCI	Hedge inneffectiveness recognised in the income statement	Reclassified into income statement
Deposits in CHF	146,433,763	(48,350,075)	0	0
Deposits in DKK	13,332,108	14,377	0	0
Deposits in USD	1,337,834	(222,658)	0	0
Deposits in SGD	0	0	0	50,108
TOTAL MICRO NET INVESTMENT HEDGES	**161,103,705**	**(48,558,356)**	**0**	**50,108**

HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS	31/12/18			
	Change in fair value of hedged item for ineffectiveness assessment	Translation reserve	OCI reserve	Balances remaining in the Translation reserve for hedge accounting is no longer applied
Investment in CHF subsidiaries	5,430,689	47,037,846	0	0
Investment in DKK subsidiaries	(37,999)	(14,377)	0	0
Investment in USD subsidiaries	67,424	222,658	0	0
Investment in SGD subsidiaries	(50,108)	0	0	0
Investment in CHF participation	117,986	0	1,312,229	0
TOTAL	**5,527,992**	**47,246,127**	**1,312,229**	**0**

M. HEDGING ACTIVITIES IMPACT ON EQUITY

EQUITY RECONCILIATION	Cash flow hedging reserve	Translation reserve	Net Investment Hedge reserve
OPENING BALANCE AS AT JANUARY 1, 2018	**(3,828,441)**	**(41,836,121)**	**(883,623)**
Cash Flow hedges			
Effective portion of change in fair value arising from :			
Cross currency interest rate swaps	(1,669,220)	0	0
Interest rate swaps	(1,301,322)	0	0
Deposits in CHF	203,346	0	0
Net amount reclassified to profit or loss			
Following hedge discontinuation	222,000	0	0
Following utilisation	1,215,066	0	0
Net Investment Hedges			
Foreign currency reevaluation on the hedging financial instruments	0	(5,460,113)	(117,986)
Net amount reclassified to profit or loss	0	50,108	0
Tax impact on the above	345,967	0	30,688
CLOSING BALANCE AS AT DECEMBER 31, 2018	**(4,812,604)**	**(47,246,126)**	**(970,921)**

9.2 Deferred tax

A. ANALYSIS	31/12/17	31/12/18
Net deferred tax assets	233,836,509	225,453,739
Deferred tax liabilities	(8,699,564)	(4,876,126)
DEFERRED TAX	225,136,944	220,577,613

B. MOVEMENTS	2017	2018
AS AT JANUARY 1 - IAS39	240,933,227	225,136,944
Impact of adopting IFRS 9		8,287,031
AS AT JANUARY 1 - IFRS9		233,423,975
Movements during the financial year:		
- Amounts recognised in the statement of income	(21,032,975)	(24,469,792)
- Items directly computed by equity	2,324,110	10,970,355
- Effect of change in tax rates - statement of income	57,700	(7,276)
- Effect of change in tax rates - equity	337,909	0
- Changes in consolidation scope	0	0
- Exchange differences	(280,431)	106,887
- Other movements	2,797,405	553,464
AS AT DECEMBER 31	225,136,944	220,577,613

Deferred tax coming from balance sheet assets	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Cash loans and loss provisions	7,275,263	(603,255)	11,413,956	(336,721)
Securities	(17,961,903)	0	-5,825,615	187,965
Derivatives	1,110,061	0	1,691,794	0
Tangible and intangible fixed assets	(224,453)	(369,565)	4,472,770	4,697,904
Other non allocated	(500,429)	0	0	0
TOTAL	(9,801,032)	(972,820)	11,752,905	4,549,148

Deferred tax coming from balance sheet liabilities	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Borrowings, deposits and issuance of debt securities	(1,295,972)	(2,801,006)	(2,782,468)	(647,991)
Provisions	(15,381,573)	3,539,438	(9,575,123)	4,478,665
Pensions	3,970,312	(154,702)	5,986,939	(399,760)
Other liabilities specific to insurance companies	(4,390,331)	(1,660,152)	(5,139,761)	(749,434)
TOTAL	(17,097,564)	(1,076,422)	(11,510,413)	2,681,480

Deferred tax coming from other items	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Tax losses carried forward	404,736,151	(38,008,256)	372,815,072	(31,921,079)
less: impairments	*(152,700,611)*	*21,810,828*	*(152,479,952)*	*220,659*
TOTAL	252,035,540	(16,197,428)	220,335,120	(31,700,420)

Considering that:

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

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

9.3 Share-based payments

There is no stock option plan settled in BIL shares.

9.4 Related party transactions

A. RELATED PARTY TRANSACTIONS	Key management		Subsidiaries	
(in EUR thousands)	31/12/17	31/12/18	31/12/17	31/12/18
Loans[1]	12,259	9,689	47	67
Deposits	14,416	6,576	221	264
Guarantees and commitments given by the Group	41	43	0	0
Guarantees and commitments given to the Group	3	3	0	0
Assets entrusted from third parties	10,135	11,838	0	0

	Associates		Other related parties	
	31/12/17	31/12/18	31/12/17	31/12/18
Loans[1]	0	4	546	0
Interest received	0	7	3	71
Receivables	990	0	0	0
Deposits	11,582	11,078	3,189	7,340
Interest paid	(1)	0	(1)	(9)
Derivatives - Total to receive	0	0	40,416	29,981
Derivatives - Total to deliver	0	0	27,238	31,413
Commissions received	0	0	0	2
Guarantees and commitments given by the Group	0	0	0	0
Assets entrusted from third parties	0	0	225,280	203,932

Advisory fees paid to Precision Capital SA amount to EUR -0.1 million in 2018 (EUR -0.8 million in 2017).

B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.9 "Staff expenses")

9.5 Securitisation

BIL group has no securitisation vehicles included in its scope of consolidation.

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

9.6 Acquisitions and disposals of consolidated companies

A. MAIN ACQUISITIONS

Year 2017
None.

Year 2018
None.

B. MAIN DISPOSALS

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

Year 2018
BIL ASIA Singapore Ltd (since November 14, 2018).

9.7 Subscribed and authorised capital

By share category	31/12/17	31/12/18
Number of shares authorised and not issued[1]	2,982,681	2,982,681
Number of shares issued and fully paid up	2,017,319	2,017,319
Value per share (accounting par value)	EUR 70	EUR 70
Number of treasury shares	970	970

9.8 Exchange rates

The main exchange rates used are the following:

		31/12/17		31/12/18	
		Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	AUD	1.5356	1.4811	1.6228	1.5828
Canadian Dollar	CAD	1.5057	1.4744	1.5621	1.5320
Swiss Franc	CHF	1.1718	1.1166	1.1274	1.1505
Danish Krone	DKK	7.4476	7.4391	7.4681	7.4534
Pound Sterling	GBP	0.8877	0.8758	0.8929	0.8853
Hong Kong Dollar	HKD	9.3746	8.8766	8.9601	9.2398
Japanese Yen	JPY	134.9569	127.2486	125.7542	129.9485
Norwegian Krone	NOK	9.8212	9.3791	9.9419	9.6262
Polish Zloty	PLN	4.1824	4.2446	4.2996	4.2689
Swedish Krona	SEK	9.8189	9.6466	10.2323	10.2985
Singapore Dollar	SGD	1.6029	1.5627	1.5590	1.5894
US Dollar	USD	1.1998	1.1387	1.1440	1.1787

[1] As at December 31, 2018, the subscribed capital and paid-up capital of the Bank is EUR 141,212,330 (2017: EUR 141,212,330) represented by 2,017,319 shares (2017: 2,017,319 shares) with a par value of EUR 70 (2017: EUR 70).
Following the extraordinary general meeting of April 25, 2014, and in accordance with the articles of incorporation, the Board of Directors of the Bank is authorised to increase the share capital to a maximum of EUR 350 million, without prejudice to possible renewals, until April 25, 2019.

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

10.1 Regular way trade

	31/12/17	31/12/18
Loans to be delivered	744,540,468	1,140,408,136
Borrowings to be received	863,398,833	1,435,312,813

10.2 Guarantees

	31/12/17	31/12/18
Guarantees given to credit institutions	132,613,597	201,041,787
Guarantees given to customers	583,108,576	674,380,887
Guarantees received from credit institutions	80,205,311	79,289,677
Guarantees received from customers	2,812,732,111	1,346,394,213

10.3 Loan commitments

	31/12/17	31/12/18
Unused credit lines granted to credit institutions	35,826,302	89,029,528
Unused credit lines granted to customers	1,842,462,861	2,518,156,271

10.4 Other commitments

	31/12/17	31/12/18
Banking activity - Other commitments given[1]	40,684,837,719	38,872,806,433
Banking activity - Other commitments received[2]	178,474,033,186	183,695,204,111

[1] Other commitments given are mainly composed of assets entrusted to third parties.
[2] Other commitments received are mainly composed of assets held on behalf of third parties, which amounted to EUR 173.4 billion as at December 31, 2018 and EUR 170.4 billion as at December 31, 2017.

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

11.1 Interest and similar income - Interest and similar expenses

	31/12/17	31/12/18
INTEREST AND SIMILAR INCOME	509,866,565	599,792,004
a) Interest and similar income of assets not measured at fair value through profit or loss	**309,986,506**	**331,722,964**
Cash and balances with central banks	0	0
Loans and advances to credit institutions	6,523,550	14,929,770
Loans and advances to customers	245,632,613	250,302,951
Financial assets available for sale	45,457,437	
Financial investments measured at fair value		20,429,025
Investments held to maturity	12,372,906	
Financial investments measured at amortised cost		46,061,218
b) Interest and similar income of assets measured at fair value through profit or loss	**195,174,185**	**252,585,060**
Financial assets held for trading	987,921	828,997
Derivatives held for trading	114,759,860	185,606,960
Derivatives used for hedging purposes	79,426,404	66,149,103
c) Interest income on liabilities	**4,705,874**	**15,483,980**
INTEREST AND SIMILAR EXPENSES	(203,594,375)	(288,020,901)
a) Interest and similar expenses of liabilities not measured at fair value through profit or loss	**(47,020,340)**	**(63,618,453)**
Amounts due to credit institutions	(14,896,668)	(21,110,977)
Amounts due to customers	(14,237,674)	(25,336,000)
Debt securities	(12,008,854)	(11,913,752)
Subordinated debts	(5,789,137)	(5,142,858)
Other	(88,007)	(114,866)
b) Interest and similar expenses of liabilities measured at fair value through profit or loss	**(155,908,182)**	**(204,045,670)**
Financial liabilities held for trading	(144)	(3,222)
Financial liabilities designated at fair value through profit or loss	(14,400,393)	(12,676,300)
Derivatives held for trading	(67,294,409)	(122,308,140)
Derivatives used for hedging purposes	(74,213,236)	(69,058,008)
c) Interest expenses on assets	**(665,853)**	**(20,356,778)**
NET INTEREST INCOME	306,272,190	311,771,103

11.2 Dividend income

	31/12/17	31/12/18
Financial assets available for sale	4,428,658	
Financial investments measured at FVTOCI		518,688
Financial assets held for trading	1,242	10,172
TOTAL	4,429,900	528,860

11.3 Net income from associates

	31/12/17	31/12/18
Income from associates before tax	8,395,785	2,385,753
Share of tax	(1,051,100)	(618,393)
TOTAL	7,344,685	1,767,360

11.4 Net trading income

	31/12/17	31/12/18
Net income from trading transactions	4,764,756	2,789,056
of which income from trading securities	*3,503,099*	*2,143,880*
of which income from trading derivatives	*1,261,657*	*645,176*
Net income from hedging derivatives classified in the accounts as trading derivatives (accounting mismatch)	(13,809,597)	(36,244,567)
Net foreign exchange gain/(loss)	13,478,180	10,455,116
Change in own credit risk	(326,208)	
TOTAL	**4,107,131**	**(23,000,395)**

11.5 Net income on financial instruments measured at fair value and net result of hedge accounting

	31/12/17	31/12/18
Net income financial assets available for sale	44,794,926	
Net income on financial investments measured at FVTOCI		15,415,922
Net income on financial investments at FVTPL	0	(1,559,306)
of which financial investments mandatorily fair value through profit or loss		*(1,559,306)*
of which financial investments fair value option	*0*	*0*
Net income on financial liabilities designated at FV through profit or loss	14,490,842	35,247,772
NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE	**59,285,768**	**49,104,388**

	31/12/17	31/12/18
Fair value hedge	**173,918**	**72,274**
Change in the fair value of the hedged item attributable to the hedged risk	(18,821,335)	35,164,332
Fair value revaluation (+: gains/ -: losses) / Derivative Financial Instruments / Derivative Financial Instr - FV Hedge	18,995,253	(35,092,058)
Portfolio hedge against interest rate risk	**(111,436)**	**(55,311)**
Fair value revaluation - Portfolio hedge - Hedged items	10,096,492	8,655,760
Fair value revaluation - Derivatives - Portfolio hedge	(10,207,928)	(8,711,071)
Discontinuation of cash flow hedge accounting (cash flows not excpeted to occur)	**(3,813,145)**	**(222,000)**
NET RESULT OF HEDGE ACCOUNTING	**(3,750,663)**	**(205,037)**

TOTAL	**55.535.105**	**48.899.351**

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

	31/12/17	31/12/18
Net income on loans and advances measured at amortised cost	4,228,186	2,920,882
Net income on financial investments measured at amortised cost	0	1,506,947
Net income on liabilities	(17,710)	5,000
TOTAL	**4,210,476**	**4,432,829**

As at December 31, 2017 gains and losses on derecognition on loans repectively amount to EUR 4,228,186 and EUR 0 and gains and losses on derecognition on financial investments measured at amortised cost are nil.

As at December 31, 2018 gains and losses on derecognition on loans repectively amount to EUR 2,920,882 and EUR 0 and gains and losses on derecognition on financial investments measured at amortised cost amount to EUR 2,605,896 and EUR (1,098,949).

11.7 Fee and commission income and expenses

	31/12/17			31/12/18		
	Income	Expenses	Net	Income	Expenses	Net
Management of unit trusts and mutual funds	25,422,193	(1,262,786)	24,159,407	24,382,706	(5,883,294)	18,499,412
Administration of unit trusts and mutual funds	130,375	0	130,375	93,768	0	93,768
Insurance activity	7,461,447	0	7,461,447	6,839,907	0	6,839,907
Credit activity	21,023,372	(666,921)	20,356,451	20,916,038	(867,299)	20,048,739
Purchase and sale on securities	25,506,359	(11,964,094)	13,542,265	23,789,997	(13,941,913)	9,848,085
Purchase and sale of unit trusts and mutual funds	7,991,328	(767,185)	7,224,143	7,738,748	(411,266)	7,327,482
Payment services	26,245,180	(750,229)	25,494,951	26,568,104	(880,669)	25,687,435
Commissions to non-exclusive brokers	0	(350,411)	(350,411)	0	(278,978)	(278,978)
Financial engineering	4,449,641	(138,657)	4,310,984	4,833,748	(143,763)	4,689,985
Services on securities other than safe keeping	3,189,340	(508,697)	2,680,643	1,975,306	(32,850)	1,942,456
Custody	27,776,550	(5,412,167)	22,364,383	21,907,952	(4,981,075)	16,926,877
Issues and placements of securities	4,488,349	(24,456)	4,463,893	3,054,870	0	3,054,870
Private banking	46,376,504	(7,114,804)	39,261,700	62,853,622	(8,108,896)	54,744,726
Clearing and settlement	24,910,526	(2,532,906)	22,377,620	25,469,654	(2,529,474)	22,940,180
Securities lending	427,329	(33,604)	393,725	420,440	(33,107)	387,333
Other	7,263,578	(479,077)	6,784,501	5,332,832	(711,721)	4,621,110
TOTAL	**232,662,071**	**(32,005,994)**	**200,656,077**	**236,177,692**	**(38,804,305)**	**197,373,387**

11.8 Other net income

	31/12/17	31/12/18
Operating taxes	4,433,912	190,845
Rental income	11,337,020	10,841,395
Other rental income	174,861	159,233
Gains on tangible fixed assets	230,878	867,693
Technical margins insurance companies (income)	6,058,067	3,312,485
FV adjustments on investment property	2,971,576	35,332,693
Other income on other activities[1]	3,954,498	11,713,308
OTHER INCOME	**29,160,812**	**62,417,652**
Operating taxes	(3,866,585)	(3,062,223)
Maintenance and repair of investment property	(4,737,352)	(3,377,196)
Other bank charges[2]	(13,534,937)	(17,446,128)
Losses on tangible fixed assets	(920)	0
Technical margins insurance companies (expenses)	(1,690,208)	(2,160,454)
Other expenses in relation to other activities[3]	(25,596,034)	(4,825,901)
OTHER EXPENSES	**(49,426,036)**	**(30,871,902)**
TOTAL	**(20,265,224)**	**31,545,750**

[1] This consists primarily of write-backs of provisions and extraordinary operating income.
[2] This consists of charges related 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.

11.9 Staff expenses

A. STAFF EXPENSES

	31/12/17	31/12/18
Wages and salaries	(183,840,580)	(174,669,677)
Social security and insurance costs	(21,219,256)	(20,617,007)
Staff benefits	(13,145,145)	(11,629,087)
Restructuring expenses	(8,183,695)	(4,892,272)
Other expenses	(2,741,396)	(2,812,487)
TOTAL	**(229,130,073)**	**(214,620,530)**

B. WORKFORCE

(in average FTE)	31/12/17	31/12/18
Senior management	51	52
Employees	1,944	1,969
Other	2	0
TOTAL	**1,997**	**2,021**

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

(Average FTE) [1] **as at 31/12/18**	Luxembourg	Other Europe	Other (Non-Europe)	Total BIL group
Senior management	46	5	1	52
Employees	1,797	158	14	1,969
Other	0	0	0	0
TOTAL	**1,843**	**163**	**15**	**2,021**

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

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

	31/12/17	31/12/18	31/12/17	31/12/18
	Remuneration		Retirement pensions	
Members of the administrative bodies	935,344	1,079,500	0	0
Members of the managerial bodies[2]	16,383,591	18,031,023	2,302,799	2,660,258
TOTAL	**17,318,935**	**19,110,523**	**2,302,799**	**2,660,258**

[1] Breakdown by subsidiaries' and branches' country of implementation.
[2] 2018 retirement pensions include EUR 1.2 million of defined benefit pension plan and EUR 1.5 million of defined contribution plan.

D. DEFINED CONTRIBUTION PLAN EXPENSES

	31/12/17	31/12/18
Defined contribution plan expenses	2,478,805	2,938,295
TOTAL	**2,478,805**	**2,938,295**

11.10 General and administrative expenses

	31/12/17	31/12/18
Occupancy	(8,050,551)	(7,731,697)
Operating leases	(7,918,537)	(8,641,849)
Professional fees	(20,237,177)	(23,091,082)
Marketing, advertising and public relations	(7,015,377)	(6,020,721)
Technology and system costs	(35,699,279)	(35,194,069)
Software costs and maintenance expenses	(12,760,398)	(13,749,780)
Repair and maintenance expenses	(41,695)	(49,351)
Operational taxes	(922,645)	407,981
Other general and administrative expenses[1]	(42,363,487)	(45,490,020)
TOTAL	**(135,009,146)**	**(139,560,588)**

11.11 Independent auditor's fees

The fees for the services rendered by the independent auditor for the years 2017 and 2018 are as follows (VAT excluded)

	31/12/17	31/12/18
Statutory audit and Long Form Report	1,232,469	1,229,440
Other assurance services[2]	1,037,692	919,056
Other services	288,937	3,166
TOTAL	**2,559,098**	**2,151,662**

11.12 Amortisation of tangible and intangible fixed assets

	31/12/17	31/12/18
Depreciation on land and buildings	(7,016,417)	(7,053,406)
Depreciation on other tangible fixed assets	(831,739)	(834,469)
Depreciation on IT equipment	(2,826,427)	(7,229,666)
Depreciation on intangible fixed assets	(21,303,153)	(28,962,786)
TOTAL	**(31,977,736)**	**(44,080,327)**

[1] This heading primarily comprises the cost of financial information, various types of insurance cover and the transport of valuables.

[1] 2017 and 2018 figures include respectively EUR 0.8 million and EUR 0.4 million of fees in the context of the transaction between Precision Capital and Legend Holdings Corp.

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

11.13 Impairment on loans and provisions for credit commitments

Collective impairment	31/12/17		
	Allowances	Write-backs	Total
Loans	(3,630,732)	5,858,873	2,228,141
TOTAL	**(3,630,732)**	**5,858,873**	**2,228,141**

Specific impairment	31/12/17				
	Allowances	Write-backs	Losses	Recoveries	Total
Loans and advances to customers	(34,239,299)	45,215,631	(33,451,498)	374,404	(22,100,762)
Other receivables	(433,548)	370,318	(107,734)		(170,964)
Commitments	0	7,400	n.a.	n.a.	7,400
Total	**(34,672,847)**	**45,593,349**	**(33,559,232)**	**374,404**	**(22,264,326)**

Stage 1	31/12/18		
	Allowances	Write-backs	Total
Loans and advances to credit institutions measured at amortised cost	(81,746)	74,445	(7,301)
Loans and advances to customers measured at amortised cost	(19,221,827)	19,964,456	742,629
Normal debt securities measured at amortised cost	(1,494,209)	2,031,616	537,407
Financial assets at amortised cost	**(20,797,782)**	**22,070,517**	**1,272,735**
Normal debt securities measured at FVTOCI	(12,325)	70,103	57,778
Financial assets at FVTOCI	**(12,325)**	**70,103**	**57,778**
Off-balance sheet commitments	**(7,968,023)**	**7,803,805**	**(164,218)**
TOTAL IMPAIRMENTS STAGE 1	**(28,778,130)**	**29,944,425**	**1,166,295**

Stage 2	31/12/18		
	Allowances	Write-backs	Total
Loans and advances to credit institutions measured at amortised cost	(2,879)	5,556	2,677
Loans and advances to customers measured at amortised cost	(25,543,227)	21,796,899	(3,746,328)
Normal debt securities measured at amortised cost	(2,475,722)	1,995,012	(480,710)
Financial assets at amortised cost	**(28,021,828)**	**23,797,467**	**(4,224,361)**
Normal debt securities measured at FVTOCI	0	145,618	145,618
Financial assets at FVTOCI	**0**	**145,618**	**145,618**
Off-balance sheet commitments	**(2,539,756)**	**2,609,113**	**69,357**
TOTAL IMPAIRMENTS STAGE 2	**(30,561,584)**	**26,552,198**	**(4,009,386)**

Stage 3	31/12/18				
	Allowances	Write-backs	Losses	Recoveries	Total
Impaired loans and advances to customers measured at amortised cost	(42,958,859)	74,140,946	(39,715,928)	0	(8,533,841)
Impaired debt securities measured at amortised cost	(7,167,836)	0			(7,167,836)
Impaired financial assets at amortised cost	**(50,126,695)**	**74,140,946**	**(39,715,928)**	**0**	**(15,701,677)**
Other receivables	**0**	**49,028**	**(103,523)**	**0**	**(54,495)**
Off-balance sheet commitments	**(970,741)**	**1,447,981**	**0**	**0**	**477,240**
TOTAL IMPAIRMENTS STAGE 3	**(51,097,436)**	**75,637,955**	**(39,819,451)**	**0**	**(15,278,932)**

TOTAL IMPAIRMENTS STAGE 1 / 2 / 3	**(18,122,023)**

11.14 Provisions for legal litigation

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

11.15 Tax expenses

	31/12/17	31/12/18
Income tax for current financial year	(889,684)	(906,333)
Deferred taxes	(20,889,166)	(24,469,792)
Tax on current financial year result (A)	**(21,778,850)**	**(25,376,125)**
Income tax for previous year	(101,223)	(134,233)
Deferred taxes for previous year	(86,110)	(99,803)
Other tax expenses (B)	**(187,333)**	**(234,036)**
TOTAL (A)+(B)	(21,966,183)	(25,610,161)

EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 27.08% as at December 31, 2017 and 26.01% as at December 31, 2018.
The effective BIL tax rate was 15,67% in 2017 and 16,41% in 2018.

The difference between both rates may be analysed as follows:

	31/12/17	31/12/18
NET INCOME BEFORE TAX	146,371,517	156,424,777
Tax base	**139,026,832**	**154,657,417**
Applicable tax rate at year-end	27,08%	26,01%
Theoretical corporate income tax at standard rate	**(37,648,466)**	**(40,226,394)**
Effect of different tax rates in other countries	(98,886)	(140,762)
Tax effect of non-deductible expenses	(5,333,676)	(960,282)
Tax effect of non-taxable income	(1,195,311)	16,444,398
Effect of change in tax rates[1]	169,949	0
Tax effect on previous tax losses not recognised in the assets	21,810,828	220,659
Other	516,712	(713,744)
Tax on current financial year result	**(21,778,850)**	**(25,376,125)**
EFFECTIVE TAX RATE	15.67%	16.41%

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

Note 12: Notes on risk exposures (in EUR)

12.1 Fair value of financial instruments

A. BREAKDOWN OF FAIR VALUE

A.1 Fair value of financial assets	31/12/17			31/12/18		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks and demand deposits	2,795,735,288	2,795,735,288	0	3,281,434,826	3,281,434,826	0
Financial assets held for trading	70,526,377	70,526,377	0	126,889,819	126,889,819	0
Financial investments measured at FV				1,498,024,806	1,498,024,806	0
Financial assets at FV through OCI				*1,476,561,341*	*1,476,561,341*	*0*
Non-trading financial assets mandatorily at FV through PL				*21,463,465*	*21,463,465*	*0*
Financial investments available for sale	4,178,699,775	4,178,699,775	0			
Loans and advances to credit institutions	653,467,381	654,293,889	826,508	1,075,243,576	1,075,245,656	2,080
Loans and advances to customers	13,344,203,406	13,440,155,081	95,951,675	13,386,056,162	13,490,121,628	104,065,466
Financial investments measured at cost				5,039,541,719	5,061,074,631	21,532,912
Financial investments held to maturity	1,753,271,909	1,793,629,190	40,357,281			
Derivatives	227,748,388	227,748,388	0	290,313,542	290,313,542	0
Portfolio hedged against interest rate risk	3,175,567	3,175,567	0	1,470,569	1,470,569	0
TOTAL	**23,026,828,091**	**23,163,963,555**	**137,135,464**	**24,698,975,019**	**24,824,575,477**	**125,600,458**

A.2 Fair value of financial liabilities	31/12/17			31/12/18		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	2,787,854,788	2,788,524,471	669,683	2,945,818,913	2,952,578,679	6,759,766
Amounts due to customers	16,315,477,809	16,306,883,945	(8,593,864)	17,267,224,127	17,258,204,586	(9,019,541)
Financial liabilities measured at fair value	776,333,210	776,333,210	0	832,445,114	832,445,114	0
Derivatives	384,294,457	384,294,457	0	503,183,727	503,183,727	0
Portfolio hedged against interest rate risk	35,131,162	35,131,162	0	24,826,064	24,826,064	0
Debt securities	1,580,051,579	1,591,227,841	11,176,262	1,933,985,745	1,968,339,248	34,353,503
Subordinated debts	281,864,136	291,598,682	9,734,546	285,345,888	291,844,874	6,498,986
TOTAL	**22,161,007,141**	**22,173,993,768**	**12,986,627**	**23,792,829,578**	**23,831,422,292**	**38,592,714**

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value (see point 1.8 of Note 1).

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

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

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

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

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

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

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

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

	31/12/18			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	62,286,498	60,877,274	3,726,047	126,889,819
Financial investments measured at FV	1,244,264,981	210,000,654	43,759,171	1,498,024,806
Financial assets at FVTOCI	*1,244,264,981*	*188,554,840*	*43,741,520*	*1,476,561,341*
Non-trading financial assets mandatorily at fair value through profit or loss	*0*	*21,445,814*	*17,651*	*21,463,465*
Derivatives	0	278,543,667	11,769,875	290,313,542
TOTAL	**1,306,551,479**	**549,421,595**	**59,255,093**	**1,915,228,167**

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

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

	31/12/18			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	656,127,715	176,317,399	832,445,114
Derivatives	0	450,529,078	52,654,649	503,183,727
TOTAL	**0**	**1,106,656,793**	**228,972,048**	**1,335,628,841**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

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

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

D. LEVEL 3 RECONCILIATION

D.1 Assets	31/12/17				
	Opening	Total gains and losses in statement of income	Gains and Losses in OCI	Purchase	Sale
Financial assets designated held for trading	4,537,636	(69,658)	0	1,545,791	(3,368,419)
Financial assets available for sale	132,624,553	(2,557,725)	0	48,438,324	0
Financial assets available for sale - bonds	*100,125,410*	*(674,421)*	*0*	*47,177,889*	*0*
Financial assets available for sale - equities	*32,499,143*	*(1,883,304)*	*0*	*1,260,435*	*0*
Derivatives	20,494,158	(15,009,503)	0	14,343,666	0
TOTAL	**157,656,347**	**(17,636,886)**	**0**	**64,327,781**	**(3,368,419)**

	31/12/17					
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Other	Closing
Financial assets designated held for trading	0	0	0	0	0	2,645,350
Financial assets available for sale	(50,619,385)	0	0	0	0	127,885,767
Financial assets available for sale - bonds	*(50,573,484)*	*0*	*0*	*0*		*96,055,394*
Financial assets available for sale - equities	*(45,901)*	*0*	*0*	*0*		*31,830,373*
Derivatives	0	0	0	0	0	19,828,321
TOTAL	**(50,619,385)**	**0**	**0**	**0**	**0**	**150,359,438**

	31/12/18						
	Opening	Impacts FTA	Opening (IFRS9)	Total gains and losses in statement of income	Gains and Losses in OCI	Purchase	Sale
Financial assets designated held for trading	2,645,350	0	2,645,350	733,351	0	1,348,900	(1,001,554)
Financial assets measured at fair value / Financial assets available for sale	127,885,767	(45,677,920)	82,207,847	(122,270)	16,380,410	2,340,732	0
FVTOCI - Bonds / Fin assets AFS - Bonds	*96,055,394*	*(45,677,919)*	*50,377,475*	*0*	*0*	*0*	*0*
FVTOCI- Equities / Fin assets AFS - Equities	*31,830,373*	*(139,922)*	*31,690,451*	*0*	*16,380,410*	*2,340,732*	*0*
Non-trading financial assets mandatorily at FVTPL - Equity instruments	*0*	*139,921*	*139,921*	*(122,270)*	*0*	*0*	*0*
Derivatives	19,828,321		19,828,321	(14,602,353)	0	6,543,907	0
TOTAL	**150,359,438**	**(45,677,920)**	**104,681,518**	**(13,991,272)**	**16,380,410**	**10,233,539**	**(1,001,554)**

	31/12/18					
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Other	Closing
Financial assets designated held for trading	0	0	0	0	0	3,726,047
Financial assets measured at fair value / Financial assets available for sale	(57,047,548)	0	0	0	0	43,759,171
FVTOCI - Bonds / Fin assets AFS - Bonds	*(50,377,475)*	*0*	*0*	*0*	*0*	*0*
FVTOCI- Equities / Fin assets AFS - Equities	*(6,670,073)*	*0*	*0*	*0*	*0*	*43,741,520*
Non-trading financial assets mandatorily at FVTPL - Equity instruments	*0*	*0*	*0*	*0*	*0*	*17,651*
Derivatives	0	0	0	0	0	11,769,875
TOTAL	**(57,047,548)**	**0**	**0**	**0**	**0**	**59,255,093**

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

	31/12/17				
	Sale	Transfer to Level 3	Transfer from Level 3	Conversion differences	Closing
Financial liabilities held for trading	(13,248)	0	0	0	0
Financial liabilities designated at fair value	0	0	0	2,661,446	199,524,925
Derivatives	0	0	0	0	41,422,793
TOTAL	**(13,248)**	**0**	**0**	**2,661,446**	**240,947,718**

	31/12/18			
	Opening	Total gains and losses in statement of income	Purchase	Settlement
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	199,524,925	(8,572,412)	140,062,162	(154,888,904)
Derivatives	41,422,793	(22,248,685)	33,480,541	0
TOTAL	**240,947,718**	**(30,821,097)**	**173,542,703**	**(154,888,904)**

	31/12/18				
	Sale	Transfer to Level 3	Transfer from Level 3	Conversion differences	Closing
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	0	0	191,628	176,317,399
Derivatives	0	0	0	0	52,654,649
TOTAL	**0**	**0**	**0**	**191,628**	**228,972,048**

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

Banking bonds

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

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

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

a) The rarity of the issue: when the overall issuer debt is relatively low , or in the case of securities issued by issuers outside the Eurozone. This is the case of issue from Poland, the Czech Republic (EUR -area size and debt) , Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively high as well as the number of contributors;
b) Securitisations : prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security;
c) The investors "buy and hold" behavior : certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid/ask spread is high and there are sometime limited contributors. This is particularly the case for issues from Qatar, Abu Dhabi and Luxembourg.

Structured bonds

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

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

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

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

E. SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE SCENARIOS

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

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:
- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;
- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar B213 and/or by incorporating an analysis of the bid/ask spread for real transactions.

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

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

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

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12.2 Credit risk exposures

A. ANALYSIS OF BIL EXPOSURES

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

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

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

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

Exposures by geographic region

(in EUR million)	31/12/17	31/12/18
Belgium	1,440	1,608
France	2,684	2,955
Germany	1,352	1,199
Ireland	383	434
Italy	35	32
Luxembourg	13,207	13,822
Spain	734	856
Other EU countries	1,640	1,640
Rest of Europe	521	647
Switzerland	2,171	2,911
United States and Canada	768	722
Central and South America[1]	31	
Asia	129	297
Middle East[2]		713
Australia[3]		260
Others	851	209
TOTAL	**25,946**	**28,305**

Exposures by counterparty category

(in EUR million)	31/12/17	31/12/18
Central Governments	8,032	8,358
Public Sector Entities	501	393
Corporate	5,476	5,642
Securitisation	241	140
Individuals, SME & Self Employed	8,659	9,907
Financial Institutions	3,032	3,861
Others	5	4
TOTAL	**25,946**	**28,305**

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

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

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

Geographic segment is updated as below to be aligned with other reports:

[1] Central and South America is now grouped under 'Others'

[2] Middle East was previously grouped under 'Others' and now it is an individual segment

[3] Australia was previously grouped under 'Others' and now it is an individual segment

B. CREDIT RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENTS

Credit risk exposures and financial effect of collateral

	31/12/17		31/12/18	
(in EUR million)	Credit risk exposures[1]	Financial effect of the collateral	Credit risk exposures[1]	Financial effect of the collateral
Available for sale portfolio (2017) /Financial investments at FVTOCI (2018) (excluding variable income securities)	4,123	0	1,360	0
Held for trading portfolio (excluding variable income securities)	38	0	62	0
Loans and advances at amortised cost	15,970	2,001	17,108	2,165
Financial investments held to maturity (2017)/held-to-collect (2018) (at amortised cost)	1,753	0	5,087	0
Derivatives	212	44	211	50
Other assets	305	576	347	970
Commitments in respect of loans granted	2,256	165	2,736	823
Commitments in respect of guarantees given	1,289	77	1,394	98
TOTAL	**25,946**	**2,863**	**28,305**	**4,106**

Maximum Credit Risk Exposures[2]	31/12/18				
(in EUR million)	Stage 1	Stage 2	Stage 3	Not applicable	Total
Financial investments at FVTOCI (excluding variable income securities)	1,174	186	0		1,360
Held-for trading portfolio (excluding variable income securities)				62	62
Loans and advances at amortised cost	14,723	2,123	263		17,109
Financial investments at amortised cost	4,989	97	0		5,086
Derivatives				211	211
Other assets	1	0	0	345	346
Commitments in respect of loans granted	2,349	380	7		2,736
Commitments in respect of guarantees given	1,293	98	4		1,395
TOTAL	**24,529**	**2,884**	**274**	**618**	**28,305**

[1] Credit risk exposures net of the financial effect of the collateral.
[2] In accordance with IFRS 7R 44Z, the above table is only disclosed for the first year of application of IFRS 9, i.e. for year ended December 31, 2018. Comparative figures for year ended December 31, 2017 are therefore not disclosed in the above table.

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C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS

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

	31/12/18				
	Credit quality of normal financial assets				
(in EUR million)	AAA+ to AA-	A+ to BBB-	Non-investment grade	Unlisted	Total
Financial investments at FVTOCI (excluding variable income securities)	919	441	-	0	1,360
Held for trading portfolio (excluding variable income securities)	37	9	-	16	62
Loans and advances at amortised cost	3,814	6,607	4,788	1,169	16,378
Financial assets held to maturity	3,439	1,626	-	5	5,070
Derivatives	58	147	3	2	210
Other financial instruments at cost	223	75	45	2	345
Commitments in respect of loans granted	357	1,313	761	252	2,683
Commitments in respect of guarantees given	137	323	366	362	1,188
TOTAL	**8,984**	**10,541**	**5,963**	**1,808**	**27,296**

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

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

D. PAST DUE BUT NOT IMPAIRED FINANCIAL ASSETS

	31/12/17				
	Past due but not impaired assets			Gross carrying amount of impaired financial assets	Guarantees held for past due or impaired assets and debt instruments
	≤ 90 days	> 90 days ≤ 180 days	> 180 days		
Loans and avances at amortised cost	176,331,762	50,080,157	130,791,061	331,481,079	408,088,220
TOTAL	**176,331,762**	**50,080,157**	**130,791,061**	**331,481,079**	**408,088,220**

	31/12/18				
	Past due but not impaired assets			Gross carrying amount of impaired financial assets	Guarantees held for past due or impaired assets and debt instruments
	< 30 days[1]	30 days <> 90 days[1]	> 90 days[1]		
Debt securities impaired (at amortised cost + FVTOCI)	0	0	0	19,917,195	12,682,055
Loans and advances impaired (at amortised cost + FVTOCI)	118,274,613	36,931,257	19,648,231	595,720,394	320,674,126
TOTAL	**118,274,613**	**36,931,257**	**19,648,231**	**615,637,589**	**333,356,181**

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.

Definition of credit risk

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the Bank and includes lost principal and interest, disruption to cash flows, and increased collection costs.

The term “risk” (and hence “credit risk”) can usually be made to take on general or specific meanings. For instance, a lender is said to suffer the consequences of “credit risk” when a borrower defaults, say, because of bankruptcy brought about by mismanagement or a massive fraud. In the ordinary course of its business, the Bank extends a large variety of facilities to its clients and counterparties.

Such facilities have characteristics that can be examined from a number of perspectives, for instance:
- Type and purpose of the facility;
- Funded vs. unfunded;
- Committed vs. uncommitted;
- Secured vs. unsecured;
- Direct vs. contingent;
- Outstanding vs. unutilized;
- Classification in IFRS 9 Staging (1, 2 or 3);

or by the nature of the client/counterparty’s obligations

IFRS 9 Staging Assessment

The transition to the new (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, three IFRS 9 Stages have to be distinguished and they can be broadly conceptualized as follows:
- Stage 1 regroups financial instruments that have a performing status and for which no significant deterioration in credit quality has occurred since their origination;
- Stage 2 regroups financial instruments for which a significant increase in credit risk (SICR) has occurred since their origination;
- Stage 3 regroups financial instruments having a credit-impaired status.

[1] New buckets are used in 2018 (< 30 days, 30 days <> 90 days, > 90 days) following to IFRS9 adoption.

That 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 under the IFRS 9 scope.

Significant increase in credit risk

A first way to assess a SICR event consists in comparing the credit rating grade of a given exposure that is observed at two different dates: (i) at the time of origination and (ii) at the reporting date where one has to calculate an IFRS 9 provisioning amount. More precisely, a SICR is considered to be effective if the difference between the two previous ratings – (ii) minus (i) – is higher (or equal) than a pre-determined threshold which is conditional to the exposure type (e.g. retail, corporates and so on). Such thresholds correspond to expected average downgrades that were quantitatively defined by means of historical credit rating grades.

Some qualitative indicators also complement the SICR assessment. These latter rely on internal credit risk management practices which aim at targeting exposures that are subject to (i) forbearance measures, (ii) a non-performing status and (iii) the occurrence of past-due events (between 30 and 90 days for moving from Stage 1 to Stage 2).

Credit-impaired status

As for the SICR (or Stage 2) assessment, some qualitative or backstop indicators aim at identifying credit-impaired (or Stage 3) exposures. Basically, three cases can be distinguished: (i) the counterparty experiences both a non-performing status and forbearance measures, (ii) the exposure is either in a default or in a (pre-)litigation status and (iii) 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 passed since the forbearance measures were extended;
- Exit from forbearance: a minimum two-year period has passed from the date the forborne exposure was considered as performing;
- Exist from Stage 2 (resp. Stage 3) due to a 30 (resp. 90) days past due: a cure period of 90 days is applied in both cases.

Forward-Looking ECL

In contrast to the previous (IAS 39) accounting standard, IFRS 9 leads financial institutions to calculate loan loss provisions in a forward-looking perspective – the so-called expected credit loss (ECL) based accounting approach. More precisely, under that new framework, financial institutions are required to:

- Identify relationships between their main credit risk parameters – probability of default (PD), loss given default (LGD) and exposure at default (EaD) – and business/financial cycle indicators;
- Design several representative macroeconomic scenarios where the variables of interest must be forecasted over a given horizon;
- Compute a probability-weighted amount of ECL (given the likelihood of each macro scenario).

BIL has mainly identified strong dependencies between macroeconomic factors and historical default rates (or PD models) by distinguishing its high- and low-default portfolios. On one side, internal default rates were collected for both retail counterparts and small & medium sized enterprises (high-default portfolios) and for which the main relevant drivers are (i) labor market indicators (unemployment rate) and (ii) opinion surveys data amongst Luxembourgish private economic agents (households and manufacturing sector). On the other side, external data (source: Moody's) were used for low-default portfolios that are composed of two distinct types of exposures: large corporates and banking institutions. In this regard, the cyclical dynamics of corporate and banking default rates may 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 buildup or the materialization of financial vulnerabilities in the euro area notably.

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

Definition of default

Default is defined as the inability of a borrower or guarantor to meet his/its obligations vis-à-vis one or more creditors at a given moment or on a lasting basis. The Bank must include all products and positions that are potentially at risk. Default is defined in the Basel II context (Ar. 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 by the bank to actions such as realizing security (if held);
- The obligor is past due more than 90 days on any material credit obligation to the bank group. A material credit obligation for default purposes for BIL are considered for Retail as a past due of € 125 with an exposure at default of € 1,250 or above. For non-Retail exposures, the exposure is considered material when the past due is € 2,500 on an exposure at default of € 25,000 or above.

The non-exhaustive lists below show indicators that may result in classification as "Doubtful / Unlikely to Pay" default, known as D1, and a list of events that, taken in isolation, require classification under D2 – "Non-performing" (both subject to the final assessment by the Default Committee as to the counterparty's repayment capacity).

D1 – Doubtful / Unlikely to Pay Loans

- Significant non-compliance with the contractual obligation in terms of risk;
- A borrower in serious difficulty, justifying specific monitoring;
- Downgrading of the loan giving rise to fears of non-compliance with obligations;
- Haircut (or probability of a haircut) closely linked to the downgrading of the loan quality;
- Early repayment demand provided for by law, including in particular: illegal financial transactions, serious fraud, production of inaccurate financial information or publication of accounts with reserves by external or statutory auditors; this includes "blacklisting" by the regulator and/or the involvement of the Compliance Department (including money laundering and terrorist financing);
- Cross defaults, termination of loans by other banks, etc.;
- Total or partial disappearance of sureties that constituted an essential feature of the loan;
- Loans classified by the Regulator as "Doubtful";
- Repeated and continuous Default Events with no prospect of improvement in the short term;
- Restructuring caused by deteriorating risk (reduction of the Net Present Value);
- The Bank stops recognizing accrued interest not yet received;
- The Bank makes a specific adjustment for credit risk justified by its perception of a significant deterioration in credit quality since it originally accepted the risk;
- The report of an exposure as non-performing in the reporting of financial information (Finrep);
- The Bank sells the loan obligation at a significant financial loss due to poor credit;
- The Bank agrees to an emergency restructuring of the loan obligation, which will most likely lead to its reduction due to the cancellation or postponement of a significant share of the principal, interest or, if applicable, fees;
- The Bank has applied to the courts for the bankruptcy of the borrower or the application of a similar measure concerning the borrower's loan obligation vis-à-vis the bank, its parent company or one of its subsidiaries (pending the placing of the borrower in bankruptcy, which implies downgrading to D2);
- The borrower has filed for, or has been the subject of a bankruptcy application or similar protection, avoiding or delaying the repayment of its loan obligation vis-à-vis the Bank, its parent company or one of its subsidiaries (pending the placing of the borrower in bankruptcy, which implies downgrading to D2);
- A borrower's sources of recurring income are no longer available to meet the payments of instalments;
- There are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
- The borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage;
- The borrower has breached the covenants of a credit contract;
- The Bank has called any collateral including a guarantee;
- For the exposure to an individual: default of a company fully owned by a single individual where this individual provided the institution with a personal guarantee for all obligations of a company.

D2 – Non-Performing Loans in Default

- More than 90 days overdue (or more than the number of days defined) on any material credit obligation;
- Court-ordered receivership, liquidation, bankruptcy, creditors' arrangement, Chapter 11 or Chapter 9 bankruptcy or similar legal status;
- Loan terminated on incident (i.e., change in the borrower's business);
- Loan expired with litigation proceedings through the courts;
- Loans classified by the Regulator as "Loss";
- Repeated and continuous Default Events with no prospect of improvement in the short term.

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 balance outstanding (or part thereof) whether the legal claim against the borrower remains or not. Write-off will ordinarily be accommodated via utilization of loan loss provisions raised previously. Approval for write-offs is granted by the Default Committee.

Low credit risk exemption

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

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

In addition to Pillar I models which focus on the unexpected credit loss, IFRS 9 also defines principles to estimate the Expected Credit Loss (ECL). Under IFRS 9, the ECL is a weighted average of credit losses, with the respective risks of a default occurring in a given time period. Two types of ECL are proposed:

- 12-month ECL: representing the ECL resulting from default events within 12 months on a financial instrument;
- Lifetime ECL: representing the ECL resulting from all possible default events over the expected lifetime of a financial instrument.

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

The Expected Credit Loss (ECL) is computed as:

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

Where:

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

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

Staging criteria

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

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

BIL has defined its staging criteria, as follows:

- Stage 1: Loan is either performing or with less than 30 days past due;
- Stage 2: Loan is either under forbearance but performing, or not performing, or with more than 30 days past due but with less than 90 days past due; or with x notches downgrades. The thresholds for specifying a significant increase in credit risk, and therefore causing a shift from Stage 1 to Stage 2, are conditional on 2 elements:
  - The type of counterparty: high (resp. low) default portfolios treat in a similar way both retail and SME counterparts (resp. large corporates, banks and sovereigns);
  - The rating at origination: the rating masterscale is divided into 4 segments in terms of credit risk level – low, medium, speculative and high – and for which a specified threshold is calculated.
- Stage 3: Loan is either in default, or in pre-litigation, or underperforming and in forbearance.

IFRS 9 ECL parameter approaches

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

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

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

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

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

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

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

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

BIL's overview of active models for IFRS 9 impairment

The Bank has 6 active PD models, of which:

- 2 are for Retail (private and professional);
- 3 for Corporates (small, medium and large); and
- 1 for Banks;
- For sovereign exposures, the Bank uses regulatory (Basel) parameters for IFRS 9 purposes.

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

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

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

E. COLLATERAL AND OTHER CREDIT ENHANCEMENTS

(in EUR)	31/12/18[1] Effect of collateral and other credit enhancements on amount of allowances for credit-impaired debt instruments: Gross exposure	Impairment allowance	Carrying amount	Collateral held and guarantees revceived
Collateral held and guarantees revceived	19,917,195	(7,235,140)	12,682,055	12,682,055
Loans and advances at amortised cost	600,329,500	(230,865,529)	369,463,971	344,353,068
Total credit-impaired debt instruments	**620,246,695**	**(238,100,669)**	**382,146,026**	**357,035,123**

Type of assets obtained during the period by taking possession of the guarantees held	Carrying value 31/12/17	Carrying value 31/12/18
Cash	9,292,023	6,188,280
Debt instruments	1,283,678	117,991
TOTAL	**10,575,701**	**6,306,271**

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

F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

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

	Other adjustments	Transfers between allowances	As at 31/12/17	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Specific allowances for financial assets individually assessed for impairment	**14,219,291**	**8,900,000**	**(266,564,173)**	**374,404**	**(33,451,498)**
Loans and advances to customers	13,131,221	8,900,000	(247,288,252)	374,404	(33,451,498)
Financial assets available for sale	1,088,070	0	(19,275,921)	0	0
of which equities and other variable income instruments	*1,088,070*	*0*	*(19,275,921)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**39,144**	**0**	**(29,273,954)**	**0**	**0**
TOTAL	**14,258,435**	**8,900,000**	**(295,838,127)**	**374,404**	**(33,451,498)**

[1] In accordance with IFRS 7R 44Z, the above table is only disclosed for the first year of application of IFRS 9, i.e. for year ended December 31, 2018. Comparative figures for year ended December 31, 2017 are therefore not disclosed in the above table.

	As at 01/01/18	Increases due to origination or acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to update in the institution's methodology for estimation (net)
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**(22,962,720)**	**(9,739,031)**	**2,771,806**	**8,297,738**	**0**
Debt securities at amortised cost	(1,612,468)	(964,573)	175,560	1,326,420	0
Debt securities at FV through OCI	(96,515)	(3,183)	18,826	42,135	0
Loans and advances at amortised cost	*(21,253,737)*	*(8,771,275)*	*2,577,420*	*6,929,183*	*0*
Loans and advances at FV through OCI	0	0	0	0	0
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**(13,319,622)**	**0**	**1,916,421**	**(5,995,164)**	**0**
Debt securities at amortised cost	(22,079)	0	0	(480,710)	0
Debt securities at FV through OCI	(145,640)	0	58,978	86,640	0
Loans and advances at amortised cost	(13,151,903)	0	1,857,443	(5,601,094)	0
Loans and advances at FV through OCI	0	0	0	0	0
Allowances for credit-impaired debt instruments (Stage 3)	**(258,503,778)**	**(1,209,263)**	**2,439,294**	**(16,580,457)**	**0**
Debt securities at amortised cost	0	0	0	(7,167,836)	0
Debt securities at FV through OCI	0	0	0	0	0
Loans and advances at amortised cost	(258,503,778)	(1,209,263)	2,439,294	(9,412,621)	0
Loans and advances at FV through OCI	0	0	0	0	0
TOTAL ALLOWANCES FOR DEBT INSTRUMENTS	**(294,786,120)**	**(10,948,294)**	**7,127,521**	**(14,277,883)**	**0**
Commitments and financial guarantees given (Stage 1)	4,094,179	5,815,882	(1,889,797)	(3,761,867)	0
Commitments and financial guarantees given (Stage 2)	1,331,469	411,487	(457,772)	(23,072)	0
Commitments and financial guarantees given (Stage 3)	1,099,560	158,289	(719,916)	84,387	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**6,525,208**	**6,385,658**	**(3,067,485)**	**(3,700,552)**	**0**

	Decreases in allowance account due to write-offs	Other adjustments	As at 31/12/18	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**0**	**(38,379)**	**(21,670,586)**	**n.a**	**n.a**
Debt securities at amortised cost	0	(341)	(1,075,402)	n.a	n.a
Debt securities at FV through OCI	0	(131)	(38,868)	n.a	n.a
Loans and advances at amortised cost	*0*	*(37,907)*	*(20,556,316)*	*n.a*	*n.a*
Loans and advances at FV through OCI	0	0	0	n.a	n.a
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**0**	**(30,974)**	**(17,429,339)**	**n.a**	**n.a**
Debt securities at amortised cost	0	0	(502,789)	n.a	n.a
Debt securities at FV through OCI	0	8	(14)	n.a	n.a
Loans and advances at amortised cost	0	(30,982)	(16,926,536)	n.a	n.a
Loans and advances at FV through OCI	0	0	0	n.a	n.a
Allowances for credit-impaired debt instruments (Stage 3)	**39,527,909**	**(3,774,374)**	**(238,100,669)**	**0**	**(39,715,928)**
Debt securities at amortised cost	0	(67,304)	(7,235,140)	0	0
Debt securities at FV through OCI	0	0	0	n.a	n.a
Loans and advances at amortised cost	39,527,909	(3,707,070)	(230,865,529)	0	(39,715,928)
Loans and advances at FV through OCI	0	0	0	n.a	n.a
TOTAL ALLOWANCES FOR DEBT INSTRUMENTS	**39,527,909**	**(3,843,727)**	**(277,200,594)**	**0**	**(39,715,928)**
Commitments and financial guarantees given (Stage 1)	0	23,227	4,281,624	0	0
Commitments and financial guarantees given (Stage 2)	0	871	1,262,983	0	0
Commitments and financial guarantees given (Stage 3)	0	(120)	622,200	0	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**0**	**23,978**	**6,166,807**	**0**	**0**

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

As at 31/12/17				
	Carrying value	Variation in fair value due to change in credit risk		Difference between the carrying value of the financial liability and the contractual amount due on maturity
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	776,333,210	326,208	(436,710)	(3,445,050)

As at 31/12/18				
	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	832,445,114	56,427	(380,283)	(38,563,699)

In 2017 and 2018, no change in the fair value of BIL's financial liabilities is attributable to changes in the credit risk relating to liabilities, except for liabilities designated at fair value through profit or loss.

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

H. EXEMPTION ASSOCIATED WITH LARGE EXPOSURES

At the request of the Bank, the CSSF has granted a total exemption for its exposures towards its subsidiaries (BIL group) in the calculation of large exposures limits, in accordance with Part XVI, point 24 of the former Circular 06/273, as amended. The amount of exposures covered by this exemption is null as at December 31, 2017 (as on a consolidated basis, exposures on entities of BIL group are excluded from the large exposures reporting). This exemption was granted on November 22, 2012.

I. INFORMATION ON FORBORNE EXPOSURES

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

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

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

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files level in order to identify those that should be classified as forborne according to the regulatory definition.

The granting of forbearance measure is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

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

As at end 2018, BIL group's forborne exposures amounted to EUR 290,8 million (EUR 279,4 million in 2017) including EUR 3,1 million (EUR 7,4 million in 2017) as loan commitments.

J. INFORMATION ON SOVEREIGN DEBTS

For 2017 and 2018, this statement refers to bonds issued by central & local governments and governmental bodies.

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country Maturity date	**Carrying amount**	***of which fair value in OCI***	***of which fair value related to hedging***	**Carrying amount**	**Carrying amount**	***of which fair value in profit or loss***
Austria						
maturity < 1 year	52,269,457	*5,960*				
maturity > 1 year and <= 5 years	59,545,005	*2,972,939*	*(244,814)*			
maturity > 5 years						
Belgium						
maturity < 1 year	47,177,889	*(146)*				
maturity > 1 year and <= 5 years	167,767,995	*7,370,373*	*(582,730)*			
maturity > 5 years	417,545,155	*13,588,506*	*(329,128)*	132,899,328		
Canada						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	85,172,796	*471,364*	*(254,033)*	39,274,484		
Czech Republic						
maturity < 1 year						
maturity > 1 year and <= 5 years	41,131,569	*1,053,520*	*1,961,159*			
maturity > 5 years						
Finland						
maturity < 1 year						
maturity > 1 year and <= 5 years	21,919,509	*1,257,908*				
maturity > 5 years				51,262,693		
France						
maturity < 1 year	46,557,204	*(191,810)*				
maturity > 1 year and <= 5 years	117,953,768	*71,449*	*(87,831)*	46,971,860		
maturity > 5 years	64,874,351	*253,655*		682,902,713		
Germany						
maturity < 1 year	10,110,939	*(2,984)*	*15,320*			
maturity > 1 year and <= 5 years	15,516,700	*2,144*	*464,196*			
maturity > 5 years	85,770,563	*3,143,986*	*(336,879)*	30,817,788	8,204,042	*(145,287)*
Ireland						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	169,886,466	*4,888,456*	*(1,631,401)*	107,025,227		
Japan						
maturity < 1 year						
maturity > 1 year and <= 5 years					165,481	*(1,817)*
maturity > 5 years						
Lithuania						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	7,140,701	*70,299*	*(33,650)*			
Luxembourg						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	38,858,393	*1,247,919*	*2,828,694*	4,978,355	4,764,808	*18,701*
SUB-TOTAL	**1,449,198,460**	***36,203,538***	***1,768,903***	**1,096,132,448**	**13,134,331**	***(128,403)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	Carrying amount	*of which fair value in profit or loss*
Norway						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years				9,124,982		
Poland						
maturity < 1 year						
maturity > 1 year and <= 5 years	35,257,465	*227,019*	*(72,183)*			
maturity > 5 years	76,053,845	*2,408,341*	*(343,438)*	33,644,647		
Qatar						
maturity < 1 year						
maturity > 1 year and <= 5 years	17,882,982	*(200,779)*	*(148,618)*			
maturity > 5 years						
Saudi Arabia						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	4,124,721	*(2,499)*	*(42,322)*			
Slovakia						
maturity < 1 year	4,064,225	*61,934*				
maturity > 1 year and <= 5 years						
maturity > 5 years	30,950,932	*1,053,970*	*(98,264)*	78,142,328		
South Korea						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years				4,365,551		
Spain						
maturity < 1 year						
maturity > 1 year and <= 5 years	164,737,870	*2,534,822*	*210,442*	22,947,267		
maturity > 5 years	285,455,474	*5,084,834*	*(2,660,278)*	120,389,300		
Supranational						
maturity < 1 year						
maturity > 1 year and <= 5 years	134,005,481	*7,793,363*	*(823,368)*		3,351,254	*(51,398)*
maturity > 5 years	48,793,933	*1,757,328*	*(209,063)*	35,634,725		
Sweden						
maturity < 1 year						
maturity > 1 year and <= 5 years					312,928	*(2,710)*
maturity > 5 years						
United Arab Emirates						
maturity < 1 year						
maturity > 1 year and <= 5 years					412,688	*(5,285)*
maturity > 5 years						
United States						
maturity < 1 year	16,726,119	*(529,318)*				
maturity > 1 year and <= 5 years	210,022,340	*(3,102,361)*		124,229,510		
maturity > 5 years	59,543,983	*(5,698)*				
TOTAL	**2,536,817,830**	**53,284,494**	***(2,418,189)***	**1,524,610,758**	**17,211,201**	***(187,796)***

As at 31/12/18	Fair Value through OCI			Measured at Amortised Cost		Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	*of which fair value related to hedging*	Carrying amount	*of which fair value in profit or loss*
Austria							
maturity < 1 year							
maturity > 1 year and <= 5 years	57,955,007	*2,216,669*	*209,012*				
maturity > 5 years							
Belgium							
maturity < 1 year				61,107,163			
maturity > 1 year and <= 5 years	118,104,531	*5,047,780*	*467,822*	56,208,926	*746,464*		
maturity > 5 years	273,612,138	*6,767,109*	*2,219,066*	259,316,633	*788,877*		
Canada							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				144,660,916	*1,134,696*		
China							
maturity < 1 year							
maturity > 1 year and <= 5 years						885,673	*7,851*
maturity > 5 years							
Czech Republic							
maturity < 1 year							
maturity > 1 year and <= 5 years				39,241,235	*1,720,282*		
maturity > 5 years							
Finland							
maturity < 1 year				20,508,910			
maturity > 1 year and <= 5 years							
maturity > 5 years							
France							
maturity < 1 year				17,467,798			
maturity > 1 year and <= 5 years				129,037,104	*(6,954)*		
maturity > 5 years				761,038,094	*507,938*		
Germany							
maturity < 1 year							
maturity > 1 year and <= 5 years	54,693,841	*2,421,864*	*255,866*	15,544,698	*484,014*	3,660,839	*(21,512)*
maturity > 5 years				50,836,333	*1,086,779*	9,440,910	*77,650*
Ireland							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years	119,257,476	*2,375,775*	*619,413*	217,650,218	*1,053,142*		
Italy							
maturity < 1 year							
maturity > 1 year and <= 5 years	110,710	*2,015*					
maturity > 5 years							
Japan							
maturity < 1 year							
maturity > 1 year and <= 5 years						519,242	*155*
maturity > 5 years							
Lithuania							
maturity < 1 year							
maturity > 1 year and <= 5 years				18,094,470	*72,887*		
maturity > 5 years	7,045,501	*(112,611)*	*61,726*				
SUB-TOTAL	**630,779,204**	***18,718,601***	***3,832,905***	**1,790,712,498**	***7,588,125***	**14,506,664**	***64,144***

As at 31/12/18	Fair Value through OCI			Measured at Amortised Cost		Held for trading	
Country Maturity date	**Carrying amount**	***of which fair value in OCI***	***of which fair value related to hedging***	**Carrying amount**	***of which fair value related to hedging***	**Carrying amount**	***of which fair value in profit or loss***
Luxembourg							
maturity < 1 year							
maturity > 1 year and <= 5 years	38,478,893	*966,349*	*2,718,511*				
maturity > 5 years				4,983,847		3,344,377	*64,048*
Norway							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				9,096,515			
Poland							
maturity < 1 year				10,129,546			
maturity > 1 year and <= 5 years				15,155,947	*36,375*		
maturity > 5 years				119,626,054	*801,082*		
Portugal							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years	929,807	*17,055*					
Qatar							
maturity < 1 year							
maturity > 1 year and <= 5 years	18,337,414	*(155,672)*	*(310,799)*				
maturity > 5 years							
Saudi Arabia							
maturity < 1 year							
maturity > 1 year and <= 5 years	4,238,479	*(57,520)*	*(92,642)*				
maturity > 5 years							
Slovakia							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				114,506,395	*399,471*		
South Korea							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				25,860,797	*54,974*		
Spain							
maturity < 1 year				30,206,681			
maturity > 1 year and <= 5 years				170,606,255	*917,905*		
maturity > 5 years	266,060	*21,925*		488,871,365	*4,224,043*		
Supranational							
maturity < 1 year							
maturity > 1 year and <= 5 years	131,689,491	*5,550,147*	*421,597*			4,395,137	*(118,144)*
maturity > 5 years	48,329,433	*1,367,499*	*400,619*	15,205,833		422,025	*5,172*
United Arab Emirates							
maturity < 1 year							
maturity > 1 year and <= 5 years						428,010	*(5,483)*
maturity > 5 years							
United States							
maturity < 1 year	26,656,819	*(143,627)*					
maturity > 1 year and <= 5 years	35,118,014	*(512,380)*		353,083,013			
maturity > 5 years							
TOTAL	**934,823,614**	***25.772.377***	***6,970,191***	**3,148,044,746**	***14,021,975***	**23,096,213**	***9,737***

12.3 Encumbered assets

A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

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

	31/12/18			
	Fair value of collateral received or own debt securities issued available for encumbrance	***of which: central bank eligible***	**Fair value of encumbered collateral received or own debt securities issued available for encumbrance**	***of which: central bank eligible***
Cash collateral	66,169,646	*66,169,646*	0	*0*
Debt securities	585,298,831	*0*	183,630,166	*183,630,166*
TOTAL	**651,468,477**	***66,169,646***	**183,630,166**	***183,630,166***

B. ENCUMBERED ASSETS

	31/12/17			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	773,695,654	635,332,641	800,917,542	663,304,670
of which: issued by general governments	*739,866,500*	*615,636,991*	*767,205,883*	*643,220,538*
of which: issued by financial corporations	*33,829,154*	*19,695,650*	*33,811,659*	*20,084,132*
AFS Debt securities	1,242,201,841	1,009,620,739	1,242,201,842	1,009,620,739
of which: issued by general governments	*694,540,412*	*475,319,079*	*694,540,413*	*475,319,079*
of which: issued by financial corporations	*441,819,067*	*428,458,288*	*441,719,057*	*428,459,288*
of which: issued by non-financial corporations	*105,842,372*	*105,842,372*	*105,842,372*	*105,842,372*
Loans and advances other than loans on demand	266,174,615	266,174,615	266,174,615	266,174,615
Central Bank mandatory reserves	757,649,963	757,649,963	757,649,963	757,649,963
TOTAL	3,039,722,073	*2,668,777,958*	3,066,943,962	*2,696,749,987*

	31/12/18			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
Debt securities held for trading	11,140,053	10,082,961	11,140,053	11,140,053
of which: issued by general governments	*728,522*	*728,522*	*728,522*	*728,522*
of which: issued by financial corporations	*9,417,070*	*8,359,978*	*9,417,070*	*9,417,070*
of which: issued by non-financial corporations	*994,461*	*994,461*	*994,461*	*994,461*
Debt securities at amortised cost	1,677,981,073	1,163,529,455	1,693,315,076	1,184,901,227
of which: issued by general governments	*1,087,602,751*	*727,439,709*	*1,109,556,578*	*754,440,243*
of which: issued by financial corporations	*481,344,798*	*328,557,572*	*475,984,779*	*324,193,555*
of which: issued by non-financial corporations	*109,033,524*	*107,532,174*	*107,773,719*	*106,267,429*
Debt securities at fair value through OCI	868,876,267	795,145,498	868,876,267	794,088,406
of which: issued by general governments	*541,651,513*	*541,651,513*	*541,651,513*	*541,651,513*
of which: issued by financial corporations	*314,603,394*	*242,495,985*	*314,603,394*	*241,438,893*
of which: issued by non-financial corporations	*12,621,360*	*10,998,000*	*12,621,360*	*10,998,000*
Loans and advances other than loans on demand	334,514,235	334,514,235	334,514,235	334,514,235
Central Bank mandatory reserves	549,506,894	549,506,894	549,506,894	549,506,894
TOTAL	3,442,018,522	*2,852,779,043*	3,457,352,525	*2,874,150,815*

C. SOURCES OF ENCUMBRANCE

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

	31/12/18		
	Matching liabilities, contingent liabilities or securities lent	**Assets or collateral received encumbered**	***of which: collateral received re-used***
Derivatives	503,183,727	334,514,235	*0*
Repurchase agreements	1,244,599,936	1,250,380,351	*183,630,166*
of which: central banks	*693,338,333*	*693,338,333*	*0*
Collateralized deposits other than repurchase agreements	0	0	*0*
of which: central banks	*0*	*0*	*0*
Fair value of securities borrowed with non cash collateral	1,075,480,825	1,491,247,208	*0*
TOTAL	**2,823,264,488**	**3,076,141,794**	***183,630,166***

D. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Offsetting policy is described in the Note 1.6 to the consolidated financial statements.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreements are not presented on a net basis in the consolidated financial statements. BIL may have conditional rights to set-off that are enforceable only in the event of default, or insolvency or bankruptcy of any of the counterparts. Such arrangements do not meet the conditions for offsetting according to IAS 32.

Guarantees are obtained within the framework of reverse repos, securities lending and derivatives activities.

Guarantees are given within the framework of repos, securities borrowing and derivatives activities.

The conditions for using and returning pledged assets or pledged liabilities are defined either in Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSLA) and Credit Support Annexes Agreements (CSA), amended, when appropriate, by the Legal Department, or in agreements drafted directly by this department.

Cash collateral received or given relates to derivatives CSA agreements.

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

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

Financial assets recognised at end of reporting period	31/12/18				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	290,313,542	0	290,313,542	66,169,646	224,143,896
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**290,313,542**	**0**	**290,313,542**	**66,169,646**	**224,143,896**

Financial liabilities recognised at end of reporting period	31/12/18				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	503,183,727	0	503,183,727	334,514,235	168,669,492
Repurchase agreements	1,244,599,936	0	1,244,599,936	1,244,599,936	0
Collateralised deposits other than repurchase agreements	0	0	0	0	0
TOTAL	**1,747,783,663**	**0**	**1,747,783,663**	**1,579,114,171**	**168,669,492**

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

A. ASSETS	31/12/17				
	At sight or on demand[2]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash,balances with central banks and demand deposits	2,797,737,796	0	0	0	0
Loans and advances to credit institutions	641,419,531	3,912,456	0	0	3,825,000
Loans and advances to customers	4,637,228,058	453,268,297	279,121,557	1,303,385,185	6,932,338,455
Financial assets held for trading	31,761,675	809,081	1,589,673	11,221,641	25,268,545
Financial assets available for sale	899,630,101	161,402,606	72,992,802	1,616,076,022	1,330,680,528
Investments held to maturity	0	0	0	233,418,419	1,508,596,424
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**9,007,777,161**	**619,392,440**	**353,704,032**	**3,164,101,267**	**9,800,708,952**

	31/12/17				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash,balances with central banks and demand deposits	0	(2,002,508)	n.a.	n.a.	2,795,735,288
Loans and advances to credit institutions	0	4,310,394	0	0	653,467,381
Loans and advances to customers	0	16,777,104	(1,353,045)	(276,562,205)	13,344,203,406
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	164,539	34,514,398	82,514,700	(19,275,921)	4,178,699,775
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	0	22,844,291	204,904,097	n.a.	227,748,388
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**214,255**	**87,830,361**	**288,937,749**	**(295,838,126)**	**23,026,828,091**

[1] Excluding derivatives and off-balance sheet items.

[2] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

A. ASSETS	31/12/18				
	At sight or on demand[1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash and balances with central banks and demand deposits	3,284,180,866	0	0	0	0
Financial assets held for trading	66,718,574	117,621	2,847,258	27,289,393	30,297,324
Financial investments measured at fair value	150,423,549	49,519,679	35,101,430	724,083,567	445,245,734
Financial investments measured at FV through OCI	*150,423,549*	*29,968,453*	*35,101,430*	*724,083,567*	*445,245,734*
Non-trading financial investments mandatorilly at FV through P/L	*0*	*19,551,226*	*0*	*0*	*0*
Loans and advances to credit institutions	1,061,568,646	2,661,126	0	0	3,468,086
Loans and advances to customers	4,764,391,770	198,004,050	245,162,306	1,463,272,532	6,970,382,981
Financial investments measured at cost	674,515,808	74,288,060	107,948,501	1,321,180,921	2,812,169,633
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolio hedge against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**10,001,799,213**	**324,590,536**	**391,059,495**	**3,535,826,413**	**10,261,563,758**

	31/12/18				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks and demand deposits	0	(2,746,040)	0	n.a.	3,281,434,826
Financial assets held for trading	0	199,583	(579,934)	n.a.	126,889,819
Financial investments measured at fair value	31,048,470	15,012,243	47,629,016	(38,882)	1,498,024,806
Financial investments measured at FV through OCI	*27,065,342*	*15,012,243*	*49,699,905*	*(38,882)*	*1,476,561,341*
Non-trading financial investments mandatorilly at FV through P/L	*3,983,128*	*0*	*(2,070,889)*	*n.a.*	*21,463,465*
Loans and advances to credit institutions	0	7,602,292	0	(56,574)	1,075,243,576
Loans and advances to customers	0	14,390,862	(1,256,532)	(268,291,807)	13,386,056,162
Financial investments measured at cost	0	33,482,817	24,769,310	(8,813,331)	5,039,541,719
Derivatives	0	51,100,996	239,212,546	n.a.	290,313,542
Fair value revaluation of portfolio hedge against interest rate risk	n.a.	n.a.	1,470,569	n.a.	1,470,569
TOTAL	**31,048,470**	**119,042,753**	**311,244,975**	**(277,200,594)**	**24,698,975,019**

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

B. LIABILITIES

	31/12/17				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,549,228,200	341,004,674	86,537,176	745,308,816	65,030,490
Amounts due to customers	14,576,574,444	907,237,153	299,194,184	527,831,918	1,586,617
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	305,177,153	16,128,111	71,751,987	143,392,603	240,355,191
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	639,777,356	61,710,239	156,855,797	581,681,332	135,581,038
Subordinated debts	49,609,127	0	0	0	232,488,487
TOTAL	**17,120,366,280**	**1,326,080,177**	**614,339,144**	**1,998,214,669**	**675,041,823**

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

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

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B. LIABILITIES	31/12/18				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,488,247,907	569,637,834	85,422,904	742,613,224	57,151,914
Amounts due to customers	15,407,394,681	1,012,872,182	296,098,051	544,879,468	1,980,625
Financial liabilities measured at fair value through profit or loss	324,852,681	10,565,973	77,387,825	202,195,574	252,956,756
Liabilities designated at fair value	324,852,681	10,565,973	77,387,825	202,195,574	252,956,756
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	655,418,770	20,528,670	183,091,360	943,377,389	125,938,911
Subordinated debts	49,646,580	0	0	0	236,615,076
TOTAL	**17,925,560,619**	**1,613,604,659**	**642,000,140**	**2,433,065,655**	**674,643,282**

	31/12/18			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	2,745,130	0	2,945,818,913
Amounts due to customers	0	3,999,120	0	17,267,224,127
Financial liabilities measured at fair value through profit or loss	0	2,829,821	(38,343,516)	832,445,114
Liabilities designated at fair value	0	2,829,821	(38,343,516)	832,445,114
Derivatives	n.a.	67,079,642	436,104,085	503,183,727
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	24,826,064	24,826,064
Debt securities	0	5,630,645	0	1,933,985,745
Subordinated debts	0	(915,768)	0	285,345,888
TOTAL	**0**	**81,368,590**	**422,586,633**	**23,792,829,578**

C. NET POSITION	31/12/17					
	At sight or on demand	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Balance sheet sensitivity gap	(8,112,589,119)	(706,687,737)	(260,635,112)	1,165,886,598	9,125,667,129	214,255

	31/12/18					
	At sight or on demand	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Balance sheet sensitivity gap	(7,923,761,406)	(1,289,014,123)	(250,940,645)	1,102,760,758	9,586,920,476	31,048,470

Derivatives are used to hedge the balance sheet sensitivity gap.

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

12.5 Market risk and Asset & Liability Management (ALM)

A. TREASURY AND FINANCIAL MARKETS (TFM) ACTIVITIES

BIL's Treasury and Financial Markets activities support the Bank's commercial activities.
Risk on trading activity: general interest rate risk, forex risk, equities and spread risk are limited by value at risk (VaR) limit and / or sensitivity limit.
Treasury management - banking - subject to VaR limit and interest-rate sensitivity limit.

a. Value at Risk – 99 %, 10 days (in EUR million)

In 2018, BIL calculated:
- An interest-rate VaR and a Forex VaR based on a historical VaR (99 %, 10 days);
- An equity VaR based on a historical VaR "full Valuation".

The details of the calculation:

VaR (10 days, 99%) (in EUR million)		31/12/17							
		IR[1] & FX[2] (Trading and Banking)[3]				EQT[4] Trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.42	0.39	0.36	0.36	0.01	0.01	0.01	0.00
	Maximum	0.68	0.58	0.68	0.94	0.02	0.03	0.05	0.02
Global	Average	0.38							
	Maximum	0.94							
	End of period	0.58							
	Limit	8.00							

VaR (10 days, 99%) (in EUR million)		31/12/18							
		IR[1] & FX[2] (Trading and Banking)[3]				EQT[4] Trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	0.40	0.31	0.27	0.22	0.01	0.01	0.01	0.01
	Maximum	0.74	0.47	0.75	0.41	0.04	0.02	0.07	0.04
Global	Average	0.30							
	Maximum	0.75							
	End of period	0.12							
	Limit	8.00							

The treasury activity is subject to sensitivity limits (on December 31, 2018, the sensitivity (+1 %) is EUR 2.0 million, for a limit of EUR 20 million).

[1] IR: interest rate.
[2] FX: forex.
[3] IR & FX: without ALM.
[4] EQT: equity.

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b. Investment Treasury Portfolio (in EUR million)

Exposures include swapped and non-swapped positions. The portfolio's interest rate is managed by Treasury.

(in EUR million)	2017 – AFS	2018 – HTC&S
Exposures	2,107	514
Interest rate sensitivity (+1 basis point)	(0.08)	(0.02)
Credit spread sensitivity (+1 basis point)	(0.91)	(0.15)

B. ALM INTEREST RATE RISK, EQUITY AND CREDIT SPREAD RISK

The interest rate risk is followed by an interest rate sensitivity limit.
For information, the investment portfolio is measured by a credit spread sensitivity measure.

a. ALM
ALM is managed by the ALCO (ALM Committee).
Sensitivity is the measure of the change in fair value due to a 1 % change in the interest rate position of ALM activities.

(in EUR million)		2017							
		Interest rate [1] [2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	19	(6)	(7)	4	(2)	(2)	(2)	(2)

(in EUR million)		2018							
		Interest rate [1] [2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	(7)	5	8	6	(2)	(2)	(2)	(2)

b. Investment Portfolio (in EUR million)

The portfolio's interest rate is managed by the ALM.

(in EUR million)	2017 – AFS	2018 – HTC&S
Exposures	1,779	798
Interest rate sensitivity (+1 basis point)	(0.10)	(0.69)
Credit spread sensitivity (+1 basis point)	(0.99)	(0.42)

[1] Sensitivity (+1 %).
[2] On December 31, 2018, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
[3] Sensitivity (+1 basis point).

12.6 Liquidity risk : breakdown by residual maturity [1]

BIL's approach to liquidity risk management is described under point 4. "Market risk, Assets & Liabilities Management (ALM)" section of the consolidated management report.

The maturity analysis does not include the remaining contractual maturities for derivative. The Bank considers that their contractual maturities are not essential for an understanding of the timing of the cash flows as liquidity for derivatives is managed on a daily basis according to the cash collateral posted or received.

A. ASSETS	31/12/17				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [2]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash,balances with central banks and demand deposits	2,797,737,796	0	0	0	0
Loans and advances to credit institutions	336,048,155	175,624,304	133,659,528	0	3,825,000
Loans and advances to customers	2,500,526,777	2,062,507,065	742,000,161	1,331,014,777	6,969,292,772
Financial assets held for trading	3,986,197	2,386,721	4,164,945	33,674,110	26,438,642
Financial assets available for sale	65,465	169,739,465	126,994,374	2,056,287,117	1,688,900,439
Investments held to maturity	0	0	0	233,418,418	1,508,596,425
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**5,638,364,390**	**2,410,257,555**	**1,006,819,008**	**3,654,394,422**	**10,197,053,278**

	31/12/17				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash,balances with central banks and demand deposits	0	(2,002,508)	n.a.	n.a.	2,795,735,288
Loans and advances to credit institutions	0	4,310,394	0	0	653,467,381
Loans and advances to customers	0	16,777,104	(1,353,045)	(276,562,205)	13,344,203,406
Financial investments measured at cost	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	38,959,738	34,514,398	82,514,700	(19,275,921)	4,178,699,775
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,844,291	204,904,097	n.a.	227,748,388
Fair value revaluation of portfolio hedge	n.a.	n.a.	3.175.567	n.a.	3,175,567
TOTAL	**39,009,454**	**87,830,361**	**288,937,749**	**(295,838,126)**	**23,026,828,091**

[1] Residual maturity, excluding derivatives and off-balance sheet

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

A. ASSETS	31/12/18				
	Breakdown of gross amount and premium/discount				
	At sight or on demand[1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash and balances with central banks and demand deposits	3,282,172,320	2,008,546	0	0	0
Financial assets held for trading	26,483,807	4,018,238	9,823,406	56,124,140	30,820,579
Financial investments measured at fair value	232,400	59,520,382	54,497,035	844,878,406	445,245,734
Financial investments measured at FV through OCI	*232,400*	*39,969,156*	*54,497,035*	*844,878,406*	*445,245,734*
Non-trading financial investments mandatorily at FV through P/L	*0*	*19,551,226*	*0*	*0*	*0*
Loans and advances to credit institutions	385,113,556	270,069,640	94,121,018	314,925,558	3,468,086
Loans and advances to customers	2,459,284,965	1,815,201,581	697,519,348	1,456,862,505	7,212,345,240
Financial investments measured at amortised cost	0	74,288,060	141,997,116	1,679,749,401	3,094,068,346
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**6,153,287,048**	**2,225,106,447**	**997,957,923**	**4,352,540,010**	**10,785,947,985**

	31/12/18				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks and demand deposits	0	(2,746,040)	0	n.a.	3,281,434,826
Financial assets held for trading	0	199,583	(579,934)	n.a.	126,889,819
Financial investments measured at fair value	31,048,472	15,012,243	47,629,016	(38,882)	1,498,024,806
Financial investments measured at FV through OCI	*27,065,344*	*15,012,243*	*49,699,905*	*(38,882)*	*1,476,561,341*
Non-trading financial investments mandatorily at FV through P/L	*3,983,128*	*0*	*(2,070,889)*	*n.a.*	*21,463,465*
Loans and advances to credit institutions	0	7,602,292	0	(56,574)	1,075,243,576
Loans and advances to customers	n.a.	14,390,862	(1,256,532)	(268,291,807)	13,386,056,162
Financial investments measured at amortised cost	n.a.	33,482,817	24,769,310	(8,813,331)	5,039,541,719
Derivatives	n.a.	51,100,996	239,212,546	n.a.	290,313,542
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	1,470,569	n.a.	1,470,569
TOTAL	**31,048,472**	**119,042,753**	**311,244,975**	**(277,200,594)**	**24,698,975,019**

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

B. LIABILITIES	31/12/17				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,186,532,084	702,752,059	86,537,177	745,863,964	65,424,072
Amounts due to customers	14,576,574,444	906,690,506	299,194,190	527,831,918	2,133,258
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	22,618,111	110,076,992	394,362,249	249,747,693
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	14,997,085	84,319,595	336,800,779	1,000,559,348	138,928,955
Subordinated debts	0	0	0	0	282,097,614
TOTAL	**15,778,103,613**	**1,716,380,271**	**832,609,138**	**2,668,617,479**	**738,331,592**

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

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

B. LIABILITIES	31/12/18				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,016,875,093	1,019,307,109	107,126,442	742,613,224	57,151,914
Amounts due to customers	14,178,677,748	2,240,597,351	297,089,814	544,879,469	1,980,625
Financial liabilities measured at fair value through profit or loss	0	37,330,400	129,744,954	412,044,038	253,325,722
Financial liabilities designated at fair value	*0*	*37,330,400*	*129,744,954*	*412,044,038*	*253,325,722*
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	13,210,761	39,599,897	287,382,755	1,454,222,777	133,938,910
Subordinated debts	0	0	0	0	286,261,656
TOTAL	**15,208,763,602**	**3,336,834,757**	**821,343,965**	**3,153,759,508**	**732,658,827**

	31/12/18			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	2,745,131	0	2,945,818,913
Amounts due to customers	0	3,999,120	0	17,267,224,127
Financial liabilities measured at fair value through profit or loss	0	0	0	832,445,114
Financial liabilities designated at fair value	*0*	*n.a.*	*n.a.*	*832,445,114*
Derivatives	n.a.	67,079,642	436,104,085	503,183,727
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	24,826,064	24,826,064
Debt securities	0	5,630,645	0	1,933,985,745
Subordinated debts	0	(915,768)	0	285,345,888
TOTAL	**0**	**78,538,770**	**460,930,149**	**23,792,829,578**

C. NET POSITION	31/12/17					
	At sight or on demand [2]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Net liquidity gap	(10,139,739,223)	693,877,284	174,209,870	985,776,943	9,458,721,686	39,009,454

	31/12/18					
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Net liquidity gap	(9,055,476,554)	(1,111,728,310)	176,613,958	1,198,780,502	10,053,289,158	31,048,472

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

12.7 Currency risk

	31/12/17				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,283,674,620	601,335,243	1,655,403,106	2,230,213,660	23,770,626,629
Liabilities	18,725,621,493	855,150,284	3,412,631,632	777,223,220	23,770,626,629
NET ON-BALANCE SHEET POSITION	**558,053,127**	**(253,815,041)**	**(1,757,228,526)**	**1,452,990,440**	**0**
Off-balance sheet – receivable	4,920,620,835	1,153,213,288	6,423,983,840	3,573,207,975	16,071,025,938
Off-balance sheet – payable	5,631,008,312	895,944,485	4,545,858,049	5,042,332,222	16,115,143,068
NET OFF-BALANCE SHEET POSITION	**(710,387,477)**	**257,268,803**	**1,878,125,791**	**(1,469,124,247)**	**(44,117,130)**

	31/12/18				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,782,176,830	686,843,251	2,182,184,488	2,833,352,927	25,484,557,496
Liabilities	20,059,479,074	854,550,604	3,810,772,813	759,755,005	25,484,557,496
NET ON-BALANCE SHEET POSITION	**(277,302,244)**	**(167,707,353)**	**(1,628,588,325)**	**2,073,597,922**	**0**
Off-balance sheet – receivable	6,152,877,705	1,536,152,709	7,455,439,581	3,450,229,444	18,594,699,439
Off-balance sheet – payable	5,835,930,899	1,364,508,239	5,828,552,668	5,563,763,416	18,592,755,222
NET OFF-BALANCE SHEET POSITION	**316,946,806**	**171,644,470**	**1,626,886,913**	**(2,113,533,972)**	**1,944,217**

12.8 Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

	31/12/17	31/12/18
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,093,952,223**	**1,254,871,420**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**810,604,998**	**967,458,833**
Capital, share premium and own shares	847,974,270	847,974,270
Reserves, retained earnings and eligible result	385,664,387	519,264,559
Regulatory and transitional adjustments[1]	(423,033,659)	(399,779,996)
ADDITIONAL TIER 1 CAPITAL (AT1)	**150,000,000**	**150,000,000**
Preferred shares and hybrid capital / Reimb. value	150,000,000	150,000,000
TIER 2 CAPITAL (T2)	**133,347,225**	**137,412,587**
Subordinated liabilities	133,347,225	137,412,587
IRB excess	0	0
RISK WEIGHTED ASSETS	**6,639,600,765**	**8,034,382,645**
Credit Risk	5,713,253,463	7,110,863,203
Market Risk	69,754,297	62,019,811
Operational Risk	830,998,897	836,575,711
Credit Value Adjustments	25,594,108	24,923,920
SOLVENCY RATIOS		
Common Equity Tier 1 Capital ratio	12.21%	12.04%
Tier 1 ratio	14.47%	13.91%
Capital Adequacy ratio	16.48%	15.62%

[1] **REGULATORY AND TRANSITIONAL ADJUSTMENTS - COMMON EQUITY TIER 1**	**31/12/17**	**31/12/18**
Goodwill and intangible assets	(161,458,649)	(194,083,757)
Deferred tax assets that rely on future probability	(176,179,924)	(201,638,424)
Fair value reserves related to gains or losses cash flow hedges	3,157,763	4,812,604
Gains or losses on liabilities at FV resulting from own credit	(436,710)	(380,283)
Additional Value Adjustment	(1,458,903)	(3,050,125)
Defined benefit pension fund assets	(6,464,000)	(4,430,001)
AGDL reserves	(11,024,510)	(1,010,010)
Unrealised gains or losses measured at fair value	(69,168,726)	0
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS - COMMON EQUITY TIER 1	**(423,033,659)**	**(399,779,996)**

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF Regulation 18-03). During 2018, the Bank complied with the minimum capital required by the Regulator.

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

Financial statements of the parent company

Report of the "réviseur d'entreprises agréé"

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

Report on the audit of the financial statements

OPINION

We have audited the financial statements of Banque Internationale à Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

1. Impairment of loans and advances to customers

Description

At 31 December 2018, the gross loans and advances to customers of the Bank amount to EUR 13,534.7 million against which an impairment of EUR 264.3 million is recorded (see Note 7.4 to the financial statements).

We considered this as a key audit matter as the measurement of impairment under IFRS 9 requires complex and subjective judgments and estimates by the Bank's management. The Bank uses the following methods to assess the required impairment allowance:

- The expected credit loss (ECL) allowance is measured for all loans and advances based on the principles laid down by IFRS 9 and adapted by the Bank in its ECL calculation process, model and tool;
- For defaulted loans and advances, impairment is assessed individually on a regular basis.

In particular, the determination of impairment against loans and advances to customers requires:

- The use of judgments and estimates for the design and setup of the internal rating system which form the basis of the allocation of loans and advances within the 3 buckets (stage 1, stage 2, stage 3) foreseen by IFRS 9;
- Accounting interpretations and modelling assumptions used to build the models that serve as a basis to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- The use of judgments and assumptions regarding the amount and timing of future cash flows as well as the value and recoverability of related collateral for defaulted loans and advances.

Refer to the Accounting policy Note 1.8.5 to the consolidated financial statements and to Note 7.4 to the financial statements.

How the matter was addressed in our audit

We tested the design and operating effectiveness of key controls across the processes relevant to the ECL calculation. This included testing of:

- Entity level controls over the ECL modelling process, including model review and governance;
- Controls over the incorporation of multiple economic scenarios by the Bank's Credit and Executive Committees;
- Controls over the allocation of loans and advances into stages, including quarterly movements between stages, and the identification of defaulted loans and advances;
- Controls over data accuracy and completeness.

We also performed the following substantive audit procedures:

- We verified that the data used as a basis to calculate the ECL are complete and accurate; We also tested, on a sample basis, extractions of data used in the models, including rating of loans and movements between various ratings;
- We tested a sample of loans and advances (including an extended sample of loans included into the Credit Watchlist) to form our own assessment as to whether they are classified in the appropriate bucket (staging methodology adjusted by manual entries, as the case may be);
- With the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in ECL models. This included assessing the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models, as well as challenging the forward looking macro-economic scenarios;
- We performed an overall assessment of the ECL provision levels by stage as well as their variations during the period to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment;
- We performed substantive audit procedures on a sample of defaulted loans and advances, consisting of key items. We examined in a critical manner the assumptions used by the Bank to determine expected cash flows and estimated recovery from any underlying collateral.

2. Deferred tax assets recognition and impairment

Description

As at 31 December 2018, the deferred tax assets recognized in the balance sheet amounts to EUR 222.7 million, of which EUR 50.0 million resulting from the loss incurred in 2011 by one of the former branches of the Bank in a third-party country.

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

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

How the matter was addressed in our audit

We performed the following procedures:

- We obtained the budget for 2019 and the business plan for the period 2020 – 2025 prepared by the Bank as well as the assumptions made by the Bank to extrapolate the net income before tax beyond the horizon of the business plan;
- We assessed the consistency and reasonableness of these assumptions including back-testing of the assumptions made at prior year end;
- We evaluated whether updates in the Luxembourg tax laws and regulations have an impact on the assumptions made by the Management;
- For the deferred tax assets arising from tax losses carried forward from the former third-party country's branch, we assessed whether the conditions for such tax losses to be incorporated to the basis of the tax losses carried forward are fulfilled;
- We verified the arithmetical accuracy of the computations, included the corporate income tax rate used.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

RESPONSIBILITIES OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ" FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have been reappointed as "Réviseur d'Entreprises Agréé" by the Board of directors on 8 December 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is six years.

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

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

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

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, April 5, 2019

Balance sheet

ASSETS (in EUR)		**Notes**	IAS39 **01/01/17**[1]	IAS39 **31/12/17**[1]	IFRS9 **31/12/18**
I.	Cash, balances with central banks	7.2	1,778,443,726	2,542,318,139	3,083,169,677
II.	Financial assets held for trading	7.5	79,801,733	70,526,377	126,889,819
III.	Financial investments measured at FV	7.6	6,224,449,631	4,056,238,369	1,406,244,768
	Financial assets at FV through OCI	*7.6.2*			*1,403,429,755*
	Non-trading financial assets mandatorily at FV through PL	*7.6.1*			*2,815,013*
	Financial investments available for sale		*6,224,449,631*	*4,056,238,369*	
IV.	Loans and advances to credit institutions	7.3	1,024,875,852	771,063,525	1,220,311,674
V.	Loans and advances to customers	7.4	12,032,823,885	13,282,678,819	13,270,408,274
VI.	Financial investments measured at amortised cost	7.7			5,039,541,719
	Financial investments held to maturity		536,013,388	1,753,271,909	
VII.	Derivatives	9.1	247,475,993	226,454,079	288,703,842
VIII.	Fair value revaluation of Portfolio hedge against interest rate risk		6,523,489	3,175,567	1,470,569
IX.	Investments in subsidaries, joint ventures and associates	7.8	180,428,994	177,900,378	171,685,462
X.	Investment property	7.10	760,000	760,000	800,000
XI.	Property, plant and equipment	7.9	105,716,773	110,396,837	105,444,869
XII.	Intangible fixed assets	7.11	64,027,302	106,595,730	139,284,826
XIII.	Current tax assets	7.12	2,006	87,604	29,054
XIV.	Deferred tax assets	7.12	231,933,297	227,298,397	222,694,920
XV.	Other assets	7.13	64,143,271	72,020,073	56,578,856
XVI.	Non-current assets and disposal groups held for sale	7.16	0	0	14,541,000
TOTAL ASSETS			**22,577,419,339**	**23,400,785,803**	**25,147,799,329**

The notes are an integral part of these financial statements.

[1] Refer to note 1.2.7 of consolidated financial statements for details of restatements made on opening and closing balances for year 2017.

LIABILITIES (in EUR)		Notes	IAS39 01/01/17[1]	IAS39 31/12/17[1]	IFRS9 31/12/18
I.	Amounts due to credit institutions	8.1	2,530,755,382	3,055,045,143	3,195,542,470
II.	Amounts due to customers	8.2	15,335,173,535	15,762,793,784	16,796,602,776
III.	Financial liabilities measured at fair value through profit or loss	8.3	879,926,299	776,333,210	832,445,114
	Financial liabilities measured at fair value through P/L	*9.1*	*2,013,272*	*0*	*0*
	Financial liabilities designated at fair value		*877,913,027*	*776,333,210*	*832,445,114*
IV.	Derivatives	9.1	432,612,114	383,822,947	502,275,615
V.	Fair value revaluation of portfolios hedged against interest rate risk		48,683,055	35,131,162	24,826,064
VI.	Debt securities	8.4	1,529,888,297	1,580,051,579	1,933,985,745
VII.	Subordinated debts	8.5	293,936,368	281,864,136	285,345,888
VIII.	Provisions and other obligations	8.6	27,919,877	40,880,587	37,866,840
IX.	Current tax liabilities	8.7	174,946	141,790	52,536
X.	Other liabilities	8.8	252,425,172	208,782,889	226,285,910
TOTAL LIABILITIES			**21,331,495,045**	**22,124,847,227**	**23,835,228,958**

SHAREHOLDERS' EQUITY (in EUR)		Notes	IAS39 01/01/17[1]	IAS39 31/12/17[1]	IFRS9 31/12/18
XIII.	Subscribed capital	9.6	141,212,330	141,212,330	141,212,330
XIV.	Additional paid-in capital		708,216,940	708,216,940	708,216,940
XV.	Treasury shares		(1,455,000)	(1,455,000)	(1,455,000)
XVI.	Reserves and retained earnings		319,172,251	252,045,774	347,737,248
XVII.	Net income for the year		0	113,216,322	86,589,606
CORE SHAREHOLDERS' EQUITY			**1,167,146,520**	**1,213,236,366**	**1,282,301,124**
XVIII.	Gains and losses not recognised in the statement of income		78,777,774	62,702,210	30,269,247
	Financial instruments at FV through OCI / AFS reserve		*143,004,853*	*106,695,761*	*89,268,216*
	Other reserves		*(64,227,079)*	*(43,993,551)*	*(58,998,969)*
TOTAL SHAREHOLDERS' EQUITY			**1,245,924,294**	**1,275,938,576**	**1,312,570,371**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**22,577,419,339**	**23,400,785,803**	**25,147,799,329**

The notes are an integral part of these financial statements.

[1] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

Statement of income

(in EUR)		Notes	IAS39 31/12/17[1]	IFRS9 31/12/18
I.	Interest and similar income	11.1	503,368,258	591,783,518
	of which : Interest revenue calculated using the effective interest method		*386,005,526*	*389,645,002*
II.	Interest and similar expenses	11.1	(208,683,498)	(290,811,243)
III.	Dividend income	11.2	12,871,630	4,538,893
IV.	Net trading income	11.3	(777,750)	(27,528,906)
V.	Net income on financial instruments measured at FV and net result of hedge accounting	11.4	55,614,008	52,864,616
VI.	Net income on derecognition of financial instruments at amortised cost	11.5	3,976,876	4,401,986
VII.	Fee and commission income	11.6	194,204,340	193,933,103
VIII.	Fee and commission expenses	11.6	(25,336,797)	(27,995,658)
IX.	Other net income	11.7	(34,869,811)	(12,944,115)
INCOME			**500,367,256**	**488,242,194**
X.	Staff expenses	11.8	(197,996,512)	(184,749,326)
XI.	General and administrative expenses	11.9	(122,818,035)	(127,698,877)
XII.	Amortisation of tangible and intangible fixed assets	11.11	(29,900,971)	(41,815,622)
EXPENSES			**(350,715,518)**	**(354,263,825)**
GROSS OPERATING INCOME			**149,651,738**	**133,978,369**
XIII.	Impairments on financial instruments and provisions for credit commitments	11.12	(19,572,760)	(17,925,295)
XIV.	Provisions for legal litigations	11.13	234,317	(510,000)
NET INCOME BEFORE TAX			**130,313,295**	**115,543,074**
XV.	Tax expenses	11.14	(17,096,973)	(28,953,468)
NET INCOME FOR THE YEAR			**113,216,322**	**86,589,606**

The notes are an integral part of these financial statements.

[1] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

Statement of comprehensive income

(in EUR)	IAS39 31/12/17[1]	IFRS9 31/12/18
NET INCOME FOR THE YEAR RECOGNISED IN THE STATEMENT OF INCOME	113,216,322	86,589,606
GAINS (LOSSES) NOT RECOGNISED IN THE STATEMENT OF INCOME	(15,404,808)	(13,210,174)
Items that will not be reclassified to profit or loss	**4,301,670**	**20,255,464**
Actuarial gains (losses) on defined benefit pension plans	5,813,854	(11,046,072)
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		(56,427)
FVTOCI Equity and variable income instruments		29,883,439
Tax on items that will not be reclassified to profit or loss	(1,512,184)	1,474,524
Items that may be reclassified to profit or loss	**(19,706,478)**	**(33,465,638)**
Gains (losses) on net investment hedge	271,746	(117,986)
Translation adjustments	12,613,055	(5,370,746)
Gains (losses) on cash flow hedge	5,120,279	(1,330,129)
Fair value changes of debt instruments and loans and advances at fair value through other comprehensive income		(36,523,087)
Unrealised gains (losses) on available for sale financial investments	(48,560,421)	
Tax on items that may be reclassified to profit or loss	10,848,863	9,876,310
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	97,811,514	73,379,432

The notes are an integral part of these financial statements.

[1] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

Statement of changes in equity

CORE SHAREHOLDERS' EQUITY (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings [1]	Net income for the year	Core shareholders' equity
As at 01/01/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**319,172,251**	**0**	**1,167,146,521**
Dividend paid				(60,015,240)		(60,015,240)
Classification of income 2016						0
Interest on contingent convertible bond				(7,140,094)		(7,140,094)
Dividend received on own shares				28,858		28,858
Net income for the year					113,216,322	113,216,322
As at 31/12/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**252,045,774**	**113,216,322**	**1,213,236,366**

GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Other reserves	Translation adjustments [3]	Gains and losses not recognised in the statement of income
As at 01/01/17[2] - IAS39	**143,004,853**	**(8,030,946)**	**(1,825,351)**	**(54,370,782)**	**78,777,774**
Net change in fair value through equity - Available for sale investments	(3,042,847)				(3,042,847)
Net change in fair value through equity - Cash flow hedges		1,168,211			1,168,211
Translation adjustments	(8)			12,613,058	12,613,050
Cancellation of FV following AFS disposals	(33,266,237)				(33,266,237)
Cash flow hedge + Break in hedging		2,821,346			2,821,346
Net change in other reserves			3,630,913		3,630,913
As at 31/12/17[2] - IAS39	**106,695,761**	**(4,041,389)**	**1,805,562**	**(41,757,724)**	**62,702,210**

The notes are an integral part of these financial statements.

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 14.9 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million as of December 31, 2017.

[2] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

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

CORE SHAREHOLDERS' EQUITY (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings [1]	Net income for the year	Core shareholders' equity
As at 31/12/17[2] - IAS39	**141,212,330**	**708,216,940**	**(1,455,000)**	**252,045,774**	**113,216,322**	**1,213,236,366**
IMPACT OF ADOPTING IFRS 9	**0**	**0**	**0**	**(11,048,870)**	**4,652,874**	**(6,395,996)**
As at 01/01/18 - IFRS 9	**141,212,330**	**708,216,940**	**(1,455,000)**	**240,996,904**	**117,869,196**	**1,206,840,370**
Dividend paid						0
Redemption for the year or liquidation						0
Classification of income 2017				117,869,196	(117,869,196)	0
Interest on contingent convertible bond				(7,299,443)		(7,299,443)
Realised performance on equities FVTOCI				(3,829,409)		(3,829,409)
Dividend received on own shares						0
Net income for the year					86,589,606	86,589,606
As at 31/12/18 - IFRS 9	**141,212,330**	**708,216,940**	**(1,455,000)**	**347,737,248**	**86,589,606**	**1,282,301,124**

GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME (in EUR)	Financial instruments at FV through OCI	Derivatives (CFH)	Other reserves	Translation adjustments [3]	Gains and losses not recognised in the statement of income
As at 31/12/17[2] - IAS39	**106,695,761**	**(4,041,389)**	**1,805,562**	**(41,757,724)**	**62,702,210**
IMPACT OF ADOPTING IFRS 9	**(18,874,315)**	**(670,675)**	**323,122**	**(924)**	**(19,222,792)**
As at 01/01/18 - IFRS 9	**87,821,446**	**(4,712,064)**	**2,128,684**	**(41,758,648)**	**43,479,418**
Net change in fair value through equity - FV through OCI	8,615,712				8,615,712
Net change in fair value through equity - Cash flow hedges		(1,235,718)			(1,235,718)
Translation adjustments	(12)			(5,370,743)	(5,370,755)
Cancellation of FV following FVTOCI disposals	(7,168,930)				(7,168,930)
Cash flow hedge + Break in hedging		164,258			164,258
Net change in other reserves			(8,214,738)		(8,214,738)
As at 31/12/18 - IFRS 9	**89,268,216**	**(5,783,524)**	**(6,086,054)**	**(47,129,391)**	**30,269,247**

The notes are an integral part of these financial statements.

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 1.4 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million as of December 31, 2017.
[2] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.
[3] As at June 30, 2018, translation adjustments comprise an amount of EUR -43,584,632 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Cash flow statement

(in EUR)		IAS39 31/12/17[1]	IFRS9 31/12/18
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		113,216,322	86,589,606
Adjustment for :			
- Depreciation and amortisation	7.9 / 7.11	29,900,971	41,815,622
- Impairment on bonds, equities and other assets	11.4 / 11.5 / 11.12	(11,745,983)	(23,446,321)
- Net gains / (losses) on investments		789,573	(3,761,551)
- Provisions (including collective impairment)	8.6 / 11.12	10,740,307	(14,323,134)
- Change in unrealised gains / (losses)	11.3	3,750,618	165,037
- Deferred taxes	11.14	17,004,556	28,923,291
Changes in operating assets and liabilities		715,424,464	622,498,492
NET CASH FLOW FROM OPERATING ACTIVITIES		**879,080,827**	**738,461,042**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	7.9 / 7.11	(77,787,198)	(69,946,797)
Sale of fixed assets	7.9 / 7.11	1,829,176	2,256,447
Purchase of shares		0	(48,237)
Sales of shares		43,204	2,855,244
Capital increase on subsidiaries		0	(332,170)
Liquidation of subsidiaries		8,710	4,609,202
NET CASH FLOW FROM INVESTING ACTIVITIES		**(75,906,108)**	**(60,606,311)**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(60,015,240)	0
NET CASH FLOW FROM FINANCING ACTIVITIES		**(60,015,240)**	**0**
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS		**743,159,479**	**677,854,731**
CASH & CASH EQUIVALENT AT THE BEGINNING OF YEAR		**2,038,918,316**	**2,782,058,378**
Net cash flow from operating activities		879,080,827	738,461,042
Net cash flow from investing activities		(75,906,108)	(60,606,311)
Net cash flow from financing activities		(60,015,240)	0
Effect of change in exchange rate on cash and cash equivalents		(19,416)	(18,736)
CASH & CASH EQUIVALENT AT THE END OF THE YEAR	**7.1**	**2,782,058,379**	**3,459,894,373**
ADDITIONAL INFORMATION			
Taxes paid		(211,248)	(61,002)
Dividends received	11.2	12,871,630	4,538,893
Interests received		500,400,589	560,312,417
Interests paid		(201,834,711)	(260,414,838)

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

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

The notes are an integral part of these financial statements.

[1] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

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

(in EUR)	As at 01/01/18	Acquisition – Reimbursement	Changes resulting from the acquisition or loss of subsidiary control	Foreign exchange movement	Other changes	As at 31/12/18
Subordinated debts	**283,347,225**			4,065,362		**287,412,587**
Non-Subordinated debts	**0**					**0**
Subscribed capital	**141,212,330**					**141,212,330**
Additional paid-in capital	**708,216,940**					**708,216,940**
Treasury shares	**(1,455,000)**					**(1,455,000)**

The notes are an integral part of these financial statements.

[1] Refer to note 1.2 of financial statements for details of restatements made on opening and closing balances for year 2017.

Notes to the financial statements of the parent company

Presentation of the accounts

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

Note 11

Notes on the statement of income

Note 12

Notes on risk exposures

Note 1: Accounting principles and rules of the financial statements

As the parent company's annual financial statements have been published using IFRS since 2008, the accounting principles and rules applying to the parent company's financial statements are explained in detail in the note 1 to the consolidated financial statements herein.

1. SPECIFIC INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY:

1.1 Consolidated participating interests

Consolidated participating interests are recorded at cost in accordance with IAS 27.

1.2 Change in accounting policies

As explained in the note 1.2.7 to the consolidated financial statements herein, BIL has changed the accounting policies related to investment properties and corrected the calculation of the provisions for pensions. The changes made have been applied retrospectively and impact the financial position of BIL as disclosed in the table hereunder.

(in EUR)		01/01/17	01/01/17 restated	Impact of restatement of provisions for pensions	Impact of restatement of investment properties
X.	Investment property	29,018	760,000	0	730,982
XIV.	Deferred tax assets	235,080,816	231,933,297	(2,957,391)	(190,128)
XV.	Other assets	64,143,271	64,143,271	0	0
TOTAL ASSETS		**22,579,835,877**	**22,577,419,339**	**(2,957,391)**	**540,854**
VIII.	Provisions and other obligations	39,290,085	27,919,877	(11,370,208)	0
XVI.	Reserves and retained earnings	310,218,579	319,172,251	8,412,817	540,854
XVII.	Net income for the year	0	0	0	0
XVIII.	Gains and losses not recognised in the statement of income	78,777,773	78,777,774	0	0
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**22,579,835,877**	**22,577,419,339**	**(2,957,391)**	**540,854**

(in EUR)		31/12/17	31/12/17 restated	Impact of restatement of provisions for pensions	Impact of restatement of investment properties
X.	Investment property	28,973	760,000	0	731,027
XIV.	Deferred tax assets	230,425,933	227,298,397	(2,937,396)	(190,140)
XV.	Other assets	69,941,418	72,020,073	2,078,655	0
TOTAL ASSETS		**23,401,103,657**	**23,400,785,803**	**(858,741)**	**540,887**
VIII.	Provisions and other obligations	50,095,263	40,880,587	(9,214,676)	0
XVI.	Reserves and retained earnings	243,092,103	252,045,774	8,412,817	540,854
XVII.	Net income for the year	112,602,416	113,216,322	613,873	33
XVIII.	Gains and losses not recognised in the statement of income	63,372,965	62,702,210	(670,755)	0
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**23,401,103,657**	**23,400,785,803**	**(858,741)**	**540,887**

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

The following table reconciles the carrying amounts of financial assets and liabilities, from previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018.

	IAS 39	IFRS9 - 01/01/18															
ASSET (in EUR thousands)	31/12/17	Cash, balances with central banks and demand deposits	Financial assets held for trading	Financial assets at FV through OCI	Non-trading financial assets mandatorily at FV through PL	Loans and advances to credit institutions	Loans and advances to customers	Financial investments measured at amortised cost	Derivatives	Fair value revaluation of Portfolio hedge against interest rate risk	Investments in subsidiaries, joint ventures and associates	Investment property	Property, plant and equipment	Intangible fixed assets and goodwill	Current tax assets	Deferred tax assets	Other assets
Cash and balances with central banks	2,542,318	2,542,318															
Loans and advances to credit institutions	771,064					771,064											
Loans and advances to customers	13,282,679						13,067,144	215,535									
Financial assets measured at fair value through profit or loss	70,526		70,526														
Financial investments available for sale	4,056,238			1,853,809	2,895			2,199,534									
Financial investments held to maturity	1,753,272			123,285				1,629,987									
Derivatives	226,454								226,454								
Fair value revaluation of portfolios hedged against interest rate risk	3,176									3,176							
Investments in subsidaries, joint ventures and associates	177,900										177,900						
Investment property	760											760					
Property, plant and equipment	110,397												110,397				
Intangible fixed assets and goodwill	106,596													106,596			
Current tax assets	88														88		
Deferred tax assets	227,298															227,298	
Other assets	72,020																72,020
Fair value adjustments following IFRS9 adoption				12,195				(19,468)									
ECL				(146)		(52)	(46,959)	(1,635)									
Reversal of IAS39 collective provision							27,865										
Deferred tax assets adjustment following IFRS9 adoption																8,986	
TOTAL ASSETS	**23,400,786**	**2,542,318**	**70,526**	**1,989,143**	**2,895**	**771,011**	**13,048,050**	**4,023,953**	**226,454**	**3,176**	**177,900**	**760**	**110,397**	**106,596**	**88**	**236,284**	**72,020**

LIABILITIES (in EUR thousands)	IAS 39 31/12/17	IFRS9 - 01/01/18 Amounts due to credit institutions	Amounts due to customers	Liabilities designated at fair value	Derivatives	Fair value revaluation of portfolios hedged against interest rate risk	Debt securities	Subordinated debts	Provisions and other obligations	Current tax liabilities	Deferred tax liabilities	Other liabilities
Amounts due to credit institutions	3,055,045	3,055,045										
Amounts due to customers	15,762,794		15,762,794									
Financial liabilities measured at fair value through profit or loss	776,333			776,333								
Derivatives	383,823				383,823							
Fair value revaluation of portfolios hedged against interest rate risk	35,131					35,131						
Debt securities	1,580,052						1,580,052					
Subordinated debts	281,864							281,864				
Provisions and other obligations	40,881								40,881			
Current tax liabilities	142									142		
Deferred tax liabilities	0										0	
Other liabilities	208,783											208,783
ECL on off balance sheet									6,405			
TOTAL LIABILITIES	**22,124,847**	**3,055,045**	**15,762,794**	**776,333**	**383,823**	**35,131**	**1,580,052**	**281,864**	**47,286**	**142**	**0**	**208,783**

As at January 1, 2018 BIL has classified a portion of its previous "Financial investments available for sale" portfolio to the "Financial investments measured at amortised cost" portfolio. The fair value of these financial instruments that BIL still held as at December 31,2018 amounts to EUR 1,772,223,416. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been EUR 6,871,994 .

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at January 1, 2018.

Debt instruments and commitments given subject to impairment per IFRS 9 (in EUR as of 01/01/18)	Exposure as per IAS 39[1]	Loss allowance as per IAS 39 / IAS 37	Exposure as per IFRS 9[1]	Loss allowance Stage 1[2]	Loss allowance Stage 2[2]	Loss allowance Stage 3[2]	Total loss allowance IFRS 9[2]
Balance-sheet exposures (in EUR thousands)							
Cash and balances with central banks	2,542,318	0	2,542,318	0	0	0	0
Loans and advances to credit institutions	771,064	0	771,011	(28)	(25)	0	(52)
Loans and advances to customers	13,067,144	(269,917)	13,048,050	(22,734)	(13,065)	(253,212)	(289,010)
Debt securities at amortised cost	1,968,807	0	4,023,954	(1,612)	(22)	0	(1,635)
Debt securities at fair value through OCI	4,021,725	0	1,957,525	(86)	(61)	0	(146)
sub-total (balance-sheet)	**22,371,057**	**(269,917)**	**22,342,858**	**(24,460)**	**(13,172)**	**(253,212)**	**(290,844)**
Off balance-sheet exposures (in EUR thousands)	**Nominal amount**		**Nominal amount**				
Loan commitments given	1,807,307	(17)	1,807,307	(3,021)	(1,189)	(821)	(5,030)
Financial guarantees given	739,209	0	739,209	(970)	(143)	(279)	(1,392)
sub-total (off-balance-sheet)	**2,546,517**	**(17)**	**2,546,517**	**(3,991)**	**(1,331)**	**(1,100)**	**(6,422)**
TOTAL	**24,917,574**	**(269,934)**	**24,889,374**	**(28,451)**	**(14,503)**	**(254,311)**	**(297,266)**

[1] Carrying amount (gross carrying amount net of impairment loss or fair value)

[2] Difference on the gross amount of loss allowance/ECL may arise with the table "Own funds reconciliation". These differences are due conversion differences included in the above table and presented separately in the "own funds reconciliation" table.

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The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

OWN FUNDS RECONCILIATION (in EUR thousands)	EQUITY	OCI
IFRS 9 figures	**1,206,840**	**43,479**
IAS 39 figures	**1,213,236**	**62,702**
Delta	**(6,396)**	**(19,223)**
Reversal of collective provisioning	27,866	0
Deferred Tax / reversal of collective provisioning	(7,232)	0
Stage 1 ECL 12 months	(24,458)	0
Deferred Tax / Stage 1 ECL 12 months	6,345	0
Stage 2 ECL maturity	(13,172)	0
Deferred Tax / Stage 2 ECL maturity	3,417	0
Cancellation of AFS Reserve for Financial assets classified at amortized cost under IFRS9	0	(19,468)
Deferred Tax / Cancellation of AFS Reserve for Financial assets at amortized cost under IFRS 9	0	5,064
Non realised performance - Financial Assets at FVTOCI initially at amortized cost	0	12,049
Non realised performance - Deferred Tax /Financial Assets at FVTOCI initially at amortized cost	0	(3,134)
OCR/FVO liabilities transfer from P&L to OCI	(437)	437
Deferred Taxes/OCR on FVO liabilities (transfer from P&L to OCI)	114	(114)
FVTPL on non SPPI Financial assets - Equities	329	(329)
Deferred Taxes / FVTPL on non SPPI Financial assets - Equities	(86)	86
Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	0	0
Deferred Taxes / Realized gains/losses on Equities at FV through OCI (transfer from P&L to Reserves)	0	0
FV adjustement on Impaired Equities at FV through OCI (transfer from P&L to OCI))	18,814	(18,814)
Deferred Taxes / FV adjustment on Impaired Equities at FV through OCI (transfer from P&L to OCI)	(4,894)	4,894
Stage 1 ECL 12 months - Off-balance sheet items	(3,991)	0
Deferred Tax / Stage 1 ECL 12 months - Off-balance sheet items	1,037	0
Stage 2 ECL maturity - Off-balance sheet items	(1,331)	0
Deferred Tax / Stage 2 ECL maturity - Off-balance sheet items	342	0
FV adjustments following ECL computation	0	146
Deferred Taxes / FV adjustments following ECL computation	0	(38)
Stage 3 ECL maturity (new)	(11,161)	0
Deferred Tax / Stage 3 ECL maturity	2,903	0
Stage 3 ECL maturity - Off-balance sheet items	(1,083)	0
Deferred Tax / Stage 3 ECL maturity - Off-balance sheet items	282	0
Conversion differences	(1)	(1)
TOTAL	**(6,396)**	**(19,223)**

1.4 Presentation of advances on demand to credit institutions and Investment in subsidiaries

The advances on demand to credit institutions as of January 1, 2017 and December 31, 2017 which respectively amounts to EUR 84,523,730 and EUR 168,655,166 and that were classified under the caption "Loans and advances to credit institutions" in the annual report 2017 have been reclassified under the caption "Cash, balances with central banks and demand deposits" in this report. This reclassification is to align with the current financial regulatory reporting.

The investment in subsidiaries as of January 1, 2017 and December 31, 2017 which respectively amounts to EUR 180,428,994 and EUR 177,900,378 and that were classified under the caption "Financial Investments" in the annual report 2017 have been reclassified under the caption "Investment in subsidiaries, joint ventures and associates".

Note 2: Changes in branches and list of main subsidiaries and associates

2.1 Changes in branches

Opening
N/A

Closing
N/A

2.2 List of subsidiaries and associates

As at December 31, 2018, the Bank has a participating interest of at least 20% in the capital of the following undertakings :

Name	Head office	% of capital held
Audit Trust SARL	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Banque Internationale à Luxembourg (Suisse) SA	Beethovenstrasse 48 PO Box 2192 CH-8002 Zürich	100
Belair House SA	2, boulevard Grande-Duchesse Charlotte L-1330 Luxembourg	100
BIL Manage Invest SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
BIL PE Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
BIL Reinsurance SA	69, route d'Esch L-2953 Luxembourg	100
Biltrust Limited	PO Box 665 Roseneath/The Grange St Peter Port GY1 3SJ, Guernsey	100
Europay Luxembourg S.C.[2]	2-4, rue Edmond Reuter L-5326 Contern	52.20
Experta Corporate and Fund Services SA (BIL Fund and Corporate Services SA as from February 15, 2019)	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
IB Finance SA	69, route d'Esch L-2953 Luxembourg	100

[1] Experta Corporate and Fund Services SA was renamed BIL Fund and Corporate Services SA as from February 15, 2019.
[2] BIL has more than 50% voting rights of Europay Luxembourg S.C. but does not meet the criteria set out by IFRS 10 to consolidate the entity.

Name	Head office	% of capital held
Koffour SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Lannage SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Private II Wealth Management SARL	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Red Sky SA	69, route d'Esch L-2953 Luxembourg	100
Selskabet af 18 December 2013 A/S (in liquidation)	Gronningen 17 DK-1270 Copenhagen	100
Société de la Bourse de Luxembourg SA	35A, boulevard Joseph II L-1840 Luxembourg	21.41
Société du 25 juillet 2013 SA (in liquidation)	54-56 avenue Hoche Building Regus F-75008 Paris	100
Société Luxembourgeoise de Leasing - BIL-LEASE SA	Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100
Valon SA	c/o Experta Corporate and Fund Services SA[1] Valley Park B 42, rue de la Vallée L-2661 Luxembourg	100

[1] Experta Corporate and Fund Services SA was renamed BIL Fund and Corporate Services SA as from February 15, 2019.

Note 3: Business and geographic reporting

Please refer to Note 3 to the consolidated financial statements.

INCOME (in EUR thousands)	31/12/17		
	Income	***of which interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	456,105	*283,991*	159,034
Treasury and Financial Markets	81,771	*23,070*	43,755
Group Center	(37,509)	*495*	(72,476)
TOTAL	**500,367**	***307,556***	**130,313**
Net income before tax			130,313
Tax expenses			(17,097)
NET INCOME			**113,216**

	31/12/18		
	Income	***of which interest income and dividend income***	**Net income before tax**
Retail, Corporate and Wealth Management	455,337	*283,681*	142,939
Treasury and Financial Markets	52,045	*22,964*	12,276
Group Center	(19,140)	*(1,134)*	(39,672)
TOTAL	**488,242**	***305,511***	**115,543**
Net income before tax			115,543
Tax expenses			(28,953)
NET INCOME			**86,590**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/17		31/12/18	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Retail, Corporate and Wealth Management	13,282,679	17,129,028	13,270,408	18,160,266
Treasury and Financial Markets	9,388,535	4,342,198	11,119,864	4,756,932
Group Center	729,572	653,621	757,527	918,031
TOTAL	**23,400,786**	**22,124,847**	**25,147,799**	**23,835,229**

OTHER SEGMENT INFORMATION
(in EUR thousands)

	31/12/17				
	Capital expenditures [1]	Depreciation and amortisation	Impairments[2] Allowances	Impairments[2] Write-backs	Other non-cash expenses[3]
Retail, Corporate and Wealth Management		(23,099)	(64,232)	44,284	0
Treasury and Financial Markets	77,787	(3,840)	(107)	1,011	0
Group Center		(2,961)	(5,106)	5,717	(17,569)
TOTAL	**77,787**	**(29,901)**	**(69,445)**	**51,012**	**(17,569)**

	31/12/18				
	Capital expenditures[1]	Depreciation and amortisation	Impairments[2] Allowances	Impairments[2] Write-backs	Other non-cash expenses[3]
Retail, Corporate and Wealth Management		(29,978)	(149,587)	131,538	0
Treasury and Financial Markets	69,947	(4,522)	(6)	130	0
Group Center		(7,316)	0	(510)	(14,315)
TOTAL	**69,947**	**(41,816)**	**(149,593)**	**131,158**	**(14,315)**

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

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

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

GEOGRAPHIC BREAKDOWN
(in EUR thousands)

	Denmark	Luxembourg	United Arab Emirates	Total
Staff (in average FTE)	45	1,746	12	1,803
Income	9,877	486,919	3,571	500,367
Net income before tax	208	130,207	(102)	130,313
Tax expenses	98	(17,195)	0	(17,097)
NET INCOME AS AT 31/12/17	**306**	**113,012**	**(102)**	**113,216**
Staff (in average FTE)	49	1,770	15	1,834
Income	10,667	474,037	3,539	488,243
Net income before tax	(1,394)	117,097	(160)	115,543
Tax expenses	267	(29,220)	0	(28,953)
NET INCOME AS AT 31/12/18	**(1,127)**	**87,877**	**(160)**	**86,590**

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

1. Capital expenditures including the acquisitions for the year in terms of tangible and intangible assets for which the allocation by business line is not available.
2. Include impairments on tangible and other intangible assets, impairments on securities, impairments on loans and provisions for credit commitments and impairments on goodwill with a breakdown between allowances and write-backs.
3. Include IFRS2 costs, net allowances to provisions for restructuring costs, net allowances to provisions related to IAS 19 and capital losses on exchange of assets.

Note 4: Material items in the statement of income

For the period ending December 31, 2018, the material items in the statement of income are the following:

- Income reached EUR 488 million at the end of December 2018 compared with EUR 500 million at the end of December 2017 after restatement. This decrease is mainly due to a decrease in dividend and net trading income, compensated by other net income following the recognition of provisions in a tax matter in 2017. Margin and fees income remain stable.
- The general expenses totalled EUR 354 million as at December 31, 2018 showing a slight increase of 1% compared with December 2017 (EUR 350 million), essentially due to higher depreciation in the context of the IT strategy and ongoing regulatory projects compensated by positive variations of non-recurring items.

Note 5: Post-balance sheet events

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

Note 6: Litigation

Following the bankruptcy of Bernard Madoff's investment vehicle, Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and the liquidators of certain feeder funds, ultimately invested in BLMIS instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff.

In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse. Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 72 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

With regard to the proceedings initiated by the liquidators of certain feeder funds, on January 13, 2017, the redeemer defendants as a group filed a consolidated motion to dismiss all claims on various grounds. After briefing was completed in 2017, the Court heard oral arguments with respect to the motion to dismiss on January 25, 2018. On August 6, 2018, the Court issued a decision addressing two threshold jurisdictional issues. After the parties agreed that the Court could address other issues while reserving judgement on the personal jurisdiction issue, the Court entered a second decision on December 6, 2018 granting in part and denying in part the consolidated motion to dismiss. As of today, the Court has not yet entered a final order implementing its decisions on the consolidated motion to dismiss.

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

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

As at December 31, 2018, no material provision for clawback actions has been made. Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

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

7.1 Cash and cash equivalents

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

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Cash and balances with central banks	2,375,665,481	2,922,005,036
Other demand deposits	168,655,166	163,911,922
Loans and advances to credit institutions	217,054,570	373,977,415
Financial assets available for sale	20,683,162	
TOTAL	**2,782,058,379**	**3,459,894,373**

B. OF WHICH RESTRICTED CASH	31/12/17	31/12/18
Mandatory reserves[1]	757,652,471	549,515,381
TOTAL RESTRICTED CASH	**757,652,471**	**549,515,381**

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

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

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

7.2 Cash and balances with central banks and demand deposits

ANALYSIS BY NATURE	31/12/17	31/12/18
Cash in hand	45,950,852	41,171,240
Balances with central banks other than mandatory reserve deposits	1,570,062,158	2,328,579,621
Mandatory reserve deposits	757,649,963	549,506,894
Other demand deposits	168,655,166	163,911,922
TOTAL	**2,542,318,139**	**3,083,169,677**
of which included in cash and cash equivalents	*2,544,320,647*	*3,085,916,958*

7.3 Loans and advances to credit institutions

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Cash collateral	242,537,790	320,350,289
Loans and other advances	528,525,735	900,008,838
Less:		
Impairment stage 1		(25,711)
Impairment stage 2		(21,742)
Impairment stage 3		0
TOTAL	**771,063,525**	**1,220,311,674**
of which included in cash and cash equivalents	*217,054,570*	*373,977,415*

B. QUALITATIVE ANALYSIS

see Note 7.15

C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

7.4 Loans and advances to customers

All loans and advances to customers are held under the business model held-to-collect and are measured at amortised cost.

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	445,172,758	124,643,058
Other	12,781,518,763	12,819,249,590
Impaired loans[1]	325,904,000	590,785,818
Less:		
Specific impairment on impaired loans	(242,051,248)	
Collective impairment	(27,865,454)	
Impairment stage 1		(21,222,410)
Impairment stage 2		(16,815,602)
Impairment stage 3		(226,232,180)
TOTAL	**13,282,678,819**	**13,270,408,274**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
On demand and short notice	1,744,116,237	608,951,522
Debt instruments	215,535,053	
Other term loans	11,323,027,529	12,661,456,752
of which mortgage loans (real estate collateralized loans)	*8,143,982,427*	*8,657,673,172*
of which credit for consumption	*249,686,823*	*260,959,974*
TOTAL	**13,282,678,819**	**13,270,408,274**

C. QUALITATIVE ANALYSIS

see Note 7.15

D. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

E. ANALYSIS OF THE FAIR VALUE

see Note 12.1

7.5 Financial assets held for trading

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	17,211,201	23,096,213
Credit institutions	35,859,618	83,048,075
Other	17,455,558	20,745,531
TOTAL	**70,526,377**	**126,889,819**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	17,211,201	23,096,213
Other bonds and fixed-income instruments	53,265,460	103,639,015
Equity and other variable income instruments	49,716	154,591
TOTAL	**70,526,377**	**126,889,819**

C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

[1] Impaired loans as of December 31, 2018 include all loans classified as stage 3 under IFRS9. Impaired loans as of December 31, 2017 only include loans with specific provisioning under IAS 39 and therefore are not comparable.

7.6 Financial investments measured at fair value

	31/12/17	31/12/18
Non-trading financial investments mandatorily at FV through P/L		2,815,013
Financial investments at FV through OCI		1,403,429,755
Financial investments available for sale	4,056,238,369	
TOTAL	**4,056,238,369**	**1,406,244,768**

7.6.1 Non-trading financial investments mandatorily at FV through P&L

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Other		2,815,013
TOTAL		**2,815,013**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Equity and variable income instruments		2,815,013
TOTAL		**2,815,013**

C. QUALITATIVE ANALYSIS

see Note 7.15

D. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

7.6.2 Financial investments at FV through OCI / Financial investments available for sale

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	2,460,547,727	871,755,296
Credit institutions	889,090,168	402,839,553
Other	695,163,133	128,857,497
Impaired financial investments	47,264,339	0
TOTAL Financial investments before impairments	**4,092,065,367**	**1,403,452,346**
Less :		
Impairment stages 1, 2, 3 of financial investments		(22,591)
Specific and collective impairment on financial investments available for sale	(35,826,998)	
TOTAL Financial investments	**4,056,238,369**	**1,403,429,755**
of which included in cash and cash equivalents	*20,683,162*	*0*

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	2,460,547,727	871,755,296
Other bonds and fixed-income instruments	1,561,177,300	488,021,543
Equity and variable income instruments	70,340,340	43,675,507
TOTAL Financial investments before impairments	**4,092,065,367**	**1,403,452,346**
Impairment stages 1, 2, 3 of financial investments		(22,591)
Specific and collective impairment on financial investments available for sale	(35,826,998)	
TOTAL Financial investments	**4,056,238,369**	**1,403,429,755**

C. QUALITATIVE ANALYSIS

see Note 7.15

D. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

Consolidated management report

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Financial statements of the parent company

7.7 Financial investments measured at amortised cost / held to maturity

A. ANALYSIS BY COUNTERPART	31/12/17	31/12/18
Public sector	1,524,610,758	3,148,818,603
Credit institutions	135,629,860	1,017,929,015
Other	93,031,291	861,690,237
Impaired Financial investments	0	19,917,195
Less :		
impairment stage 1		(1,075,402)
impairment stage 2		(502,789)
impairment stage 3		(7,235,140)
TOTAL	**1,753,271,909**	**5,039,541,719**

B. ANALYSIS BY NATURE	31/12/17	31/12/18
Bonds issued by public bodies	1,524,610,758	3,148,044,746
Other bonds and fixed-income instruments	228,661,151	1,891,496,973
TOTAL	**1,753,271,909**	**5,039,541,719**

C. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

D. ANALYSIS OF THE FAIR VALUE

see Note 12.1

7.8 Investments in subsidiaries and associates

	31/12/17	31/12/18
Net carrying value	**177,900,378**	**171,685,462**

A. ANALYSIS BY COUNTERPART (NET CARRYING VALUE)	31/12/17	31/12/18
Banks	96,282,175	96,282,175
Other	81,618,203	75,403,287
TOTAL	**177,900,378**	**171,685,462**

B. ANALYSIS BY NATURE (NET CARRYING VALUE)	31/12/17	31/12/18
Unlisted equities and other variable income instruments	177,900,378	171,685,462
TOTAL	**177,900,378**	**171,685,462**

7.9 Property, plant and equipment

	Land and buildings	Office furniture and other equipment	Total
	Own use owner	Own use owner	
ACQUISITION COST AS AT 01/01/17	**313,766,678**	**125,760,522**	**439,527,200**
- Acquisitions	11,991,834	3,556,445	15,548,279
- Disposals	(1,463,102)	(136,746)	(1,599,848)
- Transfers and cancellations	(1,896,608)	(1,451,695)	(3,348,303)
- Translation adjustments	(36,163)	(18,965)	(55,128)
ACQUISITION COST AS AT 31/12/17 (A)	**322,362,639**	**127,709,561**	**450,072,200**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	**(222,033,603)**	**(111,776,824)**	**(333,810,427)**
- Booked	(7,016,418)	(3,133,580)	(10,149,998)
- Transfers and cancellations	2,654,332	1,584,944	4,239,276
- Translation adjustments	36,164	9,622	45,786
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	**(226,359,525)**	**(113,315,838)**	**(339,675,363)**
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	**96,003,114**	**14,393,723**	**110,396,837**

	Land and buildings	Office furniture and other equipment	Total
	Own use owner	Own use owner	
ACQUISITION COST AS AT 01/01/18	**322,362,639**	**127,709,561**	**450,072,200**
- Acquisitions	7,512,386	2,524,665	10,037,051
- Disposals	(1,403,858)	(9,961,595)	(11,365,453)
- Transfers and cancellations	0	(211,157)	(211,157)
- Translation adjustments	13,544	3,766	17,310
ACQUISITION COST AS AT 31/12/18 (A)	**328,484,711**	**120,065,240**	**448,549,951**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/18	**(226,359,525)**	**(113,315,838)**	**(339,675,363)**
- Booked	(7,053,406)	(7,541,905)	(14,595,311)
- Write-off	0	9,961,595	9,961,595
- Transfers and cancellations	1,008,816	210,056	1,218,872
- Translation adjustments	(13,062)	(1,813)	(14,876)
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/18 (B)	**(232,417,177)**	**(110,687,906)**	**(343,105,083)**
NET CARRYING VALUE AS AT 31/12/18 (A) + (B)	**96,067,534**	**9,377,335**	**105,444,869**

7.10 Investment property

	2017	2018
ACQUISITION COST AS AT 01/01	88,873	88,828
Transfers and cancellations	(45)	0
ACQUISITION COST AS AT 31/12 (A)	88,828	88,828
FAIR VALUE ADJUSTMENTS AS AT 01/01	671,172	671,172
Post-acquisition adjustments		
Reevaluation Investment Property	0	40,000
FAIR VALUE ADJUSTMENTS AS AT 31/12 (B)	671,172	711,172
NET CARRYING VALUE AS AT 31/12 (A) + (B)	760,000	800,000

7.11 Intangible fixed assets

	Software / internally developped	Other intangible fixed assets [1]	Total
ACQUISITION COST AS AT 01/01/17	148,644,313	38,603,140	187,247,453
Acquisitions	29,075,891	33,163,028	62,238,919
Transfers and cancellations	0	80,735	80,735
Translation adjustments	0	(3,088)	(3,088)
ACQUISITION COST AS AT 31/12/17 (A)	177,720,204	71,843,815	249,564,019
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/17	(109,456,042)	(13,764,109)	(123,220,151)
Booked	(13,215,601)	(6,535,374)	(19,750,975)
Translation adjustments	0	2,837	2,837
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/17 (B)	(122,671,643)	(20,296,645)	(142,968,288)
NET CARRYING VALUE AS AT 31/12/17 (A) + (B)	55,048,561	51,547,169	106,595,730

	Software / internally developped	Other intangible fixed assets [1]	Total
ACQUISITION COST AS AT 01/01/18	177,720,204	71,843,815	249,564,019
Acquisitions	32,892,674	27,017,074	59,909,748
Transfers and cancellations	0	(1,561,853)	(1,561,853)
Translation adjustments	0	(1,826)	(1,826)
ACQUISITION COST AS AT 31/12/18 (A)	210,612,878	97,297,210	307,910,088
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 01/01/18	(122,671,643)	(20,296,645)	(142,968,288)
Booked	(17,828,576)	(9,391,735)	(27,220,311)
Transfers and cancellations	0	1,561,853	1,561,853
Translation adjustments	0	1,484	1,484
ACCUMULATED DEPRECIATION AND IMPAIRMENT AS AT 31/12/18 (B)	(140,500,219)	(28,125,043)	(168,625,262)
NET CARRYING VALUE AS AT 31/12/18 (A) + (B)	70,112,659	69,172,167	139,284,826

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

7.12 Tax assets

	31/12/17	31/12/18
Current tax assets	87,604	29,054
Deferred tax assets (see Note 9.2)	227,298,397	222,694,920
TOTAL	**227,386,001**	**222,723,974**

7.13 Other assets

	31/12/17	31/12/18
Other assets*	72,020,073	56,578,856
TOTAL	**72,020,073**	**56,578,856**

*ANALYSIS BY NATURE	31/12/17	31/12/18
Receivables	4,338,402	4,175,200
Prepaid fees	388,133	414,463
Other receivables[1]	39,541,552	32,520,110
Pension plan assets	8,542,655	4,376,001
Operating taxes	4,191,304	7,313,404
Other assets[1]	15,018,027	7,779,678
TOTAL	**72,020,073**	**56,578,856**

[1] Transactions linked to current business awaiting settlement.

7.14 Leasing

1. BIL as lessor

A. OPERATING LEASE

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

B. FINANCIAL LEASE

The Bank is not involved in any financial lease as at December 31, 2017 and as at December 31, 2018.

2. BIL as lessee

A. FINANCIAL LEASE

The Bank is not involved in any financial lease as at December 31, 2017 and as at December 31, 2018.

B. OPERATING LEASE

Future net minimum lease payments under non-cancellable operating lease	31/12/17	31/12/18
Less than 1 year	4,844,738	5,308,068
More than 1 year and less than 5 years	15,895,515	17,136,164
More than 5 years	9,087,916	6,680,995
TOTAL	**29,828,169**	**29,125,227**

Lease and sublease payments recognised as an expense during the financial year: - minimum lease payments	4,397,330	5,201,804
TOTAL	**4,397,330**	**5,201,804**

7.15 Quality of financial assets

Analysis of normal loans and securities	31/12/17
	Gross amount (A)
Normal loans and advances to credit institutions	771,063,525
Normal loans and advances to customers	13,226,691,521
Normal financial investments held to maturity	1,753,271,909
Normal financial investments available for sale	4,044,801,027
of which bonds and fixed-income instruments	*4,021,725,027*
of which equities and other variable income instruments	*23,076,000*
Collective impairment on normal loans	(27,865,454)
TOTAL	**19,767,962,528**

Analysis of impaired loans and securities	31/12/17		
	Carrying amount (B)	Specific loan loss allowance (C)	Net amount (B+C)
Impaired loans and advances to customers	325,904,000	(242,051,248)	83,852,752
Impaired financial investments available for sale	47,264,340	(35,826,998)	11,437,342
of which equities and other variable income instruments	*47,264,340*	*(35,826,998)*	*11,437,342*
TOTAL	**373,168,340**	**(277,878,246)**	**95,290,094**

Analysis of normal and impaired loans and securities	31/12/17		
	Carrying amount (A+B)	Specific loan loss allowance (C)	Net amount (A+B+C)
Loans and advances to credit institutions	771,063,525	0	771,063,525
Loans and advances to customers	13,552,595,521	(242,051,248)	13,310,544,273
Financial investments held to maturity	1,753,271,909	0	1,753,271,909
Financial investments available for sale	4,092,065,367	(35,826,998)	4,056,238,369
of which bonds and fixed-income instruments	*4,021,725,027*	*0*	*4,021,725,027*
of which equities and other variable income instruments	*70,340,340*	*(35,826,998)*	*34,513,342*
Collective impairment on normal loans	(27,865,454)	0	(27,865,454)
TOTAL	**20,141,130,868**	**(277,878,246)**	**19,863,252,622**

Loans and securities by stages	31/12/18			
	Net carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to credit institutions	1,210,834,204	9,477,470	0	1,220,311,674
Loans and advances to customers	10,665,821,476	2,240,033,160	364,553,638	13,270,408,274
Debt securities	6,103,823,065	282,790,847	12,682,055	6,399,295,967
Debt securities measured at amortised cost	*4,929,948,551*	*96,911,113*	*12,682,055*	*5,039,541,719*
Debt securities measured at fair value through OCI	*1,173,874,514*	*185,879,734*	*0*	*1,359,754,248*
TOTAL	**17,980,478,745**	**2,532,301,477**	**377,235,693**	**20,890,015,915**

Analysis of normal and impaired loans and securities by stages	31/12/18						
	Gross carrying amount			Accumulated impairments			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Loans and advances to credit institutions	1,210,859,915	9,499,212	0	(25,711)	(21,742)	0	1,220,311,674
Loans and advances to customers	10,687,043,886	2,256,848,761	590,785,818	(21,222,410)	(16,815,602)	(226,232,180)	13,270,408,274
Debt securities	6,104,921,044	283,293,650	19,917,195	(1,097,979)	(502,803)	(7,235,140)	6,399,295,967
Debt securities measured at amortised cost	*4,931,023,953*	*97,413,902*	*19,917,195*	*(1,075,402)*	*(502,789)*	*(7,235,140)*	*5,039,541,719*
Debt securities measured at fair value through OCI	*1,173,897,091*	*185,879,748*	*0*	*(22,577)*	*(14)*	*0*	*1,359,754,248*
TOTAL	**18,002,824,845**	**2,549,641,623**	**610,703,013**	**(22,346,100)**	**(17,340,147)**	**(233,467,320)**	**20,890,015,915**

7.16 Non-current assets held for sale

Following the decision of the relevant decision-making bodies to sell Red Sky SA, this entity is therefore presented as “Non-current asset and disposal groups held for sale” in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”. The sale is expected to occur within twelve months from closing date December 31, 2018. Red Sky SA is currently presented under the segment "Group Center" and its main asset is represented by the building "Les Terres Rouges" classified as investment property before transfer to held for sale.

The non-current assets held for sale amount to EUR 14,541,000 and correspond to the carrying amount of the participation of the Bank in Red Sky SA.

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

8.1 Amounts due to credit institutions

A. ANALYSIS BY NATURE	31/12/17	31/12/18
On demand	721,008,660	491,412,997
Term	472,361,048	408,690,680
Cash Collateral	73,751,595	57,506,598
Repurchase agreements	271,873,179	551,261,603
Central banks[1]	727,963,848	695,281,496
Other borrowings[2]	788,086,813	991,389,095
TOTAL	**3,055,045,143**	**3,195,542,470**

B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

8.2 Amounts due to customers

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Demand deposits	9,556,057,349	9,875,204,819
Saving deposits	3,449,056,824	3,476,103,464
Term deposits	2,756,572,910	3,418,587,004
Cash collateral	1,106,701	8,663,048
TOTAL CUSTOMER DEPOSITS	**15,762,793,784**	**16,778,558,334**
Other borrowings	0	18,044,442
TOTAL CUSTOMER BORROWINGS	**0**	**18,044,442**
TOTAL	**15,762,793,784**	**16,796,602,776**

B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

[1] The Management Board decided to participate to the last tranche of the TLTRO II (Targeted Longer-Term Refinancing Operations) for EUR 150 million in March 2017. As at December 31, 2018, TLTRO transactions amount to EUR 700 million.

[2] Other borrowings represent day-to-day cash management operations.

8.3 Financial liabilities measured at fair value through profit or loss

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

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Non-subordinated liabilities	776,333,210	832,445,114
TOTAL	**776,333,210**	**832,445,114**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

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

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

8.4 Debt securities

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Certificates of deposit	38,508,748	19,480,219
Non-convertible bonds	1,541,542,831	1,914,505,526
TOTAL	**1,580,051,579**	**1,933,985,745**

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

C. ANALYSIS OF THE FAIR VALUE
see Note 12.1

8.5 Subordinated debts

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Non-convertible subordinated debts[1]	132,256,388	135,720,308
Contingent convertible bond (compound instrument)[2]	149,607,748	149,625,580
TOTAL	281,864,136	285,345,888

B. ANALYSIS BY MATURITY AND INTEREST RATE

see Notes 12.4, 12.5 and 12.6

C. ANALYSIS OF THE FAIR VALUE

see Note 12.1

8.6 Provisions and other obligations

A. ANALYSIS BY NATURE	31/12/17	31/12/18
Litigation[3]	16,889,020	2,499,384
Restructuring (included garden leave)	7,882,348	6,584,288
Defined benefit plans	0	5,377,998
Other long-term employee benefits (included jubilee and time saving account)	16,092,419	15,821,246
Provision for off-balance sheet credit commitments	16,800	6,103,610
Other provisions[4]	0	1,480,314
TOTAL	40,880,587	37,866,840

B. ANALYSIS BY MOVEMENT	Litigation	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Other provisions (including onerous contracts)
AS AT 01/01/17 - IAS39	2,592,121	6,994,000	18,309,556	24,200	0
Exchange differences	244	0	(1)	0	0
Additional provisions	15,375,000	7,496,215	2,433,003	0	0
Revaluation through reserves[5]	0	0	(2,614,606)	0	0
Unused amounts reversed	(507,247)	0	(2,685,795)	(7,400)	0
Used during the year	(834,684)	(6,607,867)	(1,428,393)	0	0
Transfers	263,586	0	2,078,655	0	0
AS AT 31/12/17 - IAS39	16,889,020	7,882,348	16,092,419	16,800	0

AS AT 31/12/17 - IAS39	16,889,020	7,882,348	16,092,420	16,800	0
IMPACT OF ADOPTING IFRS 9	0	0	0	6,405,031	0
AS AT 01/01/18	16,889,020	7,882,348	16,092,420	6,421,831	0
Exchange differences	(1,153)	0	0	19,936	0
Additional provisions	1,199,403	4,892,272	3,025,775	0	1,480,314
Changes due to change in credit risk	n.a.	n.a.	n.a.	(3,656,330)	n.a.
Increases due to origination or acquisition	0	0	0	6,385,658	0
Decreases due to derecognition	0	0	0	(3,067,485)	0
Revaluation through reserves[5]	0	0	11,046,072	0	0
Unused amounts reversed	(527,210)	0	(7,542,100)	0	0
Used during the year	(15,060,676)	(6,190,332)	(1,422,922)	0	0
AS AT 31/12/18	2,499,384	6,584,288	21,199,244	6,103,610	1,480,314

[1] List available upon request.
[2] On June 30, 2014, the Bank issued a EUR 150 million contingent convertible bond eligible as additional Tier 1 capital.
[3] Provisions for legal litigation, including those for staff and tax-related litigation.
[4] The heading "Other provisions" comprises a provision for EUR 1.48 million in relation to the unavoidable costs of an onerous contract signed by the Bank with a third party.
[5] See point 1.22 of Note 1.

C. ANALYSIS BY MATURITY

see Note 12.6

D. PROVISIONS FOR PENSIONS

a. Reconciliation of benefit obligations	31/12/17	31/12/18
Defined benefit obligations at the beginning of the year	225,145,882	219,519,345
Current service cost	8,652,170	8,216,238
Interest cost	2,129,164	2,056,743
Past service cost and gains and losses arising from settlements	253,000	327,000
Actuarial gains / (losses)	(1,172,701)	846,452
Stemming from changes in demographic assumptions	*256,689*	*1,134,000*
Stemming from changes in financial assumptions	*(800,345)*	*0*
Stemming from experience adjustments	*(629,045)*	*(287,548)*
Benefits paid	(13,789,000)	(20,657,000)
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	0	0
Other	(1,699,170)	(1,536,777)
DEFINED BENEFIT OBLIGATIONS AS AT THE END OF THE YEAR	**219,519,345**	**208,772,000**

b. Reconciliation of fair value of pension plan assets	31/12/17	31/12/18
Fair value of pension plan assets at the beginning of the year	226,728,000	228,062,000
Actual return on pension plan assets	5,932,000	(8,003,000)
Expected return on pension plan assets	*2,197,395*	*2,196,620*
Actuarial gains / (losses)	*3,734,605*	*(10,199,620)*
Employer contributions	10,890,170	9,904,777
Benefits paid	(13,789,000)	(20,657,000)
Out of which: amounts paid in respect of settlements	*0*	*0*
Business combination and disposals	0	0
Other	(1,699,170)	(1,536,777)
FAIR VALUE OF PENSION PLAN ASSETS AS AT THE END OF THE YEAR	**228,062,000**	**207,770,000**

c. Reconciliation of the effect of the asset ceiling	31/12/17	31/12/18
Effect of the asset ceiling at the beginning of the year	0	0
Interest on the effect of the asset ceiling	0	0
Change in the effect of the asset ceiling	0	0
EFFECT OF THE ASSET CEILING AT THE END OF THE YEAR	**0**	**0**

NET LIABILITY	**8,542,655**	**(1,002,000)**

d. Funded status	31/12/17	31/12/18
Pension plan assets in excess of benefit obligation	(8,542,655)	(4,376,001)
Unrecognised assets	0	0

e. Movement in net defined benefit pension liability or asset	31/12/17	31/12/18
Net liability at the beginning of the year	1,582,118	8,542,655
Net periodic pension cost recognised in the income statement	(8,836,939)	(8,403,360)
Remeasurements recognised in OCI	4,907,306	(11,046,072)
Employer contributions	10,890,170	9,904,777
NET LIABILITY AT THE END OF THE YEAR	**8,542,655**	**(1,002,000)**

f. Movement in the IAS 19 remeasurement reserve in equity	31/12/17	31/12/18
Recognised reserve at the beginning of the year	(2,467,027)	2,440,279
Remeasurements recognised in OCI	4,907,306	(11,046,072)
Transfers	0	0
RECOGNISED RESERVE AT THE END OF THE YEAR	**2,440,279**	**(8,605,793)**

g. Amounts recognised in the income statement	31/12/17	31/12/18
Current service cost	8,652,170	8,216,238
Net interest on the defined benefit liability/asset	(68,231)	(139,877)
Past service cost	253,000	327,000
ACTUARIALLY DETERMINED NET PERIODIC PENSION COST	**8,836,939**	**8,403,360**

h. Amounts recognised in other comprehensive income	31/12/17	31/12/18
Actuarial gains/losses on the defined benefit obligation	(1,172,701)	846,452
Actual return on plan assets (excluding amounts included in interest income)	(3,734,605)	10,199,620
Change in the effect of the asset ceiling	0	0
TOTAL OTHER COMPREHENSIVE INCOME	**(4,907,306)**	**11,046,072**

Actual return on pension plan assets (%)	31/12/17	31/12/18
	2.61%	-3.67%

Breakdown of pension plan assets	31/12/17	31/12/18
Fixed-income		
Quoted market price on an active market	73.69%	75.82%
Unquoted	0.00%	0.00%
Equities		
Quoted market price on an active market	21.30%	18.38%
Unquoted	0.00%	0.00%
Alternatives		
Quoted market price on an active market	2.41%	2.60%
Unquoted	0.00%	0.00%
Cash	1.29%	1.42%
Real estate	0.00%	0.00%
Other	1.32%	1.78%
TOTAL	**100.00%**	**100.00%**

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

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

Discount rate

DBO sensitivity to changes in discount rate		
	Scenario DR - 1 %	7.35%
	Scenario DR + 1 %	-6.14%

Expected rate of salary increase (including inflation)

DBO sensitivity to changes in expected rate of salary increase		
	Scenario SR -1%	-1.70%
	Scenario SR +1%	3.85%

The duration of the pension plans DBO as of December 31, 2018 is 6.99 (6.99 in 2017).

Expected contributions for next year	9,907,195

Additional descriptions

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

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

B. Methods and assumptions used in preparing the sensitivity analysis

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

	31/12/17	31/12/18
Discount rate	1.00%	1.00%
Salary increase (age based since 2015 and inflation excluded)	0.50% - 5.50%	0.50% - 5.50%
Inflation	*1.80%*	*1.80%*

C. Description of ALM strategies

In Luxembourg, pension fund investment strategy is based on ALM objectives, trying to align as far as possible assets maturities with liabilites profile and is also based on return objectives, with limited risks exposures.
Investment strategy also aims at protecting the funding surplus (surplus according to Funding vehicule local GAAP).

D. Description of funding arrangements

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

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

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

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

Asset ceiling under IAS 19 does not apply.

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

8.7 Tax liabilities

ANALYSIS BY NATURE	31/12/17	31/12/18
Current tax liabilities	141,790	52,536
TOTAL	**141,790**	**52,536**

8.8 Other liabilities

*ANALYSIS BY NATURE	31/12/17	31/12/18
Accrued costs	2,587,180	2,473,667
Deferred income	12,181,803	14,267,501
Other payables[1]	130,236,151	138,601,153
Other granted amounts received	810,716	736,764
Salaries and social security costs (payable)	29,855,451	31,330,839
Other operating taxes	27,716,988	36,568,086
Other liabilities	5,394,600	2,307,900
TOTAL	**208,782,889**	**226,285,910**

[1] The heading "Other payables" mainly comprises the amounts of the coupons to be paid to clients of the parent company, the amounts of stock exchange transactions and transactions being liquidated, and also comprises a provision of EUR 4.2 million in relation to the unavoidable costs of the onerous contract signed by BIL with a third party.

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

9.1 Derivatives and hedging activities

Derivatives instruments are split in two categories:
- Derivatives held for trading
- Derivatives designated in a hedge relationship

The Bank applies hedge accounting in four separate strategies where derivatives and non-derivatives instruments are used as hedging elements. Refer to note 9.1 of the consolidated financial statements for a description of the hedging strategies.

A. ANALYSIS BY NATURE	31/12/17		31/12/18	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	156,029,934	198,798,157	242,818,449	297,116,717
Derivatives designated as fair value hedge	22,949,787	166,115,533	16,756,604	194,799,362
Derivatives designated as cash flow hedge	10,475,494	15,604,699	2,462,515	8,779,884
Derivatives designated as portfolio hedge against interest rate	36,998,864	3,304,558	26,666,274	1,579,652
TOTAL	226,454,079	383,822,947	288,703,842	502,275,615

B. DETAIL OF DERIVATIVES HELD FOR TRADING	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**15,288,852,694**	**15,296,926,404**	**124,302,836**	**146,955,868**
FX forward	14,926,313,476	14,933,519,374	111,958,986	123,768,584
Cross currency swap	37,550,423	38,506,526	1,152,249	11,645,242
FX options	324,988,795	324,900,504	11,191,601	11,542,042
Interest rate derivatives	**729,675,315**	**756,227,191**	**9,505,012**	**9,480,447**
Options-Caps-Floors-Collars-Swaptions	171,780,915	171,780,915	2,636,045	2,640,212
IRS	540,409,803	541,109,803	6,868,967	6,840,235
Interest futures	17,484,597	43,336,473	0	0
Equity derivatives	**550,144,216**	**594,716,472**	**22,222,086**	**42,361,842**
Equity futures	2,621,820	154,734	0	0
Equity options	366,197,057	306,564,863	13,239,001	33,066,000
Other equity derivatives	181,325,339	287,996,875	8,983,085	9,295,842
TOTAL	16,568,672,225	16,647,870,067	156,029,934	198,798,157

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**17,349,965,135**	**17,345,847,448**	**220,947,987**	**222,715,252**
FX forward	17,089,033,923	17,081,084,182	219,035,945	216,000,967
Cross currency swap	44,378,652	46,029,479	1,234,492	6,291,749
FX options	216,552,560	218,733,787	677,550	422,536
Interest rate derivatives	**764,509,678**	**770,125,590**	**10,072,276**	**10,587,186**
Options-Caps-Floors-Collars-Swaptions	138,008,917	131,350,703	3,013,838	3,018,006
IRS	609,630,132	610,330,132	7,058,438	7,569,180
Interest futures	16,870,629	28,444,755	0	0
Equity derivatives	**504,978,579**	**532,861,257**	**11,798,186**	**63,814,279**
Equity futures	7,086,137	532,625	0	0
Equity options	304,629,337	268,334,478	6,594,962	22,498,356
Other equity derivatives	193,263,105	263,994,154	5,203,224	41,315,923
TOTAL	18,619,453,392	18,648,834,295	242,818,449	297,116,717

C. DETAIL OF DERIVATIVES DESIGNATED AS FAIR VALUE HEDGE	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**2,496,632,061**	**2,589,632,061**	**22,949,787**	**166,115,533**
IRS	2,469,632,061	2,589,632,061	22,949,787	166,115,533
TOTAL	**2,496,632,061**	**2,589,632,061**	**22,949,787**	**166,115,533**

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	**3,289,092,379**	**3,289,092,379**	**16,756,604**	**194,799,362**
IRS	3,289,092,379	3,289,092,379	16,756,604	194,799,362
TOTAL	**3,289,092,379**	**3,289,092,379**	**16,756,604**	**194,799,362**

D. DETAIL OF DERIVATIVES DESIGNATED AS CASH FLOW HEDGE	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**83,347,225**	**89,581,654**	**3,851,326**	**6,179,702**
Cross currency swap	83,347,225	89,581,654	3,851,326	6,179,702
Other currency derivatives	0	0	0	0
Interest rate derivatives	**322,831,222**	**322,831,222**	**6,624,168**	**9,424,997**
IRS	322,831,222	322,831,222	6,624,168	9,424,997
TOTAL	**406,178,447**	**412,412,876**	**10,475,494**	**15,604,699**

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	**87,412,587**	**89,581,654**	**888,039**	**4,844,334**
Cross currency swap	87,412,587	89,581,654	888,039	4,844,334
Other currency derivatives	0	0	0	0
Interest rate derivatives	**55,148,483**	**55,148,483**	**1,574,476**	**3,935,550**
IRS	55,148,483	55,148,483	1,574,476	3,935,550
TOTAL	**142,561,070**	**144,730,137**	**2,462,515**	**8,779,884**

Cash flows in respect of the hedging instruments relating to the statement of income are recorded therein on a continual basis as interest is paid.
Interest generated by derivatives designated as cash flow hedge amounted to EUR 3.5 million in 2018 (EUR 2.8 million in 2017) and are recorded in the statement of income as interests on derivatives used for hedging purposes.

Breakdown of derivatives designated as Cash Flow Hedge by residual maturity	31/12/17				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	3,432,756	-	3,191,412	3,851,326	**10,475,494**
Liabilities	1,559,373	247,631	7,617,993	6,179,701	**15,604,699**

	31/12/18				
	Less than 1 year	Between 1 year and 5 years	Between 5 years and 10 years	More than 10 years	Total
Assets	-	-	1,574,476	888,039	**2,462,515**
Liabilities	-	202,413	3,733,137	4,844,334	**8,779,884**

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E. DETAIL OF DERIVATIVES DESIGNATED AS PORTFOLIO HEDGE AGAINST INTEREST RATE	31/12/17			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	14,449,062	16,922,772	337,898	7,574
Interest rate derivatives	423,546,538	42,356,538	36,660,966	3,296,984
TOTAL	**437,995,600**	**59,279,310**	**36,998,864**	**3,304,558**

	31/12/18			
	Notional Amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	3,976,010	4,690,432	274,586	249
Interest rate derivatives	382,633,574	382,633,574	26,391,688	1,579,403
TOTAL	**386,609,584**	**387,324,006**	**26,666,274**	**1,579,652**

In accordance with IFRS 7R.44Z, the following tables (F to M) are only disclosed for the first year of application of IFRS 9, i.e. for year 2018. Comparative figures for 2017 are therefore not presented in the below tables.

F. MATURITY PROFILE OF HEDGING INTRUMENTS USED IN MICRO FAIR VALUE HEDGE RELATIONSHIP (NOTIONAL IN EUR)	31/12/18			
	< 1 year	1 to 5 years	> 5 years	Total
Micro Fair Value Hedge for FVTOCI debt instruments *Interest rate swaps*	8,741,259	618,773,846	412,000,000	1,039,515,105
Micro Fair Value Hedge for Amortized Cost debt instruments *Interest rate swaps*	25,000,000	607,623,280	1,435,390,259	2,068,013,538
Micro Fair Value Hedge for Corporate Loans *Interest rate swaps*	0	48,706,294	132,857,442	181,563,736
TOTAL	**33,741,259**	**1,275,103,420**	**1,980,247,701**	**3,289,092,379**

G. MATURITY PROFILE OF HEDGING INTRUMENTS USED IN MICRO CASH FLOW HEDGE RELATIONSHIP	31/12/18			
	< 1 year	1 to 5 years	> 5 years	Total
1. Derivatives instruments				
Cross currency interest rate swaps Notional (in EUR)	*0*	*0*	*89,581,654*	*89,581,654*
Average fixed rate			*5.01%*	
2. Non-derivative instruments			9,901,869	9,901,869
TOTAL	**0**	**0**	**99,483,523**	**99,483,523**

H. HEDGED ITEMS IN A FAIR VALUE HEDGE RELATIONSHIP	31/12/18	
	Carrying amount of hedged items	Accumulated amount of fair value adjustments on the hedged items
Micro fair value hedges		
Fixed rate Loans	*181,529,069*	*(1,256,532)*
Fixed rate FVTOCI debt securities	*1,150,638,643*	*8,255,839*
Fixed rate amortized cost debt securities	*2,163,077,685*	*24,769,310*
TOTAL	**3,495,245,397**	**31,768,617**

For dynamic macro fair value hedges against interest rate risk, the net accumulated amount of fair value adjustment on the hedged items amounts to EUR (23,355,495) booked in "Fair value revaluation of portfolio hedged against interest rate risk" captions for an amount EUR 1,470,569 in assets and EUR 24,826,064 in liabilities. Hedged items are designated as an amount of currency assets or liabilities.

[1] For dynamic macro-hedging, the maturity profile of hedging instruments is not disclosed in accordance with IFRS7.23C. Refer to hedge accounting strategies described hereabove in section 9.1.

I. HEDGED ITEMS IN A CASH FLOW HEDGE RELATIONSHIP	31/12/18		
	Change in FV of hedged item in the year used for ineffectiveness measurement	Cash Flow Hedge reserve	
		Continuing hedge	Discontinued Hedges
Macro Cash Flow Hedge	(783,723)	(2,490,339)	222,000
Micro Cash Flow Hedge	(1,129,572)	(4,105,297)	0
TOTAL	**(1,913,295)**	**(6,595,636)**	**222,000**

J. HEDGE EFFECTIVENESS FOR FAIR VALUE HEDGE RELATIONSHIPSS	31/12/18		
	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged Instrument	Hedging Instrument	
Micro Fair Value Hedge relationships	35,164,331	(35,092,058)	72,273
Total Portfolio Fair Value Hedge	**8,655,760**	**(8,711,071)**	**(55,311)**
TOTAL	**43,820,091**	**(43,803,128)**	**16,963**

K. HEDGE EFFECTIVENESS FOR CASH FLOW HEDGE RELATIONSHIPS	31/12/18					
	Notional amount	Carrying value		Change in FV of hedging instruments in the year used for ineffectiveness measurement		
		Assets	Liabilities	Total	Effective portion	Hedge ineffectiveness
Macro Cash Flow Hedge	55,148,483	1,574,632	3,930,843	783,723	783,723	0
Micro Cash Flow Hedge	99,483,523	9,696,074	6,477,707	1,538,713	1,538,713	0
TOTAL	**154,632,006**	**11,270,706**	**10,408,550**	**2,322,436**	**2,322,436**	**0**

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L. DETAIL OF HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS AGAINST FOREIGN EXCHANGE MOVEMENTS

HEDGING INSTRUMENTS	31/12/18			
	Carrying amount of hedging instruments	Changes in fair value of hedging instruments used for measuring hedge ineffectiveness		
		Effective portion recognized in OCI	Hedge inneffectiveness recognised in the income statement	Reclassified into income statement
Deposits in CHF	146,433,763	(48,350,075)	0	0
Deposits in DKK	13,332,108	14,377	0	0
Deposits in USD	1,337,834	(222,658)	0	0
Deposits in SGD	0	0	0	50,108
TOTAL MICRO NET INVESTMENT HEDGES	**161,103,705**	**(48,558,356)**	**0**	**50,108**

HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS	31/12/18			
	Change in fair value of hedged item for ineffectiveness assessment	Translation reserve	OCI reserve	Balances remaining in the Translation reserve for hedge accounting is no longer applied
Investment in CHF subsidiaries	5,430,688	47,037,846	0	0
Investment in DKK subsidiaries	(37,999)	(14,377)	0	0
Investment in USD subsidiaries	67,424	222,658	0	0
Investment in SGD subsidiaries	(50,108)	0	0	0
Investment in CHF participation	117,986	0	1,312,229	0
TOTAL	**5,527,992**	**47,246,127**	**1,312,229**	**0**

M. HEDGING ACTIVITIES IMPACT ON EQUITY

EQUITY RECONCILIATION	Cash flow hedging reserve	Translation reserve	Net Investment Hedge reserve
OPENING BALANCE AS AT JANUARY 1, 2018	**(3,828,441)**	**(41,836,121)**	**(883,623)**
Cash Flow hedges			
Effective portion of change in fair value arising from :			
Cross currency interest rate swaps	(1,669,220)	0	0
Interest rate swaps	(1,301,321)	0	0
Deposits in CHF	203,346	0	0
Net amount reclassified to profit or loss			
Following hedge discontinuation	222,000	0	0
Following utilisation	1,215,066	0	0
Net Investment Hedges			
Foreign currency reevaluation on the hedging financial instruments	0	(5,460,114)	(117,986)
Net amount reclassified to profit or loss	0	50,108	0
Tax impact on the above	345,967	0	30,688
CLOSING BALANCE AS AT DECEMBER 31, 2018	**(4,812,604)**	**(47,246,126)**	**(970,921)**

9.2 Deferred tax

A. ANALYSIS	31/12/17	31/12/18
Net deferred tax assets	227,298,397	222,694,920
DEFERRED TAX	**227,298,397**	**222,694,920**

B. MOVEMENTS	2017	2018
AS AT JANUARY 1 – IAS39	**235,080,816**	**227,298,397**
Impact of adopting IFRS 9		**8,985,555**
AS AT JANUARY 1 – IFRS9		**236,283,952**
Movements during the financial year:		
- Amounts recognised in the statement of income	(16,921,426)	(28,923,291)
- Items directly computed by equity	6,097,707	11,350,829
- Effect of change in tax rates - statement of income	(83,163)	0
- Effect of change in tax rates - equity	327,275	0
- Exchange differences	(219)	(1,323)
- Other movements	2,797,407	3,984,753
AS AT DECEMBER 31	**227,298,397**	**222,694,920**

Deferred tax coming from balance sheet assets	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Cash loans and loss provisions	7,145,888	(656,952)	11,580,698	(560,675)
Securities	(17,742,820)	0	-6,216,761	(56,289)
Derivatives	1,110,061	0	1,691,794	0
Tangible and intangible fixed assets	4,626,926	(38,982)	4,472,770	(153,483)
TOTAL	**(4,859,945)**	**(695,934)**	**11,528,501**	**(770,447)**

Deferred tax coming from balance sheet liabilities	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Borrowings, deposits and issuance of debt securities	(1,295,971)	(2,801,006)	(1,295,695)	(2,652,458)
Provisions	(15,740,315)	3,664,887	(9,646,205)	4,459,006
Pensions	1,131,046	(378,352)	3,613,006	(391,122)
TOTAL	**(15,905,240)**	**485,529**	**(7,328,894)**	**1,415,426**

Deferred tax coming from other items	31/12/17		31/12/18	
	Balance sheet	P&L	Balance sheet	P&L
Tax losses carried forward	400,105,366	(38,978,340)	370,287,097	(29,818,270)
less: impairments	*(152,041,784)*	*22,400,000*	*(151,791,784)*	*250,000*
TOTAL	**248,063,582**	**(16,578,340)**	**218,495,313**	**(29,568,270)**

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

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

9.3 Share-based payments

There is no stock option plan settled in BIL shares.

9.4 Related party transactions

A. RELATED PARTY TRANSACTIONS	Key management		Subsidiaries	
(in EUR thousands)	31/12/17	31/12/18	31/12/17	31/12/18
Loans[1]	6,467	5,064	375,853	424,560
Interest received	0	0	2,166	2,333
Receivables	0	0	0	0
Deposits	12,066	4,805	296,480	280,083
Contingent convertible bond (compound instrument)	0	0	0	0
Interest paid	0	0	(4,139)	(3,974)
Derivatives - Total to receive	0	0	0	173,543
Derivatives - Total to deliver	0	0	0	173,704
Commissions paid	0	0	0	(30)
Commissions received	0	0	919	1,758
Guarantees and commitments given by the Bank	36	36	225,040	283,398
Guarantees and commitments given to the Bank	3	3	17,471	11,581
Assets entrusted from third parties	10,043	11,731	0	0

	Associates		Other related parties	
	31/12/17	31/12/18	31/12/17	31/12/18
Loans[1]	0	4	6,314	4,625
Interest received	0	7	3	71
Receivables	990	0	0	0
Deposits	11,582	11,078	5,539	9,110
Contingent convertible bond (compound instrument)	0	0	0	0
Interest paid	(1)	0	(1)	(9)
Derivatives - Total to receive	0	0	40,416	29,981
Derivatives - Total to deliver	0	0	27,238	31,413
Commissions paid	0	0	0	0
Commissions received	0	0	0	2
Guarantees and commitments given by the Bank	0	0	5	7
Guarantees and commitments given to the Bank	0	0	0	0
Assets entrusted from third parties	0	0	225,373	107

Advisory fees paid to Precision Capital SA amount to EUR -0.1 million in 2018 (EUR -0.8 million in 2017).

B. REMUNERATION OF BOARD MEMBERS AND PERSONNEL MANAGEMENT

(see Note 11.8 "Staff expenses")

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

9.5 Securitisation

As at December 31, 2017 and December 31, 2018, the Bank has no securitisation vehicles included in its scope of consolidation.

9.6 Subscribed and authorised capital

By share category	31/12/17	31/12/18
Number of shares authorised and not issued[1]	2,982,681	2,982,681
Number of shares issued and fully paid up	2,017,319	2,017,319
Value per share (accounting par value)	EUR 70	EUR 70
Number of treasury shares	970	970

9.7 Exchange rates

The main exchange rates used are the following:

		31/12/17		31/12/18	
		Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	AUD	1.5356	1.4811	1.6228	1.5828
Canadian Dollar	CAD	1.5057	1.4744	1.5621	1.5320
Swiss Franc	CHF	1.1718	1.1166	1.1274	1.1505
Danish Krone	DKK	7.4476	7.4391	7.4681	7.4534
Pound Sterling	GBP	0.8877	0.8758	0.8929	0.8853
Hong Kong Dollar	HKD	9.3746	8.8766	8.9601	9.2398
Japanese Yen	JPY	134.9569	127.2486	125.7542	129.9485
Norwegian Krone	NOK	9.8212	9.3791	9.9419	9.6262
Polish Zloty	PLN	4.1824	4.2446	4.2996	4.2689
Swedish Krona	SEK	9.8189	9.6466	10.2323	10.2985
Singapore Dollar	SGD	1.6029	1.5627	1.5590	1.5894
US Dollar	USD	1.1998	1.1387	1.1440	1.1787

[1] As at December 31, 2018, the subscribed capital and paid-up capital of the Bank is EUR 141,212,330 (2017: EUR 141,212,330) represented by 2,017,319 shares (2017: 2,017,319 shares) with a par value of EUR 70 (2017: EUR 70).
Following the extraordinary general meeting of April 25, 2014, and in accordance with the articles of incorporation, the Board of Directors of the Bank is authorised to increase the share capital to a maximum of EUR 350 million, without prejudice to possible renewals, until April 25, 2019.

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

10.1 Regular way trade

	31/12/17	31/12/18
Loans to be delivered	788,338,222	1,165,009,108
Borrowings to be received	907,180,068	1,459,913,785

10.2 Guarantees

	31/12/17	31/12/18
Guarantees given to credit institutions	162,259,310	199,949,953
Guarantees given to customers	576,950,075	707,061,800
Guarantees received from credit institutions	17,470,501	11,581,303
Guarantees received from customers	2,812,732,111	1,346,394,213

10.3 Loan commitments

	31/12/17	31/12/18
Unused credit lines granted to credit institutions	35,826,302	89,029,528
Unused credit lines granted to customers	1,771,481,167	2,431,827,737

10.4 Other commitments

	31/12/17	31/12/18
Banking activity - Other commitments given[1]	40,879,877,918	39,117,459,490
Banking activity - Other commitments received[2]	176,105,812,222	181,538,507,049

[1] Other commitments given are mainly composed of assets entrusted to third parties.
[2] Other commitments received are mainly composed of assets held on behalf of third parties, which amounted to EUR 171.2 billion as at December 31, 2018 and EUR 168 billion as at December 31, 2017

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

11.1 Interest and similar income – Interest and similar expenses

	31/12/17	31/12/18
INTEREST AND SIMILAR INCOME	503,368,258	591,783,518
a) Interest and similar income of assets not measured at fair value through profit or loss	**303,624,886**	**325,331,596**
Loans and advances to credit institutions	6,719,805	15,540,314
Loans and advances to customers	240,903,166	244,514,640
Financial assets available for sale	43,629,009	
Financial investments measured at fair value		19,215,424
Investments held to maturity	12,372,906	
Financial investments measured at amortised cost		46,061,218
b) Interest and similar income of assets measured at fair value through profit or loss	**194,028,392**	**250,967,943**
Financial assets held for trading	987,921	828,997
Derivatives held for trading	114,837,850	185,825,540
Derivatives used for hedging purposes	78,202,621	64,313,406
c) Interest income on liabilities[1]	**5,714,980**	**15,483,980**
INTEREST AND SIMILAR EXPENSES	(208,683,498)	(290,811,243)
a) Interest and similar expenses of liabilities not measured at fair value through profit or loss	**(52,042,289)**	**(66,393,090)**
Amounts due to credit institutions	(18,759,990)	(24,824,631)
Amounts due to customers	(15,426,508)	(24,421,584)
Debt securities	(12,008,854)	(11,913,752)
Subordinated debts	(5,789,137)	(5,142,858)
Other	(57,800)	(90,265)
b) Interest and similar expenses of liabilities measured at fair value through profit or loss	**(155,975,356)**	**(204,061,375)**
Financial liabilities held for trading	(144)	(3,222)
Financial liabilities designated at fair value through profit or loss	(14,400,393)	(12,676,301)
Derivatives held for trading	(67,361,583)	(122,323,844)
Derivatives used for hedging purposes	(74,213,236)	(69,058,008)
c) Interest expenses on assets	**(665,853)**	**(20,356,778)**
NET INTEREST INCOME	294,684,760	300,972,276

11.2 Dividend income

	31/12/17	31/12/18
Financial assets available for sale	12,870,387	
Financial investments measured at fair value		514,441
Financial assets held for trading	1,243	10,172
Subsidiaries and associates		4,014,280
TOTAL	12,871,630	4,538,893

11.3 Net trading income

	31/12/17	31/12/18
Net income from trading transactions	4,764,756	2,789,056
of which income from trading securities	*3,503,099*	*2,143,880*
of which income from trading derivatives	*1,261,657*	*645,176*
Net income from hedging derivatives classified in the accounts as trading derivatives (accounting mismatch)	(13,809,597)	(36,244,567)
Net foreign exchange gain/(loss)	8,593,299	5,926,605
Change in own credit risk	(326,208)	
TOTAL	(777,750)	(27,528,906)

11.4 Net income on financial instruments measured at fair value and net result of hedge accounting

	31/12/17	31/12/18
Net income financial assets available for sale	44,873,829	
Net income on financial investments measured at FVTOCI		17,773,591
Net income on financial investments at FVTPL	0	48,290
Net income on financial liabilities designated at FV through profit or loss	14,490,842	35,247,772
NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE	**59,364,671**	**53,069,653**
Fair value hedge	**173,918**	**72,274**
Change in the fair value of the hedged item attributable to the hedged risk	(18,821,335)	35,164,332
Fair value revaluation (+: gains/ -: losses) / Derivative Financial Instruments / Derivative Financial Instr - FV Hedge	18,995,253	(35,092,058)
Portfolio hedge against interest rate risk	**(111,436)**	**(55,311)**
Fair value revaluation - Portfolio hedge - Hedged items	10,096,492	8,655,760
Fair value revaluation - Derivatives - Portfolio hedge	(10,207,928)	(8,711,071)
Discontinuation of cash flow hedge accounting (cash flows not excpeted to occur)	**(3,813,145)**	**(222,000)**
NET RESULT OF HEDGE ACCOUNTING	**(3,750,663)**	**(205,037)**
TOTAL	**55,614,008**	**52,864,616**

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

	31/12/17	31/12/18
Net income on loans and advances measured at amortised cost	4,228,186	2,920,882
Net income on financial investments measured at amortised cost	0	1,506,947
Net income on liabilities	(251,310)	(25,843)
TOTAL	**3,976,876**	**4,401,986**

As at December 31, 2017 gains and losses on derecognition on loans repectively amount to EUR 4,228,186 and EUR 0 and gains and losses on derecognition on financial investments measured at amortised cost are nil.

As at December 31, 2018 gains and losses on derecognition on loans repectively amount to EUR 2,920,882 and EUR 0 and gains and losses on derecognition on financial investments measured at amortised cost amount to EUR 2,605,895 and EUR (1,098,949).

11.6 Fee and commission income and expenses

	31/12/17			31/12/18		
	Income	Expenses	Net	Income	Expenses	Net
Management of unit trusts and mutual funds	19,646,262	(798,450)	18,847,812	13,398,785	(891,278)	12,507,507
Administration of unit trusts and mutual funds	130,375	0	130,375	93,768	0	93,768
Insurance activity	7,361,900	0	7,361,900	6,784,031	0	6,784,031
Credit activity	20,719,319	(659,124)	20,060,195	20,783,522	(767,299)	20,016,223
Purchase and sale on securities	19,744,714	(9,658,106)	10,086,608	18,886,930	(11,967,151)	6,919,779
Purchase and sale of unit trusts and mutual funds	6,324,369	(767,185)	5,557,184	6,613,700	(411,266)	6,202,434
Payment services	26,043,939	(749,938)	25,294,001	26,290,622	(880,390)	25,410,232
Commissions to non-exclusive brokers	0	(350,411)	(350,411)	0	(278,978)	(278,978)
Services on securities other than safe keeping	2,981,059	(508,697)	2,472,362	1,834,872	(32,850)	1,802,022
Custody	16,406,732	(2,797,449)	13,609,283	12,606,419	(2,827,949)	9,778,470
Issues and placements of securities	4,488,349	(24,456)	4,463,893	3,054,870	0	3,054,870
Private banking	39,959,440	(6,564,555)	33,394,885	53,593,985	(7,201,842)	46,392,143
Clearing and settlement	24,970,413	(2,070,238)	22,900,175	25,603,347	(2,225,978)	23,377,369
Securities lending	427,329	(33,604)	393,725	420,440	(33,107)	387,333
Other	5,000,140	(354,584)	4,645,556	3,967,813	(477,570)	3,490,243
TOTAL	**194,204,340**	**(25,336,797)**	**168,867,543**	**193,933,103**	**(27,995,658)**	**165,937,445**

11.7 Other net income

	31/12/17	31/12/18
Operating taxes	4,433,912	0
Rental income	8,910	13,302
Gains on tangible fixed assets	230,248	852,589
Fair value adjustments on investment property	45	40,000
Other income on other activities[1]	2,833,084	9,936,002
OTHER INCOME	**7,506,199**	**10,841,893**
Operating taxes	(3,767,080)	(2,894,763)
Maintenance and repair of investment property	(114,865)	(119,504)
Other bank charges[2]	(13,534,937)	(17,446,128)
Losses on tangible fixed assets	(920)	0
Other expenses in relation to other activities[3]	(24,958,208)	(3,325,613)
OTHER EXPENSES	**(42,376,010)**	**(23,786,008)**
TOTAL	**(34,869,811)**	**(12,944,115)**

[1] This consists primarily of write-backs of provisions and extraordinary operating income.
[2] This consists of charges related 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.

11.8 Staff expenses

A. STAFF EXPENSES

	31/12/17	31/12/18
Wages and salaries	(159,862,981)	(150,165,902)
Social security and insurance costs	(18,822,101)	(18,249,169)
Staff benefits	(10,073,024)	(9,422,245)
Restructuring expenses	(7,496,215)	(4,892,272)
Other expenses	(1,742,191)	(2,019,738)
TOTAL	**(197,996,512)**	**(184,749,326)**

B. WORKFORCE

(in average FTE)	31/12/17	31/12/18
Senior management	43	43
Employees	1,760	1,791
TOTAL	**1,803**	**1,834**

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

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

	31/12/17	31/12/18	31/12/17	31/12/18
	Remuneration		Retirement pensions	
Members of the administrative bodies	819,000	963,833	0	0
Members of the managerial bodies[1]	13,962,900	14,993,073	1,917,934	2,178,430
TOTAL	**14,781,900**	**15,956,906**	**1,917,934**	**2,178,430**

D. DEFINED CONTRIBUTION PLAN EXPENSES

	31/12/17	31/12/18
Defined contribution plan expenses	2,212,407	2,784,751
TOTAL	**2,212,407**	**2,784,751**

11.9 General and administrative expenses

	31/12/17	31/12/18
Occupancy	(7,077,059)	(6,909,119)
Operating leases	(4,397,330)	(5,201,804)
Professional fees	(19,302,058)	(21,801,140)
Marketing, advertising and public relations	(5,999,966)	(4,868,447)
Technology and system costs	(31,256,661)	(30,786,827)
Software costs and maintenance expenses	(12,008,382)	(13,195,471)
Other general and administrative expenses[1]	(42,776,579)	(44,936,069)
TOTAL	**(122,818,035)**	**(127,698,877)**

[1] 2018 retirement pensions include EUR 1.2 million of defined benefit pension plan and EUR 1.0 million of defined contribution plan.
[2] This heading primarily comprises the cost of financial information, various types of insurance cover and the transport of valuables.

11.10 Independent auditor's fees

The fees for the services rendered by the independent auditor for the years 2017 and 2018 are as follows (VAT excluded)

	31/12/17	31/12/18
Statutory audit and Long Form Report	668,731	706,265
Other assurance services[1]	1,007,272	672,105
Other services	53,536	3,165
TOTAL	**1,729,538**	**1,381,535**

11.11 Amortisation of tangible and intangible fixed assets

	31/12/17	31/12/18
Depreciation on land and buildings	(7,016,417)	(7,053,406)
Depreciation on other tangible fixed assets	(561,083)	(591,753)
Depreciation on IT equipment	(2,572,496)	(6,950,152)
Depreciation on intangible fixed assets	(19,750,975)	(27,220,311)
TOTAL	**(29,900,971)**	**(41,815,622)**

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[1] 2017 and 2018 figures include respectively EUR 0.8 million and EUR 0.4 million of fees in the context of the transaction between Precision Capital and Legend Holdings Corp.

11.12 Impairment on loans and provisions for credit commitments

Collective impairment	31/12/17		
	Allowances	Write-backs	Total
TOTAL	(3.091.018)	5.542.243	2.451.225

Specific impairment	31/12/17				
	Allowances	Write-backs	Losses	Recoveries	Total
Loans and advances to customers	(33,000,684)	43,841,998	(33,247,103)	374,404	(22,031,385)
Commitments	0	7,400	n.a.	n.a.	7,400
Total	(33,000,684)	43,849,398	(33,247,103)	374,404	(22,023,985)

Stage 1	31/12/18		
	Allowances	Write-backs	Total
Loans and advances to credit institutions measured at amortised cost	(66,972)	84,567	17,595
Loans and advances to customers measured at amortised cost	(19,200,251)	20,725,594	1,525,343
Normal debt securities measured at amortised cost	(1,494,209)	2,031,616	537,407
Financial assets measured at amortised cost	**(20,761,432)**	**22,841,777**	**2,080,345**
Normal debt securities measured at FVTOCI	(5,847)	69,165	63,318
Financial assets measured at FVTOCI	**(5,847)**	**69,165**	**63,318**
Off-balance sheet commitments	**(8,010,858)**	**7,802,522**	**(208,336)**
TOTAL IMPAIRMENTS STAGE 1	(28,778,136)	30,713,464	1,935,328

Stage 2	31/12/18		
	Allowances	Write-backs	Total
Loans and advances to credit institutions measured at amortised cost	(2,879)	5,678	2,799
Loans and advances to customers measured at amortised cost	(25,520,433)	21,800,347	(3,720,086)
Normal debt securities measured at amortised cost	(2,475,722)	1,995,012	(480,710)
Financial assets measured at amortised cost	**(27,999,034)**	**23,801,037**	**(4,197,997)**
Normal debt securities measured at FVTOCI	0	60,488	60,488
Financial assets measured at FVTOCI	**0**	**60,488**	**60,488**
Off-balance sheet commitments	**(2,539,756)**	**2,609,008**	**69,252**
TOTAL IMPAIRMENTS STAGE 2	(30,538,790)	26,470,534	(4,068,256)

Stage 3	31/12/18				
	Allowances	Write-backs	Losses	Recoveries	Total
Impaired loans and advances to customers measured at amortised cost	(42,421,423)	73,035,580	(39,715,928)	0	(9,101,771)
Impaired debt securities measured at amortised cost	(7,167,836)	0	0	0	(7,167,836)
Impaired financial assets measured at amortised cost	**(49,589,259)**	**73,035,580**	**(39,715,928)**	**0**	**(16,269,607)**
Off-balance sheet commitments	**(970,741)**	**1,447,981**	**0**	**0**	**477,240**
TOTAL IMPAIRMENTS STAGE 3	(50,560,000)	74,483,561	(39,715,928)	0	(15,792,367)

TOTAL IMPAIRMENTS STAGE 1 / 2 / 3					(17,925,295)

11.13 Provisions for legal litigation

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

11.14 Tax expenses

	31/12/17	31/12/18
Income tax for current financial year	8,805	61,144
Deferred taxes	(16,946,758)	(28,923,291)
Tax on current financial year result (A)	**(16,937,953)**	**(28,862,147)**
Income tax for previous year	(101,223)	(91,321)
Deferred taxes for previous year	158,013	0
Other tax expenses (B)	**56,790**	**(91,321)**
TOTAL (A)+(B)	**(16,881,163)**	**(28,953,468)**

EFFECTIVE CORPORATE INCOME TAX RATE

The standard tax rate applicable in Luxembourg was 27.08% as at December 31, 2017 and 26.01% as at December 31, 2018.
The effective BIL tax rate was 13.08% in 2017 and 24.98% in 2018.
The difference between both rates may be analysed as follows:

	31/12/17	31/12/18
NET INCOME BEFORE TAX	**129,483,579**	**115,543,074**
Tax base	**129,483,579**	**115,543,074**
Applicable tax rate at year-end	27.08%	26.01%
Theoretical corporate income tax at standard rate	**(35,064,153)**	**(30,052,754)**
Effect of different tax rates in other countries	(17,143)	(97,598)
Tax effect of non-deductible expenses	(5,290,231)	(958,890)
Tax effect of non-taxable income	1,094,774	1,934,403
Effect of change in tax rates[1]	(83,163)	0
Tax effect on previous tax losses not recognised in the assets	22,400,000	250,000
Other	21,963	62,691
Tax on current financial year result	**(16,937,953)**	**(28,862,148)**
EFFECTIVE TAX RATE	**13.08%**	**24.98%**

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

Note 12: Notes on risk exposures (in EUR)

12.1 Fair value of financial instruments

A. BREAKDOWN OF FAIR VALUE

A.1 Fair value of financial assets	31/12/17			31/12/18		
	Carrying value	**Fair value**	**Difference**	**Carrying value**	**Fair value**	**Difference**
Cash and balances with central banks and demand deposits	2,542,318,139	2,542,318,139	0	3,083,169,677	3,083,169,677	0
Financial assets held for trading	70,526,377	70,526,377	0	126,889,819	126,889,819	0
Financial investments measured at FV				1,406,244,768	1,406,244,768	0
Financial assets at FV through OCI				*1,403,429,755*	*1,403,429,755*	*0*
Non-trading financial assets mandatorily at FV through PL				*2,815,013*	*2,815,013*	*0*
Financial investments available for sale	4,056,238,369	4,056,238,369	0			
Loans and advances to credit institutions	771,063,525	771,890,033	826,508	1,220,311,674	1,220,311,674	0
Loans and advances to customers	13,282,678,819	13,375,831,766	93,152,947	3,270,408,274	13,374,436,551	104,028,277
Financial investments measured at cost				5,039,541,719	5,061,074,631	21,532,912
Financial investments held to maturity	1,753,271,909	1,793,629,190	40,357,281			
Derivatives	226,454,079	226,454,079	0	288,703,842	288,703,842	0
Fair value revaluation of portfolios hedged against interest rate risk	3,175,567	3,175,567	0	1,470,569	1,470,569	0
TOTAL	**22,705,726,784**	**22,840,063,520**	**134,336,736**	**24,436,740,342**	**24,562,301,531**	**125,561,189**

A.2 Fair value of financial liabilities	31/12/17			31/12/18		
	Carrying value	**Fair value**	**Difference**	**Carrying value**	**Fair value**	**Difference**
Amounts due to credit institutions	3,055,045,143	3,055,714,826	669,683	3,195,542,470	3,199,658,127	4,115,657
Amounts due to customers	15,762,793,784	15,752,809,692	(9,984,092)	16,796,602,776	16,787,583,235	(9,019,541)
Financial liabilities measured at fair value	776,333,210	776,333,210	0	832,445,114	832,445,114	0
Derivatives	383,822,947	383,822,947	0	502,275,615	502,275,615	0
Fair value revaluation of portfolios hedged against interest rate risk	35,131,162	35,131,162	0	24,826,064	24,826,064	0
Debt securities	1,580,051,579	1,591,227,841	11,176,262	1,933,985,745	1,968,339,248	34,353,503
Subordinated debts	281,864,136	291,598,682	9,734,546	285,345,888	291,844,874	6,498,986
TOTAL	**21,875,041,961**	**21,886,638,360**	**11,596,399**	**23,571,023,672**	**23,606,972,277**	**35,948,605**

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value (see point 1.8 of Note 1 of the Consolidated Financial Statements).

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

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

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

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

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

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

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

B.1. Assets	31/12/17			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	38,042,196	29,838,831	2,645,350	70,526,377
Financial assets available for sale - bonds	3,210,479,221	715,190,412	96,055,394	4,021,725,027
Financial assets available for sale - equities	0	2,788,929	31,724,413	34,513,342
Derivatives	0	206,625,758	19,828,321	226,454,079
TOTAL	**3,248,521,417**	**954,443,930**	**150,253,478**	**4,353,218,825**

	31/12/18			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	62,286,498	60,877,274	3,726,047	126,889,819
Financial investments measured at FV	1,177,864,420	184,721,201	43,659,147	1,406,244,768
Financial assets at FVTOCI	*1,177,864,420*	*181,923,839*	*43,641,496*	*1,403,429,755*
Non-trading financial assets mandatorily at fair value through profit or loss	*0*	*2,797,362*	*17,651*	*2,815,013*
Derivatives	0	276,933,967	11,769,875	288,703,842
TOTAL	**1,240,150,918**	**522,532,442**	**59,155,069**	**1,821,838,429**

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

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B.2. Liabilities	31/12/17			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	576,808,285	199,524,925	776,333,210
Derivatives	0	342,400,154	41,422,793	383,822,947
TOTAL	**0**	**919,208,439**	**240,947,718**	**1,160,156,157**

	31/12/18			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	656,127,715	176,317,399	832,445,114
Derivatives	0	449,620,966	52,654,649	502,275,615
TOTAL	**0**	**1,105,748,681**	**228,972,048**	**1,334,720,729**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1 Assets

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

C.2 Liabilities

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

D. LEVEL 3 RECONCILIATION

D.1 Assets	31/12/17				
	Opening	Total gains and losses in statement of income	Gains and Losses in OCI	Purchase	Sale
Financial assets designated held for trading	4,537,636	(69,658)	0	1,545,791	(3,368,419)
Financial assets available for sale - bonds	100,125,410	(674,421)	0	47,177,889	0
Financial assets available for sale - equities	32,394,276	(1,883,304)	0	1,259,342	0
Derivatives	20,494,158	(15,009,503)	0	14,343,666	0
TOTAL	**157,551,480**	**(17,636,886)**	**0**	**64,326,688**	**(3,368,419)**

	31/12/17					
	Settlement	Transfer to Level 3	Transfer from of Level 3	Conversion differences	Other	Closing
Financial assets designated held for trading	0	0	0	0	0	2,645,350
Financial assets available for sale - bonds	(50,573,484)	0	0	0		96,055,394
Financial assets available for sale - equities	(45,901)	0	0	0		31,724,413
Derivatives	0	0	0	0	0	19,828,321
TOTAL	**(50,619,385)**	**0**	**0**	**0**	**0**	**150,253,478**

	31/12/18						
	Opening	Impacts FTA	Opening IFRS9	Total gains and losses in statement of income	Gains and Losses in OCI	Purchase	Sale
Financial assets designated held for trading	6,817,263	(4,171,913)	2,645,350	733,351	0	1,348,900	(1,001,554)
Financial assets measured at FV	127,779,807	(45,677,920)	82,101,887	(122,270)	16,386,346	2,340,732	0
FVTOCI- Bonds	*96,055,394*	*(45,677,919)*	*50,377,475*	*0*	*0*	*0*	*0*
FVTOCI - Equities	*31,724,413*	*(139,922)*	*31,584,491*	*0*	*16,386,346*	*2,340,732*	*0*
Non-trading financial assets mandatorily at fair value through profit or loss - Equity instruments	*0*	*139,921*	*139,921*	*(122,270)*	*0*	*0*	*0*
Derivatives	19,828,321	0	19,828,321	(14,602,353)	0	6,543,907	0
TOTAL	**154,425,391**	**(49,849,833)**	**104,575,558**	**(13,991,272)**	**16,386,346**	**10,233,539**	**(1,001,554)**

	31/12/18					
	Settlement	Transfer to Level 3	Transfer from of Level 3	Conversion differences	Other	Closing
Financial assets designated held for trading	0	0	0	0	0	3,726,047
Financial assets measured at FV	(57,047,548)	0	0	0	0	43,659,147
FVTOCI - Bonds	*(50,377,475)*	*0*	*0*	*0*	*0*	*0*
FVTOCI- Equities	*(6,670,073)*	*0*	*0*	*0*	*0*	*43,641,496*
Non-trading financial assets mandatorily at fair value through profit or loss - Equity instruments	*0*	*0*	*0*	*0*	*0*	*17,651*
Derivatives	0	0	0	0	0	11,769,875
TOTAL	**(57,047,548)**	**0**	**0**	**0**	**0**	**59,155,069**

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

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

	31/12/18			
	Opening	Total gains and losses in statement of income	Purchase	Settlement
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	199,524,925	(8,572,412)	140,062,162	(154,888,904)
Derivatives	41,422,793	(22,248,685)	33,480,541	0
TOTAL	**240,947,718**	**(30,821,097)**	**173,542,703**	**(154,888,904)**

	31/12/18				
	Sale	Transfer to Level 3	Transfer from of Level 3	Conversion differences	Closing
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	0	0	191,628	176,317,399
Derivatives	0	0	0	0	52,654,649
TOTAL	**0**	**0**	**0**	**191,628**	**228,972,048**

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

Banking bonds

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

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

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

a) The rarity of the issue: when the overall issuer debt is relatively low, or in the case of securities issued by issuers outside the Eurozone. This is the case of issues from Poland, the Czech Republic (EUR -area size and debt), Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively high as well as the number of contributors;
b) Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security;
c) The investors "buy and hold" behavior: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid/ask spread is high and there are sometimes limited contributors. This is particularly the case for issues from Qatar, Abu Dhabi and Luxembourg.

Structured bonds

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

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

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

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

E. SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE SCENARIOS

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

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:
- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;
- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar B213 and/or by incorporating an analysis of the bid/ask spread for real transactions.

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

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

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

12.2 Credit risk exposures

A. ANALYSIS OF BIL EXPOSURES

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

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

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

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

Exposures by geographic region

(in EUR million)	**31/12/17**	**31/12/18**
Belgium	1,439	1,607
France	2,661	2,954
Germany	1,352	1,199
Ireland	383	434
Italy	34	29
Luxembourg	13,329	13,942
Spain	734	855
Other EU countries	1,635	1,627
Rest of Europe	520	644
Switzerland	1,953	2,717
United States and Canada	692	660
Central and South America[1]	2	
Asia	129	297
Middle East[2]		698
Australia[3]		260
Others	849	197
TOTAL	**25,712**	**28,120**

Exposures by counterparty category

(in EUR million)	**31/12/17**	**31/12/18**
Central Governments	7,683	8,051
Public Sector Entities	501	392
Corporate	5,544	5,720
Securitisation	241	140
Individuals, SME & Self Employed	8,405	9,586
Financial Institutions	3,334	4,229
Others	5	2
TOTAL	**25,712**	**28,120**

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

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

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

Geographic segment is updated as below to be aligned with other reports:
[1] Central and South America is now grouped under 'Others'
[2] Middle East was previously grouped under 'Others' and now it is an individual segment
[3] Australia was previously grouped under 'Others' and now it is an individual segment

B. CREDIT RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENTS

Credit risk exposures and financial effect of collateral

(in EUR million)	31/12/17		31/12/18	
	Credit risk exposures [1]	Financial effect of the collateral	Credit risk exposures [1]	Financial effect of the collateral
"Available for sale portfolio (2017) / Financial investments at FVTOCI (2018)(excluding variable income securities)"	4,022	0	1,359	0
Held for trading portfolio (excluding variable income securities)	38	0	62	0
Loans and advances at amortised cost	15,797	1,954	16,946	2,080
Financial investments held to maturity (2017) / held-to-collect (2018) (at amortised cost)	1,753	0	5,021	0
Derivatives	214	51	210	48
Other assets	303	576	345	970
Commitments in respect of loans granted	2,273	127	2,753	784
Commitments in respect of guarantees given	1,312	67	1,424	87
TOTAL	**25,712**	**2,775**	**28,120**	**3,969**

Maximum Credit Risk Exposures[2] (in EUR million)	31/12/18				
	Stage 1	Stage 2	Stage 3	Not applicable	Total
Financial investments at FVTOCI (excluding variable income securities)	1,174	185	0		1,359
Held-for trading portfolio (excluding variable income securities)				62	62
Loans and advances at amortised cost	14,596	2,105	245		16,946
Financial investments at amortised cost	4,906	98	17		5,021
Derivatives				210	210
Other assets	1	0	0	344	345
Commitments in respect of loans granted	2,346	400	7		2,753
Commitments in respect of guarantees given	1,322	98	4		1,424
TOTAL	**24,345**	**2,886**	**273**	**616**	**28,120**

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

[2] In accordance with IFRS 7R 44Z, the above table is only disclosed for the first year of application of IFRS 9, i.e. for year ended December 31, 2018. Comparative figures for year ended December 31, 2017 are therefore not disclosed in the above table.

C. CREDIT QUALITY OF NORMAL FINANCIAL ASSETS

	31/12/17				
	Credit quality of normal financial assets				
(in EUR million)	AAA+ to AA-	A+ to BBB-	Non-investment grade	Unlisted	Total
Available for sale portfolio (excluding variable income securities)	2,806	1,216	0	0	4,022
Held for trading portfolio (excluding variable income securities)	25	2	0	11	38
Loans and advances at amortised cost	3,326	6,321	4,221	1,506	15,374
Financial assets held to maturity	1,361	392	0	0	1,753
Derivatives	59	143	8	3	213
Other financial instruments at cost	120	88	51	45	304
Commitments in respect of loans granted	365	1,033	543	316	2,257
Commitments in respect of guarantees given	107	325	462	412	1,306
TOTAL	**8,169**	**9,520**	**5,285**	**2,293**	**25,267**

	31/12/18				
	Credit quality of normal financial assets				
(in EUR million)	AAA+ to AA-	A+ to BBB-	Non-investment grade	Unlisted	Total
Available for sale portfolio (excluding variable income securities)	919	441	0	0	1,360
Held for trading portfolio (excluding variable income securities)	37	9	0	16	62
Loans and advances at amortised cost	5,722	8,205	4,515	1,269	19,711
Financial assets held to maturity	1,252	259	0	0	1,511
Derivatives	58	148	3	2	210
Other financial instruments at cost	200	104	38	2	345
Commitments in respect of loans granted	357	1,363	709	271	2,700
Commitments in respect of guarantees given	137	362	357	362	1,218
TOTAL	**8,682**	**10,891**	**5,622**	**1,922**	**27,117**

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

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

D. PAST DUE BUT NOT IMPAIRED FINANCIAL ASSETS

	31/12/17				
	Past due but not impaired assets			Gross carrying amount of impaired financial assets	Guarantees held for past due or impaired assets and debt instruments
	≤ 90 days	> 90 days ≤ 180 days	> 180 days		
Loans and avances at amortised cost	175,472,817	50,080,157	130,791,061	325,904,000	408,088,220
TOTAL	**175,472,817**	**50,080,157**	**130,791,061**	**325,904,000**	**408,088,220**

	31/12/18				
	Past due but not impaired assets			Gross carrying amount of impaired financial assets	Guarantees held for past due or impaired assets and debt instruments
	< 30 days[1]	30 days <> 90 days[1]	> 90 days[1]		
Debt securities impaired (at amortised cost+FVTOCI)	0	0	0	19,917,195	12,682,055
Loans and advances impaired (at amortised cost+FVTOCI)	113,406,489	36,931,257	19,648,231	590,785,818	320,674,126
TOTAL	**113,406,489**	**36,931,257**	**19,648,231**	**610,703,013**	**333,356,181**

BIL has defined three types of past due loans:

- "technical" past due financial assets;
- "operational" past due financial assets;
- "credit" past due financial assets.

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

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

	31/12/2018[2]			
	Effect of collateral and other credit enhancements on amount of allowances for credit-impaired debt instruments			
(in EUR)	Gross exposure	Impairment allowance	Carrying amount	Collateral held and guarantees revceived
Debt securities at amortised cost	19,917,195	(7,235,140)	12,682,055	12,682,055
Loans and advances at amortised cost	595,394,924	(226,232,180)	369,162,744	344,353,068
Total credit-impaired debt instruments	**615,312,119**	**(233,467,320)**	**381,844,799**	**357,035,123**

Type of assets obtained during the period by taking possession of the guarantees held	Carrying value	
	31/12/17	31/12/18
Cash	9,292,023	6,188,280
Debt instruments	1,283,678	117,991
TOTAL	**10,575,701**	**6,306,271**

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

[1] New buckets are used in 2018 (< 30 days, 30 days <> 90 days, > 90 days) following to IFRS9 adoption.

[2] In accordance with IFRS 7R 44Z, the above table is only disclosed for the first year of application of IFRS 9, i.e. for year ended December 31, 2018. Comparative figures for year ended December 31, 2017 are therefore not disclosed in the above table.

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F. MOVEMENTS IN ALLOWANCES FOR CREDIT LOSSES

	As at 01/01/17	Utilisation	Allowances	Write-backs
Specific allowances for financial assets individually assessed for impairment	**(312,556,474)**	**33,970,953**	**33,107,265**	**10,882,295**
Loans and advances to customers	(274,740,691)	32,959,703	33,000,684	10,882,295
Financial assets available for sale	(37,815,783)	1,011,250	(106,581)	0
of which equities and other variable income instruments	*(37,815,783)*	*1,011,250*	*(106,581)*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**(30,317,346)**	**0**	**(3,091,018)**	**5,542,243**
TOTAL	**(342,873,820)**	**33,970,953**	**36,198,283**	**16,424,538**

	Other adjustments	Transfers between allowances	As at 31/12/17	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Specific allowances for financial assets individually assessed for impairment	**14,032,245**	**8,900,000**	**(277,878,246)**	**374,404**	**(33,247,103)**
Loans and advances to customers	12,948,129	8,900,000	(242,051,248)	374,404	(33,247,103)
Financial assets available for sale	1,084,116	0	(35,826,998)	0	0
of which equities and other variable income instruments	*1,084,116*	*0*	*(35,826,998)*	*0*	*0*
Allowances for incurred but not reported losses on financial assets and specific allowances for financial assets collectively assessed for impairment	**667**	**0**	**(27,865,454)**	**0**	**0**
TOTAL	**14,032,912**	**8,900,000**	**(305,743,700)**	**374,404**	**(33,247,103)**

	As at 01/01/18	Increases due to origination or acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to update in the institution's methodology for estimation (net)
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**(24,460,362)**	**(9,739,031)**	**2,771,806**	**9,110,888**	**0**
Debt securities at amortised cost	(1,612,468)	(964,573)	175,560	1,326,420	0
Debt securities at FV through OCI	(85,838)	(3,183)	18,826	47,675	0
Loans and advances at amortised cost	*(22,762,056)*	*(8,771,275)*	*2,577,420*	*7,736,793*	*0*
Loans and advances at FV through OCI	0	0	0	0	0
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**(13,171,664)**	**0**	**1,916,421**	**(6,053,930)**	**0**
Debt securities at amortised cost	(22,079)	0	0	(480,710)	0
Debt securities at FV through OCI	(60,510)	0	58,978	1,510	0
Loans and advances at amortised cost	(13,089,075)	0	1,857,443	(5,574,730)	0
Loans and advances at FV through OCI	0	0	0	0	0
Allowances for credit-impaired debt instruments (Stage 3)	**(253,211,801)**	**(1,209,263)**	**2,439,294**	**(17,148,387)**	**0**
Debt securities at amortised cost	0	0	0	(7,167,836)	0
Debt securities at FV through OCI	0	0	0	0	0
Loans and advances at amortised cost	(253,211,801)	(1,209,263)	2,439,294	(9,980,551)	0
Loans and advances at FV through OCI	0	0	0	0	0
TOTAL ALLOWANCES FOR DEBT INSTRUMENTS	**(290,843,828)**	**(10,948,294)**	**7,127,521**	**(14,091,428)**	**0**
Commitments and financial guarantees given (Stage 1)	3,990,905	5,815,882	(1,889,797)	(3,717,750)	0
Commitments and financial guarantees given (Stage 2)	1,331,366	411,487	(457,772)	(22,967)	0
Commitments and financial guarantees given (Stage 3)	1,099,560	158,289	(719,916)	84,387	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**6,421,831**	**6,385,658**	**(3,067,485)**	**(3,656,330)**	**0**

	Decreases in allowance account due to write-offs	Other adjustments	As at 31/12/18	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**0**	**(29,401)**	**(22,346,100)**	**n.a**	**n.a**
Debt securities at amortised cost	0	(341)	(1,075,402)	n.a	n.a
Debt securities at FV through OCI	0	(57)	(22,577)	n.a	n.a
Loans and advances at amortised cost	*0*	*(29,003)*	*(21,248,121)*	*n.a*	*n.a*
Loans and advances at FV through OCI	0	0	0	n.a	n.a
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**0**	**(30,974)**	**(17,340,147)**	**n.a**	**n.a**
Debt securities at amortised cost	0	0	(502,789)	n.a	n.a
Debt securities at FV through OCI	0	8	(14)	n.a	n.a
Loans and advances at amortised cost	0	(30,982)	(16,837,344)	n.a	n.a
Loans and advances at FV through OCI	0	0	0	n.a	n.a
Allowances for credit-impaired debt instruments (Stage 3)	**39,364,677**	**(3,701,840)**	**(233,467,320)**	**0**	**(39,715,928)**
Debt securities at amortised cost	0	(67,304)	(7,235,140)	0	0
Debt securities at FV through OCI	0	0	0	n.a	n.a
Loans and advances at amortised cost	39,364,677	(3,634,536)	(226,232,180)	0	(39,715,928)
Loans and advances at FV through OCI	0	0	0	n.a	n.a
TOTAL	**39,364,677**	**(3,762,215)**	**(273,153,567)**	**0**	**(39,715,928)**
Commitments and financial guarantees given (Stage 1)	0	19,186	4,218,426	0	0
Commitments and financial guarantees given (Stage 2)	0	870	1,262,984	0	0
Commitments and financial guarantees given (Stage 3)	0	(120)	622,200	0	0
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES	**0**	**19,936**	**6,103,610**	**0**	**0**

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

As at 31/12/17	Carrying value	Variation in fair value due to change in credit risk		Difference between the carrying value of the financial liability and the contractual amount due on maturity
		During the period	Aggregate amount	
Banque Internationale à Luxembourg	776,333,210	326,208	(436,710)	(3,445,050)

As at 31/12/18	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	832,445,114	56,427	(380,283)	(38,563,699)

In 2017 and 2018, no change in the fair value of BIL's financial liabilities is attributable to changes in the credit risk relating to liabilities, except for liabilities designated at fair value through profit or loss.

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

H. EXEMPTION ASSOCIATED WITH LARGE EXPOSURES

At the request of the Bank, the CSSF has granted a total exemption for its exposures towards its subsidiaries (BIL group) in the calculation of large exposures limits, in accordance with Part XVI, point 24 of the former Circular 06/273, as amended. The amount of exposures covered by this exemption is null as at December 31, 2017 (as on a consolidated basis, exposures on entities of BIL group are excluded from the large exposures reporting). This exemption was granted on November 22, 2012.

I. INFORMATION ON FORBORNE EXPOSURES

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

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

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

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files level in order to identify those that should be classified as forborne according to the regulatory definition.

The granting of forbearance measure is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

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

As at end 2018, BIL group's forborne exposures amounted to EUR 290.8 million (EUR 279.4 million in 2017) including EUR 3.1 million (EUR 7.4 million in 2017) as loan commitments.

J. INFORMATION ON SOVEREIGN DEBT

For 2017 and 2018, this statement refers to bonds issued by central & local governments and governmental bodies.

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	Carrying amount	*of which fair value in profit or loss*
Austria						
maturity < 1 year	52,269,457	*5,960*				
maturity > 1 year and <= 5 years	59,545,005	*2,972,939*	*(244,814)*			
maturity > 5 years						
Belgium						
maturity < 1 year	47,177,889	*(146)*				
maturity > 1 year and <= 5 years	167,767,995	*7,370,373*	*(582,730)*			
maturity > 5 years	417,545,151	*13,588,506*	*(329,128)*	132,899,328		
Canada						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	85,172,796	*471,364*	*(254,033)*	39,274,484		
Czech Republic						
maturity < 1 year						
maturity > 1 year and <= 5 years	41,131,569	*1,053,520*	*1,961,159*			
maturity > 5 years						
Finland						
maturity < 1 year						
maturity > 1 year and <= 5 years	21,919,509	*1,257,908*				
maturity > 5 years				51,262,693		
France						
maturity < 1 year	46,557,204	*(191,810)*				
maturity > 1 year and <= 5 years	117,953,768	*71,449*	*(87,831)*	46,971,860		
maturity > 5 years	64,874,351	*253,655*		682,902,713		
Germany						
maturity < 1 year	10,110,939	*(2,984)*	*15,320*			
maturity > 1 year and <= 5 years	15,516,700	*2,144*	*464,196*			
maturity > 5 years	85,770,563	*3,143,986*	*(336,879)*	30,817,788	8,204,042	*(145,287)*
Ireland						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	169,886,466	*4,888,456*	*(1,631,401)*	107,025,227		
Japan						
maturity < 1 year						
maturity > 1 year and <= 5 years					165,481	*(1,817)*
maturity > 5 years						
Lithuania						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	7,140,701	*70,299*	*(33,650)*			
Luxembourg						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	38,858,393	*1,247,919*	*2,828,694*	4,978,355	4,764,808	*18,701*
SUB-TOTAL	**1,449,198,456**	***36,203,538***	***1,768,903***	**1,096,132,448**	**13,134,331**	***(128,403)***

As at 31/12/17	Available for sale			Held to maturity	Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	Carrying amount	*of which fair value in profit or loss*
Norway						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years				9,124,982		
Poland						
maturity < 1 year						
maturity > 1 year and <= 5 years	35,257,465	*227,019*	*(72,183)*			
maturity > 5 years	76,053,845	*2,408,341*	*(343,438)*	33,644,647		
Qatar						
maturity < 1 year						
maturity > 1 year and <= 5 years	17,882,982	*(200,779)*	*(148,618)*			
maturity > 5 years						
Saudi Arabia						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years	4,124,721	*(2,499)*	*(42,322)*			
Slovakia						
maturity < 1 year	4,064,225	*61,934*				
maturity > 1 year and <= 5 years						
maturity > 5 years	30,950,932	*1,053,970*	*(98,264)*	78,142,328		
South Korea						
maturity < 1 year						
maturity > 1 year and <= 5 years						
maturity > 5 years				4,365,551		
Spain						
maturity < 1 year						
maturity > 1 year and <= 5 years	164,737,870	*2,534,822*	*210,442*	22,947,267		
maturity > 5 years	285,455,474	*5,084,834*	*(2,660,278)*	120,389,300		
Supranational						
maturity < 1 year						
maturity > 1 year and <= 5 years	134,005,481	*7,793,363*	*(823,368)*		3,351,254	*(51,398)*
maturity > 5 years	48,793,933	*1,757,328*	*(209,063)*	35,634,724		
Sweden						
maturity < 1 year						
maturity > 1 year and <= 5 years					312,928	*(2,710)*
maturity > 5 years						
United Arab Emirates						
maturity < 1 year						
maturity > 1 year and <= 5 years					412,688	*(5,285)*
maturity > 5 years						
United States						
maturity < 1 year						
maturity > 1 year and <= 5 years	210,022,340	*(3,102,361)*		124,229,510		
maturity > 5 years						
TOTAL	**2,460,547,724**	**53,819,510**	**(2,418,189)**	**1,524,610,757**	**17,211,201**	**(187,796)**

As at 31/12/18	Fair Value through OCI			Measured at Amortised Cost		Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	*of which fair value related to hedging*	Carrying amount	*of which fair value in profit or loss*
Austria							
maturity < 1 year							
maturity > 1 year and <= 5 years	57,955,007	*2,216,669*	*209,012*				
maturity > 5 years							
Belgium							
maturity < 1 year				61,107,163			
maturity > 1 year and <= 5 years	118,104,531	*5,047,780*	*467,822*	56,208,926	*746,464*		
maturity > 5 years	273,612,138	*6,767,109*	*2,219,066*	259,316,633	*788,877*		
Canada							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				144,660,916	*1,134,696*		
China							
maturity < 1 year							
maturity > 1 year and <= 5 years						885,673	*7,851*
maturity > 5 years							
Czech Republic							
maturity < 1 year							
maturity > 1 year and <= 5 years				39,241,235	*1,720,282*		
maturity > 5 years							
Finland							
maturity < 1 year				20,508,910			
maturity > 1 year and <= 5 years							
maturity > 5 years							
France							
maturity < 1 year				17,467,798			
maturity > 1 year and <= 5 years				129,037,104	*(6,954)*		
maturity > 5 years				761,038,094	*507,938*		
Germany							
maturity < 1 year							
maturity > 1 year and <= 5 years	54,693,841	*2,421,864*	*255,866*	15,544,698	*484,014*	3,660,839	*(21,512)*
maturity > 5 years				50,836,333	*1,086,779*	9,440,910	*77,650*
Ireland							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years	119,257,476	*2,375,775*	*619,413*	217,650,218	*1,053,142*		
Japan							
maturity < 1 year							
maturity > 1 year and <= 5 years						519,242	*155*
maturity > 5 years							
Lithuania							
maturity < 1 year							
maturity > 1 year and <= 5 years				18,094,470	*72,887*		
maturity > 5 years	7,045,501	*(112,611)*	*61,726*				
Luxembourg							
maturity < 1 year							
maturity > 1 year and <= 5 years	38,478,893	*966,349*	*2,718,511*				
maturity > 5 years				4,983,847		3,344,377	*64,048*
SUB-TOTAL	**669,147,387**	***19,682,935***	***6,551,416***	**1,795,696,345**	***7,588,125***	**17,851,041**	***128,191***

As at 31/12/18	Fair Value through OCI			Measured at Amortised Cost		Held for trading	
Country Maturity date	Carrying amount	*of which fair value in OCI*	*of which fair value related to hedging*	Carrying amount	*of which fair value related to hedging*	Carrying amount	*of which fair value in profit or loss*
Norway							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				9,096,515			
Poland							
maturity < 1 year				10,129,546			
maturity > 1 year and <= 5 years				15,155,947	*36,375*		
maturity > 5 years				119,626,054	*801,082*		
Qatar							
maturity < 1 year							
maturity > 1 year and <= 5 years	18,337,414	*(155,672)*	*(310,799)*				
maturity > 5 years							
Saudi Arabia							
maturity < 1 year							
maturity > 1 year and <= 5 years	4,238,479	*(57,520)*	*(92,642)*				
maturity > 5 years							
Slovakia							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				114,506,395	*399,471*		
South Korea							
maturity < 1 year							
maturity > 1 year and <= 5 years							
maturity > 5 years				25,860,797	*54,974*		
Spain							
maturity < 1 year				30,206,681			
maturity > 1 year and <= 5 years				170,606,255	*917,905*		
maturity > 5 years				488,871,365	*4,224,043*		
Supranational							
maturity < 1 year							
maturity > 1 year and <= 5 years	131,689,491	*5,550,147*	*421,597*			4,395,137	*(118,144)*
maturity > 5 years	48,329,433	*1,367,499*	*400,619*	15,205,833		422,025	*5,172*
United Arab Emirates							
maturity < 1 year							
maturity > 1 year and <= 5 years						428,010	*(5,483)*
maturity > 5 years							
United States							
maturity < 1 year							
maturity > 1 year and <= 5 years				353,083,013			
maturity > 5 years							
TOTAL	**871,742,204**	***26,387,389***	***6,970,191***	**3,148,044,746**	***14,021,975***	**23,096,213**	***9,737***

12.3 Encumbered assets

A. COLLATERAL RECEIVED BY THE REPORTING INSTITUTION

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

	31/12/18			
	Fair value of collateral received or own debt securities issued available for encumbrance	***of which: central bank eligible***	**Fair value of encumbered collateral received or own debt securities issued available for encumbrance**	***of which: central bank eligible***
Cash collateral	66,169,646	*66,169,646*	0	*0*
Debt securities	585,298,831	*0*	183,630,166	*183,630,166*
TOTAL	**651,468,477**	***66,169,646***	**183,630,166**	***183,630,166***

Consolidated management report

Consolidated financial statements

Financial statements of the parent company

B. ENCUMBERED ASSETS

	31/12/17			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTM Debt securities	773,695,654	635,332,641	801,017,542	663,304,670
of which: issued by general governments	*739,866,500*	*615,636,991*	*767,205,883*	*643,220,538*
of which: issued by financial corporations	*33,829,154*	*19,695,650*	*33,811,659*	*20,084,132*
AFS Debt securities	1,242,201,841	1,009,620,739	1,242,201,842	1,009,620,739
of which: issued by general governments	*694,540,412*	*475,319,079*	*694,540,413*	*475,319,079*
of which: issued by financial corporations	*441,819,057*	*428,458,288*	*441,719,057*	*428,459,288*
of which: issued by non-financial corporations	*105,842,372*	*105,842,372*	*105,842,372*	*105,842,372*
Loans and advances other than loans on demand	264,041,054	264,041,054	264,041,054	264,041,054
Central Bank mandatory reserves	757,649,963	757,649,963	757,649,963	757,649,963
TOTAL	3,037,588,512	*2,666,644,397*	3,064,910,401	*2,694,616,426*

	31/12/18			
	Carrying amount of encumbered assets	*of which: central bank eligible*	Fair value of encumbered assets	*of which: central bank eligible*
HTC Debt securities	1,677,981,073	1,163,529,455	1,693,315,076	1,184,901,227
of which: issued by general governments	*1,087,602,751*	*727,439,709*	*1,109,556,578*	*754,440,243*
of which: issued by financial corporations	*481,344,798*	*328,557,572*	*475,984,779*	*324,193,555*
of which: issued by non-financial corporations	*109,033,524*	*107,532,174*	*107,773,719*	*106,267,429*
HTC&S Debt securities	868,876,268	795,145,498	868,876,268	795,145,498
of which: issued by general governments	*541,651,513*	*541,651,513*	*541,651,513*	*541,651,513*
of which: issued by financial corporations	*314,603,395*	*242,495,985*	*314,603,395*	*242,495,985*
of which: issued by non-financial corporations	*12,621,360*	*10,998,000*	*12,621,360*	*10,998,000*
TRADING Debt securities	11,140,053	10,082,961	11,140,053	10,082,961
of which: issued by general governments	*728,522*	*728,522*	*728,522*	*728,522*
of which: issued by financial corporations	*9,417,070*	*8,359,978*	*9,417,070*	*9,417,070*
of which: issued by non-financial corporations	*994,461*	*994,461*	*994,461*	*994,461*
Loans and advances other than loans on demand	331,941,831	331,941,831	331,941,831	331,941,831
Central Bank mandatory reserves	549,506,894	549,506,894	549,506,894	549,506,894
TOTAL	3,439,446,119	*2,850,206,639*	3,454,780,122	*2,871,578,411*

C. SOURCES OF ENCUMBRANCE

	31/12/17		
	Matching liabilities, contingent liabilities or securities lent	**Assets or collateral received encumbered**	***of which : collateral received re-used***
Derivatives	383,822,947	264,041,054	*0*
Repurchase agreements	968,050,401	966,274,519	*202,684,942*
of which: central banks	*696,177,222*	*696,177,222*	*0*
Collateralized deposits other than repurchase agreements	30,788,718	30,788,718	*0*
of which: central banks	*30,788,718*	*30,788,718*	*0*
Fair value of securities borrowed with non cash collateral	1,088,043,688	1,221,519,200	*0*
TOTAL	**2,470,705,754**	**2,482,623,491**	***202,684,942***

	31/12/18		
	Matching liabilities, contingent liabilities or securities lent	**Assets or collateral received encumbered**	***of which : collateral received re-used***
Derivatives	502,275,615	331,941,831	*0*
Repurchase agreements	1,244,599,936	1,250,380,351	*183,630,166*
of which: central banks	*693,338,333*	*693,338,333*	*0*
Collateralized deposits other than repurchase agreements	0	0	*0*
of which: central banks	*0*	*0*	*0*
Fair value of securities borrowed with non cash collateral	1,075,480,825	1,491,247,208	*0*
TOTAL	**2,822,356,376**	**3,073,569,390**	***183,630,166***

D. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Offsetting policy is described in the Note 1.6 to the consolidated financial statements.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreements are not presented on a net basis in the financial statements. BIL may have conditional rights to set-off that are enforceable only in the event of default, or insolvency or bankruptcy of any of the counterparts. Such arrangements do not meet the conditions for offsetting according to IAS 32.

Guarantees are obtained within the framework of reverse repos, securities lending and derivatives activities.

Guarantees are given within the framework of repos, securities borrowing and derivatives activities.

The conditions for using and returning pledged assets or pledged liabilities are defined either in Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSLA) and Credit Support Annexes Agreements (CSA), amended, when appropriate, by the Legal Department, or in agreements drafted directly by this department.

Cash collateral received or given relates to derivatives CSA agreements.

Financial assets recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	226,454,079	0	226,454,079	74,858,296	151,595,783
Reverse repurchase agreements	0	0	0	0	0
TOTAL	**226,454,079**	**0**	**226,454,079**	**74,858,296**	**151,595,783**

Financial liabilities recognised at end of reporting period	31/12/17				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	383,822,947	0	383,822,947	264,041,054	119,781,893
Repurchase agreements	968,050,401	0	968,050,401	966,274,519	1,775,882
Collateralised deposits other than repurchase agreements	30,788,718	0	30,788,718	30,788,718	0
TOTAL	**1,382,662,066**	**0**	**1,382,662,066**	**1,261,104,291**	**121,557,775**

Financial assets recognised at end of reporting period	31/12/18				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	288,703,842	0	288,703,842	66,169,646	222,534,196
Reverse Repurchase agreements	0	0	0	0	0
TOTAL	**288,703,842**	**0**	**288,703,842**	**66,169,646**	**222,534,196**

Financial liabilities recognised at end of reporting period	31/12/18				
	Gross carrying amounts before offsetting	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet IAS 32 criteria	Net exposure
Derivatives	502,275,615	0	502,275,615	331,941,831	170,333,784
Repurchase agreements	1,244,599,936	0	1,244,599,936	1,244,599,936	0
Collateralised deposits other than repurchase agreements	0	0	0	0	0
TOTAL	**1,746,875,551**	**0**	**1,746,875,551**	**1,576,541,767**	**170,333,784**

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

A. ASSETS	31/12/17				
	At sight or on demand [2]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash,balances with central banks and demand deposits	2,544,320,647	0	0	0	0
Loans and advances to credit institutions	636,725,697	68,912,456	2,160,000	55,000,000	3,825,000
Loans and advances to customers	4,735,319,514	395,518,353	236,522,557	1,243,186,859	6,927,040,824
Financial assets held for trading	31,761,675	809,081	1,589,673	11,221,641	25,268,545
Financial assets available for sale	874,450,000	126,219,180	51,657,193	1,552,168,323	1,330,680,528
Investments held to maturity	0	0	0	233,418,418	1,508,596,425
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**8,822,577,533**	**591,459,070**	**291,929,423**	**3,094,995,241**	**9,795,411,322**

	31/12/17				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash,balances with central banks and demand deposits	0	(2,002,508)	n.a.	n.a.	2,542,318,139
Loans and advances to credit institutions	0	4,440,372	0	0	771,063,525
Loans and advances to customers	0	16,360,459	(1,353,045)	(269,916,702)	13,282,678,819
Financial assets held for trading	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	28,197	33,488,494	123,373,452	(35,826,998)	4,056,238,369
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	0	22,501,326	203,952,753	n.a.	226,454,079
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**77,913**	**86,174,825**	**328,845,157**	**(305,743,700)**	**22,705,726,784**

[1] Excluding derivatives and off-balance sheet items.
[2] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

A. ASSETS	31/12/18				
	At sight or on demand[1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash and balances with central banks and demand deposits	3,085,916,959	0	0	0	0
Financial assets held for trading	66,718,574	117,621	2,847,258	27,289,393	30,297,324
Financial investments measured at fair value	150,219,269	5,872,735	26,352,694	683,969,925	445,245,734
Financial investments measured at FV through OCI	*150,219,269*	*5,872,735*	*26,352,694*	*683,969,925*	*445,245,734*
Non-trading financial investments mandatorily at FV through P/L	*0*	*0*	*0*	*0*	*0*
Loans and advances to credit institutions	*1,058,996,242*	*95,052,466*	*0*	*55,000,000*	*3,468,086*
Loans and advances to customers	4,791,617,150	137,123,787	228,540,905	1,397,479,456	6,967,358,188
Financial investments measured at cost	674,515,808	74,288,060	107,948,501	1,321,180,921	2,812,169,633
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**9,827,984,002**	**312,454,669**	**365,689,358**	**3,484,919,695**	**10,258,538,965**

	31/12/18				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks and demand deposits	0	(2,747,282)	0	n.a.	3,083,169,677
Financial assets held for trading	0	199,583	(579,934)	n.a.	126,889,819
Financial investments measured at fair value	31,048,470	14,371,061	49,187,471	(22,591)	1,406,244,768
Financial investments measured at FV through OCI	*27,065,342*	*14,371,061*	*50,355,586*	*(22,591)*	*1,403,429,755*
Non-trading financial investments mandatorily at FV through P/L	*3,983,128*	*0*	*(1,168,115)*	*n.a.*	*2,815,013*
Loans and advances to credit institutions	*0*	*7,842,333*	*0*	*(47,453)*	*1,220,311,674*
Loans and advances to customers	0	13,815,512	(1,256,532)	(264,270,192)	13,270,408,274
Financial investments measured at cost	0	33,482,817	24,769,310	(8,813,331)	5,039,541,719
Derivatives	0	50,681,832	238,022,010	n.a.	288,703,842
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	1,470,569	n.a.	1,470,569
TOTAL	**31,048,470**	**117,645,856**	**311,612,894**	**(273,153,567)**	**24,436,740,342**

[1] Excluding derivatives and off-balance sheet items.
[2] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

B. LIABILITIES	31/12/17				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,570,353,654	350,622,718	89,754,379	978,532,094	65,030,490
Amounts due to customers	14,022,989,429	906,645,091	299,194,184	529,131,918	1,586,617
Financial liabilities designated at fair value	305,177,153	16,128,111	71,751,987	143,392,603	240,355,191
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	639,777,356	61,710,239	156,855,797	581,681,332	135,581,038
Subordinated debts	49,609,127	0	0	0	232,488,487
TOTAL	**16,587,906,719**	**1,335,106,159**	**617,556,347**	**2,232,737,947**	**675,041,823**

	31/12/17			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	751,808	0	3,055,045,143
Amounts due to customers	0	3,246,545	0	15,762,793,784
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,550,686	343,272,261	383,822,947
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debts	0	(233,478)	0	281,864,136
TOTAL	**0**	**51,480,310**	**375,212,656**	**21,875,041,961**

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5)

B. LIABILITIES	31/12/18				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,490,395,950	586,711,997	97,763,543	960,676,160	57,151,914
Amounts due to customers	14,935,551,196	1,012,872,182	296,098,051	545,879,468	1,980,625
Financial liabilities measured at fair value through profit or loss	324,852,681	10,565,973	77,387,825	202,195,574	252,956,756
Financial liabilities designated at fair value	*324,852,681*	*10,565,973*	*77,387,825*	*202,195,574*	*252,956,756*
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	655,418,770	20,528,670	183,091,360	943,377,389	125,938,911
Subordinated debts	49,646,580	0	0	0	236,615,076
TOTAL	**17,455,865,177**	**1,630,678,822**	**654,340,779**	**2,652,128,591**	**674,643,282**

	31/12/18			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	2,842,906	0	3,195,542,470
Amounts due to customers	0	4,221,254	0	16,796,602,776
Financial liabilities measured at fair value through profit or loss	0	2,829,821	(38,343,516)	832,445,114
Financial liabilities designated at fair value	*0*	*2,829,821*	*(38,343,516)*	*832,445,114*
Derivatives	n.a.	67,267,211	435,008,404	502,275,615
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	24,826,064	24,826,064
Debt securities	0	5,630,645	0	1,933,985,745
Subordinated debts	0	(915,768)	0	285,345,888
TOTAL	**0**	**81,876,069**	**421,490,952**	**23,571,023,672**

C. NET POSITION	31/12/17					
	At sight or on demand	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Balance sheet sensitivity gap	(7,765,329,186)	(743,647,089)	(325,626,924)	862,257,294	9,120,369,499	77,913

	31/12/18					
	At sight or on demand	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Balance sheet sensitivity gap	(7,627,881,175)	(1,318,224,153)	(288,651,421)	832,791,104	9,583,895,683	31,048,470

Derivatives are used to hedge the balance sheet sensitivity gap.

[1] Demand deposits and savings deposits are declared in the "At sight or on demand" column as the information shown above takes into account the remaining maturity until the next date on which interest rates are repriced on an accounting basis rather than according to assumptions based on observed behavioral data. The latter approach is used in the context of ALM sensitivity (see Note 12.5).

12.5 Market risk and Asset & Liability Management (ALM)

A. TREASURY AND FINANCIAL MARKETS (TFM) ACTIVITIES

BIL's Treasury and Financial Markets activities support the Bank's commercial activities.
Risk on trading activity: general interest rate risk, forex risk, equities and spread risk are limited by value at risk (VaR) limit and / or sensitivity limit.
Treasury management - banking - subject to VaR limit and interest-rate sensitivity limit.

a. Value at Risk – 99 %, 10 days (in EUR million)

In 2018, BIL calculated:
- An interest-rate VaR and a Forex VaR based on a historical VaR (99%, 10 days);
- An equity VaR based on a historical VaR "full Valuation".

The details of the calculation:

VaR (10 days, 99%)		**31/12/17**							
(in EUR million)		**IR[1] & FX[2] (Trading and Banking)[3]**				**EQT[4] Trading**			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
By risk factor	Average	0.42	0.38	0.36	0.36	0.01	0.01	0.01	0.00
	Maximum	0.68	0.58	0.68	0.94	0.02	0.03	0.05	0.02
Global	Average	0.38							
	Maximum	0.94							
	End of period	0.58							
	Limit	8.00							

VaR (10 days, 99%)		**31/12/18**							
(in EUR million)		**IR[1] & FX[2] (Trading and Banking)[3]**				**EQT[4] Trading**			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
By risk factor	Average	0.39	0.31	0.26	0.21	0.01	0.01	0.01	0.01
	Maximum	0.74	0.47	0.75	0.39	0.04	0.02	0.07	0.04
Global	Average	0.30							
	Maximum	0.75							
	End of period	0.12							
	Limit	8.00							

The treasury activity is subject to sensitivity limits (on December 31, 2018, the sensitivity (+1 %) is EUR 2.1 million, for a limit of EUR 20 million).

[1] IR: interest rate.
[2] FX: forex.
[3] IR & FX: without ALM.
[4] EQT: equity.

b. Investment Treasury Portfolio (in EUR million)

Exposures include swapped and non-swapped positions. The portfolio's interest rate is managed by Treasury.

(in EUR million)	2017 – AFS	2018 – HTC&S
Exposures	2,107	514
Interest rate sensitivity (+1 basis point)	(0.08)	(0.02)
Credit spread sensitivity (+1 basis point)	(0.91)	(0.15)

B. ALM INTEREST RATE RISK, EQUITY AND CREDIT SPREAD RISK

a. ALM

ALM is managed by the ALCO (ALM Committee).
Sensitivity is the measure of the change in fair value due to a 1 % change in the interest rate position of ALM activities.

(in EUR million)		2017							
		Interest rate [1] [2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	19	(7)	(9)	3	(2)	(2)	(2)	(2)

(in EUR million)		2018							
		Interest rate [1] [2]				Credit spread [3]			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ALM	Sensitivity	(8)	4	7	5	(2)	(2)	(2)	(2)

b. Investment Portfolio (in EUR million))

The portfolio's interest rate is managed by the ALM.

(in EUR million)	2017 – AFS	2018 – HTC&S
Exposures	1,679	732
Interest rate sensitivity (+1 basis point)	(0.09)	(0.01)
Credit spread sensitivity (+1 basis point)	(0.98)	(0.42)

[1] Sensitivity (+1 %).
[2] On December 31, 2018, the interest rate sensitivity limit for BIL ALM reached EUR 81 million per percent.
[3] Sensitivity (+1 basis point).

12.6 Liquidity risk: breakdown by residual maturity[1]

BIL's approach to liquidity risk management is described under point 4. "Market risk, Assets & Liabilities Management (ALM)" section of the consolidated management report.

The maturity analysis does not include the remaining contractual maturities for derivative. The Bank considers that their contractual maturities are not essential for an understanding of the timing of the cash flows as liquidity for derivatives is managed on a daily basis according to the cash collateral posted or received.

A. ASSETS	31/12/17				
	Breakdown of gross amount and premium/discount				
	At sight or on demand[2]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash, balances with central banks and demand deposits	2,544,320,647	0	0	0	0
Loans and advances to credit institutions	331,354,321	240,624,304	135,819,528	55,000,000	3,825,000
Loans and advances to customers	2,593,618,233	2,009,757,121	699,401,161	1,270,816,451	6,963,995,141
Financial assets held for trading	3,986,197	2,386,721	4,164,945	33,674,110	26,438,642
Financial assets available for sale	0	134,556,039	105,658,765	1,992,379,418	1,688,900,439
Investments held to maturity	0	0	0	233,418,417	1,508,596,426
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**5,473,279,398**	**2,387,324,185**	**945,044,399**	**3,585,288,396**	**10,191,755,648**

	31/12/17				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash, balances with central banks and demand deposits	0	(2,002,508)	n.a.	n.a.	2,542,318,139
Loans and advances to credit institutions	0	4,440,372	0	0	771,063,525
Loans and advances to customers	0	16,360,459	(1,353,045)	(269,916,702)	13,282,678,819
Financial investments measured at cost	49,716	129,616	(303,570)	n.a.	70,526,377
Financial assets available for sale	13,708,760	33,488,494	123,373,452	(35,826,998)	4,056,238,369
Investments held to maturity	0	11,257,066	0	0	1,753,271,909
Derivatives	n.a.	22,501,326	203,952,753	n.a.	226,454,079
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	3,175,567	n.a.	3,175,567
TOTAL	**13,758,476**	**86,174,825**	**328,845,157**	**(305,743,700)**	**22,705,726,784**

[1] Residual maturity, excluding derivatives and off-balance sheet.
[2] Sight deposits and savings accounts are included in this item even though the reimbursement date is undetermined.

A. ASSETS	31/12/18				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Cash and balances with central banks and demand deposits	3,083,908,413	2,008,546	0	0	0
Financial assets held for trading	26,483,807	4,018,238	9,823,406	56,124,140	30,820,579
Financial investments measured at fair value	28,120	15,873,438	45,748,299	804,764,764	445,245,734
Financial investments measured at FV through OCI	*28,120*	*15,873,438*	*45,748,299*	*804,764,764*	*445,245,734*
Non-trading financial investments mandatorily at FV through P/L	*0*	*0*	*0*	*0*	*0*
Loans and advances to credit institutions	382,544,953	362,460,752	94,121,018	369,921,985	3,468,086
Loans and advances to customers	2,548,161,237	1,737,904,208	635,664,165	1,391,069,429	7,209,320,447
Financial investments measured at amortised cost	0	74,288,060	141,997,116	1,679,749,401	3,094,068,346
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	**6,041,126,530**	**2,196,553,242**	**927,354,004**	**4,301,629,719**	**10,782,923,192**

	31/12/18				
	Breakdown of gross amount and premium/discount				
	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and balances with central banks and demand deposits	0	(2,747,282)	0	n.a.	3,083,169,677
Financial assets held for trading	0	199,583	(579,934)	n.a.	126,889,819
Financial investments measured at fair value	31,048,472	14,371,061	49,187,471	(22,591)	1,406,244,768
Financial investments measured at FV through OCI	*27,065,344*	*14,371,061*	*50,355,586*	*(22,591)*	*1,403,429,755*
Non-trading financial investments mandatorily at FV through P/L	*3,983,128*	*0*	*(1,168,115)*	*n.a.*	*2,815,013*
Loans and advances to credit institutions	0	7,842,333	0	(47,453)	1,220,311,674
Loans and advances to customers	n.a.	13,815,512	(1,256,532)	(264,270,192)	13,270,408,274
Financial investments measured at amortised cost	n.a.	33,482,817	24,769,310	(8,813,331)	5,039,541,719
Derivatives	n.a.	50,681,832	238,022,010	n.a.	288,703,842
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	1,470,569	n.a.	1,470,569
TOTAL	**31,048,472**	**117,645,856**	**311,612,894**	**(273,153,567)**	**24,436,740,342**

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

B. LIABILITIES	31/12/17				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,207,657,538	712,370,104	89,754,380	979,087,241	65,424,072
Amounts due to customers	14,022,989,429	906,098,444	299,194,190	529,131,918	2,133,258
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	0	22,618,111	110,076,992	394,362,249	249,747,693
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	14,997,085	84,319,595	336,800,779	1,000,559,348	138,928,955
Subordinated debts	0	0	0	0	282,097,614
TOTAL	**15,245,644,052**	**1,725,406,254**	**835,826,341**	**2,903,140,756**	**738,331,592**

	31/12/17			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	751,808	0	3,055,045,143
Amounts due to customers	0	3,246,545	0	15,762,793,784
Financial liabilities held for trading	0	0	0	0
Financial liabilities designated at fair value	0	2,718,932	(3,190,767)	776,333,210
Derivatives	n.a.	40,550,686	343,272,261	383,822,947
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	35,131,162	35,131,162
Debt securities	0	4,445,817	0	1,580,051,579
Subordinated debts	0	(233,478)	0	281,864,136
TOTAL	**0**	**51,480,310**	**375,212,656**	**21,875,041,961**

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

B. LIABILITIES	31/12/18				
	Breakdown of gross amount and premium/discount				
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Amounts due to credit institutions	1,037,067,580	1,019,307,109	118,496,802	960,676,159	57,151,914
Amounts due to customers	13,706,834,263	2,240,597,351	297,089,814	545,879,469	1,980,625
Financial liabilities measured at fair value through profit or loss	0	37,330,400	129,744,954	412,044,038	253,325,722
Financial liabilities designated at fair value	*0*	*37,330,400*	*129,744,954*	*412,044,038*	*253,325,722*
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	13,210,761	39,599,897	287,382,755	1,454,222,777	133,938,910
Subordinated debts	0	0	0	0	286,261,656
TOTAL	**14,757,112,604**	**3,336,834,757**	**832,714,325**	**3,372,822,443**	**732,658,827**

	31/12/18			
	Breakdown of gross amount and premium/discount			
	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Amounts due to credit institutions	0	2,842,906	0	3,195,542,470
Amounts due to customers	0	4,221,254	0	16,796,602,776
Financial liabilities measured at fair value through profit or loss	0	0	0	832,445,114
Financial liabilities designated at fair value	*0*	*n.a.*	*n.a.*	*832,445,114*
Derivatives	n.a.	67,267,211	435,008,404	502,275,615
Fair value revaluation of portfolios hedged against interest rate risk	n.a.	n.a.	24.826.064	24,826,064
Debt securities	0	5,630,645	0	1,933,985,745
Subordinated debts	0	(915,768)	0	285,345,888
TOTAL	**0**	**79,046,248**	**459,834,468**	**23,571,023,672**

C. NET POSITION	31/12/17					
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Net liquidity gap	(9,870,518,797)	388,727,152	192,007,333	1,024,630,737	9,463,937,055	192,811,675

	31/12/18					
	At sight or on demand [1]	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Undetermined maturity
Net liquidity gap	(8,715,986,074)	(1,140,281,515)	94,639,679	928,807,276	10,050,264,365	31,048,472

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

12.7 Currency risk

	31/12/17				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,330,831,553	598,846,819	1,570,930,620	1,900,176,811	23,400,785,803
Liabilities	18,499,176,834	844,372,397	3,375,185,470	682,051,102	23,400,785,803
NET ON-BALANCE SHEET POSITION	**831,654,719**	**(245,525,578)**	**(1,804,254,850)**	**1,218,125,709**	**0**
Off-balance sheet – receivable	4,929,143,066	1,149,126,976	6,410,525,833	3,657,124,028	16,145,919,903
Off-balance sheet – payable	5,621,926,502	907,691,767	4,617,389,197	5,015,747,040	16,162,754,506
NET OFF-BALANCE SHEET POSITION	**(692,783,436)**	**241,435,209**	**1,793,136,636**	**(1,358,623,012)**	**(16,834,603)**

	31/12/18				
	EUR	Other EU currencies	USD	Other	Total
Assets	19,649,368,017	692,045,099	2,156,358,363	2,650,027,850	25,147,799,329
Liabilities	19,912,291,805	840,383,059	3,674,395,036	720,729,429	25,147,799,329
NET ON-BALANCE SHEET POSITION	**(262,923,788)**	**(148,337,960)**	**(1,518,036,673)**	**1,929,298,421**	**0**
Off-balance sheet – receivable	6,135,094,866	1,528,505,669	7,387,467,661	3,495,441,497	18,546,509,693
Off-balance sheet – payable	5,826,692,398	1,384,951,610	5,869,695,070	5,463,643,591	18,544,982,669
NET OFF-BALANCE SHEET POSITION	**308,402,468**	**143,554,059**	**1,517,772,591**	**(1,968,202,094)**	**1,527,024**

12.8 Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios.

	31/12/17	31/12/18
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**1,032,564,192**	**1,171,431,946**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**749,216,967**	**884,019,359**
Capital, share premium and own shares	847,974,270	847,974,270
Reserves, retained earnings and eligible result	306,465,068	378,006,495
Regulatory and transitional adjustments[1]	(405,222,371)	(341,961,406)
ADDITIONAL TIER 1 CAPITAL (AT1)	**150,000,000**	**150,000,000**
Contingent convertible bond (issued on June 30, 2014)	150,000,000	150,000,000
TIER 2 CAPITAL (T2)	**133,347,225**	**137,412,587**
Subordinated liabilities	133,347,225	137,412,587
IRB excess	0	0
RISK WEIGHTED ASSETS	**6,750,671,370**	**8,187,747,857**
Credit risk	5,919,973,228	7,356,361,254
Market risk	68,432,242	61,199,155
Operational risk	736,457,321	745,194,197
Credit Value Adjustment	25,808,579	24,993,251
SOLVENCY RATIOS		
Common Equity Tier 1 Capital ratio	11.10%	10.80%
Tier 1 ratio	13.32%	12.63%
Capital Adequacy ratio	15.30%	14.31%

1 REGULATORY AND TRANSITIONAL ADJUSTMENTS - COMMON EQUITY TIER 1	**31/12/17**	**31/12/18**
Goodwill and intangible assets	(106,595,730)	(139,284,824)
Deferred tax assets that rely on future probability	(172,500,212)	(198,619,395)
Fair value reserves related to gains or losses cash flow hedges	3,157,763	4,812,604
Gains or losses on liabilities at fair value resulting from own credit	(436,710)	(380,283)
Additional Value Adjustment	(1,457,137)	(3,103,497)
Defined benefit pension fund assets	(6,464,000)	(4,376,001)
AGDL reserves	(11,024,510)	(1,010,010)
Unrealised gains or losses measured at fair value	(109,901,835)	0
TOTAL REGULATORY AND TRANSITIONAL ADJUSTMENTS ON COMMON EQUITY TIER 1	**(405,222,371)**	**(341,961,406)**

The figures are computed according to Basel III rules (CRR 575/2013 and CSSF Regulation 18-03). During 2018, the Bank has complied with the minimum capital required by the Regulator.

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

Proposed allocation of 2018 net income

The Board of Directors proposed to the General Meeting of Shareholders that the profit be used as follows:

EUR	
Net income for the year	86,589,606
Allocation to "Legal reserve"[1]	0
Allocation to "Retained earnings"	(86,589,606)
TOTAL	**0**

[1] No additional allocation is mandatory since the legal reserve already amounts to 10 % of the subscribed capital.