Semi-annual Report

as at June 30, 2014

BIL
1856

BANQUE
INTERNATIONALE
À LUXEMBOURG

Semi-annual Report

as at June 30, 2014

Consolidated management report

Corporate governance (as at June 30, 2014)

Board of Directors

CHAIRMAN

Frank Wagener

VICE CHAIRMAN

George Nasra	- CEO, Precision Capital SA

MEMBERS

François Pauly	- CEO, BIL
Robert Glaesener	- CEO, Trendiction SA
François Moes	- Director
Nicholas Harvey	- Deputy CEO, Precision Capital SA
Pascale Toussing	- 1er Conseiller de Gouvernement, Ministry of Finance
Albert Wildgen	- Lawyer
Christophe Zeeb-Ichter	- Conseiller de Gouvernement 1re classe, Ministry of Finance
Michel Scharff	- Employees' Delegation, BIL
Serge Schimoff	- Employees' Delegation, BIL
Donny Wagner	- Employees' Delegation, BIL
Fernand Welschbillig	- Employees' Delegation, BIL

Management Board

CHAIRMAN

François Pauly

VICE CHAIRMAN

Pierre Malevez	- Finance and Risks

MEMBERS

Thierry Delroisse	- Chief Operations Officer
Adrian Leuenberger	- Wealth and Investment Management
Marcel Leyers	- Corporate and Institutional Banking
Bernard Mommens	- Secretary General and General Council
Claude Schon	- Treasury and Financial Markets
Christian Strasser	- Retail Banking

AUDIT

Pia Haas

Strategy Committee

Chairman

George Nasra

Members

Frank Wagener
Pascale Toussing

Audit and Compliance Committee

Chairman

Robert Glaesener

Members

Nicholas Harvey
Christophe Zeeb-Ichter

Risk Committee

Chairman

François Moes

Vice Chairman

George Nasra

Members

Frank Wagener
Albert Wildgen
Pascale Toussing

Remuneration and Nominations Committee

Chairman

George Nasra

Members

Nicholas Harvey
Pascale Toussing

Business Review and Results

1. Highlights of first half 2014

The announcement of solid 2013 results marked a significant turning point in the Bank's recent history. The "BIL is back" phase is coming to an end and a forward-looking set of initiatives has already marked the first half of 2014.

BUILDING ON A STRONG FOOTPRINT, A NEW GROWTH STRATEGY IS EMERGING WITH THE BIL 2015 PROGRAMME

Starting in April 2013, after its approval by the Board of Directors on December 5, 2012, the Bank launched the "BIL 2015" programme with the medium-term objective of consolidating BIL's position as a leading player both within the Luxembourg market and on targeted international markets. Whereas there have been strategic improvements in all business areas, we highlight below only the most notable and structural changes of the past six months.

PLANNED CREATION OF A BPO PLATFORM FOR IT SERVICES IN LUXEMBOURG

On June 5, 2014 the Avaloq group and BIL announced plans for a Business Process Outsourcing (BPO) centre in Luxembourg. The two companies intend to forge a new strategic partnership. The Bank and the international provider of banking solutions announced that they are in advanced discussions for a joint project to establish, pending amongst other, the closing of the transaction and regulatory approval, the first independent provider of full BPO services in Luxembourg for private and universal banks in the target markets of Benelux and France. This follows BIL's recent decision to choose the Avaloq Banking Suite as its new core banking system, after a thorough selection process. As Luxembourg's oldest private bank, BIL has always played an active role in the development of Luxembourg's economy and, with this decision, it confirms its intention to actively contribute to the on-going transformation of the local financial sector.

WEALTH MANAGEMENT: SHARPENING THE BANK'S FOCUS AT AN INTERNATIONAL LEVEL

While the Bank's importance as a national financial player is undisputed, its international profile is less well-established. New momentum is being created within wealth management around the world, as awareness rises that structural transformation is inevitable for all financial centres. In this context, financial institutions need to re-invent or at the least re-adjust their business models. This global movement contains challenges as well as opportunities for BIL and the Bank has taken a firm decision to sharpen its international footprint.

In order to develop such an international growth strategy, the Bank's Wealth Management established a new structure during the first quarter of 2014 in order to adapt to the increasingly complex challenges facing Private Banking. The new structure has been built around six pillars, including: responsibility, accountability, transparency, efficiency, people and customers.

A key focus was placed on reinforcing the role of the client and establishing a structure that can provide each client with the right product or solution, by catering to his or her specific needs. A new unit was set up to help steer commercial activity in the Bank's established markets, as well as to pursue the shift towards new markets such as the Middle East and the CIS. In parallel to the new organisational set-up, strategic thinking is under way on the creation of a more structured approach to the interaction with and relative value proposition of each booking centre in the network, i.e. in Luxembourg, Switzerland and Singapore. The upcoming opening of the new commercial branch in Dubai as well as a refocusing on other geographic areas are evidently part of that thinking process.

Other highlights in Wealth Management reflect the Bank's ability to adapt to the challenges that face the financial industry as a whole and which are leading financial institutions to diversify into new activities:

- Experta, a fully owned subsidiary of BIL, underwent a strategic repositioning over the last year. A new management team was put in place around a newly-appointed CEO. This team will allow Experta to increase its focus on its core business of global corporate services. Experta will continue to offer wealth structuring solutions, but it will also increasingly address the structuring needs of investors active in real estate and private equity. Similar to the approach in Wealth Management, this repositioning was also driven by a desire to better serve the clients, which at Experta has translated to a focus on the operational efficiency of all processes, as well as to a new pricing plan adapted to the market and in line with clients' needs. Experta will continue to work closely with BIL, but it will also strengthen its own identity outside of the BIL group, offering a full "open architecture" approach to finding the optimal solution for each client.
- BIL Manage Invest, BIL's management company ("manco") also continued to develop during 2014. BMI reconfirmed its positioning as a third-party manco and is able to provide fund promoters the regulatory infrastructure required by the AIFM (Alternative Investment Fund Managers) directive. This external AIFM solution will be of particular interest to investors active in the financial, real estate and private equity asset classes. The granting of its AIFM authorisation in April 2014 marked an important step in its development.
- In Denmark, BIL was awarded the prestigious Morningstar Award, a prize recognising the best local individual and mutual funds. BIL received the award in the "Denmark – Shares" category for its BIL Nordic Invest DK Small Caps Fund, which achieved a significant return of 68% during 2013.

STRENGTH OF COMMERCIAL FRANCHISES

The Retail, Corporate and Private Banking activities have once more turned in a robust performance during the first half of 2014.

- Customer deposits were up by 10.7% to reach 13.8 billion (versus 12.5 billion at year-end 2013) especially in Luxembourg;
- Customer funds (assets under management - AuM) increased by 7.9% to 31 billion, compared with 28.8 billion at the end of 2013. This change resulted from 1.8 billion in new net in-flows and a positive market effect of 0.5 billion;
- Customer loans were stable during the first half-year at 10.1 billion.

PROFITABILITY CONFIRMED

BIL reported a pre-tax net income of 94 million in 2014, up 3% over June 2013 (91 million), exceeding 2014 expectations. This result reveals a solid performance from commercial banking activities and a substantial increase in financial markets' contribution considering that the 2013 results incorporated 28 million in non-recurring revenues due to the Liability Management Exercise.

IMPROVEMENTS HIGHLIGHTED BY THE RATING AGENCIES

The rating agencies Fitch Ratings and Standard & Poor's announced during July 2014, after their annual review, that they were going to maintain their "A-" rating for BIL's long-term debt. On July 11, 2014, Standard & Poor's upgraded the stand-alone rating for the Bank (SACP) by one notch (bbb to bbb+) due in particular to improved capital and earnings (from moderate to adequate) in line with good results during 2013 and the additional Tier 1 issued on June 30, 2014 which improved the Risk Adjusted Capital (RAC). On July 24, 2014, Fitch affirmed the ratings at A-/F1.

BIL	S&P		Fitch	
last update	July 11, 2014		July 24, 2014	
Long-Term	A-	*confirmed*	A-	*confirmed*
Short-Term	A-2	*confirmed*	F1	*confirmed*
Outlook	Negatif	*confirmed*	Negatif	*confirmed*
Rating stand-alone	bbb+ (SACP)	*Upgrade + 1 notch*	bbb+ (VR)	*confirmed*
Support	+2	*confirmed*	+1	*confirmed*
Subordinated debt	BBB	*Upgrade +1 notch*	BBB	*confirmed*

2. Statement of income and balance sheet

INTERIM FINANCIAL STATEMENTS

The consolidated financial statements of the BIL group for the first half of 2014 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).

The European Union has published Commissions Regulations endorsing the "package of five" standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011)). This "package of five" standards comes with an European effective date of 1 January 2014. In this context, the Bank has reviewed non-consolidated participations in order to fulfill IFRS requirements in this domain. As a result, the equity method is now applied for two participations (Bourse de Luxembourg SA held at 21.41% and Europay Luxembourg SC held at 35.20%) which were initially considered as immaterial. The Bank considers that the application of the equity method regarding these companies provides a more adequate information. 2013 financial statements have been restated in order to give comparative figures.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

CONSOLIDATED STATEMENT OF INCOME – GLOBAL VIEW

(in EUR million)	30/06/13	30/06/14	*Change versus 2013*
Income	258	281	*23*
Expenses	(165)	(166)	*(1)*
Gross operating income	**93**	**115**	*22*
Cost of risk and provisions for legal litigation	(2)	(21)	*(19)*
Net income before tax	**91**	**94**	*3*
Tax expense	(24)	(26)	*(2)*
Net income	**67**	**68**	*1*

As at June 30, 2014, net income for the BIL group totalled 68 million, stable compared with June 2013 (67 million, +1%).

CONTRIBUTION TO THE CONSOLIDATED STATEMENT OF INCOME BY BUSINESS LINE

(in EUR million)	Retail, Corporate and Private Banking		Treasury and Financial Markets		Group Center		TOTAL	
	30/06/13	30/06/14	30/06/13	30/06/14	30/06/13	30/06/14	30/06/13	30/06/14
Income	209	221	35	41	14	19	258	281
Expenses	(146)	(144)	(18)	(17)	(1)	(5)	(165)	(166)
Gross operating income	**63**	**77**	**18**	**25**	**13**	**14**	**93**	**115**
Cost of risk and provisions for legal litigation	(2)	(13)	0	0	0	(8)	(2)	(21)
Net income before tax	**61**	**64**	**18**	**24**	**13**	**6**	**91**	**94**
Tax expense							(24)	(26)
Net income							**67**	**68**

Income

Solid income growth, at 23 million (+9%), was supported by all businesses and confirms the performance observed during the 2013 financial year.

"Retail, Corporate and Private Banking" activities generated an income of 221 million, up 12 million compared to 2013 (+6%), despite a difficult macroeconomic environment. Assets under management (AuM) have increased markedly, with 2.5 billion since June 2013 (31 billion versus 28.5 billion). Commercial franchise growth drives the income progression with a strong interest income improved by higher margins.

"Treasury and Financial Markets" income increased by 6 million compared to the first half of 2013, reaching 41 million. The Bank has been able to expand its "Treasury and Financial Markets" activities in conjunction with the risk profile defined by the new shareholders after the finalisation of BIL's sale. The nominal amount outstanding in the bond portfolio stood at 4.8 billion (+0.6 billion compared with June 2013), with income of 31 million (+8 million compared with 2013). Treasury activities also contributed 1.8 million to this income growth through its active management of the Bank's surplus liquidity. Assets and Liabilities Management contribution regresses slightly by 3.2 million as the Bank has adopted a very prudent approach with regards to long term interest rate exposures in a historically low interest rate environment.

"Group Center" activities generated income of 19 million during the first half of 2014. Major elements of 2014 income were the sale of Cetrel shares (5.9 million), the capital gains realised by BIL Ré following the sale of the company's portfolio (6.4 million), the subordinated debt purchases (+2.5 million). 2013 income was influenced by the important contribution of the Liability Management Exercise (28 million) compensated mainly by BIL Finance (-6 million) and the own credit risk adjustment related to the measurement of issued debt at fair value (-4 million).

Expenses

General expenses totalled 166 million for the first half of 2014, up 1% compared with 2013. Following the announcement of the BPO platform, the Bank incurred around 5 million costs related to the BPO project, located in Group Center. Excluding these costs, general expenses are slightly down compared with 2013. Costs related to commercial business lines and financial market activities remained in line with the previous year. The cost-income ratio improved during 2014 with a ratio of 61% compared to 67% in 2013, demonstrating the impact of effective cost control, which remained a key concern at the Bank.

Gross operating income

Gross operating income amounted to 115 million, up by 22 million compared with 2013, of which 14 million are attributed to commercial activities, 7 million to market activities and 1 million to "Group Center".

Cost of risk and impairment

BIL group recorded net provisions of 21 million compared with 2 million in 2013. In 2014, specific value adjustments on loans were very limited (6 million) in line with the Bank's cautious provisioning policy. The Bank posted nevertheless 15 million collective impairments on its loan books. As a reminder, the very low level of 2013 value adjustments was due to a 7 million write-back on a loan to a Madoff feeder fund following the redemption of this loan. Impaired loans as a percentage of total loans outstanding amounted to 2.91% in 2014 compared with 2.83% in 2013, demonstrating the quality of the Bank's assets.

Net income before tax

Net income before tax stood at 94 million compared with 91 million in 2013 (+3%).

Tax

The 2014 tax expense of 26 million corresponds to the breakdown of taxable income between the various BIL group entities in jurisdictions with varying tax rates and is in line with 2013.

Net income

At the end of the first half of the year, the Bank generated a strong performance with a net profit of 68 million. The Bank reconfirmed its high profitability due to the strategic initiatives undertaken since the first quarter of 2013.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

(in EUR billion)	31/12/13	30/06/14	Change
ASSETS	**19.7**	**21.5**	**9.4%**
Loans and advances to credit institutions	2.6	4.0	55.7%
Loans and advances to customers	10.1	10.1	0.2%
Loans and securities available for sale	5.4	5.7	4.5%
Positive fair value of derivative products	0.7	0.7	0.7%
Other assets	0.9	1.1	14.7%
LIABILITIES	**19.7**	**21.5**	**9.4%**
Amounts due to credit institutions	1.7	2.3	31.3%
Customer deposits	12.5	13.8	10.7%
Negative fair value of derivative products	0.8	0.9	9.2%
Debt securities	2.7	2.3	(13.4%)
Subordinated debt	0.4	0.5	26.9%
Other liabilities	0.4	0.4	6.8%
Shareholders' equity	1.2	1.3	10.4%

The balance sheet growth, driven by "customer deposits" (+1.3 billion) and "amounts due to banks" (+0.5 billion), was to a large extent redeployed to the Swiss and Luxembourg Central Banks, where outstanding amounts have grown by 1 billion (from 1.2 billion in December 2013 to 2.2 billion in June 2014). It has also led to 0.5 billion in increased lending to banking counterparties and 0.3 billion further investments into the Bank's bond portfolio.

Asset movements

"Loans and advances to credit institutions" increased significantly, by 1.4 billion. The 1 billion in excess cash was invested in Swiss and Luxembourg Central Banks during the first half 2014 (respectively 0.8 billion and 0.2 billion) and 0.4 billion was lent to banking counterparties, linked to a gradual resumption of interbank activities.

"Loans and advances to customers" increased slightly by 0.2% this past half-year. During this period, the Bank has revised its credit portfolio and decided to reduce some exposures and to diversify its activities with the objective of promoting quality (Loan To Value etc.). In this context, Corporate and Investment Banking's loans outstanding decreased by 132 million, whereas loans in Retail and Private Banking progressed by 155 million during the period. Outstanding mortgage loans grew by 50 million (+2%) and investment loans dropped by 31 million (-1%).

"Loans and securities available for sale" reached 5.7 billion (+5%), an increase resulting from an additional investment of 0.3 billion in high quality bond positions in 2014. The bond portfolio stood at 4.8 billion at the end of June 2014. It consists mainly of assets eligible for refinancing with the European Central Bank and qualifying as liquidity reserves under Basel III and the CRD IV Directive. These assets enable the Bank to fully comply with liquidity ratio requirements.

Movements in liabilities

"Amounts due to credit institutions" increased by 0.5 billion. The Bank has actively managed its liquidity position in the various currencies, using short term interbank deposits and repos to ensure adequate funding and swapping excess cash into CHF to deposit with the Swiss National Bank.

"Customer deposits" showed an increase of 1.3 billion (+10.7%). In a volatile equities market and a very low long term interest rate environment, clients preferred to increase the share of their assets held in cash and short term products.

"Debt securities" issued under the EMTN programme to Institutional, Retail and Private Banking clients decreased by 360 million. Despite adverse market conditions, the Bank was nonetheless able to extend a considerable proportion of MTN maturities (50%) and did not need to make use of new issues on institutional markets thanks to its highly comfortable cash position.

"Subordinated debt" has increased by 26.9% since December 2013. The Bank has purchased 38 million in outstanding subordinated debts, focusing mainly on issues that are no longer considered eligible as Tier 2 capital according to the CRD4 directive. In order to strengthen its capital structure, on June 30, 2014 the Bank issued a 150 million contingency convertible bond, eligible as additional Tier 1 capital.

"Shareholders" equity" rose by 121 million (+10.4%). This increase was mainly due to the 2014 net profit of 68 million and the increase of revaluation reserves on the available for sale portfolio of 51 million.

3. Outlook

During the first half of 2014, the Bank successfully pursued its strategic development while contending with a difficult economic and financial context for the banking sector as a whole.

BIL continued to develop its commercial offering, as is especially made clear by Private Banking's new positioning, intended to improve its visibility and to differentiate it from its national and international competitors.

On the local level, the planned strategic partnership between BIL and Avaloq is intended to establish a new company in the Grand Duchy offering private and universal banks, whether local or foreign, a full range of services for the standardisation and automation of back office processes and for entrusting their processing to a proven specialist. Such a solution will enable BIL to focus on its front office activities and to stand out in terms of the quality of its customer service. With an impressive 100% success rate for Avaloq's BPO projects, keeping in mind BIL's established innovation capabilities, the service model that the Bank is preparing to launch with its partner is an essential step in enabling the Bank's activities to stand out.

During the first half-year of 2014, BIL group Risk Management has been highly involved in the preparatory work initiated by the ECB under the form of a "Comprehensive Assessment" comprising a broad-based "Risk Assessment", an "Asset Quality Review" and "Stress-Tests". While the national competent authorities (NCAs) and then the ECB will examine the data provided by the Bank during the summer, official results of this assessment are expected to be known in October 2014.

Risk Management

1. Introduction

Basel III

CRR & CRD IV, which together form the transposition of Basel III at the European level, entered into force on January 1, 2014. CRR introduces significant changes in the prudential regulatory framework applicable to banks including: Increased minimum capital ratios, changes to the definition of capital and to the calculation of risk weighted assets (RWA) as well as the introduction of new regulatory monitoring tools, such as leverage and liquidity ratios.

All these changes having been monitored and anticipated in 2013, BIL fully complies with CRR regulatory reporting requirements.

Banking Union

The European Parliament voted last September the Regulation setting up a Single Supervisory Mechanism (SSM) in the Eurozone. The outcome of this legislative process is the transfer of prudential regulatory powers from Eurozone national authorities to the European Central Bank (ECB). As a result, approximately 130 of the Eurozone's most important banks including BIL group will be directly supervised by the ECB as from November 4, 2014.

During the first semester of 2014, BIL group Risk Management teams have been highly involved in the preparatory work initiated by the ECB under the form of a "Comprehensive Assessment" comprising:

- A broad-based "Risk Assessment" of all potential elements of risk in the balance sheet, including liquidity, leverage, maturity transformation and stable funding of the Bank;
- An "Asset Quality Review" aiming at assessing the adequacy of the Bank's provisioning level, determining whether the valuation of the credit exposures collateral is adequate and assessing the valuations of the Bank's complex instruments and high-risk assets;
- "Stress-Tests" aiming at assessing the Bank's shock-absorption capacity under adverse stress scenarios.

While the national competent authorities (NCAs) and then the ECB will examine the data provided by the Bank during the summer, official results of this assessment are expected to be known in October 2014.

2. Credit risk

Credit risk exposure is measured using the internal Maximum Credit Risk Exposure (MCRE) metric, which comprises:

- 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;
- Total off-balance sheet commitments. The total commitment corresponds to unused lines of liquidity or to the maximum amount that BIL is committed to as a result of guarantees issued to third parties.

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

The Bank's total credit risk exposure amounted to 22 billion as at June 30, 2014, compared to 19.5 billion at the end of 2013. This evolution is partly explained by a 877 million increase in the Bank's deposit at the Swiss National Bank (SNB), by a larger exposure on financial institutions and by the positive evolution of recurring activities, especially in Luxembourg.

The tables below illustrate those exposure developments from a geographic perspective and by counterparty type.

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	30/06/13	31/12/13	30/06/14
Luxembourg	9,613	9,536	10,289
France	1,836	2,225	1,935
Belgium	1,462	1,302	1,323
Germany	1,181	1,161	1,248
Italy	572	600	685
Spain	510	418	596
Ireland	247	329	373
Portugal	9	41	5
Greece	0	0	0
Other EU Countries	1,019	1,339	1,568
Turkey	5	20	15
Rest of Europe	2,674	1,688	2,959
United States and Canada	88	234	218
South and Central America	29	31	18
Japan	46	37	29
Southeast Asia	212	216	368
Others[1]	239	279	375
TOTAL	**19,742**	**19,456**	**22,004**

[1]The "Others" segment includes countries like Qatar, United Arab Emirates and other countries not part of the above mentioned list.

As at June 30, 2014 the Bank's total exposure remains concentrated in Europe and particularly in Luxembourg (47%) and the other countries of the Greater Region (20%), in line with its strategy.

EXPOSURE BY TYPE OF COUNTERPARTY

(in EUR million)	30/06/13	31/12/13	30/06/14
Individuals, SME & Self Employed	7,194	6,898	7,169
Central Governments	5,878	5,462	6,282
Corporate	3,564	3,870	3,931
Financial Institutions	2,048	2,191	3,518
Public Sector Entities	936	925	1,059
Project Finance	110	35	35
Others	12	75	10
TOTAL	**19,742**	**19,456**	**22,004**

While the Central Governments category is mostly impacted by the SNB deposit, new transactions increase the exposure on the Financial Institutions such as the Banque Centrale du Luxembourg (+210 million) and Clearstream Banking SA (+179 million) among others.

Exposure to PIIGS[1]

Breakdown of the government bond portfolio for sensitive European countries, by maturity bucket for 2014 (excluding trading).

	30/06/13	31/12/13	30/06/14				
(in EUR million)			2014	2015	2016	2017	Total
Italy	332	432	150	68	218	137	573
Spain	250	251	145	21	100	0	266
Ireland	225	224	0	31	76	120	227
Greece	0	0	0	0	0	0	0
Portugal	0	0	0	0	0	0	0
TOTAL	**807**	**907**	**295**	**120**	**394**	**257**	**1,066**

The Bank portfolio exposure on PIIGS has slightly increased during the last semester, but the new investments do not exceed a three-year maturity and remain concentrated on investment grade rated countries.

Forbearance

Credit files considered as being forborne are those for which restructuring measures have been granted due to the deterioration of the creditworthiness of the debtor. Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan. When those criteria are met, the credit files are flagged as being forborne and are added to a list closely followed by the team "Gestion Intensive et Particulière" for non-retail counterparties. For retail counterparties, the classification in forbearance is based on a mass minded approach. This approach aims at capturing the forborne assets on the existing portfolio while further analyses conducted within the Credit Risk Management department allow refining the corresponding perimeter.

As at June 30, 2014, for non-performing counterparties the granting of forbearance measures and the classification of debt instruments in "forbearance" are of the sole responsibility of the Default Committee who also assumes the periodical follow-up and monitoring of the forborne exposures and decides on the exit of the forbearance status after the relevant probative period. The granting of forbearance measures for these non-performing counterparties constitutes an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

From an accounting perspective, forbearance has to be considered as an observable data that constitutes an objective evidence that a financial asset or group of assets is impaired. As a consequence, BIL considers the impact on the estimated future cash flows of the financial asset, and may record allowances for impairment as described under §1.6.5 of accounting principles of 2013 annual report.

As of June 30, 2014, forborne exposures according to EBA definition amounted in MCRE to 538 million.

[1] Economies of Portugal, Italy, Ireland, Greece and Spain.

Credit quality of forborne financial assets

Information on financial assets disaggregated into those neither past due nor impaired, those past due but not impaired and those considered as impaired is disclosed in the following table, where forborne assets are broken down by business portfolio. The impairment level is only applicable to impaired assets and is included in the impaired assets' amount.

Analysis of the credit quality of financial assets as required by IFRS 7 (i.e. providing information on financial assets disaggregated into those neither past due nor impaired, those past due but not impaired and those considered as impaired) specifically for financial assets subject to forbearance measures together with the level of impairment and level of collateral held as appropriate.

(in EUR million)	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Impairment level
Corporate	208	101	28	337	8
Individuals, SME & Self Employed	67	65	69	201	11
Public Sector Entities	0	0	0	0	0
TOTAL	**275**	**166**	**97**	**538**	**19**

Forborne assets split by industry sector and geographical region

Disaggregation of the forborne financial assets by type of forbearance measure, business segment/portfolio, industry sector, geographical region in circumstances where required to provide relevant additional information to users of financial statements.

(in EUR million)	Belgium	France	Germany	Luxembourg	Other EU Countries	Others	Rest of Europe	Southeast Asia	Total
Construction	0	19	0	46	-	-	-	-	65
Industry	-	-	-	28	-	-	-	-	28
Others	1	5	6	36	4	0	2	-	54
Services:									
Administrative and support service activities	-	-	-	1	1	-	-	-	2
Arts, entertainment and recreation	-	-	-	0	-	-	-	-	0
Financial and insurance activities	0	23	-	193	0	-	-	3	219
Human health and social work activities	-	-	-	2	-	-	-	-	2
Information and communication	-	-	0	1	1	-	-	-	2
Other service activities	-	-	-	0	-	-	-	-	0
Professional, scientific and technical activities	-	1	0	2	-	-	-	-	3
Public administration and defence-compulsory social security	-	-	0	0	-	-	-	-	0
Real estate activities	6	19	-	129	-	-	-	-	154
Transportation and storage	-	-	-	0	-	-	-	-	0
Trade - Tourism	-	1	1	7	-	-	-	-	9
TOTAL	**7**	**68**	**7**	**445**	**6**	**0**	**2**	**3**	**538**

3. Market risk

VaR (10 days, 99%) per activity (in EUR million)	**30/06/13**	**31/12/13**	**30/06/14**		
			IR & FX (trading and banking)	**EQT Trading**	**Total**
Average	5.22	4.99	3.73	0.00	3.73
End of period	6.07	4.61	2.34	0.00	2.34
Maximum	8.51	8.48	5.45	0.02	5.47
Limit	8.00	8.00			8.00

4. Asset quality

(in EUR million)	**30/06/13**	**31/12/13**	**30/06/14**
Gross amount of non-impaired loans	9,721	10,021	10,054
Gross amount of impaired loans to customers	278	292	301
Specific provisions	220	231	235
Asset quality ratio[1]	2.78%	2.83%	2.91%
Coverage ratio[2]	79.13%	78.94%	77.93%

5. Solvency monitoring

See Note 8 of the Consolidated financial statements.

[1] List available upon request.

[2] A "Contingency convertible bond" has been issued on June 30, 2014 for EUR 150 million.

Consolidated financial statements

Consolidated balance sheet (unaudited)

ASSETS (in EUR)		30/06/13	31/12/13	30/06/14
I.	Cash and balances with central banks	1,870,571,127	1,216,639,373	2,276,562,727
II.	Loans and advances to credit institutions	1,616,918,559	1,374,083,211	1,756,712,487
III.	Loans and advances to customers	9,757,361,396	10,062,413,490	10,085,703,610
IV.	Financial assets measured at fair value through profit or loss	175,268,268	107,811,549	138,795,257
V.	Financial investments	4,942,575,584	5,452,103,867	5,817,912,449
VI.	Derivatives	1,005,248,673	687,957,956	692,446,612
VII.	Fair value revaluation of portfolios hedged against interest-rate risk	17,127,417	15,942,122	15,259,133
VIII.	Investments in associates	18,494,320	19,320,011	20,349,510
IX.	Investment property	159,051,837	153,778,831	148,003,696
X.	Property, plant and equipment	112,525,792	110,261,458	111,756,713
XI.	Intangible fixed assets and goodwill	67,066,422	68,094,591	66,535,993
XII.	Current tax assets	0	2,274	6,019
XIII.	Deferred tax assets	375,477,333	359,190,591	322,262,719
XIV.	Other assets	170,643,418	62,444,617	89,078,244
TOTAL ASSETS		**20,288,330,146**	**19,690,043,941**	**21,541,385,169**

LIABILITIES (in EUR)		30/06/13	31/12/13	30/06/14
I.	Amounts due to credit institutions	2,107,807,769	1,730,245,390	2,271,546,676
II.	Amounts due to customers	12,085,394,893	12,497,024,699	13,833,176,255
III.	Financial liabilities measured at fair value through profit or loss	2,213,518,583	1,795,585,963	1,218,542,092
IV.	Derivatives	1,073,136,015	781,982,420	853,875,317
V.	Fair value revaluation of portfolios hedged against interest-rate risk	68,708,370	58,956,377	70,026,716
VI.	Debt securities	702,524,934	888,625,678	1,106,122,426
VII.	Subordinated debt	531,834,588	417,553,218	529,919,861
VIII.	Provisions and other obligations	61,406,575	79,546,534	73,104,261
IX.	Current tax liabilities	15,737,709	1,440,382	1,159,788
X.	Deferred tax liabilities	20,860,522	22,670,390	27,941,971
XI.	Other liabilities	292,647,198	255,908,858	274,780,200
TOTAL LIABILITIES		**19,173,577,156**	**18,529,539,909**	**20,260,195,563**

SHAREHOLDERS' EQUITY (in EUR)		30/06/13	31/12/13	30/06/14
XII.	Subscribed capital	141,224,090	141,224,090	141,224,090
XIII.	Additional paid-in capital	708,297,160	708,297,160	708,297,160
XIV.	Treasury shares	(1,455,000)	(1,455,000)	(1,455,000)
XV.	Reserves and retained earnings	104,297,791	104,297,798	219,239,821
XVI.	Net income for the period	67,257,224	114,107,332	67,719,214
CORE SHAREHOLDERS' EQUITY		1,019,621,265	1,066,471,380	1,135,025,285
XVII.	Gains and losses not recognised in the consolidated statement of income	95,131,725	94,032,652	146,164,321
	a) AFS reserve	*106,843,606*	*132,857,075*	*184,151,410*
	b) Other reserves	*(11,711,881)*	*(38,824,423)*	*(37,987,089)*
GROUP EQUITY		1,114,752,990	1,160,504,032	1,281,189,606
XVIII.	Non-controlling interest	0	0	0
TOTAL SHAREHOLDERS' EQUITY		**1,114,752,990**	**1,160,504,032**	**1,281,189,606**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**20,288,330,146**	**19,690,043,941**	**21,541,385,169**

Consolidated statement of income
(unaudited)

(in EUR)		30/06/13	31/12/13	30/06/14
I.	Interest and similar income	379,019,796	709,256,101	299,819,874
II.	Interest and similar expense	(258,049,600)	(461,996,892)	(165,621,768)
III.	Dividend income	2,150,192	2,191,131	4,831,557
IV.	Net income from associates	1,152,897	1,889,419	2,031,722
V.	Net trading income and net result of hedge accounting	9,800,005	45,119,261	7,290,336
VI.	Net income on investments (assets and liabilities not designated at fair falue through profit or loss)	43,693,019	58,310,525	46,890,454
VII.	Fee and commission income	92,397,338	185,348,412	93,431,075
VIII.	Fee and commission expense	(8,944,045)	(18,795,607)	(9,832,580)
IX.	Other net income	(2,781,704)	(16,010,382)	2,191,588
INCOME		**258,437,898**	**505,311,968**	**281,032,258**
X.	Staff expenses	(92,639,684)	(194,333,556)	(95,154,090)
XI.	General and administrative expenses	(60,932,586)	(122,241,529)	(55,234,327)
XII.	Amortisation of tangible and intangible fixed assets	(11,237,558)	(24,872,276)	(15,379,889)
EXPENSES		**(164,809,828)**	**(341,447,361)**	**(165,768,306)**
GROSS OPERATING INCOME		**93,628,070**	**163,864,607**	**115,263,952**
XIII.	Impairment on loans and provisions for credit commitments	(2,185,568)	(23,347,209)	(21,574,661)
XIV.	Impairment on tangible and intangible fixed assets	(96,689)	(96,688)	0
XV.	Provisions for legal litigation	(78,371)	(364,290)	376,816
NET INCOME BEFORE TAX		**91,267,442**	**140,056,420**	**94,066,107**
XVI.	Tax expense	(24,010,218)	(25,949,088)	(26,346,893)
NET INCOME FOR THE PERIOD		**67,257,224**	**114,107,332**	**67,719,214**
	Net income - Group share	67,257,224	114,107,332	67,719,214
	Non-controlling interest	0	0	0
	Earnings per share			
	- basic	33.35	56.59	33.58
	- diluted	33.35	56.59	33.58

Consolidated statement of comprehensive income (unaudited)

(in EUR)	30/06/13	31/12/13	30/06/14
NET INCOME FOR THE PERIOD RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**67,257,224**	**114,107,332**	**67,719,214**
GAINS (LOSSES) NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME	**(51,830,072)**	**(52,929,144)**	**52,131,669**
Items that will not be reclassified to profit or loss	**(369,552)**	**(7,226,069)**	**(38,027)**
Actuarial gains (losses) on defined benefit pension plans - Gross	(492,736)	(10,176,149)	(50,703)
Actuarial gains (losses) on defined benefit pension plans - Tax	123,184	2,950,080	12,676
Items that may be reclassified to profit or loss	**(51,460,520)**	**(45,703,075)**	**52,169,696**
Gains (losses) on net investment hedge	(96,900)	(128,271)	(62,780)
Translation adjustments	268,869	(1,042,105)	636,889
Gains (losses) on cash flow hedge	5,132,220	(21,716,095)	399,288
Unrealised gains (losses) on available for sale financial investments	(72,690,417)	(33,971,638)	72,324,427
Share of other recognised income & expense of investments in subsidiaries, joint ventures & associates	2,162,046	2,251,216	0
Tax on items that may be reclassified to profit or loss	13,763,662	8,903,818	(21,128,128)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**15,427,152**	**61,178,188**	**119,850,883**
Attributable to equity holders of the parent company	**15,427,152**	**61,178,188**	**119,850,883**
Attributable to non-controlling interests	0	0	0

Consolidated statement of changes in equity (unaudited)

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 01/01/13, IFRS	**141,224,090**	**708,297,160**	**(1,455,000)**	**80,217,434**	**30,177,288**	**958,460,972**
Classification of income 2012				31,330,222	(31,330,222)	0
Classification of income to hybrid capital[1]				(21,707,572)		(21,707,572)
Changes in scope of consolidation				14,457,707	1,152,934	15,610,641
Net income for the period					67,257,224	67,257,224
AS AT 30/06/13, IFRS	**141,224,090**	**708,297,160**	**(1,455,000)**	**104,297,791**	**67,257,224**	**1,019,621,265**

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 statement of income
AS AT 01/01/13, IFRS	**164,307,820**	**631,264**	**0**	**(6,885,615)**	**(11,091,673)**	**146,961,796**
Net change in fair value through equity - Available for sale investments	(42,262,347)		(662,079)			(42,924,426)
Net change in fair value through equity - Cash flow hedge		3,572,779				3,572,779
Net change in other reserves				(435,891)		(435,891)
Translation adjustments	(46,000)			66,340	268,869	289,209
Reimbursements for the period, disposals or maturities						0
Change in scope of consolidation			2,824,125			2,824,125
Cancellation of fair value following AFS disposals	(15,155,868)					(15,155,868)
AS AT 30/06/13, IFRS	**106,843,605**	**4,204,043**	**2,162,046**	**(7,255,166)**	**(10,822,804)**	**95,131,724**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 01/01/13, IFRS	**0**	**0**	**0**
Changes in scope of consolidation			
AS AT 30/06/13, IFRS	**0**	**0**	**0**

[1] Amount net of tax.

[2] As at June 30, 2013, translation adjustments comprise an amount of EUR -33,919,998 relating to net investment hedges linked to foreign exchange differences in consolidated investments (as at December 31, 2012: EUR -36,297,941).

CORE SHAREHOLDERS' EQUITY, GROUP (in EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 01/01/14, IFRS	**141,224,090**	**708,297,160**	**(1,455,000)**	**104,297,798**	**114,107,332**	**1,066,471,380**
Classification of income 2013				114,117,969	(114,117,969)	0
Classification of income to hybrid capital				(2,962,684)		(2,962,684)
Cancellation of deferred tax liabilities on hybrid capital				875,375		875,375
Deferred tax assets on AGDL reserve				2,922,000		2,922,000
Changes in scope of consolidation				(10,637)	10,637	0
Net income for the period					67,719,214	67,719,214
AS AT 30/06/14, IFRS	**141,224,090**	**708,297,160**	**(1,455,000)**	**219,239,821**	**67,719,214**	**1,135,025,285**

GAINS AND LOSSES NOT RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME (in EUR)	Securities (AFS)	Derivatives (CFH)	Associates	Other reserves	Translation adjustments[1]	Gains and losses not recognised in the statement of income
AS AT 01/01/14, IFRS	**132,857,075**	**(14,830,178)**	**2,251,216**	**(14,111,683)**	**(12,133,778)**	**94,032,652**
Net change in fair value through equity - Available for sale investments	77,690,885					77,690,885
Net change in fair value through equity - Cash flow hedge		238,472				238,472
Net change in other reserves						0
Translation adjustments	22,118			(38,028)	636,890	620,980
Reimbursements for the period, disposals or maturities	1,736					1,736
Change in scope of consolidation						0
Cancellation of fair value following AFS disposals	(26,420,404)					(26,420,404)
AS AT 30/06/14, IFRS	**184,151,410**	**(14,591,706)**	**2,251,216**	**(14,149,711)**	**(11,496,888)**	**146,164,321**

NON-CONTROLLING INTERESTS (in EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 01/01/14, IFRS	**0**	**0**	**0**
Changes in scope of consolidation			
AS AT 30/06/14, IFRS	**0**	**0**	**0**

[1] As at June 30, 2014, translation adjustments comprise an amount of EUR -35,612,582 relating to net investment hedges linked to foreign exchange differences in consolidated investments (as at December 31, 2013: EUR -35,431,536).

Consolidated cash flow statement
(unaudited)

(in EUR)	30/06/13	31/12/13	30/06/14
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the period	67,257,224	114,107,332	67,719,214
Adjustment for :			
- Depreciation and amortisation	18,280,285	37,484,840	21,645,093
- Impairment on bonds, equities and other assets	(4,999,392)	18,038,850	6,458,261
- Net gains / (losses) on investments	(381,988)	136,450	(3,312,446)
- Provisions (including collective impairment)	(4,172,415)	2,931,731	10,486,807
- Change in unrealised gains (losses)	48,314	(24,076,782)	(253,721)
- Income / (expense) from associates	(1,152,897)	(1,889,419)	(2,031,722)
- Dividends from associates	1,006,023	1,006,023	1,002,223
- Deferred taxes	24,425,084	40,552,363	24,844,925
- Other adjustments	(106,800)	0	0
Changes in operating assets and liabilities	(1,121,545,129)	(2,256,882,248)	1,435,319,475
NET CASH FLOW FROM OPERATING ACTIVITIES	**(1,021,341,691)**	**(2,068,590,860)**	**1,561,878,109**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(12,317,090)	(29,000,444)	(15,801,721)
Sale of fixed assets	997,832	4,721,434	79,579
Purchase of non-consolidated shares	(862,480)	(2,081,480)	(2,762,331)
Sales of non-consolidated shares	1,658,462	25,499,706	13,752,970
Sales of subsidiaries / branch closures	0	0	(1,042,059)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(10,523,276)**	**(860,784)**	**(5,773,562)**
CASH FLOW FROM FINANCING ACTIVITIES			
Movements in subordinated debt[1]	(240,702,035)	(339,373,338)	107,366,935
NET CASH FLOW FROM FINANCING ACTIVITIES	**(240,702,035)**	**(339,373,338)**	**107,366,935**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,272,567,002)**	**(2,408,824,982)**	**1,663,471,482**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4,412,893,222**	**4,412,893,222**	**1,991,259,730**
Net cash flow from operating activities	(1,021,341,691)	(2,068,590,860)	1,561,878,109
Net cash flow from investing activities	(10,523,276)	(860,784)	(5,773,562)
Net cash flow from financing activities	(240,702,035)	(339,373,338)	107,366,935
Effect of change in exchange rate and in scope of consolidation on cash and cash equivalents	(5,076,677)	(12,808,510)	3,441,987
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3,135,249,543**	**1,991,259,730**	**3,658,173,199**
ADDITIONAL INFORMATION			
Taxes paid	47,828	34,647	(1,778,643)
Dividends received	3,156,215	3,197,153	5,833,779

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.

[1] Cash generating only.

Notes to the consolidated financial statements

Preliminary note:

Presentation of the 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 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 consolidated financial statements.

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

General information

The parent company of the 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 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 financial statements were approved for publication by the Board of Directors on August 1, 2014, and signed by François Pauly, Chairman of the Management Board of the BIL group and Chief Executive Officer.

Notes to the consolidated financial statements

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

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

1. ACCOUNTING RULES AND METHODS

1.1. Basis accounting

1.1.1. General information

BIL's consolidated financial statements are prepared in accordance with the IFRS, as adopted by the European Union (EU).
BIL's consolidated financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to June 30, 2014.
The consolidated financial statements are prepared on a "going-concern basis" and are given in euro (EUR) unless otherwise stated.
A summary of the main accounting policies is provided in the annual report as at December 31, 2013.
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 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 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 financial statements.

Judgements are made principally in the following areas:
- 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;
- Financial instruments for which no quoted market prices in 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 volume traded, market liquidity, bid offer spread, etc.;
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- Determination on whether BIL controls the investee, including special purpose entities;
- The appropriateness of designating derivatives as hedging instruments;
- Existence of a present obligation with probable outflows in the context of litigation; and
- Identification of impairment triggers.

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

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

1.2. Changes in accounting 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, 2014.

1.2.1. IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2014

The following standards, interpretations or amendments have been endorsed by the European Commission and are applied as from January 1, 2014.
- Amendments to IAS 32 "Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities" clarify the application of the offsetting rules of financial instruments and remove certain aspects of diversity in application. This amended IAS 32 does not impact the Bank.
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on October 31, 2012). These amendments have no impact on the Bank.
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS36) (issued on October 31, 2012). These amendments have no impact on the Bank.
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS39) (issued on June 27, 2013). This amendment could impact the Bank.
- A package of five new and revised standards on the accounting treatment and disclosure requirements of interests in other entities. This publication comprises the following:
  - IFRS 10 "Consolidated Financial Statements" introduces one single consolidation model for all entities, based on control and regardless the nature of the investee. BIL does not expect a material impact from this standard on its financial reporting.
  - IFRS 11 "Joint Arrangements" does not longer allow the proportionate consolidation method when accounting for jointly controlled entities. This standard has no impact on BIL.

- IFRS 12 "Disclosures of Interests in Other Entities" require enhanced disclosures about BIL's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities in which BIL has an involvement.
- Revised IAS 27 "Separate Financial Statements" continues to be a standard, dealing solely with separate financial statements: the existing guidance is unchanged.
- Revised IAS 28 "Investments in Associates and Joint Ventures" is amended to incorporate changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

• Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance". These amendments do not have any impact on the Bank's financial statements.

1.2.2. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from January 1, 2014

• IFRIC Interpretation 21 Levies (issued on May 20, 2013). This interpretation is effective at the latest, as from the commencement date of the first financial year starting on or after June 17, 2014. This interpretation has no impact on the Bank.

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

• IFRS 14 Regulatory Deferral Accounts (issued on January 30, 2014). This standard is effective as from January 1, 2016 and has no impact on the Bank.
• IFRS 15 Revenue from Contracts with Customers (issued on May 28, 2014). This standard is effective as from January 1, 2017. The impact on the Bank's financial statements is currently being assessed.
• Amendments to IAS16 and IAS41: Agriculture: Bearer Plants (issued on June 30, 2014). These amendments are effective as from January 1, 2016 and have no impact on the Bank.
• Amendments to IAS16 and IAS38: Clarification of Acceptable Methods of Depreciation and Amortization (issued on May 12, 2014). These amendments are effective as from January 1, 2016 and have no impact on the Bank.
• Amendments to IFRS 11: Accounting for acquisitions of Interests in Joint Operations (issued on May 6, 2014). These amendments are effective as from January 1, 2016 and have no impact on the Bank.

Note 2: Material changes in scope of consolidation from July 1, 2013 to June 30, 2014

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

Companies fully consolidated for the first time
Belair House SA (from February 2014)
BIL Reinsurance SA (from May 2014)

Companies no longer fully consolidated
BIL Invest N.V. (from April 2014)
BIL Part Investments N.V. (from April 2014)

Companies proportionally consolidated for the first time
N/A

Companies no longer proportionally consolidated
N/A

Companies accounted for by the equity method for the first time
Europay S.C. (from June 2014)
Société de la Bourse de Luxembourg SA (from June 2014)

The European Union has published Commissions Regulations endorsing the "package of five" standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011)). This "package of five" standards comes with an European effective date of January 1, 2014. In this context, the Bank has reviewed non-consolidated participations in order to fulfill IFRS requirements in this domain. As a result, the equity method is now applied for these two participations which were initially considered as immaterial. The Bank considers that the application of the equity method regarding these companies provides a more adequate information. 2013 financial statements have been restated in order to give comparative figures.

(in EUR)		30/06/13	30/06/13 restated	Impact of restatment
V.	Financial Investments	4,971,034,291	4,942,575,584	(28,458,707)
VIII.	Investments in associates	0	18,494,320	18,494,320
TOTAL ASSETS		**20,298,294,533**	**20,288,330,146**	**(9,964,387)**
XV.	Reserves and retained earnings	88,687,143	104,297,791	15,610,648
XVI.	Net income for the period	67,116,227	67,257,224	140,997
XVII.	Gains and losses not recognised in the consolidated statement of income	120,847,757	95,131,725	(25,716,032)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**20,278,365,759**	**20,288,330,146**	**9,964,387**

(in EUR)		31/12/13	31/12/13 restated	Impact of restatment
V.	Financial Investments	5,480,341,698	5,452,103,867	(28,237,831)
VIII.	Investments in associates	0	19,320,011	19,320,011
TOTAL ASSETS		**19,698,961,762**	**19,690,043,942**	**(8,917,820)**
XV.	Reserves and retained earnings	88,687,150	104,297,798	15,610,648
XVI.	Net income for the period	113,229,814	114,107,333	877,519
XVII.	Gains and losses not recognised in the consolidated statement of income	119,438,639	94,032,652	(25,405,987)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**19,698,961,761**	**19,690,043,941**	**(8,917,820)**

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

Selskabet af 18 December 2013 A/S (formerly Banque Internationale à Luxembourg Bank Danmark A/S)
Société du 25 juillet 2013 SA (formerly BIL Finance SA).

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 2013 and 2014, BIL maintained the 2012 segmentation as follows:
- "Retail, Corporate and Private Banking" was organised around three business lines, Retail Banking, Corporate and Investment Banking and Private Banking, in order to improve synergies between the three pillars, based on client needs.
- "Treasury and Financial Markets" amended its business line with a new department in 2013 dedicated to the Investment Portfolio. TFM is organised around four departments: Treasury, Assets and Liabilities Management (ALM), Financial Markets and Investment Portfolio with dedicated desks supporting the commercial business lines.

INCOME (in EUR thousands)	30/06/13			
	Income	*of which net income from associates*	*of which interest income*	Net income before tax
Retail, Corporate and Private Banking	208,983	*0*	*118,231*	60,974
Treasury and Financial Markets	35,360	*0*	*4,242*	17,640
Group Center	14,095	*1,153*	*647*	12,653
TOTAL	**258,438**	***1,153***	***123,120***	**91,267**
Net income before tax				91,267
Taxes				(24,010)
NET INCOME				**67,257**

	30/06/14			
	Income	*of which net income from associates*	*of which interest income*	Net income before tax
Retail, Corporate and Private Banking	220,642	*0*	*129,311*	63,943
Treasury and Financial Markets	41,362	*0*	*2,379*	24,490
Group Center	19,028	*2,032*	*7,340*	5,633
TOTAL	**281,032**	***2,032***	***139,030***	**94,066**
Net income before tax				94,066
Taxes				(26,347)
NET INCOME				**67,719**

ASSETS AND LIABILITIES (in EUR thousands)	31/12/13		30/06/14	
	Assets	Liabilities	Assets	Liabilities
Retail, Corporate and Private Banking	10,062,413	14,208,710	10,085,704	15,135,395
Treasury and Financial Markets	8,647,614	3,417,597	10,393,861	4,081,453
Group Center	980,017	903,233	1,061,820	1,043,348
TOTAL	**19,690,044**	**18,529,540**	**21,541,385**	**20,260,196**

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 and the equity capital allocated to this activity on the basis of medium and long-term assets;
- 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 debt and debt securities

Subordinated debt

ANALYSIS BY NATURE	30/06/13	31/12/13	30/06/14
Non-convertible subordinated debt[1]	427,092,185	330,425,705	316,915,437
Hybrid capital and redeemable preferred shares[2]	104,742,403	87,127,513	213,004,424
TOTAL	**531,834,588**	**417,553,218**	**529,919,861**

Debt securities

ANALYSIS BY NATURE	30/06/13	31/12/13	30/06/14
Certificates of deposit	85,098,651	64,509,357	56,317,033
Non-convertible bonds	617,426,283	824,116,321	1,049,805,393
TOTAL	**702,524,934**	**888,625,678**	**1,106,122,426**

[1] List available upon request.

[2] A "Contingency convertible bond" has been issued on June 30, 2014 for EUR 150 million.

Note 5: Exchange rates

		30/06/13		31/12/13		30/06/14	
		Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	1.4195	1.3093	1.5384	1.3943	1.4519	1.4994
Canadian dollar	CAD	1.3678	1.3408	1.4626	1.3765	1.4592	1.5027
Swiss franc	CHF	1.2305	1.2288	1.2270	1.2292	1.2149	1.2187
Danish krone	DKK	7.4589	7.4572	7.4594	7.4577	7.4553	7.4621
Pound sterling	GBP	0.8567	0.8541	0.8323	0.8503	0.8005	0.8180
Hong Kong dollar	HKD	10.0952	10.1749	10.6767	10.3212	10.5991	10.6343
Japanese yen	JPY	129.1119	125.5710	144.4575	130.2865	138.6217	139.9903
Norwegian krone	NOK	7.9324	7.5918	8.3676	7.8673	8.3934	8.3049
Polish zloty	PLN	4.3371	4.2190	4.1498	4.2154	4.1559	4.1812
Swedish krone	SEK	8.7659	8.5450	8.8640	8.6626	9.1492	8.9834
Singapore dollar	SGD	1.6503	1.6343	1.7393	1.6676	1.7060	1.7273
US dollar	USD	1.3014	1.3113	1.3769	1.3306	1.3677	1.3710

Note 6: Material items in the statement of income

These items are included in the Consolidated management report.

Note 7: Post-balance sheet events

There were no occurrences of significant post-balance sheet events likely to have a major impact on the financial statements of BIL other than those referred to in the Consolidated management report.

Note 8: Solvency ratios

Regulatory capital, total amount of weighted risks and solvency ratios[1]

	30/06/13	31/12/13	30/06/14
TOTAL REGULATORY CAPITAL (AFTER ALLOCATION)	**813,199,090**	**904,309,969**	**1,056,391,470**
Regulatory capital in the strict sense	**558,378,580**	**649,777,354**	**909,195,432**
Core shareholders' equity	936,753,393	1,037,020,523	1,067,306,071
Translation adjustments - Group	(10,822,803)	(12,133,768)	(11,496,886)
Deductions and prudential filters	(367,552,010)	(375,109,401)	(296,613,753)
Additional Tier 1[2]	N/A	N/A	150,000,000
TIER 2 CAPITAL	**254,820,510**	**254,532,615**	**147,196,038**
Fixed-term subordinated loans	175,943,253	176,163,816	140,621,346
Deductions and prudential filters	78,877,257	78,368,799	6,574,692

	30/06/13	31/12/13	30/06/14
WEIGHTED RISKS	**4,335,958,888**	**4,353,508,526**	**5,173,438,094**
Credit risk	3,493,982,000	3,537,942,113	4,277,602,634
Market risk	147,346,900	119,027,925	128,180,473
Operational risk	694,629,988	696,538,488	696,538,493
Credit Valuation Adjustment	N/A	N/A	71,116,494
SOLVENCY RATIOS			
Common Equity Tier 1 ratio	12.88%	14.93%	14.67%
Tier 1 ratio	12.88%	14.93%	17.57%
Capital Adequacy Ratio	18.75%	20.77%	20.42%

[1] 2014 figures are computed according to Basel III rules (CRR 575/2013 and CSSF 14-01 rules). The previous ratios were based on Basel II regulation.

[2] Contingency convertible bond issued on June 30, 2014.

Note 9: Litigation

1. 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 68 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, 2014, no provision for clawback actions had been made.

Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

2. Selkabet af 18 December 2013 A/S

A Danish bank, EBH BANK, went bankrupt in the turbulent conditions of the 2008 crisis, and people connected with this bank were charged with fraud and market manipulation as part of transactions involving EBH BANK shares and those of other listed companies.

As part of this case, complaints were lodged with the police by the Danish regulator against Banque Internationale à Luxembourg Bank Danmark A/S ("BIL DK") and one of its traders for aiding EBH BANK in allegedly manipulating the market. This trader and, subsequently, BIL DK, were investigated for this alleged aid. The police investigation is still in progress and is likely to result in BIL DK and former its trader being charged.

BIL DK denies any involvement or responsibility in connection with the actions targeted by the investigation. Effective on December 18, 2013, BIL DK transferred its assets and obligations to a newly created branch of BIL in Denmark. BIL DK will however continue to exist until the foregoing investigation is closed or otherwise terminated; BIL DK has been renamed Selskabet af 18 December 2013 A/S.

The Bank is not involved in any other material litigation, where adequate provisions have not been funded, that readers may need to consider in evaluating the risks related to possible credit risks or current or potential litigation.

Note 10: Fair value

A. BREAKDOWN OF FAIR VALUE

A.1. Fair value of assets	31/12/13			30/06/14		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and balances with central banks	1,216,639,373	1,216,639,373	0	2,276,562,727	2,276,562,727	0
Loans and advances to credit institutions	1,374,083,211	1,370,571,414	(3,511,797)	1,756,712,487	1,756,889,248	176,761
Loans and advances to customers	10,062,413,490	10,156,255,751	93,842,261	10,085,703,610	10,221,740,309	136,036,699
Financial assets held for trading	107,811,549	107,811,549	0	138,795,257	138,795,257	0
Financial assets available for sale	5,412,142,732	5,412,142,732	0	5,655,098,190	5,655,098,190	0
Investments held to maturity	39,961,135	41,360,983	1,399,848	162,814,259	166,487,605	3,673,346
Derivatives	687,957,956	687,957,956	0	692,446,612	692,446,612	0
Fair value revaluation of portfolios hedged against interest-rate risk	15,942,122	15,942,122	0	15,259,133	15,259,133	0
Investments in associates	19,320,011	19,320,011	0	20,349,510	20,349,510	0
Other assets	753,772,362	753,772,362	0	737,643,384	737,643,384	0
TOTAL	**19,690,043,941**	**19,781,774,253**	**91,730,312**	**21,541,385,169**	**21,681,271,975**	**139,886,806**

A.2. Fair value of liabilities	31/12/13			30/06/14		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Amounts due to credit institutions	1,730,245,390	1,730,265,208	(19,818)	2,271,546,676	2,277,497,396	(5,950,720)
Amounts due to customers	12,497,024,699	12,498,302,392	(1,277,693)	13,833,176,255	13,844,752,022	(11,575,767)
Financial liabilities held for trading	760,315	760,315	0	63,091	63,091	0
Financial liabilities designated at fair value	1,794,825,648	1,794,825,648	0	1,218,479,001	1,218,479,001	0
Derivatives	781,982,420	781,982,420	0	853,875,317	853,875,317	0
Fair value revaluation of portfolios hedged against interest-rate risk	58,956,377	58,956,377	0	70,026,716	70,026,716	0
Debt securities	888,625,678	895,213,904	(6,588,226)	1,106,122,426	1,119,957,874	(13,835,448)
Subordinated debt	417,553,218	419,468,415	(1,915,197)	529,919,861	530,422,269	(502,408)
Other liabilities	359,566,166	359,566,166	0	376,986,221	376,986,221	0
TOTAL	**18,529,539,911**	**18,539,340,845**	**(9,800,934)**	**20,260,195,564**	**20,292,059,907**	**(31,864,343)**

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 2013 Annual Report).

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).

B.1. Assets	31/12/13			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	73,862,824	32,468,509	1,480,216	107,811,549
Financial assets available for sale - bonds	5,130,871,684	130,249,728	0	5,261,121,412
Financial assets available for sale - equities [1]	113,566,692	1,061,764	28,017,334	142,645,790
Derivatives	587,015	672,960,957	14,409,984	687,957,956
TOTAL	**5,318,888,215**	**836,740,958**	**43,907,534**	**6,199,536,707**

	30/06/14			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	109,278,677	26,371,675	3,144,905	138,795,257
Financial assets available for sale - bonds	4,793,276,983	335,250,640	400,817,340	5,529,344,963
Financial assets available for sale - equities[1]	90,651,666	968,727	26,709,690	118,330,083
Derivatives	1,353,110	673,840,965	17,252,537	692,446,612
TOTAL	**4,994,560,436**	**1,036,432,007**	**447,924,472**	**6,478,916,915**

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

B.2. Liabilities	31/12/13			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	395,868	364,447	0	760,315
Financial liabilities designated at fair value	0	1,479,483,457	315,342,191	1,794,825,648
Derivatives	3,413,089	774,129,911	4,439,420	781,982,420
TOTAL	**3,808,957**	**2,253,977,815**	**319,781,611**	**2,577,568,383**

	30/06/14			
	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	27,156	22,935	13,000	63,091
Financial liabilities designated at fair value	0	921,926,789	296,552,212	1,218,479,001
Derivatives	693,570	849,145,461	4,036,286	853,875,317
TOTAL	**720,726**	**1,771,095,185**	**300,601,498**	**2,072,417,409**

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

[1] Excludes variable securities recorded at cost (amounted to EUR 7.4 million as at June 30, 2014 and EUR 8.4 million as at December 31, 2013).

C. TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

C.1. Assets	31/12/13		30/06/14	
	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	0	0	63,158,351	0
Financial assets available for sale - equities	34,059	5,387,114	0	0
Derivatives	952	0	0	0
TOTAL	**35,011**	**5,387,114**	**63,158,351**	**0**

C.2. Liabilities

No transfer was made between Level 1 and Level 2 on liabilities in 2013 and 2014.

D. LEVEL 3 RECONCILIATION

D.1. Assets	31/12/13				
	Opening balance	Total gains and losses in the income statement	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	28,854,528	47,884	0	1,791,757	0
Financial assets designated at fair value - equities	36,844,610	0	0	0	0
Financial assets available for sale - bonds	0	0	2,125,449	0	0
Financial assets available for sale - equities	26,593,765	(8,069)	(503,004)	131,802	(931)
Derivatives	214,051,885	33,425,345	(28,656,386)	1,452,208	0
TOTAL	**306,344,788**	**33,465,160**	**(27,033,941)**	**3,375,767**	**(931)**

	31/12/13				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	(6,066,900)	0	(23,147,053)	0	1,480,216
Financial assets designated at fair value - equities	0	0	(36,844,610)	0	0
Financial assets available for sale - bonds	0	0	0	(2,125,449)	0
Financial assets available for sale - equities	0	2,347,119	(543,348)	0	28,017,334
Derivatives	(116,994,186)	3,785,737	(92,654,619)	0	14,409,984
TOTAL	**(123,061,086)**	**6,132,856**	**(153,189,630)**	**(2,125,449)**	**43,907,534**

	30/06/14				
	Opening balance	Total gains and losses in the income statement	Total gains and losses in OCI	Purchase	Sale
Financial assets held for trading	1,480,216	38,454	0	3,124,112	0
Financial assets designated at fair value - equities	0	0	0	0	0
Financial assets available for sale - bonds	0	0	0	400,817,340	0
Financial assets available for sale - equities	28,017,334	3,241,649	(2,532,695)	0	0
Derivatives	14,409,984	2,842,553	0	0	0
TOTAL	**43,907,534**	**6,122,656**	**(2,532,695)**	**403,941,452**	**0**

	30/06/14				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial assets held for trading	(1,497,877)	0	0	0	3,144,905
Financial assets designated at fair value - equities	0	0	0	0	0
Financial assets available for sale - bonds	0	0	0	0	400,817,340
Financial assets available for sale - equities	(3,717,662)	1,701,064	0	0	26,709,690
Derivatives	0	0	0	0	17,252,537
TOTAL	**(5,215,539)**	**1,701,064**	**0**	**0**	**447,924,472**

D.2. Liabilities

	31/12/13				
	Opening balance	Total gains and losses in the income statement	Total gains and losses in OCI	Purchase	New issues
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	489,858,585	27,202,658	0	0	47,778,302
Derivatives	185,013,598	(17,890,844)	0	0	124,759
TOTAL	**674,872,183**	**9,311,814**	**0**	**0**	**47,903,061**

	31/12/13				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value	(219,693,430)	49,522,058	(46,475,892)	(32,850,090)	315,342,191
Derivatives	(83,082,076)	65,779	(79,791,796)	0	4,439,420
TOTAL	**(302,775,506)**	**49,587,837**	**(126,267,688)**	**(32,850,090)**	**319,781,611**

	30/06/14				
	Opening balance	Total gains and losses in the income statement	Total gains and losses in OCI	Purchase	New issues
Financial liabilities held for trading	0	0	0	13,000	0
Financial liabilities designated at fair value	315,342,191	4,102,578	(50)	0	26,239,694
Derivatives	4,439,420	(501,821)	0	0	98,687
TOTAL	**319,781,611**	**3,600,757**	**(50)**	**13,000**	**26,338,381**

	30/06/14				
	Settlement	Transfer to Level 3	Transfer from Level 3	Conversion differences	Total
Financial liabilities held for trading	0	0	0	0	13,000
Financial liabilities designated at fair value	(54,210,986)	0	0	5,078,785	296,552,212
Derivatives	0	0	0	0	4,036,286
TOTAL	**(54,210,986)**	**0**	**0**	**5,078,785**	**300,601,498**

Changes in the amounts declared under Level 3 in 2013 and 2014 can be explained by the fact that 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.

However, the impact on the statement of income is relatively limited as the structured financial instruments are fully hedged against interest-rate risk as well as against the risks linked to the structure via the use of fully-backed derivatives.

It should be noted that Level 3 financial instruments held for trading are the result of buybacks of BIL issues.

E. SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE SCENARIOS

BIL uses a discounted cash flow model to determine the mark-to-model price. Sensitivity is a measurement of the fair value impact of alternative scenarios relating to the model's unobservable parameters at the closing date.

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:
- credit spreads: by considering credit spreads available on a single counterpart or, failing that, on similar counterparts or counterparts belonging to similar sectors, or by using credit spreads indexed to liquid CDS indices;
- liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- the illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar products, and/or by incorporating an analysis of the bid-ask spread for real transactions.

Tests were carried out on all financial instruments classified under Level 3.

The effects of sensitivity are mainly felt at the level of structured issues recognised at fair value through profit or loss. These effects are, however, offset by a reverse sensitivity at the level of activity-related hedging derivatives.

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