Semi-annual Report

as at June 30, 2017

BIL

1856

BANQUE INTERNATIONALE À LUXEMBOURG

Semi-annual Report

as at June 30, 2017

Consolidated management report

Corporate governance (as at June 30, 2017)

Board of Directors

Chairman

Luc Frieden

Vice-Chairman

George Nasra

Members

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

Board Strategy Committee

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

Board Audit and Compliance Committee

Chairman	*Members*
Maurice Lam	Nicholas Harvey Vincent Thurmes

Board Risk Committee

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

Board Remuneration and Nominations Committee

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

Management Board

Chairman

Hugues Delcourt Chief Executive Officer

Vice-Chairman

Pierre Malevez Chief Financial and Risks Officer

Members

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

Audit (Permanent Invitee)

Pia Haas Chief Internal Auditor

Business Review and Results

1. Highlights of the first six months of 2017

BIL2020 STRATEGY IMPLEMENTATION ONGOING

Since 2015, the Bank has been implementing the BIL2020 strategy which aims at strengthening BIL group's position as a leading multi-business bank by placing a greater focus on innovation and client satisfaction. BIL conducted a mid-term review of the strategy in spring 2017. While the main points of BIL2020 as outlined in 2015 were confirmed, the review led to a greater integration of the IT strategy and a number of additional growth and efficiency initiatives.

More specifically, the IT strategy was bundled with other major regulatory projects, digital developments and the Loans project (which aims to develop an end-to-end credit platform) to ensure greater coherence with our commercial strategy. The implementation of a new Core Banking System and a strengthened digital strategy will ensure BIL remains at the forefront of technological innovation and can continue to offer clients innovative services.

DIGITALISATION CONTINUES

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 the Bank's overall competitive differentiation. Innovative digital measures undertaken in the first half of 2017 included the implementation of mobile alerts which enable clients to monitor their account movements on their mobile phones in real time. In addition, BIL deployed Fujitsu's Sign'IT technology for paperless cash withdrawals and deposits throughout the branch network.

STRONGER CLIENT SEGMENTATION

The BIL2020 strategy also foresees a stricter client segmentation which will enable the Bank to offer more tailored services. In this context, the private banking division is optimising its approach to the Luxembourgish market which was supported by a dedicated campaign with a new visual identity in May 2017.

BIL is also placing a stronger focus on business owners. A dedicated service was launched in March which offers them a single point of access for wealth management, corporate banking and retail banking, thereby meeting both their business and private banking needs.

The first half of 2017 saw BIL increasingly focus on startup support via new partnerships with Jonk Entrepreneuren in March and the Paul Wurth InCub in May. While Jonk Entrepreneuren is a non-profit organisation which aims to introduce young people to economic and business concepts, Paul Wurth InCub is an incubator that supports industrial technology startups.

BIL is the first bank to support Paul Wurth InCub. Under the partnership, BIL will supply financing tools (including loans eligible for the InnovFin guarantee) and project evaluation expertise. BIL also strives to encourage more women to start their own businesses and so the Bank hosts the Woman Business Manager of the Year competition every April. The two winners received prize money of EUR 10,000 each. BIL also aims to support the winners as part of its innovation and start-up initiatives as they expand their businesses going forward.

REGULATORY COMPLIANCE TAKES CENTRE STAGE

Major regulatory changes are taking up an increasing amount of the Bank's resources. BIL is currently implementing the MiFID II requirements which will result in increased transparency for investors. In this context, the Bank is currently also reviewing its private banking offering and its overall pricing structure.

CONTINUED DEDICATION TO LUXEMBOURG

Luxembourg remains BIL's core market and the Bank continues to offer clients in the Grand Duchy the maximum range of services. Not least since the government holds a 10% stake in BIL, the Bank also takes great pride in supporting government initiatives. For example, BIL acted as a joint lead manager for a EUR 2 billion Luxembourgish government bond issue in January, registering subscriptions of EUR 1.9 billion from its institutional clients in the record time of one hour and 15 minutes.

Also in January, BIL signed the Klimabank agreement with the Luxembourgish government which provides zero interest mortgages for the sustainable renovation of housing. In addition, BIL held several tax conferences in February to inform both resident and non-resident clients of upcoming changes under the tax reform.

BIL's commitment to Luxembourg is also exemplified by our corporate social responsibility activities. Highlights in the first half of 2017 included the donation of EUR 30,000 to the local branch of SOS Villages d'Enfants Monde, the Meilleurs voeux exhibition featuring Raymond Niesen's art collection in the Galérie Indépendance and the awarding of the first Indépendance Grant to Laura Mannelli.

Launched in February 2017 by the National Cultural Fund, the Fondation Indépendance and BIL, this is the only grant in Luxembourg in support of digital arts. Laura Mannelli's project, The Promises of Monsters, will be displayed at the Galérie Indépendance from 19 October.

EXTERNAL RECOGNITION

BIL's universal service offering in Luxembourg combined with its continued focus on innovation and digitalisation once again received international recognition in the first half of 2017. In addition to stable ratings by the major rating agencies, BIL was awarded the title of "Best Bank in Luxembourg 2017" by Global Finance magazine in May. BIL also won Euromoney magazine's award for "Best Private Bank for Super Affluent Clients in Luxembourg" in March 2017.

STRENGTH OF COMMERCIAL FRANCHISES

The "Retail, Corporate and Wealth Management" business lines have once again delivered a strong performance in the first half of 2017.

- Assets under Management (AuM) increased by 5.3%, reaching EUR 39.7 billion compared to EUR 37.7 billion at the end of 2016. This increase resulted essentially from new net inflows of EUR 1.6 billion attributable to all business lines and a positive market effect of EUR 0.4 billion;
- Customer deposits were up by 2.6%, reaching EUR 16.5 billion (versus EUR 16.1 billion at year-end 2016). Following cash conversion initiatives and favourable conditions, the Bank noticed a positive shift in product mix primarily in Wealth Management which explained the higher growth in AuM compared to deposits;
- Customer loans increased globally by 5.7% to EUR 12.7 billion compared with EUR 12 billion at year-end 2016. Part of this increase resulted from commercial activities' contributions for EUR 0.3 billion and Treasury and Financial Markets for the remaining difference (EUR 0.4 billion).

ROBUST PROFITABILITY

BIL reported a strong net income after tax of EUR 98 million in June of 2017, compared with EUR 45 million in June 2016. This change (EUR 53 million) is mainly due to:

- Capital gains generated by "Treasury and Financial Markets" (TFM);
- Positive performance of the core operating activities;
- Limited tax expenses.

2017 income included EUR 40 million of capital gains from Investment Portfolio sales compared to EUR 9 million generated in 2016.

The core operating net income before tax (excluding non-recurring items and capital gains) reached EUR 69 million in 2017, a positive evolution of 14% compared to 2016 figures (EUR 60 million).

The tax expenses reached EUR 8 million in 2017 compared to EUR 20 million in 2016.

LONG-TERM COUNTERPARTY CREDIT RATINGS

In March 2017, Fitch confirmed BIL's ratings as BBB+/Stable/F2. Both Standard and Poor's and Moody's ratings remain unchanged (A-/Stable/A-2 and A2/Positive/P-1).

IFRS 9

IFRS 9 is a new accounting standard which replaces the existing standard IAS 39. It notably governs provisioning for expected credit losses. The implementation deadline for the new standard is January 1, 2018.

A key change introduced by IFRS 9 is the move from an incurred credit loss model to a forward-looking, expected lifetime credit loss model.

The standard is divided into 3 sections:

Section I – Classification and measurement of financial instruments: new classification and measurement model based on the entity's business model and the contractual cash flow characteristics of the individual financial asset.

Section II – Impairments: change to an expected loss model versus an incurred loss model under IAS 39.

Section III – Hedging: when an entity first applies IFRS 9, it may choose to continue to apply the hedge accounting requirements of IAS 39 as its accounting policy until a formal standard on macro hedging is introduced. This policy shall apply to all of an entity's hedging relationships.

SECTION I – CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an on-going basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model under which an asset is held.

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

The Bank does not expect major changes in the classification and measurement of financial liabilities. Therefore, the focus is rather on the classification and measurement of financial assets.

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

There are three portfolios for financial assets:

- Financial assets at amortised cost: financial assets whose business model is to collect cash flows and which passed the SPPI test. These assets will mainly include the loans of the Bank as well as bonds;
- Financial assets at fair value through other comprehensive income: financial assets whose business model is to collect cash flows and sell, and which passed the SPPI test. This portfolio will include bonds as well as equities since the Bank has irrevocably elected to present in other comprehensive income subsequent changes in the fair value of all the investments in equity instruments;
- Financial assets measured at fair value through profit or loss will include financial assets held for trading such as:
  - derivatives held for trading and assets that the Bank intends to sell immediately or in the near term;
  - the non-trading financial assets mandatorily at fair-value through P&L (financial assets whose business model is to collect cash flows or to collect cash flows and sell but which did not pass the SPPI test);
  - and financial assets designated at fair-value through profit or loss (to avoid an accounting mismatch).

The Bank's exposures are classified into two portfolios:

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

The TFM products have been reviewed to define their classification and measurement under IFRS 9. All products (bonds, interbank exposures and credit facility exposures managed by the dealing room) passed the SPPI test. Regarding the existing loan book, SPPI tests have been successfully completed, properly documented and reviewed by external auditors.

In parallel, the Bank has established relevant procedures, notably in relation with the "SPPI checks", and has reviewed the loans granting process in order to ensure that new production will be entirely SPPI compliant. Any non SPPI product will be treated through the "New Product" procedure. The Bank has delivered training sessions on IFRS 9 in which these new processes and procedures have been presented to front office and support staff.

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

The Bank's business models will be submitted to the Management Board and Board Strategy Committee in October 2017 to confirm the strategy and the new classification under IFRS 9. The developments to allow the transfers of bonds have been completed. The Bank is now ready to perform transfers, and to manage portfolios consistently within the new classifications. The Bank has also established an appropriate framework to deal with any potential future change in the business model.

SECTION II – IMPAIRMENT

At this stage, BIL is working on the deployment of solutions related to the different impairment topics in order to be IFRS 9 compliant. It is worth mentioning the following points:

Credit Risk parameters: approaches have been designed on the following subjects: (i) Point in time probability of default (PD), (ii) Lifetime PD, (iii) Point in time Loss Given Default (LGD), (iv) Lifetime Collateral value, (v) Inclusion of the Credit Conversion Factor (CCF), (vi) Use of behavioural maturity assumption and, (vii) IFRS 9 discount factor.

Staging criteria: the following approaches have been defined:

- For Stage 1: the account is not in default and is neither considered to have significantly increased in credit risk since initial recognition;
- For Stage 2: different criteria have been set up (one criteria is sufficient): (i) the account is considered to have significantly downgraded in rating master scale since initial recognition, (ii) the account is considered to be in Forbearance performing,

(iii) the account is classified under Non-Performing Exposure (NPE) without default and, (iv) the account that is more than 30 days past due;
- For Stage 3: the account is in default based on BIL's definition and the impairment is calculated at a level equal to the lifetime expected credit loss or based on Non-Performing Forbearance.

Forward-looking features: the consideration of forward looking features is currently being analysed. Several approaches are under analysis:
- Macroeconomic scenarios: internal scenario, external scenario, regulatory scenario;
- The weighted schemes for these scenarios: for the integration of economic forecasts in ECL calculation, the methodological approach is to calculate a weighted average of the three scenarios.

Tools: three tools have been set up in order to comply with the IFRS 9 regulation:
- ECL and Staging: the master tool used to manage the staging classification and to calculate the Expected Credit Losses. Accounting and reporting requirements have been defined and developments are currently in progress. This tool is fed by the Core Banking System for all operational data needed and by two tools regarding the forward looking parameters;
- And two additional tools which provide the PD and LGD one year and lifetime for low default portfolios and high default portfolios.

SECTION III – HEDGE ACCOUNTING

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

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

(in EUR million)	30/06/16	30/06/17	Change versus 2016	%
Income	250	299	49	20%
Expenses	(180)	(189)	(9)	5%
Gross operating income	**70**	**111**	**41**	**58%**
Cost of risk and provisions for legal litigation	(5)	(5)	(0)	10%
Net income before tax	**65**	**106**	**40**	**62%**
Tax expense	(20)	(8)	13	(63%)
Net income	**45**	**98**	**53**	**117%**

CONTRIBUTION TO THE CONSOLIDATED STATEMENT OF INCOME BY BUSINESS LINE

(in EUR million)	Commercial activities and Treasury and Financial Markets		Group Center		Total		Change versus 2016	%
	30/06/16	30/06/17	30/06/16	30/06/17	30/06/16	30/06/17		
Income	262	314	(12)	(15)	250	299	49	20%
of which core operating income	*253*	*274*	*(6)*	*(15)*	*247*	*259*	*12*	*5%*
Expenses	(177)	(179)	(3)	(10)	(180)	(189)	(9)	5%
of which core operating expenses	*(177)*	*(179)*	*(3)*	*(6)*	*(180)*	*(185)*	*(5)*	*3%*
Gross operating income	84	135	(14)	(25)	70	111	41	58%
of which core gross operating income	*76*	*95*	*(8)*	*(21)*	*67*	*74*	*7*	*10%*
Cost of risk and provisions for legal litigation	(8)	(7)	3	2	(5)	(5)	(0)	10%
of which core operating cost of risk	*(8)*	*(7)*	*1*	*2*	*(7)*	*(5)*	*2*	*(27%)*
Net income before tax	76	128	(11)	(23)	65	106	40	62%
of which core operating net income before tax	*68*	*88*	*(7)*	*(19)*	*60*	*69*	*9*	*14%*
Tax expenses					(20)	(8)	13	(63%)
Net income					**45**	**98**	**53**	**117%**

Income

Income totalled EUR 299 million at the end of June 2017, compared with EUR 250 million at the end of June 2016. As previously mentioned, part of the increase is due to capital gains for EUR 31 million, a non-recurring variation of EUR 7 million (of which investment write-off in 2016 for EUR 6 million) and a positive evolution of core operating income for EUR 12 million.

The increase in core operating income (EUR 12 million) is mainly due to growth in commercial activities and TFM (EUR 21 million) which was partially offset by a loss of income within the Group Center (EUR 9 million).

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

Commercial activities increased by EUR 24 million compared to 2016, mainly due to BIL Luxembourg (EUR 23 million). Despite the low interest rate environment, net interest income increased by EUR 9 million through growth in terms of loans and the progressive implementation of negative interest rates charges for certain client segments on the deposits side. Assets under Management have increased significantly since June 2016 by EUR 3.9 billion leading to a positive contribution of fees income of EUR 8 million.

TFM contribution to the core operating income decreased by EUR 3 million compared to 2016. Assets and Liabilities Management added EUR 2 million mainly in interest margin income. Treasury and Financial Markets contributed to the growth by EUR 2 million through Correspondent Banking and Forex activities. Meanwhile, the Investment Portfolio desk decreased by EUR 7 million essentially in terms of interest margin in line with sales realised since the second semester of 2016 leading to a reduction of the portfolio size compared to June 2016.

Group Center activities generated a negative contribution to core operating income of EUR 15 million compared to a negative contribution of EUR 6 million in 2016. This decrease was mainly due to the DGS and Resolution Fund contributions and the funding costs of subordinated debt issued during 2016.

Expenses

General expenses totalled EUR 189 million, up 5% compared with June 2016 (EUR 180 million) or 3% limited to core operating expenses excluding the non-recurring costs.

Core operating expenses increased by EUR 5 million, primarily due to BIL Luxembourg (EUR 7 million) and were compensated by a reduction of costs in several other entities.

While the number of employees has remained stable, staff costs increased following the salary indexation applied in January 2017. The Bank also continued to implement the BIL2020 strategy and in this context started the implementation of its IT strategy since 2016. These developments influenced on the one hand, the operating expenses in terms of maintenance and external consultancy and on the other hand, the depreciation in line with the IT investments.

Gross operating income

Gross operating income amounted to EUR 111 million. The increase of EUR 41 million compared with 2016 is due to capital gains for EUR 31 million, core activities for EUR 7 million and limited non-recurring items for EUR 3 million. The core gross operating income amounted to EUR 74 million, EUR 7 million above the first half of 2016, mainly due to the commercial activities and TFM for EUR 19 million.

Cost of risk and impairments

BIL group recorded net provisions on loans and advances of EUR 5 million, compared to the core operating cost of risk of EUR 7 million in June of 2016. In 2017, specific value adjustments on loans reached EUR 9 million (up EUR 2 million compared to 2016) in accordance with the Bank's cautious provisioning policy. The Bank posted a reversal of EUR 4 million of collective impairments on its loan books. Impaired loans as a percentage of total outstanding loans amounted to 2.84% in June 2017 versus 2.85% in December 2016, reflecting the high quality of the Bank's assets.

Net income before tax

Net income before tax stood at EUR 106 million at the end of June 2017. Core operating net income before tax reached EUR 69 million with a solid growth of 14 % (EUR 9 million) compared to the previous year.

Tax

The 2017 tax expenses stood at EUR 8 million. The tax expenses were partially offset by a write back of impairment on tax losses carried forward during the first half of 2017.

Net income

At the end of the first half of the year, the Bank generated a net profit of 98 million. Despite very low interest rates, net income shows a strong performance, driven by a solid commercial franchise and boosted by the Bank's BIL2020 strategy.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET[1]

(in EUR billion)	31/12/16	30/06/17	Change versus 2016	%
ASSETS	**23.1**	**23.9**	**0.7**	**3.2%**
Loans and advances to credit institutions	3.2	3.9	0.8	25.0%
Loans and advances to customers	12.0	12.7	0.7	5.7%
Financial investments	6.9	6.2	(0.7)	(10.5)%
Positive fair value of derivative products	0.2	0.2	0.0	(18.0)%
Other assets	0.8	0.8	0.0	3.5%
LIABILITIES	**23.1**	**23.9**	**0.7**	**3.2%**
Amounts due to credit institutions	2.2	2.8	0.5	24.2%
Amounts due to customers	16.1	16.5	0.4	2.6%
Negative fair value of derivative products	0.4	0.4	(0.1)	(17.7)%
Debt securities	2.4	2.3	(0.1)	(3.8)%
Subordinated debts	0.3	0.3	0.0	(2.5)%
Other liabilities	0.4	0.4	0.0	(9.6)%
Shareholders' equity	1.3	1.3	0.0	(0.7)%

Asset movements

"Loans and advances to customers" increased by EUR 0.7 billion (+5.7%). This increase partly resulted from commercial activities for EUR 0.3 billion, and partly from institutional banking activities of TFM. Outstanding mortgage loans increased during the first half of 2017 by EUR 0.2 billion (+4.3%). The Bank continued to develop its retail and corporate banking activities in Luxembourg.

"Financial investments" reached EUR 6.2 billion (-10.5%). The decrease of EUR 0.7 billion resulted from sales and maturing positions over 6 months and from limited replacement in new investments within the same timeframe. The Investment Portfolio consists mainly of assets eligible for refinancing by the European Central Bank (ECB) that qualify as liquidity reserves under Basel III and the CRD IV Directive. These assets enable the Bank to fully comply with liquidity ratio requirements.

"Loans and advances to credit institutions" increased by EUR 0.8 billion (+25%). The liquidity surplus placed in central banks was due to delayed reinvestment on the bond portfolio.

Liability movements

"Amounts due to credit institutions" increased by EUR 0.5 billion (+24.2%). This increase was partly due to participation in targeted, long-term refinancing operations (TLTRO II). The Bank has also actively managed its liquidity position by using short term interbank deposits and repos.

"Amounts due to customers" showed a moderate increase of EUR 0.4 billion (+2.6%) compared to AuM evolution (+5.3%) as the Bank continues to encourage its clients to invest in more attractive alternatives to low yielding deposits. The increase is mainly due to a rise in demand deposits (EUR +0.2 billion) and term deposits (EUR +0.3 billion).

"Shareholders' equity" decreased by EUR 8 million (-0.7%). This decrease was due to the dividend payment of EUR 60 million in April 2017 and the decrease of EUR 41 million in the revaluation reserves on assets available for sale partially offset by the 2017 half-year net profit of EUR 98 million.

3. Outlook

For the next few years, BIL will continue implementing the BIL 2020 strategy as defined in 2015. Supporting initiatives scheduled for the next six months include a pricing review, a frontline private banking excellence programme and the freeing up of capacity in the retail and corporate banking front office through an end to end process review. In addition, digital and analytical capabilities will be developed to enhance the overall customer experience and improve selected customer journeys.

On the IT side, business functionalities such as commercial tools, risk reporting as well as an improved data architecture, functional planning and cluster preparation are scheduled to be put in place by the end of 2017. In the coming years, the Core Banking System will gradually be replaced in parallel to the regulatory projects and digital strategy. This poses the ambitious challenge for IT of not only analysing and developing the new system while at the same time staying on track with innovative measures such as a greater use of robotic process automation.

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

In addition, BIL is dedicating a large amount of resources to the implementation of MiFID II which will enter into force on 3 January 2018. In the wake of MiFID II, the Bank aims to simplify its investment offering as well as its pricing to offer clients greater transparency. In the coming years, we expect the General Data Protection Regulation (GDPR) to take centre stage when it comes to compliance measures.

The acquisition of Precision Capital's 89.936% stake in BIL by Legend Holdings as announced on 1 September 2017 will not affect this outlook. This acquisition represents a long-term strategic investment for Legend Holdings. The proposed transaction remains subject to ECB/CSSF approval and that of other regulatory authorities as well as to Legend Holdings shareholder approval.

Legend Holdings is committed to provide financial and operational support to maintain and grow the BIL brand domestically and internationally, further enhance its customer offering and support the existing management in the delivery of its BIL2020 strategy to achieve sustainable growth.

Risk Management

1. Key events in the first half of 2017

Corporate structure and risk profile

Since the end of 2014, important strategic initiatives have been undertaken at a group-wide level, impacting thus naturally BIL group's corporate structure and risk profile. All these initiatives have been carefully followed by the Bank's Risk Management department whose main objective is to oversee their implementation by ensuring, on an on-going basis, that the related risks are under control and compatible with the institution's risk appetite.

Main events having impacted the Bank's risk profile evolution during the first semester of 2017 are described in the management report in section "Business Review and Results".

Regulatory environment

During the first half of 2017, BIL continued to invest time and resources in making sure that it is and will always be compliant with regulatory standards.

BIL is involved in the ECB Thematic Targeted Review of Internal Models (TRIM), which aims at enhancing the credibility and confirming the adequacy and appropriateness of approved Pillar I internal models permitted for use by significant institutions when calculating own funds requirements. In this context, an on-site inspection started at the beginning of April 2017 and Risk Management teams involved in the process have actively worked with the supervisory inspectors in order to provide the necessary data and information. Conclusions of the exercise are expected in the second half of 2017.

The Bank is still working on the IFRS 9 project in order to be compliant on time (i.e. January 1, 2018).

Another important project for the Bank concerns the Interest Rate Risk in the Banking Book (IRRBB) which refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. During the first quarter of 2017, the ECB performed supervisory stress tests. Regarding the outcome of the stress tests, BIL demonstrated resilience to adverse rate shocks. Moreover, in the context of the Bank Recovery and Resolution Directive (BRRD), BIL participated in several requests from regulators, including the Single Resolution Board (SRB) data collection for resolution planning and determining the Minimum Requirement for own funds and Eligible Liabilities (MREL). Furthermore, at the beginning of the year, BIL also participated in several workshops in order to assess BIL's MREL.

In addition, AnaCredit is a project which the Bank is also working on. It consists of setting up a dataset containing detailed information on individual bank loans in the euro area, harmonised across all Member States. The data collection is scheduled to start in September 2018 (with data of March 2018).

Finally, it is also worth mentioning that the Bank has participated to various ad-hoc regulatory exercises including the Benchmarking Portfolios Exercise in April 2017 and the EIOPA pension funds stress tests. Against which, BIL provided satisfying results for all these exercises.

2. Credit risk

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

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

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

The substitution principle applies where the credit risk exposure is guaranteed by a third party with a lower risk weighting. Therefore, counterparties presented hereafter are final counterparties, i.e. after taking into account any eligible guarantees.

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

As at end June 2017, the Bank's total credit risk exposure amounted to 26.3 billion compared to 25.7 billion at the end of 2016.

The main increases are concentrated on Central Governments (+0.38 billion) and Individual, SME and Self-Employed (+0.29 billion) segments while exposures towards Financial Institutions and Securitisation decreased respectively by 95 and 69 million.

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

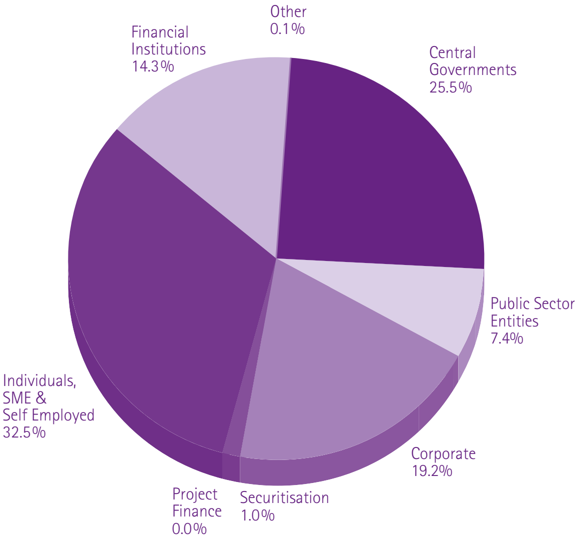
Exposure by type of counterparty

As at June 30, 2017, and in line with BIL group's business model and strategy, the *Individuals, SME* and *Self Employed* segment remained the Bank's largest portfolio, representing around 32.5% of the overall exposure.

The *Central Governments* exposure weighting slightly increased compared with year-end 2016 and remained the second segment of the Bank's portfolio, representing 25.5% of the overall exposure.

EXPOSURES BY COUNTERPARTY CATEGORY

(in EUR million)	30/06/16	31/12/16	30/06/17	Variation
Central Governments	5,895	6,308	6,688	380
Public Sector Entities	1,815	1,870	1,933	63
Corporate	4,565	5,067	5,050	(17)
Securitisation	304	325	256	(69)
Project Finance	7	0	0	(0)
Individuals, SME & Self Employed	7,961	8,250	8,541	291
Financial Institutions	4,086	3,852	3,757	(95)
Others	21	3	35	32
TOTAL	**24,654**	**25,675**	**26,260**	**585**



Exposure by geographical region

As at June 30, 2017, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (48.1%), Switzerland (10%), France (9.8%), Germany (5.5%) and Belgium (5.3%).

EXPOSURES BY GEOGRAPHIC REGION

(in EUR million)	30/06/16	31/12/16	30/06/17	Variation
Belgium	1,632	1,428	1,385	(43)
France	2,802	3,045	2,571	(474)
Germany	1,160	1,344	1,447	103
Switzerland	1,252	938	2,639	1,701
Greece	1	1	1	0
Ireland	469	276	387	111
Italy	601	248	114	(134)
Luxembourg	11,217	13,306	12,642	(664)
Spain	648	680	729	49
Portugal	7	7	6	(1)
Other EU countries	2,251	1,757	1,810	53
Turkey	7	7	6	(1)
Rest of Europe	677	553	502	(51)
United States and Canada	717	632	742	110
Central and South America	11	19	6	(13)
Japan	68	48	50	2
South-east Asia	278	225	254	29
Other	856	1,161	969	(192)
TOTAL	**24,654**	**25,675**	**26,260**	**585**

Exposure to PIIGS

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

	31/12/16	30/06/17											
(in EUR million)		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	TOTAL
Ireland	121	0	0	0	0	0	0	0	78	110	86	0	274
Italy	144	0	0	0	0	0	0	0	29	0	0	0	29
Spain	392	8	21	32	32	50	48	54	79	65	46	75	510
TOTAL	657	8	21	32	32	50	48	54	186	175	132	75	813

The Bank's portfolio exposure towards PIIGS has increased compared to year-end 2016 which can be explained by the Bank's decision to take advantage of market opportunities in Ireland and Spain, but also to reduce its exposure in Italy due to the macroeconomic environment.

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

Forbearance

BIL monitors closely its forborne exposures, in line with the definition stated in the publication of the Official Journal of the European Union dated February 2015.

The previous CSSF definition of restructured credit is close to this definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). These measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

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

In order to comply with the regulatory standards, BIL group has set up a dedicated project aimed at (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) implementing these criteria across the systems.

For all counterparties, dedicated analyses are carried out at single credit files' level in order to identify those that should be classified as forborne according to the regulatory definition. The granting of forbearance measures is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

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

As at June 30, 2017, BIL group's forborne exposures amounted to EUR 279.8 million (including EUR 3.1 million as given banking guarantees) compared to EUR 294.1 million at year-end 2016.

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

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

Credit quality of forborne financial assets

Information on forborne financial assets broken down by category (i.e. neither past due nor impaired, past due but not impaired and impaired) and counterparty type is disclosed in the following table, in line with IFRS 7 requirements.

(in EUR million)	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Corporate	28	13	36	77
Individuals, SME & Self-Employed	129	26	45	200
TOTAL	**157**	**39**	**81**	**277**

Forborne assets split by industry sector and geographical region [1]

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

SECTOR	BELGIUM	FRANCE	GERMANY	LUXEMBOURG	OTHERS	REST OF EUROPE	TOTAL
Accommodation and food service activities			2	4			**6**
Administrative and support service activities			1	0			**1**
Agriculture, forestry and fishing				1			**1**
Arts, entertainment and recreation			2	0			**2**
Construction	0			11			**11**
Electricity, gas, steam and air conditioning supply				42			**42**
Financial and insurance activities				58	1	5	**64**
Human health and social work activities			1	3			**4**
Information et communication			0	0		1	**1**
Manufacturing			0	1			**2**
Other service activities			2	0		0	**2**
Professional, scientific and technical activities		1	0	4			**5**
Public administration and defence; compulsory social security				0			**0**
Real estate activities	6	35	2	12		43	**99**
Transportation and storage				0			**0**
Undefined activities	1	6	1	16	1		**24**
Wholesale and retail trade; repair of motor vehicles and motorcycles		0	2	12			**14**
TOTAL	**7**	**42**	**12**	**165**	**2**	**49**	**277**

[1] Rounding differences calculated on exact numbers.

Consolidated management report

Interim condensed consolidated financial statements

3. Market risk

Treasury and Financial Markets

VaR (10 days, 99%) per activity (in EUR million)	30/06/16	31/12/16	30/06/17		
	IR & FX (trading and banking)		IR & FX (trading and banking)	EQT Trading	TOTAL
Average	0.91	0.91	0.40	0.01	0.40
End of period	0.86	0.44	0.37	0.00	0.37
Maximum	1.48	1.48	0.68	0.03	0.68
Limit	8			8	

Because of the current context of near zero rates, the return calculation methodology was switched from relative to absolute. This method of calculating the VaR must be consistent with the market reality in order to capture more precisely the actual risk of the trading portfolio.

Investment Portfolio

BIL continued its investments in the portfolio during the first semester of 2017.

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 bond portfolios have a total nominal exposure of EUR 5.7 billion as at June 30, 2017 (against EUR 6.2 billion as at December 31, 2016).

The majority of the bonds are classified in the Available For Sale (AFS) portfolio: EUR 4.3 billion as at June 30, 2017 (against EUR 5.7 billion as at December 31, 2016). The remaining part is classified in Held To Maturity (HTM) portfolio: EUR 1.5 billion (EUR 0.5 billion as at December 31, 2016).

As far as the AFS-classified bond portfolio is concerned, the sensitivity of fair value (and the AFS reserve), to a one basis point widening of the spread, was EUR -2.0 million as at June 30, 2017 (compared with EUR -3.0 million per basis point as at December 31, 2016).

The following table discloses the sensitivity of the investment portfolio that includes both the AFS and the HTM books.

	Notional amount			Rate bpv			Spread bpv		
(in EUR million)	30/06/16	31/12/16	30/06/17	30/06/16	31/12/16	30/06/17	30/06/16	31/12/16	30/06/17
Treasury	3,594	2,947	2,526	(0.15)	(0.10)	(0.11)	(1.40)	(1.24)	(0.98)
ALM	3,111	3,285	3,221	(1.40)	(1.39)	(1.32)	(2.19)	(2.17)	(2.25)

4. Asset quality [1]

Non-impaired loans and impaired loans to customers increased during the first semester 2017 while specific provisions decreased slightly.

(in EUR million)	30/06/16	31/12/16	30/06/17
Gross amount of non-impaired loans	11,973.4	12,002.9	12,665.1
Impaired loans to customers	344.1	351.8	370.3
Specific provisions	273.3	280.3	279.0
Asset quality ratio [2]	2.79%	2.85%	2.84%
Coverage ratio [3]	79.44%	79.67%	75.35%

The asset quality ratio amounts to 2.84% as at June 30, 2017 and has decreased slightly when compared to the 2016 year end situation (2.85%).

5. Solvency monitoring

See Note 8 of the consolidated financial statements.

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

Interim condensed consolidated financial statements

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

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

Report on review of interim financial statements

INTRODUCTION

We have reviewed the accompanying condensed consolidated balance sheet of Banque Internationale à Luxembourg S.A. as of June 30, 2017 and the related condensed consolidated statements of operations, comprehensive income, changes in equity and cash flows for the six-month period then ended (collectively, the "interim financial statements") and the notes thereon. The Board of Director's is responsible for the preparation and the fair presentation of the interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union. Our responsibility is to express a conclusion on the interim financial statements based on our review.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

September 29, 2017

Consolidated balance sheet

ASSETS (in EUR)		30/06/16 (unaudited)	31/12/16	30/06/17
I.	Cash and balances with central banks	1,010,627,766	2,085,823,944	2,834,882,318
II.	Loans and advances to credit institutions	1,251,847,160	1,071,276,155	1,112,654,990
III.	Loans and advances to customers	12,016,261,474	12,042,999,820	12,728,778,564
IV.	Financial assets measured at fair value through profit or loss	107,920,086	79,801,733	101,444,783
V.	Financial investments	7,816,989,624	6,917,484,841	6,189,346,984
VI.	Derivatives	309,745,992	245,883,149	201,683,022
VII.	Fair value revaluation of portfolios hedged against interest rate risk	8,670,003	6,523,489	4,654,185
VIII.	Investments in associates	26,814,468	28,274,796	24,110,205
IX.	Investment property	126,256,270	120,762,712	117,451,828
X.	Property, plant and equipment	103,542,682	107,055,746	107,157,016
XI.	Intangible fixed assets and goodwill	102,859,787	121,944,143	138,855,386
XII.	Current tax assets	46,021	214,285	173,599
XIII.	Deferred tax assets	241,343,411	243,692,753	252,812,814
XIV.	Other assets	104,188,271	76,921,160	65,798,270
TOTAL ASSETS		**23,227,113,015**	**23,148,658,726**	**23,879,803,964**

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

LIABILITIES

(in EUR)		30/06/16 (unaudited)	31/12/16	30/06/17
I.	Amounts due to credit institutions	2,465,143,365	2,216,090,000	2,753,179,281
II.	Amounts due to customers	15,980,673,229	16,129,249,400	16,545,695,660
III.	Financial liabilities measured at fair value through profit or loss	830,695,115	879,926,299	790,871,796
IV.	Derivatives	522,998,748	436,598,717	359,322,586
V.	Fair value revaluation of portfolios hedged against interest rate risk	56,345,450	48,683,055	40,474,039
VI.	Debt securities	1,350,737,665	1,529,888,297	1,528,293,093
VII.	Subordinated debts	352,586,877	293,936,368	286,470,638
VIII.	Provisions and other obligations	68,798,157	61,714,820	61,650,794
IX.	Current tax liabilities	3,974,815	3,878,602	4,258,711
X.	Deferred tax liabilities	2,273,412	2,759,526	3,450,015
XI.	Other liabilities	342,162,738	286,272,932	254,894,278
TOTAL LIABILITIES		**21,976,389,571**	**21,888,998,016**	**22,628,560,891**

SHAREHOLDERS' EQUITY

(in EUR)		30/06/16 (unaudited)	31/12/16	30/06/17
XII.	Subscribed capital	141,224,090	141,212,330	141,212,330
XIII.	Additional paid-in capital	708,297,160	708,216,940	708,216,940
XIV.	Treasury shares	(1,455,000)	(1,455,000)	(1,455,000)
XV.	Reserves and retained earnings	231,962,462	231,962,461	275,198,006
XVI.	Net income for the period	45,260,501	110,362,021	98,100,837
CORE SHAREHOLDERS' EQUITY		**1,125,289,213**	**1,190,298,752**	**1,221,273,113**
XVII.	Gains and losses not recognised in the consolidated statement of income	125,434,231	69,361,958	29,969,960
	a) AFS reserve	150,194,351	99,775,612	58,617,806
	b) Other reserves	(24,760,120)	(30,413,654)	(28,647,846)
GROUP EQUITY		**1,250,723,444**	**1,259,660,710**	**1,251,243,073**
XVIII.	Non-controlling interest	0	0	0
TOTAL SHAREHOLDERS' EQUITY		**1,250,723,444**	**1,259,660,710**	**1,251,243,073**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**23,227,113,015**	**23,148,658,726**	**23,879,803,964**

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

Consolidated statement of income

(in EUR)		30/06/16 (unaudited)	31/12/16	30/06/17
I.	Interest and similar income	235,356,512	480,781,377	255,281,603
II.	Interest and similar expense	(86,922,572)	(181,347,393)	(103,301,227)
III.	Dividend income	9,501	9,253	6,502
IV.	Net income from associates	1,754,368	3,013,906	1,443,464
V.	Net trading income and net result of hedge accounting	9,994,799	23,322,626	5,317,131
VI.	Net income on investments (assets and liabilities not designated at fair value through profit or loss)	13,442,752	47,042,743	54,905,352
VII.	Fee and commission income	109,384,137	220,757,947	117,649,921
VIII.	Fee and commission expense	(18,994,686)	(35,770,530)	(16,540,737)
IX.	Other net income	(13,908,303)	(16,426,653)	(15,278,752)
INCOME		**250,116,508**	**541,383,276**	**299,483,257**
X.	Staff expenses	(104,809,675)	(214,070,395)	(107,383,776)
XI.	General and administrative expenses	(62,839,603)	(128,610,493)	(66,603,071)
XII.	Amortisation of tangible and intangible fixed assets	(12,239,196)	(25,840,362)	(14,539,618)
EXPENSES		**(179,888,474)**	**(368,521,250)**	**(188,526,465)**
GROSS OPERATING INCOME		**70,228,034**	**172,862,026**	**110,956,792**
XIII.	Impairment on loans and provisions for credit commitments	(4,843,033)	(16,916,571)	(5,336,775)
XIV.	Provisions for legal litigation	0	0	0
NET INCOME BEFORE TAX		**65,385,001**	**155,945,455**	**105,620,017**
XV.	Tax expenses	(20,124,500)	(45,583,434)	(7,519,180)
NET INCOME FOR THE PERIOD		**45,260,501**	**110,362,021**	**98,100,837**
	Net income - Group share	45,260,501	110,362,021	98,100,837
	Non-controlling interest	0	0	0

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

Consolidated statement of comprehensive income

(in EUR)	30/06/16 (unaudited)	31/12/16	30/06/17
NET INCOME RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**45,260,501**	**110,362,021**	**98,100,837**
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**64,825,175**	**8,752,902**	**(39,391,997)**
Items that will not be reclassified to profit or loss	**(30,031)**	**(1,274,715)**	**194,825**
Actuarial gains (losses) on defined benefit pension plans - Gross	(48,074)	898,039	259,766
Actuarial gains (losses) on defined benefit pension plans - Tax	18,043	(2,172,754)	(64,941)
Items that may be reclassified to profit or loss	**64,855,206**	**10,027,617**	**(39,586,822)**
Gains (losses) on net investment hedge	(11,049)	(35,352)	54,875
Translation adjustments	247,122	(341,316)	947,719
Gains (losses) on cash flow hedge	(350,381)	(5,515,095)	6,725,827
Unrealised gains (losses) on available for sale financial investments	86,177,195	9,272,791	(55,618,849)
Share of other recognised income & expense of investments in subsidiaries, joint ventures & associates	3,925,905	4,126,695	(4,393,776)
Tax on items that may be reclassified to profit or loss	(25,133,586)	2,519,894	12,697,382
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**110,085,676**	**119,114,923**	**58,708,840**
Attributable to equity holders of the parent company	**110,085,676**	**119,114,923**	**58,708,840**
Attributable to non-controlling interests	0	0	0

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

Consolidated statement of changes in equity

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings [1]	Net income for the period	Core shareholders' equity
AS AT 01/01/16	**141,224,090**	**708,297,160**	**(1,455,000)**	**174,680,099**	**134,269,101**	**1,157,015,450**
Dividend paid				(69,986,624)		(69,986,624)
Classification of income 2015				134,269,101	(134,269,101)	0
Interest on contingent convertible bond				(7,033,762)		(7,033,762)
Dividend received on own shares				33,648		33,648
Net income for the period					45,260,501	45,260,501
AS AT 30/06/16 (unaudited)	**141,224,090**	**708,297,160**	**(1,455,000)**	**231,962,462**	**45,260,501**	**1,125,289,213**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Associates	Other reserves	Translation adjustments [2]	Gains and losses not recognised in the consolidated statement of income
AS AT 01/01/16	**89,146,369**	**(3,643,937)**	**1,963,809**	**(12,370,921)**	**(14,486,264)**	**60,609,056**
Net change in fair value through equity - Available for sale investments	69,144,383		3,925,905			73,070,288
Net change in fair value through equity - Cash flow hedges		(365,803)				(365,803)
Translation adjustments	16,544			(30,031)	247,122	233,635
Cancellation of fair value following AFS disposals	(8,112,945)					(8,112,945)
AS AT 30/06/16 (unaudited)	**150,194,351**	**(4,009,740)**	**5,889,714**	**(12,400,952)**	**(14,239,142)**	**125,434,231**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the consolidated statement of income	Non-controlling interests
AS AT 01/01/16	**0**	**0**	**0**
Changes in scope of consolidation	0	0	0
AS AT 30/06/16 (unaudited)	**0**	**0**	**0**

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

[1] Of which AGDL (Association pour la garantie des dépôts Luxembourg) reserve for EUR 20 million according to Circular CSSF 14/599 and legal reserve for EUR 14.1 million.
[2] As at June 30, 2016, translation adjustments comprise an amount of EUR -53,339,333 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 01/01/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**231,962,461**	**110,362,021**	**1,190,298,752**
Dividend paid				(60,015,240)		(60,015,240)
Classification of income 2016				110,362,021	(110,362,021)	0
Interest on contingent convertible bond				(7,140,094)		(7,140,094)
Dividend received on own shares				28,858		28,858
Net income for the year					98,100,837	98,100,837
AS AT 30/06/17	**141,212,330**	**708,216,940**	**(1,455,000)**	**275,198,006**	**98,100,837**	**1,221,273,113**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Associates	Other reserves	Translation adjustments[2]	Gains and losses not recognised in the consolidated statement of income
AS AT 01/01/17	**99,775,612**	**(8,030,943)**	**6,090,504**	**(13,645,635)**	**(14,827,580)**	**69,361,958**
Net change in fair value through equity - Available for sale investments	(5,124,472)		(467,871)			(5,592,343)
Net change in fair value through equity - Cash flow hedges		1,203,896				1,203,896
Net change in other reserves				0		0
Translation adjustments	(10,410)			194,824	947,719	1,132,133
Reimbursements for the period, disposals or maturities	0					0
Cancellation of fair value following AFS disposals	(36,022,924)		(3,925,905)			(39,948,829)
Cash flow hedge - Break in hedging		3,813,145				3,813,145
AS AT 30/06/17	**58,617,806**	**(3,013,902)**	**1,696,728**	**(13,450,811)**	**(13,879,861)**	**29,969,960**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the consolidated statement of income	Non-controlling interests
AS AT 01/01/17	**0**	**0**	**0**
Changes in scope of consolidation	0	0	0
AS AT 30/06/17	**0**	**0**	**0**

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

[1] Of which AGDL (Association pour la Garantie des Dépôts Luxembourg) reserve for EUR 14.9 million according to circular CSSF 14/599 and legal reserve for EUR 14.1 million.

[2] As at June 30, 2017, translation adjustments comprise an amount of EUR -51,909,052 relating to net investment hedges linked to foreign exchange differences in consolidated investments.

Consolidated cash flow statement

(in EUR)	30/06/16 (unaudited)	31/12/16	30/06/17
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the period	45,260,501	110,362,021	98,100,837
Adjustment for:			
- Depreciation and amortisation	18,148,256	37,658,671	17,881,359
- Impairment on bonds, equities and other assets	429,126	2,344,088	6,464,447
- Net gains / (losses) on investments	(790,570)	(1,130,738)	(8,563,999)
- Provisions (including collective impairment)	(11,203,862)	(17,921,262)	(355,668)
- Change in unrealised gains (losses)	(15,993)	378,423	3,856,336
- Income / (expense) from associates	(1,754,368)	(3,013,906)	(1,443,464)
- Dividends from associates	1,214,280	1,214,280	1,214,280
- Deferred taxes	19,875,315	44,642,450	7,001,139
- Other adjustments	0	(2,379,562)	0
Changes in operating assets and liabilities	(158,783,536)	504,833,361	754,058,592
NET CASH FLOW FROM OPERATING ACTIVITIES	**(87,620,851)**	**676,987,826**	**878,213,859**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(23,925,164)	(59,519,810)	(32,077,786)
Sale of fixed assets	10,540	(205,853)	214,949
Purchase of non-consolidated shares	(51,000)	(3,844,755)	0
Sales of non-consolidated shares	438,223	601,908	4,432,012
Acquisitions of subsidiaries	0	(20,000)	0
NET CASH FLOW FROM INVESTING ACTIVITIES	**(23,527,401)**	**(62,988,510)**	**(27,430,825)**
CASH FLOW FROM FINANCING ACTIVITIES			
Reimbursement of capital	0	(91,980)	0
Issuance of subordinated debts	50,000,000	140,929,757	0
Reimbursement of subordinated debts	(138,690,358)	(291,773,451)	0
Dividends paid	(69,986,624)	(69,986,624)	(60,015,240)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(158,676,982)**	**(220,922,298)**	**(60,015,240)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(269,825,234)**	**393,077,018**	**790,767,794**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**2,042,876,070**	**2,042,876,070**	**2,439,655,439**
Net cash flow from operating activities	(87,620,851)	676,987,826	878,213,859
Net cash flow from investing activities	(23,527,401)	(62,988,510)	(27,430,825)
Net cash flow from financing activities	(158,676,982)	(220,922,298)	(60,015,240)
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents	(905,030)	3,702,351	(5,209,771)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,772,145,806**	**2,439,655,439**	**3,225,213,462**
ADDITIONAL INFORMATION			
Taxes paid (-) / received (+)	(132,747)	(1,090,282)	(97,200)
Dividends received	9,501	9,253	6,502
Interest received	230,850,102	482,594,055	265,695,098
Interest paid	(84,545,426)	(174,304,423)	(108,376,763)

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

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

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

Notes to the interim condensed consolidated financial statements

Preliminary note:

Presentation of the interim condensed consolidated financial statements.

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

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

GENERAL INFORMATION

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

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

The object of BIL is to undertake all banking and financial operations, for its own account or for the account of third parties, in Luxembourg or abroad – including the establishment of subsidiaries, branches and representative offices – and to carry out all financial, industrial and commercial operations, as well as to take deposits of funds and to hold items of value on deposit. These interim condensed consolidated financial statements were approved on September 11, 2017 by the Management Board, and on September 26, 2017 by the Board of Directors.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

1. ACCOUNTING RULES AND METHODS

1.1 Basis of accounting

1.1.1 Statement of compliance

BIL's interim condensed consolidated financial statements are prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union (EU) and endorsed by the European Commission (EC) up to June 30, 2017.

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

A summary of the main accounting policies is provided in the consolidated financial statements as at December 31, 2016.

Since then, no changes in content were made in those accounting policies that had a material impact on the results.

1.1.2 Accounting estimates and judgements

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

Judgements are made principally in the following areas:
- Determination on whether BIL controls the investee, including special purpose entities;
- Classification of financial instruments into the appropriate category ("loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option") for measurement purposes based on the instrument's characteristics and BIL's intention;
- Identification of impairment triggers;
- Financial instruments for which no quoted market prices on active markets are available are valued by means of valuation techniques. The determination as to whether or not there is an active market is based on criteria such as number of contributors, bid offer spread and issue size;
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- The appropriateness of designating derivatives as hedging instruments; and

- Existence of a present obligation with probable outflows in the context of litigation.

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

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

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

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

The overview of the texts below is made up to the reporting date of June 30, 2017.

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

There has been no standard, interpretation or amendment endorsed by the European Commission and applied as from January 1, 2017.

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

There has been no standard, interpretation or amendment endorsed by the European Commission but not yet applicable as from January 1, 2017.

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

IFRS 17, "Insurance Contracts" (issued on 18 May 2017) establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. No impact on BIL financial reporting.

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

- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016): disclosure impact on BIL cash flow statement;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016): no impact on BIL financial reporting.

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

IFRS 9 will replace the existing standard IAS 39 as from January 1, 2018. The standard is divided into 3 sections:

Section I – Classification and measurement of financial instruments: new classification and measurement model based on the entity's business model and the contractual cash flow characteristics of the individual financial asset.

The Bank's exposures have been divided into portfolios according to the business model that have been defined internally. In addition, the Bank's products have been reviewed in accordance to the "SPPI" ("Solely payments of principal and interests") characteristics and SPPI checklists have been developed to ensure the compliance of the future production with the standard and the Bank's business models.

The Bank's business models will be submitted to the Management Board and Board Strategy Committee in October 2017 to confirm the strategy and the new classification under IFRS 9.

Section II – Impairments: change to an expected loss model versus an incurred loss model under IAS 39.

The credit risk parameters, the staging criteria and forward-looking features have been defined internally.

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

Note 2: Material changes in scope of consolidation

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

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

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

B. Main changes in the Group's interest percentage

N/A

C. Changes in corporate names

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

Note 3: Business reporting

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

In 2017, BIL kept the segmentation of its business lines:
- "Retail, Corporate and Wealth Management". Commercial activities are divided into three business lines: Retail & Digital Banking, Corporate & Institutional Banking, and Wealth & Investment Management;
- "Treasury and Financial Markets" (TFM) remained split into four desks: Treasury, Investment Portfolio, Assets and Liabilities Management (ALM) and Financial Markets, with dedicated teams supporting the commercial activities;
- "Group Center" mainly includes dividends from unconsolidated shareholdings and the results of non-operating entities as well as certain types of costs not attributable to the other business lines mentioned above.

INCOME (in EUR thousands)	30/06/16 (unaudited)			
	Income	*of which net income from associates*	*of which interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	228,212	*0*	*133,243*	61,084
Treasury and Financial Markets	33,413	*0*	*13,983*	15,345
Group Center	(11,509)	*1,754*	*1,218*	(11,044)
TOTAL	**250,116**	***1,754***	***148,444***	**65,385**
Net income before tax				65,385
Tax expense				(20,124)
NET INCOME				**45,261**

	30/06/17			
	Income	*of which net income from associates*	*of which interest income and dividend income*	Net income before tax
Retail, Corporate and Wealth Management	252,770	*0*	*142,104*	85,383
Treasury and Financial Markets	61,410	*0*	*10,759*	42,691
Group Center	(14,697)	*1,443*	*(876)*	(22,454)
TOTAL	**299,483**	***1,443***	***151,987***	**105,620**
Net income before tax				105,620
Tax expense				(7,519)
NET INCOME				**98,101**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/16		30/06/17	
	Assets	Liabilities	Assets	Liabilities
Retail, Corporate and Weath Management	12,043,000	17,516,211	12,728,779	17,907,791
Treasury and Financial Markets	10,364,117	3,606,985	10,396,860	4,026,365
Group Center	741,542	765,802	754,165	694,405
TOTAL	**23,148,659**	**21,888,998**	**23,879,804**	**22,628,561**

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

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

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

Note 4: Subordinated debts and debt securities

Subordinated debt

ANALYSIS BY NATURE	30/06/16 (unaudited)	31/12/16	30/06/17
Non-convertible subordinated debt [1]	203,005,877	144,346,452	136,871,806
Contingent convertible bond (compound instrument) [2]	149,581,000	149,589,916	149,598,832
TOTAL	**352,586,877**	**293,936,368**	**286,470,638**

Debt securities at amortised cost

ANALYSIS BY NATURE	30/06/16 (unaudited)	31/12/16	30/06/17
Certificates of deposit	113,494,295	156,500,962	56,435,438
Non-convertible bonds	1,237,243,370	1,373,387,335	1,471,857,655
TOTAL	**1,350,737,665**	**1,529,888,297**	**1,528,293,093**

Debt securities designated at fair value through profit or loss

ANALYSIS BY NATURE	30/06/16 (unaudited)	31/12/16	30/06/17
Non-convertible bonds	829,783,207	877,913,027	790,871,097
TOTAL	**829,783,207**	**877,913,027**	**790,871,097**

Note 5: Exchange rates

		30/06/16 (unaudited)		31/12/16		30/06/17	
		Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	1,4942	1,5113	1,4624	1,4852	1,4855	1,4435
Canadian dollar	CAD	1,4415	1,4650	1,4196	1,4582	1,4796	1,4532
Swiss franc	CHF	1,0824	1,0960	1,0743	1,0901	1,0927	1,0776
Danish krone	DKK	7,4389	7,4488	7,4340	7,4444	7,4360	7,4367
Pound sterling	GBP	0,8270	0,7848	0,8542	0,8228	0,8797	0,8606
Hong Kong dollar	HKD	8,6167	8,6474	8,1949	8,5652	8,9125	8,5095
Japanese yen	JPY	114,1812	123,8880	123,3914	120,4615	128,0075	122,1588
Norwegian krone	NOK	9,3080	9,3720	9,0953	9,2571	9,5627	9,2178
Polish zloty	PLN	4,4132	4,3664	4,4068	4,3666	4,2247	4,2499
Swedish krone	SEK	9,4305	9,2927	9,5567	9,4731	9,6321	9,5997
Singapore dollar	SGD	1,4959	1,5293	1,5264	1,5244	1,5708	1,5243
US dollar	USD	1,1105	1,1132	1,0568	1,1035	1,1417	1,0941

[1] List available upon request.
[2] On June 30, 2014 the Bank issued a EUR 150 million contingent convertible bond eligible as additional Tier 1 capital.

Note 6: Material items in the statement of income

For the period ending June 30, 2017, the material items in the statement of income are the following:

- The total income of EUR 299 million at the end of June 2017 was positively impacted by the net income on investments which amounted to EUR 54.9 million as at June 30, 2017 compared to EUR 13.4 million as at June 30, 2016;
- The general expenses totalled EUR 189 million as at June 30, 2017 showing an increase of 5% compared with June 2016. This increase is mainly due to staff costs which increased following the salary indexation applied in January 2017 and to the implementation costs related to its IT strategy since 2016;
- The specific value adjustments on loans reached EUR 9 million as at June 30, 2017 (up EUR 2 million compared to June 30, 2016) in accordance with the Bank's provisioning policy and the Bank posted a reversal of EUR 4 million of collective impairments on its loan books;
- The tax expenses were partially offset by a write back of impairment on tax losses carried forward during the first half of 2017.

Note 7: Post-balance sheet events

Since the closure of this financial period, the Bank announced the signing of an agreement between Precision Capital and Legend Holdings for the acquisition of 89.936% of Banque Internationale à Luxembourg.

The transaction, which is subject to regulatory approvals, is expected to close by the end of the first quarter 2018.

Note 8: Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios

	30/06/16 (unaudited)	31/12/16	30/06/17
TOTAL REGULATORY CAPITAL (CET1 + AT1 + T2)	**929,439,981**	**1,049,711,520**	**1,040,048,968**
COMMON EQUITY TIER 1 CAPITAL (CET1)	**779,266,636**	**755,081,759**	**752,086,550**
Capital share premium and own shares	848,066,250	847,974,270	847,974,270
Reserves retained earnings and eligible result	357,396,693	301,324,420	305,167,966
Regulatory and transitional adjustments [1]	(426,196,307)	(394,216,931)	(401,055,686)
ADDITIONAL TIER 1 CAPITAL (AT 1)	**150,000,000**	**150,000,000**	**150,000,000**
Contingent convertible bond (issued on June 30, 2014)	150,000,000	150,000,000	150,000,000
TIER 2 CAPITAL (T2)	**173,345**	**144,629,761**	**137,962,418**
Subordinated liabilities	173,345	144,629,761	137,588,684
IRB excess	0	0	373,734
RISK WEIGHTED ASSETS	**5,975,178,252**	**5,819,065,531**	**6,439,849,954**
Credit risk	5,118,336,027	4,942,486,363	5,508,205,529
Market risk	72,798,152	55,100,619	104,555,057
Operational risk	763,869,385	798,887,214	798,887,214
Credit Value Adjustment	20,174,688	22,591,335	28,202,154
SOLVENCY RATIOS			
Common Equity Tier 1 ratio	13.04%	12.98%	11.68%
Tier 1 ratio	15.55%	15.55%	14.01%
Capital Adequacy ratio	15.56%	18.04%	16.15%

[1] REGULATORY AND TRANSITIONAL ADJUSTMENTS – COMMON EQUITY TIER 1	30/06/16 (unaudited)	31/12/16	30/06/17
Goodwill and intangible assets	(102,859,787)	(121,944,144)	(138,855,386)
Deferred tax assets that rely on future probability	(149,325,089)	(152,691,885)	(184,588,735)
Fai value reserves related to gains or losses cash flow hedges	2,989,315	6,946,258	1,969,819
Gains or losses on liabilities at fair value resulting from own credit	(985,222)	(985,222)	(762,918)
Additional value adjustment	(1,771,360)	(1,642,210)	(1,453,322)
IRB shortfall of credit risk adjustments to expected losses	(4,403,946)	0	0
Defined benefit pension pension fund assets	(5,489,868)	(4,130,000)	(4,150,500)
AGDL reserves	(14,156,000)	(14,156,000)	(11,024,510)
Unrealised gains or losses measured at fair value	(150,194,350)	(105,613,728)	(62,190,134)
TOTAL	**(426,196,307)**	**(394,216,931)**	**(401,055,686)**

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

Note 9: Litigation

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

Following the bankruptcy of Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and certain investment funds linked to B. Madoff 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.

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

As at June 30, 2017, no material provision for clawback actions has been made. Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

Note 10: Fair value

A. BREAKDOWN OF FAIR VALUE

A.1. Fair value of assets	31/12/16			30/06/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks	2,085,823,944	2,085,823,944	0	2,834,882,318	2,834,882,318	0
Loans and advances to credit institutions	1,071,276,155	1,071,707,198	431,043	1,112,654,990	1,113,625,562	970,572
Loans and advances to customers	12,042,999,820	12,198,082,796	155,082,976	12,728,778,564	12,857,007,553	128,228,989
Financial assets held for trading	79,801,733	79,801,733	0	101,444,783	101,444,783	0
Financial assets available for sale	6,381,471,453	6,381,471,453	0	4,634,615,094	4,634,615,094	0
Investments held to maturity	536,013,388	551,715,571	15,702,183	1,554,731,890	1,576,205,425	21,473,535
Derivatives	245,883,149	245,883,149	0	201,683,022	201,683,022	0
Fair value revaluation of portfolios hedged against interest rate risk	6,523,489	6,523,489	0	4,654,185	4,654,185	0
Investments in associates	28,274,796	28,274,796	0	24,110,205	24,110,205	0
Other assets	670,590,799	670,590,799	0	682,248,913	682,248,913	0
TOTAL	**23,148,658,726**	**23,319,874,928**	**171,216,202**	**23,879,803,964**	**24,030,477,060**	**150,673,096**

A.2. Fair value of liabilities	31/12/16			30/06/17		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	2,216,090,000	2,221,224,732	(5,134,732)	2,753,179,281	2,751,785,695	1,393,586
Amounts due to customers	16,129,249,400	16,116,968,509	12,280,891	16,545,695,660	16,533,657,792	12,037,868
Financial liabilities held for trading	2,013,272	2,013,272	0	699	699	0
Financial liabilities designated at fair value	877,913,027	877,913,027	0	790,871,097	790,871,097	0
Derivatives	436,598,717	436,598,717	0	359,322,586	359,322,586	0
Fair value revaluation of portfolios hedged against interest rate risk	48,683,055	48,683,055	0	40,474,039	40,474,039	0
Debt securities	1,529,888,297	1,548,719,665	(18,831,368)	1,528,293,093	1,541,813,156	(13,520,063)
Subordinated debt	293,936,368	306,123,963	(12,187,595)	286,470,638	298,446,414	(11,975,776)
Other liabilities	354,625,880	354,625,880	0	324,253,798	324,253,798	0
TOTAL	**21,888,998,016**	**21,912,870,820**	**(23,872,804)**	**22,628,560,891**	**22,640,625,276**	**(12,064,385)**

In accordance with our valuation rules, the fair value of certain items is equal to their carrying value (see note 1.7 of the section "Accounting policies" of the December 31, 2016 financial statements).

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

B. ANALYSIS OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: fair value measurements are based on (unadjusted) prices quoted on active markets for similar assets or liabilities.

Level 2: fair value measurements are based on data other than the quoted prices included in Level 1 which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. price derivatives).

Level 3: fair value measurements are based on valuation techniques that include assets or liabilities data that are not based on observable market data (non-observable data).

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

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

	30/06/17			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	75,398,167	22,288,856	3,757,760	101,444,783
Financial assets available for sale - bonds	3,689,667,259	814,285,868	82,856,074	4,586,809,201
Financial assets available for sale - equities	0	13,576,527	34,229,366	47,805,893
Derivatives	0	182,289,066	19,393,956	201,683,022
TOTAL	**3,765,065,426**	**1,032,440,317**	**140,237,156**	**4,937,742,899**

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

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

	30/06/17			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	0	0	699	699
Financial liabilities designated at fair value	0	634,995,739	155,875,358	790,871,097
Derivatives	0	354,760,199	4,562,387	359,322,586
TOTAL	**0**	**989,755,938**	**160,438,444**	**1,150,194,382**

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

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1. Assets	31/12/16		30/06/17	
	From Level 1 to Level 2	From Level 2 to Level 1	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets available for sale - bonds	4,669,588	0	8,049,305	0
TOTAL	**4,669,588**	**0**	**8,049,305**	**0**

C.2. Liabilities

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

D. LEVEL 3 RECONCILIATION

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

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

	30/06/17				
	Opening balance	Total gains and losses in the statement of income	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	4,537,636	273,043	0	998,318	(2,051,237)
Financial assets available for sale - bonds	100,125,410	(1,036,476)	0	30,596,780	0
Financial assets available for sale - equities	32,499,143	(2,402,028)	0	4,132,251	0
Derivatives	20,494,158	(11,403,787)	0	10,303,585	0
TOTAL	**157,656,347**	**(14,569,248)**	**0**	**46,030,934**	**(2,051,237)**

	30/06/17				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	0	0	0	0	3,757,760
Financial assets available for sale - bonds	(46,829,640)	0	0	0	82,856,074
Financial assets available for sale - equities	0	0	0	0	34,229,366
Derivatives	0	0	0	0	19,393,956
TOTAL	**(46,829,640)**	**0**	**0**	**0**	**140,237,156**

D.2. Liabilities

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

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

	30/06/17			
	Opening balance	Total gains and losses in the statement of income	New issues	Settlement
Financial liabilities held for trading	13,248	0	699	(13,248)
Financial liabilities designated at fair value	205,340,693	(12,025,572)	74,031,793	(113,138,986)
Derivatives	2,897,777	(453,933)	2,118,543	0
TOTAL	**208,251,718**	**(12,479,505)**	**76,151,035**	**(113,152,234)**

	30/06/17			
	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	699
Financial liabilities designated at fair value	0	0	1,667,430	155,875,358
Derivatives	0	0	0	4,562,387
TOTAL	**0**	**0**	**1,667,430**	**160,438,444**

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

Banking bonds

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

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

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

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

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

b) Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.

c) The investors "buy and hold" behaviour: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid/ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

Structured bonds

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

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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