Liechtensteinische Landesbank 1861

Tradition meets Innovation.

Growth

157th Annual Report 2018

ar2018.llb.li

The LLB Group in profile

The LLB Group successfully positions itself as a universal bank with a strong private banking and institutional business.

First bank in Liechtenstein
founded in 1861

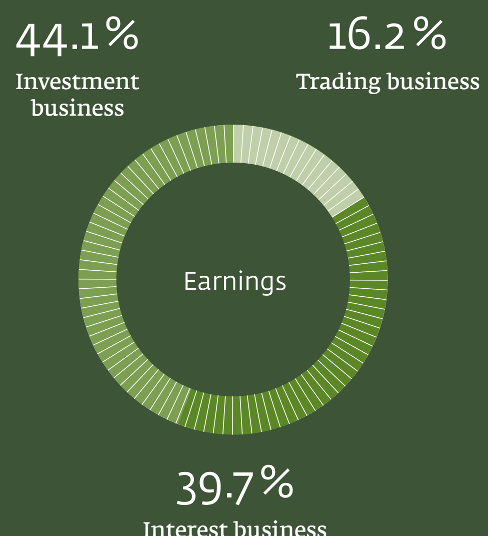
Moody's rating
Aa2

Three banks:
In Liechtenstein, Switzerland and Austria

Two competence centres:
LLB Asset Management and LLB Fund Services

Three high-earning market divisions

Diversified income structure



Outstanding investment competence

Lipper Group Awards Switzerland 2018: Liechtensteinische Landesbank – Winner over 3 years in the categories Overall Small Company and Bond Small Company.

Strong in three home markets

- Most important universal bank in Liechtenstein
- Largest regional bank in eastern Switzerland
- Leading asset management bank in Austria

Information for shareholders

LLB share

Security number		35514757
ISIN		LI0355147575
Listing		SIX Swiss Exchange
Ticker symbols	Bloomberg	LLBN SW
	Reuters	LLBN.S
	Telekurs	LLBN

Capital structure

	31.12.2018	31.12.2017	+ / − %
Share capital	154'000'000	154'000'000	0.0
Total of registered shares issued (fully paid up)	30'800'000	30'800'000	0.0
Total shares outstanding, eligible for dividend	30'675'159	28'877'063	6.2
Weighted average shares outstanding	29'752'960	28'869'770	3.1

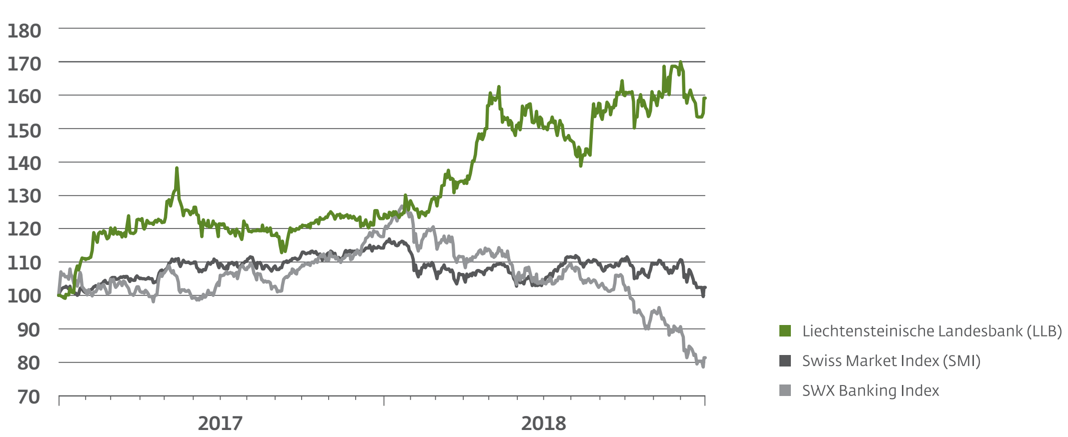
Information per share

	31.12.2018	31.12.2017	+ / − %
Nominal value (in CHF)	5.00	5.00	0.0
Share price (in CHF)	64.20	49.65	29.3
Basic earnings per share (in CHF)	2.62	3.66	− 28.4
Price / earnings ratio	24.49	13.58	
Dividend (in CHF)	* 2.10	2.00	

* Proposal of the Board of Directors to the General Meeting of Shareholders on 3 May 2019.

Comparison of LLB share

Indexed from 1 January 2017



Key figures

Consolidated income statement

in CHF millions	2018	2017	+ / – %
Income statement			
Operating income	399.7	399.4	0.1
Operating expenses	– 305.9	– 267.0	14.6
Net profit	85.1	111.3	– 23.5
Performance figures			
Cost-Income-Ratio (in per cent) * / **	77.7	69.6	
Return on equity attributable to the shareholders of LLB (in per cent)	4.3	6.1	

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding expected credit losses).
** Adjusted to consider market effects (interest rate swaps and price gains) the Cost-Income-Ratio stood at 75.5 per cent for 2018 and at 73.9 per cent for 2017.

Consolidated balance sheet and capital management

in CHF millions	31.12.2018	31.12.2017	+ / – %
Balance sheet			
Total equity	2'010	1'883	6.7
Total assets	22'892	20'017	14.4
Capital ratio			
Tier 1 ratio (in per cent) * / **	19.0	21.6	
Risk-weighted assets	8'225	7'568	8.7

* Corresponds to the CET ratio 1 because the LLB Group has solely hard core capital.
** From 31.12.2017 the calculation of the minority interests in the tier 1 ratio was considered fully in regulatory equity. According to EU directive 575 / 2013 (Art. 84 CRR) only a portion of minority interests is eligible to be considered on a consolidated basis in equity. This results in a 60 basis points reduction in the tier 1 ratio.

Additional information

in CHF millions	31.12.2018	31.12.2017	+ / – %
Business volume	80'143	62'336	28.6
Assets under management	67'290	50'252	33.9
Loans	12'853	12'084	6.4
Employees (full-time equivalents, in positions)	1'086	867	25.2

Purely for ease of reading, the masculine form used in this document is intended to refer to both genders.
Liechtensteinische Landesbank Aktiengesellschaft is referred to variously in the following as Liechtensteinische Landesbank AG, Liechtensteinische Landesbank, LLB AG, LLB as well as LLB parent bank.
Liechtensteinische Landesbank (Österreich) AG is also referred to as LLB (Österreich) AG and LLB Österreich.
Bank Linth LLB AG is also referred to in this report as Bank Linth.

This consolidated interim financial reporting is published in German and English. The German version is authoritative.
We also offer the 2017 consolidated interim financial reporting in an interactive online version:

German: http://gb2018.llb.li
English: http://ar2018.llb.li

Due to rounding, the numbers presented in this report may not add up precisely to the totals provided
and percentages may not precisely reflect the absolute figures.

The golden number

Φ

Growth is the future

The LLB Group is continuing to grow – as a bank for people and businesses, as an investment fund powerhouse and as an asset management specialist. The LLB Group is growing in a targeted, dynamic, sustainable and profitable manner.

Nature shows us the way, so does art and architecture. Examples and patterns, on which well-proportioned growth is based, inspired us to utilise the golden ratio as a theme for the Annual Report 2018. The symbol for the golden number is the Greek letter “phi”, the 21st letter of the Greek alphabet. Phi is a universal number having the value 1.6180339... The geometry of all organic structures is based on this golden ratio (or golden number).

Wherever one takes a closer look, one discovers everywhere the same numbers, angles, pentagons, spirals and patterns – for example, in the horn of the Alpine ibex, in the polyhedrons of the artist Hanna Roeckle, in the stalk of the cow parsley plant, in the decorations on the Sheikh Zayed Grand Mosque in Abu Dhabi. The pictures in this report show growth based on the golden number.

Video statements at:
ar2018.llb.li/growth

Contents

To the online annual report with
Roland Matt in a video statement
ar2018.llb.li

Roland Matt
Group CEO

Georg Wohlwend
Chairman of the Board of Directors

Letter to shareholders

Defined by growth

Dear Shareholders

“We are growing sustainably” was the central theme of the 2018 Annual Report. It reflected our successful growth, both organically and through the acquisition of two companies. The purchase of LB(Swiss) Investment AG provided us with access to the Swiss investment funds market, and therefore to an attractive growth market. Through the takeover of Semper Constantia Privatbank AG and the subsequent merger with Liechtensteinische Landesbank (Österreich) AG we have substantially expanded our business presence in Austria. Consequently, we can not only describe ourselves as the most important universal bank in Liechtenstein and the largest regional bank in eastern Switzerland, but also as Austria’s leading wealth management bank – and we are proud of that.

Highest new money inflow since 2010

The LLB Group achieved further operational progress in 2018. The business volume reached a new record at CHF 80.1 billion (2017: CHF 62.3 billion). With a net new money inflow of CHF 1.278 billion (2017: CHF 470 million), we grew substantially and sustainably in all three market divisions and our three booking centres. Client assets under administration rose to CHF 67.3 billion (2017: CHF 50.3 billion). Loans to clients climbed to CHF 12.9 billion (2017: CHF 12.1 billion), mortgage lending business increased by 5.3 per cent to CHF 11.1 billion.

Market effects impair result

Geopolitical risks, increasing protectionism and higher volatility on the financial markets had a marked impact on the business environment in 2018. Negative interest rates and additional regulatory provisions continued to challenge the banks. Nevertheless, against this background we were able to post a good annual business result. Our Group companies have developed in line with expectations. The result was adversely affected by integration costs and the persisting low level of interest rates, as well as the interest and stock market development. In comparison with the previous year, the sideways trend of Swiss franc interest rates led to lower valuation gains with interest rate swaps as measured on the reporting date. A negative equity market development and higher USD interest rates also resulted in accounting losses with financial investments, as measured on the reporting date. On account of these market effects, the Group’s net profit of CHF 85.1 million was 23.5 per cent below the previous year’s level (2017: CHF 111.3 million), (see “Consolidated management report”, page 120).

High level of stability

With equity of CHF 2.0 billion, the LLB Group has a very strong capital base. At the end of 2018, the tier 1 ratio stood at 19.0 per cent. Accordingly, we were in the top range of Liechtenstein and Swiss banks, ranking well above the average of European financial institutions. In April 2018, the rating agency Moody’s confirmed Liechtensteinische Landesbank’s excellent Aa2 deposit rating, again underlining the solidity of the LLB Group.

By implementing various EEA directives, the Principality of Liechtenstein has tightened the equity capital requirements for systemically important banks. The LLB Group comfortably fulfils these requirements. Therefore, LLB supported the government's initiative not to extend the agreement concerning the limited state guarantee, which expires in 2020, and to delete the respective Article 5 from the Law concerning the Liechtensteinische Landesbank.

Fund powerhouse in the FL-A-CH region

Thanks to the acquisition of LB(Swiss) Investment, we have opened up the Swiss funds market and through the takeover of Semper Constantia we have significantly enlarged our range of funds in Austria. Accordingly, we have fulfilled our strategic goal of geographically expanding and developing our investment fund business. We can now service this growth market from our three fund business locations in Vaduz, Vienna and Zurich. Consequently, with over 600 investment funds, assets under management of over CHF 30 billion and around 80 employees, this makes us a fund powerhouse in the FL-A-CH region. Investment funds are a traditional business area for LLB. It was a pioneer in this business, and has been a leading provider of individual private label fund solutions and a market leader as a custodian bank for third-party funds in Liechtenstein since the 1990s.

Awards for investment competence

International awards received in 2018 have again confirmed that investment competence is one of the great strengths of the LLB Group. At the beginning of February at the prestigious annual Thomson Reuters Lipper Fund Awards in Zurich, LLB Asset Management received three awards for outstanding fund management: as best "Overall Small Company" and as best "Bond Small Company" over three years, as well as for the LLB Equities Dividend Pearls Global (CHF) fund for its performance over five years. In addition, in March 2018 at the Lipper Fund Awards Austria, LLB won the award for the best real estate fund in Austria.

Further major progress with digitalisation

The digitalisation of banking business is a key priority of our StepUp2020 strategy. In April 2018, we received the Best of Swiss Web Award 2018 for our new online and mobile banking applications. Our online banking solution convinced the jury in the technology category especially through its user-friendly and fully integrated implementation of the "one-stop shop" philosophy. In the meantime, we have further refined and expanded our online service and introduced the new "eBill" and "LLBConnect" digital interfaces, which simplify and facilitate payment transfers.

Moreover, various digitalisation projects are being realised at the employee level. The aim of the "team@work" Group project is to further develop the digital workplace by facilitating the collaboration and exchange of knowledge within the Group. In addition, important HR processes have been digitalised.

From over-the-counter business to client experience

The personal contact with clients continues to be of central importance to us. Our new bank branch concept enables us to fulfil changed client requirements through digitalisation. Our bank branches are being successively transformed into multi-media client zones, where the focus is on providing clients with a unique experience. In spring 2019, we shall open the first bank branch designed in accordance with this modern concept in Balzers. It will set new standards with its unique "Bankorama". Bank Linth has already converted thirteen of its nineteen bank branches in line with its "bank of the future"concept.

Introduction of innovation management

We can only retain our position as pioneers if we have the boldness to go in new directions and to establish innovative solutions on the market. The Innovation Management organisational unit, which was created in 2018, enables us to monitor developments in the market, take up and develop promising ideas and motivate employees to be positively receptive to innovation. We have launched a Group-wide process to ensure that projects are evolved from good ideas to enable us to make further progress in our digital transformation.

Acting responsibility

We take our responsibility seriously, i.e. as the Landesbank we are the financial backbone of the state, the economy and the population of Liechtenstein. We regard corporate social responsibility (CSR) therefore as an integral part of our business success. We attach great importance to making sure our business dealings are carried out in accordance with the social and ecological environment. Internally, Group Human Resources has launched a corporate cultural journey as a Group project to encourage LLB staff to act positively and responsibly. Externally, we support the regional economy through numerous commitments and promote projects and institutions involved in different cultural, sport, competence and social areas. In 2018, in collaboration with the Chamber of Commerce, we launched the LLB SME Award, to honour and promote outstanding entrepreneurial activity in Liechtenstein.

In order for us to disclose in a neutral manner how we fulfil our business and social responsibilities, we prepare our annual report in conformance with the standards of the "Global Reporting Initiative" (GRI). Thanks to our comprehensive value reporting, we were placed an excellent second of 230 rated companies in the Swiss Annual Report Rating 2018.

New composition and certification of the Board of Directors

At the General Meeting of Shareholders on 9 May 2018, Thomas Russenberger and Dr. Richard Senti were elected as new members of the Board of Directors. They bring great competence and knowledge in the areas of human resources, finances and accounting, as well as many years of experience in the formulation of strategy and the development of corporate culture. With a proportion of 30 per cent women, the structure of the Board of Directors has a strong signal effect. Furthermore, for the first time in the history of the LLB Group, the Board of Directors elected Prof. Dr. Gabriela Nagel-Jungo as Vice Chairwoman. With regard to the General Meeting of Shareholders in 2019, the Board of Directors proposes that Dr. Patrizia Holenstein be re-elected and – subject to approval from the supervisory authoroty – Dr. Karl Sevelda be elected to the Board.

The Board of Directors of the LLB Group has held the "Best Board Practice" label of the Swiss Association for Quality and Management Systems (SQS), as well as the Liechtenstein Association for Quality Assurance Certificates (LQS) since December 2010. The continuity assessment in 2018 reconfirmed yet again that the activities and organisation of the LLB Board of Directors continue to exhibit a constantly high level of quality and consistently fulfil the Best Board Practice criteria.

Top performing LLB share

In 2018 the price of the LLB share continued to rise and substantially exceeded the sector index. On 31 December 2018, the share closed at CHF 64.20. The total return stood at plus 33.4 per cent (including the reinvested dividend). It was therefore one of the top performers among the bank shares listed in Switzerland. By contrast, the Swiss SWX Banks Index closed the year down 28.8 per cent.

Higher dividend

Our shareholders benefit from our long-term dividend policy and the payment of an attractive dividend. The Board of Directors will propose to the General Meeting of Shareholders on 3 May 2019 an increase of 5 per cent in the dividend from CHF 2.00 to CHF 2.10. This represents a dividend yield of 3.3 per cent.

Full of drive and enthusiasm into 2019

We have a focused business model and a diversified earnings structure. We have set ourselves clear goals with our StepUp2020 strategy and we are well on course to achieve them within the strategy period. In the remaining two years of this period, we shall do our utmost to increase our profitability and maintain our strict cost management.

Nevertheless, we must invest in the future and push ahead with the digitalisation of banking business. The introduction of the Avaloq banking software package at our business location in Vienna means that from the beginning of 2020 all our banks will operate on the same platform. This will enable us to exploit additional synergies. The lean management programme permits us to realise even more growth while keeping costs under control. And we have the necessary capital in reserve to make acquisitions in line with our strategy.

Thank you for your trust

We would like to thank our clients for their trust and loyalty. Our thanks also go to our staff for upholding our values and doing their best every day for our clients and our company. And we want to express our thanks to you, our esteemed shareholders, that you accompany us step by step in achieving our StepUp2020 strategy. We are well prepared for the future.

Yours sincerely

Roland Matt	**Georg Wohlwend**
Group CEO	Chairman of the Board of Directors

Strategy and organisation

The LLB Group is a universal bank with a strong private banking and institutional business. A clear vision, a transparent strategy and a value-oriented corporate culture make us a trusted partner for clients, investors and our employees.

Structure and organisation of the LLB Group

Business model

The Group structure of LLB follows a clear strategic pattern:

- a bank each in Liechtenstein, in Switzerland and in Austria
- two competence centres: Asset Management and Fund Services
- focused business model with three market divisions: Retail & Corporate Banking, Private Banking and Institutional Clients
- stable, long-term ownership structure and very solid capital base

The three market divisions

The LLB Group's business model is based on three profitable market divisions:

- **Retail & Corporate Banking** comprises the universal banking business in the home markets of Liechtenstein and Switzerland (see chapter "Retail & Corporate Banking", pages 24 – 27). It provides the full range of universal bank services to private and corporate clients. As the market leader in Liechtenstein, LLB has a strong competitive position. Bank Linth is the largest regional bank in eastern Switzerland.
- **Private Banking** comprises all the private banking activities of the LLB Group: investment advice, asset management, asset structuring as well as financial and pension planning (see chapter "Private Banking", pages 28 – 31). Its focus is on the onshore markets of Liechtenstein, Switzerland and Austria, on the traditional cross-border markets in Germany and the rest of Western Europe, and on the growth markets of Central and Eastern Europe as well as the Middle East. LLB has become Austria's leading asset management bank (see "Focus topic 2018: Growth", pages 13 and 14).
- **Institutional Clients** comprises the intermediary and fund business as well as the Asset Management Business Area of the LLB Group (see chapter "Institutional Clients", pages 32 – 25). Clients include fiduciaries, lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions. With our Asset Management, the largest investment team in Liechtenstein, we have multiple award-winning investment expertise. Through the acquisition of Semper Constantia Privatbank AG and LB(Swiss) Investment AG, we have become a leading fund provider in the market regions of Liechtenstein (FL), Austria (A) and Switzerland (CH) (the so-called FL-A-CH region).

Management structure

The management structure of the LLB Group is divided into divisions.

- **The Board of Directors** is responsible for overall management, supervision and control; it sets the basis for the Group's strategy, organisation and finances (see chapter "Corporate governance", pages 79 – 93).
- **The Group Executive Board** comprises the heads of the six divisions – three market divisions and Group CEO, Group CFO and Group COO – (see organisational structure, pages 70 and 71).

Group structure

The LLB Group has a presence through its three banks in the market regions of Liechtenstein (Liechtensteinische Landesbank AG), Switzerland (Bank Linth LLB AG) and Austria (Liechtensteinische Landesbank (Österreich) AG). With LLB Asset Management AG and LLB Fund Services AG, our Group has two competence centres in the areas of asset management and fund services respectively.

Group structure

LLB-Group

LLB AG	Bank Linth LLB AG	LLB (Österreich) AG
3 Bank branches 4 Representive offices: • Erlenbach • Geneva • Dubai • Abu Dhabi	19 Bank branches	4 Subsidiaries: • LLB Private Equity GmbH • LLB Invest KAG • LLB Immo KAG • LLB Realitäten GmbH

Asset Management

Fund Services

	Retail & Corporate Banking	Private Banking	Institutional Clients
Objectives and markets	• Market leader in Liechtenstein and largest provider in eastern Switzerland	• Leading provider in Liechtenstein and Austria, growth and expansion in Switzerland • Stable position in the traditional offshore markets of Germany and the rest of Western Europe • Expansion and recognised market position in the growth markets of Central and Eastern Europe (CEE) as well as the Middle East (ME)	• Preferential partner for fiduciaries and lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions in Liechtenstein, Switzerland and Austria • Fund powerhouse in the FL-A-CH region
Focus markets	• Private and corporate clients in Liechtenstein and in eastern Switzerland	• Onshore: Liechtenstein, Switzerland, Austria • Cross-border: Switzerland, Germany, rest of Western Europe • Growth markets: CEE and ME	• Financial intermediaries • Public institutions • Fund Services • Asset Management
Core elements of the StepUp2020 strategy	• Efficient market penetration • Leading bank branch concept • Refinement of SME and retail offerings	• Increased product penetration • Development of central product management and pricing • Expansion in growth markets of CEE and ME	• Intensification of dialogue using “LLB Xpert Views” • New pricing and offering structure • Expansion of fund services

StepUp2020 strategy

With the StepUp2020 strategy, we signalled in 2016 a phase of sustainable, profitable growth. Prior to that, the LLB Group had successfully repositioned itself with the Focus2015 strategy. The StepUp2020 strategy extends over five years (2016 to 2020).

Strategic success factors

The LLB Group's success is based on a number of factors, the most important being:

- a clear strategy with high-quality implementation
- a client-oriented business model
- a strong competitive position
- innovative, client-oriented products and services
- security and stability
- a stable management structure
- highly effective employees
- efficient processes
- interplay of digitalisation and personal contact
- a unique corporate culture

The four core elements

Always with an eye to the clients, we will concentrate on our strengths. Up to 2020, we will focus on four core elements:

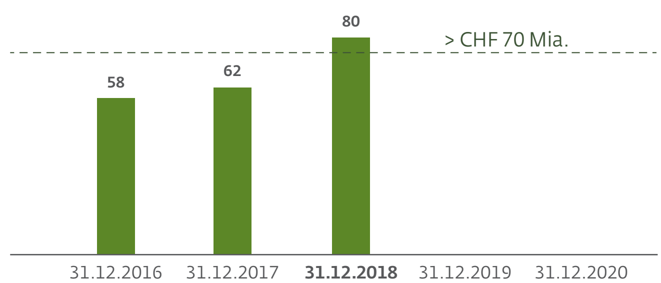
- **Growth:** We want to achieve this in two ways. Firstly, we want to grow organically by building on our own strengths. To this end, we will increase resources available for client advisory services. Secondly, we will target acquisitions in our home markets of Liechtenstein, Switzerland and Austria.
- **Profitability:** We intend to increase our margins by offering outstanding products and services. Efficient market penetration will help to generate profitable income. Maintaining strict cost management will be key.
- **Innovation:** We will invest in the future in a targeted manner. On the one hand, we will develop pioneering digital solutions and, on the other, we will provide our clients with an optimised and personalised service. We will automate standard business and individualise trust-based business. The planned investment volume amounts to CHF 100 million, of which CHF 30 million is earmarked for digital solutions.
- **Excellence:** We will continually improve processes throughout the organisation using lean management principles. Our aim is to increase the benefit to clients and boost added value. Given increasing regulation, we will strive to maintain strict compliance standards.

Our structure and focus markets as well as the initiatives under our StepUp2020 strategy are summarised in the table (page 10 below).

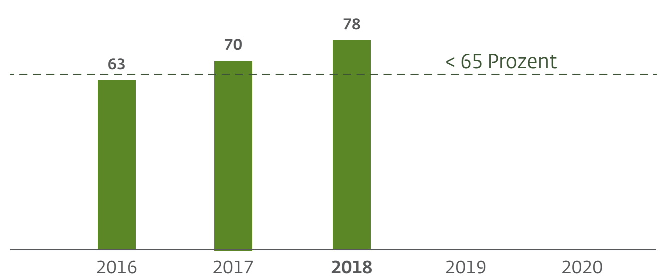
Growth and financial targets

Under the StepUp2020 strategy, the LLB Group set itself four clear and measurable targets. These are: a business volume of more than CHF 70 billion, a Tier 1 ratio of over 14 per cent, a Cost-Income-Ratio of under 65 per cent and a cumulative Group net profit of more than CHF 500 million. While we have already exceeded the targets for business volume and the Tier 1 ratio, we are on track to achieve the target for cumulative Group net profit. There is still room to improve the Cost-Income-Ratio and therefore our focus over the coming years will be on the core element of profitability. We will be concentrating on maintaining cost discipline and achieving income targets.

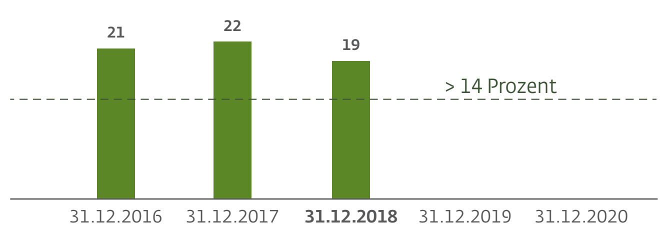
1. Business volume



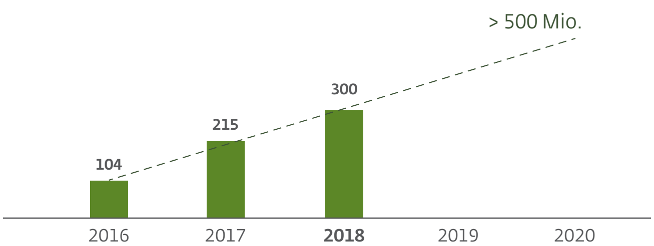
2. Cost-Income-Ratio



3. Tier 1 ratio



4. Cumulative Group net profit



Corporate culture

Vision and guiding principles

Besides strategy and structure, the culture of a company is a critical factor in its success. The LLB Group is committed to a concept of banking with a binding system of values.

Our **vision** is encapsulated in the motto: "We set standards for banking with values." Our vision of banking is based on the idea of managing material values with a clearly defined value system. The resulting **guiding principles** refer to a binding system of values, which mean the following to us:

- **integrity** – We create clarity and stand by our word.
- **respectfulness** – We believe in partnership and hold both clients and colleagues in high esteem.
- **excellence** – We set standards through performance and passion.
- **pioneering** – We play an active role in creating a sustainable future.

Vision, guiding principles, strategy and targets drive our thinking and our actions within the LLB Group in a sustainable way. We take various measures to ensure that our vision and guiding principles are firmly established in the minds of the employees and managers. To this end, we started, among other things, the hashtag #wertvollhandeln to encourage employees to live the corporate values. And also the cultural journey started in 2018 is intended to make employees question their actions, exchange views and rethink processes (see chapter "Employees", page 64).

Code of Conduct

We believe that responsible, forward-looking management practices are critical to our success. As a trustworthy and respectful partner, we want to be measured by our vision, our guiding principles and our Code of Conduct, which we updated during the reporting year.

Precisely because of our regional roots, we have our finger on our clients' pulse. That is why we set high standards when it comes to responsibility – both for us as a company and for every individual. The Code of Conduct lays down these standards in a binding set of guidelines. It reflects our values and clarifies what we expect of the Boards of Directors, the Group Executive Board, the managers and the employees. It shows how to handle potential issues or difficult situations that affect our business practices or our dealings with each other.

The LLB Group is present in many countries – where the laws, regulations and rules of conduct are as different as the history, language and culture. The Code of Conduct helps us to implement our company's values Group-wide in our target markets and thereby strengthen the trust of our clients, investors and partners. Further information can be found at **www.llb.li/en/the-llb/governance#verhaltenskodex.**

Focus topic 2018: Growth

The core element of growth was at the heart of our business activities in 2018. With Semper Constantia Privatbank AG and LB(Swiss) Investment AG, the LLB Group has made two acquisitions that are in line with its strategy and were completed on schedule. Through them it has opened up new growth potential in its home markets.

LLB becomes leading asset management bank

Through the merger of Semper Constantia and Liechtensteinische Landesbank (Österreich) AG, the LLB subsidiary in Vienna has become Austria's leading asset management bank. We were thus able to establish Austria as our third strong home market and grow in line with our strategy. With its strong position in private banking and the institutional business and its excellent reputation, Semper Constantia Privatbank AG represents an ideal addition to our activities in Austria.

We announced the takeover in December 2017. Closing took place as scheduled in July and completion of the merger was communicated at the end of September 2018 (see timeline right). With the merger, the business volume of Liechtensteinische Landesbank (Österreich) AG grew to over EUR 21 billion. The independent banking institute, licensed in Austria, and its subsidiaries employ over 220 people (full-time equivalent positions). In addition to the home market of Austria, the merged bank is active in Central and Eastern Europe as well as in Italy and Germany. Its business model is broadly diversified with LLB Österreich offering a comprehensive range of products and services in asset management, custodian bank services, the investment fund business and real estate. As a wholly-owned subsidiary of LLB in Vaduz, LLB Österreich benefits additionally from the stability and financial strength of the parent company.

Entry into the Swiss fund market

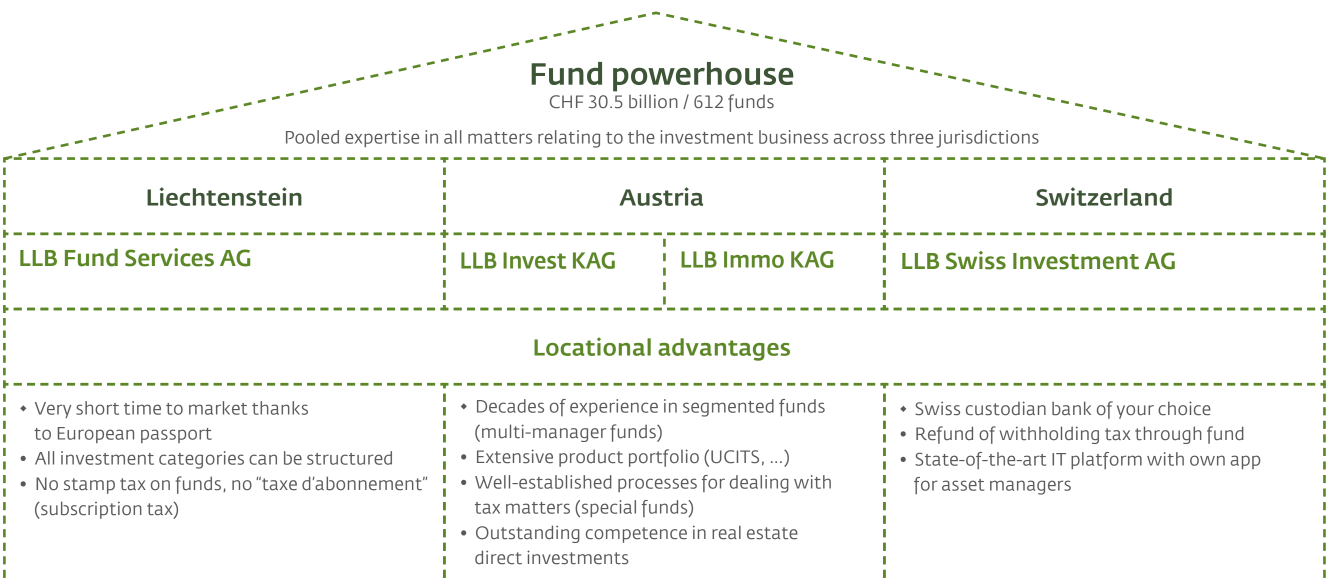
With the acquisition, announced in February 2018, of the Swiss fund management company LB(Swiss) Investment AG, which has been operating under the name LLB Swiss Investment AG since May, the LLB Group has successfully managed to enter the attractive Swiss fund market. LLB Swiss Investment AG offers its clients tailored and efficient services in the areas of fund administration, compliance and risk management, thus ideally rounding off the LLB Group's profile in the Swiss market. As a Swiss fund management company focusing on private label business and as a medium-sized company, LLB Swiss Investment AG is an ideal complement to drive growth in the fund business. At the end of 2018, it had CHF 30.5 billion in fund assets under management, with 612 funds being managed by 85 employees.

Two acquisitions successfully completed in one year

Emergence of a fund powerhouse
Thanks to the two acquisitions, the LLB Group will be a fund powerhouse in the FL-A-CH region, that is in its three home markets of Liechtenstein, Switzerland and Austria (see chapter "Institutional Clients", page 32).

Financial strength to make further acquisitions
Notwithstanding the acquisitions made, the LLB Group still has some CHF 400 million available for further acquisitions. It will continue in future to explore acquisition opportunities that offer a strategic fit. It will focus its efforts on the market regions of Liechtenstein, Switzerland and Austria.

Fund Services of the LLB Group



Finance and risk management

Assuming risk goes hand in hand with the business of banking. Sustainable and methodical finance and risk management is required to ensure that the risks remain calculable. For this reason, we use an integrated approach.

Integrated approach

Sustainable finance management and anticipatory risk management: we attach very great importance to these at all levels of the organisation. To avoid conflicts of interest, we have established effective and organisationally independent controlling bodies and processes. The Group CFO Division is responsible for the different areas of finance and risk management at the LLB Group.

Financial management

The aim of our financial management is to create transparency at all levels of management in order that costs and income can be managed in line with corporate strategy and in an efficient and timely manner. The key instruments we use for this are medium-term planning, the annual budgeting process, the Group Management Information System (MIS) and capital management.

Financial management includes the preparation of the financial statements in accordance with local laws and International Financial Reporting Standards (IFRS) as well as regulatory reporting. The Group-wide treasury manages the risks in the banking book that arise from banking activities, specifically liquidity, interest rate and foreign currency risks.

Risk management

It is essential for the protection of the reputation, the maintenance of the excellent financial strength and the securing of the sustainable profitability of the LLB Group that risks are dealt with prudently. Risk management is based on risk policy and encompasses the systematic identification and assessment, reporting, management and monitoring of credit risks, market risks, liquidity risks and operational risks as well as asset liability management (ALM). The LLB Group applies an appropriate organisational and methodological framework for assessing and managing risk (see chapter "Risk Management", pages 192 – 213).

Internal control system

The internal control system (ICS) contributes to increasing risk transparency within the company as an integral part of our Group-wide risk management by monitoring the risks in the relevant business processes through effective control processes. The LLB Group applies standards that are customary in the banking industry for this sub-system of risk management.

Liquidity management

The LLB Group has in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk. The internal liquidity adequacy assessment process (ILAAP) is set down in the internal regulations and guidelines and is reviewed and revised annually.

Within the framework of the ILAAP, the liquidity coverage ratio (LCR), as a binding regulatory liquidity reference figure, represents a material indicator both for liquidity risk assessment as well as liquidity risk management. At the end of 2018, a regulatory lower limit of 100 per cent was applicable for the LLB Group. The minimum requirement ensures that credit institutions can cover their liquidity requirements in the case of a liquidity stress scenario within 30 calendar days. With an LCR of 148 per cent (2017: 126 %), the LLB Group's ratio was substantially higher than that required under the regulations.

Capital management

The LLB Group has in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis adequate equity capital. The internal capital adequacy assessment process (ICAAP) is an important risk management instrument for the LLB Group. The ICAAP is documented in the internal regulations and guidelines and is reviewed and revised annually, taking into account overall bank stress tests.

A good equity base not only protects its reputation, but is also part of the financial management and credibility of a bank. Having a sufficiently high-quality equity base at its disposal is part of the LLB Group's identity. The LLB Group's financial strength shall remain, as far as possible, unaffected by fluctuations in the capital markets.

Solid equity base

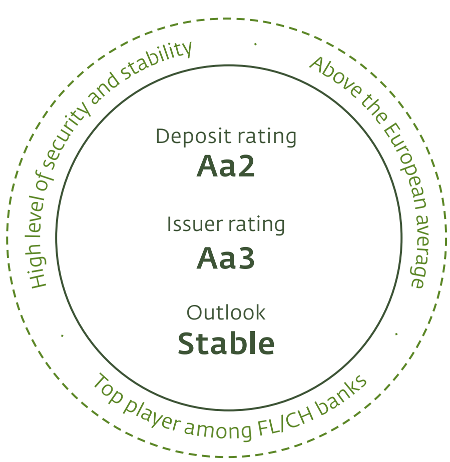
LLB is considered to be of systemic importance to the Liechtenstein economy and subject to a regulatory minimum capital adequacy ratio of 13 per cent. We are targeting a Tier 1 ratio of over 14 per cent as a strategic objective.

As at the end of 2018, the LLB Group had CHF 2.0 billion in equity capital (31.12.2017: CHF 1.9 billion). At 19.0 per cent (31.12.2017: 21.6 %), LLB's Tier 1 ratio is well above the regulatory requirement.

The LLB Group continues to enjoy a high level of financial stability and security on account of its solid equity base, which consists entirely of hard core capital. The comfortable capital situation gives it leeway to make acquisitions (see chapter "Strategy and organisation", page 14).

Rating confirms financial strength

Rating agency Moody's assigned a deposit rating of Aa2 to Liechtensteinische Landesbank once again in April 2018, and its rating is proof of our prudent finance and risk management. The rating underlines LLB's stability and financial strength. LLB is among the top range of Liechtenstein and Swiss banks and ranks well above the average of European financial institutions.



Moody's acknowledged the solid financial fundamentals, in particular the excellent capital base as well as the good liquidity and refinancing situation. Moody's rating provides investors and market participants with additional transparency.

Credit management

The LLB Group pursues a conservative credit risk policy. It includes the individual and differentiated evaluation of loan applications, the conservative assessment of collateral values, the individual calculation of affordability as well as compliance with standard equity requirements. The differentiated control processes help us to reliably fulfil our performance mandate (see chapter "Responsibilities for society and the environment", page 57) and to take appropriate account of risks.

We accompany private individuals, companies, small businesses and public institutions to finance their plans for the future. At CHF 11.1 billion, the majority of the loans, namely 86 per cent (2017: 87 %), comprised credits secured by mortgages. The volume of loans has grown continually over the past few years. At the end of 2016, we booked CHF 11.5 billion in loans; by the end of 2017, this figure had already risen to CHF 12.1 billion. At the end of 2018, the volume of loans had increased to CHF 12.9 billion. The LLB Group extends mortgages primarily within the market regions of Liechtenstein, north-eastern Switzerland and the region of Zurich.

Standardised control mechanisms

For real estate financing, we observe the Ordinance on Banks and Investment Firms (FL-BankV), which governs risk management in accordance with Art. 7a and Art. 21c ff of the Liechtenstein Banking Act. For financing in Switzerland, we observe the minimum requirements for mortgage financing drawn up by the Swiss Bankers Association (SBA) and approved by the Swiss Financial Market Supervisory Authority (FINMA). We also apply the EU guidelines on assessing, evaluating and processing mortgage secured loans.

We have developed a Group-wide uniform methodology for determining the collateral value of our Lombard loans. Credits against non-diversified securities or single asset lending may only form an insignificant portion of a Lombard loan portfolio.

Independent credit management

Within the LLB Group, credit competences are assigned according to the knowledge and experience of the decision-makers and the appropriate level and credit type. The authority to grant credit has been given to Group Credit Management and the Credit Committees, with the exception of standard business transactions. Credit decisions are thus made independently of market pressures and market targets. In this way, we are able to avoid conflicts of interest and objectively and independently assess risk in individual cases.

Legal and compliance risks

Within the LLB Group, combating money laundering and its predicate offences as well as the financing of terrorist or criminal activities is assigned the highest priority. Monitoring is performed by an IT system. In addition to the systematic monitoring of transactions, employees receive ongoing training on regulatory changes. They are also sensitised to the indications of possible money laundering activities. LLB has a legal department, Group Legal, and three specialised compliance departments:

- Group Financial Crimes Compliance is responsible for fulfilling legal anti-money laundering requirements.
- Group Tax Compliance is responsible, inter alia, for implementing a tax compliance strategy as well as AEOI and FATCA (see chapter "Regulatory framework and developments", pages 46 and 47).
- Group Regulatory Compliance is focused on compliance with supervisory requirements, inter alia, in the areas of MiFID and cross-border, and monitors employee transactions.

Cross-border banking

The LLB Group does its utmost to minimize the regulatory risks that exist in cross-border financial services. We restrict our international activities to selected strategically and economically significant markets. Our focus is on the onshore markets of Liechtenstein, Switzerland and Austria, on the traditional cross-border markets in Germany and the rest of Western Europe, and on the growth markets of Central and Eastern Europe as well as the Middle East.

The LLB Group's internal rulings ensure that employees know and comply with the regulations of the respective target country when engaging in cross-border activities. Again in 2018, training courses were conducted for client advisers in the particular markets relevant to them.

Cyber risks

As a company, we have a responsibility towards clients to handle their assets and information carefully. Through the progressive digitalisation of the banking business, the risks and necessary protective measures are also changing. Protection against cyber attacks has top priority and can only be guaranteed through state-of-the-art IT systems and trained and aware employees.

The Group Information Security Department formulates, implements and maintains our information security programme. The principles and guidelines on which this is based are specified in directives that are binding throughout the Group.

The assets and information entrusted to us are protected by coordinated processes and systems. Specialists continually analyse the latest risks arising from cyber threats and implement appropriate counter measures. The LLB Group's virtual Cyber Security Incident Response Team (vCSIRT), which has been operational since 2017, provides 24 / 7 cyber incident detection and initiates defensive measures. In July 2018, the Group Information Security Department became part of the Group CFO Division. This facilitates cooperation with those responsible for risk management and risk reporting, and allows us to use synergies in these areas.

Fraud detection system

Working in cooperation with a technology partner, we have developed a self-learning fraud detection system for payment systems. Once the data for a mobile or online payment order has been entered, the system checks against various criteria as to whether it could be a fraudulent payment. If the system detects any risks, then different security levels are activated or payments are blocked.

Raising awareness among employees

Handling client data and information responsibly is an integral part of LLB's corporate culture. Training courses for employees have been held regularly since 2014.

LLB uses a learning game with the innovative gamification approach to raise employees' awareness of cyber security issues. Through mandatory IT security training, employees who have less affinity with technology are taught how to deal with phishing, distributed denial-of-service (DDoS) attacks, social engineering and the like in a fun way.

Rules of conduct

We expect our corporate bodies and employees to comply with the applicable laws, regulations and guidelines, professional standards and our rules of conduct. These stipulate which transactions in financial instruments are not permitted for employees and corporate bodies. They also set out the general principles for employee transactions. How business relationships are supported by employees and corporate bodies is also clearly regulated, as is the acceptance of inducements and the exercise of secondary employment.

Highlights 2018

January

18 Two top positions at the Hedge Fund Awards 2018

February

6 Three awards at the Thomson Reuters Lipper Fund Awards 2018 in Zurich

21 Bank Linth increases annual profit by 12.7 per cent to CHF 22.0 million

23 LLB signs takeover agreement for LB(Swiss) Investment AG

March

8 LLB Group presents 2018 business result and reports net profit of CHF 111.3 million

9 One award at the Thomson Reuters Lipper Fund Awards 2018 in Vienna

27 All proposals to the 169th General Meeting of Shareholders of Bank Linth approved

April

3 LLB completely takes over the Swiss investment fund company LB(Swiss) Investment AG in Zurich

19 Best of Swiss Web Award 2018 for the new Mobile and Online Banking

23 An additional seventy client advisers of the LLB Group are certified according to the standards of the Swiss Association for Quality (SAQ)

May

9 All proposals to the 26th annual General Meeting of Shareholders of Liechtensteinische Landesbank approved

14 Alternative Investments Award 2018 for the LLB real estate securities funds in Austria

June

26 LLB extends agreement with Vaduz FC

"LLB Sommer im Hof" events delight audiences in Vaduz

July

4 LLB completely takes over Semper Constantia Privatbank AG in Vienna

"LLB Sommer im Hof" events delight audiences in Vaduz

August

16 Bank Linth ends first half year 2018 with a good business result

23 LLB Group continues its growth in the first half year 2018 and presents a good interim business result

September

4 First SME Awards go to Bäckerei Konditorei Confiserie Wanger AG and the b_smart hotel concept

30 Merger with Semper Constantia AG completed – LLB becomes leading asset management bank in Austria

October

31 Dr. Patrik Fürer is introduced as new Group COO and takes over the function from January 2019

November

13 Wall Street correspondent Jens Korte gives a speech at this year's Investment forum to 150 invited guests

December

10 Donation event of the charitable Future Foundation of Liechtensteinische Landesbank – support was provided to 22 organisations

How does a pioneer become a powerhouse?

The growth boosts our strength.

Fund powerhouse in the FL-A-CH region

Natalie Epp

Head of Division Institutional Clients

The LLB Group is making a name for itself as a fund powerhouse in the FL-A-CH region. In Liechtenstein, it has been playing in the top league as a pioneer for over 20 years. In Switzerland and Austria, it has been well positioned for continued sustainable growth since 2018. The model is unique. From Vaduz, LLB accesses the key EU market. From Vienna, it multiplies its reach. And from Zurich, it provides its clients with access to the largest offshore asset management and fund market in the world.

Video statement at:
ar2018.llb.li/funds-powerhouse

The higher the temperature in spring, the faster the horns of the alpine ibex grow. Two rings are added each year. Growth follows the law of harmony and the golden ratio.

Economic environment

After economic activity increasingly began to falter towards the end of 2018, the long-lasting upwards trend on the stock markets came to an abrupt end. Investors had to accept losses. The banks must be prepared for persistently low interest rate levels in Europe.

International perspectives

Economic development in the strongest economies lost impetus in 2018. Political uncertainties, such as the trading disputes between the USA and Europe, as well as between the USA and China, caused a gloomy mood on the markets. The US government's protectionist trade policy is having an adverse impact on corporate global value chains and, both in China and in the euro zone, has led to a slowdown in output. The markets were also burdened by uncertainty surrounding the Brexit negotiations, the fading Macron effect and the foreseeable end of Chancellor Merkel's government in Germany. The geopolitical uncertainties are making the formulation of monetary policy more difficult. Following four interest rate hikes in 2018, the US Federal Reserve (the Fed) will be more cautious in 2019. The European Central Bank (ECB) only envisages an interest rate rise in the second half of the year. Consequently, money market interest rates in Switzerland will probably still be in the negative range at the end of 2019.

USA

US President Donald Trump has provided the US economy with an additional boost thanks to an extensive tax reduction package. However, this effect will probably diminish during 2019. The US economy was, in fact, already losing impetus during the third quarter of 2018. After forecasting an economic growth rate of 2.5 per cent for 2019, the Fed revised its expectation to 2.3 per cent in December 2018. Inflation will probably also weaken somewhat in 2019. As a result of the fall in long-term interest rates in the USA, the yield curve has continued to level off. This could also be interpreted as an early warning signal of a possible recession. According to the current plans, US import tariffs will rise to their highest levels since the 1970s, which can also be seen as an indicator that the global economic picture is very likely to become even more overcast. Consequently, trading activities would be subdued.

Euro zone

The economic outlook for the euro zone is muted. Although growth should again pick up somewhat following an unexpectedly weak second half of 2018, the mood among consumers and producers has, nevertheless, deteriorated. The general uncertainty could dampen economic activity and thus the development of inflation. Bank economists, economic research institutes and international organisations have recently revised their 2019 forecasts downwards for Germany and the euro zone. For example, the Ifo Institute in Munich has revised its economic growth forecast to 1.1 per cent, whereas back in September experts were still reckoning with 1.9 per cent. The Austrian Institute for Economic Research (WIFO) reported similar findings. However, in spite of setbacks, the economic assessments of Austrian companies at the end of the year remained surprisingly confident. Starting from a relatively high level, the companies rated the economic situation as being somewhat worse; their expectations for 2019 were somewhat less positive.

Switzerland / Liechtenstein

The Swiss economy slowed down surprisingly strongly in the third quarter of 2018, with GDP declining by 0.2 per cent. According to the State Secretariat for Economic Affairs (SECO), moderate growth is to be expected in the coming quarters. The days of significantly above-average growth, however, are probably over. The situation in the Swiss financial services sector was not particularly encouraging. According to SECO, lower financial services exports and a challenging interest rate environment meant that the value added shrank in the third quarter by 1.1 per cent. In the meantime, according to the Economic Research Department of the Swiss Federal Institute of Technology in Zurich, the decline in the value-added share of the financial sector in Switzerland has probably come to an end. Since 2007, the share of value added attributable to the banks has almost halved. If there are no further setbacks (e.g. fines) in the financial services sector, profitability may rise again, according to the Economic Research Department.

In Liechtenstein, according to the "Economic Monitor Q4/2018" of the Liechtenstein Financial Market Supervisory Authority (FMA), there are no signs of a slowdown in the economy. Output has stabilised at a high level. The very positive economic situation is clearly discernible in the continually good employment figures. Employment increased by as much as 3.8 per cent in the first half year of 2018 compared to the same period in 2017, while exports of goods grew by 11 per cent.

Liechtenstein financial centre

Financial service providers in Liechtenstein benefitted in the first half of 2018 from the favourable economic environment. According to an economic report published in October by the Liechtenstein Department of Statistics, the revenue at six selected financial service providers climbed by 19 per cent in the first half of 2018 compared to the first half of 2017. Employment in the financial services sector, too, had risen by 4 per cent by the middle of 2018 compared to the corresponding period in the previous year. However, given the cloudy outlook for the global economic situation, a slowing of momentum can be expected. The Liechtenstein Bankers Association remains confident (according to an assessment published in the "Government Financial Planning 2019 to 2022"). Its member banks generally expanded strongly between 2016 and 2017. In retrospect, it can be seen that the focus and strategic realignment with regard to efficient cost management, client-oriented service and product offers and profitability paid off. New business growth areas were opened up, which promise positive developments in the future. Nevertheless, the Bankers Association also pointed out that, in a highly digitalised environment, negative interest rates, volatile financial markets, an increasing shortage of specialist staff, as well as the scope and complexity of regulatory requirements still present the Liechtenstein banks with core challenges. On the whole, however, the Bankers Association believes that, in the medium to long term, the banks' growth strategies will have a positive effect on their annual business results, employment growth and the financial situation. The Liechtenstein Investment Fund Association basically foresees continued growth. Their assessment, also published in the "Government Financial Planning 2019 to 2022") sounds positive. The Liechtenstein Investment Fund Association expects fund volume growth of 10 to 12 per cent for 2019 against the backdrop of a neutral stock market development. From 2020, it expects an increase of 4 to 7 per cent.

Interest rates

The central banks are acting very differently at the present time. The spectrum ranges from an extraordinarily expansionary monetary policy, to a withdrawal from special monetary policy measures, to an even almost "neutral" monetary policy. In December, the Fed raised its benchmark interest rate for a fourth time in 2018. It raised the interest rate by a quarter of a point to the new target corridor of 2.25 to 2.5 per cent as a reaction to the good economic situation in the USA. The Fed has signalled a more gradual rise in rates for 2019. Nevertheless, a further interest rate hike will probably be made in 2020. The US central bank also indicated a long-term interest rate of 2.8 per cent.

In comparison, the monetary policy of the ECB continues to be very expansionary. Key interest rates should remain at their present record low level until probably beyond the summer of 2019. In December 2018, however, the ECB decided to stop its bond purchasing programme at the end of 2018. It wants to gradually withdraw the programme, but continue to invest the accruing interest income from the programme in bonds. The end of the bond purchasing programme can be regarded as a first step on the long road towards normalising monetary policy.

The Swiss National Bank (SNB) still left its interest rates unchanged. The markets are assuming that it will only initiate an interest rate turnaround after the ECB has taken the first step. With a negative interest of 0.75 per cent and its readiness, if necessary, to intervene in the foreign exchange market, the SNB's policy remains extremely expansionary. An end to negative interest rates is not expected before 2020.

Currencies

In 2018, the US dollar benefitted from the growing gap in interest rates. Larger inflows of capital led to a real effective upward revaluation of the greenback. The US dollar rose almost 2 per cent against the Swiss franc, more than 5 per cent against the euro and about 6 per cent against the British pound. Investment experts expect that the dollar will gain less ground in 2019. In April 2018, the euro reached its high point of the year against the Swiss franc of CHF 1.20; by the end of December, it had slipped to CHF 1.13. The SNB believes that its own currency is overvalued. The situation on the foreign exchange market continues to be fragile. In the SNB's view, the negative interest rate and its readiness, if necessary, to intervene in the foreign exchange market are still necessary because it wants to reduce the attractiveness of investments in Swiss francs to relieve the upward pressure on the currency. However, it seems that the Swiss National Bank has not made any large market interventions for about one and a half years. Most market participants interpret this to mean that, with exchange rates of over EUR / CHF 1.14, no market interventions by the SNB are to be expected.

Equity markets

2018 ended on the stock markets with turbulence. On balance, it was a disappointing year for investors. The development on the international financial markets was characterised by higher volatility. According to an assessment made by the SNB, concerns about a global slowdown in growth, persisting uncertainty regarding Brexit, Italian fiscal policy and the continuing tensions caused by the USA's trade policy – particularly towards China – weighed heavily on the equity markets. The situation was exacerbated by an increase in long-term interest rates in the USA at the beginning of October. Analysts expect the volatility on the equity markets to persist in the short term and that 2019 will be a challenging year. There are still too many variables that are difficult to assess from an investor's perspective. Consequently, no great euphoria should be expected on the equity markets any time soon.

Retail & Corporate Banking

Thanks to its Retail & Corporate Banking, the LLB Group is successfully positioned as a universal bank for private and corporate clients. But client requirements are changing. For us this means looking to the future and having the boldness to implement innovative and pioneering solutions.

Markets and services

The Retail & Corporate Banking Division of Liechtensteinische Landesbank and its subsidiary Bank Linth encompasses the deposits and financing business in the domestic markets of Liechtenstein and Switzerland. In addition, it has very diverse relationships with cross-border clients from the Austrian province of Vorarlberg. We offer the complete spectrum of banking and financial services for private and corporate clients. A unique aspect is our 360-degree advisory concept, which offers solutions for every phase of life and every stage of company development – from birth to estate planning, or from the setting up of a business to the transfer of the company to the next generation.

Payments, savings and deposits

In Liechtenstein LLB is the clear market leader in payment services and account management. Almost every resident has an account at the Landesbank. Our "LLB Combi / Bank Linth Combi" enables private clients to design their individual banking relationship themselves. An interactive online configurator helps our clients to put together a service package that fits their requirements, and also reveals the costs of every module for full transparency. The specific investment advice and asset management for clients having available assets up to CHF 0.5 million are also components of Retail & Corporate Banking. Under the designation "Compass", we offer a 360-degree spectrum of advisory services for every phase of life and stage of the business cycle. SMEs can find various basic product packages offering attractive, transparent services and conditions.

Lending and mortgage business

Lending business is an important business area for the LLB Group. With its 78'513 private, corporate and institutional clients, LLB is the leader in the Liechtenstein home market. It holds a 50-per cent market share of Liechtenstein mortgage lending business. And it is also the market leader in corporate client business with a market share of 60 per cent.

As the largest regional bank in eastern Switzerland, Bank Linth is one of the largest providers in both business areas.

Individual pension fund solutions

We are the only bank in Liechtenstein to offer clients individual pension fund solutions through the LLB Pension Fund Foundation for Liechtenstein (see chapter "Responsibilities for society and the environment", page 58). Measured in terms of the number of persons insured and the assets managed, the Pension Fund Foundation is the second-largest collective foundation in Liechtenstein and the only one in the country whose members can choose between two investment strategies. At the end of 2018, the LLB Pension Fund Foundation administered 5'300 actively insured persons in 450 affiliated companies.

In eastern Switzerland, Bank Linth offers pension fund solutions for corporate clients through the ALVOSO LLB Pension Fund.

Regionally anchored

Retail & Corporate Banking is a regional and local business. Our client advisers are at home in their market regions and can assess the needs of private clients and companies (see chapter "Employees", page 65). Founded in 1861, Liechtensteinische Landesbank is the oldest bank in Liechtenstein. Its continuing role as the financial backbone for private individuals and companies in the Principality is confirmed by the bank's very high market share of retail & corporate banking business. Furthermore, LLB is the only bank that operates several bank branches

Bank branch and ATM network

LLB is the only bank in Liechtenstein to offer

3 bank branches and
23 ATM locations

In the Swiss cantons of St. Gallen, Zurich, Schwyz and Thurgau Bank Linth operates a total of

19 bank branches and
29 ATM locations

and an extensive network of ATMs in Liechtenstein. Many customers are also shareholders of the bank: 18.8 per cent of LLB registered shares are held by private individuals and companies domiciled in Liechtenstein (see chapter "LLB share", page 43). Established in 1848, Bank Linth also has a long history and is firmly anchored in the local community. Around 10'500 shareholders form the bank's foundation and actively participate in its development.

Partner bank and SME Award

LLB is well networked with the local business community. In 2018, the bank further intensified its collaboration with the Chamber of Commerce that began in 2016. For the first time we jointly operated a stand at the Liechtenstein Industry, Trade and Commerce Exhibition (LIHGA), an annual regional trade fair. To underscore our expertise in corporate client business, in 2018 in collaboration with the Chamber of Commerce, we launched an SME Award. We now plan to award this prize every two years at the LIHGA (see chapter "Responsibilities for society and the environment", page 59).

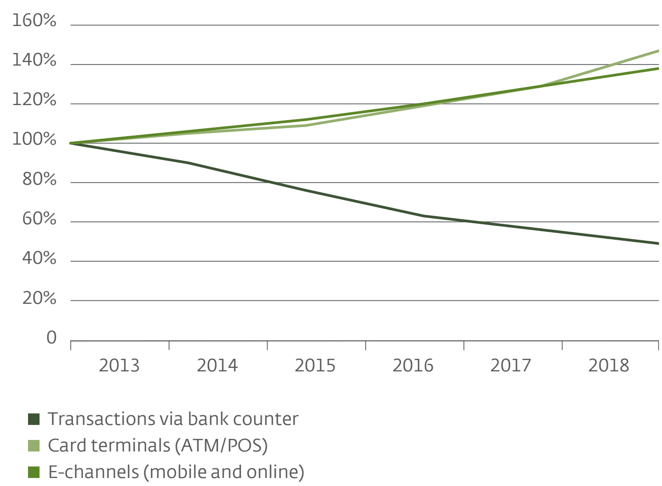
In 2017, LLB began providing advice to the Liechtenstein Technopark and to start-up companies as a network partner to the "Home of Innovation" initiative. Moreover, LLB is a supporting member of "digital-liechtenstein.li", a platform to encourage digital innovation and networking in Liechtenstein.

Omni-channel concept: digital and personal

The LLB Group's StepUp2020 strategy also takes into consideration the continuing digitalisation of banking business. We are carefully monitoring the developments on the market and in 2018 we implemented a structured Innovations Management function (see chapter "Corporate Center", page 41). During the period from 2016 to 2020, to fulfil changed client requirements, we are investing around CHF 30 million for Group-wide innovations and infrastructure projects to expand digital channels and services. By doing so, we are complying with changed client requirements. Whereas across-the-counter business is declining, our clients are increasingly using our e-channels. In 2018, more than 2.3 million (2017: 2.2 million) transactions were carried out via our online and mobile banking channels. Card transactions using LLB cards also increased to 2.7 million (2017: 2.3 million) (see graph, right column).

The intensity and scope of advice is also increasing, which is why we are not only investing in technology but also in the training of our bank branch teams. Counter staff are becoming client advisers, who are certified according to the standards of the Swiss Association for Quality (see chapter "Employees", page 68). By the end of 2018, 73 client advisers of the Retail & Corporate Banking Division had successfully completed the certification programme.

Number of transactions via bank counter, ATMs, card terminals (POS), e-channels (mobile and online)



Bank branches focused on advising clients

The trend in the bank branches is away from transaction business and towards personal advice provided on the spot. This opens up great opportunities for the LLB Group because, in spite of the declining number of standard transactions made at the bank counter, in 2018 around 24'500 customers visited the three LLB branches in Liechtenstein and around 18'500 customers the branches of Bank Linth. These direct contacts offer the potential for the provision of advice, which we utilise more intensively. The redesign of the client zones of bank branches offers us ideal support here. In these new remodelled bank branches our client advisers can assist clients with everyday transactions by offering them basic services while, at the same time, being ready and available to provide comprehensive advice. This in a branch environment that offers an inspiring experience and which enables clients to feel comfortable and at ease.

Investments in modern branches

In spring 2019, LLB will unveil its first newly designed bank branch in Balzers (Liechtenstein), at which it will present its unique "Bankorama" experience. This enables clients to interactively experience the world of banking. In this manner, LLB wants to make banking products simple to understand and to create an experience with them.

Bank Linth opened its first branches reflecting its "bank of the future" vision in 2017. In the meantime, thirteen of its nineteen branches have been remodelled. The transformation should be completed by 2020; then all Bank Linth branches will appear in their new design. The client is also the key focus of Bank Linth's concept. The centrepiece of the new branches is always a welcome desk staffed by a client

This page contains, inter alia, the following GRI disclosures (2016 version): 102-43. A list of all disclosures shown in the report can be found in the GRI Content Index on page 111.

adviser. The rooms are open and accessible, and the use of natural materials creates a welcoming atmosphere and a sense of well-being for the client.

E-channels

Designed in accordance with the latest security and technological standards, in February 2017 we introduced new mobile banking apps with touch ID and a user-friendly scan and pay function for LLB and Bank Linth. This was followed in summer 2017 by the launch of a new web portal with integrated online banking. We are therefore one of the few banks that have designed their entire online offering as a one-stop-shop – including expanded online banking. Within the scope of our "Novus" digitalisation programme (see chapter "Corporate Center", page 40 – 41), in 2018 we extended our digital service offering to clients and refined the functions in our online and mobile banking systems. The platform can be personalised enabling private and corporate clients to set up their digital banking according to their requirements. The high degree of functionality and security of our integrated online banking are convincing: over the last five years the number of online and mobile users has risen from 22'016 (2014) to 35'940 (2018), an increase of more than 63 per cent. Almost 30 per cent of these users employ our mobile application. Experts also acknowledge our innovative approach: in April we were presented with the silver award for our technology at the "Best of Swiss Web Awards" 2018.

eBill and LLB Connect

As the first bank in Liechtenstein, we introduced an eBill solution in September 2018. Using eBill, clients can receive, check and release invoices for payment simply and quickly via LLB online banking. When certain invoices are received regularly, they can be automatically released for payment by means of a standing approval function. Sending invoices via eBill is very simple, and for companies facilitates administration and the control of accounts receivable, and it brings other advantages. For example, electronic dispatch brings significant time savings because several work steps, material and postage costs are no longer necessary.

LLB Connect was introduced in mid-2018 to provide our corporate clients with an interface for the submission or retrieval of account information, credits, payment orders and stock market and foreign exchange orders. LLB Connect enables corporate clients to directly link their internal system with LLB. The Electronic Banking Internet Communication Standard, or EBICS for short, has been available to our clients since 2016. In 2019, we plan to expand and deepen this service. With the EBICS portal we intend to introduce a solution that is capable of providing a multi-banking function.

Customer Service Center

As the interface between online and offline services, the Customer Service Center (CSE) has been the central hub for around 56'000 clients for five years. It offers them comprehensive service for all banking transactions. In 2018, this dedicated team answered 109'000 telephone calls, about 9'000 e-mails and 4'600 bank messages. It also dealt with 66'000 enquiries and questions.

Saving time for clients

As part of the StepUp2020 strategy, the LLB Group set itself the goal of investing more time in the individual care of its clients and en hancing the quality of advice it gives them. The Lean Management Group Programme makes a significant contribution to standardising processes as far as possible and to aligning our company even more closely with clients' requirements (see chapter "Corporate Center", page 41). In the Retail & Corporate Banking Division, we have fundamentally reviewed and revised our lending processes during the last few years and substantially reduced the time needed to process a loan application, i.e. by 30 per cent in the case of a standard mortgage loan – while at the same time improving the quality of the process by 30 per cent.

Feedback from client surveys

So that we can determine where our clients' problems lie, we initiated a series of roundtable discussions in 2018 with various corporate clients in order to obtain valuable feedback. We learned from these discussions that our clients would like a shorter throughput time for orders and faster access to client advisers. The measures implemented within the scope of the lean management process are aimed at exactly these issues. Thanks to the good feedback we received from them, these roundtable talks will now be held annually. In addition, in collaboration with the Chamber of Commerce, we have launched a comprehensive written client survey. Among other responses, this showed that is easy for clients to reach LLB, that corporate clients are very satisfied with the quality of service they receive, and that information and documents are clearly formulated and comprehensible. According to the results of the survey, improvements are needed with the user-friendliness of online banking. Consequently, we have already implemented various measures to resolve this issue. Standardised questionnaires were also used to carry out qualitative client interviews among private clients with the goal of better coordinating processes and services to suit changing client requirements.

Retail & Corporate Banking

2'329'553

Transactions were made by the almost 36'000 LLB mobile and online banking clients in 2018. That is almost 40 per cent more than five years ago.

Business segment result

Interest differential business, which comprises the largest part of earnings in private and corporate banking, developed positively. The pressure on margins in deposits and mortgage business was more than compensated for by growth in lending business. In the reporting period value allowances for credit loss expense were released. In spite of the investments made in the branch and distribution network, operating expenses remained stable. The business volume rose by 2 per cent to CHF 19.1 billion. Loans to customers in line with LLB's risk conscious policy expanded by 3.7 per cent. The segment posted new money inflows from private and corporate clients in the home markets of Switzerland and Liechtenstein.

Segment reporting

in CHF thousands	2018	2017	+ / − %
Net interest income	90'317	87'439	3.3
Expected credit losses	6'931	833	732.0
Net interest income after expected credit losses	97'248	88'271	10.2
Net fee and commission income	29'729	30'210	−1.6
Net trading income	11'383	11'441	−0.5
Other income	1'783	1'622	9.9
Total operating income	**140'143**	**131'545**	**6.5**
Personnel expenses	−30'458	−29'886	1.9
General and administrative expenses	−1'607	−3'544	−54.6
Depreciation and amortisation	0	−40	−100.0
Services (from) / to segments	−50'127	−49'117	2.1
Total operating expenses	**−82'192**	**−82'587**	**−0.5**
Segment profit before tax	**57'951**	**48'957**	**18.4**

Performance figures

	2018	2017
Gross margin (in basis points) *	70.0	70.8
Cost-Income-Ratio (in per cent) **	61.7	63.2
Net new money (in CHF millions)	407	−100
Growth of net new money (in per cent)	4.8	−1.2

* Operating income (excluding expected credit losses) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding expected credit losses).

Additional information

	31.12.2018	31.12.2017	+ / − %
Business volume (in CHF millions)	19'142	18'763	2.0
Assets under management (in CHF millions)	8'449	8'449	0.0
Loans (in CHF millions)	10'693	10'314	3.7
Employees (full-time equivalents, in positions)	197	193	2.1

Private Banking

The 2018 business year was characterised in the Private Banking segment by robust growth. Private Banking at the LLB Group always keeps three factors at the front and centre of attention: stability and security, the high level of service quality, and outstanding investment performance.

Stability and security

The LLB Group has been one of the most secure and best capitalised universal banks in Europe for years (see chapter "Finance and risk management", page 16). With 157 years of history, LLB has a long tradition as a private bank. It has a Moody's Aa2 long-term rating, meaning that we are among the top rank of banks in Liechtenstein and Switzerland. Moreover, with the Principality of Liechtenstein as our majority shareholder we have a stable ownership structure. Liechtenstein is one of the very few countries in the world to possess an AAA rating with a stable outlook from Standard & Poor's. The country rating for the financial centre is an indicator of stability and reliability.

High level of service quality

Our advisory services are systematically structured and clearly understandable for our clients. They decide how closely they want to be cared for by their client advisers and what risks they want to assume. The spectrum ranges from "execution only" models to comprehensive asset management. Clients can select the investment strategy from the categories "Fixed Interest", "Conservative", "Yield", "Balanced", "Growth" or "Equities". Thanks to computer-assisted, continual supervision of the portfolios, our private banking client advisers can monitor the security of the investments and performance in line with the investment strategy. To ensure the quality of our advice, we continually invest in our products and staff. Our client advisers have to complete the certification programme in accordance with the standards of the Swiss Association for Quality. In the meantime, 38 private banking client advisers of LLB Liechtenstein and Bank Linth have successfully completed the certification programme (see chapter "Employees", page 68). Our good ranking in the Fuchsreport TOPs 2019 also confirms the high quality of our private banking advisory team.

Support from technology

In continually analysing and monitoring client portfolios, our client advisers and analysts are supported by the latest technology. Highly efficient programmes use sophisticated algorithms to calculate the return and risk assessment of individual financial instruments in order to enhance portfolio efficiency. Individual targets and restrictions are automatically considered. If the risk / return characteristics of an investment do not fulfil the client's criteria, the software flags up an alert. Thanks to the LLB's advanced mobile and online banking applications, clients have an overview of their assets at all times.

Transparent pricing model

All the companies in the LLB Group forego retrocessions both in the provision of investment advisory and asset management services, i.e. LLB does not accept commissions from external investment fund vendors for the distribution of their products to the bank. We transfer 100 per cent of these payments to our clients. In Liechtenstein, LLB is the only bank, and in Switzerland one of the few banks, to deploy a pricing model devoid of retrocessions in its asset management and investment counselling services. We utilise performance-related fees with various funds, as well as with asset and discretionary management mandates, which are only payable if a positive return is achieved. Our interest-related fees are another innovative feature, which take into account the low levels of interest rates. LLB's tariff structures are simple and clear, costs are visible at a glance.

Outstanding investment performance

The Private Banking Division is supported by the specialists of LLB Asset Management, whose investment performance in competitive comparison is outstanding. The international awards, which LLB has received in 2018 and in previous years (see chapter "Institutional Clients", page 34), confirms this. The investment selection process for the portfolios follows the proprietary, multi-award-winning "Quant-Value" concept. As active managers, our Asset Management specialists are guided by benchmarks – with the goal of exceeding them in our own numerous funds and mandates. This applies both in asset management and for investment funds. As a further means of assuring quality, we continually invest in technology and the training of our investment experts.

In 2018, the LLB Group expanded its range of products by offering passive asset management mandates with various investment strategies and passively managed equity funds.

International presence – local ties

Through the brands "Liechtensteinische Landesbank" and "Bank Linth", the Private Banking Division defines its international presence and solid local ties. Our focus lies on the onshore markets of Liechtenstein, Switzerland and Austria, on our traditional cross-border markets of Germany and other parts of Western Europe, as well as on the growth markets of Central and Eastern Europe and the Middle East.

The LLB Group operates three booking centres and has a bank each in Liechtenstein, in Switzerland and in Austria. We are present internationally in Vaduz, Zurich-Erlenbach, Geneva, Vienna, Abu Dhabi and Dubai, as well as locally through nineteen branches of Bank Linth in eastern Switzerland and the three LLB branches in Liechtenstein.

The LLB Group's business model aims at its clients meeting tax compliance requirements (see chapter "Regulatory framework and developments", page 46). It is of central importance for our cross-border banking that strict compliance with prevailing regulations is maintained. By providing intensive training courses, the LLB Group ensures that its employees fulfil the regulations of the target countries and observe tax compliance rules during their cross-border activities.

Liechtenstein, Switzerland and Austria

Liechtenstein, Switzerland and Austria, as financial centres, possess a high potential to attract investors who are seeking security and stability for their investments. In 2018, we posted gratifying client asset inflows both in private banking in Liechtenstein and with clients in the Swiss and Austrian market regions.

Our bank in Vienna provides a particularly inspiring success story. It reached break-even point in 2014 after only five years of development. Thanks to the merger with Semper Constantia Privatbank AG, LLB Österreich has advanced to become the leading asset management bank in private banking and institutional business in Austria. Thanks to its strong position in private banking, its custodian bank and investment fund business as well as its real estate activities, Semper Constantia represents an ideal platform for the expansion of the LLB Group's activities in Austria. LLB Österreich can now offer its clients an even broader spectrum of diversified products and services.

Traditional cross-border markets

Germany, Europe's largest private banking market, and other Western European markets continue to be important for our asset management. We benefit here from our extensive experience and the trust of our clients in the quality of our services and the good performance of our asset management.

Central and Eastern Europe

The LLB Group has achieved further growth in the Central and Eastern European EU states and in the key market of Russia. The stability and security provided by the LLB Group, as well as the specific market and product experience of our client advisers and investment specialists in Zurich-Erlenbach, Geneva, Vaduz and Vienna are key success factors. In 2018, we again strengthened our client advisory team for these markets, which had a positive impact on the acquisition of new business.

Middle East

In 2018, the LLB Group achieved very pleasing growth in the Middle East market region; it makes an ever larger contribution to the Division's overall performance. From our representative offices in Dubai (since 2008) and Abu Dhabi (since 2005) we take care of various client groups from the United Arab Emirates and the Gulf region. As one of the few foreign banks, we provide our clients with access to the stock markets in Dubai and Abu Dhabi. In order to strengthen and expand our position in the Middle East, we are planning to move into substantially larger business premises in Dubai's International Financial Centre (DIFC) in 2019.

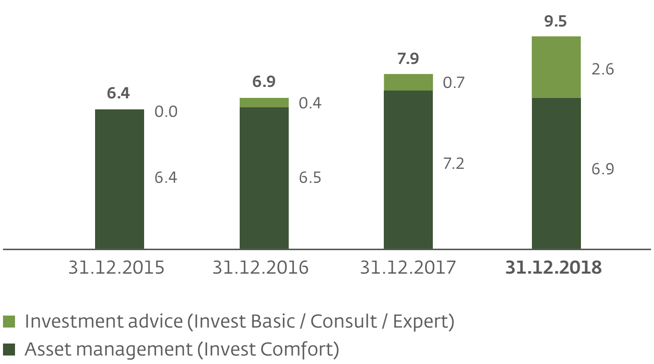
Products to suit client requirements

Asset management and investment advisory

Irrespective of whether clients prefer to delegate the management of their assets or actively make investment decisions themselves, with "LLB Invest" and "Bank Linth Invest" private and institutional clients can find a product offering tailored to suit their requirements at LLB. In 2018, to supplement the existing "Consult" and "Expert" advisory models and the "Comfort" asset management application, we added the leaner "Basic" model. Bank Linth will introduce this as well in 2019. By doing so, LLB is complying not only with the MiFID II directive, valid since January 2018, but also the Swiss FIDLEG regulation, which comes into force in 2020.

Thanks to these various offers, clients can choose what level of advisory service they want from our client advisers. The concept appeals to our clients. The volumes with asset management and investment advisory mandates have risen steadily since the introduction of "LLB Invest" in 2016 (see chart, page 30).

LLB Invest (in CHF billions)



Financial planning for every phase of life

With our "LLB Compass" and "Bank Linth Compass" services, we support private clients and entrepreneurs, at all stages of life or the business cycle, to accomplish their future financial goals. LLB and Bank Linth therefore cover all the important themes such as wealth planning, financing facilities, retirement, real estate, taxation, estate planning and succession (see chapter "Responsibilities for society and the environment", page 58). The LLB Group is the only bank in Liechtenstein to offer this type of comprehensive 360-degree financial planning.

Focus on clients

Feedback shows that our specific focus on client requirements and the strong local ties of our advisers are greatly appreciated. To gain more time to care for clients, the Private Banking Division implemented a lean management initiative in August 2017 (see chapter "Corporate Center", page 41). Within the scope of this initiative, the private banking teams in Liechtenstein, Switzerland and Austria / Germany are continually implementing improvements to enhance productivity and accelerate administrative procedures.

Business segment result

The Private Banking segment increased operating income by 10 per cent. The acquisition of Semper Constantia contributed around CHF 5 million to this rise. Adjusted to take into consideration the effects of the acquisition, operating income rose by 5 per cent. Among other factors, the segment benefited from rising US dollar interest rates. Operating expenses increased, on the one hand because of the acquisitions, and on the other, due to the expansion of adviser capacity in line with strategy. Thanks to a net new money inflow of over 5 per cent, or CHF 0.8 billion, client assets under management climbed substantially. The Austrian domestic market and the growth markets of the Middle East, as well as Central and Eastern Europe contributed to this success with double-digit growth rates. As a result of the takeover of Semper Constantia, loans to clients also increased. The business volume expanded by 13.8 per cent to CHF 18.2 billion. Without the effects of the acquisitions, the business volume remained stable.

Private Banking

780'000'000

Swiss francs net new money was acquired by the Private Banking segment. That represents growth in client assets under management of more than 5 per cent.

Segment reporting

in CHF thousands	2018	2017	+ / – %
Net interest income	36'317	25'992	39.7
Expected credit losses	0	0	
Net interest income after expected credit losses	36'317	25'992	39.7
Net fee and commission income	73'640	72'825	1.1
Net trading income	8'639	8'826	– 2.1
Other income	3	8	– 67.8
Total operating income	**118'597**	**107'651**	**10.2**
Personnel expenses	– 38'195	– 32'200	18.6
General and administrative expenses	– 3'431	– 2'650	29.5
Depreciation and amortisation	– 5	0	
Services (from) / to segments	– 31'368	– 27'344	14.7
Total operating expenses	**– 73'000**	**– 62'195**	**17.4**
Segment profit before tax	**45'597**	**45'456**	**0.3**

Performance figures

	2018	2017
Gross margin (in basis points) *	68.8	70.3
Cost-Income-Ratio (in per cent) **	61.6	57.8
Net new money (in CHF millions)	780	172
Growth of net new money (in per cent)	5.4	1.3

* Operating income (excluding expected credit losses) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding expected credit losses).

Additional information

	31.12.2018	31.12.2017	+ / – %
Business volume (in CHF millions)	18'216	16'007	13.8
Assets under management (in CHF millions)	16'350	14'316	14.2
Loans (in CHF millions)	1'866	1'691	10.3
Employees (full-time equivalents, in positions)	189	161	16.9

Institutional Clients

Thanks to the purchase of Semper Constantia Privatbank AG and the Swiss investment fund company LB(Swiss) Investment AG, the LLB Group has advanced to become a fund powerhouse in the FL-A-CH region. This enables us to create more value for our institutional clients.

Specialised in serving professional clients

Institutional Clients encompasses the intermediary and fund business, as well as the asset management operations of the LLB Group. We concentrate on fiduciaries, asset managers, fund promoters, insurance companies, pension funds and public institutions. Our core markets are Liechtenstein, Switzerland and Austria.

In April 2018, LLB took over the Zurich-based fund management company, LB(Swiss) Investment AG, which changed its name in May to LLB Swiss Investment AG. This now enables us to offer external asset managers, family offices, pension funds and banks in Switzerland tailor-made investment fund services. At the end of September 2018, the merger of Semper Constantia with LLB Österreich to become Liechtensteinische Landesbank (Österreich) AG was completed, permitting us to greatly expand our position in institutional business in Austria.

Financial Intermediaries	Partner for professional clients
Fund Services	Fund competence centre
Asset Management	Specialist in asset management and investment fund management

Funds powerhouse

Thanks to the acquisitions it has made, the LLB Group now operates investment fund management companies in its three home markets of Liechtenstein, Switzerland and Austria. It manages an investment fund volume of over CHF 30 billion. Consequently, LLB has significantly consolidated its position in this field of business and now can be regarded as a potent fund powerhouse in the FL-A-CH region (Liechtenstein / Austria / Switzerland). It focuses on providing private label fund solutions, known also in Austria as white label funds or Master-KAG solutions. These are very individual solutions, ideally suited for efficient asset management and as structuring alternatives for large volumes of assets. They are characterised, in particular, by the fact that they delegate fund management to an external third party, or they engage such specialists as investment advisers. Irrespective of whether a fund is set up for a restricted group of investors or is publicly distributed, the investor protection is the same.

In Liechtenstein, LLB Fund Services AG is one of the three largest private label vendors. Over the last two decades, it has made a name for itself – just like the Austrian LLB Invest KAG – as a specialist in this business area. All LLB's fund management companies provide a comprehensive range of services in line with the "all in one shop" concept. We plan and set up tailor-made funds, both in-house as well as for independent asset managers, family offices and other fund promoters. We also manage and structure them, as well as providing state-of-the-art risk management. At our business locations in Vaduz and Zurich, we supplement these services by taking over the representative function of foreign funds.

Fund business in Liechtenstein and Switzerland

The Fund Services business area operates as the LLB Group's fund competence centre in Switzerland and Liechtenstein, and is an important earnings pillar with significant growth potential. In the year under report, the business area achieved a net new money inflow with private label funds of CHF 296 million. Based on an holistic and needs-oriented advisory approach, its spectrum of services ranges from the setting up of a fund, to the initial issuance of units, all the way to the provision of services throughout the life cycle of a fund. The strategic takeover of LB(Swiss) Investment AG in April 2018 provided the LLB Group with access to the Swiss investment funds market and therefore opened up new growth perspectives.

Fund business in Austria

LLB Österreich currently manages CHF 14.8 billion of assets in funds business. Through its subsidiary, LLB Invest KAG, Liechtensteinische Landesbank (Österreich) AG offers customised complete solutions in the areas of public funds, funds for large-scale investors, special funds and multi-manager funds. The spectrum of products ranges from money market tracking funds, to bond and equity funds, to real estate share funds and extends to alternative investment funds and asset allocation funds. A fund solution can be chosen for every investment mentality and for almost every requirement.

LLB Immo KAG, a subsidiary, offers open real estate funds with individual solutions. These include, for example, acquisition and administration of properties, facility and cash management, as well as consolidated reporting. All these solutions are defined in collaboration with our clients and offered from one source. LLB Immo KAG can call on extensive experience acquired over many years in the real estate market. Real estate special funds are aimed mainly at professional investors, which include pension funds, insurance companies and foundations that want to benefit from the long-term advantages of indirect real estate investments.

LLB as a custodian bank for funds

LLB extended its position as the leading custodian bank in Liechtenstein, serving 252 funds by the end of 2018. As a pioneer in this business and the first bank to offer this service in Liechtenstein, it has acknowledged experience and expertise in the management and administration of complex fund mandates having various strategies and asset classes. LLB Österreich has a similar pedigree, offering this service for 308 funds at the end of 2018.

EU passport for UCITS and alternative investment funds

Thanks to its membership of the EEA, Liechtenstein is the only country having unlimited access to two economic areas, i.e. Switzerland and the European Union. In accordance with the Undertakings for Collective Investments in Transferable Securities (UCITS) directive based on European law and the law concerning the Managers of Alternative Investment Funds (AIFM), Liechtenstein funds can be marketed and freely distributed in the 28 EU states, as well as the EEA / EFTA states (see chapter “Regulatory framework and developments”, page 47).

Financial intermediaries

The team responsible for financial intermediaries offers independent asset managers, fiduciaries and insurance companies comprehensive service and support so that together they can create suitable solutions for the intermediaries and their end clients. At the same time, we are a reliable partner for pension Funds and public institutions when they need asset management and payment services. We are constantly investing in digitalisation projects in order to keep pace with our clients’ requirements. In 2018, numerous additional measures were implemented to increase efficiency in our client relationships.

Expansion of digital client interfaces

On the basis of feedback regularly obtained from clients, we specifically invested in the improvement of digital client interfaces in 2018 and further developed our services. In June 2018, new online banking functions were implemented to simplify the placing of orders and the administration of their portfolios for our professional clients. LLB online banking now offers professional clients the possibility of continuing to retrieve closed accounts and custody accounts for a certain period, and enables them to access various performance contribution reports and extended presentation options.

In 2019, additional, needs-based functions are planned. Financial reporting is to be extended and the administration of forms is to be optimised. Furthermore, sophisticated analysis tools are to be provided and our interfaces for connecting intermediaries’ software applications are to be refined. Improved and more efficient processes should reduce administrative time and effort both for our clients and for our client advisers. Our long-term objective is to make our online banking system even more responsive to the requirements of intermediaries and to create a digital onboarding process for our clients.

Business compliance function

To fulfil a clear client wish we set up a business compliance function in the Financial Intermediaries business area in 2017. When financial intermediaries come to us with complex business cases, a compliance specialist can now be called in to provide an initial assessment of the situation. Consequently, clients are supported through the regulatory requirements and the compliance process right from the start. For them this means added value in the form of the provision of specialist knowledge and a shorter time to market. Financial intermediaries greatly appreciate this service and use it regularly. In addition, the business compliance function carries out our preliminary clarifications for various business cases and therefore helps to quickly identify and address regulatory obstacles.

Lean transformation: more time for clients

The Financial Intermediaries business area has undergone a complete “lean” transformation (see chapter “Corporate Center”, page 41). The goal of the process is, by implementing a better workload balance, to free up 15 to 20 per cent more capacity among client advisers and thus gain more time for direct contacts with clients, as well as generating more qualitative advice. For this purpose, among other measures, an assistance pool was set up through which stock market and payment orders are to be centrally and efficiently processed. By taking over around 25'000 stock market orders per year, the pool will relieve our client advisers of a great deal of work pressure. Within the scope of our ongoing improvement system, we shall continue to critically assess and, if necessary, adapt our processes and procedures.

Also within the context of lean management, we organised and held moderated discussions with groups of clients for the first time in 2018. Subsequently, the results of the discussions were systematically evaluated. They showed us where and how we can optimise our services. The various improvements described in the previous paragraphs, especially those implemented in regard to digital client interfaces, were all measures that were derived from these discussions with clients. In future, we intend to hold these client group discussions once a year. In addition, we shall regularly request feedback from clients by means of a standardised questionnaire.

Asset Management

In 2018, we added two new staff members to the Asset Management Division in Vaduz. Thanks to the takeover of Semper Constantia, eleven specialists from Vienna have joined the team. The Asset Management Division supports all three market divisions in their target regions by providing them with its investment competence and value-oriented investment approach (see chapter "Strategy and organisation", page 9). It therefore plays a central role within the LLB Group. Our specialists have extensive experience in meeting the investment needs of institutional clients.

Our Asset Management has been Global Investment Performance Standards (GIPS) certified for 16 years. These international quality standards are based on the complete and correct disclosure, as well as comparable presentation of investment results. They ensure that clients receive fair and transparent reports.

Awards

The most important award for an asset manager, such as the LLB Group, is to be the best in its category over all main investment classes, i.e. for bonds, equities and strategy funds. At the Thomson Reuters Lipper Fund Awards 2018, the LLB Group was the recipient of these awards. It was also ranked first in the category best "Bond Small Company". The LLB Equities Dividend Pearls Global (CHF) fund was honoured in the category "Equity Global Income" for the best performance over the last five years. The Asset Management of the LLB Group was also awarded the "GELD" award for the best real estate equity fund in Austria over three years in 2018. The following is a brief overview of the most important awards received:

- **Lipper Fund Awards Switzerland 2018:** best group over three years "Overall Small Company", best group over three years "Bond Small Company" and best performance in the category "Equity Global Income" (three awards in one year);
- **Lipper Fund Awards Austria 2018:** LLB Equities Real Estate Global (CHF) selected as the best real estate equity fund in Vienna over three years;
- **Alternative Investments Awards 2018 of "Geld", the Austrian journal for financial professionals:** also for LLB Equities Real Estate Global (CHF) selected as the best real estate equity fund in Vienna over three years;
- **Hedge Fund Awards 2018 of "Acquisition International (AI)" magazine:** "Best Portfolio Manager – Liechtenstein" and "Best Alternative UCITS Fund" (two awards in two years).

In long-term competitive comparison, LLB has been at the top of the rankings for years with its broadly diversified strategy funds. In this context, broadly diversified means: with the strategy funds we invest in fourteen asset classes (liquidity, CHF bonds, global bonds, real asset bonds, high interest and emerging market bonds, convertible bonds, local equities, global equities, emerging market equities, real estate equities, commodities, hedge funds and disaster bonds) and in around 4'500 individual instruments.

Expansion of the LLB fund range

Thanks to the acquisitions made in 2018, we were able to further expand our range of investment funds. For example, the purchase of Semper Constantia Privatbank AG has opened the door for us to the real estate segment. Following the merger with LLB Österreich, the company now has extensive experience in this business and, in addition to numerous funds, can also offer investors individual access to a comprehensive range of indirect and direct real estate investments.

The volume invested in LLB funds has posted an above-average performance – while keeping costs low – over the last six years . At the end of 2018, the fund volume stood at CHF 30.5 billion. The vast majority of the 612 LLB funds is Europe-compatible, meaning that they fulfil the UCITS V EU directive (see chapter "Regulatory framework and developments", page 47). Furthermore, they all fulfil the criterion of strict diversification. The 40 LLB own funds are largely actively managed by experienced fund managers and are usually licensed for distribution in Liechtenstein, Switzerland, Austria and Germany.

Asset management

With six different investment strategies from "Fixed Interest" to "Equities" in the reference currencies CHF, EUR and USD, LLB enables the diversification of capital investments. The volume of assets under management at the end of 2018 totalled CHF 6.9 billion.

Client requirements are always at the forefront in the LLB Group. In 2018, therefore, we extended our offering with passive asset management mandates having various investment strategies, with which the equity exposure, in particular, is passively managed. Another new LLB feature is the total return approach of LLB Österreich. Its asset management possesses core competence in exercising mandates with the focus on value preservation and extensive experience in the implementation of value protection concepts.

Partner-like dialogue and transfer of knowledge

The transfer of knowledge and the strong networking with external partners is particularly important for intermediaries. By transferring knowledge, we create added value for our clients and promote the exchange of ideas and views. We utilise two channels for this purpose: our exclusive round-table events and an online platform designed to fulfil the requirements of intermediaries. In addition, we have extensive and close links with various associations and financial centre players, so that we can learn right in the front line which themes are, or are going to be, important in the future. This enables us to actively shape and configure the basic business conditions, which determine our business model.

"LLB Xpert Views"

For several years LLB experts and investment specialists have regularly informed our clients about current topics at the exclusive round table discussions, which are held within the context of our "LLB Xpert Views". The focus in 2018, for instance, was on the EU data protection directive, tax issues and regulatory developments such as MiFID II and FIDLEG. We organised about a dozen such round tables during the year under report, including four "LLB Xpert Views" specials", at which on the one hand, the LLB Group explained its investment policy to institutional clients, and on the other, it highlighted specific subjects for fund management companies and public institutions. Furthermore, in November we held a Swiss round table in Zurich for the first time with great success and thereby extended our geographical reach.

Our "LLB Xpert Views" online platform is also a central point of contact for fiduciaries, independent asset managers, fund managers and fund promoters. We can make available our know-how in the areas of asset management, as well as law and taxation to our clients via the online platform. Moreover, "LLB Xpert Views" supports intermediaries and institutional clients in complying with the latest regulatory provisions. Institutional clients receive a compact and transparent overview of the latest regulatory developments.

Partnerships with financial centre players

LLB participates actively in various networks and thus secures an audience for its views. The Group company, LLB Asset Management AG, is a member of the Liechtenstein Association of Independent Asset Managers (VuVL) and a committed partner in the development of the financial centre. At the same time, the Group company, LLB Fund Services AG, is a member of the executive board of the Liechtenstein Investment Fund Association (LAFV), which actively shapes the basic framework of the Liechtenstein fund centre. LLB Österreich is a member of the executive board of the Association of Austrian Investment Companies (VÖIG) – the umbrella association of all Austrian administration companies and all Austrian real estate capital investment companies. In Zurich, LLB Swiss Investment AG is a member of the Swiss Funds & Asset Management Association (SFAMA), the representative trade association of the Swiss investment fund and asset management industry.

Business segment result

The segment profit before tax of the Institutional Clients segment rose by 8 per cent. Operating income improved largely on account of the good performance of interest business from foreign currency investments. Income from fees and commissions exceeded the previous year's result thanks to active sales and marketing efforts, as well as the first-time consolidation of LLB Swiss Investment AG and Semper Constantia. The two acquisitions made a positive contribution of CHF 26.8 million to the increase in operating income. Operating expenses increased on account of the takeover of the personnel of the acquired companies. Thanks to the takeover of Semper Constantia, the business volume rose by over 50 per cent and now stands at CHF 43 billion. Adjusted to consider the acquisition volumes, the business volume decreased due to market factors.

Institutional Clients

43'000'000'000

Swiss francs is the total business volume of the Institutional Clients segment. That is an increase of about 55 per cent.

Segment reporting

in CHF thousands	2018	2017	+ / – %
Net interest income	19'817	14'725	34.6
Expected credit losses	0	7'500	– 100.0
Net interest income after expected credit losses	19'817	22'225	– 10.8
Net fee and commission income	80'952	56'201	44.0
Net trading income	11'007	11'138	– 1.2
Other income	2	2	– 7.0
Total operating income	**111'778**	**89'566**	**24.8**
Personnel expenses	– 26'220	– 17'709	48.1
General and administrative expenses	– 4'647	– 2'507	85.4
Depreciation and amortisation	– 116	0	
Services (from) / to segments	– 20'550	– 13'369	53.7
Total operating expenses	**– 51'534**	**– 33'585**	**53.4**
Segment profit before tax	**60'244**	**55'981**	**7.6**

Performance figures

	2018	2017
Gross margin (in basis points) *	31.1	30.7
Cost-Income-Ratio (in per cent) **	46.1	40.9
Net new money (in CHF millions)	89	397
Growth of net new money (in per cent)	0.3	1.6

* Operating income (excluding expected credit losses) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding expected credit losses).

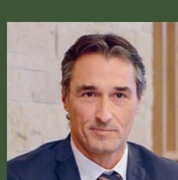
Additional information

	31.12.2018	31.12.2017	+ / – %
Business volume (in CHF millions)	43'007	27'790	54.8
Assets under management (in CHF millions)	42'489	27'485	54.6
Loans (in CHF millions)	518	305	69.8
Employees (full-time equivalents, in positions)	171	90	89.8

What brings people together?

Where there is diversity, there is culture.

Everyone is part of the whole



Bernd Moosmann

Head of Group Human Resources

When people embody the same values, a unique identity is created. People from 38 nations work at the LLB Group. Together, they bring our corporate culture to life. By acting according to our values of "integrity, respectfulness, excellence and pioneering", they set the kind of positive energy free that makes all the difference. Growth means development at LLB, and diversity under one roof is a guarantee for quality and innovative power. Everyone is part of the whole, as the whole is part of the individual.

Video statement at:
ar2018.llb.li/corporate-culture

Hanna Roeckle
Polyeder / Polyhedron
Gemini Green
Lacquer on GFP
125 × 99 × 99 cm
Göttlich Golden Genial,
Museum for
Communication Berlin,
2016 / 2017

Corporate Center

The Corporate Center bundles, steers and controls the central functions within the LLB Group. As the internal service provider, it drives forward digitalisation, links the divisions and enhances processes through the application of lean management.

Service provider within the Group

The Corporate Center comprises the Group CEO (see chapter "Strategy and organisation", page 9), Group CFO (see chapter "Finance and risk management", page 15) and Group COO Divisions. In this business segment all the departments are concentrated, which coordinate and monitor Group-wide business activities, processes and risks, but the segment also contains functions such as marketing, communication, human resources and legal and compliance services. It facilitates corporate development including information technology and improves the effectiveness of processes, as well as the quality of services. Fully focused on the requirements of the market divisions, the Corporate Center makes a direct contribution to the value added by the LLB Group.

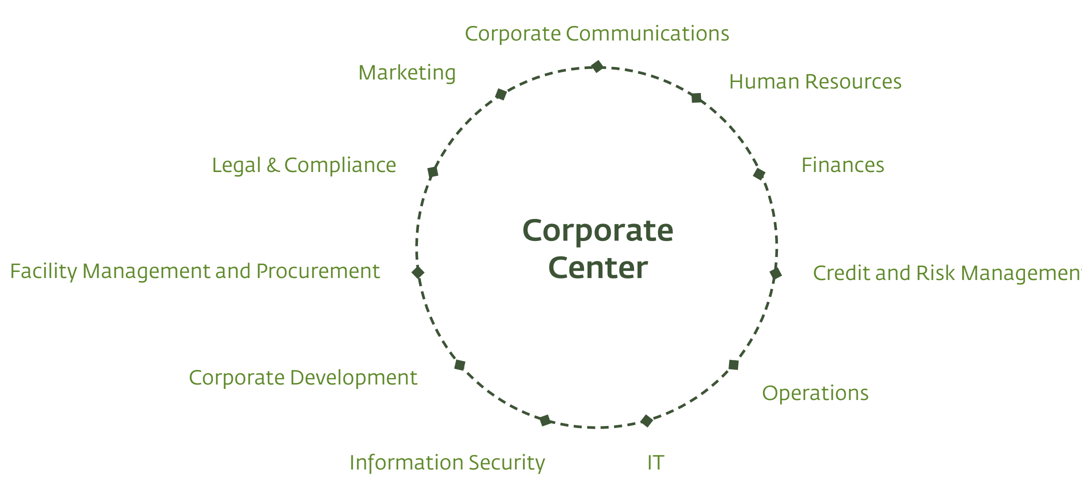
The Corporate Center plays a key role in the realisation of the StepUp2020 strategy. In 2018, the priorities were placed on the digitalisation of banking business, the implementation of innovation management, as well as the optimisation of the organisation in line with the principles of lean management.

Shared Service Centers

Shared Services are provided centrally from one function within the LLB Group in order, inter alia, to ensure the efficient processing of payment transfers, as well as stock market and securities transactions. This applies both to the parent bank and to the subsidiaries. Thanks to the high level of automation and the standardisation of transaction processing, we have successfully improved efficiency and significantly increased processing throughput times. We bundle professional and technical knowledge in the shared services team, which results in an internal service structure that also contributes to substantially sinking costs in the business areas.

Digitalisation of banking business

In 2017, LLB and Bank Linth successfully introduced the online and mobile banking applications; these were expanded and made even more user-friendly in 2018. The functionality in various areas was refined and extended. The online banking function and the new mobile app



The Corporate Center bundles eleven central areas of activity of the LLB Group are designed in accordance with the latest security, data encryption and user-friendliness standards. Over recent years we have achieved high growth rates with our online banking service and now our mobile banking app is also becoming ever more popular (see chapter “Retail & Corporate Banking”, page 25).

Great progress with internal digitalisation

Within the scope of the “team@work” Group project, we are working on the comprehensive renewal or our digital infrastructure, the optimisation of work processes and the implementation of modern digital equipment. In 2018, virtually all LLB’s workplaces were equipped with new PCs and laptops. Thanks to the new laptops, staff can now access their desktop from anywhere inside the LLB building, increasing their work flexibility. This represents a major step towards a future-oriented work environment (see chapter “Employees”, page 65). In the year under report, in line with its stronger focus on Microsoft standards, Group IT put in place the technical fundamentals, updated the active directory, and commenced the migration from IBM Notes to Microsoft Outlook. The “team@work” Group project aims to improve and enhance the exchange of information, communication, collaboration, as well as general administrative and work processes.

Another wave of digitalisation was initiated in the area of human resources in December 2018 (see chapter “Employees”, page 65).

In the service centres we are implementing self-learning IT systems to increase processing quality and productivity. Our ongoing automation and standardisation is supported by the Avaloq Banking Suite software package, which we have been using since 2011.

IT investments at LLB Österreich

LLB Österreich will commence using the Avaloq Banking Suite software in 2020. The changeover will occur within the scope of a project cooperation between the LLB Group and the LGT Group, which will become the first financial institutes to introduce this software in Austria. This core banking application will enable us to utilise further synergies. LLB Österreich’s clients will then be able to benefit from the complete spectrum of products and services offered by the LLB Group, such as the “LLB Invest” investment advisory and asset management solution, or our online and mobile banking possibilities. This will promote our growth in Austria and in the strategic target markets of Central and Eastern Europe.

Efficient payment systems in Switzerland

We have already largely completed the implementation of the ISO 20022 international standard for the processing of payment orders. Payment transfers between the banks in Liechtenstein, Switzerland and the EU have been carried out in accordance with the ISO 20022 standard since 2016. In the year under report, the focus was on the interface between clients and the bank. A large majority of our corporate clients have in the meantime migrated to the new standard for electronic data exchange. LLB is well prepared for the future thanks to its new online banking system. The final standardisation step will take place in 2020 with the introduction of the standardised QR invoice. This will replace ten types of payment slips and therefore enable a further automation phase in the payments process. The LLB Group is also well prepared for this digitalisation step.

Innovation management

The collaboration between banks, IT service providers and fintech companies in developing the digital bank will be of key importance in the future. The pace of development is extremely rapid. Our aim is not just to keep pace with developments, but rather to bring pioneering digital solutions on to the market. In a bid to encourage the spirit of innovation among our staff and to channel ideas, we created an internal Innovation Management Department in 2018, which has launched a new Group-wide suggestion process. This envisages that submitted ideas must first pass through pre-defined “gates” in order to qualify for the next development step. This ensures that the available resources are deployed as efficiently as possible and that the ideas having the greatest potential will come to fruition. In 2018, LLB employees submitted more than 30 ideas, 20 value propositions and 10 pitches. Two ideas have already reached the “proof of concept” status and are being pursued further.

Time savings through lean management

Lean management means establishing and pursuing a culture of constant improvement with a view to providing the best client benefits. Working together in the individual teams, solutions are sought to optimise processes, facilitate interaction and therefore enhance team performance without having to build up proportional capacities. Within the context of the StepUp2020 strategy, the Group COO Division has set itself the objective of firmly establishing a lean management culture at the LLB Group in line with the principle: growing profitably necessitates higher efficiency, leaner structures and functional IT solutions. For this purpose five specialists are supporting our teams. We want to gain more time for our clients and enhance the quality of advice in our three market divisions.

On account of our lean initiative, the demands made on our employees are changing. Lean management necessitates that we adopt a basic stance and have the conviction of placing added value for the client and efficiency at the front and centre of all our actions. It demands that we systematically question our working methods and continually endeavour to improve them.

Lean management in the market divisions

So far, lean transformations have been carried out in ten departments of the three market divisions. To this can be added four departments of the COO Division , which support the market units with their services and therefore contribute to client satisfaction. These departments have implemented improvements relating to clients, productivity, employees and quality. Moreover, they have selected further themes to continue reconfiguring their work environment according to the lean methodology. Accordingly, a total of more than one thousand improvement suggestions have been made by employees, over half of which have been implemented. The benefits for our clients include better quality and faster services.

In 2019, our goal remains to save more time for our clients. Essentially, this means optimising interface processes for the benefit of clients and ensuring that decisions are clear and transparent. This will enable us to safeguard and strengthen the LLB Group's competitive position.

Business segment result

The LLB Group reports the structural contribution from interest business, the valuation of interest rate hedging instruments and income from financial investments under the Corporate Center. Operating income fell by CHF 41.5 million to CHF 29.1 million. The decrease was attributable to accounting losses incurred with financial investments measured at fair value on the reporting date. The valuation of interest rate hedging instruments measured on the reporting date caused lower trading income. Operating expenses rose on account of the strategic expansion of personnel in the areas of innovation and risk management. In addition expenses increased as a result of the acquisitions.

Segment reporting

in CHF thousands	2018	2017	+ / − %
Net interest income	11'543	17'767	−35.0
Expected credit losses	175	0	
Net interest income after expected credit losses	11'718	17'767	−34.0
Net fee and commission income	−9'040	−4'406	105.2
Net trading income	42'767	51'452	−16.9
Net income from financial investments at fair value	−19'396	2'625	
Share of net income of joint venture	−3	−14	−81.9
Other income	3'100	3'184	−2.6
Total operating income	**29'146**	**70'607**	**−58.7**
Personnel expenses	−87'554	−75'604	15.8
General and administrative expenses	−81'097	−74'105	9.4
Depreciation and amortisation	−32'575	−28'734	13.4
Services (from) / to segments	102'045	89'831	13.6
Total operating expenses	**−99'181**	**−88'612**	**11.9**
Segment profit before tax	**−70'035**	**−18'005**	**289.0**

Additional information

	31.12.2018	31.12.2017	+ / − %
Employees (full-time equivalents, in positions)	529	423	25.1

The LLB share

The performance of the LLB share in 2018 shows: investors appreciate the clear strategy of the SIX Swiss Exchange listed company. With a total return of over 33 per cent, the LLB share was the top performer among the bank stocks listed in Switzerland. LLB investors profit once again from an increased dividend and an attractive dividend yield.

Market capitalisation

The LLB share has been listed on the SIX Swiss Exchange since 1993 and assigned to the "International Reporting Standard" segment. Since the conversion of the bearer shares into registered shares at a ratio of 1:1 was completed in May 2017, the share has been listed under the symbol LLBN (security number: 35514757). In 2018, a total of 3'798'819 LLB shares (2017: 2'306'474) were traded on the SIX Swiss Exchange, corresponding to 12.3 per cent (2017: 7.5 %) of total shares issued. With 30.8 million registered shares issued, the market capitalisation of Liechtensteinische Landesbank AG stood at CHF 1'977.36 million (2017: CHF 1'529.2 million) as at 31 December 2018. The increase in market capitalisation led in November 2018 to the inclusion of the LLB share within the MSCI World Small Cap Index.

Shareholder structure

The Principality of Liechtenstein's holding of 17.7 million LLB shares (57.5 % of the share capital) remained unchanged in 2018 compared to the previous year. In 2011, the Liechtenstein Government, as the representative of the majority shareholder, adopted the ownership strategy it has been pursuing in regards to the Principality's equity stake in Liechtensteinische Landesbank AG **(www.llb.li/en/investors/llb-share)**. It thereby explicitly supports the stock exchange listing of LLB and retains a majority stake of at least 51 per cent.

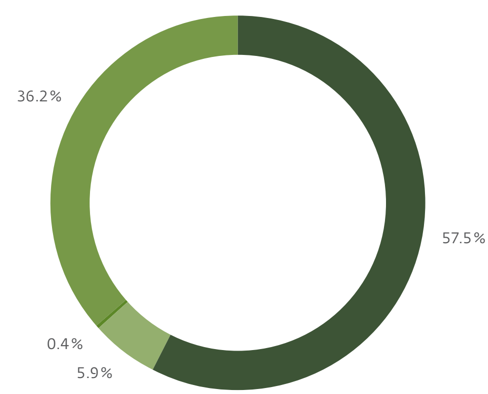
5.9 per cent of the shares were owned by the Haselsteiner Familien-Privatstiftung and the grosso Holding Gesellschaft mbH, both of which are domiciled in Austria, as at 31 December 2018 (see chapter "Corporate Center", page 77).

LLB held 0.4 per cent (2017: 6.2 %) of its own shares as at the end of the reporting year. On 24 August 2018, LLB launched a public share buy-back programme for the purpose of acquiring a maximum of 400'000 of its own registered shares via the ordinary trading line on the SWX Swiss Exchange. As at 31 December 2018, it had repurchased 116'500 shares. The programme will run up to 31 December 2020.

The remaining registered shares were in free float, whereby none of the other shareholders held more than 3 per cent of the share capital.

Overall 89.5 per cent of the 30.8 million total registered shares were entered in the share register as at the end of the reporting year. 10.5 per cent, or 3'230'017 shares, were not registered.

Shareholder structure in per cent



- Principality of Liechtenstein
- The shareholders group consisting of the Haselsteiner Familien-Privatstiftung (private family foundation) and grosso Holding Gesellschaft mbH (holding company).
- LLB
- Free float

Share price performance

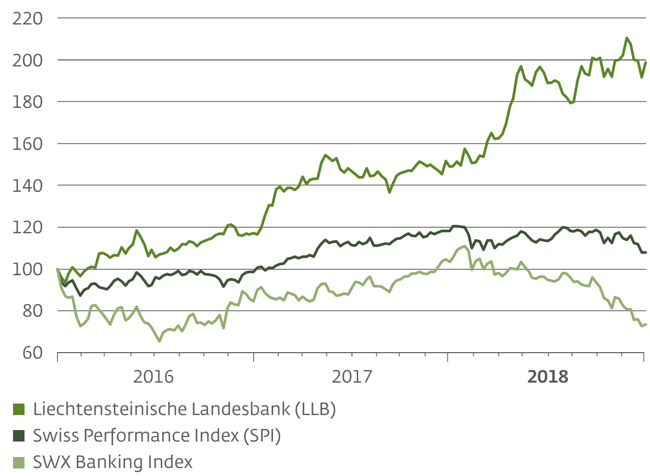
The LLB share held up very well despite persistently low interest rates and global market uncertainties. Its price increased by 29.3 per cent to CHF 64.20 as at 31 December 2018. The total return on the LLB share stood at 33.4 per cent (including re-invested dividends). This is its highest level in five years. The LLB share thus outperformed all of the banks listed in the SWX Banks Index. The Swiss SWX Banks Index lost 28.8 per cent in the reporting year.

With its above-average performance, the LLB share also ranked among the top performers in the Swiss Performance Index.

The Swiss Performance Index (SPI), which includes almost all Swiss listed stock corporations, lost 8.6 per cent in 2018 compared to the previous year.

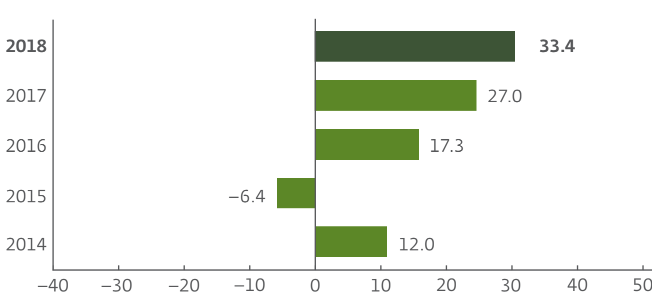
Comparison of LLB share

Indexed from 1 January 2016



Total return on the LLB share

2014 – 2018, in per cent



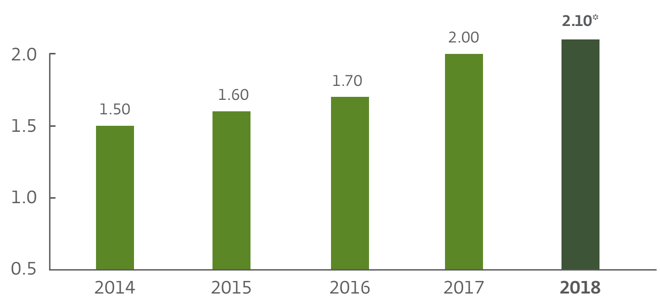
Dividend policy

Liechtensteinische Landesbank pursues an attractive, long-term-oriented dividend policy for the benefit of its shareholders. Furthermore, under the StepUp2020 strategy, the LLB Group is committed to safeguarding its financial security and stability. It intends to keep risk-bearing capital at a Tier 1 ratio of over 14 per cent in accordance with Basel III. Against this backdrop, the payout ratio for shareholders should be 40 to 60 per cent of Group net profit.

The Board of Directors will propose a 5 per cent higher dividend of CHF 2.10 per share (2017: CHF 2.00) at the 27th Ordinary General Meeting of Shareholders on 3 May 2019. Based on the share price as at the end of 2018, this corresponds to a dividend yield of 3.3 per cent. Total dividends to be paid out amount to CHF 64.4 million (2017: CHF 57.8 million). This represents a payout ratio of 75.5 per cent for 2018 (2017: 51.9 %).

Dividend per share

2014 – 2018, in CHF



* Proposal of the Board of Directors to the General Meeting of Shareholders on 3 May 2019

Analysts' recommendations

Early in 2018, the analysts determined that the LLB share had upside potential. Javier Lodeiro, the Zürcher Kantonalbank analyst responsible for monitoring the LLB share, upgraded the stock to "overweight". He judged the acquisition of Semper Constantia Privatbank AG to be a "sensible step in the right direction". In September, the analyst attested that LLB had "fundamentally taken several steps forward" and left his rating unchanged at "overweight". At the end of December, the research team at Zürcher Kantonalbank included the share of Liechtensteinische Landesbank in its list of the top five favourites for 2019 in the small and mid-cap category, citing LLB's strong competitive position in Liechtenstein and eastern Switzerland. The Semper acquisition has strengthened its presence in the Austrian market. LLB's solid balance sheet, moreover, allows it to buy additional banks: it has some CHF 400 million in surplus capital available for such acquisitions. LLB is also performing very well operationally, though financial investments burdened the results somewhat in the first half of the year, client business is, however, likely to continue to develop positively, in the analysts' view.

Research Partners AG has been covering the LLB share since the middle of 2016. In a report that came out in April, analyst Rainer Skierka viewed the acquisitions made by LLB as "strategically sensible in what is a consolidating market" and confirmed his buy recommendation. He raised the twelve-month price target significantly from CHF 56.20 to CHF 63.00. In his report published in June, the analyst lifted the price target further to CHF 72.00, arguing that: "We believe that, under StepUp2020, LLB remains on course, strategically and financially, to achieve the price target." The equity research from Research Partners AG is not freely available and must be purchased.

Communication with the capital market

The LLB Group publishes annual and interim financial results (see chapter "Brand and communication", page 52). This includes the annual financial reporting and analyst conference in Zurich as well as the conference call for analysts, investors and the media on the interim financial results, with the LLB Group's annual and interim reports, which we produce to a very high standard, forming the basis. In autumn 2018, the LLB Group's annual report finished in an impressive second place in the overall rating out of 230 companies in the Swiss Annual Report Rating. Also at the General Meetings of Shareholders, the Board of Directors and the Board of Management report transparently on the course of business. We also hold regular discussions with investors, provide information at roadshows and participate in specialist conferences for financial analysts and investors, such as the Investora Zurich, during the course of the year. In 2018, LLB was covered by analysts from Zürcher Kantonalbank and from Research Partners AG (see section "Analysts' recommendations", page 44).

All publicly accessible information about the LLB Group can be accessed on our website at **www.llb.li**. The public is welcome to register for electronically provided share-price relevant information about the LLB Group at **www.llb.li/registration**. Additionally, we publish our information via our social media channels (Facebook, Twitter). We publish the annual and interim financial reports both in printed form and in a comprehensive online version with numerous additional functions. The Annual Report 2018 in German can be accessed online at **gb2018.llb.li** and in English at **ar2018.llb.li**.

The LLB share: facts and figures

in CHF thousands	31.12.2018	31.12.2017
Total of registered shares issued (fully paid up)	30'800'000	30'800'000
Number of shares eligible for dividend	30'675'159	28'877'063
Free float (number of shares)	11'170'159	11'177'063
Free float (in per cent)	36.3	36.3
Year's high (3 December 2018 / 15 May 2017)	68.60	55.75
Year's low (5 January / 9 January 2017)	49.70	40.00
Year-end price	64.20	49.65
Total return LLB share (in per cent)	33.4	27.0
Performance SPI (in per cent)	−8.6	19.9
Performance SWX Banking Index (in per cent)	−28.8	22.1
Average trading volume (number of shares)	15'256	9'197
Market capitalization (in CHF billions)	1.98	1.53
Earnings per share attributable to the shareholders of LLB (in CHF)	2.62	3.66
Dividend per LLB share (in CHF)	* 2.10	2.00
Payout ratio (in per cent)	75.7	51.9
Dividend yield at year-end price (in per cent)	3.3	4.0
Return on equity attributable to the shareholders of LLB (in per cent)	4.3	6.1
Eligible capital per LLB share (in CHF)	50.8	54.5

* Proposal of the Board of Directors to the General Meeting of Shareholders on 3 May 2019.

Regulatory framework and developments

With the implementation of the Automatic Exchange of Information, Liechtenstein is one of the so-called early adopters of a comprehensive cooperation in international tax matters. The country and the financial centre stand for access to markets and for legal certainty.

Implementation of regulatory frameworks 2009 – 2019

2009	3rd EU Anti-Money Laundering Directive; Liechtenstein Declaration
2010	
2011	Cross-border framework; UCITS IV
2012	
2013	AIFM Act; Complete revision of DDA
2014	Signing of MCAA on AEOI; IMF / Moneyval evaluation
2015	4th EU Anti-Money Laundering Directive; Refinement of cross-border framework
2016	UCITS V; Complete revision of IUA; Implementation of AEOI; AEOI: Agreement signed by Liechtenstein / EU
2017	Revision of DDA
2018	MiFID II; EU GDPR
2019	Deposit Guarantee Schemes Directive (DGSD); EU Payment Services Directive (PSD II)

Financial centre strategy

Liechtenstein has decided to adopt a financial centre strategy that is based on client tax compliance. The Government Declaration of 14 November 2013 signalled the country's continued strong commitment towards its tax compliance strategy heralded by the Liechtenstein Declaration of 12 March 2009. Liechtenstein has also implemented the US Foreign Account Tax Compliance Act by passing the FATCA Law. At the same time, it is signed up to the Automatic Exchange of Information (AEOI) in tax matters and the applicable standards of the Organisation for Economic Co-operation and Development (OECD). Furthermore, the banks and the Liechtenstein Bankers Association expressly and actively support the financial centre's tax compliance strategy.

In 2016, the Liechtenstein Bankers Association published its strategy for the Liechtenstein banking and financial centre entitled "Roadmap 2020" (http://www.bankenverband.li). The aim of the roadmap is to ensure the quality, stability and sustainability of the banking centre, to raise the profile of the financial centre through targeted public relations activities and to strengthen the reputation.

International tax topics

Disclosure of cross-border tax planning arrangements

According to the OECD, the lack of comprehensive and relevant disclosure about potentially aggressive or abusive tax planning strategies is one of the major challenges facing tax authorities. Hence, on 8 March 2018 the OECD published its Mandatory Disclosure Rules (MDR) for aggressive tax planning. They introduce, for instance, an obligation on fiduciaries, lawyers and banks to transparency about reporting avoidance arrangements.

In this context, the EU, with the amendment to the EU Mutual Assistance Directive (Directive 2011 / 16 / EU – "DAC 6") which came into effect on 25 June 2018, has introduced a disclosure requirement for cross-border tax arrangements.

Automatic exchange of information (AEOI)

Liechtenstein was among the so-called early adopter countries that signed the multilateral agreement on the automatic exchange of information, the so-called Multilateral Competent Authority Agreement (MCAA), on 29 October 2014. To date, 108 countries and financial centres have signed up to the AEOI. On 22 August 2016, Liechtenstein took another important step towards the implementation of its financial centre and tax strategy. The Government deposited its instrument of ratification for the Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters (MAC) at the OECD in Paris.

FATCA

The Liechtenstein FATCA Law ensures that Liechtenstein's financial institutions can operate in the US capital market. On 16 May 2014, Liechtenstein and the USA hence concluded an agreement (Intergovernmental Agreement according to model 1) on the implementation of the Foreign Account Tax Compliance Act (FATCA). This US Act obliges financial institutions worldwide to identify their US clients and to disclose their assets and revenues to the Internal Revenue Service (IRS) of the United States. The information goes beyond the provisions of the Qualified Intermediary (QI) regime.

Access to the EU market

Thanks to its membership of the EEA, Liechtenstein has unrestricted access to the internal European market. The internationally oriented fund location benefits in particular from this. It has a legal basis that is focused on clients and investor protection. The investment fund law comprises three pillars: the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act, 2011), the Law on Alternative Investment Fund Managers (AIFM Act, 2013) and the Investment Undertakings Act (IUA), which was revised in 2016.

UCITS V

With the transposition on 18 March 2016 of the EU's Directive on Undertakings for Collective Investment in Transferable Securities (UCITS V) into the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act), traditional funds will be subject to uniform regulation Europe-wide. It places new requirements on custodian banks with regard to liability, control function, custody, independence and sanctions level.

AIFM

Access to the EU market is central to the competitiveness of both the Liechtenstein financial and investment fund centre. Since the adoption of EU law in the EEA Agreement, Liechtenstein investment companies have been legally entitled not only to administer and sell UCITS funds across national borders, but also to use the EU passport for alternative investment fund managers (AIFMs). The AIFM Directive serves to increase the transparency of the activities of the alternative investment fund managers and the alternative investment funds (AIFs) they manage vis-à-vis investors and the supervisory authorities.

IUA

The Investment Undertakings Act (IUA) was completely revised in 2016 and applies to four clearly defined domestic fund categories. The new fund law regulates most notably the fund business model for single investors that was specially set up in Liechtenstein.

Data protection

The ever more stringent legal requirements set clear guidelines for data protection. Data protection is central for the LLB Group. We are bound by the laws and the regulatory guidelines in Liechtenstein, Switzerland and Austria, as well as the specific requirements and circumstances in our target markets. In the reporting year, LLB registered no substantiated complaints regarding breaches of client privacy or losses of client data.

EU General Data Protection Regulation

The General Data Protection Regulation (GDPR) entered into force in the European Union on 24 May 2016. It harmonises the rules on the recording and processing of personal data by companies and public authorities across the EU. It aims to ensure the protection of data and guarantee the free movement of data within the EU. Following a two-year transition period, the regulation has been binding throughout the European Union since 25 May 2018. It establishes a uniform legal basis for data protection across the EU for the first time.

The content of the regulation has brought about various significant changes: New is the "right to be forgotten", under which a person can have the data controller erase their data from the web. New is also the one-stop-shop mechanism, under which a person can notify directly the data protection authorities in their member state of any data breaches, regardless of where the breach occurred.

The regulation also provides in part for stricter regulations on key aspects of the data protection law: for instance, informing a person about the processing of their data, making contractual arrangements for the processing of data by third parties and transmitting personal data to third countries. LLB has established corresponding rules which are applicable throughout the Group and implemented the necessary organisational and technical adjustments in a timely manner.

Data Protection Act Liechtenstein / Switzerland

The complete revision of the Data Protection Act in Liechtenstein entered into force on 1 January 2019. The adaptation of the Swiss Data Protection Act to the new EU regulation is still in progress. Entry into force is not expected before 2020.

Protection against money laundering

The fight against money laundering and terrorist financing has been a top priority for years for Liechtenstein, which has a zero-tolerance policy towards such matters. As a member of the EEA, Liechtenstein implemented in 2017 the 4th EU Anti-Money Laundering Directive 2015 / 849 as well as Regulation 2015 / 847 on information accompanying transfers of funds. The relevant implementing provisions are found especially in the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime, and Terrorist Financing (Due Diligence Act; DDA) of 1 September 2017 and in the corresponding Ordinance (Due Diligence Ordinance; DDO). With the entry into force of the act on the establishment of a register of beneficial owners of domestic legal entities in April 2019, Liechtenstein will have fully implemented the 4th EU Anti-Money Laundering Directive.

Compliance with international standards

The Financial Intelligence Unit (FIU) serves as the country's central authority for obtaining and analysing information that is necessary to recognise money laundering, predicate offences for money laundering, organised crime and terrorist financing. It represents Liechtenstein in the Committee of Experts on anti-money laundering and terrorist financing in the EU. The current version of the FIU Law of 1 September 2017 and the adaptations made to the Due Diligence Act ensure Liechtenstein is fully legally compliant with the international standard.

In 2002, 2007 and 2013 / 2014, the International Monetary Fund (IMF) and Moneyval (the Council of Europe's Committee of Experts) assessed to what extent the Liechtenstein provisions on anti-money laundering and combating the financing of terrorism meet the standards laid down by the Financial Action Task Force (FATF 40 + 9 Recommendations). In their last report, the IMF and Moneyval attested positively to Liechtenstein's standards in combating money laundering and financing of terrorism. The next country assessment for Liechtenstein started already in 2018 and is due to be completed in 2020. The measures will be assessed to check they are risk-based and effective.

Deposit guarantee schemes and investor compensation

Bank Recovery and Resolution Directive

With the entry into force of the Recovery and Resolution Act (RRA) at the beginning of 2017, Liechtenstein has significantly improved its financial stability, in that a statutory mechanism is now available to counteract the "too big to fail" risk of large, systemically important banks in a crisis. The EEA country has thus transposed the Directive 2014 / 59 / EU on the recovery and resolution of financial institutions (the Bank Recovery and Resolution Directive (BRRD)) into national law. The RRA designates the Liechtenstein Financial Market Authority (FMA) as the resolution authority. For this function the FMA created a separate organisational unit within its organisational structure on 1 January 2017. This authority's primary objectives are to avoid significant adverse effects on the stability of the Liechtenstein financial market and to protect client funds and client assets.

The RRA requires LLB, as a systemically important bank in Liechtenstein, to submit a recovery plan to the FMA. The recovery plan contains an analysis of measures determined as part of an overall bank stress test that can be taken to restore its financial position under various crisis scenarios.

Deposit Guarantee Schemes Directive (DGSD)

The DGSD requires EEA member states to recognise at least one national guarantee scheme that is responsible for the implementation of the deposit guarantee scheme at banks. All banks must belong to a deposit guarantee scheme which is supervised by the competent national authorities; this function should remain with the FMA. The new Deposit Guarantee and Investor Compensation Act (DGICA) is expected to enter into force in the first half of 2019. It provides for broadened and clarified scope of coverage for deposits, faster repayment periods, improved information and more robust funding requirements. The aim is to strengthen depositor confidence in the financial system. Among other significant changes introduced by the DGICA are the gradual changeover from a pure ex-post funded deposit guarantee system to a system where the assets to finance compensation cases are accumulated ex-ante through the contributions of the banks, as well as much faster repayment periods in the event of a deposit compensation case.

In the event of a compensation case, the Deposit Guarantee and Investor Compensation Foundation PCC (EAS) that has been established would ensure that the financial consequences for depositors and investors are at least mitigated by covering depositor and investor claims by up to a maximum of CHF 100'000. Deposits are all kinds of account balances as well as call money and time deposits.

Consumer protection

MiFID II / Liechtenstein

The Liechtenstein banking centre implemented the Markets in Financial Instruments Directive (MiFID) on 1 November 2007. MiFID simplifies cross-border financial services and allows investment firms, banks and stock markets to also offer their services in other EU / EEA member states. Furthermore, they are required to conduct precise client and product analyses as well as disclose information on compensations and commissions.

The Amendment (MiFID II) and the accompanying Regulation (MiFIR) came into force in the EU on 3 January 2018, one year later than originally planned. They provide for further regulation of the financial markets and investment services. MiFIR also regulates trading transparency. Besides the refinement of regulations since MiFID, the aim of MiFID II is to create greater transparency in the markets and to increase investor protection.

High-frequency trade will be made more transparent and subject to stricter supervisory controls, while position limits on commodity trading will be stricter. Throughout the EU, consultations at bank branches and consultations by telephone must record and document in a comprehensive manner why a financial product was recommended and how it matches the client's risk profile.

In Liechtenstein, the implementation of MiFID II required comprehensive changes to the Banking Act and the Asset Management Act, the Banking Ordinance and the Asset Management Ordinance, as well as amendments in particular to the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act) and the Financial Market Supervision Act (FMA Act). The legislative process has been completed at national level and the amendments came into force on 3 January 2018. LLB has implemented MiFID II within the specified time.

FinSA / Switzerland

Switzerland intends to conceptually reshape the guiding principles of its financial centre in order to transpose investor protection issues arising from MiFID II, in particular, into national law. The ordinances from the Swiss Financial Market Supervisory Authority (FINMA) are expected for autumn 2019: the Financial Services Ordinance (FinSO) and the Financial Institutions Ordinance (FinIO). The acts and ordinances enter into force on 1 January 2020, whereby different transition periods apply.

The Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) create a level playing field for financial intermediaries and improve client protection in Switzerland. The FinSA contains rules of conduct towards clients that Swiss financial service providers must comply with. It also provides for prospectus requirements and requires a basic information sheet for financial instruments that is easy to understand. The FinIA essentially standardises the authorisation rules for financial service providers in Switzerland.

New rules of the game in the EU payment systems market

For LLB, the harmonisation and the digitalisation of the European payment systems market are important topics. As an EEA country, Liechtenstein will adopt the second EU Payment Services Directive (PSD II) in 2019. The new regulations take into account the increased requirements for data protection and the security of electronic payments. In addition, the transparency for clients is to be increased, thereby strengthening consumer protection. The PSD II allows market access to new payment service providers such as fintechs, thereby increasing competition and innovation. The directive now requires banks to grant third parties access to a client's accounts if the client so wishes. There would be no need to have any direct interaction with the bank where the account is held. LLB plans to make the adjustments required to implement the PSD II in 2019.

EU Mortgage Credit Directive

The Directive 2014 / 17 / EU on credit agreements for consumers relating to residential immovable property has been in force in the EU member states since 20 March 2014. As a member of the EEA, Liechtenstein is obliged to transpose this directive into national law. With the corresponding legislative process underway, it is expected to come into force in January 2020. The directive serves to protect consumers taking out loans to buy residential property. Under the directive, the banks are subject to various obligations when granting a loan. These include, in particular, (pre-)contractual information requirements, creditworthiness assessment requirements and qualification requirements for bank employees involved in granting loans.

LLB will implement the law in a timely manner. In 2019, the specialist departments and marketing and distribution units will incorporate the new provisions into the relevant processes. The advisory process, in particular, will be adjusted due to legal requirements.

Capital adequacy requirements

Basel III

The comprehensive reform package of the Basel Committee on Banking Supervision (Basel III) has been in effect in the EU since 1 January 2014. The regulations commit banks to larger capital buffers and set requirements for liquidity coverage. The reforms aim to improve the regulation, the supervision and the risk management of banks and, as a result, to increase the resilience of both individual banks and the banking system as a whole.

Liechtenstein, as a member of the EEA, implemented the Basel III standard with the enactment of the Capital Requirements Regulation (CRR) and the accompanying Capital Requirements Directive (CRD IV) on 1 February 2015. The CRD IV package ensures banks hold quantitatively and, in particular, qualitatively better capital. The primary goal of the measures is to foster the resilience of the EEA banking sector towards destabilising economic shocks.

Brand and communication

A company has to earn trust and a good reputation. Transparent communication and a clear brand image are central to this. To this end, LLB is in constant dialogue with its various stakeholder groups through different channels.

Brand strategy

The "Liechtensteinische Landesbank" and "Bank Linth" brands convey reliability and trust to our clients. They also signal agility and innovative power. They generate motivation and commitment among our employees. And our stakeholders value the stability, the security and the quality for which we stand. The two strong brands have the elements of colour and image in common and in this way emphasise that they are part of the LLB Group and its brand world.

The brands connect us with our clients and within our Group of companies. As Liechtensteinische Landesbank, we are a partner of the Principality of Liechtenstein and its people. On the one hand, we stand for the region and its culture; on the other, we are an international provider. With our focus on private banking, we are expanding in Switzerland and Austria, and tapping into the growth markets of Central and Eastern Europe as well as the Middle East. Our subsidiary Bank Linth is a partner of the economy and society in the region of eastern Switzerland.

With our brands, we want to reach our clients through all channels – in print and online media as well as through personal contact. In this way, we increase the value of our company from without and strengthen its identity from within. The brand strategy and the brand management of the LLB Group are based on the corporate strategy and aim to further increase brand recognition and firmly anchor the brand values. Concrete communication measures are determined annually during the planning process.

Brand components

The brand components comprise two elements – the figurative mark and the brand name. The latter may deviate if a subsidiary is not fully owned by LLB. Hence Bank Linth bears its original name. The figurative mark of the LLB Group is classical and modern. The clear geometry of the brand logo stands for security and stability. The angles projecting beyond the basic shape symbolise our openness. The colour green signals our origin, and the red square core stands for our focus on what is essential and on our partners. The harmony and equality with which the elements form a unity represent partnership. The common vision and the binding guiding principles of the LLB Group are expressed in the brand. The key elements of the StepUp2020 strategy incorporate the brand values.

Brand positioning

The "Liechtensteinische Landesbank" and "Bank Linth" brands have an identical system of values. At the centre are the four key elements of the StepUp2020 strategy: growth, profitability, innovation and excellence (see chapter "Strategy and organisation", page 11). The strategy is reflected in the vision and guiding principles of the Group and in the strategic positioning of the two brands. At the same time, they are clearly positioned with their own promise. For LLB, this is "Tradition meets innovation" and for Bank Linth, "Simply. More. Value.".

Liechtensteinische Landesbank 1861

Tradition trifft Innovation.

Liechtensteinische Landesbank is the oldest financial institution in Liechtenstein. The claim "Tradition meets innovation" encapsulates what distinguishes it: LLB is committed to a concept of banking that is based on security and stability, while still being target-oriented and dynamic. It has innovative power, the strength of which comes from tradition. It creates added value by synthesising competing values. This leads to new and pioneering solutions.

Bank Linth

Einfach. Mehr. Wert.

Bank Linth launched its new claim "Simply. More. Value." in September 2018. "Simply" stands for the promise to provide financial services that are easy to access and uncomplicated to use – and builds strongly on the previous claim, "Truly simple". "More" refers to the claim to exceed the expectations of clients and partners at all times. And "Value" signifies Bank Linth's mission to prudently increase the professional and individual scope of its clients.

Brand management

The brand management of the LLB Group is based on the corporate strategy and aims to further increase brand recognition and firmly anchor the brand values. Concrete communication measures are determined annually during the planning process.

Image campaigns

Following the merger with Semper Constantia Privatbank AG, a new image campaign for LLB Österreich was launched on 1 October 2018 with the claim "Tradition meets innovation". Four subjects reflect the key messages: "security and stability", "innovation and flexibility", "competence and vision" as well as "education and values". The campaign is designed to serve as the basis for the positioning of the entire LLB Group and will be rolled out in the markets of Liechtenstein and Switzerland, too, in the first half of 2019.

In addition, in Liechtenstein with the "From Liechtenstein, for Liechtenstein" campaign we highlight our heritage, our connection to the country and our proximity to its people. We underline that Liechtensteinische Landesbank has served as the bank for the country, the people and the economy of Liechtenstein for more than 150 years and that its deep roots can be seen, among other things, in its broad commitment to culture, sport and society (see chapter "Responsibilities for society and the environment", pages 59 and 60).

The brand image measures that Bank Linth also initiated in autumn 2018 are intended to translate the new claim in a way that is memorable and appropriate to the target group and thus strengthens spontaneous brand recognition. Using simple subjects and compelling slogans, they communicate what clients and employees can expect from the bank and convey the brand values in an appealing and authentic way.

Brand experience

A brand is successful when it stirs emotions. For implementing the brand experience, it is very important to us, therefore, to understand and meet the expectations of our clients. And this we can do by systematically surveying our clients and obtaining feedback from them. In the first quarter of 2019, we will further sharpen our brand profile. We are refurbishing the branch office in Balzers, which is due to open in spring 2019, with these aspects in mind. The client's experience is placed centre stage and an emotional value proposition that creates proximity to the client is defined. Clients are appealed to through all of their senses. We create an experience with our bank products. The guiding principle behind the LLB Group brand experience is: "One idea closer".

Brand study

Knowing the values our clients hold is the basis of our brand management. We conduct a client survey every two years. Our brand study from 2018 shows the three main characteristics ascribed to LLB:

- LLB stands for proximity to the people, security and trust.
- LLB is perceived as a leading asset management partner.
- LLB is seen as a traditional, competent and stable bank.

The success of the LLB Group is closely related to client satisfaction. We receive information on the effectiveness of our client focus from regular analysis of the systematic feedback from all market divisions.

Employer branding

As a universal bank, we stand for a greater level of job diversity and a wider range of subject areas. As an employer, we are committed to a human and value-oriented corporate culture that is characterised by partnership-based cooperation. Our employer branding concept underlines the attractive working conditions. We position ourselves in job advertisements in print and online as well as in HR image ads with the claim "Banking as it is meant to be: friendly and professional" (see chapter "Employees", pages 64 – 69).

"youli": Brand for the young generation

LLB and Bank Linth address 15 to 30 year olds directly with the "youli" label. We engage them with an internet site and an own social media presence tailored to the target group. We have attractive offers, create experiences with join-in activities and also offer tips and advice. With the "youli" youth range and the corresponding member card, young people benefit from various special conditions.

Public relations work

For the LLB Group, communication is a central management function that contributes significantly to the realisation of the corporate strategy and the attainment of corporate objectives. It is integrated in the strategic processes and operational management as well as in the decision-making processes. The LLB Group can use communicative means to systematically manage the reputation of the company, services/products and also the management as well as to meet the expectations of the various stakeholder groups. The stakeholder groups are in particular:

- **Clients:** Their needs are uppermost at every point of contact. Our client advisers record the needs and the satisfaction of private and corporate clients. We address them in a targeted way through our client service as well as more broadly through our marketing communication and our websites.
- **Principality of Liechtenstein:** The Principality of Liechtenstein is our majority shareholder. We are therefore obliged to inform the Government regularly about our business performance, (see

section “Public affairs”, page 52, and chapter “Corporate governance”, page 99).

- **Shareholders:** In addition to the annual General Meeting of Shareholders, we exchange views with our shareholders at investor presentations and in regular meetings with the Liechtenstein Government as the representative of the majority shareholder, the Principality of Liechtenstein (see section “Investor relations” and chapter “Corporate governance”, page 52).
- **The public:** All our branding and communication measures are high-profile. A key trust-building element in this regard is an intensive exchange with media representatives (see sections “Public relations” and “Media relations”).
- **Partners and non-governmental organisations (NGOs):** Through our membership of associations and organisations, we maintain a dialogue with partners and NGOs (see chapters “Regulatory framework and developments”, page 46, “Institutional Clients”, page 35, and “Responsibilities for society and the environment”, page 56).
- **Employees:** We reach our employees over our intranet, which is continuously updated with the latest information and offers, and through our staff magazine. There are also various events for employees where they have the opportunity to personally meet and discuss with members of the Group Executive Board (see chapter “Employees”, page 64).

Public relations

We come into contact with the wider public through various channels. With regular market commentaries and reports in local print media, we prove our expertise in financial matters. As the organiser or sponsor of various events, we strengthen contacts with the local people. At the LIHGA, Liechtenstein’s regional trade fair, we offer join-in activities and giveaways to existing and potential new clients (see chapter “Responsibilities for society and the environment”, pages 60 – 63). In 2018, we launched the prestigious LLB SME Award.

We also reach a wider section of the population through our social media channels: via Facebook and Twitter, we engage with all stakeholder groups. We strengthen our employer profile using the XING and LinkedIn networks.

Investor relations

The LLB Group aims to provide an up-to-date picture of the opportunities and risks relating to its business activities by engaging in an open and ongoing dialogue with investors, analysts and representatives of the media. As a publicly listed company, we are obliged to publish share-price relevant information, including ad hoc information about events that may affect the share price, by means of media communiqués to all stakeholders. We inform shareholders, clients, employees and the public simultaneously, comprehensively and regularly about our business performance, value drivers as well as the implementation of our strategy and provide them with an overview of our key financial and operating figures. The aim is to ensure that the price of the LLB share represents the fair value of the company (see chapter “The LLB share”, page 45).

Media relations

Irrespective of the ad hoc information and the annual media and analyst conference, we maintain a dialogue with the regional media and business journalists in our market regions. We make every effort to answer their questions in a transparent and timely manner. Once a year, we invite regional media representatives to lunch in Liechtenstein where we inform them about ongoing projects and new developments. In 2018, exponents of LLB gave numerous interviews and answered various enquiries. LLB was the subject of almost 1'000 media articles. The focus was on the acquisitions and integration steps of LLB Swiss Investment in Zurich and LLB Österreich in Vienna, as well as various awards received by LLB. Media relations for LLB Österreich were strengthened as part of the integration. For Bank Linth, which is also listed on the SIX Swiss Exchange, besides ad hoc communication, the main focus was on the ongoing refurbishments, the opening of branch offices as well as the positioning of the brand.

Public affairs

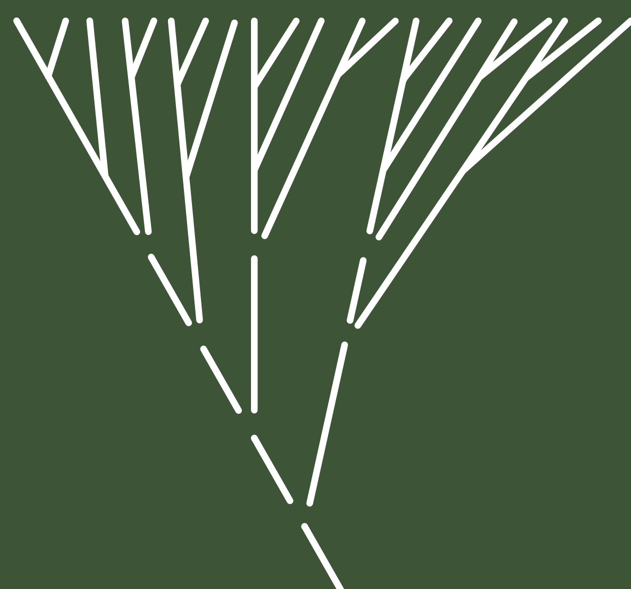
LLB is in regular contact with opinion leaders and selected representatives from the world of politics and economics. Because only by constantly seeking dialogue with different decision makers, are we able to voice our opinion and be heard. We are a member, too, of the key industry associations and organisations such as the Liechtenstein Chamber of Commerce and Industry and the Bankers Association (see chapter “Institutional Clients”, page 35). We also exchange views with the Liechtenstein Financial Market Authority (FMA) on a regular basis.

LLB is obliged to report to its majority shareholder, the Principality of Liechtenstein. The Chairman of the Board of Directors of the LLB Group and the Group CEO meet the Head of the Government of Liechtenstein twice a year to report on the course of business. Once a year, the Board of Directors and the Group Executive Board exchange views with the entire Government (see chapter “Corporate governance”, page 99).

This page contains, inter alia, the following GRI disclosures (2016 version): 102-43 and 102-44. A list of all disclosures shown in the report can be found in the GRI Content Index on page 111.

What makes banking
contemporary?

In communicating at all levels lies the power.



In Dialogue: online as well as offline

Tobias Schlömer

Head of Group Multi Channel Management

In the banking of the future, the intelligent combination of technology, empathy and knowledge will make the difference. Clients will decide themselves when, how and where they contact their bank. The LLB Group is responding to this with a coordinated interplay of the various communication channels. The bank branches represent the bridge between online and offline services. Multi-media self-service will be the standard, but with key questions, people will want answers from other people.

Video statement at:
ar2018.llb.li/online-offline

"The structural design of the cow parsley plant repeats itself in the smallest and largest details. The self-similarity of the branches corresponds to the golden ratio. If one focuses on the cluster of flowers, one sees the overall shape of the plant."

Responsibilities for society and the environment

Awareness of the need to act responsibly is deeply rooted in the LLB Group. We recognise our social responsibility towards employees, business partners, our clients and society, and are committed to protecting the environment.

Performance mandate and sustainability

The Principality of Liechtenstein is the majority shareholder in LLB with 57.5 per cent of the share capital. Sustainable business management is part of the performance mandate and the principles governing the corporate strategy of Liechtensteinische Landesbank. LLB carries out this mandate first and foremost by offering a broad portfolio of products and services. At the same time, social commitment has always been a significant part of our corporate identity. Our activities are in line with our statutory mandate: according to Article 3 of the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992 and under the investment strategy of the Government of the Principality of Liechtenstein of 22 November 2011, LLB is mandated with the social responsibility of promoting Liechtenstein's economic development while at the same time still taking ethical and ecological factors into account.

In dialogue with stakeholder groups

For the LLB Group, sustainability as a corporate responsibility means meeting the expectations of the different internal and external stakeholder groups. The Group Corporate Communications & General Secretary Business Area works – together with the line and support units on an ongoing basis – to further develop the key sustainability topics.

We are in regular dialogue – personally, by electronic media, or at information meetings, working sessions, roadshows or conferences – with the different stakeholders who affect the course of our business and over whom we have influence (see chapters "Brand and communication", page 52, and "Employees", page 65).

The stakeholder groups are in particular:

- Clients
- Principality of Liechtenstein
- Shareholders
- The public
- Partners and non-governmental organisations (NGOs)
- Employees

Non-financial reporting

The annual report of the LLB Group has contained an integrated stakeholders report since 2015. This report has been prepared in accordance with the GRI Standards: "Core" option. By doing this, we are highlighting our proactive focus on sustainability.

Since 2017, capital market-oriented corporations as well as large credit institutions and insurance companies that have more than 500 employees have been required by an EU directive to disclose information about their Corporate Social Responsibility (CSR) performance in their annual report. With the resulting amendment of the Persons and Companies Act (PGR), Liechtenstein, as an EEA country, has thus introduced for the first time reporting regulations on certain sustainability topics such as environmental, employee and social matters, as well as respect for human rights, anti-corruption and bribery matters.

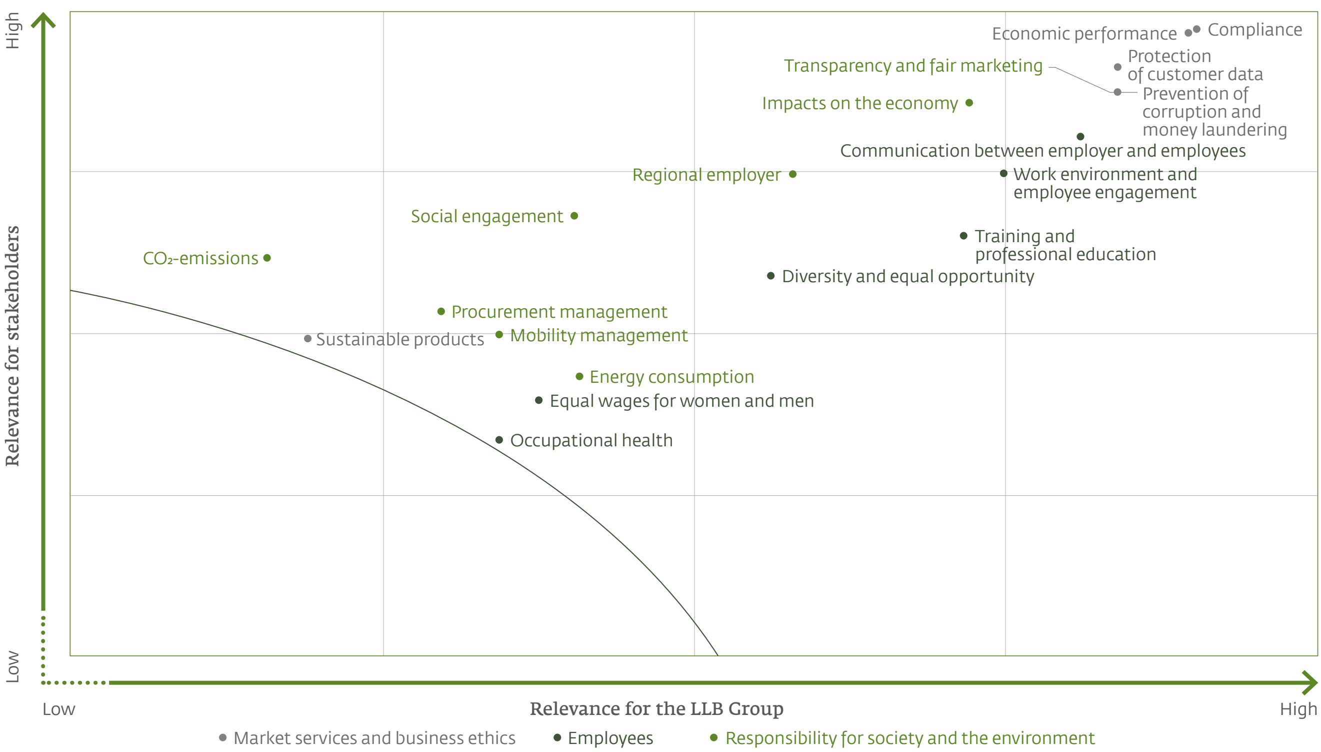
LLB met these EEA requirements a year before the law actually came into force in Liechtenstein. At the end of 2014, we compiled a set of about 25 sustainability topics. In 2015, in accordance with the requirements of the Global Reporting Initiative (GRI G4), we established, reviewed and evaluated a list of material aspects and indicators. LLB developed this further by defining strategic priorities, as shown in the materiality matrix (see matrix on page 57). In 2018, we refined the process of identifying and managing sustainability topics and updated the management approaches that form the basis of the materiality matrix.

Value-based action

The values of "integrity", "respectfulness", "excellence" and "pioneering" (see chapter "Strategy and organisation", page 12) underpin the LLB Group's actions. Our internal Code of Conduct provides a guiding framework for the value-based and responsible actions of all employees (see chapter "Employees", page 64). We are client-oriented and, as such, are investing in the further development of the physical and electronic contact points (see chapters "Retail & Corporate Banking", page 25; "Corporate Center", pages 40 and 41). Here we are paying particular attention to meeting our clients' security needs and our data protection standards for the use of the various distribution channels at all times.

This page contains, inter alia, the following GRI disclosures (2016 version): 102-40, 102-42, and 102-43. A list of all disclosures shown in the report can be found in the GRI Content Index on page 111.

Materiality matrix for sustainability topics



Risk management

Effective risk management, that means permanent and systematic monitoring to minimise risk, contributes decisively to responsible and transparent corporate governance (see chapter "Finance and risk management", page 15 – 17). By specifying a future-oriented risk strategy, the Board of Directors establishes the guidelines for dealing with risks. In addition, it continues to develop corporate governance on an ongoing basis (see chapter "Corporate governance", page 76).

The applicable laws, directives, guidelines and market standards as well as supervisory and internal regulations form an essential base. Group Legal & Compliance advises the business areas, identifies and analyses compliance risks, and ensures that all staff comply with the rules of conduct (see chapter "Finance and risk management", page 17).

Contribution to the sustainable development of Liechtenstein

The LLB Group is involved in different cultural, environmental and social areas (see section "Sponsoring", page 59) and thus in the sustainable development of a prosperous Liechtenstein. This forms the basis for the fulfilment of our performance mandate. Our core task is to promote Liechtenstein as a workplace. In doing so, we contribute to the prosperity of people (see chapter "Retail & Corporate Banking", page 24).

Economic performance

Financial stability

Liechtenstein is among eleven countries worldwide with an AAA rating. On June 2018, Standard & Poor's (S&P) reconfirmed its best rating for the country's creditworthiness. Liechtenstein has no national debt, instead it has large reserves thanks to strict budgetary discipline. A functioning banking sector and stable financial centre with strong international connections contribute substantially to the financial results of the state.

The financial services sector, accounting for around 25 per cent of GDP, is the most important sector in the Liechtenstein economy after industry. The banks are characterised by a high level of financial stability. Having a sufficiently high-quality equity base at its disposal is part of the LLB Group's identity. We meet the core capital ratio of 13 per cent required under Basel III regulations at the latest from 2019 onwards and have done so for many years (see chapter "Finance and risk management", page 16).

Economic contribution

The LLB Group bases its business policy on market principles and strives to generate a reasonable profit. The Principality of Liechtenstein and its population participate in profits through regular

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distributions. The economic contribution of the LLB Group – dividends, direct taxes and the compensation payment for the state guarantee – amounted to CHF 45.5 million in 2018 (2017: CHF 46.4 million). LLB receives no financial support for its banks or Group companies in Liechtenstein, Switzerland and Austria from any government.

LLB is the only bank in Liechtenstein which carries a state guarantee for savings account deposits and medium-term notes (cash bonds). This is regulated in the Law on the Liechtensteinische Landesbank of 21 October 1992. According to Article 5, the Principality of Liechtenstein is liable for savings account deposits at the Landesbank and for medium-term notes (cash bonds) of the Landesbank, insofar as the bank's own resources are not sufficient. For this additional security, from which our clients benefit, LLB makes a yearly compensation payment to the Principality. In 2018, this amounted to CHF 0.9 million (2017: CHF 1.1 million). The corresponding agreement on the state guarantee expires at the end of July 2020. The Landtag, Liechtenstein's Parliament, has decided, in agreement with the LLB management, not to renew it. The state guarantee is considered to be outdated and no longer corresponds to EEA requirements. As a bank of systemic importance, LLB is subject to particularly strict financial market regulation and high capital adequacy requirements. With the implementation of the Capital Requirements Directive (CRD IV) and the establishment of the Deposit Guarantee and Investor Compensation Foundation (EAS), Liechtenstein has a modern guarantee system, which guarantees an adequate equity base and protection of client deposits (see chapter "Regulatory framework and developments", page 48).

Sustainable products and services

With a range of products and services, the LLB Group takes social responsibility for the future generations in its home markets of Liechtenstein and Switzerland. This applies to both private individuals and small and medium-sized enterprises (SMEs).

Risk-conscious growth in the mortgage lending business

The development of the real estate and mortgage market plays a key role in the economy. In Liechtenstein, LLB has a leadership position in the mortgage lending business with a market share of around 50 per cent. Bank Linth is an important partner for the people and economy of eastern Switzerland. To achieve sustained, profitable growth, the LLB Group focuses in Liechtenstein and Switzerland on the quality of the mortgage portfolio and risk-conscious growth carefully tuned to suit the region and the type of property. In 2018, mortgages accounted for 86.5 per cent (2017: 87.4 %) of loans granted by the LLB Group, corresponding to CHF 11.1 billion (2017: CHF 10.6 billion).

Financial planning for private clients and businesses

Changing asset structures, the growing diversity and complexity of financial instruments, the globalisation of financial markets and changes to pension provision are new aspects that we have to take account of. The need for professional and holistic private financial planning therefore continues to grow. In 2017, LLB further refined its "LLB Compass" service offering, which offers solutions for all stages of life and business. Bank Linth launched its comprehensive advisory service in Switzerland in spring 2017.

LLB offers three separate advisory packages for corporate clients. In the case of owners of small and medium-sized enterprises (SMEs), private and business assets are often closely interlinked. Our 360-degree financial planning covers all the important topics such as assets, financing, pension planning, real estate, taxes and estates.

LLB Pension Fund Foundation for Liechtenstein

An important element in integrated advisory and financial planning services for SMEs is occupational pension provision. With the LLB Pension Fund Foundation, we are the only bank in Liechtenstein able to offer clients an attractive pension fund solution and that since 2005. It has proved very popular: with a market share of around 40 per cent, the youngest pension fund in the Principality ranks as the number two among the collective foundations. It is therefore an essential pillar of the pension fund market in Liechtenstein. At the end of 2018, it had significantly increased pension fund assets under management to CHF 756 million (2017: CHF 732 million). It provided services to 450 (2017: 423) companies with 5'300 (2017: 5'360) active insured persons and had a liquidity ratio of 101 per cent (2017: 107 %). The LLB Pension Fund Foundation has a very good structural ratio: for each pensioner there are 15 active insured contributors (2017: 19 active insured contributors).

In order to be able to actively participate in shaping the legal framework, the LLB Pension Fund Foundation is represented on the Executive Board of the Liechtenstein Pension Scheme Association (LPKV) and is helping to develop the Liechtenstein pension fund market.

Sustainable investment

According to Liechtenstein's Environmental, Social and Governance (ESG) Market Report of November 2016, LLB is the market leader in the Principality based on the number of its funds. The funds are managed by LLB Asset Management AG, the LLB Group's investment competence centre. And this is done on the basis of the ESG rating of the individual investments in the funds; we obtain these ratings from MSCI ESG. ESG criteria are increasingly impacting the investment behaviour of both private and institutional investors.

Sustainable asset management

Our product range also includes "Sustainable asset management", developed by the Asset Management Business Area of the LLB Group. When constructing a portfolio, we only consider securities with a favourable ESG rating based on MSCI. Sectors such as tobacco, alcohol, nuclear energy and armaments can be excluded from the portfolio if a client so wishes.

Sponsoring

The importance of sponsorships and events within the LLB Group is steadily growing. The instrument enjoys a high level of acceptance among all the stakeholders and conveys credibility and affinity. The LLB Group always remains politically neutral in this regard and does not make financial or any other types of contributions to politicians or parties. With our sponsoring policy, we want to gain our stakeholders as brand ambassadors. Our involvement must suit, complement or strengthen the character of our brands and our values. We focus, therefore, on only a few effective long-term sponsorships that have a clear connection to the respective market region. In 2016, the LLB Group clearly reformulated its sponsoring strategy and defined the following principles:

- We want our four values (respectfulness, integrity, excellence and pioneering) to be experienced on an emotional and professional level through our activities.
- We strengthen and enable platforms and partnerships which fit us best.
- We coordinate partnerships and our own events Group-wide using a new management tool.
- We explain what the LLB Group stands for simply, using topic pyramids.

LLB's commitments

The focus of our sponsoring commitments is on sports, culture and competence. In all these areas, we support various projects and organisations such as, for example, Stein-Egerta, which provides adult education, the Vaduz Film Festival and sporting events like the Städtlelauf (the Vaduz Town Run). Our long-term commitments include FC Vaduz, which we have been supporting as the main sponsor for fourteen years now. As such, this not only provides important impulses for top-level sport in Liechtenstein, but also does valuable work for grassroots and junior sport too. Bank Linth supports, among others, the Flumserberg mountain lifts, the Walensee Musical, Knie's Kinderzoo in Rapperswil, the Pfadi Winterthur (handball club) and the Win4 Ballsportarena in Winterthur.

To emphasise our strong links to the local economy, we launched the SME Award in 2018, which was presented at the LIHGA, Liechtenstein's regional trade fair. The "SME of the Year" received CHF 15'000 in prize money and the "Newcomer of the Year" benefited from coaching tailored to its needs. We managed to win over well-known regional personalities from the world of economics and politics for the jury. The SME Award has been created in conjunction with the Liechtenstein Chamber of Commerce and will be presented every two years at the LIHGA.

LLB also organises events itself: In 2018, we invited bands and artists from the Rhine Valley region into the inner courtyard of LLB in Vaduz for the open-air "Summer in the Courtyard" series of concerts, which is already in its 22nd year. What began in 1997 with a concert by the Big Band Liechtenstein has developed into a distinctive feature of the musical summer programme in Liechtenstein, and is a 'thank you' to the people.

Funding

By foregrounding project sponsorship as support, the LLB Group underscores the principle that each project retains its content and organisational independence. In 2018, Liechtensteinische Landesbank invested CHF 545'000 (2017: CHF 575'000) in projects in Liechtenstein, and Bank Linth invested CHF 398'000 (2017: CHF 398'000) in projects in Switzerland. This is quite apart from our Group's long tradition of making donations. In this way, LLB has supported non-profit and social organisations for more than thirty years; since 2011 it has done this through the "Zukunftsstiftung der Liechtensteinischen Landesbank AG" (the Future Foundation of Liechtensteinische Landesbank AG).

The non-profit Future Foundation

The "Zukunftsstiftung der Liechtensteinischen Landesbank AG" (the Future Foundation of Liechtensteinische Landesbank AG), which was founded in 2011 as part of our 150th anniversary celebrations, supports commitment to social and ecological sustainability in everyday life. We support organisations and non-profit projects that improve living and working conditions and promote self-responsibility. Besides this, we promote projects dedicated to environmental protection. We focus on innovations in the areas of knowledge transfer as well as the integration and implementation of social entrepreneurship.

Trust, responsibility and reliability are important to the LLB Group. The company is closely connected to the people and the economy of Liechtenstein and the other home markets of the LLB Group. In addition to project-specific contributions amounting to CHF 69'000, the Future Foundation contributed to society by donating a total of CHF 79'500 to social organisations in 2018. The Future Foundation is a member of the network of the Vereinigung liechtensteinischer gemeinnütziger Stiftungen (Association of Liechtenstein Non-Profit Foundations), which aims to promote the idea of entrepreneurial philanthropy.

Projects in 2018

Through its annual donations to a set circle of social institutions in Liechtenstein, the Future Foundation helps to maintain healthy social structures in the country. Providing additional funding to individual projects helps innovative ideas in the area of social and ecological development in the LLB Group's market regions to be realised in practice.

Over the past seven years, the Future Foundation has made over 140 donations and contributions to around 50 projects, in all totalling over CHF 1'000'000.

The projects receiving funding contributions are mostly small, focused and located in the market regions of LLB and Bank Linth (Liechtenstein and eastern Switzerland) as well as LLB Österreich. In 2018, the Future Foundation supported the following projects:

- **pepperMINT:** The MINT Initiative Liechtenstein is a social foundation that offers children and young people the chance to experience and learn mathematics, computer science, natural science and technology in a fun way.
- **Trash Hero World:** The volunteer organisation is committed to a waste-free world and working specifically towards reducing plastic waste.
- **Plan International:** The children's fund is committed to the participation and co-determination of children and young people in Swiss and Liechtenstein organisations. First and foremost, young people with special needs are supported.
- **Stiftung Feriengestaltung für Kinder Schweiz:** The foundation organises holiday camps for children in Switzerland who otherwise would not be able to go on holiday. With the aim of equal participation in society, the camps are also open to children with attention deficit hyperactivity disorder (ADHD).
- **Kinderschutz.li:** With its prevention programme, this child protection organisation is working to combat violence, mobbing and the sexual abuse of children and young people. Children, parents, schools and organisations are given active support.
- **ratatätsch Guggamusig:** The organisation supports the social integration of people with disabilities and enables them to play an active part during Fasnacht (carnival) through playing music together.
- **myclimate:** This year, as part of its anniversary celebrations, the non-profit foundation is going to be giving interactive and action-oriented courses on the topics of climate protection and sustainability to all school pupils and apprentices in Liechtenstein.
- **Pfadfinder und Pfadfinderinnen Liechtensteins (Scouts and Guides of Liechtenstein):** At the world scout jamboree camp, young people have the opportunity to get to know people and cultures from all over the world and to internalise values such as sustainability and respect.
- **Stiftung Zukunft Liechtenstein:** LLB has been promoting this think tank, which addresses economic and socio-political topics relevant to the sustainable development of Liechtenstein and the securing of its future, for the past five years.
- **Alte Metzg Schaan:** The organisation functions as a soup kitchen and an outlet for "Tischlein deck dich" (an organisation that provides food aid for people in need), and is a workplace for the long-term unemployed to facilitate their reintegration into the working world.

Sustainability in the workplace

Mobility management

The LLB Group is committed to actively managing the environmental impact of the business and commuter traffic caused by its employees. According to the Government's 2019 transport infrastructure report, road traffic increased by 5 per cent between 2009 and 2017. To keep the increase in road traffic as low as possible, we encourage our staff to use public transport and to not drive to work, but to form car pools or switch to more environmentally friendly alternatives.

In 2013, LLB's Mobility Commission added new elements to its comprehensive mobility management, which was introduced in 1996 and overhauled in 2010. It considerably increased not only the costs for parking spaces but also the rewards to those employees who switch from using private motorised transport to more environmentally friendly means of transport. The fee system for employee parking spaces comprises four rates. LLB makes graduated payments to employees who forego a parking space.

These measures are having an effect: out of all LLB employees in Liechtenstein, some 277 (2017: 248) now come to work by bus, bike or on foot. Going forward, it will be a challenge to improve on this number since the route to work for many of our employees has, on average, become longer.

Promoting the use of public transport

LLB subsidises 50 per cent of the cost of an annual travel pass with LIECHTENSTEINmobil (LIEmobil), the Liechtenstein bus company, as an incentive to use public transport. Employees commuting to their workplace from outside the area served by LIEmobil buses receive an allowance for using regional public transport. There are a total of six vehicles and two trailers available for work-related trips, errands and building maintenance.

Promoting the use of non-motorised transport

More than half of the distances travelled by car in Liechtenstein are shorter than five kilometres, as are the distances between the individual LLB buildings in Vaduz. Our employees have had the possibility to use company bicycles since 1996; we now have 45 such bicycles.

LLB employees have been taking part in the competition run by the Verkehrs-Club Liechtenstein (VCL) "Radfahren für Ihre Gesundheit" (Cycling for your health) and the one by the Liechtenstein Chamber of Commerce and Industry "Mit dem Rad zur Arbeit" (Cycling to work) for years. We make a contribution of CHF 50 towards the cost of buying a bicycle helmet. Since 2016, this rule has also applied to ski and motorcycle helmets and runs under the motto "Kluge Köpfe schützen sich" (Clever heads protect themselves).

We want to make it as easy as possible for our staff to make the switch to using bicycles for transportation. This is the reason why we have installed showers and changing facilities right next to the bicycle room and offer towel services.

Reducing business kilometres travelled with video technology

Since ecology and the economy are inseparably linked, our aim of promoting energy efficiency also applies to the number of kilometres travelled on business trips. We were able to reduce this number further as a result of having installed over 29 video-conferencing systems Group-wide since 2015. We use state-of-the-art, high-end video technology with the best picture and sound quality

so that decision-making processes and optimum knowledge transfer can be accelerated at executive and project team meetings. At the same time, this means travel cost savings and, hence, an improvement in the CO_2 footprint.

Drink tap water – donate drinking water

LLB joined "Drink & Donate" – a drinking water project. Since February 2017, hydration stations that use fresh tap water have been provided in all buildings in Liechtenstein. Laboratory tests attest to its excellent quality. LLB donates CHF 60 per employee per year to "Drink & Donate", a Zurich-based non-profit organisation. We again donated a total of CHF 39'000 in 2018.

By consuming tap water instead of transporting branded bottled water over long distances, we want to reduce our CO_2 footprint, produce less waste, save energy and protect our environment. In this way, the more than 1'000 LLB employees in Liechtenstein and our clients make a sustainable contribution to supporting people in developing countries who do not have access to clean drinking water.

Sustainable procurement

The growing complexity of supply chains makes purchasing management, in conjunction with sustainable business management, an important discipline. The LLB Group is committed to ensuring that human rights and ecological standards are observed in the supply chain.

That is why we drew up a Group-wide directive in 2013 that sets minimum standards our suppliers are obliged to accept. These include compliance with laws, minimisation of the environmental impact, staff health protection as well as the avoidance of both child labour and forced labour. Fairness, transparency, data protection, human rights as well as ecological and ethical behaviour are essential criteria for our purchasing management. Offers are systematically analysed and checked for compliance with the standards.

We increasingly raise our employees' awareness to consider sustainability when choosing office supplies, office equipment and suppliers. Our purchasing management is continuously being developed with an eye to integrating the factor sustainability, making potential savings and reducing costs.

Well over 50 per cent of our suppliers are based in Liechtenstein or eastern Switzerland. Our local buyers (category managers) check that new suppliers are observing human rights and ecological standards. When procuring IT products, the category manager for the purchasing class "IT & market data (IT)" checks the resource consumption for operating and disposing of the equipment.

Energy efficiency and climate protection

For both ecological and economic reasons, energy sources should be used responsibly. This applies particularly to climate-damaging fossil fuels. We have made progress in this regard over the past few years thanks to our sustainable mobility concept and the improved energy efficiency of our IT infrastructure and buildings. Through our actions, we have made a contribution to climate protection and, at the same time, reduced our operating costs. Group-wide CO_2 emissions fell from 904 tonnes in 2015 to 885 tonnes in 2016. The figure for 2017 was 951 tonnes, whereby LLB Österreich was also included in the data collection for the first time. The figure for 2018 was 1'025 tonnes, whereby the system boundaries were extended again through the acquisition of the former Semper Constantia in Austria.

The organisational unit Facility Management identifies potential energy savings and evaluates the effect of efficiency measures. An example of this is the "Green Datacenter".

"Green IT" data processing centre

Infrastructure and energy costs for data processing centres are a key factor in facility and IT management. Potential energy savings are high. The bank branch of Liechtensteinische Landesbank in Eschen (FL) has set standards in this area for the Rhine Valley region since December 2012. The LLB data processing centre, which was built according to the American Uptime Institute's Tier III Certification of Design, is extremely secure. This means that highly sensitive business data are perfectly protected.

Our data processing centre, however, not only has one of the highest security standards of the region, it also reflects a clear commitment to "Green IT". All building elements – from construction, to insulation and the architectural design of the building – were carefully matched to each other in order to increase energy efficiency. Since the middle of 2013, we have reduced power consumption substantially and consequently lowered our CO_2 emissions.

The power consumption of the cooling devices plays an essential part in terms of power usage effectiveness (PUE). We aim to achieve a PUE value of below 1.5, which would be half the original energy usage. By 2013, we had already achieved a PUE value of 1.54. In 2018, we achieved a PUE of 1.52 (2017: 1.48).

Energy-efficient buildings

We continue to improve the energy efficiency of our properties through renovating and refurbishing. Our main buildings are responsible for the bulk of energy consumption. Since two of our business premises in Vaduz (our headquarters and Haus Wuhr Ost) are equipped with photovoltaic systems, we generate a small part of our electric power in an environmentally friendly manner. In 2018, the PV systems produced 9'380 kilowatt-hours (2017: 8'930 kWh).

In order to identify further potential for optimisation, we measure the thermal insulation values of our buildings. In 2018, we changed the glass in the windows and the rubber seals and replaced the blinds in Haus Äule. As part of the refurbishment of the bank branch in Balzers, the gas heating was replaced and the air conditioning in the open consultation zone (the former counter hall) optimised. The bank branch in Eschen, which is linked to our energy-efficient data processing centre, complies with the Minergie standard.

Bank Linth has set itself the goal of adapting all nineteen of its bank branches to its "bank of the future" concept by the year 2020. The redesign also pays particular attention to climate efficiency. With the new designs that have already been implemented, we have achieved a considerable improvement in energy efficiency and a reduction in power consumption.

Promotion of sustainable construction

Due to uncertainty about costs for conventional energy sources, energy and ecological considerations are becoming increasingly important for new buildings and building refurbishments. Furthermore, environmental regulatory pressure is mounting and the people living in Liechtenstein and eastern Switzerland are also becoming more ecologically aware. The LLB Group actively supports sustainable construction and provides eco mortgages and renovation mortgages that promote the efficient and sparing use of resources. Clients benefit from a preferential rate of interest for investment in new buildings that comply with the Minergie, passive house or other comparable standards for alternative energy.

Installation of electric charging points

We want to promote electromobility by installing electric charging points. We installed nine electric charging points at six locations in Liechtenstein in the first quarter of 2018. The charging points are primarily intended for use by our employees who drive to work in an electric car, but they are also available to our clients.

Partner to climate foundations

We are convinced that actions driven by sustainability and responsibility increase the value of the LLB Group and have an impact that extends beyond our own company. We promote small and medium-sized enterprises (SMEs) that contribute to climate protection. LLB is a partner of the independent non-profit LIFE Climate Foundation Liechtenstein (since 2009) and the Swiss Climate Foundation (since 2012). Between 2012 and 2018, the Swiss Climate Foundation awarded CHF 575'015 to 40 SMEs in Liechtenstein.

LLB thus belongs to a group of 27 partner firms that pool their resources to support SMEs in Switzerland and Liechtenstein. The companies do this in an uncomplicated and efficient manner and, through their activities, help to protect the climate. LLB refunds of CO_2 contributions from Liechtenstein made to the Climate Foundation are used to promote new products and technological developments that contribute to climate protection as well as energy-saving projects.

Responsibilities for society and the environment

277

employees have decided to go without a car parking space in Liechtenstein. They come to work largely by public transport, bicycle or on foot. This represents almost 40 per cent of total staff.

Energy consumption and greenhouse gas emissions[1,2]

	2018	2017
Energy consumption (in MWh)	**6'974**	**6'792**
Electricity	5'236	5'087
District heating	445	382
Total heating fuels	926	1'156
Heating oil	189	233
Natural gas	736	923
Total motor fuels[3]	367	167
Diesel (vehicles and emergency power generator testing)	268	131
Petrol (vehicles)	99	36
CO_2 emissions (in tCO_2e)[4]	**1'025**	**960**
Scope 1 total[5]	300	300
Heating fuels	202	252
Motor fuels	97	44
Volatile gases (refrigerants)	2	4
Scope 2 total[6]	724	660
Electricity[7]	626	576
District heating	99	85

1) Business locations in Liechtenstein, Vienna and Bank Linth. At our business location in Vienna, two new former Semper Constantia Privatbank buildings were taken into account in 2018. They were included in the calculation, similar to financial reporting, on a semi-annual basis only. Certain consumption data at our business location in Vienna was estimated on the basis of consumption in the previous year. The key figures for 2017 were recalculated retrospectively because the exact consumption data for a building at our business location in Vienna could only be collected during the course of the year.
2) The recording of data on heat consumption is partly incomplete and is being optimised.
3) The increase in fuel consumption is attributable to the acquistion of Semper Constantia Privatbank AG in Vienna. Without this extension in the scope of measurement, fuel consumption, and therefore the associated greenhouse gas emissions, would have fallen slightly in comparison with 2017.
4) Greenhouse gas emissions calculated using Greenhouse Gas Protocol Guidelines.
5) Greenhouse gas emissions from own heating boilers, motor fuels and air-conditioning systems.
6) Greenhouse gas emissions produced from production of purchased electricity and district heating.
7) Reported using location-based approach following Greenhouse Gas Protocol Scope 2 Guidance.

Employees

We are in no doubt that one of the greatest challenges for any company is being able to recruit and develop excellent and committed employees. We are therefore constantly striving to raise our profile as an attractive employer. We offer attractive conditions and are ahead of the competition when it comes to winning talented employees.

Corporate culture and value basis

The LLB Group's vision is encapsulated in the motto: "We set standards for banking with values." Our managers and employees are motivated to act in line with our values: integrity, respectfulness, excellence and pioneering. By living these values, our managers spread the culture throughout the organisation. This is all the more important at a time when LLB has to adapt to constantly changing markets and client needs. For this to succeed, we need employees who are willing to engage and have the courage to initiate improvement processes. With the cultural journey launched in 2018, we encourage the employees to get involved, to question themselves and to exchange views.

Performance pledge and employee development

It is important to us that the LLB Group is perceived as an attractive employer that differentiates itself from its competitors through three key strengths: We offer a corporate culture based on partnership, interesting work content and plenty of scope for growth. High-achieving employees have excellent development opportunities and prospects.

The performance pledge made by Group Human Resources is being lived out: Enthusiastic individuals should be able to advance themselves and the LLB Group. We want to achieve a top-class performance together. The performance pledge was set out in an HR strategic vision (see illustration below). This is an important instrument to raise awareness of the supportive yet demanding work environment.

LLB as employer

As at the end of December 2018, the LLB Group had 1'086 full-time equivalents (2017: 867). The strong growth is due on the one hand to organic factors – LLB increased the size of its team of client advisers by 20 to 225 employees in line with its strategy – and on the other to the acquisition of both Semper Constantia Privatbank AG (182 full-time equivalents) and LB(Swiss) Investment AG (12 full-time equivalents). With 628 full-time equivalents (2017: 598) in Liechtenstein, LLB ranks among the largest employers in the Principality.

Value-oriented compensation

The LLB Group offers attractive employment conditions. It spent CHF 182.4 million (2017: CHF 155.4 million) on salaries and social contributions in 2018 (see Notes to the consolidated income statement, page 152).

We have a modern compensation system that is considered exemplary in the banking sector. The LLB Group takes aspects of value orientation into consideration in all areas of the company. For example, the compensation model for the majority of employees includes a

Strategic vision

component of pay that depends on the company's performance. In 2013, we decided to introduce the Market-Adjusted Performance Indicator (MAPI) so as to be able to make a careful and objective evaluation of the management's performance (see chapter "Compensation report", pages 101–108).

The MAPI enables us to carry out a neutral and holistic evaluation of the management's performance. This is done by comparing the long-term stock return of the LLB Group (total shareholder return, TSR) with the corresponding value of a comparable group. The difference between the TSR of the LLB Group and that of the comparable group gives an indication of the actual performance of the company's management. The model was developed in conjunction with FehrAdvice & Partners AG, Zurich, and is based on the results of behavioural economics research carried out by Professor Ernst Fehr from the University of Zurich.

The LLB Group's compensation model is considered exemplary in Switzerland. The Swiss Institute of Directors voted it the best salary model in 2016 of all companies listed on the Swiss stock exchange.

Equal pay for equal work

We set great store by fair compensation that explicitly recognises skills and performance. Women and men in the same position and at the same performance level are in the same pay scale and wage model. This is valid for all our business locations.

LLB as a regional employer

It is important to us that our managers understand the mindset and concerns of our clients. And for this reason, almost 100 per cent of the managers and the majority of employees in the main business locations have their roots in their respective region. As a result, they are highly dedicated to the company and have a high level of integrity. And they also take a long-term view, which is very much appreciated by the clients.

To meet the demand for skilled employees, we rely on commuters who travel every day from eastern Switzerland (2018: 243; 2017: 226) and the Austrian state of Vorarlberg (2018: 83; 2017: 73) to Liechtenstein. This makes LLB a major regional employer in the Rhine Valley. Bank Linth recruits almost all of its professionals from the Swiss regions of Lake Zurich, Sarganserland and Winterthur.

Internal communication channels

"Integrity – we create clarity and stand by our word" is a value our company embodies. It is also the basis for internal communication as a clear and consistent approach increases acceptance among employees. Through the StepUp2020 strategy and the associated corporate targets, the employees understand where we stand and where we are going.

The intranet is the most important channel for us for communicating internally. The Group CEO also uses this channel to publish a quarterly newsletter in which he informs staff about ongoing projects and new developments. At least once a year, the Group CEO invites all the employees to a Group Forum, which is broadcast by livestream to our representative offices and subsidiaries abroad. Other channels include the annual Group Night and biennial events held by our six divisions. And "InSight", the staff magazine, is published four times a year.

Attractive work environment

The LLB Group actively positions itself in what is a competitive market for the best talent. We continually implement new measures so as to be able to offer employees a modern and attractive work environment. We focus here in particular on digitalisation, health promotion in the workplace, improvement in job quality and flexibility of working hours and location.

Flexible work environment

We started to upgrade all the hardware in the offices at the end of 2017. At around 97 per cent, almost all of the 1'500 workstations had been equipped with new PCs and notebooks by the end of December 2018. Since the introduction of the internal Mobile Client (iMC) at the beginning of 2018, it is possible to work on company laptops at all our business premises via the WLAN network connection. So far only a small number of employees have external mobile access (eMC) that allows remote working from home. The opportunity to work remotely is to be extended to significantly more employees in the first half of 2019. By doing this, we are addressing one of the key issues for employees: in the latest employee survey, flexibility in the workplace was stated as a key issue.

Digitalisation of personnel management

At the end of 2018, the LLB Group introduced an electronic employee portal (eMap). It offers employees and managers a uniform platform for a variety of different HR applications, ranging from tools for learning management and onboarding new employees to exchanging views on HR issues in communities. At the same time, two management-intensive processes (performance management and people development) were also system supported and automated, improving and facilitating performance measurement and employee development. We have replaced the working hours and absence management system with a state-of-the-art solution. The learning management system was replaced with a new "learning" module, which allows the integration of virtual forms of learning and gives employees and their supervisors a complete overview of completed and planned training courses.

The new HR portal also enables employees to network better internally over a collaboration platform. It allows them to exchange views with others about new topics they are learning about, to search for information and to hold discussions. Creating your own profile is another state-of-the-art function of the new portal. Through it, employees can give their supervisors and selected HR managers access to details about, for example, emergency contacts, language skills, training, management experience as well as their own expectations with regard to their professional development within the LLB Group, and update this information on an ongoing basis.

Compatibility of work and life situation

A high degree of compatibility of work and private life in different life situations makes for an attractive employer. In recent years, therefore, we have pushed ahead with projects offering greater flexibility of working hours and location. Most employees work under the trust-based working time model. Under this model, they determine, in consultation with their manager, exactly how their working time is to be structured and different workloads managed. A reduction of working hours from full-time to 80 or 90 per cent is, in consultation with their manager, possible as well – also in management positions.

Under the "FreiZeit-Kauf" (purchase leisure time) project, launched in 2017, employees can increase their holiday entitlement by five or ten days and forego a corresponding amount of pay in return. This option is highly appreciated and finding ever greater resonance: 128 employees (2017: 86) purchased a total of 910 additional leave days (2017: 645). We also support paternity leave and permit our employees care leave in the case of a family emergency. In September 2017, the "Villa Wirbelwind" in Vaduz opened its doors for the first time. The crèche is open to the children of all Liechtenstein bank employees.

Health and safety

Our "Working Atmosphere and Health Steering Committee" was set up in 2016 with the purpose of increasing job satisfaction and boosting staff motivation. We also want to reduce the absenteeism rate, which indicates the incidence of accidents and long-term illnesses, through targeted measures. Here, we managed to keep within our target rate of between 2 and 2.5 per cent. In 2018, we registered 138 absences (2017: 146), corresponding to a rate of 2.2 per cent (2017: 2.3 %). 80 per cent of the costs incurred were due to illness.

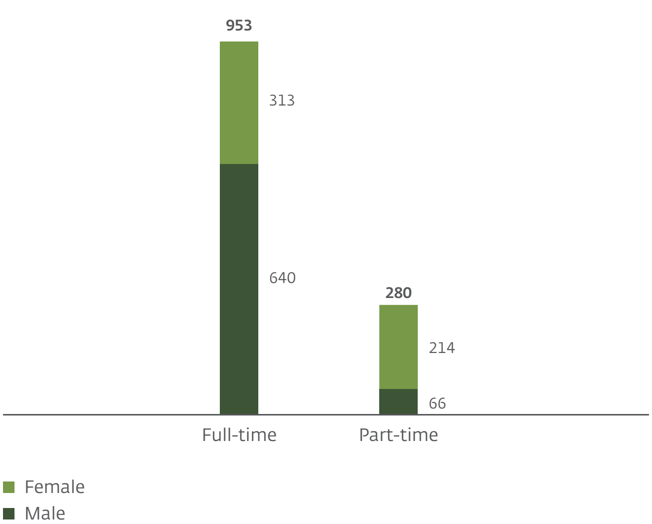
We have taken various measures aimed at helping employees to stay healthy. Among these initiatives are seasonal fruit, which have been provided free of charge since the beginning of 2017, as are the water stations with integrated filter system (see chapter "Responsibilities for society and the environment", page 61). The incentive to work out during the lunch break or to cycle to work has increased significantly since showers and changing facilities were installed at our business location in Vaduz. To prevent postural damage, a majority of our employees now have height-adjustable desks that convert to stand-up desks at the touch of a button. Long-service employees are rewarded with a sabbatical. 42 employees (2017: 43) with long-service anniversaries of ten to forty years went on a sabbatical for up to four weeks in 2018.

Standards for the prevention of accidents and illnesses as well as for safety management apply Group-wide. Procedures in the event of a fire or accident at the workplace as well as emergency and disaster management are governed by a directive. Eleven employees from the organisational units Security Management and Facility Management are responsible for carrying out routine building and equipment checks.

Support at difficult times

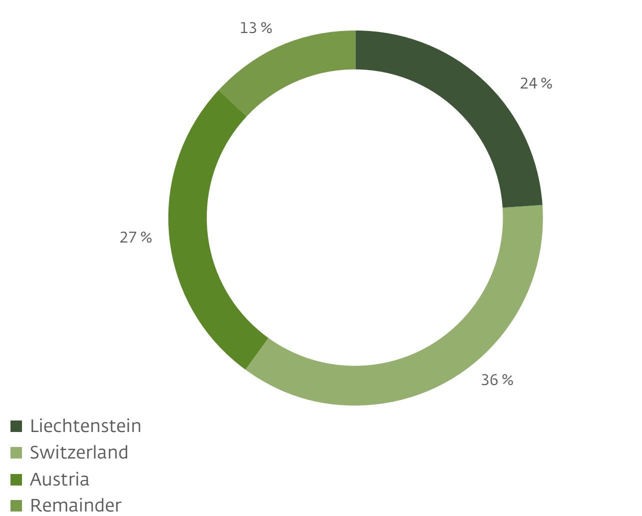
Surveys conducted by the European Agency for Safety and Health at Work (www.osha.europa.eu) show that in Europe around 50 per cent of sickness leave is due to stress in some form or other. What is more,

Permanent employees by employment type*



* Including permanent and temporary employees (apprentices and trainees)

Employees by nationality



mental stress can also often result in physical stress and vice versa. LLB Group employees in difficult work or life situations are able to gain free and anonymous access to psychological support.

Our aim is to reduce short- and long-term absences and to facilitate the return to work. We offer support to employees returning to work after a long absence and to those with serious health problems. Providing practical support enables employees to maintain or regain their productivity.

High employee satisfaction

Employee satisfaction is an indicator of whether it is possible to retain motivated, high-achieving employees in the company. To understand where we stand in this respect, we regularly conduct an in-depth employee survey. In the 2017 survey, the LLB Group achieved very good results in all relevant points. The commitment of the employees, in other words the sense of identity with and being part of the company, remained high with 85 points (2015: 85) out of a possible 100 points. On the basis of these sound survey results, LLB received a Swiss Employer Award in September 2017 for the second time, the first time being in 2016, in the category of 250 to 999 employees. This benchmarking initiative based on the largest employee survey in Switzerland is regarded as a pioneering instrument. Our next employee survey is planned for May 2020.

Diversity of employees and managers

Studies show: diverse teams open up interesting new prospects, offer innovative approaches to problem solving and increase productivity as well as the attractiveness for new employees. Although we do not have any specific programme to promote diversity, people of different nationalities working together has been commonplace at our Group for many years. In 2018, 24 per cent of our employees were Liechtenstein nationals, 36 per cent Swiss nationals and 27 per cent were Austrian nationals. The proportion of Austrian nationals employed increased sharply compared to previous years due to the acquisition of Semper Constantia AG. All in all, people from 38 nations work at the LLB Group.

We are committed to ensuring that our client base is reflected in our employee mix (see "Regional employer", page 65). This also applies to our traditional cross-border markets in Germany and the rest of Western Europe as well as to the growth markets of Central and Eastern Europe and the Middle East. The proportion of women working for the LLB Group is relatively high at 43 per cent, though they are still under-represented in leadership positions. In July 2016, the first woman was appointed to the Group Executive Board (see chapter "Corporate governance", pages 95).

Women in management positions:

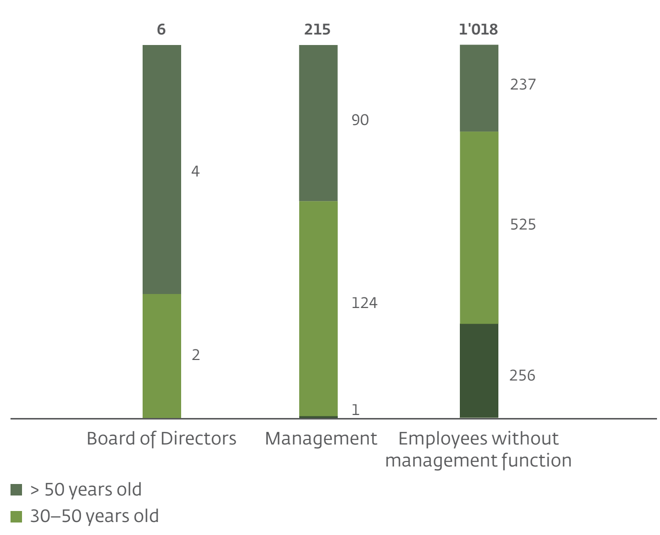
- Executive management: 5 men, 1 woman
- Senior management: 27 men, 1 woman

The Board of Directors of LLB, which is publicly listed, has been characterised by an above-average proportion of women since 2014. With two out of the six members women, they represent around 30 per cent of the board members. 78 employees were assigned to the "Potential Pools", from which, among other things, future managers are recruited internally; of these, 21 (around 27 %) were female.

Number of employees by gender*

* Board of Directors without Bank Linth and LLB Swiss Investment AG

Number of employees by age group*



* Board of Directors without Bank Linth and LLB Swiss Investment AG

Training and professional education

For the LLB Group, training and professional education is an important instrument for increasing its competitiveness. In 2018, 50 per cent (2017: 71 %) of management positions that became vacant were filled internally. In 2018, we invested CHF 1.5 million (2017: CHF 1.4 million) in the targeted development of managers, talent and competences. New entrant employees and managers also have a significantly higher level of qualifications: 66 per cent have graduated from a university or a university of applied sciences or have completed higher professional training.

Client adviser certification

We invested another CHF 410'000 (2017: CHF 244'000) in training programmes in accordance with the standards of the Swiss Association for Quality (SAQ). By the end of 2020, all employees who have contact with clients will have completed such training programmes. 123 employees, or 40 per cent, were certified by the end of 2018.

With our new programme for SAQ client adviser certification, we are ensuring the outstanding advisory competence of the LLB Group for the long term according to uniform quality criteria. The certification also complies with the regulatory requirements arising from the European Markets in Financial Instruments Directive (MiFID II) and the Swiss Financial Services Act (FinSA).

Measuring the success of staff development

The LLB Group has established two uniform appraisal processes – the "Performance Management Process" (PMP) and the "People Development Process" (PDP) – to support the systematic further development of its staff as skilled employees, managers and individuals.

- The PMP is used to link Group targets with individual staff objectives. The process has been institutionalised across the company and it works for employees and managers alike, irrespective of their position. The PMP is a systematic assessment of the performance and the conduct of an employee.
- The PDP is the development tool used by the LLB Group. More specifically, it is a process that allows an employee to discuss their own development with their manager. The first part of the PDP takes place at management level and comprises an annual assessment of the LLB Group's entire people portfolio. Based on this and future requirements, strategic personnel planning for the business areas and teams can then be carried out. The second part of the PDP describes the individual employee's path from formulating development intentions to devising a concrete action plan.
- Employees with potential are assigned to so-called "Potential Pools". There are five categories, representing different levels of management or specialist careers. The aim is to systematically develop identified talent who exhibit good performance and excellent conduct. Using careful evaluation processes, 78 individuals, or 8.91 per cent of employees (2017: 8.25 %, 71 individuals), were assigned to appropriate "Potential Pools" in 2018.

Professional training

When it comes to the training of the junior employees, Liechtensteinische Landesbank lives up to its responsibility as one of the largest providers of training in Liechtenstein. In 2018, 33 apprentices (2017: 36) at the LLB Group benefited from high-quality dual professional training, which combines theory and practice. The classic basic training remains the main pillar of the development programme for our junior employees. We believe that the provision of a broad education is a key task, especially as through the Federal Vocational Baccalaureate (FVB) it allows young adults to keep their options open to go to a university of applied sciences or a traditional university.

Bachelor, work and study, and master programmes

Since 2014, the LLB Group has intensified its focus on university graduates. There are three different programmes available for candidates: practical-based direct entry for graduates (2018: 4 participants); a work and study programme for postgraduates in the final phase of their studies (2018: 6 participants); and a trainee programme for postgraduates (2018: 4 participants). Talented young people get to know our company in-depth from the inside as part of an eighteen-month on-the-job trainee programme covering three areas of work.

The participants of these three programmes are in contact with top management, are involved in day-to-day business from their very first day of work and profit from the comprehensive spectrum of a universal bank. Those whose demonstrate performance and commitment are recommended for a permanent position. In order to enhance its profile as an attractive employer, the LLB Group strengthened its presence at the Universities of Liechtenstein and St. Gallen, FHS St. Gallen University of Applied Sciences and Zurich University of Applied Sciences (ZHAW) in Winterthur.

Representation of employees

One of our objectives is to be a responsible and fair employer. Since 1999, a Representation of Employees (Arbeitnehmervertretung) at LLB's parent bank has actively fostered dialogue with female and male colleagues, on the one hand, and with corporate management, on the other. The board of the Representation of Employees acts as the mediator between the staff and the Group Executive Board as well as between employees and supervisors and promotes cooperation. The Group Executive Board informs the Representation of Employees of all matters that are relevant to employees. The Group CEO, the Head of Group Human Resources and representatives from the Representation of Employees meet every quarter. The Representation of Employees has a say, for example, in issues relating to staff pension plans, rationalisation projects, staff retrenchment and employee surveys.

Personnel Pension Fund Foundation

In 2018, 663 employees of our corporate Group who work in Liechtenstein were covered by the retirement, life and disability insurance plans of the autonomous Personnel Pension Fund Foundation of Liechtensteinische Landesbank. The pension fund and its defined contribution scheme offer three attractive savings plans that go beyond the requirements of the law (Occupational Pension Act (OPA)). In addition, LLB's contributions as an employer amount to two-thirds of the financing of the fund.

As at the end of December 2018, the liquidity ratio of the LLB pension fund stood at 106.4 per cent (as at the end of December 2017: 112.1 %) and had thus decreased by 5.7 percentage points on the previous year. The return on investment was minus 4.16 per cent (2017: 5.78 %). The accumulated capital bore no interest in 2018. The fluctuation reserve amounts to CHF 18.3 million (2017: CHF 33.5 million). The pension fund capital totalled CHF 287.9 million (2017: CHF 277.4 million).

From 1 January 2018 onwards, the pension conversion rate at the retirement age of 64 is being gradually reduced by 0.1 per cent per year to 5.1 per cent. From 1 January 2023, the normal retirement age for drawing the Liechtenstein AHV (state pension) will be raised to 65 and the conversion rate to 5.22 per cent.

LLB Group headcount statistics

	2018	2017	2016	2015	2014
Employees					
Number of employees (full-time equivalents)	1'086	867	858	816	893
Full-time employees	953	769	767	674	789
Part-time employees	280	218	207	202	244
Apprentices	33	36	38	42	47
Young talents *	13	4	11	7	6
Employee retention					
Staff turnover rate in per cent	11	11	10	13	12
Average length of service in years	9	10	10	11	10
Average age in years	41	40	40	40	40
Diversity and equal opportunities					
Number of nations	38	36	39	31	34
Share of women in per cent	43	43	42	44	45
Training and professional education					
Training costs in CHF thousands	1'802	1'384	1'570	1'195	1'191
of which SAQ certification costs in CHF thousands	410	244	239	130	

* Includes all working students in master's studies, trainees with master's degree and direct entrants with bachelor's degree. All young talents have temporary employment contracts.

Organisational structure of the LLB Group

on 1 January 2019

Board of Directors*
Georg Wohlwend

Group Internal Audit
Patrick Helg

* **Board of Directors**
- Georg Wohlwend, Chairman
- Gabriela Nagel-Jungo, Vice Chairwoman
- Patrizia Holenstein
- Urs Leinhäuser
- Thomas Russenberger
- Richard Senti

** **Group Executive Board**
- Roland Matt, Group CEO
- Urs Müller, Vice Group CEO
- Gabriel Brenna
- Natalie Epp
- Patrick Fürer (with effect from 7 January 2019)
- Christoph Reich

Divisions / Business Areas

Divisions	Business Areas			
Group Executive Board** **Roland Matt**	Group Corporate Communications & General Secretary **Cyrill Sele**	Group Marketing **Michaela Alt**	Group Human Resources **Bernd Moosmann**	
Retail & Corporate Banking **Urs Müller**	Retail & Corporate Banking Switzerland **David B. Sarasin**	Retail & Corporate Banking Liechtenstein **Eduard Zorc**		
Private Banking **Gabriel Brenna**	CEO LLB Österreich **Bernhard Ramsauer**	Private Banking Liechtenstein **Martin Heutschi**	Private Banking Switzerland **Luc Schuurmans**	Private Banking Germany / Austria **Boris Wistawel**
Institutional Clients **Natalie Epp**	Financial Intermediaries **Norman Marxer**	Fund Services **Bruno Schranz**	Asset Management **Markus Wiedemann**	Institutional Clients Österreich **Harald Friedrich**
Group CFO **Christoph Reich**	Group Finance **Benno Schwitter**	Group Credit & Risk Management **Martin Kaindl**	Group Legal & Compliance **Roger Dornier**	CFO Bank Linth LLB **Urs Isenrich**
Group COO **Patrick Fürer (with effect from 7 January 2019)**	Group Corporate Development **Jan-Friedrich Brünings**	Group IT **Stephan Schmidle**	Group Operations & Services **Sascha Strazzer**	COO Bank Linth LLB **Roland Greber**

Group companies

on 1 January 2019

Private Banking Austria
Robert Löw

Private Banking Middle East
Ludovic Pernot

Private Banking Central Eastern Europe
Jean-Marie Deluermoz

Group Product Management
Ivan Ziegler

CFO LLB AT
Gerd Scheider

COO LLB AT
Selim Alantar

Liechtensteinische Landesbank (Österreich) AG (100 %)

Board of Directors

- Gabriel Brenna, Chairman
- Christoph Reich, Vice Chairman
- Natalie Epp
- Roland Matt
- Bernd Moosmann
- Ewald Nageler
- Aleksandar Lacarak
- Franz-Erwein Nostitz-Rieneck
- Alice Hritcu

Board of Management

- Bernhard Ramsauer, Chairman
- Robert Löw, Vice Chairman
- Harald Friedrich
- Gerd Scheider
- Selim Alantar

LLB Asset Management AG (100 %)

Board of Directors

- Natalie Epp, Chairwoman
- Gabriel Brenna, Vice Chairman
- Christoph Reich
- Urs Müller

Board of Management

- Markus Wiedemann, Managing Director
- Christian Zogg

Bank Linth LLB AG (74.8 %)

Board of Directors

- Ralph Peter Siegl, Chairman
- Urs Müller, Vice Chairman
- Gabriel Brenna
- Beatrix Frey-Eigenmann
- Karin Lenzlinger Diedenhofen
- Christoph Reich

Board of Management

- David B. Sarasin, Chairman
- Urs Isenrich, Vice Chairman
- Roland Greber
- Luc Schuurmans

LLB Fund Services AG (100 %)

Board of Directors

- Natalie Epp, Chairwoman
- Stefan Rein, Vice Chairman
- Peter Meier

Board of Management

- Bruno Schranz, Managing Director
- Roland Bargetze
- Thomas Mähr

LLB Swiss Investment AG (100 %)

Board of Directors

- Natalie Epp, Chairwoman
- Bruno Schranz, Vice Chairman
- Hans Stamm

Board of Management

- Dominik Rutishauser, CEO
- Ferdinand Buholzer

LLB Verwaltung (Schweiz) AG (100 %)

Board of Directors

- Christoph Reich, Chairman
- Roger Dornier, Vice Chairman

What makes a good partner?

Unique experiences connect.

Growing partnership in the Middle East

Daniela Leithe

Head of Legal & Compliance Middle East

Al Wasl is the Arabic word for “connection/link” – the LLB Group's solution in the Middle East. The LLB Group has been committed to Dubai and Abu Dhabi as business locations for over 10 years, here connectedness is reflected in the close partnership with clients. Proximity, stability and a long tradition of private banking allow trust to grow. The same language and unique experiences connect, innovative investment solutions make sense – this creates valuable partnerships.

Video statement at:
ar2018.llb.li/middle-east

Half a millennium ago, Arab builders were already creating patterns utilising the golden ratio that never ends. The flower of life decorates the floors, ceilings and windows of the Sheikh Zayed Grand Mosque, which opened in Abu Dhabi in 2007.

Corporate governance

Corporate governance is an essential part of the LLB Group's corporate policy. It ensures responsibilities, control and transparency. The fundamental basis for the Group's corporate governance are the SIX Swiss Exchange's Direct Corporate Governance (DCG), the Liechtenstein law concerning the control and supervision of public companies (ÖUSG), the Law on the Liechtensteinische Landesbank (LLBG) as well as their statutes and rules of procedure.

Basis

Our responsibly minded management, which is focused on long-term added value, is characterised by efficient cooperation between the Group Executive Board and the Board of Directors, by transparent accounting and reporting as well as by good shareholder relations.

The principles and directives defining corporate governance are laid down in two laws: "the law concerning the control and supervision of public companies" (ÖUSG) of 19 November 2009 and the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992. In addition, they are laid down in the statutes and rules of procedure of the LLB. These documents are based on the directives and recommendations of the "Swiss Code of Best Practice for Corporate Governance" issued by the Swiss Business Federation (economiesuisse).

On 22 November 2011, the Liechtenstein Government as the representative of the principal shareholder, the Principality of Liechtenstein, adopted – with reference to the ÖUSG Law – a so-called participation strategy for Liechtensteinische Landesbank AG. This strategy defines how the Principality intends to deal with its majority shareholding in the medium and long term and therefore also provides minority shareholders with certainty in planning.

The Government commits itself to the stock exchange listing of the LLB and a majority participation of at least 51 per cent. The Government represents the shareholder interest of the Principality at the General Meeting of Shareholders pursuant to the rights afforded to it by stock corporation law. It observes corporate autonomy as well as the rights and obligations resulting from the stock exchange listing. At the same time, as a shareholder it also respects the decision-making authority of the Board of Directors concerning corporate strategy and corporate policy. In accordance with Art. 16 of the ÖUSG Law, the participation strategy was adopted after consultation with the LLB's Board of Directors. Further information can be found at **www.llb.li/participation-strategy**.

The General Meeting of Shareholders on 8 May 2015 resolved to further, substantially strengthen shareholder rights by approving, in particular, the expansion of the rights of shareholders to include items on the agenda and make proposals, and they introduced the option of postal voting and electronic voting as well as electronic delegation of proxies. Following the revision of the Statutes, and on account of the StepUp2020 strategy, in November 2015 the Board of Directors undertook a revision of the rules of procedure, which came into force on 1 January 2016.

The General Meeting of Shareholders of 12 May 2017 approved the conversion of the previous bearer shares into registered shares. This step enabled LLB to conform to the international trend towards more transparency regarding the shareholder structure. The share exchange took place on 18 May 2017.

The Board of Directors of the LLB Group has held the "Best Board Practice" label of the Swiss Association for Quality and Management Systems (SQS) and the Liechtenstein Association for Quality Assurance Certificates (LQS) since December 2010. The business activities and organisation of the Board of Directors exhibit a high level of quality. In December 2016, within the scope of their reassessment, both SQS and LQS reconfirmed the evaluation of the good quality and transparency of the bank's corporate governance. The Board of Directors was once again awarded the "Best Board Practice" label for a further three years. The continuity reassessments in 2017 and 2018 reconfirmed yet again that activities and organisation of the LLB Board of Directors continue to exhibit a constantly high level of quality and consistently fulfil the Best Board Practice criteria.

The following corporate governance report complies with the requirements of the Corporate Governance Directive (RLCG) of the SIX Swiss Exchange Regulation, status 1 May 2018, as well as the fully revised guidelines of the Six Exchange Regulation regarding the RLCG of 10 April 2017. If information required by the RLCG is disclosed in the Notes to the financial statement, a corresponding reference is shown.

1 Group structure and shareholders

1.1 Group structure

1.1.1 Description of the operative structure

The Liechtensteinische Landesbank is a public company ("Aktiengesellschaft") according to Liechtenstein law. It is the parent company of the LLB Group, which is based on a parent company structure.

The LLB Group has an organisational structure based on market divisions which is geared towards client and market needs. Besides the three market divisions "Retail & Corporate Banking", "Private Banking" and "Institutional Clients", the management structure encompasses the functions of Group Chief Executive Officer (Group CEO), Group Chief Financial Officer (Group CFO) and Group Chief Operating Officer (Group COO).

The rules of procedure adopted by the Board of Directors, in particular, the functions diagram in the appendix ensure the proper conduct of business, the appropriate organisation, as well as the uniform management of the LLB Group. In accordance with the functions diagram, the Board of Directors, the Chairman of the Board of Directors, the committees of the Board of Directors, the Group CEO and the Group Executive Board are decision-making authorities.

The functions of the Board of Directors and the Group Executive Board of the LLB Group are combined with those of the Board of Directors and the Board of Management of the LLB parent company. Within the scope of the duties and powers defined by the rules of procedure and the functions diagram, the above-mentioned authorities can make decisions and issue rulings that are binding for both the parent company and the LLB Group companies – but taking into consideration the provisions of current local law applicable to the individual Group companies.

The members of the Group Executive Board are represented on the Boards of Directors of the consolidated companies. A member of the Group Executive Board serves as the Chairman of the Board of Directors of a subsidiary company with the exception of Bank Linth LLB AG.

The organisational structure of the LLB Group as at 1 January 2018 is shown on pages 70 to 71. The detailed segment reports are shown on pages 24 to 36, 40 to 42 and 148 to 149.

1.1.2 Listed companies included in the scope of consolidation

The Liechtensteinische Landesbank, with its headquarters in Vaduz, is listed on the SIX Swiss Exchange. As at 31 December 2018, its market capitalisation stood at CHF 1'977.4 million (30'800'000 registered shares at a nominal value of CHF 5.00 at a year-end price of CHF 64.20).

Bank Linth LLB AG, with its headquarters in Uznach, in which the Liechtensteinische Landesbank holds a majority equity stake of 74.8 per cent, is also listed on the SIX Swiss Exchange. As at 31 December 2018, its market capitalisation stood at CHF 364.0 million (805'403 registered shares with a nominal value of CHF 20.00 at a year-end price of CHF 452.00).

1.1.3 Unlisted companies included in the scope of consolidation

Details of the unlisted companies included in the scope of consolidation (company, registered office, activities, share capital and equity interest) can be found in the Notes to the consolidated financial statement of the LLB Group in the table "Scope of consolidation" on page 190.

1.2 Major shareholders

The Principality of Liechtenstein is the major shareholder of the Liechtensteinische Landesbank. The Law on the Liechtensteinische Landesbank states that – in terms of capital and voting rights – the Principality of Liechtenstein must hold at least 51 per cent of the shares. These may not be sold.

At the end of 2018, the Principality's equity stake in the shares of the Liechtensteinische Landesbank remained unchanged at 57.5 per cent. Detailed information about the development of this equity stake can be found at **www.llb.li/capital+structure.**

On 22 December 2017, Liechtensteinische Landesbank announced that it had signed a purchase agreement for the acquisition of 100 per cent of the shares of Semper Constantia Privatbank AG (Semper Constantia) with registered office in Vienna, and that it would pay the purchase price partly in cash and partly in shares of LLB AG. On 4 July 2018, LLB took over Semper Constantia completely. Conversely, the two former major shareholders of Semper Constantia, the Haselsteiner Familien-Privatstiftung, Ortenburger Strasse 27, 9800 Spittal / Drau, Austria, and grosso Holding Gesellschaft mbH, Walfischgasse 5, 1015 Vienna, Austria, participated with 1.85 million shares (6.0 %) in LLB. At 31 December 2018, they held together 1'805'000 shares or a 5.9 percentage of the capital and voting rights of LLB (https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html#notificationId=TBI6P00024). The Haselsteiner Familien-Privatstiftung and grosso Holding Gesellschaft mbH constitute a shareholder group, since the purchase agreement was concluded with the Haselsteiner Familien-Privatstiftung and grosso Holding Gesellschaft mbH as the acquisition group. The voting rights will be exercised in mutual agreement between the parties.

The remaining registered shares were in free float, whereby none of the other shareholders held more than 3 per cent of the share capital. There are no binding shareholder agreements .

On 24 August 2018, LLB launched a public share repurchase programme. This will last until 31 December 2020 at the latest. LLB will repurchase up to 400'000 of its own registered shares via the regular trading line of SIX Swiss Exchange. This corresponds to 1.3 per cent of the share capital. The repurchase of the shares is to be made within the framework of the authorisation issued by the General Meeting of Shareholders of 12 May 2017, authorising own shares of a maximum of 10 per cent of the share capital to be acquired. The repurchased shares are to be used for the purpose of future acquisitions or for Treasury management purposes. No shares are to be cancelled. At 31 December 2018, within the scope of the repurchase programme, LLB had bought back 116'500 own shares, representing a proportion of 0.4 per cent. At the end of 2018, the LLB Group held, including the shares acquired within the scope of the repurchase programme, 124'841 shares or 0.4 per cent. The decrease in comparison with the previous year (31.12.2017: 1'922'937 own shares) is attributable to the payment of a portion of the purchase price for the takeover of Semper Constantia Privatbank AG in the form of 1.85 million LLB shares.

Less than 0.1 per cent of the shares were held by members of the Board of Directors and the Group Executive Board. There are no binding shareholder agreements.

1.3 Cross participations

There are no cross participations between Liechtensteinische Landesbank AG and its subsidiaries or third parties.

Company	Reg. office	Listed on	Market capitalisation (in CHF thousands)	Stake (in %)	Segment	Security number	ISIN number
Liechtensteinische Landesbank AG	Vaduz	SIX Swiss Exchange	1'977'360		International Reporting Standard	35514757	LI0355147575
Bank Linth LLB AG	Uznach	SIX Swiss Exchange	364'042	74.8	Swiss Reporting Standard	130775	CH0001307757

2 Capital structure

2.1 Capital

The share capital of the Liechtensteinische Landesbank comprised 30'800'000 registered, fully paid shares with a nominal value of CHF 5.00 each and therefore amounted to CHF 154.0 million.

2.2 Conditional and approved capital

On the balance sheet date, the Liechtensteinische Landesbank had no conditional capital and no approved capital.

2.3 Changes to capital

Details regarding changes to capital during the last three report years are shown in the table “Consolidated statement of changes in equity” on page 125.

2.4 Shares and participation certificates

As at 31 December 2018, the share capital amounted to 30'800'000 fully paid registered shares with a nominal value of CHF 5.00. With the exception of the LLB shares held by the Liechtensteinische Landesbank and its subsidiaries (124'841 shares), all the shares are eligible for dividend. As at 31 December 2018, share capital eligible for dividend therefore amounted to CHF 154.4 million. In principle, all LLB shares are eligible for voting according to the principle of “one share, one vote”. However, on account of the regulations concerning the purchase of own shares (Art. 306a ff. PGR / Liechtenstein Person and Company Law), the shares held by Liechtensteinische Landesbank and its subsidiaries are not eligible for voting. There are no priority rights or similar entitlements. Shareholders have a subscription right with the issue of new shares, which entitles them to subscribe to new shares in proportion to the number of shares they already hold.

Liechtensteinische Landesbank AG has not issued participation certificates.

2.5 Profit-sharing certificates

Liechtensteinische Landesbank AG has no outstanding profit-sharing certificates.

2.6 Transfer limitations and nominee registrations

The registered shares of Liechtensteinische Landesbank are fully transferable, whereby the Principality of Liechtenstein holds at least 51 per cent of the capital and voting rights, and may not sell this equity stake.

The Liechtensteinische Landesbank maintains a share register containing the names of the owners of registered shares. Upon request, the purchasers of registered shares are entered in the share register as shareholders having a voting right provided that they expressly render a declaration that they have purchased these shares in their own name for their own account. If the purchaser is not prepared to render such a declaration, the Board of Directors can refuse to enter the shares with voting rights in the register. Pursuant to Art. 5a of the Statutes (**www.llb.li/statutes**), the Board of Directors has specified that nominee registrations without the above-mentioned declaration are generally to be made without a voting right. The legal refusal of registration in the share register on important grounds remains reserved.

2.7 Convertible bonds and options

As at 31 December 2018, the Liechtensteinische Landesbank had no bonds or convertible bonds or options on its own shares outstanding

3 Board of Directors

3.1 Members

a) Name, nationality, education and professional career

Name	Year of birth	Profession	Nationality
Georg Wohlwend *	1963	Business economist	FL
Gabriela Nagel-Jungo **	1969	Professor of financial management	CH
Patrizia Holenstein	1957	Lawyer	CH
Urs Leinhäuser	1959	Business economist	CH
Thomas Russenberger	1975	Head of Group Human Resources	FL
Richard Senti	1964	Business economist	FL

* Chairman
** Vice Chairwoman

Pursuant to the limitation of the term of office stipulated in the Landesbank Law, the nine-year term of office of Markus Büchel, Markus Foser and Roland Oehri ended at the General Meeting of Shareholders on 9 May 2018. The General Meeting of Shareholders elected Thomas Russenberger and Richard Senti as new members of the Board of Directors for a term of office of three years, At the constituent meeting after the General Meeting, the Board of Directors elected Gabriela Nagel-Jungo as Vice Chairwoman of the Board of Directors.

b) Executive / non-executive members

All members of the Board of Directors of Liechtensteinische Landesbank AG are non-executive member. Pursuant to Art. 22 of the Liechtenstein banking law in connection with Art. 10 of the Law on the Liechtensteinische Landesbank, various special bodies must be constituted for the direction, supervision and control of a bank, on the one hand, and for the Board of Management or Group Executive Board, on the other hand. No member of the Board of Directors is allowed to be a member of the Board of Management or Group Executive Board.

c) Independence

All members of the Board of Directors are independent within the context of the Swiss Exchange "Directive Corporate Governance" concerning corporate governance information. In 2018, as well as in the three previous years, no member of the Board of Directors was a member of the Group Executive Board or the Board of Management of the Liechtensteinische Landesbank or a Group company. No member of the Board of Directors had significant business relationships with the Liechtensteinische Landesbank or a Group company. In accordance with Art. 12 of the Liechtenstein law concerning the control and supervision of public companies, all contracts with the members of the Board of Directors must be in writing and they must be approved by the Board of Directors. The same conditions apply to contracts concluded with third parties.

3.2 Other activities and commitments

Georg Wohlwend is a member of the Board of Directors of Neutrik AG, Schaan, and of Seed X Liechtenstein AG, Schaan, as well as Chairman of the Board of Directors of Alegra Capital AG, Vaduz.

Patrizia Holenstein is a Member of the Board of Directors of Argos Holding AG, Sarnen, as well as of Oase Holding AG, Baar und Bellerive Estates AG, Zurich.

Urs Leinhäuser is a Member of the Board of Directors of Burckhardt Compression Holding AG, Winterthur, of Ammann Group Holding, Berne, of VAT Group, Haag, as well as Chairman of the Board of Directors of AVESCO AG, Langenthal, and Member of the Management Committee of the Institute for Financial Management and Financial Law of the University of St. Gallen.

Gabriela Nagel-Jungo is a Member of the Board of Directors of Ruetschi Technology AG, Muntelier, and of the Building Insurance Institute of Canton Zurich.

Thomas Russenberger is Chairman of the Foundation Board the "Presta Stiftung" pension fund, a Member of the Executive Board of Concordia Krankenversicherung, Representation Liechtenstein.

Otherwise the Members of the Board of Directors are not involved in the management or supervisory boards of important Liechtenstein, Swiss or foreign private or public law corporations, establishments or foundations, nor do they exercise any permanent management or consultancy functions for important Liechtenstein, Swiss or foreign interest groups, nor do they perform official functions or hold political office.

Georg Wohlwend

Education:
Licentiate in economics, University of Zurich, field of study information systems, 1991; International Professional Development Program at the University of Tulsa (USA) 1992; Swiss Banking School, 1999; EFQM Assessor, 2007; Management training at the University of St. Gallen, 2008; Taxation training at the University of Liechtenstein, 2012; Swiss Board School, St. Gallen, 2014

Professional career:
Working scholarship of Martin Hilti Foundation at Hilti, Tulsa (USA), 1992 – 1993; Employee in the Organisation Department of VP Bank AG, Vaduz, 1994 – 1996; Deputy Head Logistics at VP Bank AG, Vaduz, 1998 – 2000; Member of the Management Board and Head Logistics at VP Bank AG, Vaduz, 1998 – 2000; Member of the Management Board and Head Trust Banking at VP Bank AG, Vaduz, 2000 – 2006; Member Group Executive Management and Head Intermediaries at VP Bank AG, Vaduz, 2006 – 2010; Member Group Executive Management and Head Banking Liechtenstein and Regional Market at VP Bank AG, Vaduz, 2010 – 2012; Partner and Member of the Executive Board of Salmann Investment Management AG, Vaduz, 2013 – 2014

Gabriela Nagel-Jungo

Education:
Licentiate in economics, University of Zurich, 2001; Teaching diploma in business subjects, 2004; Dr. oec. publ., University of Zurich, 2007; Professor of Financial Management, awarded by ZFH, 2011

Professional career:
Semester assistant at the Chair for Business Administration, Swiss Federal Institute of Technology (ETH) Zurich, 1998 – 1999; Head of Financial Accounting and Payroll, netto-netto AG, Wetzikon, 2002 – 2005; Assistant at the Institute for Accounting and Controlling (Prof. Dr. C. Meyer), University of Zurich, 1999 – 2007; Lecturer and project leader, Zurich University of Applied Sciences, since 2007; Head of the Centre for Accounting & Controlling, Zurich University of Applied Sciences, since 2010 (2016 upgraded to "Institute for Financial Management"); Deputy Head of the Department of Banking, Finance, Insurance, Zurich University of Applied Sciences, since 2011

Richard Senti

Education:
Degree in economics, University of St. Gallen, 1989; Dr.oec. HSG, University of St. Gallen, 1994

Professional career:
Assistant at the University of St. Gallen, 1988–1990; Controller in the Drilling Systems Division, Hilti AG, Schaan 1991–1994; Head of Controlling of the Direct Fastening Business Unit, Hilti AG, Schaan 1994–1998; Head of Finances, Logistics and Human Resources of Hilti CR s.r.o., Prague 1998 to 2000; Head of Finance and Accounting (CFO) of the Infratec Division, Von Roll Infratec Holding AG, Zurich 2000–2003; CFO of the Hoval Group, Vaduz since 2003

Patrizia Holenstein

Education:
Licentiate in law, University of Zurich, 1980; Dr. iur. University of Zurich, 1981; Admitted to the Zurich bar, 1985; LLM, London School of Economics, 1989

Professional career:
Lecturer at the University of Zurich, 1981–1984; Clerk, District Court of Zurich and Supreme Court of the Canton of Zurich, 1981–1985; Lawyer, Haymann & Beglinger, Zurich, 1985–1988; Lawyer, Clifford Chance London (Banking Department), London 1989–1990; Holenstein Rechtsanwälte AG, Zurich, Founder and Managing Partner, since 1990

Urs Leinhäuser

Education:
Business economist (Dipl. Betriebsökonom HWV), 1983 IMD Lausanne, SSE 1998

Professional career:
Tax inspector, Tax Office of Canton Schaffhausen, 1983 – 1986; Deputy Head of Tax Department, Refidar Moore Stephens AG, Zurich, 1986 – 1988; Group Controller and Managing Director Cerberus Denmark (1992) at Cerberus AG, Männedorf, 1988 – 1994; Head of Group Controlling and CFO of Piping Systems Division, Georg Fischer AG, Schaffhausen, 1995 – 1999; CFO and Member of the Group Executive Board, Mövenpick Holding AG, Adliswil, 1999 – 2003; CFO and Head of Corporate Center and Member of Corporate Management, Rieter Holding AG, Winterthur, 2003 – 2011; CFO and Deputy CEO and Member of Corporate Management, Autoneum Holding AG, Winterthur, 2011 – 2014; Businessman, since 2014; Managing Partner of ADULCO GmbH, Winterthur, since 2016

Thomas Russenberger

Education:
Bachelor of Science, Business Information Systems, University of Liechtenstein, 2004; Master of Business Administration (MBA) in Entrepreneurship, University of Liechtenstein, 2007

Professional career:
thyssenkrupp Presta AG, Eschen, Project Head Organisational Development, 2000 – 2005; thyssenkrupp Presta AG, Eschen, Head HR Services for the Technical and Commercial Divisions, 2005 – 2010; thyssenkrupp Presta AG, Eschen, Head HR Services, 2010 – 2013; thyssenkrupp Presta AG, Eschen, Global Head of Human Resources tk Steering Group, since 2013

3.3 The number of permitted activities

Liechtensteinische Landesbank AG is not subject to the Swiss ordinance against excessive compensation in listed public companies (OaEC). Liechtensteinische Landesbank AG has not issued any regulations on the number of permitted activities.

3.4 Election and term of office

3.4.1 Principles governing the election procedure

In accordance with the Law on the Liechtensteinische Landesbank of 21 October 1992, the Board of Directors of the Liechtensteinische Landesbank is composed of five to seven members, who are elected individually by the General Meeting of Shareholders for a term of office of three years; whereby a year corresponds to the period from one ordinary General Meeting of Shareholders to the next. Members can be re-elected for a further two terms. After three terms of office, the Chairman of the Board of Directors can – in justified cases – be re-elected for an extraordinary term of office of at most two years.

The 12th ordinary General Meeting of Shareholders on 7 May 2004 passed an amendment to the statutes that allowed for the staggered renewal of the Board of Directors in order to preclude a complete renewal of the Board. Furthermore, the "Group regulation concerning the Group Nomination & Compensation Committee" (see point 3.5.2 "Composition of all Board of Directors' committees, their duties and individual competences") stipulates that the Board of Directors aims at continuity through the orderly renewal of the Board, succession planning, as well as through the appropriate staggering of the terms of office (no complete renewal) pursuant to current corporate governance provisions.

The Chairman of the Board of Directors is elected by the General Meeting of Shareholders. The Vice Chairman is elected from among the members of the Board of Directors by its members. New members or the Chairman of the Board of Directors elected as substitutes shall be elected for a full term of office of three years. The General Meeting of Shareholders can dismiss members of the Board of Directors on important grounds. When nominating a new member, the Board of Directors shall ensure that this candidate will not exceed the age limit of 70 years during his period of office. Furthermore, the Board of Directors shall not propose an existing member for re-election if the person would exceed the age limit of 70 years during the new term of office.

Georg Wohlwend has been Chairman of the Board of Directors since 2017. Gabriela Nagel-Jungo Vice Chairwoman since 2018. Cyrill Sele has been Secretary (recorder of the minutes) since April 2013.

3.4.2 First-time election and remaining term of officer

Name	First-time appointment	Elected until
Georg Wohlwend	2017	2020
Gabriela Nagel-Jungo	2014	2020
Patrizia Holenstein	2013	2019
Urs Leinhäuser	2014	2020
Thomas Russenberger	2018	2021
Richard Senti	2018	2021

3.5 Internal organisation

3.5.1 Separation of tasks of the Board of Directors

Name	Function	Committee memberships
Georg Wohlwend	Chairman	Group Nomination & Compensation Committee * Strategy Committee *
Gabriela Nagel-Jungo	Vice Chairwoman	Group Audit Comittee * Strategy Committee
Patrizia Holenstein	Member	Group Audit Committee Group Risk Committee
Urs Leinhäuser	Member	Group Audit Committee Group Risk Committee Group Strategy Committee
Thomas Russenberger	Member	Group Nomination & Compensation Committee
Richard Senti	Member	Group Risk Committee * Group Nomination & Compensation Committee

* Chairman

3.5.2 Composition of all Board of Directors' committees, their tasks and terms of reference

In accordance with the statutes, the Board of Directors may according to its discretion appoint committees. To support it in performing its tasks, the Board has so far implemented three standing committees: the Group Nomination & Compensation Committee, the Group Audit Committee and the Group Risk Committee. In addition, there is a Strategy Committee formed on an ad hoc basis. The Board of Directors elects the committee members from among its members and appoints the chairmen. The Chairman of the Board of Directors cannot be elected to the Group Audit Committee or the Group Risk Committee. Each committee is composed of at least three members. As preparatory bodies, these committees deal in detail with the tasks assigned to them, submit the results of their work to the Board of Directors and make proposals if decisions are required.

The committee members must possess the expertise for the tasks and duties they have taken on. All committee members must be independent.

Terms of office on committees correspond to the length of terms of office on the Board of Directors. Committee membership also ends when members step down from the Board of Directors.

The Board of Directors issued separate regulations for the three standing committees, which stipulate their duties and individual competencies.

The committees can invite outside persons as experts and entrust LLB staff, in particular, with administrative duties.

Group Audit Committee

The Group Audit Committee supports the Board of Directors in fulfilling the duties and responsibilities vested in it by banking law with respect to its duty of overall direction of the company, as well as the supervision and control of the following activities:

- Assessment of the methodology and quality, as well as the independence of the internal and external auditors;
- Review of the quality and integrity of the financial reporting including the structure of the financial accounting function, the financial controlling and financial planning
- Assessment of the collaboration between the internal and external auditors and their independence.

The Group Audit Committee regulation lays down the organization and workings as well as the competencies and responsibilities of the Committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Audit Committee:

Name	Function
Gabriela Nagel-Jungo	Chairwoman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

The Group Audit Committee has the following tasks:

- analysing the LLB Group's Consolidated Interim Report and the Annual Report as well as the financial statement of the parent bank. This encompasses the discussion of the following subject areas with the Group CFO, the Head Group Finance, the auditor in charge of the external auditors and the Head of Group Internal Audit:
  - examining whether the financial reporting has been prepared in compliance with applicable accounting standards as well as the legal and regulatory provisions;
  - evaluating the quality of applicable accounting principles and processes;
  - examining and assessing how the Group Executive Board as well as the internal auditors and Group Internal Audit estimate the risk of significant misrepresentation, which are the largest risk areas and how these are monitored and what measures are taken to counter them;
- reporting to the Directors about the work undertaken in connection with the above-mentioned points;
- petitioning the Board of Directors about whether the LLB Group's Consolidated Annual Report and the financial statement of the parent bank can be presented to the General Meeting of Shareholders and published. And as regards the Consolidated Interim Financial Report only as to whether it can be published;
- monitoring and assessing the suitability and effectiveness of the internal control system in the area of financial reporting;
- assessing the documentation regarding forthcoming amendments of the accounting principles;
- evaluating the budgeting process as well as the budget proposal for the following year;
- taking note and discussion of the risk analysis made by the external auditors, the auditing strategy derived from it and the respective risk-oriented auditing plan (including the budget for the forthcoming audit year);
- analysing the audit reports submitted by the external audit and Group Internal Audit to the Board of Directors;
- discussion of the major problems identified during the auditing process with the external auditors;
- monitoring the implementation of recommendations put forward by the external auditors and Group Internal Audit and eliminate weak points and deficiencies identified by them;

- assessing the of the methodology, the qualifications, the quality, the independence, the objectivity and the performance of the external auditors (auditors according to banking law and person and company law) and of Group Internal Audit, as well as their cooperation;
- discussion of the annual activity report and the annual audit plan including risk analysis of Group Internal Audit as well as the approval of proposals to the Group Board of Directors;
- examining the compatibility of the external auditors' auditing activities with possible consulting mandates as well as assessing and discussing their professional fees;
- submitting a proposal to the Board of Directors for the attention of the General Meeting regarding the appointment or dismissal of the external auditors (appointed according to banking law and person and company law);
- establishment of the procedure to be followed in selecting new external auditors.

Group Risk Committee

The Group Risk Committee supports the Board of Directors in fulfilling the duties and responsibilities vested in it by banking law in regard to

- the assessment and provision of advice on the current and future overall risk tolerance and strategy of the LLB Group, in particular in relation to the following activities:
- the assessment of the implementation of the risk strategy by the Group Executive Board;
- the examination of whether pricing of the investments and liabilities takes into reasonable consideration the business model and the risk strategy of the LLB Group and, if this is not the case, the submission of a plan of appropriate measures;
- the examination of whether the incentives offered in the compensation system take into consideration risk, capital, liquidity and the probability and timing of earnings.

The Group regulation concerning the Group Risk Committee lays down the organization and working methods as well as the competencies and responsibilities of the Committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Risk Committee:

Name	Function
Richard Senti	Chairman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

The Group Risk Committee has the following risk-related tasks:

- monitoring the integrity and suitability of the risk management in the LLB Group, which is based on risk policy, in particular, in regard to market, credit, liquidity as well as operational risks;
- assessing the integrity and suitability of the internal control system in regard to the identification, measurement, limitation and monitoring of risks. In the areas of compliance and risk control this includes, in particular, the assessment of the precautions that are to ensure the observance of the legal (e.g. capital adequacy, liquidity and risk distribution regulations) and bank-internal (e.g. risk policy framework) provisions;
- supporting the Board of Directors to formulate and implement the risk-relevant Group rulings and directives issued by it as well as the relevant guidelines and processes that are set down in these rulings and directives;
- assessing, at least on an annual basis, the Groupwide policy on risks (e.g. risk policy framework) as well as other topics defined by Group Credit & Risk Management (e.g. ICAAP report). In doing so, the concerned authorities are to be consulted and the suggestions and proposals of the Group Executive Board are to be considered. A proposal is then to be made to the Group Board of Directors as the approving authority. All risk-relevant Group rulings and directives that have to be approved by the Group Board of Directors are to be treated accordingly;
- examining the risk propensity within the scope of the risk-bearing capacity statement. This is performed both from the perspective of the going concern and also of the gone concern. Based on the risk appetite, the Group Risk Committee can propose adjustments to the limits system to the Board of Directors;
- assessing the overall risk situation and supervising adherence to the limits set by the Board of Directors;
- discussing and assessing the Risk Report of the LLB Group and submission of a proposal to the Group Board of Directors as the approving authority;
- examining whether the pricing of the investments and liabilities takes into reasonable consideration the business model and the risk strategy of the LLB Group and, if this is not the case, the submission of a plan of appropriate measures;
- examining whether the incentives offered in the compensation system take into consideration risk, capital, liquidity and the probability and timing of earnings.

Group Nomination & Compensation Committee

The Group Nomination & Compensation Committee supports the Board of Directors in fulfilling the following duties and responsibilities vested in it by banking law, in particular in relation to:

- formulating the guidelines for succession planning;
- the selection and nomination of members of the Board of Directors and members of the Group Executive Board;
- the annual evaluation of the structure, size, composition and performance of the Board of Directors and the Group Executive Board, as well as the recommending of changes if necessary;
- the annual evaluation of the knowledge, abilities and experience of the individual members of the Board of Directors and the Group Executive Board, as well as its bodies. The submission of the evaluation to the Board of Directors and the Group Executive Board;
- ensuring that the decision-making process of the Group Executive Board and the Group Board of Directors cannot be influenced by an individual person or a group of persons in a manner detrimental of the LLB Group's interests;
- reviewing of the procedure adopted by the Board of Directors in selecting and appointing the Group Executive Board, as well as submission of recommendations to the Board of Directors;
- formulating compensation regulations for the parent bank and the LLB Group;
- establishing the compensation of the members of the Board of Directors and the Group Executive Board, as well as of other employees, in so far as their compensation is to be determined by the Board of Directors in accordance with the compensation regulations;
- establishing the guidelines for the human resources policy.

The Group regulations concerning the Group Nomination & Compensation Committee regulate the organisation, working methods, as well as the competences and responsibilities of the committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Nomination & Compensation Committee:

Name	Function
Georg Wohlwend	Chairman
Thomas Russenberger	Member
Richard Senti	Member

On behalf of the Board of Directors and the Group Executive Board, the Group Nomination & Compensation Committee strives to achieve the following goals while complying with the applicable principles of corporate governance:

- balanced composition of the bodies taking into consideration the professional knowledge required for the bank and personal suitability of members;
- continuity thanks to planned renewal and succession as well as a reasonable staggering of terms of office (no complete renewal);
- seamless transfer of office and functions thanks to a systematic introduction into the specific tasks at the bank.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the election and re-election of the member of the Board of Directors. It is responsible, in particular, for the following tasks:

- the development of criteria for the selection, election and re-election of candidates;
- the selection and evaluation of candidates as well as the submission of election proposals to the Board of Directors for submission to the General Meeting of Shareholders in accordance with the developed criteria;
- the development of succession plans and the periodic review of them, both in the case of the end of a term of office and in the case of an early stepping down of members;
- ensuring the further training of the entire Board of Directors;
- planning the introductory phase for new members;
- reviewing work practice in regard to age-related limits and term limits.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the election and re-election of the members of the Group Executive Board. It is responsible, in particular, for the following tasks:

- the development of criteria for the selection and appointment of candidates for the attention of the Board of Directors;
- the selection and evaluation of candidates as well as the submission of proposals to the Board of Directors at the request of the Group CEO in accordance with the developed criteria;
- the development and application of criteria for the performance appraisal of the Group Executive Board in corpore as well as of individual members at the request of the Group CEO;
- the development of succession plans and the periodic review of them, both in the case of the age-related or contingency stepping down of members, in collaboration with the Group CEO;
- ensuring the further training of the members of the Group Executive Board.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the appointment and appraisal of the Head of Group Internal Audit. It has the following tasks in particular:

- the development of criteria for the selection and appointment of candidates for the attention of the Board of Directors;
- the selection and evaluation of candidates as well as the submission of proposals to the Board of Directors in accordance with the developed criteria;
- the development and application of criteria for the performance appraisal of the Head of Group Internal Audit.

The nomination of delegates in the Board of Directors' committees of the LLB Group and associated companies should ensure the implementation of the Group strategy and a uniform external perception of the LLB Group.

The Group Nomination & Compensation Committee is responsible for fulfilling the tasks defined in the Group regulation "Fit & Proper – assessment of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and of holders of key functions".

The Group Nomination & Compensation Committee has the following tasks, in particular, in relation to compensation:

- the formulation of recommendations, both for the definition of basic principles and for the stipulating of regulations, regarding the compensation policy of the members of the Board of Directors, of the Group Executive Board and of other employees of the bank for submission to the Board of Directors;
- the formulation of proposals for the compensation of the members of the Board of Directors, of the Group Executive Board and of the Head of Group Internal Audit for submission to the Board of Directors in accordance with the existing principles and regulations;
- the annual review of the Group regulation "Compensation standards", the LLB AG regulation of the same name, as well as the Group regulation "Fit & Proper – assessment of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and of holders of key functions" for submission to the Board of Directors;
- the annual review of the compensation of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and senior executives in risk management and compliance in accordance with the Group regulation "Compensation standards" and the parent bank regulation of the same name for submission to the Board of Directors in accordance with the existing principles and regulations.

The Group Nomination & Compensation Committee has the following responsibilities in relation to strategic human resources management:

- the stipulation and periodic review of the principles of human resources strategy;
- the review of the processes for the systematic development of employees and executives.

Strategy Committee

It is one of the tasks of the Board of Directors to formulate and periodically evaluate the LLB Group's strategy. In this task it is supported by the Strategy Committee. The members of the committee are:

Name	Function
Georg Wohlwend	Chairman
Gabriela Nagel-Jungo	Member
Urs Leinhäuser	Member

Representation in foundations

Georg Wohlwend is a Member of the Board of the "Future Foundation of Liechtensteinische Landesbank AG".

Thomas Russenberger and Richard Senti have seats on the Board of Trustees of the Personnel Pension Fund Foundation of Liechtensteinische Landesbank AG as employer representatives. Thomas Russenberger has been Chairman of the Board of Trustees since December 2018.

3.5.3 Working methods of the Board of Directors and its committees

Board of Directors

A meeting of the Board of Directors is convened by invitation of its Chairman as often as business requires, but at least four times a year. If a member of the Board of Directors, the Group CEO or at least two members of the Group Executive Board submit a written request to the Chairman, he will promptly convene a meeting of the Board of Directors. Together with the written invitation, the members of the Board of Directors also receive the agenda for the meeting, the minutes of the last meeting and other important documentation required for the meeting at least five business days prior to the date set for the meeting. Meetings of the Board of Directors can also be called with a shorter period of notice if there is a pressing matter. It is within the discretion of the Chairman to determine the urgency of that matter. Board meetings are chaired by the Chairman. A quorum of the Board of Directors is constituted when a majority of the members is present. In urgent cases, resolutions may be passed by circular. Unanimity is required for resolutions to be dealt with by circular. Resolutions shall be passed by a simple majority of votes. In the case of a tie, the Chairman shall have the casting vote.

Date	Meeting	Attendance	Duration in h
8 February 2018	extraordinary	all, excepting Roland Oehri	0.50
14 February 2018	extraordinary	all	2.00
22 February 2018	extraordinary	all	0.25
23 February 2018	ordinary	all	5.25
7 March 2018	extraordinary	all	0.25
27 March 2018	ordinary	all	5.45
26 April 2018	ordinary	all	5.00
5 May 2018	extraordinary	all	0.50
25 May 2018	ordinary	all	4.50
25 / 26 June 2018	closed meeting	all	14.50
11 July 2018	extraordinary	all	0.25
20 August 2018	ordinary	all	9.25
18 September 2018	ordinary	all	3.00
23 October 2018	ordinary	all	3.75
30 October 2018	extraordinary	all	0.25
20 November 2018	ordinary	all, Gabriela Nagel-Jungo partly absent	4.25
18 December 2018	ordinary	all	6.50

The members of the Board of Directors are to regulate their personal and business matters in such a manner that, as far as possible, actual or potential conflicts of interest are avoided. The members of the Board of Directors are obliged to inform the Chairman in cases of real or potential conflicts of interest. This is regardless of whether the real or potential conflicts of interest are of a general nature or related to a matter to be discussed at a meeting. The Board of Directors shall decide whether there are grounds for a recusal of the member. In such a case, that member may neither participate in the discussion of the matter in question nor vote on it. He has the right to express his opinion before leaving the Committee.

During the 2018 business year, the Board of Directors of Liechtensteinische Landesbank AG held a total of ten ordinary and seven extraordinary meetings. The meetings lasted between 0.25 and 9.25 hours; the closed meeting lasted one and a half days. The closed meeting was conducted by the Board of Directors in collaboration with the Group Executive Board following the ordinary meeting in June 2018. The closed meeting focused on the annual strategy review of StepUp2020. The subjects of the extraordinary board meetings were the elections to the Board of Directors 2018, the takeover of LB(Swiss) Investment AG and the change in the Group Executive Board.

Group Audit Committee

The members of the Group Audit Committee meet at least four times a year. These ordinary meetings are convened by the Chairman. An agenda is compiled prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior to the date of the meeting. The members of the Group Audit Committee, the Group CEO, the Group CFO, the external auditors, the Head of Group Internal Audit can request the Chairman of the Group Audit Committee to convene extraordinary meetings. To deal with specific issues, the Group Audit Risk Committee can also invite other persons, such as members of the Group Executive Board, the Chairman of the Group Risk Committee, other staff of the LLB Group companies, representatives of the external auditors or external consultants. The Group CEO, the Group CFO and the Head of Group Internal Audit usually participate in the meetings in an advisory capacity. The other members of the Board of Directors, who are not members of the Group Audit Committee, are entitled to participate in the meetings.

During the 2018 business year, the members of the Group Audit Committee met for six meetings. No external experts were called in during the business year.

Date	Attendance	Duration in h
15 January 2018	all	0.50
22 February 2018	all	4.50
19 June 2018	all, excepting Urs Leinhäuser	4.75
5 July 2018	all	0.50
20 August 2018	all	4.75
17 December 2018	all	2.00

Group Risk Committee

The members of the Group Risk Committee meet at least four times a year. These ordinary meetings are convened by the Chairman. An agenda is compiled prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior to the date of the meeting. The members of the Group Risk Committee, the Group CEO, the Group CFO, the external auditors, the Head of Group Internal Audit and the Chairman of the Group Audit Committee can request the

Head of Group Credit & Risk to convene extraordinary meetings. To deal with specific issues, the Group Risk Committee can also invite other persons, such as members of the Group Executive Board, the Chairman of the Group Risk Committee, other staff of the LLB Group companies, representatives of the external auditors or external consultants. The Group CEO, the Group CFO, the Head of Group Internal Audit and the Head of Group Credit & Risk Management usually participate in the meetings in an advisory capacity. The other members of the Board of Directors, who are not members of the Group Risk Committee, are entitled to participate in the meetings.

During the 2018 business year, the Group Risk Committee held five ordinary meetings. No external experts were called in during the business year.

Date	Attendance	Duration in h
22 February 2018	all	2.75
19 June 2018	all	2.00
20 August 2018	all	2.00
20 November 2018	all	3.50
17 December 2018	all	2.00

Group Nomination & Compensation Committee

The Group Nomination & Compensation Committee convenes as often as business requires, but at least twice a year. The meetings are convened by the Chairman. He compiles an agenda prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior t the meeting. In 2018, seven meetings were held.

To deal with specific issues, the Group Nomination & Compensation Committee can also invite other persons, such as the Head of Group Human Resources, representatives of the external auditors or external consultants. The Group CEO usually participates in the meetings in an advisory capacity; except when topics are discussed that particularly concern the Board of Directors itself, the business area of Group Internal Audit or the performance assessment of the Group CEO and the establishment of his compensation. In the 2018 business year, the Group CEO and the Head Group Human Resources partially attended all the meetings.

Date	Attendance	Duration in h
30 January 2018	all	2.00
1 February 2018	all	1.00
7 February 2018	all	0.50
5 June 2018	all	1.00
28 August 2018	all	1.50
22 October 2018	all	1.00
27 November 2018	all	2.00

The Strategy Committee

The Strategy Committee held one meeting in 2018 at which preparations were made for the closed meeting on 25 and 26 July 2018. At this meeting, the full Board of Directors together with Group Executive Management discussed of the status of the implementation of the StepUp2020 strategy (see chapter "Strategy and organisation, page 11 and 12), the results of the strategy review 2018, and selected core subjects.

Date	Attendance	Duration in h
25 May 2018	all	2.00

Resolutions at the committee meetings

The committees carry out solely preparatory or advisory tasks on behalf of the Board of Directors. Resolutions at the meetings are passed with an absolute majority of the members present. The attendance of more than half of the members is required for a quorum. Only the members of the committees are eligible to vote. In the case of a tie, the Chairman has the casting vote. The subjects dealt with and resolutions passed are recorded in the corresponding minutes. The minutes are circulated to the meeting's participants and the members of the Board of Directors. The Chairmen of the committees inform the full Board of Directors about the agenda dealt with at the last committee meeting and submit proposals for those points requiring resolutions. Furthermore, they submit an annual activity report to the full Board of Directors, which contains a summary of their activities and of pending matters.

Self-evaluation

In general, the Board of Directors evaluates its own performance annually and also that of the committees. This evaluation serves to determine whether the Board of Directors and the committees are functioning appropriately. The results of the self-evaluation are recorded in writing. In 2017, no self-evaluation was carried out because, in December 2017, as part of the re-assessment process for the "best board practice" label, the Board of Directors accompanied by an assessor evaluated its own performance, and discussed the core issue of the current and future composition of the Board as well as that of the committees. The committees also carried out no self-evaluation reviews in 2017. At the December meeting in 2018, the Board of Directors resolved to carry out a self-evaluation and to discuss its results at the first meeting in 2019.

3.6 Definition of areas of responsibility

The Board of Directors is responsible for the direction, supervision and control of the LLB Group. It is ultimately responsible for the success of the LLB Group as well as for attaining sustained value for both shareholders and employees. It makes decisions in consultation with the Group CEO concerning the LLB Group's corporate strategy and assumes final responsibility for monitoring the conduct of business. Furthermore, the Board of Directors monitors compliance with applicable legal provisions and regulations. At the request of the Group CEO, the Board of Directors determines the financial and human resources required to implement the corporate strategy.

Within the scope of the duties and responsibilities defined in the Statutes, the Board of Directors has the following tasks:

- the definition of management policies;
- the definition of the LLB Group's management strategy, including its periodic monitoring;
- the passing of resolutions regarding all proposals to the General Meeting of Shareholders;
- the issuing of a regulation concerning Group Internal Audit, the discussion of the reports submitted by Group Internal Audit and the external auditors and the approval of the reports concerning measures implemented on the basis of audit reports and their monitoring;
- decisions regarding the LLB Group's expansion into important new business operations as well as its withdrawal from existing important business operations;
- decisions regarding the acquisition or sale of participations in other companies as well as the establishment or liquidation of LLB Group companies and the nomination of their Boards of Directors;
- decisions regarding the setting-up and closure of bank offices, branches and representative offices;
- decisions regarding the initiation of legal actions involving claims of over CHF 10 million as well as judicial and extrajudicial settlements involving amounts of over CHF 10 million;
- the approval of all business matters and decisions that exceed the authority of the powers delegated by the Board of Directors;
- decisions regarding the exercise of external mandates and activities by members of the Group Executive Board and Group Internal Audit staff.

Concerning the organization of business activities and the required concomitant issuing of rulings and directives, the Board of Directors is, in particular, responsible for:

- the regular monitoring of corporate governance principles and management structures laid down in the rules of procedure;
- the issuing of rulings and directives for the parent bank as well those that are binding Group-wide, subject to respective applicable local law;
- the regularization and monitoring of internal control systems and the issuing of regulations regarding this function;
- the appointment and dismissal of the Group CEO, the Vice Group CEO, all the other members of the Group Executive Board and the Head of Group Internal Audit as well as the provisions for deputies and the review of their performance, including succession planning;
- the supervision of the Group CEO, the Vice Group CEO and the other members of the Group Executive Board regarding compliance with legal provisions, statutes and rulings and directives as well as the LLB Group's economic development;
- the appointment of the committee members from among its members;
- the regularization of the compensation principles within the LLB Group.

Concerning the ultimate liability for the organization of accounting, financial control and financial planning, the Board of Directors is, in particular, responsible for:

- the approval of the applicable accounting standards;
- the approval of medium-term planning and budgeting;
- the preparation of the Annual Report and the Consolidated Annual Report;
- the approval of the Consolidated Interim Report;
- the ensuring of regular reporting on the course of business and extraordinary occurrences; this includes annotated reporting, on a quarterly basis, as regards the development of business, the earnings situation, balance sheet development, liquidity and equity requirements;
- the stipulation of the competence to authorize expenditure.

Concerning the ultimate responsibility as regards risk management, the Board of Directors is, in particular, responsible for:

- the definition in Group regulations of the strategies and principles of the LLB Group's risk policy and their monitoring;
- the issuing of regulations concerning the fundamentals of risk management, determination of risk appetite, risk control as well as accountability and the processes for the approval of risk-related transactions, whereby interest, credit, liquidity and market price risks and operational risks as well as legal and reputational risks, in particular, are to be identified, controlled, reduced and monitored, as well as the annual review of them;
- the stipulation of credit competences and the regulation of transactions for the account of corporate bodies and employees as well as resolutions regarding large commitments including cluster risks;
- the evaluation of the effectiveness of the internal control system;
- the stipulation of overall and individual limits at least once a year;
- the approval of quarterly reports, including comments on the risk situation;
- the ensuring of prompt information in the event of imminent risk threats and losses of considerable importance.
- the issuing of a code of conduct for employees and corporate bodies of the LLB Group in relation to dealing with conflicts of interest and the issuing of instructions for preventing the misuse of confidential information.

The Group Executive Board, under the leadership of Group CEO, is responsible for the management of the LLB Group. It is composed of six members, the three heads of the market divisions: Retail & Corporate Banking, Private Banking and Institutional Clients, as well as the Group CFO, the Group COO and the Group CEO. The Group Executive Board meets as often as business requires, but at least once a month.

The LLB Group conducts its business within a framework of the three market-oriented divisions: Retail & Corporate Banking, Private Banking and Institutional Clients as well as the shared service functions of the Group CFO and Group COO. The heads of the divisions are responsible for the operative management of the divisions.

The heads of the market-oriented divisions are responsible for the cross-divisional collaboration of their business areas and they represent the LLB Group vis-à-vis the general public and other stakeholders in their relevant markets, and vis-à-vis the relevant client groups. Together with the heads of the Group CFO and Group COO Divisions and the heads of the business areas, they implement and coordinate the strategy of their divisions.

The heads of the divisions create the organisational prerequisites in order to manage the business areas assigned to their divisions over all the LLB Group companies. They actively coordinate all business activities with each other.

Taking into consideration prevailing local law, the Group Executive Board issues the regulations necessary for the operation and management of the divisions, provided this does not lie within the competence of the Board of Directors. These regulations may be binding for individual or several divisions of LLB Group companies.

In addition to the powers and duties set forth in the statutes, the Group Executive Board is responsible, in particular, for:

- implementing the resolutions made by the Board of Directors and its committees;
- submitting suggestions concerning the organisation of business activities in general and proposals for specific business matters to the Board of Directors and the responsible committees, provided these matters exceed the scope of authority of the Group Executive Board, in particular, with respect to;
  - the definition and periodic review of the LLB Group's corporate strategy as well as the allocation of resources to implement the strategy and attain corporate objectives;
  - participations, Group companies, business offices, branches and representative offices;
  - medium-term planning;
  - annual expenditure and income budget;
  - financial reporting and the annual report;
- implementing an efficient structure and organisation and an effective internal control system for the prevention and limitation of risks of all types;
- implementing the risk policy approved by the Board of Directors and reviewing compliance with it;
- active participation in the distribution of all significant risks, participation in the valuation of assets as well as in the use of external creditworthiness assessments and internal models regarding key risks;
- composition of the Risk Committee;
- comprehensive reporting to the Board of Directors regarding the risk situation in accordance with the provisions of risk policy;
- naming of persons (with the exception of the staff of Group Internal Audit), who can sign on behalf of the parent bank;
- regular reporting to the Board of Directors and its committees, in particular to the Chairman about the conduct of business and special occurrences;
- issuing of regulations for the conduct of business at the LLB Group;
- coordination of the LLB Group's range of products as well as specifying the pricing policy and the terms and conditions for the products and services offered;
- deciding on the conclusion of cooperation and partnership agreements as well as the membership of professional associations;
- authorising investments for personnel expenses and general and administrative expenses of up to CHF 1 million in specific cases and investments of up to CHF 3 million (with prior notification of the Chairman of the Board of Directors) which are not included in the budget adopted by the Board of Directors. In such a case, the Chairman decides about any matters to be presented to the Board of Directors;
- continuously monitoring the developments within the Divisions and business operations as well as initiating problem-solving measures;
- continuously monitoring financial reporting;
- setting objectives for business activities and the course of business as it executes the strategy approved by the Board of Directors; thereby ensuring that decision-making is timely and of a high quality as well as monitoring the implementation of the decisions made;
- ensuring that their objectives comply with general business targets and with the LLB Group's course of business.

The Group CEO is the highest authority within the LLB Group management and is liable to account. He is, in particular, entirely responsible for the development of the corporate strategy of the LLB Group and the divisions as approved by the Board of Directors and – in coordination with the Group Executive Board – for the implementation of this strategy. The Group CEO represents the Group Executive Board vis-à-vis the Board of Directors and externally.

The Group CEO

- ensures the coherent management and development of the LLB Group as well as the implementation of the strategy that is stipulated and periodically monitored by the Board of Directors;
- sets objectives for business activities and the course of business;
- ensures high-quality and timely decision-making;

- ensures that the objectives set by the members of the Group Executive Board comply with management objectives;
- submits recommendations to the Board of Directors concerning compensation principles within the LLB Group;
- monitors the implementation of any decisions that are made;
- monitors the implementation of the resolutions made by the Board of Directors and its committees;
- is responsible – in coordination with the Chairman of the Board of Directors – for concrete succession planning within the Group Executive Board and submits proposals to the Board of Directors regarding the nomination of members of the Group Executive Board with the exception of the Group CEO.

3.7 Information and control instruments vis-à-vis the Group Executive Board

The Chairman of the Board of Directors is informed about the agenda of Group Executive Board meetings and receives the minutes. He participates in its meetings in an advisory capacity as required. The purpose of this is for both parties to update each other on important topics and form their opinions.

Principally, the Board of Directors, the individual committees and especially the Chairman of the Board are kept informed about the activities of the Group Executive Board by the Chairman of the Group Executive Board. The members of the Group Executive Board report to the Group CEO for the attention of the Board of Directors. The Group CEO ensures that the Chairman of the Board of Directors and the Board of Directors as well as its committees are informed in a timely and appropriate manner. The Group CEO regularly reports to the Board of Directors about current business developments and important business issues, including all matters that fall within the remit of the Board of Directors.

The Group CEO generally attends the meetings of the Board of Directors in an advisory capacity, informs it about the development of business as well as extraordinary occurrences and provides additional information on request. The Group CFO regularly informs the Board of Directors about finances and risk management as well as about the proper implementation of the Bank's risk policy. The other members of the Group Executive Board attend meetings when matters involving them are dealt with. The Group CEO and the Group CFO usually participate in the meetings of the Group Audit Committee and the Group Risk Committee in an advisory capacity. If required, the Group CEO can inform the Chairman of the Board of Directors outside of meetings of the Board of Directors about the course of business and special occurrences. The Chairman must make a report about important events to the Board of Directors.

During meetings, each member of the Board of Directors can request information about all matters relating to the LLB Group. Outside of meetings, each member of the Board of Directors can also request information about the course of business from members of the Group Executive Board and, with the approval of the Chairman of the Board of Directors, also about individual business transactions.

Internal supervision and control

The LLB Group has standardized bank management systems that generate quantitative and qualitative data for the Group Executive Board and in a summarized form for the Board of Directors. This enables the Board of Directors to inform itself about significant business developments, such as the course of business, earnings situation, budget untillisation, balance sheet development, liquidity, risk situation and the fulfilment of equity requirements. The Board of Directors discusses and approves the annotated reports on finances and risk management on a quarterly basis.

In exercising its supervision and control functions, the Board of Directors is also assisted by Group Internal Audit, which is subordinate directly to the Chairman of the Board of Directors. Group Internal Audit is independent in its reporting and is not subject to any directive or other limitations, and within the LLB Group, it has an unrestricted right to peruse all information and documents. Group Internal Audit assumes the function of the internal auditor for all Group companies that are required to prepare a consolidated statement of accounts and submits the reasons for its decision to the Board of Directors or the respective Board of Directors of the Group company as to whether there exists an effective internal control system and whether risks are being adequately monitored. Group Internal Audit provides independent, objective and systematic reporting services regarding:

- the effectiveness of processes for defining the strategy and principles of risk policy as well as the general compliance with the approved strategy;
- the effectiveness of governance processes;
- the effectiveness of the risk management, including the evaluation of whether risk identification and management are adequate;
- the effectiveness of internal controls, in particular, whether these are adequate in relation to the risks taken;
- if necessary, the effectiveness and sustainability of measures for reducing and minimizing risks;
- the reliability and completeness of financial and operational information (that is, whether activities are correctly and fully documented) as well as the quality of the underlying data and models;
- compliance with legal and regulatory requirements as well as with internal rulings and directives and agreements.

The powers and duties of Group Internal Audit are stipulated in a special set of regulations. The planning of annual auditing is carried out on the basis of the evaluation of risks and controls and is guided by a long-term auditing plan.

To avoid duplication of work and to optimize controls, the auditing plans are coordinated with the statutory auditors. The short-term auditing plan and the personnel requirement plan are reviewed by the Group Audit Committee and submitted to the Board of Directors for approval. The results of every examination are recorded in a written audit report. The audit reports of the parent bank and all Group companies are sent to the Chairman of the Board of Directors, the members of the Group Audit Committee and the Group Risk

Committee, the Group Executive Board, the Head of Group Credit & Risk Management as well as to the Head of Group Legal & Compliance and the external auditors. The Head of Group Internal Audit compiles a report on a quarterly basis for submission to the Group Audit Committee and the Group Executive Board as well to the responsible committees of the other banks of the LLB Group. He also compiles a written activity report annually for submission to the Board of Directors. Particular findings that need to be dealt with immediately are communicated to the Chairman of the Board of Directors without delay by the Head of Group Internal Audit. In addition, Group Internal Audit regularly monitors the rectification of any deficiencies found and the implementation of its recommendations; it submits reports about this procedure to the Group Audit Committee.

Risk management

The proactive approach towards risks is an integral part of the LLB Group's corporate strategy and ensures the Group's risk-bearing capacity. The LLB Group attaches great importance to proactive and comprehensive opportunity / risk management. As part of the risk policy, the Board of Directors issues guidelines and regulations concerning the principles of risk management. In this way, the Board of Directors sets qualitative and quantitative standards for risk responsibility, risk management, risk reduction and risk control.

The LLB Group manages risks according to strategic objectives. It evaluates and manages risks through the application of detailed, qualitative and quantitative standards for risk responsibility, risk management and risk control. We utilise the "Internal Capital Adequacy Assessment Process" (ICAAP) and "Internal Liquidity Adequacy Assessment Process" (ILAAP) to deal with equity capital and liquidity issues, both of which are extremely important factors for banks. These processes ensure that adequate capital and liquidity to cover all essential risks are always available.

The risk management specialists strive to create and maintain a Group-wide uniform risk culture and risk approach. This establishes the fundamentals for an appropriate risk / return profile and an optimum allocation of capital. The Group Risk Committee invites the Chairmen of the Group Risk Committees to a quarterly discussion of the risk status. Their reports are summarized every six months in an overall risk report of the LLB Group, which is discussed by the Board of Directors. Further details concerning risk management can be found in the chapter "Financial and risk management (pages 15 to 17) as well as in the Notes to the consolidated financial statement of the LLB Group on pages 192 to 213.

Compliance

All employees of the LLB Group are obliged to comply with all legal, regulatory and internal regulations as well as to observe common market standards and professional codes of conduct. The compliance functions within the LLB Group annually report in writing to the Board of Directors about their activities, findings and the measures taken (see the chapter "Finance and risk management", page 17).

Roland Matt

Education:
Business economist FH, 1995; Federally qualified financial analyst and asset manager, 1999; Federally qualified finance and investment expert, 2002

Professional career:
Head of Research, VP Bank AG, Vaduz, 1999; Head of Asset Management Division, VP Bank AG, Vaduz, 2000 – 2001; Family Office Project Head, VP Bank AG, Vaduz, 2002

Liechtensteinische Landesbank:
Head of Investment Services, 2002 – 2006; Head of Domestic Clients Division, 2007 – 2008; Member of the Group Executive Board and the Board of Management, since 2009; Head of Domestic Market and Institutional Market Divisions, 2009 until March 2011; Head of International Market Division, April 2011 until 15 January 2012; Vice Chairman of the Group Executive Board and the Board of Management, April 2011 until 15 January 2012; Group Chief Executive Officer, since 16 January 2012

Board of Directors mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG, (Member)

Other functions:
Vice Chairman of the Liechtenstein Bankers Association. Member of the Board of the Liechtenstein Chamber of Commerce and Industry; Member of the Board of Trustees of the Personnel Pension Fund Foundation of Liechtensteinische Landesbank AG; Chairman of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Urs Müller

Education:
Licentiate in law, University of St. Gallen (HSG), 1993

Professional career:
Auditor, Unterrheintal District Court; Associate Court Clerk, Oberrheintal District Court, 1993 – 1995

Liechtensteinische Landesbank:
Legal counsel, 1995 – 1998; Head of Legal & Compliance, 1998 – 2006; Head of Institutional Clients Division, 2007 until April 2011; Member of the Group Executive Board and the Board of Management, since April 2011; Head of Domestic Market and Institutional Market Divisions, April 2011 until June 2012; Head of Institutional Clients Division, July 2012 until June 2016; Head of Retail & Corporate Banking Division since July 2016; Vice Group Chief Executive Officer, since July 2012

Board of Directors mandates in Liechtensteinische Landesbank Group companies:
Bank Linth LLB AG (Vice Chairman); LLB Asset Management AG (Member); LLB Berufliche Vorsorge AG, Lachen (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Gabriel Brenna

Education:
M.Sc., Electrical Engineering, École polytechnique fédérale de Lausanne (EPFL), 1998; Ph.D., Electrical Engineering, Semiconductors, Swiss Federal Institute of Technology (ETH) Zurich, 2004

Professional career:
Project Leader, Philips Semiconductors, Zurich, 1998 – 1999; Research and instruction, ETH Zurich, 2000 – 2004; Senior Project Leader, Advanced Circuit Pursuit, Zollikon, 2002 – 2004; McKinsey & Company, Zurich and London; most recently, Partner and Head of Swiss Private Banking and Risk Management Practice, 2005 until September 2012

Liechtensteinische Landesbank:
Member of the Group Executive Board and the Board of Management, since October 2012; Head of Private Banking Division, since October 2012

Board of Directors mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG, (Chairman); Bank Linth LLB AG (Member); LLB Asset Management AG (Vice Chairman); LLB Services (Schweiz) AG (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Natalie Epp

Education:
Mag. Iur., University of Innsbruck, 2000; Executive Master of European and International Business Law, University of St. Gallen, 2006; Diploma of Advanced Studies (DAS) in Banking, 2017

Professional career:
Legal assistant at the Liechtenstein Bankers Association, 2003 – 2005; Private labelling client adviser at the Liechtenstein Fund Management Company IFOS, 2006 – 2007 ; Member of senior management at the Liechtenstein Fund Management Company IFOS, 2008 – 2011

Liechtensteinische Landesbank:
Head of the Institutional Clients Business Unit, 2011 until June 2012; Head of Fund Services Business Area, July 2012 until June 2016; Member of the Group Executive Board and the Board of Management, since July 2016; Head of the Institutional Clients Divisions, since July 2016

Board of Directors mandates in Liechtensteinische Landesbank Group companies:
LLB Fund Services AG (Chairwoman); LLB Swiss Investment AG (Chairwoman); LLB Asset Management AG (Chairwoman); Liechtensteinische Landesbank (Österreich) AG (Member); LLB Invest KAG (Member); LLB Qualified Investors AGmK (Member); LLB Invest AGmvK (Member)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG

Christoph Reich

Education:
Federally qualified licentiate in economics, FHS St. Gallen, 1999; Executive MBA, University of St. Gallen (HSG), 2009

Professional career:
Commercial apprenticeship, St. Galler Kantonalbank, Buchs (SG), 1990 – 1993; Investment advisor for private clients, St. Galler Kantonalbank, Wil (SG), 1994 – 1996; Senior consultant, KPMG Consulting (from October 2002, Bearing Point), Zurich, 1999 until mid-2003; Team manager Budget and Management Services, Asian Development Bank, Manila / Philippines, 2003 – 2006; Partner at Syndeo AG, Head of Accounting and Controlling for Banks, Horgen / ZH, end of 2006 until October 2010

Liechtensteinische Landesbank:
Head of Group Finance & Risk Department, November 2010 until 15 January 2012; Member of the Group Executive Board and the Board of Management, since 16 January 2012; Chief Financial Officer, 16 January 2012 until 30 June 2012; Group Chief Financial Officer, since 1 July 2012

Board of Directors mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG (Vice Chairman); Bank Linth LLB AG (Member); LLB Asset Management AG (Member); LLB Verwaltung (Schweiz) AG (Chairman); LLB Holding AG (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG" and Member of the Liechtenstein Deposit Protection and Investor Compensation Foundation (EAS)

4 Group Executive Board

4.1 Members

Name	Year of birth	Nationality	Function / Area of responsibility	Member of the Group Executive Board since
Roland Matt	1970	FL	Group Chief Executive Officer	2009
Urs Müller	1962	FL / CH	Head of Retail & Corporate Banking Division Vice Group Chief Executive Officer	2011
Gabriel Brenna	1973	CH / I	Head of Private Banking Division	2012
Natalie Epp	1977	AT	Head of Institutional Clients Division	2016
Christoph Reich	1974	CH	Group Chief Financial Officer	2012

The LLB Group's organisational structure is consistently geared towards client and market needs. For this purpose the Retail & Corporate Banking, Private Banking as well as Institutional Clients Market Divisions are represented at the Group Executive Management level. The Group Chief Financial Officer, the Group Chief Operating Officer, as well as the Group Chief Executive Officer comprise the Group Executive Management.

At the beginning of May 2018, Group COO Kurt Mäder decided to leave the LLB Group in order to seek a new professional challenge. With effect from mid-May 2018, he stepped down from his function as Group COO and member of the Group Executive Board. From mid-May 2018, Group CEO Roland Matt and Deputy Group CEO Urs Müller took over the management of the Group COO Division ad interim. At the end of October 2018, the Board of Directors appointed Patrick Fürer as the new Head of the Group Chief Operating Officer Division and as member of the Group Executive Board. He commenced his duties on 7 January 2019.

4.2 Other activities and commitments

Apart from the mandates specified on pages 94 to 95, the members of the Group Executive Board are not involved in the management or supervisory boards of important Liechtenstein, Swiss or foreign private or public law corporations, establishments or foundations, nor do they exercise any permanent management or consultancy functions for important Liechtenstein, Swiss or foreign interest groups, nor do they perform official functions or hold political office.

4.3 Number of permitted activities

Liechtensteinische Landesbank AG is not subject to the Swiss ordinance against excessive compensation in listed public limited companies (OaEC). Liechtensteinische Landesbank AG has not issued any regulations on the number of permitted activities.

4.4 Management contracts

The Liechtensteinische Landesbank has not concluded any management contracts.

5 Compensation, participations and loans

Details concerning compensation, participations and loans can be found in the compensation report (pages 101 to 109).

6 Shareholders' participation rights

6.1 Voting right limitation and representation

At the Liechtensteinische Landesbank's General Meeting of Shareholders, each share carries one vote. In accordance with Art. 306a ff. of person and company law, the LLB shares held by the Liechtensteinische Landesbank itself and its subsidiaries (124'841 shares as at 31 December 2018) are not eligible to vote.

Each shareholder has various possibilities of participating in the General Meeting of Shareholders. At the General Meeting of Shareholder he can vote his own shares or authorise a third party in writing to vote them, or have them voted by another shareholder eligible to vote. The Chairman of the General Meeting shall decide whether the authorisation is valid. A person acting as a representative may act on behalf of more than one shareholder and vote differently for the various shares he represents. Shareholders may also vote their shares in writing by post or by means of electronic communication prior to the General Meeting. On account of the many different voting possibilities, the Liechtensteinische Landesbank has decided not to designate an independent pro in accordance with Art. 18, para.1 of the Statutes (**www.llb.li/statutes**). The LLB is not subject to the pertaining provision of the ordinance against excessive compensation by listed companies

6.2 Statutory quorum

At the General Meeting of Shareholders, a quorum is present if half of the share capital is represented. The Board of Directors can decide to permit shareholders to vote their shares by post or by means of electronic communication prior to the General Meeting. If a shareholder votes his shares in this manner prior to the General Meeting, his share capital is regarded as being represented for the purpose of constituting a quorum. If a quorum is not constituted, a further General Meeting of Shareholders has to be convened within two weeks that makes decisions irrespective of the represented shares, unless otherwise prescribed by mandatory laws and statutes.

Provided that legal provisions do not stipulate to the contrary, the General Meeting passes its resolutions and decides its elections by an absolute majority of the votes cast.

6.3 Convening of the General Meeting of Shareholders

The Board of Directors convenes an ordinary General Meeting of Shareholders with a period of notice of 30 days. The meeting must be held within six months following the end of a business year. The invitation to the General Meeting is to be publicised on the company's website as well as, if necessary, in other media to be designated by the Board of Directors. The invitation must contain the information required by law, especially the agenda to be dealt with at the meeting, the proposals of the Board of Directors and, in the event of elections, the names of the proposed candidates.

An extraordinary General Meeting may be convened by the Board of Directors if this is in the urgent interest of the Liechtensteinische Landesbank or at the written request – stating the reason for convening the extraordinary General Meeting – of shareholders representing ten per cent of the share capital.

6.4 Agenda

The Board of Directors specifies the agenda for the General Meeting of Shareholders in accordance with Art. 1 the Liechtensteinische Landesbank's statutes (**www.llb.li/statutes**). The General Meeting can only deal with items which are listed in the agenda, with the exception of a proposal for the convening of an extraordinary General Meeting.

Shareholders, who together hold at least 5 per cent of the share capital represented, can request that an item be placed on the agenda to be dealt with by the General Meeting. Requests for items to be placed on the agenda must be received, at the latest, 21 days prior to the date of the General Meeting. The Board of Directors shall publicise the amended agenda at least 13 days prior to the date of the General Meeting.

Shareholders, who together represent at least five per cent of the share capital, have the right to submit proposals to items on the agenda or to items which are added to the agenda, prior to the General Meeting. Moreover, every shareholder can submit proposals to items on the agenda during the General Meeting.

6.5 Entries in the shares register

The Liechtensteinische Landesbank has exclusively issued registered shares. It maintains a share register containing the names of the owners of registered shares. Upon request, the purchasers of registered shares are entered in the share register as shareholders having a voting right provided that they expressly render a declaration that they have purchased these shares in their own name for their own account. If the purchaser is not prepared to render such a declaration, the Board of Directors can refuse to enter the shares with voting rights in the register. Pursuant to Art. 5a of the Statutes (**www.llb.li/statutes**), the Board of Directors has specified that nominee registrations without the above-mentioned declaration are generally to be made without a voting right. In order for the right to vote to be exercised at the General Meeting of Shareholders, entry in the share register must be made at the latest three working days prior to the date of the General Meeting. Accordingly, the deadline for entry in the share register for the General Meeting on Friday, 3 May 2019 was fixed at 5 p.m. on Monday, 29 April 2019. From 30 April to 3 May 2019 no entries will be made in the share register.

7 Change of control and defensive measures

The Liechtensteinische Landesbank is a banking institute licensed under Liechtenstein law with its registered office in the Principality of Liechtenstein. As a Liechtenstein bank listed on SIX Swiss Exchange, Liechtensteinische Landesbank AG must in addition to complying with Liechtenstein law also comply with various Swiss regulatory requirements. Since 1 January 2016, the provisions regarding the disclosure of significant shareholders are regulated in the Financial Market Infrastructure Law and in the Financial Market Infrastructure Ordinance and also apply to the LLB. Shareholders attaining, falling below or exceeding the threshold percentages of 3, 5, 10, 15, 20, 25, 33.33, 50 or 66.67 of voting rights must notify SIX and the LLB (**www.llb.li/thresholds**).

The Liechtensteinische Landesbank's statutes contain no regulations comparable with the Swiss provisions regarding opting out or opting up. Likewise, there are no changes of control clauses in favour of the members of the Board of Directors and / or the members of the Group Executive Board or other senior executives.

Pursuant to the Law on the Liechtensteinische Landesbank, the Principality of Liechtenstein holds at least 51 per cent of the capital and votes.

8 Independent auditors

8.1 Duration of mandate and term of office of the auditor in charge

8.1.1 Date of acceptance of existing auditing mandate

Every year, the General Meeting of Shareholders appoints one or more natural or legal entities as the independent auditors in accordance with the legal provisions. The independent auditors examine the company's adherence to the legal provisions, the statutes and the other regulations.

PricewaterhouseCoopers AG, St. Gallen, has served as the independent auditors of the Liechtensteinische Landesbank according to company and banking law since 1998. The auditing mandate was taken over from Revisuisse Price Waterhouse AG, St. Gallen, and its predecessor Revisa Treuhand AG, St. Gallen. Pursuant to person and company law and banking law, the independent auditors were elected by the General Meeting of Shareholders on 9 May 2018 at the proposal of the Board of Directors for a period of one year.

8.1.2 Term of office of the auditor in charge of the current auditing mandate

Claudio Tettamanti has been the responsible auditor in charge since 2014. The auditor in charge changes every seven years.

8.2 Audit fees

In the 2018 business year, PricewaterhouseCoopers AG invoiced the companies of the LLB Group for CHF thousands CHF 1'388 (2017: CHF thousands 1'399) in respect of audit fees. These fees include the work carried out as required by the respective regulatory authorities. In addition, in the 2018 business year, PricewaterhouseCoopers AG received CHF thousands 283 (2017: CHF thousands 261) for services in connection with our own investment funds.

The Group Audit Committee oversees the fees paid to PricewaterhouseCoopers AG for their services.

8.3 Additional fees

For other services, PricewaterhouseCoopers AG invoiced the LLB Group companies CHF thousands 734 (2017: CHF thousands 1'700) in 2018. The increase in the corporate finance area is attributable to due diligence services in connection with the acquisitional growth of the LLB Group.

Audit fees and additional fees

in CHF thousands	2018	2017
Audit fees	1'388	1'399
Additional fees	734	1'700
Corporate finance	381	1'423
International accounting	0	46
Taxation advice	317	188
Legal and other advice	36	43

8.4 Information instruments of the external auditors

The Group Audit Committee fulfils a supervisory, control and monitoring function, which also extends to the external auditors. It is responsible, among other tasks, for:

- taking note of and discussing the risk analysis made by the external auditors, the auditing strategy derived from it and the respective risk-oriented auditing plan;
- the discussion of major problems identified during the auditing process with the external auditors;
- the monitoring of the implementation of recommendations put forward by the external auditors and Group Internal Audit to eliminate weak points and deficiencies;
- the analysis of the audit reports submitted by the external audit and Group Internal Audit to the Board of Directors;
- the assessment of the qualification, quality, independence, objectivity and performance f the external and Group Internal Audit;
- the discussion of the annual activity report and the annual audit plan including risk analysis of Group Internal Audit, with the evaluation of whether this function has adequate resources and competences, as well as the approval of proposals to the Board of Directors;
- the examination of the compatibility of external auditors' auditing activities with possible consulting mandates as well as the evaluation and discussion of their professional fees;
- the evaluation of the collaboration between the external auditors and Group Internal Audit;
- the submission of a proposal to the Board of Directors for the attention of the General Meeting regarding the appointment or dismissal of the external auditors (appointed according to banking law and person and company law). The Group Audit Committee is responsible for defining the procedure to appoint new external auditors.

The external auditors perform their work in accordance with the legal provisions, and according to the principles of the profession in the respective country of domicile of the Group company, as well as according to the "International Standards on Auditing". The independent auditors regularly report to the Board of Directors, the Group Audit Committee and the Group Executive Board about their findings and submit suggestions for improvements to them. The most important report is the audit report on the LLB Group required by banking law. This summarized report is submitted in writing to the Board of

Directors once a year. In addition, the responsible auditor in charge of the external auditors presents a report at one meeting of the Group Audit Committee. All reports from the internal and external auditors concerning all Group companies are submitted to the Group Audit Committee.

Important findings in the reports of the internal and external auditors since the last meeting and all reports concerning the Group companies are addressed at the next meeting of the Group Audit Committee. The Head of Group Internal Audit is responsible for providing the relevant information and reports directly to the Group Audit Committee. He is appointed by the Board of Directors and is subordinate to the Board's Chairman.

Representatives of the external auditors participated in two meetings of the Group Audit Committee but did not attend any meetings of the Board of Directors during the report period. The Head of Group Internal Audit attended all the meetings of the Group Audit Committee and all the meetings of the Board of Directors except one. The external auditors submit periodic reports dealing with the audit planning based on risk analysis, the current audit reporting, the annual activity report as well as on a comparison of actual with budgeted fees.

The Group Audit Committee annually evaluates the performance of the external and internal auditors in their absence. The following criteria are applied in assessing the performance of the external auditors and their professional fees (auditing and additional fees): comparison of fees and budgeted fees as well as the previous year's fees, feedback from the departments audited, quality of the auditors' findings, structured assessment of the auditors' expertise. The independence of the external auditors is evaluated on the basis of the information concerning independence provided in the annual report of PricewaterhouseCoopers AG and an assessment of their conduct. The cost planning and its observance are also reviewed and discussed annually. Furthermore, the Group Audit Committee periodically reviews alternatives and submits a proposal to the full Board of Directors for the attention of the General Meeting regarding the appointment of the external Group auditors.

Additional orders are placed on the basis of offers from competitors taking into consideration the level of expertise. The Group Audit Committee bases its assessment of the placing of orders for additional services on the periodic reports it receives from Group Internal Audit regarding reliability, scope and relation to audit fees.

The Group Audit Committee reports to the full Board of Directors once a year concerning the activities of the external auditors and the assessment of their performance.

The external auditors have direct access to the Board of Directors at all times. The primary point of contact for the external auditors is the Group Audit Committee. They hold regular discussions with the Chairman of the Board of Directors and the Chairman of the Group Audit Committee.

9 Information policy

The Liechtensteinische Landesbank simultaneously, comprehensively and regularly provides its shareholders, clients, employees and the general public with information. This ensures that all stakeholder groups are treated equally. Equality of opportunity and transparency are ensured through institutionalizing and nurturing these ties as well as establishing and preserving relationships that are based on trust with the financial community, on the one hand, and with the media and all other interested recipients of information, on the other.

The most important information media of the Liechtensteinische Landesbank are its web site (**www.llb.li**) as well as its annual and interim reports, media communiqués, its media and financial analysts conference and the conference call for media and analysts, and its General Meeting of Shareholders.

As a listed company, the Liechtensteinische Landesbank is obliged to publish information about potential share price-relevant facts (ad hoc publicity, Art. 53 of the exchange listing regulations). To receive ad hoc announcements in accordance with the directives for ad hoc publicity automatically, an interested party can register at **www.llb.li/registration**. Ad hoc announcements are published under the link **www.llb.li/mediacommuniques**.

If you have any questions, please contact the following person who is responsible for investor relations:

Dr. Cyrill Sele
Head Group Corporate Communications & General Secretary
Städtle 44 / Postfach 384
9490 Vaduz
Phone +423 236 82 09
E-mail cyrill.sele@llb.li

Agenda

Date	Time	Event
14 March 2019	7.00 a.m.	Publishing of 2018 business result at www.llb.li; release of online Annual Report 2018 at ar2018.llb.li
	10.30 a.m.	Financial reporting and analyst conference
15 March 2019		2019 business result advertisement in the "Liechtensteiner Vaterland" and the "Liechtensteiner Volksblatt"
9 April 2019		Publication of printed Annual Report 2018
3 May 2019	6.00 p.m.	General Meeting of Shareholders
7 May 2019		Ex-dividend date
8 May 2019		Dividend record date
9 May 2019		Dividend payment date
27 August 2019	7.00 a.m.	Publishing of interim financial statement 2019; publication of printed interim financial statement 2019 and release of online interim financial statement 2019 at www.llb.li
	10.30 a.m.	Conference Call
28 August 2019		2019 interim financial result advertisement in the "Liechtensteiner Vaterland"and the "Liechtensteiner Volksblatt"

10 Important changes since the balance sheet date

The Board of Directors proposes to the 27th General Meeting of Shareholders on 3 May 2019, that – subject to approval from the supervisory authoroty – Dr. Karl Sevelda be elected as a member of the Board of Directors for a term of office of three years, and that Dr. Patrizia Holenstein be re-elected as a member of the Board of Directors for a term of office of three years.

Compensation report

The Group regulation "Compensation standards" sets down the framework for the Group-wide compensation policy. It defines the basis, values, objectives and responsibilities and sets out the minimum requirements for the design of the compensation systems. The compensation report contains information about the elements and methods of determining compensation, as well as the compensation paid to the Board of Directors and the Group Executive Board.

Introduction

On 1 January 2014, the "Ordinance against Excessive Compensation with respect to Listed Stock Corporations" (OaEC) came into force in Switzerland. Pursuant to the ordinance, Swiss public companies whose shares are listed on an exchange in Switzerland or abroad must publish details about the compensation of the members of their governing bodies in a compensation report. The details to be reported are set out in Art. 13 to 16 of the OaEC.

The OaEC does not apply to foreign companies that are publicly listed in Switzerland. According to the Regulatory Board Communiqué No. 2 / 2014 of 1 September 2014, No. II, all companies listed on the SIX Swiss Exchange should have to disclose the same information on corporate governance. Issuers that are not subject to the regulations of the OaEC have to therefore publish details about the compensation of the members of the Board of Directors and the Board of Management in the same manner as Art. 14 to 16 of the OaEC. By publishing this compensation report, Liechtensteinische Landesbank AG is fulfilling this obligation.

The following report deals with the compensation policy, the basis and elements of the compensation, the responsibilities and methods of determining compensation. The compensation paid during the 2018 business year is also presented.

Compensation policy

On 18 August 2011, the Board of Directors issued the Group regulation "Compensation standards" for Liechtensteinische Landesbank AG and its Group companies (revised on 1 February 2018). The Group regulation is based on: the current version of the Ordinance on Banks and Investment Firms (Banking Ordinance) of 22 February 1994, in particular Appendix 4.4; EU Directive 2013 / 36 / EU (CRD IV) of 26 June 2013; Regulation No. 575 / 2013 (CRR) of 26 June 2013; Delegated Regulation No. 527 / 2014 of 12 March 2014; Delegated Regulation No. 604 / 2014 of 4 March 2014; Delegated Regulation No. 2016 / 861 of 18 February 2016; and EBA Guideline "EBA / GL / 2015 / 22" of 27 June 2016. These legal provisions are applied to the LLB Group in a way and to a degree that is commensurate with its size and internal organisation as well as the type, scope and complexity of its business.

The Group regulation "Compensation standards" regulates the framework for the Group-wide compensation policy, in particular in regard to its alignment to risk management. It stipulates the basis, values and objectives and sets out the minimum requirements for the design of the compensation systems. In addition, it regulates Group-internal and Group-external reporting as well as related responsibilities.

The Group regulation applies particularly to those persons who are identified as risk takers in a process that is carried out annually.

To implement the Group regulation "Compensation standards" at Liechtensteinische Landesbank AG, the Board of Directors has also issued the separate regulation "Compensation standards" (revised on 1 January 2018). As a company exempt from Art. 12, Para. 2 of the OaEC, Liechtensteinische Landesbank has not stipulated any regulations concerning compensation, participation and loans.

The Group companies issue company-specific compensation guidelines, which take into consideration the applicable (special) legal regulations. Deviations from the Group regulation are only permitted if they stem from prevailing law or special legal regulations.

The compensation for performance complies with the business strategy as well as with the targets and values of the LLB Group and is based on the following principles:

- **Sustainability and risk adjustment:**
  Compensation practices must contribute to long-term corporate development. They must support risk management and the pursuit of both continuous increases in the company's value and long-term client and employee retention. Compensation policy has to offer incentives in a manner that allows for adequate risk behaviour by individual persons in order to counteract any conflicts of interest.
- **Foundation of trust:**
  The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the

other. Furthermore, a performance appraisal has subjective elements. Accordingly, the voluntary nature of the payment of the variable component must be ensured and attention must be drawn to the scope of discretion in this respect.

- **Performance and success orientation:**
  Compensation practices also have to reward both individual performance and company-related performance. The focus on the Group's success promotes, and is in line with, the LLB Group's long-term interests. Acknowledging individual performance serves performance motivation, the management of individual performance contributions towards achieving company targets as well as the retention of top performers.
- **Simplicity, clarity and comprehensibility:**
  The compensation regulations and models are to be kept simple, clear and comprehensible. Employees as well as third parties should be able to easily understand the basic concepts.
- **Fair compensation in accordance with responsibilities and management level:**
  The determination of compensation also has to consider the workload as well as the degree of responsibility and reflect the different management level requirements in a clear and fair manner.
- **Group orientation:**
  Compensation has to promote Group orientation. It aims to further commitment towards Group success and increased identification with the Group through employee participation in the long-term development of value and in shared ownership by means of an appropriate share option scheme.

The compensation policy forms the basis for the compensation standards stipulated in appropriate regulations and for the compensation model. The compensation standards set out the objectives, processes and requirements for the design of the compensation. They also contain rules for the coordination between compensation and risk management. For employees who receive a variable component of compensation, the compensation model specifies the ratio between fixed and variable portions and the allocation mechanism for the variable portion.

Elements of compensation

The compensation model of the LLB Group

The LLB Group's compensation model aims at ensuring that compensation is performance-linked. Among other elements, this means that an above-average performance has a positive and a below-average performance a negative effect on the amount of compensation. In accordance with the compensation policy, the compensation model focuses on sustainable, long-term-oriented action.

The LLB Group's compensation model was developed in conjunction with FehrAdvice & Partners AG, Zurich. It is based on the results of behavioural economics research carried out by Prof. Ernst Fehr from the University of Zurich. A key performance indicator is the so-called "Market- Adjusted Performance Indicator" (MAPI). The MAPI captures the company as holistically as possible, which means it reveals not only short-term successes but also long-term effects. The MAPI gives an undistorted, holistic view of management performance. This is done by comparing the long-term stock return of a company (total shareholder return, TSR) with the TSR of a tailored, relevant comparable group and allows external market effects to be factored out. The difference between the TSR of the company and that of the comparable group gives an indication of the actual performance of the company's management.

In March 2017, the LLB Group's compensation model was honoured by the Swiss Institute of Directors as the best salary model in 2016 of all companies listed on the Swiss stock exchange. The jury of experts described the compensation model as "exemplary". The three main criteria by which it was judged were internal fairness, external fairness and performance-related fairness.

The compensation system of the LLB Group

The compensation system is essentially based on the following approaches:

1. **Clear performance incentives, performance orientation and transparency:**
   A target compensation (total compensation or total target compensation) is defined for each employee. It determines how much employees who attain their objectives can earn. A bonus-malus logic ensures that employees earn more or less than their target compensation depending on whether they exceed or do not attain their objectives. Compensation depends on performance and not on corporate results that can be affected by market conditions. Acknowledging individual performance serves performance motivation, the management of individual performance contributions towards achieving company targets as well as the retention of top performers.

2. **Uniform focus on the structure of the LLB Group:**
   The compensation system across the whole Group follows a uniform logic and is in accordance with the management structure.

3. **Fair compensation in accordance with responsibilities and management level:**
   The determination of compensation considers the workload as well as the degree of responsibility and reflects the different requirements in a clear and fair manner.

4. **Objective orientation:**
   The variable component of the target compensation depends on the salary model and the attainment of objectives, which are determined during the annual objectives-setting process and reflect the orientation of and change in the bank. The focus on the MAPI promotes, and is in line with, the LLB Group's long-term interests. The fulfilment of basic tasks is shown through the function level and thus in the assignment of the reference compensation curve.

5. **Fairness and freedom to act:**
   The variable component is a significant part of the target compensation. Internal transfers and departures are possible at any time and calculated fairly on a pro rata basis.

6. **Integrity and trust:**
   The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the other. Furthermore, a performance appraisal always has subjective elements. As a reliable employer, the LLB Group also stands by its employees in difficult times.

These approaches should ensure the understanding of the functioning of the compensation system and fairness for the employees.

Target compensation

Around 40 per cent of employees receive a fixed compensation without a variable component. For around 60 per cent of employees, the target compensation consists of a fixed and a variable component. The fixed component encompasses all contractually agreed or statutory compensation, which is already stipulated prior to the provision of any performance. The variable component includes, in particular, those elements of compensation which vary depending on various criteria, such as the business success of the company, the individual performance of the employee or the results attained by the organisational unit. In general, the amount and payment of the variable component is at the free discretion of the employer.

Fixed component of target compensation

The fixed component must be reasonably proportionate to the variable component. It is to be calculated in such a manner that indeed the payment of the variable component could be dispensed with. This proportionate relationship is specified in the individual compensation guidelines of Liechtensteinische Landesbank AG and of the LLB Group companies. Depending on the salary model, it varies from 100 per cent of the target compensation to 67 per cent of the target compensation for the Board of Management.

Variable component of target compensation

The variable component of the target compensation is paid in cash and / or in the form of an entitlement to acquire LLB shares, which is subject to a blocked period of three years. Other financial instruments, such as options or bonds, are not considered. The variable component may not exceed 100 per cent of the fixed component of the total compensation for each person.

A clawback ruling applies to the blocked portion of the variable compensation, which is largely governed by the individually attained performance and the risks. If a significant change occurs in the assessment of performance and risks during the blocking period (for example, inadequate due diligence, untrustworthy business management or incurring excessive risks), the acquired share entitlements are to be reduced accordingly. The body which decides on the amount of the variable compensation during the annual compensation process will decide about the reduction of the share entitlements. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative.

A guaranteed variable compensation, for example in the form of a minimum bonus, may only be promised in exceptional circumstances and must be limited to the first working year. As a basic principle, no severance compensation and no additional voluntary annuity payments will be made to employees who leave the company.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The employees of the LLB Group receive fringe benefits in the form of preferential conditions on bank products as customary in the industry as well as a limited preferential interest rate for mortgage loans and on credit balances.

Group Internal Audit is responsible for reviewing the implementation of the Group regulation "Compensation standards" once a year. The results of this review are reported in writing to the Board of Directors. The compensation of senior executives in risk management and compliance at the parent bank and at the LLB Group companies is reviewed once a year by the relevant Board of Directors or by the Compensation Committee (if such a body exists in the Group company). The Group Nomination & Compensation Committee carries out these tasks for the Group functions.

Compensation of the Board of Directors and the Group Executive Board

Board of Directors

The Board of Directors stipulates the amount of compensation of its members in accordance with their duties and responsibilities. The members of the Board of Directors receive a fixed compensation, which includes the participation in (ordinary and extraordinary) meetings and the General Meeting of Shareholders. The fixed compensation is paid out in cash and in the form of entitlements for the acquisition of LLB shares. The number of LLB shares is calculated on the basis of the average share price in the last quarter of the business year. The entitlement to acquire LLB shares is subject to a blocked period of three years.

The members of the Board of Directors do not receive any variable compensation. They also do not profit from the additional benefits for staff (fringe benefits) or from their preferential conditions on bank products. Business relations with them are subject to the same conditions that apply to comparable transactions with third parties. On account of legal provisions, no severance payment may be made in the event of the termination of a mandate (Art. 21, Para. 2 of the law concerning the control and supervision of public companies).

Group Executive Board

A target compensation is defined for each member of the Group Executive Board. It consists of a fixed compensation (67 %) and a variable target compensation (33 %). The target compensation corresponds to the compensation attributable to the member of the Group Executive Board if the objectives are 100 per cent attained.

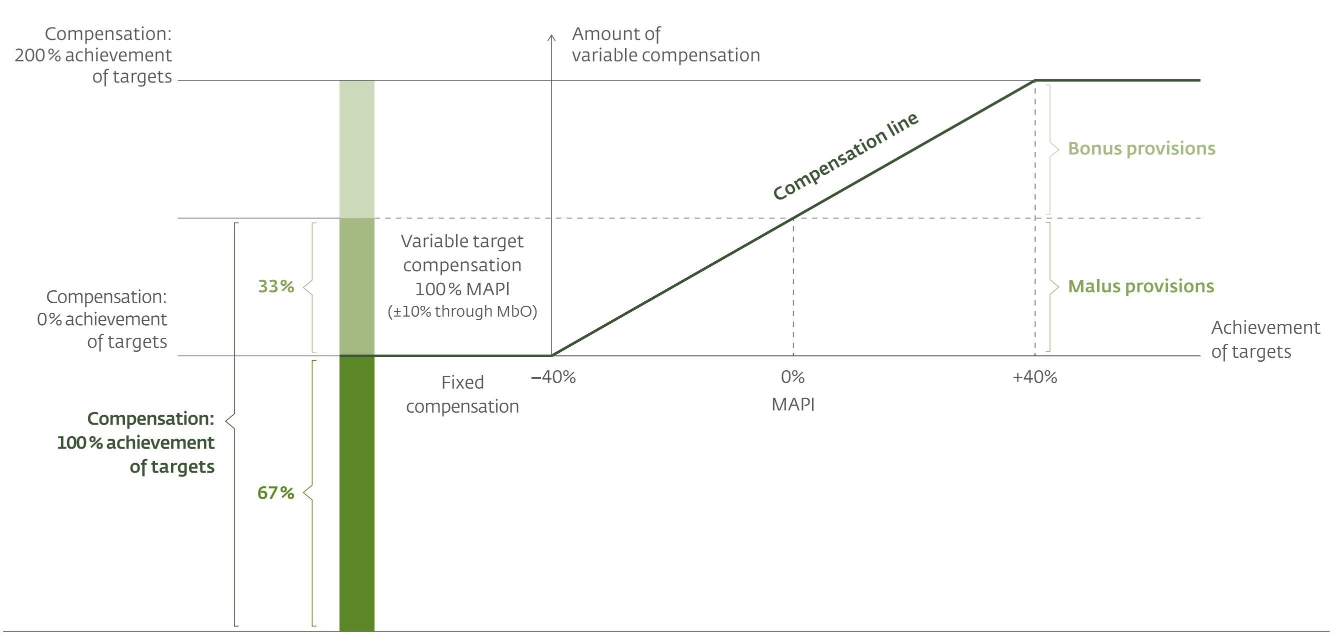
The compensation model also contains a bonus-malus provision. The members of the Group Executive Board receive more or less than their target compensation depending on whether they exceed, partly attain or do not attain the annual objectives. The maximum bonus possible is 200 per cent of the variable target compensation and the maximum malus possible is 0 per cent of the variable target compensation. This means that the variable compensation is limited to the total amount of the fixed compensation.

The fixed compensation for the members of the Group Executive Board in 2018 was determined on the basis of a compensation comparison carried out by the Kienbaum company in 2017. This comparison comprised between 20 and 24 comparable banks and between 22 and 28 comparable positions per function represented on the Group Executive Board.

The amount of the variable compensation is determined by the Group performance. This is measured using relative total shareholder return (TSR), i.e. the so-called "Market-Adjusted Performance Indicator" (MAPI). This is done by comparing the TSR of the LLB share in relation to the TSR of a peer group. The peer group is broadly diversified and comprises a group of 25 banks. Its composition is discussed and evaluated annually by the Group Nomination & Compensation Committee. Since the 2017 business year, the peer group has been composed exclusively of banks from the LLB Group's home markets of Liechtenstein, Switzerland and Austria.

The Board of Directors can adjust the variable compensation, based on the individual performance within the framework of the Management by Objectives (MbO) process, by plus / minus 10 per cent of the variable target compensation.

Compensation model: Group Executive Board



The compensation model is illustrated in the chart at the bottom of page 104.

Geographic distribution of the 25 banks in the peer group:

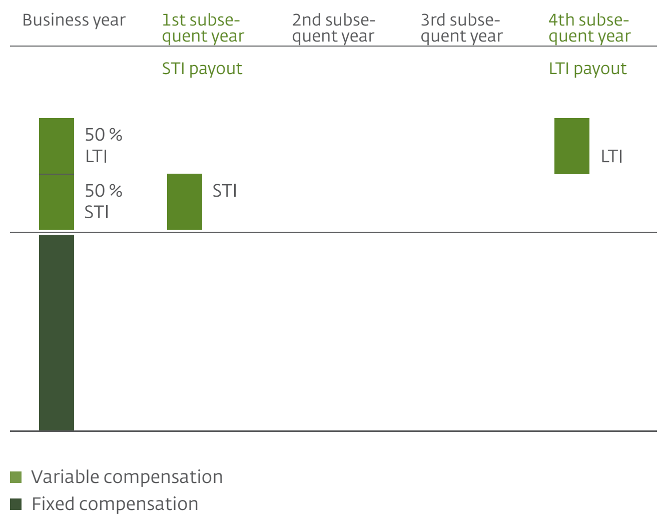
Liechtenstein	1
Switzerland	21
Austria	3

The MAPI compares the management's performance with that of a comparable group of banks. Market effects can be eliminated from the performance indicator by comparing performance with a peer group. The MAPI is therefore free of external market effects. It is calculated annually by FehrAdvice & Partners AG.

If the MAPI is 0 per cent, which means that the TSR of the LLB share corresponds to the TSR of the peer group, the members of the Group Executive Board receive their variable target compensation. The variable compensation is linearly dependent on the MAPI. No variable compensation is paid if the MAPI is minus 40 per cent or less. If the MAPI is 40 per cent or more, the maximum variable compensation is paid, which is capped at 200 per cent of the variable target compensation.

The fixed compensation is paid out in cash every month, the variable component is provided in the first quarter of the following year. The variable compensation comprises a short-term incentive (STI) and a long-term incentive (LTI). The STI is paid in cash and the LTI is paid in the form of an entitlement to acquire LLB shares. The distribution between the STI (50 %) and the LTI (50 %) is statutorily fixed. The number of LLB shares for the LTI is calculated on the basis of the average share price in the last quarter of the business year. The LTI is subject to a blocked period of three years. The three-year period remains in force even after termination of employment. After three years, the entitlement to acquire shares is transformed into a right to the transfer of the corresponding LLB shares. The share entitlement can be withdrawn or reduced if – during the three-year period – there are significant changes in the assessment of performance and / or risk behaviour of the member of the Group Executive Board. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative. At the end of the three-year period, the Group Nomination & Compensation Committee examines whether the prerequisites for the entitlement have been met. The Committee submits its decision to the Board of Directors for a final decision.

LTI with clawback mechanism



The employment relationship of the members of the Group Executive Board is stipulated in individual employment contracts. The period of notice is four months. The contracts of employment do not contain any special clauses, such as, for example, severance compensation following the termination of employment or even in the event of a change in control.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The members of the Group Executive Board are subject to the same conditions in relation to fringe benefits as apply to other employees of the LLB Group. The preferential conditions on bank products as customary in the industry largely consist of a limited preferential interest rate for mortgage loans and on credit balances.

Responsibilities and methods of determining compensation

The Group Nomination & Compensation Committee (see point 3.5.2 "Composition of all Board of Directors' committees, their tasks and terms of reference", pages 86 – 87) advises the Board of Directors in all aspects concerning compensation. Its tasks include:

- the formulation of recommendations for the stipulation of principles and the establishment of regulations for the compensation policy concerning the members of the Board of Directors, the members of the Group Executive Board and the other employees of the bank for submission to the Board of Directors;
- the formulation of proposals for the compensation of members of the Board of Directors and of the Group Executive Board as well as the Head of Group Internal Audit for submission to the Board of Directors in accordance with existing principles and regulations;

- the annual review of the Group regulation “Compensation standards”, the LLB AG regulation of the same name as well as the Group regulation “Fit & Proper – Assessment of members of the Board of Directors, members of the Board of Management, the Head of Group Internal Audit and of key function holders” for submission to the Board of Directors;
- the annual review of the compensation of the members of the Board of Directors, members of the Group Executive Board, the Head of Group Internal Audit and senior executives in risk management and compliance pursuant to the Group regulation “Compensation standards” and the LLB AG regulation of the same name for submission to the Board of Directors in accordance with existing principles and regulations;
- the annual review of the compensation of all other staff who are covered by the Group regulation “Compensation standards” and the LLB AG regulation of the same name.

The Board of Directors approves the principles and regulations governing compensation and specifies annually the amount of the compensation for the members of the Board of Directors and the members of the Group Executive Board, which reflects their professional experience and the organisational responsibility they bear in the company. The decision regarding the amount of the compensation of the members of the Board of Directors and the members of the Group Executive Board is made at the discretion of the Board of Directors and is based on their duties and responsibilities. The amount of variable compensation of the Board of Management is dependent on the individual fixed compensation from the compensation model. The Chairman of the Group Executive Board has a right of proposal concerning the compensation of the other members of the Board of Management. The members of the Group Executive Board are not present at the discussion and the decision concerning the amount of their compensation.

Pursuant to Art. 12, Para. 2 of the Law on the Liechtensteinische Landesbank, the Board of Directors must inform the Government about the compensation ruling specified for it. Liechtensteinische Landesbank does not submit the total compensation of the Board of Directors and the Group Executive Board to the General Meeting of Shareholders for approval. It also does not hold an advisory vote on the question of compensation.

Compensation in 2018

For the 2018 business year, the members of the Board of Directors received a fixed compensation of CHF thousands 888. Contributions to benefit plans and other social contributions amounted to CHF thousands 114. The fixed compensation was paid in cash (CHF thousands 731) as well as in the form of an entitlement to acquire LLB shares (CHF thousands 157). The entitlement to acquire LLB shares is subject to a blocked period of three years.

In comparison with the previous year, the total compensation of the members of the Board of Directors increased by CHF thousands 59 or 5.6 per cent. The higher compensation cost 2017 was attributable mainly to the fact that from the General Meeting 2018 the Board of Directors was composed of one member fewer (six members instead of the former seven).

For the 2018 business year, the members of the Group Executive Board received a fixed compensation of CHF thousands 3'236 and a variable compensation of CHF thousands 2'666. Contributions to benefit plans and other social contributions amounted to CHF thousands 1'091. The fixed compensation was paid in cash. The variable compensation was paid in cash (50 %) as well as in the form of an entitlement to acquire LLB shares (50 %), which is subject to a blocked period of three years. The number of shares for the share-based compensation is calculated from the average share price of the last quarter of 2018 (CHF 64.55). The variable compensation for the members of the Group Executive Board was, on average, approximately 82.4 per cent of the fixed compensation or 38.1 per cent of total compensation.

The total compensation of the members of the Group Executive Board in 2018 increased by CHF thousands 1'208 or 20.9 per cent. This increase was primarily the result of the higher variable compensation. The MAPI was plus 31.9 per cent (previous year: plus 4.1 %). This results from the total shareholder return of LLB (34.3 %) in comparison with the total shareholder return of the peer group (2.4 %) which corresponds to an attainment of objectives of 179.7 per cent (previous year: 110.4 %).

The total compensation of the members of the Board of Directors and the members of the Group Executive Board for the 2018 business year is reported on an accrual basis. The variable compensation was charged to the 2018 income statement. Payment of the STI to the members of the Group Executive Board will be made in the first quarter of 2019. The entitlement to acquire LLB shares by the Group Executive Board (LTI) and the Board of Directors is subject to a blocked period of three years.

Details of the compensation and the participations of the members of the Board of Directors and the Group Executive Board, as well as loans to them are shown in the following table.

Compensation of key management personnel

in CHF thousands	Fixed compensation *		Variable compensation		Contribution to benefit plans and other social contributions		Share-based payments		Entitlements		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Members of the Board of Directors												
Georg Wohlwend, Chairman since 13.05.2017 **	300	190	0	0	80	50	0	0	40	25	420	265
Hans-Werner Gassner, Chairman until 12.05.2017		125		0		39		0		15		179
Gabriela Nagel-Jungo, Vice Chairwoman	105	67	0	0	9	5	0	0	26	20	140	92
Markus Foser, Vice Chairman until 09.05.2018	42	119	0	0	7	12	0	0	11	30	60	161
Markus Büchel, Member until 09.05.2018	23	64	0	0	0	0	0	0	7	20	30	84
Patrizia Holenstein, Member	70	68	0	0	7	6	0	0	20	20	97	94
Urs Leinhäuser, Member ***	79	74	0	0	0	0	0	0	20	20	99	94
Roland Oehri, Member until 09.05.2018	22	65	0	0	4	7	0	0	7	20	33	92
Richard Senti, Member since 10.05.2018	49		0		4		0		13		66	
Thomas Russenberger, Member since 10.05.2018	41		0		3		0		13		57	
Total	**731**	**772**	**0**	**0**	**114**	**119**	**0**	**0**	**157**	**170**	**1'002**	**1'061**
Members of the Board of Management ****												
Roland Matt, Group CEO	737	637	218	175	206	196	0	0	218	175	1'379	1'183
Other members of the Board of Management *****	2'499	2'418	1'115	667	885	850	0	0	1'115	667	5'614	4'602
Total	**3'236**	**3'055**	**1'333**	**842**	**1'091**	**1'046**	**0**	**0**	**1'333**	**842**	**6'993**	**5'785**

* Fixed compensation fee, meeting allowances.
** The Chairman receives a fixed compensation for his 70 per cent workload. He does not receive meeting allowances.
*** The compensation was paid to Adulco GmbH .
**** The Board of Management comprises six members.
***** Group COO Kurt Mäder decided at the beginning of May 2018 to leave the LLB Group and to reorient his career. His remuneration is contained in the total. Group CEO Roland Matt and Deputy Group CEO Urs Müller were appointed interim heads of the Group COO Division as of mid-May 2018.

Share holdings of related parties

	Bearer shares	
	31.12.2018	31.12.2017
Members of the Board of Directors		
Georg Wohlwend, Chairman since 13.05.2017	640	500
Gabriela Nagel-Jungo, Vice Chairwoman	566	235
Markus Foser, Vice Chairman until 09.05.2018		835
Markus Büchel, Member until 09.05.2018		568
Patrizia Holenstein, Member	867	358
Urs Leinhäuser, Member	581	250
Roland Oehri, Member until 09.05.2018		950
Richard Senti, Member since 10.05.2018	0	
Thomas Russenberger, Member since 10.05.2018	0	
Total	**2'654**	**3'696**
Members of the Board of Management		
Roland Matt, Group CEO	16'392	13'458
Urs Müller, Vice Group CEO	19'074	14'746
Gabriel Brenna	19'921	7'683
Natalie Epp	1'193	50
Kurt Mäder, Member until 11.05.2018 *		8'479
Christoph Reich	9'851	6'513
Total	**66'431**	**50'929**
Other related companies and parties		
Related parties	4'550	100
Total	**4'550**	**100**

* Group COO Kurt Mäder decided at the beginning of May 2018 to leave the LLB Group and to reorient his career. Group CEO Roland Matt and Deputy Group CEO Urs Müller took over the management of the Group COO Division ad interim as of his departure in mid-May 2018. No member of the Board of Directors or the Board of Management owns more than 0.1 per cent of the voting rights.

No member of the Board of Directors or the Executive Management Board possesses more than 0.1 per cent of the voting rights.

Loans to key management personnel

in CHF thousands	Fixed mortgages 31.12.2018	Fixed mortgages 31.12.2017	Variable mortgages 31.12.2018	Variable mortgages 31.12.2017	Total 31.12.2018	Total 31.12.2017
Members of the Board of Directors						
Georg Wohlwend, Chairman since 13.05.2017	0	0	0	0	0	0
Gabriela Nagel-Jungo, Vice Chairwoman	400	400	0	0	400	400
Markus Foser, Vice Chairman until 09.05.2018		300		700		1'000
Markus Büchel, Member until 09.05.2018		1'285		0		1'285
Patrizia Holenstein, Member	0	0	0	0	0	0
Urs Leinhäuser, Member	0	0	0	0	0	0
Roland Oehri, Member until 09.05.2018		0		0		0
Thomas Russenberger, Member since 10.05.2018	0		0		0	
Richard Senti, Member since 10.05.2018	576		0		576	
Related parties	0	553	0	350	0	903
Total	**976**	**2'539**	**0**	**1'050**	**976**	**3'589**
Members of the Board of Management						
Roland Matt, Group CEO	1'000	1'005	0	0	1'000	1'005
Other members of the Board of Management *	2'810	2'810	0	0	2'810	2'810
Related parties **	0	0	0	0	0	0
Total	**3'810**	**3'815**	**0**	**0**	**3'810**	**3'815**

* In addition there is a surety limit of CHF thousands 84 for a member of the Board of Management.
** There is a surety limit of CHF thousands 84.

At 31 December 2018, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 3 and 51 months (previous year: between 1 and 95 months) at standard market client interest rates of 0.95 to 1.65 per cent per annum (previous year: 1.10 to 1.65 %). Mortgages at standard market conditions with variable interest rates were not issued (previous year: maturity between 2 and 23 months).

At 31 December 2018, the maturities of the fixed mortgages for the members of the Board of Management ranged between 1 and 78 months (previous year: between 10 and 90 months) at interest rates of 0.4 to 1.88 per cent per annum (previous year: 0.4 to 1.88 %).

In 2018, an expiring loan was extended at the same conditions. The fair value of the collateral for the newly granted loan amounted to CHF thousands 1'352.
Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1'000 (previous year: CHF thousands 1'000) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate. Other loans to the Board of Management amounted to CHF thousands 200 (previous year: CHF thousands 246).

No allowances for loans to management were necessary. LLB granted third parties guarantees amounting to CHF thousands 168 (previous year: CHF thousands 168) for management and related parties.

Compensation, loans and credits to related parties pursuant to Art. 16, OaEC

Liechtensteinische Landesbank AG paid no compensation to persons pursuant to Art. 16, OaEC. Loans and credits to related parties pursuant to Art. 16, OaEC were granted at standard market conditions.

Information on sustainability reporting

Sustainability to the LLB Group means creating long-term added value for our clients, shareholders, employees and other stakeholder groups. We are thus committed to responsible corporate governance, which takes into account economic, ecological and social performance. Sustainability topics occupy an important place in our annual report.

To provide the best possible transparency for our stakeholder groups, we prepared our sustainability reporting in accordance with the standards of the Global Reporting Initiative (GRI Standards). They provide companies with a systematic framework for communicating corporate responsibility in a transparent and comparable manner. Reporting in accordance with GRI Standards is the most widely used comprehensive sustainability reporting standard in the world.

This report has been prepared in accordance with the GRI Standards: "Core" option. The report has undergone and successfully completed the GRI Materiality Disclosures Service. LLB thus meets the current legal requirements: following the amendment of Liechtenstein's Persons and Companies Act (PGR), capital market-oriented corporations as well as large credit institutions and insurance companies that have more than 500 employees have been required since 2017 to disclose information about their Corporate Social Responsibility (CSR) performance in their annual report.

The Annual Report 2018 includes all companies with a 100 per cent equity interest (see "Scope of consolidation", page 190) as well as Bank Linth LLB AG, unless explicitly noted otherwise.

The systematic identification of key sustainability topics for the LLB Group and its stakeholder groups can be found on page 111. The key topics are structured according to the topic groups: market performance, compliance, responsibilities for society and the environment, as well as employees. As far as the data situation allows, this report covers all material topics.

Material topics are relevant to the whole LLB Group as well as to stakeholder groups particularly interested in the success of the company – such as shareholders and employees. They influence business risks and opportunities and therefore also the success of the business. The materiality of the topics for our stakeholder groups depends on their position in the value chain. Topics related to market performance and compliance are particularly relevant for our clients. For the supervisory authorities, it is essentially topics related to regulatory requirements that are material. Topics related to corporate responsibility for society and the environment are relevant to our neighbours, the Principality of Liechtenstein as well as environmental and social organisations. Topics in the area of employees are material in particular to them and our clients since the competence and motivation of the people in the LLB Group substantially determine the quality of the services. Further information on the material topics can be found in the management approaches: **ar2018.llb.li/gri-content-index**.

This page contains, inter alia, the following GRI disclosures (2016 version): 102-45, 102-46, 102-48, 102-49, 102-54. A list of all disclosures shown in the report can be found in the GRI Content Index on page 111.

GRI Content Index

Universal standards

GRI Standard	Page / Information
GRI 101: 2016 – Foundation	
GRI 102: 2016 – General Disclosures	
Organizational Profile	
102-1	Liechtensteinische Landesbank AG
102-2	9
102-3	Vaduz, Liechtenstein
102-4	29
102-5	43
102-6	29
102-7	Cover, 64
102-8	69
102-9	61
102-10	Acquisition of Semper Constantia and LB(Swiss) Investment AG
102-11	MA p. 3
102-12	46
102-13	51
Strategy	
102-14	5
Ethics and Integrity	
102-16	12
Governance	
102-18	70-71
Stakeholder Engagement	
102-40	56
102-41	none
102-42	56
102-43	52, 56
102-44	52
Reporting practice	
102-45	110
102-46	110
102-47	57
102-48	110
102-49	110
102-50	Calendar year 2018
102-51	March 2018
102-52	annually
102-53	doris.quaderer@llb.li
102-54	110
102-55	111
102-56	none

Topic-specific standards

GRI Standard	Page / Information	Omission
GRI 200 – Economic Topics		
GRI 201: 2016 – Economic Performance		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 5	
201-1	58	
201-3	69	
201-4	58	
GRI 202: 2016 – Market Presence		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 9	
202-2	65	
GRI 203: 2016 – Indirect Economic Impacts		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 9	
203-2	64	
GRI 204: 2016 – Procurement Practices		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 10	
204-1	61	
GRI 205: 2016 – Anti-corruption		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 6	
205-1	MA p. 6	
205-2	MA p. 6	
205-3	no incidents	
Product Portfolio		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 5	
FS7	24, 58	
FS8	58	
GRI 300 – Environmental Topics		
GRI 302: 2016 – Energy		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 11	
302-1	63	
302-4	61	
GRI 305: 2016 – Emissions		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 11	
305-1	63	
305-2	63	
305-5	61	

GRI Standard	Page / Information	Omission
GRI 400 – Social Topics		
GRI 401: 2016 – Employment		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 14	
401-1	69	
GRI 402: 2016 – Labor / Management Relations		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 15	
402-1	65	not available
GRI 403: 2016 – Occupational Health and Safety		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 15	
403-1	69	
403-2	66, 69	
GRI 404: 2016 – Training and Education		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 16	
404-1	68	not available
404-2	68	
404-3	68	
GRI 405: 2016 – Diversity and Equal Opportunity		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 17	
405-1	67	
405-2	65	not available
GRI 413: 2016 – Local Communities		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 13	
413-1	59-60	
FS13	24	
GRI 417: 2016 – Marketing and Labeling		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 13	
417-1	48-49	
417-3	no violations	
FS16	30	
GRI 418: 2016 – Customer Privacy		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 7	
418-1	47	
GRI 419: 2016 – Socioeconomic Compliance		
GRI 103: 2016	Management Approach	
103-1 / 103-2 / 103-3	MA p. 7	
419-1	no penalties	

Unless otherwise stated, the page numbers in the index are based on this report. In some cases, disclosures are given in our online document on management approaches to sustainability, which is published in our online Annual Report at ar2018.llb.li/gri-content-index. In this case, the relevant page numbers are marked with MA.
For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.
This page includes, inter alia, information on GRI disclosure 102-47 (2016 version).

Consolidated financial statement in
the online annual report with Excel files
for your own statistics

http://ar2018.llb.li/consolidated-financial-statement

Consolidated financial statement of the LLB Group

Pages 115 to 119 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinische Landesbank Aktiengesellschaft Vaduz

Report on the audit of the consolidated financial statements

Opinion

As statutory auditor, we have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements, pages 122 to 217) and the Group management report (pages 120 to 121) of Liechtensteinische Landesbank Group (LLB Group) for the year ended 31 December 2018.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position in accordance with the International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

Basis for opinion

We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the consolidated financial statements and the Group annual report are free from material misstatement. We audited the items and disclosures in the consolidated financial statements by means of analyses and surveys on a sample basis.

Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the consolidated financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach

Overview

Overall Group materiality: CHF 5.18 million

We concluded full scope audit work at four Group companies in three countries.

Our audit scope addressed 89 % of operating profit before tax and 100 % of the balance sheet total.

As key audit matters, the following areas of focus were identified:

- Valuation of loans
- Recoverability of goodwill
- Completeness and adequacy of the provisions for legal and litigation risks

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 5.18 million
How we determined it	5 % of operating profit before tax adjusted for integration costs in the amount of CHF 10 million
Rationale for the materiality benchmark applied	We chose operating profit before tax adjusted for integration costs in the amount of CHF 10 million as the benchmark because, in our view, it is the benchmark against which the performance of the LLB Group is most commonly measured. It is a generally accepted benchmark for materiality considerations.

We agreed with the Group Audit Committee that we would report to them misstatements above CHF 0.259 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk

Pages 115 to 119 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter
LLB Group grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

As at 31 December 2018, loans amount to CHF 12.9 billion (2017: CHF 12.1 billion) and thus represent the largest asset item of LLB Group. Mortgage-based loans form the majority of the loan portfolio (87 % of total loans by value). In addition, LLB Group grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual loss allowances. Calculating the amount of individual loss allowances requires judgement. We focussed on the following two audit matters:

- The method used by LLB Group to identify loans in the loan portfolio that may need a valuation adjustment, including loans that according to the LLB Group's definition show indications of impairment.
- The appropriateness and consistent application of the policies and instructions issued by Group management relating to the calculation of the amount of individual loss allowances.

The recognition and valuation principles applied to loans and the methods used to identify the default risk, to determine the need for impairment and to evaluate collateral are described in the annual report.

Please refer to pages 132 and 136 (Accounting principles), page 155 (Notes to the consolidated balance sheet), pages 142, 143 and 145 (First-time application of IFRS) and page 205 and following pages (Risk management: Credit risk).

How our audit addressed the key audit matter
We tested the adequacy and effectiveness of the following key controls relating to the valuation of loans in the loan portfolio:

- Credit processing and authorisation: Sample testing of the requirements and processes in the Group's internal policies and instructions in relation to credit processing. We also tested that approvals were granted at the appropriate level of authority.
- Credit monitoring (periodic reviews): Sample testing of identified loans at risk and identifying the extent of any need for impairment.
- Credit evaluation (Expected Credit Loss, ECL): Sample testing of the performance of key controls in the ECL calculation and accounting process.

Where significant judgement was required, we also challenged the decisions of those authorised to approve loans with our own critical opinion as part of our substantive tests of detail. Our tests of detail covered the following:

- Sample-based testing of new business and loans at risk in the loan portfolio (including loans with individual loss allowances or indications of impairment) to evaluate whether additional loss allowances were needed.
- Sample-based testing of the method used to calculate loss allowances on the loan portfolio in terms of its appropriateness and compliance with the policies and instructions issued by the Group.
- Sample testing of the calculated ECL value with regard to the correctness of the model input data, the plausibility check of the assumptions and the consistency with the Bank's methods and process, the calculation of the ECL value and its correct entry in the system.

The combination of the audit of key controls and the tests of detail gives us sufficient assurance to assess the valuation of customer loans as adequate.

The assumptions used by LLB Group are in line with our expectations.

Pages 115 to 119 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

Impairment of goodwill

Key audit matter
LLB Group disclosed goodwill as at 31 December 2018 in the amount of CHF 169.3 million (2017: CHF 56 million). The goodwill stems from acquisitions of subsidiaries and it has been allocated to the four cash-generating units (CGUs) Bank Linth LLB AG, Liechtensteinische Landesbank AG, Liechtensteinische Landesbank (Österreich) AG and LLB Swiss Investment AG.

LLB Group tests this goodwill for impairment at least once every year. For the test, the value in use must be higher than the carrying amount. LLB Group uses a discounted cash flow (DCF) valuation method. The DCF method calculates the value in use based on the expected future cash flows. The method involves the following key assumptions and scope for judgement:

- Assumptions regarding expected cash flows
- Assumptions regarding the discount rate and the long-term growth rate

Please refer to page 138 (Accounting principles) and page 163 (Notes to the consolidated balance sheet).

How our audit addressed the key audit matter
We based our audit on the analyses and calculations performed by Group management. With the involvement of a valuation expert, we performed the following audit procedures:

- Plausibility check of the analyses performed by LLB Group relating to impairment indicators.
- Assessment of the appropriateness of the DCF method and its implementation.
- Examination of management's medium-term planning processes.
- Plausibility check of the medium-term planning of the subsidiaries (CGUs) and an assessment of the expected cash flows by means of a budget vs. actual comparison.
- Plausibility check of the assumed growth rate and discount rate based on external market information.
- Tests of the sensitivity analysis of the parameters and assumptions used.

The assumptions used by LLB Group are in line with our expectations.

Completeness and adequacy of the provisions for legal and litigation risks

Key audit matter
In the course of normal business, LLB Group is involved in various legal proceedings. The amount of the provisions for legal and litigation risks as of 31 December 2018 is CHF 21.9 million (2017: CHF 23.0 million).

We identified the completeness and the adequacy of the provisions for legal and litigation risks as a key audit matter, as significant judgement exists in the assessment of the probability and the amount of the provisions for any financial obligations.

LLB Group has processes in place to identify, evaluate and monitor client complaints as well as potential and actual legal proceedings. LLB Group creates provisions for current and impending proceedings if, in the opinion of the competent specialists, the Group is likely to suffer a cash outflow or a loss and the amount can be reliably estimated.

Please refer to page 139 (Accounting principles), page 169 (Notes to the consolidated balance sheet) and page 213 (Risk management: Operational and legal risks).

How our audit addressed the key audit matter
We based our audit on the analyses performed by Group management. Further, we made use of external lawyers' letters. We compared the analyses with our own estimates and our understanding of the legal and litigation risks.

We performed the following audit procedures:

- Inquiries of the Head of Group Legal and of individual members of Group management.
- Review and inspection of the list of customer complaints, of correspondence with relevant regulatory authorities and of the minutes of the meetings of the Board of Directors and the Group management for indications of potential lawsuits.
- Review of the central register of current legal proceedings and sample testing of lawsuits with regard to any potential need for provisions.
- Obtained external lawyers' letters and expert opinions on selected ongoing lawsuits with regard to the probability and amount of provisions, and compared this with the provisions created by LLB Group in the consolidated financial statements.
- Test of the proper use of provisions.

The assumptions used by LLB Group are in line with our expectations.

Pages 115 to 119 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare

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circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Group's annual report accords with the consolidated financial statements.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Romer

Claudio Tettamanti
Auditor in charge

St. Gallen, 22 February 2019

Consolidated management report

LLB Group financial statement

In 2018, the LLB Group achieved further operative progress. Integration costs and the continuing low interest rate environment coupled with the interest and equity market development had an adverse effect on the Group financial statement. In the 2018 business year, the LLB Group earned a net profit of CHF 85.1 million (2017: CHF 111.3 million). The net profit therefore decreased in comparison with the previous year by 23.5 per cent or CHF 26.1 million. In 2018 for the first time, the two acquired companies LB(Swiss) Investment AG and Semper Constantia Privatbank AG were considered in the accounts for nine and six months, respectively. Taking into account the income contributions made by the acquired companies and the integration costs for them resulted in a charge of CHF 7.9 million to the consolidated business result.

In comparison with the previous year, operating income rose by 0.1 per cent and operating expenses by 14.6 per cent. The net profit attributable to the shareholders of Liechtensteinische Landesbank amounted to CHF 78.0 million (2017: CHF 105.7 million). Earnings per share stood at CHF 2.62 (2017: CHF 3.66).

Income statement

In the 2018 business year, operating income increased by 0.1 per cent to CHF 399.7 million (2017: CHF 399.4 million). The contribution to operating income made by the acquired companies LB(Swiss) Investment AG and Semper Constantia Privatbank AG totalled CHF 32.4 million.

Interest income before expected credit loss increased in comparison with the previous year by 8.3 per cent or CHF 12.1 million to CHF 158.0 million (2017: CHF 145.9 million). Income from interest business with clients slipped marginally. The growth of the mortgage lending volume was unable to completely compensate for the expected decline in income from the extension of fixed interest loans at lower conditions and the higher interest paid on foreign currency funds. In contrast, income from interest business with banks was substantially above the previous year thanks to lower interest rate hedging costs and higher interest earnings on bank deposits in foreign currencies.

In the 2018 business year, the LLB Group was able to credit the income statement with an amount of net CHF 7.1 million (2017: release of CHF 8.3 million) for the release of allowances for expected credit loss.

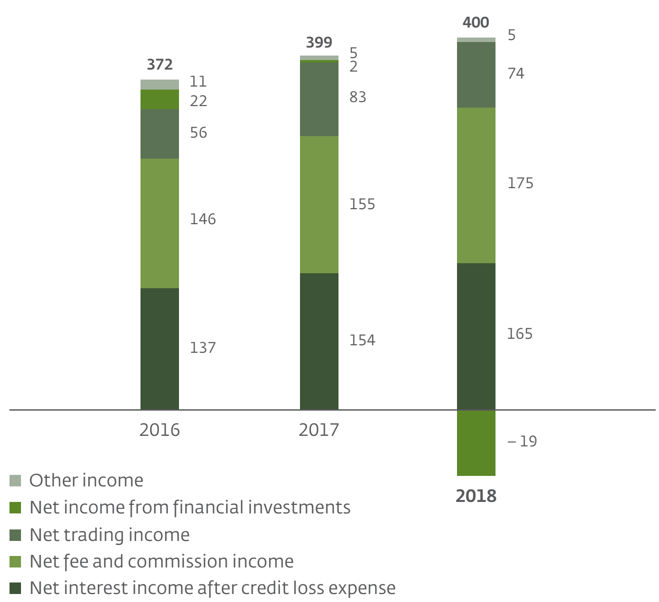
Net fee and commission income increased by 13.2 per cent or CHF 20.5 million to CHF 175.3 million (2017: CHF 154.8 million). The rise was attributable to intensive marketing measures, for example with the launch of new LLB Invest products. The contribution to income of the acquired companies amounted to CHF 28.3 million. Net brokerage fell in comparison with the previous year by 15.1 per cent on account of the lower volume of stock market transactions made by clients.

Net trading income in the 2018 business year stood at CHF 73.8 million (2017: CHF 82.9 million). Trading in foreign exchange, foreign notes and precious metals rose substantially in comparison with the previous year by 5.0 per cent to CHF 64.4 million. This was attributable to the treasury performance and the contribution made to the business result by the acquisitions. The valuation of interest rate hedging instruments, from the perspective of the reporting date, amounted to CHF 9.4 million (2017: CHF 21.5 million). The decline is due to the development of market interest rates in Swiss francs, which rose in 2017 and remained stable in 2018.

The negative development on the financial markets and higher USD interest rates led to book losses with financial investments of CHF 9.9 million compared with a gain of CHF 4.2 million in 2017; the financial instruments were measured at fair value from the perspective of the reporting date. Income from dividends remained unchanged relative to the previous year.

Other income remained at the same level and amounted to CHF 4.9 million.

Operating income (in CHF millions)



Operating expenses climbed in the 2018 business year by 14.6 per cent to CHF 305.9 million (2017: CHF 267.0 million). The operating expenses of the acquired companies without integration costs totalled CHF 29.3 million. The one-time integration costs amounted to CHF 14.8 million.

Personnel expenses of CHF 182.4 million were up compared with the previous year by 17.4 per cent or CHF 27.0 million (2017: CHF 155.4 million). The increase was attributable to the strategic expansion of human resources as well as the company acquisitions.

General and administrative expenses expanded by 9.6 per cent or CHF 8.0 million to CHF 90.8 million (2017: CHF 82.8 million). The previous year's figures contained the release of provisions for legal and litigation risks as well as for higher lawyers' and legal representation expenses of net CHF 14.9 million. Without these effects, general and administrative expenses would have been CHF 22.7 million higher than the previous year, which was largely due to the takeover of the acquired companies and the integration costs incurred in relation to this.

Depreciation and amortisation increased to CHF 32.7 million (2017: CHF 28.8 million). The increase was largely due to the takeover of the acquired companies.

The Cost-Income-Ratio rose to 77.7 per cent (2017: 69.6 %). Without market effects, i.e. without income from interest rate swaps and price gains from financial investments, the Cost-Income-Ratio would have been 75.5 per cent (2017: 73.9 %).

Balance sheet

The consolidated balance sheet total increased by 14.4 per cent in comparison with 31 December 2017 and stood at CHF 22.9 billion on 31 December 2018 (31.12.2017: CHF 20.0 billion). The increase in the balance sheet total is largely attributable to the takeover of LB(Swiss) Investment AG and Semper Constantia Privatbank AG. Loans to clients rose by 6.4 per cent to CHF 12.9 billion in comparison with 31 December 2017. Mortgage loans expanded by 5.3 per cent to CHF 11.1 billion.

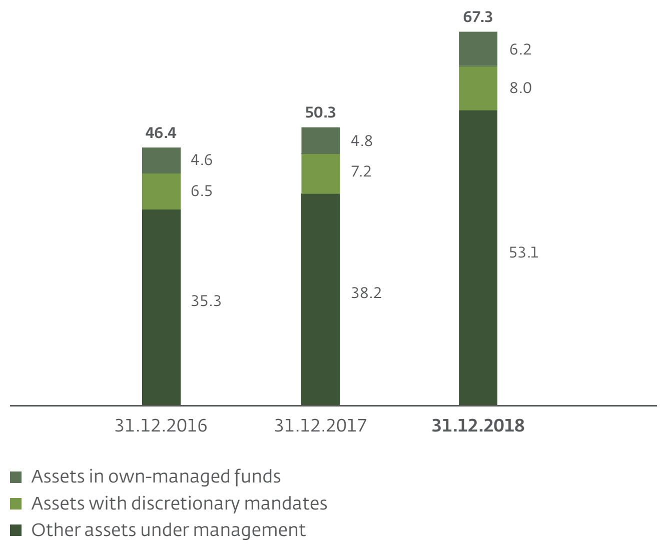
Equity attributable to the shareholders of LLB amounted to CHF 1.9 billion at 31 December 2018. The tier 1 ratio stood at 19.0 per cent (31.12.2017: 21.6 %). The return on equity attributable to the shareholders of LLB amounted to 4.3 per cent (2017: 6.0 %).

Assets under management

Assets under management climbed by 33.9 per cent to CHF 67.3 billion (31.12.2017: CHF 50.3 billion). Thanks to the acquisition of Semper Constantia Privatbank AG at the beginning of July 2018 they rose by CHF 20.7 billion. Turbulence on the financial markets led to negative currency effects and a negative performance of minus CHF 4.7 billion.

The LLB Group continued its growth in the 2018 business year and attained a net new money inflow of CHF 1'278 million (2017: CHF 470 million). Thanks to intensive sales and marketing activities, it achieved positive new money inflows in all three market segments and all booking centres.

Assets under management (in CHF billion)



Outlook

In 2019, we expect further operative progress, a confirmation of our growth trend, a positive profit contribution from the newly acquired subsidiaries, and a solid Group business result.

Consolidated income statement

in CHF thousands	Note	2018	2017	+ / – %
Interest income from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income	1	210'893	192'947	9.3
Interest income from financial instruments at fair value through profit and loss	1	16'534	15'393	7.4
Interest expenses from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income	1	–49'357	–36'790	34.2
Interest expenses at fair value through profit and loss	1	–20'078	–25'629	–21.7
Net interest income	**1**	**157'993**	**145'922**	**8.3**
Expected credit losses	13	7'106	8'333	–14.7
Net interest income after expected credit losses		**165'098**	**154'254**	**7.0**
Fee and commission income	2	261'267	181'751	43.7
Fee and commission expenses	2	–85'987	–26'922	219.4
Net fee and commission income	**2**	**175'280**	**154'830**	**13.2**
Net trading income	3	73'796	82'857	–10.9
Net income from financial investments at fair value	4	–19'396	2'625	
Share of net income of joint venture	16	–3	–14	–82.4
Other income	5	4'888	4'816	1.5
Total operating income		**399'664**	**399'369**	**0.1**
Personnel expenses	6	–182'427	–155'400	17.4
General and administrative expenses	7	–90'783	–82'806	9.6
Depreciation and amortisation	8	–32'697	–28'773	13.6
Total operating expenses		**–305'906**	**–266'979**	**14.6**
Operating profit before tax		**93'758**	**132'389**	**–29.2**
Tax expenses	9	–8'631	–21'131	–59.2
Net profit		**85'127**	**111'259**	**–23.5**
Of which attributable to:				
Shareholders of LLB		77'991	105'739	–26.2
Non-controlling interests	32	7'136	5'520	29.3
Earnings per share attributable to the shareholders of LLB				
Basic earnings per share (in CHF)	10	2.62	3.66	–28.4
Diluted earnings per share (in CHF)	10	2.62	3.66	–28.4

Consolidated statement of comprehensive income

in CHF thousands	Note	2018	2017	+ / – %
Net profit		85'127	111'259	– 23.5
Other comprehensive income (net of tax), which can be reclassified to the income statement				
Foreign currency translation		– 5'001	4'203	
Value changes to financial investments available for sale			2'467	
Reclassified (gains) / losses to the income statement from financial investments available for sale	4		– 5'185	
Changes in value of debt instruments, recognised at fair value through other comprehensive income		1'296		
Reclassified (profit) / loss with debt instruments, recognised at fair value through other comprehensive income	4	– 337		
Tax effects	24	3'193	77	
Total other comprehensive income (net of tax), which can be reclassified to the income statement		**– 849**	**1'563**	
Other comprehensive income (net of tax), which cannot be reclassified to the income statement				
Actuarial gains / (losses) of pension plans		1'744	15'676	– 88.9
Changes in value of equity instruments, recognised at fair value through other comprehensive income		845		
Tax effects	24	– 858	– 2'875	– 70.2
Total other comprehensive income (net of tax), which cannot be reclassified to the income statement		**1'731**	**12'801**	**– 86.5**
Comprehensive income for the period		**86'009**	**125'622**	**– 31.5**
Of which attributable to:				
Shareholders of LLB		77'731	117'879	– 34.1
Non-controlling interests		8'278	7'743	6.9

Consolidated balance sheet

in CHF thousands	Note	31.12.2018	31.12.2017	+ / – %
Assets				
Cash and balances with central banks	11	5'708'324	4'129'723	38.2
Due from banks	12	1'611'454	1'940'433	–17.0
Loans	13	12'852'541	12'083'966	6.4
Derivative financial instruments	14	197'886	58'740	236.9
Financial investments at fair value	15	1'937'057	1'460'135	32.7
Non-current assets held for sale	35	21'214	6'734	215.0
Investment in joint venture	16	30	33	–7.8
Property and equipment	17	119'943	125'077	–4.1
Investment property	17	15'000	15'000	0.0
Goodwill and other intangible assets	18	305'314	112'896	170.4
Current tax assets		1'670	890	87.6
Deferred tax assets	24	20'770	12'642	64.3
Accrued income and prepaid expenses		56'868	39'395	44.4
Other assets	19	44'003	31'814	38.3
Total assets		**22'892'072**	**20'017'478**	**14.4**
Liabilities				
Due to banks	21	1'509'412	943'316	60.0
Due to customers	22	17'475'706	15'652'158	11.7
Derivative financial instruments	14	255'564	117'448	117.6
Debt issued	23	1'236'362	1'169'027	5.8
Non-current liabilities held for sale	35	2'386	0	
Current tax liabilities		14'373	17'078	–15.8
Deferred tax liabilities	24	34'257	14'472	136.7
Accrued expenses and deferred income		51'625	30'250	70.7
Provisions	25	30'451	28'128	8.3
Other liabilities	26	272'232	162'619	67.4
Total liabilities		**20'882'368**	**18'134'496**	**15.2**
Equity				
Share capital	27	154'000	154'000	0.0
Share premium	28	–21'157	23'509	
Treasury shares	29	–8'195	–163'886	–95.0
Retained earnings	30	1'815'053	1'815'454	–0.0
Other reserves	31	–53'388	–62'371	–14.4
Total equity attributable to shareholders of LLB		**1'886'313**	**1'766'706**	**6.8**
Non-controlling interests	32	123'391	116'276	6.1
Total equity		**2'009'705**	**1'882'982**	**6.7**
Total liabilities and equity		**22'892'072**	**20'017'478**	**14.4**

Consolidated statement of changes in equity

		attributable to shareholders of LLB							
in CHF thousands	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2017		154'000	24'968	−167'045	1'758'816	−74'511	1'696'228	110'146	1'806'374
Net profit					105'739		105'739	5'520	111'259
Other comprehensive income						12'140	12'140	2'223	14'364
Net movements in treasury shares	28 / 29		−1'458	3'159			1'701		1'701
Dividend 2016, paid 2017	30 / 32				−49'091		−49'091	−1'623	−50'714
Increase / (Reduction) in non-controlling interests	30 / 31 / 32				−10	0	−10	10	0
As at 31 December 2017		**154'000**	**23'509**	**−163'886**	**1'815'454**	**−62'371**	**1'766'706**	**116'276**	**1'882'982**
Reclassification of equity instruments from FVTPL to FVOCI (from first application of IFRS 9)					−9'242	9'242	0		0
Revalution: ECL allowance (from first application of IFRS 9)					−10'650		−10'650	−1'052	−11'702
As at 1 January 2018		154'000	23'509	−163'886	1'795'561	−53'129	1'756'055	115'224	1'871'279
Net profit					77'991		77'991	7'136	85'127
Other comprehensive income						−259	−259	1'142	883
Net movements in treasury shares	28 / 29		−44'666	155'691			111'025		111'025
Dividend 2017, paid 2018	30 / 32				−57'883		−57'883	−1'826	−59'709
Increase / (Reduction) in non-controlling interests	30 / 31 / 32				−616	0	−616	1'715	1'099
As at 31 December 2018		**154'000**	**−21'157**	**−8'195**	**1'815'053**	**−53'388**	**1'886'313**	**123'391**	**2'009'705**

Pages 126 and 127 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

Consolidated statement of cash flows

in CHF thousands	Note	2018	2017
Cash flow from / (used in) operating activities			
Interest received		227'852	216'640
Dividends received from financial investments at fair value	4	876	981
Interest paid		−70'112	−61'442
Fees and commission received		247'882	179'305
Fees and commission paid		−67'462	−25'508
Trading income		60'739	59'606
Other income		3'980	3'675
Payments for personnel, general and administrative expenses		−255'390	−246'982
Income tax paid		−16'268	−9'758
Cash flow from operating activities, before changes in operating assets and liabilities		132'097	116'518
Net due from / to banks		964'053	1'678'110
Trading portfolio assets including net replacement values		8'384	4'728
Loans / due to customers		1'046'545	−726'070
Other assets		33'112	−16'546
Other liabilities		91'258	−6'206
Changes in operating assets and liabilities		2'143'351	934'015
Net cash flow from / (used in) operating activities		**2'275'448**	**1'050'533**

Cash flow from / (used in) investing activities			
Purchase of property and equipment	17	−20'198	−26'368
Disposal of property and equipment	17	−11'556	6'126
Purchase of other intangible assets	18	−12'874	−8'715
Disposal of other intangible assets	18	29	19
Purchase of financial investments at fair value		−889'203	−602'276
Disposal of financial investments at fair value		523'235	527'961
Acquisition of fully consolidated companies minus cash and cash equivalents		−220'194	0
Sale of non-current assets held for sale		4'771	0
Net cash flow from / (used in) investing activities		**−625'990**	**−103'253**

Pages 126 and 127 were adjusted on 29 April 2019.
The updated document can be accessed at www.llb.li/statementofcashflows2018.

in CHF thousands	Note	2018	2017
Cash flow from / (used in) financing activities			
Purchase of treasury shares	29	−7'485	0
Disposal of treasury shares	29	51'251	3'159
Dividends paid	30	−57'883	−49'091
Dividends paid to non-controlling interests	32	−1'826	−1'623
Increase in non-controlling interests	30 / 31 / 32	1'099	0
Issuance of debt		246'401	167'745
Repayment of debt		−178'971	−226'944
Net cash flow from / (used in) financing activities		**52'586**	**−106'754**
Effects of foreign currency translation		−54'522	21'880
Net increase / (decrease) in cash and cash equivalents		**1'647'522**	**862'406**
Cash and cash equivalents at beginning of the period		4'819'533	3'957'127
Cash and cash equivalents at end of the period		**6'467'055**	**4'819'533**
Cash and cash equivalents comprise:			
Cash and balances with central banks	11	5'708'324	4'129'723
Due from banks (due daily)	12	758'731	689'809
Total cash and cash equivalents		**6'467'055**	**4'819'533**

Accounting principles

1 Basic information

The LLB Group offers a broad spectrum of financial services. Of particular importance are asset management and investment advisory for private and institutional clients, as well as retail and corporate client businesses.

The Liechtensteinische Landesbank Aktiengesellschaft, founded in and with its registered office located in Vaduz, Principality of Liechtenstein, is the parent company of the LLB Group. It is listed on the SIX Swiss Exchange.

The Board of Directors reviewed this consolidated annual statement at its meeting on 22 February 2019 and approved it for publication.

2 Summary of significant accounting policies

The significant accounting and valuation methods employed in the preparation of this consolidated financial statement are described in the following. The described methods have been consistently employed for the reporting periods shown, provided no statement to the contrary is specified.

2.1 Basis for financial accounting

2.1.1 General points

The consolidated financial statement was prepared in accordance with the International Financial Reporting Standards (IFRS). With the exception of the revaluation of certain financial assets and liabilities, the consolidated financial statement was prepared on the basis of the historical acquisition or production cost.

On account of detailed definitions in its presentation, the consolidated financial statement of the comparison period can contain reclassifications. These have no, or no substantial, effect on the business result. No further details of reclassifications are provided because the only adjustments concern the type of presentation.

2.1.2 New IFRS standards, amendments and interpretations

New IFRS standards, as well as revisions and interpretations of existing IFRS standards, which must be applied for financial years beginning on 1 January 2018 or later, were published or came into effect.

The new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", as well as amendments to IAS 1 "Presentation of Financial Statements", IAS 40 "Investment Property" and IFRS 2 "Share-based Payment" were designated as relevant for the LLB Group for the 2018 financial year. The application of the amendments to IFRS 2, IFRS 15, IAS 1 and IAS 40 has no major effect on the financial reporting. The quantitative effects of IFRS 9 are discussed under point 3 "First application of IFRS 9" in the accounting principles. In the case of both IFRS 9 and IFRS 15, the transition rulings enable a modified retroactive adjustment to be made. Effects arising from the transition to the new standard are recognised in equity without affecting the income statement; no restatement of the comparison period is made. The LLB Group has elected to adopt the simplified form for the initial application of these standards, i.e. the values for the prior comparison periods are presented according to the old regulations. The transition from IAS 18 "Revenues" and the relevant interpretations of IFRS 15 do not result in a correction of equity because the balance sheet does not contain any positions that would be subject to IFRS 15 regulations. Within the scope of the application of IFRS 9, the LLB Group decided in favour of the early implementation of the amendments to IFRS 9, which concern the right of early termination and which were published by the International Accounting Standards Board (IASB) in October 2017. The early application will have no material impact.

The following new or revised IFRS standards or interpretations are of importance for the LLB Group from 1 January 2019 or later:

- IFRS 16 "Leasing" – The new standard regulates the recognition and disclosure of leasing contracts. Leasing contracts are understood to be contracts that convey the right to use an asset for a period of time in exchange for a consideration. This can be, for example, the leasing of office premises or motor vehicles. The IFRS 16 contains no material threshold values for when a leasing contract is to be recognised as an asset, rather all substantial leasing contracts are basically to be entered in the accounts. However options exist for short-term leasing terms (shorter than 12 months) and for low-value assets. The entering of leasing contracts in the financial accounts leads to a balance sheet extension, which basically has a negative impact on the regulatory required equity and also on the corresponding regulatory key figures, such as the Tier 1 ratio. In the first quarter of 2018 a project was started with the aim of ensuring an application of the standard in conformance with IFRS. It was decided to install software for the proper presentation of these positions on the balance sheet. The successful completion of the project and the recognition of the leasing contracts per 1 January 2019 occurred in the fourth quarter of 2018. Leasing contracts exist in the form of leases for office premises and properties, as well as for motor vehicles. The standard came into effect on 1 January 2019 and was then applied for the first time by the LLB Group. The simplified approach serves as a transition method, meaning that no comparison information needs to be restated. Other practical aids will also be utilised in addition. For example, the new IFRS 16 regulations will also be applied to all leasing contracts, which already existed under IAS 17 "Leasing", or which were not applied to contracts that were not classified as leases under IAS 17. On account of their similarity, the underlying leasing contracts can be combined so that in the case of the same duration, the same discount rate can be applied. Since the underlying leasing contracts are not onerous contracts, an impairment test as part of the transition process was not considered necessary. Where possible, the contracts are classified as short-term leasing relationships or low-value leasing contracts, and the revaluation of the duration is premised on the existence of extension and / or termination options. The effects of introducing the new standard on the impairment of key figures is regarded as not being material; the right of use assets to be reported, which lead to an increase in the balance sheet total, amount to CHF 31 million. The lessee's incremental borrowing rate of interest serves as the basis for the calculation of the right of use assets, which is specified by IFRS 16 in the case of selection of the modified retrospective transitional application.

- IAS 19 "Employee Benefits" – The amendments to IAS 19 were introduced to eliminate differences in accounting practices. Previously, rulings existed for how changes to contribution and benefit payments were to be considered for the calculation of net debt and net interest, but not however what procedure was to be adopted if amendments, curtailments, or settlements to defined benefit plans occurred during the report period. From now on, it is stipulated that when an amendment, curtailment or settlement of a defined benefit plan occurs, the current service cost and the net interest of the period after the remeasurement are to be determined using the actuarial assumptions used for the remeasurement. In a first step, the effects of a plan amendment, curtailment or settlement are to be recognised without considering any possible effects in relation to the asset ceiling. The determination and possible adjustment of the asset ceiling will only follow in a second step. The amendments came into effect from 1 January 2019. The LLB Group has already utilised the option to apply the amendments in advance. Within the LLB Group, plan amendments occurred at two companies during the second half of 2018. These resulted in a profit of CHF 0.4 million and an increase in equity of CHF 7.3 million.
- IFRIC 23 "Uncertainty over Income Tax Treatments" – The interpretation provides guidelines regarding the treatment of taxable profit or taxable losses, tax bases, unused tax credits and tax rates when there is uncertainty as to what extent the tax authorities will recognise the individual tax positions. In a first step it is to be determined whether each tax treatment should be considered individually or whether some tax treatments should be considered together. In doing so, it is to be evaluated whether it is likely that the tax authority will accept the tax treatment or combination of tax treatments that an entity has employed, or intends to employ, in its tax declaration. If an entity concludes that it is probable that a particular tax treatment will be accepted, the entity has to determine taxable profit (taxable loss), tax bases, unused tax credits or tax rates consistently with the tax treatment included in its income tax declaration. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or expected value of the tax treatment. The interpretation came into effect from 1 January 2019 and will be applied for the first time by the LLB Group from this date. It will be applied fully retrospectively or retrospectively in a modified form. The implementation of these changes has no major influence on the LLB Group's financial statement. There are no transitional effects.
- IFRS 3 "Business Combinations": Amendments in respect of the definition of a business – The amendments clarify that to be considered a business, an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create an output. The assessment of whether an acquired process is substantial replaces the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. Outputs are regarded as being goods or services produced for customers which contribute to the earning of investment income or other earnings from ordinary business activity. Therefore, pure cost reductions are no longer regarded as sufficient to differentiate between the acquisition of a business and a group of assets. IFRS 3 now contains guidelines that permit a simplified assessment of whether a business or merely a group of assets has been acquired. The optional concentration test assesses whether the entire fair value of the acquired gross assets is concentrated in one asset or in a group of identical assets. If this is the case, a business as such does not exist, and no evaluation regarding the input factors and substantial processes for generating an output needs to be made. Various examples are provided with the amendments, which come into effect from 1 January 2020. An earlier adoption is possible and is currently being considered by the LLB Group. The implementation of the changes will have no major influence on the LLB Group's financial statement.
- IAS 1 "Presentation of Financial Statements": Amendments regarding the definition of materiality – The amendments aim to simplify and standardise the definitions of "material" in the various IFRS. Examples are also provided. The amendments come into effect from 1 January 2020 and will be applied prospectively. An earlier adoption is possible and is currently being considered by the LLB Group. The implementation of the changes will have no major influence on the LLB Group's financial statement.
- IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": Changes regarding the definition of materiality – In future the definition as in IAS 1 will be valid. Reference is made to the explanations under IAS 1 regarding the date of adoption and possible effects.
- Conceptual Framework – A new Conceptual Framework was published in March 2018. This aims to support the IASB both in developing new standards on the basis of uniform concepts and to help the persons preparing financial statements to formulate new accounting policies. In addition, it should assist all users to understand and interpret IFRS. The Framework is not a standard and does not override any specific regulation in the standards. The Framework is to be applied for financial years beginning on or after 1 January 2020. An earlier adoption is possible but the LLB Group will probably not choose to adopt this in advance. The possible effects are currently being analysed.

Within the scope of its annual improvements, the IASB published further improvements (Annual Improvements to IFRS 2015 – 2017 Cycle). They come into effect for financial years beginning from 1 January 2019. The implementation of these changes has no influence on the LLB Group's financial statement.

2.1.3 Use of estimates in the preparation of financial statements

In preparing the financial statements in conformity with IFRS, the management is required to make estimates and assumptions. These include statements regarding future developments, for the correctness of which no guarantee can be provided. They contain risks and uncertainties including, but not restricted to, future global economic conditions, exchange rates, regulatory provisions, market conditions, competitors' activities as well as other factors, which are beyond the control of the company. These assumptions affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of information available on the balance sheet date and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences could be substantial to the financial statements. LLB is under no obligation to update the statements regarding future developments made in this annual report.

The IFRS contains guidelines which require the LLB Group to make estimates and assumptions when preparing the consolidated financial statement. Expected credit losses, goodwill, intangible assets, provisions for legal and litigation risks, fair value conditions for financial instruments and value adjustments for pension plans are all areas which leave large scope for estimate judgments. Assumptions and estimates made in these areas could be substantial to the financial statement. Explanations regarding this point are shown under Notes 13, 18, 25, 33 and in the chapter "Pension plans and other long-term benefits".

2.2 Consolidation policies

The consolidated financial statement adopts a business perspective and follows a financial format. The consolidation period corresponds to the calendar year. The financial year is identical to the calendar year for all consolidated companies. Solely LLB Invest AGmvK has a different financial year; however, this company is negligible for the preparation of the consolidated financial statement. The Swiss franc (CHF), the currency of the country in which LLB AG has its registered office, serves as the reporting currency of the LLB Group.

2.2.1 Subsidiaries

The consolidated financial statement incorporates the financial accounts of Liechtensteinische Landesbank AG and its subsidiaries. LLB Group companies, in which Liechtensteinische Landesbank AG holds, directly or indirectly, the majority of the voting rights or otherwise exercises control, are fully consolidated. Subsidiaries acquired are consolidated from the date control is transferred to Liechtensteinische Landesbank AG, and are no longer consolidated from the date this control ends.

The consolidation is carried out according to the purchase method. The effects of intra-group transactions and balances are eliminated in preparing the financial statements. Transactions with minorities are booked to equity.

Equity attributable to minority interests is presented in the consolidated balance sheet in equity, separately from equity attributable to LLB shareholders. Net profit attributable to minority interests is shown separately in the income statement.

2.2.2 Investment in joint venture

Joint ventures, i.e. companies in which LLB has a 50 per cent participation, are recognised according to the equity method.

2.2.3 Changes to the scope of consolidation

There were changes to the scope of consolidation in the 2018 financial year. Further details can be found in the chapters "Company acquisitions" and "Scope of consolidation".

2.3 General principles

2.3.1 Recording of business

Sales and purchases from trading assets, derivative financial instruments and financial investments are booked on the transaction date. Loans, including those to clients, are recorded in that period of time in which the funds flow to the borrower.

2.3.2 Income accrual

Interest and dividend payments are subject to the provisions of IFRS 9. Interest income is recorded using the effective interest method and dividends are recorded at the time point when a legal claim comes into existence.

Earnings reported under "Net fee and commission income" are subject to the provisions of IFRS 15 "Revenues from contracts with customers".

2.3.3 Inland versus abroad

"Inland" encompasses the Principality of Liechtenstein and Switzerland.

2.4 Foreign currency translation

2.4.1 Functional currency and reporting currency

The items contained in the financial accounts of each Group company are valued in the currency which is used in the primary business environment in which the company operates (functional currency).

The reporting currency of the LLB Group is the Swiss franc.

2.4.2 Group financial statement

Group companies which report their financial accounts in a functional currency other than the Group's reporting currency are translated as follows: all assets and liabilities are converted at the relevant exchange rate valid on the balance sheet date. All individual items in the income statement and statement of cash flows are converted at the average exchange rate for the accounting period. All resulting exchange differences are booked individually to equity and other comprehensive income, respectively.

2.4.3 Separate financial statements

Foreign currency transactions are translated on the day of the transaction at spot rates into the functional currency. Foreign currency differences with financial assets and financial liabilities occur if the exchange rate prevailing on the reporting date differs from the spot rate on the transaction date. In the case of monetary items, the resulting foreign currency differences are recognised in the income statement in the position foreign exchange trading under net trading income. The same applies to non-monetary items, which are recognised at fair value. In the case of non-monetary items, whose fair value changes are recognised directly in equity and in other comprehensive income without affecting net income, respectively, the foreign currency difference is a part of the change in fair value. If material, the foreign currency difference is reported in a footnote under Note 15.

The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2018	31.12.2017
1 USD	0.9866	0.9765
1 EUR	1.1282	1.1715
1 GBP	1.2628	1.3201

Average rate	2018	2017
1 USD	0.9775	0.9837
1 EUR	1.1524	1.1132
1 GBP	1.3016	1.2749

2.5 Cash and balances with central banks

Cash and balances with central banks consist of cash in hand, postal cheque balances, giro and sight deposits at the Swiss National Bank and foreign central banks, as well as clearing credit balances at recognised central savings and clearing banks, claims from money market instruments with an original maturity period of less than three months, as well as loans due from banks (due daily).

2.6 Measurement of balance sheet positions

Depending on the basis on which they are measured, balance sheet positions can be assigned to two groups: IFRS 9 relevant and IFRS 9 non-relevant. The major portion of the LLB Group's balance sheet total is composed of balance sheet items that are measured according to IFRS 9.

2.6.1 Balance sheet positions measured according to IFRS 9 and portfolio hedge accounting according to IAS 39

A financial asset or a financial liability is recognised when LLB or one of its subsidiaries becomes a contracting party. Financial assets and liabilities are always initially recognised at fair value. The subsequent measurement, arising from the classification, determines whether any possible transaction costs, which are directly attributable to the acquisition or sale of a financial asset or financial liability, are to be considered during initial measurement or are to be recorded immediately as affecting net income. Provided no subsequent measurement at fair value through profit and loss is made, the transaction costs basically form a part of the fair value of the financial asset or liability upon initial recognition. This corresponds to a valuation at effective cost.

2.6.1.1 Classification and measurement of financial assets

Under IFRS 9, there are three methods of measuring financial assets, which have an influence on subsequent valuations. How a financial asset is measured depends on the business model employed by the company and the cash flow characteristics of the financial asset.

Measurement methods

- Amortised Cost (AC) – In order for financial assets to be measured at amortised cost, a company must adopt a business model aimed at the collection of contractual cash flows ("Hold" business model). The cash flows are collected at specified time points and consist solely of payments of principal and interest (SPPI). Under this business model only very restricted sales are possible, and only when certain conditions are fulfilled.
- Fair Value through Other Comprehensive Income (FVOCI) – Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is attained by both the collecting of contractual cash flows and the sale of financial assets ("Hold to Collect and Sell" business model). The cash flows are collected at specified times and consist solely of payments of principal and interest (SPPI). By adopting a business model of this type, various objectives are aligned, for example managing daily liquidity requirements, ensuring a specific yield profile or matching the duration of financial assets with the duration of the liabilities that those assets are funding.
- Fair Value through Profit and Loss (FVTPL) – Assets that do not meet the criteria for measurement at amortised cost or fair value through other comprehensive income are measured at fair value through profit and loss ("Others" business model). A "Trading" business model can also be involved here. The aim of this business model is generally active buying and selling. The collection of contractual cash flows is not integral to, but rather of secondary importance for the fulfilment of this business model's objective.

Since, basically, equity instruments do not fulfil the SPPI criterion, they are measured at fair value through profit and loss, provided they have not been given a designation for a measurement at fair value through other comprehensive income. The consequence of the latter is that in the event of the instruments being sold, no reclassifying of accrued unrealised income in other comprehensive income (OCI) is possible.

Financial assets measured at amortised cost

- Cash and balances with central banks
  These are measured at amortised cost using the effective interest method. Since neither premiums nor discounts play a role, the value corresponds to the nominal value. No value allowances are made.

- Due from banks and loans
  Balances due from banks and loans are measured at amortised cost using the effective interest method and by calculating the expected credit loss (ECL), since financial instruments measured at amortised cost are subject to a credit risk which has to be considered. The value stated in the balance sheet therefore corresponds to a net carrying amount because the expected credit loss is recognised in the balance sheet as a reduction of the carrying amount of a receivable. For off-balance sheet items, such as a commitment, however, a provision for credit loss is reported. The off-balance sheet total is not reduced. The impairments are recognised in the income statement and reported under "Expected credit losses". Detailed information about expected credit loss and its calculation is provided in point 2.6.1.4 "Impairments". Further information can be found under "Credit risk" in the chapter "Risk management".
  Interest and negative interest is recognised on an accrual basis and reported in interest income. The calculation basis is the gross carrying value for the financial instruments of stages 1 and 2, i.e. the value attained using the effective interest method before expected credit loss. In the case of stage 3 positions, the basis is the net carrying value.
  Basically, the LLB Group extends loans only on a collateralised basis, or only to counterparties having very high credit worthiness.

Financial assets recognised at fair value through other comprehensive income

Financial assets

Within the LLB Group, the portfolio of assets recognised at fair value through other comprehensive income encompasses debt instruments and equity instruments. Although both types of financial instruments are measured using the same method, there are differences in the valuation process due to their different characteristics.

- Debt instruments
  The measurement of debt instruments (corporate bonds) is carried out at amortised cost using the effective interest method. In contrast to the measurement at amortised cost, the value is subsequently compared with the fair value. The fair value is determined on the basis of listed instruments and corresponds to the current bid price. If no active market exists, or if the instruments are not listed, the fair value is calculated using suitable valuation methods. These encompass references to recent transactions between independent business partners; the application of current market prices of other instruments, which are essentially similar to the assets being valued; the discounted cash flow procedure; and external pricing models, which take into account the special circumstances of the issuer. See also Note 33. The difference between the amortised cost and fair value represents the unrealised gain or loss from the fair value measurement, which are recognised in other comprehensive income.
  Debt instruments are subject to a credit risk. An expected credit loss is calculated in order to take this risk into consideration. In contrast to assets measured at amortised cost, no value adjustment of the asset is made. The expected credit loss is recognised in the income statement in the position "Expected credit losses", the counter entry is made in other comprehensive income. Detailed information on expected credit loss and its calculation is provided in point 2.6.1.4 "Impairments". Further information can be found under "Credit risk" in the chapter "Risk management" from point 3.8.
  Interest and negative interest is recognised on an accrual basis and reported in interest income. The carrying amount is employed as the calculation basis, i.e. the value obtained using the effective interest method before adjustment to the fair value.
  When the debt instrument reaches final maturity, or is sold prior to final maturity, the unrealised gains accrued in other comprehensive income are reclassified in income from financial assets measured at fair value.

- Equity instruments
  Equity instruments are measured at fair value. Value changes and the corresponding gains / losses are recognised in other comprehensive income. The calculation of the fair value of these financial assets is carried out in exactly the same way as for debt instruments.
  In the case of the disposal of the equity instruments, the unrealised gains reported in the consolidated statement of comprehensive income are not reclassified in the income statement. These are reclassified in retained earnings without affecting the income statement.
  Dividend earnings are recognised in the income statement under income from financial investments at fair value.

Financial assets at fair value through profit and loss

- Derivative financial instruments and hedge accounting
  Derivative financial instruments are valued as positive or negative replacement values corresponding to fair value and are reported in the balance sheet. Fair value is calculated on the basis of exchange quotations; in the absence of these, valuation models are employed

(see the paragraph "Debt instruments" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets at fair value through other comprehensive income"). Derivative financial instruments are held within the LLB Group for hedging and trading purposes. If the derivative financial instruments held for hedging purposes do not fulfil the strict IFRS hedge accounting criteria, changes in fair value are recognised, as with derivative financial instruments held for trading purposes, in net trading income. Income effects of hedging transactions according to fair value hedge account guidelines arise only when the opposing earnings effects do not completely neutralise each other.

- Hedge accounting
  Within the scope of risk management at the LLB Group, derivative financial instruments are employed principally to manage interest rate risk and only with counterparties having very high credit worthiness within predetermined limits. The management of interest rate risks is based on the requirements of the limits system.
  If these transactions fulfil the IFRS-specific hedge accounting criteria, and if these were employed as hedging instruments from a risk management perspective, they can be shown according to hedge accounting guidelines. If these transactions do not fulfil the IFRS-specific hedge accounting criteria, they are not presented according to hedge accounting guidelines, even if from an economic point of view they represent hedging transactions and are consistent with the risk management principles of the LLB Group.
  The LLB Group employs portfolio fair value hedge accounting (PFVH) for fixed-interest rate interest instruments interest rate instruments. In this case, the interest rate risks of the underlying transaction (e.g. a fixed-rate mortgage) are hedged by means of hedging instruments (e.g. an interest rate swap). The PFVH portfolios consist of a subportfolio of hedging transactions, which is compared with a subportfolio of underlying transactions. The interest rate risk profile of the subportfolios is determined using an optimisation algorithm in order to achieve an optimum hedge allocation. The portfolios are designated over a hedge period of one month and are measured both retrospectively and prospectively. The effect on income of the fair value change in the hedging instrument is recognised in the income statement in the same position as the corresponding effect on income of the fair value changes in the hedged underlying transactions. In the case of the hedging of interest rate risks at the portfolio level, the fair value change in the hedged item is recognised in the same balance sheet position as the underlying item.
  As soon as a financial instrument is classified as a hedging instrument, and the hedging instrument fulfils the IFRS-specific hedge accounting criteria, the relationship between the hedging instrument and the hedged underlying transaction or the portfolio of underlying transactions is formally documented. This documentation contains the risk management goals and strategies for the underlying hedged relationship, as well as methods to assess the effectiveness, i.e. the effectiveness of the hedging relationship. The effectiveness of a hedging transaction is understood to be the extent to which changes in the fair value of the underlying transaction, which are attributable to a hedged risk, can be compensated for by changes in the fair value of the hedging transaction. An assessment is made, both when the hedging relationship is first applied and during its term, of whether it can be regarded as "highly effective". A hedge is regarded as being highly effective if: a) it is assessed as being highly effective both when the hedge is initially recognised and during the entire term of the transaction, and b) the actual results of the hedging transaction lie within a range of 80 to 125 per cent. The part outside the range of 80 to 125 per cent is classed as being ineffective. Within the scope of fair value hedge accounting at the portfolio level, the hedge relationship to the underlying transaction is determined by means of an optimisation, thus ensuring a high hedging ratio. A possible cause of the ineffectiveness of the hedge could be the mismatch in the risk profile of the portfolios.
  If fair value hedge accounting is employed for reasons other than the derecognition of the hedged transaction, the amount, which is reported in the same balance sheet position as the underlying transaction, is amortised over the residual term of the underlying transaction in the income statement.

- Financial investments
  Within the LLB Group, the portfolio of financial investments recognised at fair value through profit and loss encompasses debt instruments and equity instruments. The debt instruments include both corporate bonds and investment fund units. The fund units represent callable instruments, which do not meet the criteria for equity instruments.
  These financial assets are measured at fair value. The fair value is measured in exactly the same way as for debt instruments recognised at fair value through other comprehensive income (see the paragraph "Debt instruments" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets at fair value through other comprehensive income"). Non-realised gains or losses are recognised in income from financial investments at fair value through profit and loss.
  Interest and negative interest is recognised on an accrual basis and reported in interest income. The nominal value of the debt instrument forms the basis for the calculation.
  Dividend earnings are recognised in the income statement under income from financial investments at fair value.

2.6.1.2 Classification and measurement of financial liabilities

Basically, the LLB Group's financial liabilities are classified at amortised cost. The only exception is derivative financial instruments, which are classified at fair value through profit and loss.

Financial liabilities classified at amortised cost
These liabilities are measured at amortised cost using the effective interest method. If the liabilities contain premiums or discounts, i.e. the value reported in the balance sheet does not correspond to the nominal amount, the difference is amortised over the term of the liability.

Interest and negative interest is recognised on an accrual basis and reported in interest income. Effects which arise as a result of the early disposal of the financial liability are recognised in the income statement.

Balance sheet positions measured at amortised cost comprise liabilities due to banks and customers, as well as debt issued and shares in bond issues of the Swiss regional or cantonal banks' central bond institutions.

Financial liabilities classified at fair value through profit and loss
Only derivative financial instruments are measured at fair value through profit and loss within the LLB Group. For further information see the paragraph "Derivative financial instruments and hedging transactions" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets measured at fair value through profit and loss".

2.6.1.3 Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual right to payment streams from a financial asset expires or the financial asset is transferred and the risks and rewards of ownership are transferred with it.

Financial liabilities are derecognised when they have been settled.

2.6.1.4 Impairments
In accordance with IFRS 9, an expected credit loss must be calculated and recognised for all positions which are subject to a credit risk and are not recognised at fair value through profit and loss. In line with IFRS 9, the LLB Group has developed and implemented an impairment model in order to quantify expected credit losses. The initial recognition of expected credit losses is made through equity (retained earnings) without affecting the income statement.

The statements, which in accordance with IFRS 7 "Financial Instruments: Disclosures" are to be made in connection with the initial application of IFRS 9, are shown in chapter 3 "First application of IFRS 9" immediately after the accounting principles. All other disclosures, especially the statements regarding impairments, are provided in "Risk management", above all in chapter 3 "Credit risk".

Governance in relation to input factors, assumptions and estimation procedures
The impairment model for the determination of the expected credit loss requires a range of input factors, assumptions and estimation procedures that are specific to the individual institute. This, in turn, necessitates the establishment of a governance process. The Group Credit Risk Committee is responsible for the regular review, stipulation and approval of input factors, assumptions and estimation procedures, which must be carried out at least once a year. In addition, internal control systems at the LLB Group ensure the correct quantification of the expected loss as well as the conformance with IFRS.

Segmentation of the credit portfolio
The LLB Group segments its credit portfolio according to two criteria: by type of credit and by customer segment. The following types of credit are considered for the modelling of probability of default (PD), loss given default (LGD) and exposure at default (EAD):
- Mortgage loans
- Lombard loans
- Unsecured loans
- Financial guarantees
- Credit cards
- Bank deposits, secured
- Bank deposits, unsecured
- Financial investments
- SIC (Swiss National Bank)

In the case of the first five listed types of credit, a further differentiation is made between the customer segments: private clients, corporate clients and public sector debtors. Consequently, 19 segments were formed, differing from each other in the modelling of the calculation parameters, to enable the LLB Group's credit portfolio to be segregated into risk groups that are as homogenous as possible.

Modelling principles and calculation parameters of expected credit loss
The calculation of the expected credit loss is based on the components: probability of default, exposure at default and loss given default, whereby specific scenarios are used to determine these criteria. The most important differences in the modelling of the calculation parameters are shown in the following.
- Probability of default: The probability of default is determined differently depending on the segment. In the case of corporate clients, the ratings are based on an external scoring model where the financial statements of the corporate clients serve as a basis for the calculation of the respective ratings and probability of default. With bank and financial deposits, the ratings and probability of default are obtained from external sources (Moody's). Basically, the probability of default is calculated at the position level. One exception is the private client segment, where a global probability of default is applied for the entire private client segment. In determining the portfolio probability of default, the only differentiation made is based on the internal historical default rates. A common factor with all ratings is that the probability of default in all cases is determined on a through-the-cycle basis, which is adjusted within the scope of micro-scenarios to

take into consideration the expected economic conditions (point in time). For this purpose, in the case of private and corporate clients, the LLB Group estimates the development of interest rates as well as gross domestic product, and models the impact of the expected economic development on the probability of default. In the case of bank and financial deposits with ratings from Moody's, the rating agency's outlook for the expected future development of the ratings is taken into consideration.
- Exposure at default: Exposure at default is determined on the basis of the average amortised cost in the individual monthly period. The development of amortised cost is calculated on the basis of the initial credit exposure compounded with the effective interest, plus or minus additional inflows or outflows of resources such as amortisation payments. The average amortised cost of the individual periods is extrapolated from the overall development through integration and then division by the duration of the periods. The term of the loans is defined in the individual credit agreements. In the case of loans with an unspecified term, a model is used to ascertain the term. The period of notice is used as a basis for the calculation. Cash inflows (loan repayments) are defined on the basis of the planned amortisation payments. Cash outflows (loan increases) are dependent on the type of loan and the agreed-but-not-yet-utilised credit limit. Internal experts estimate a credit conversion factor, which is approved by the Group Credit Committee, and is then employed to define the expected credit utilisation.
- Loss given default: Basically, there are three approaches for determining the loss given default: internal loss given default models (loans with real estate collateral), estimates made by internal experts (Lombard loans) and external studies from Moody's (bank and financial deposits). In the case of loss given default models, the LGD of loans secured by mortgages is calculated on the basis of work-out procedures at the position level, taking into consideration the collateral provided. In this case, all the expected future cash flows are estimated and discounted. In addition, the value of the collateral provided is modelled on the basis of the expected development of real estate prices given various scenarios.

The expected credit loss is calculated as the sum of probability of default, exposure at default and loss given default.

The form of the calculation is determined by the credit quality.
- Credit quality level 1: No significant increase in the credit risk since initial recognition; the expected credit loss is calculated over one year.
- Credit quality level 2: Significant increase in the credit risk since initial recognition; the expected credit loss is calculated over the remaining term of the loan.
- Credit quality level 3: Default in accordance the Capital Requirements Regulation (CRR). Art. 178 CRR specifies that a default can be considered to have occurred when a) it is unlikely that the debtor can pay back his liabilities in the full amount unless measures such as, for example, the realisation of collateral have to be implemented, or b) a substantial liability is more than 90 days overdue. In the case of defaulted positions, a specific value allowance is determined and recognised by the Group Recovery Department. The expected credit loss is calculated over the remaining term of the loan.

The allocation to a credit quality level has a significant influence on the magnitude of the expected credit loss because in the case of level 2 and level 3 positions this can be substantially higher than with level 1 positions.

Credit quality level, monitoring of significant increase in credit risk (SICR) and cure period

Loans are allocated to a credit quality level. In addition to historical analysis, forward-looking factors are taken into consideration.

Historical analysis at the LLB Group considers, for example, whether the credit risk with a position has significantly increased since the beginning of the contractual term, or whether there are already payment arrears. Payments more than 30 days past due are assigned to credit quality level 2; payments more than 90 days past due are assigned to credit quality level 3. In the event of an increase of one percentage point in the default probability, the LLB Group assumes there will be a significant increase in the credit risk and accordingly calculates the expected credit loss for such positions over the remaining term of the loan.

In a forward-looking test, based on the development of a customer's cash flows, it is examined whether a deterioration in the credit worthiness of the customer is to be expected in the future. Furthermore, in the case of bank and financial deposits, for example, the expectations of the rating agencies with respect to the future development of the ratings are considered in the assignment of a credit quality level for a loan.

Loans in credit quality level 2 are only reassigned to credit quality level 1 following a sustained improvement in their credit quality. The LLB Group defines a sustained improvement in credit quality as being the fulfilment of the criteria for credit quality level 1 for at least three months.

In the case of loans in credit quality level 3, the Group Recovery Department is responsible for estimating the extent of a sustained improvement in credit quality. This decision is largely guided by whether the default, as defined by the LLB Group, still exists or not. Here too, in order for a position to be returned to credit quality level 2, the criteria governing the credit quality level must have been fulfilled for at least three months.

Upon initial recognition, all risky positions are assigned to level 1 because no financial assets having a negative effect on credit quality are purchased or generated.

Macro-scenarios

Three scenarios are utilised for the measurement of the expected credit loss: a basic scenario as well as a negative and a positive scenario. The probability of a credit loss occurring is the same with all three scenarios. The average value derived from these scenarios represents the final expected credit loss.

In determining the expected credit loss on the basis of the various scenarios, the LLB Group utilises the following three macro-factors, which have an influence on the creditworthiness of a debtor as well as on the value of the collateral provided for the loan:
- Gross domestic product
- Interest rate development
- Real estate price development

The impact of the macro-factors is based on estimates made by the Asset Management Division of LLB AG and the Risk Management Department of the LLB Group, whereby the macro-factors are also regularly submitted to the Group Credit Risk Committee for its approval.

Definition of default, determination of creditworthiness and write-off policy

Under IFRS 9, the LLB Group bases its definition of default on the Capital Requirements Regulation (Art. 178 CRR) in order to ensure a uniform definition for regulatory and accounting policy purposes. On the one hand, claims which are more than 90 days past due are regarded as defaulted and, on the other, indications that a debtor is unlikely to pay its credit obligations can also lead to a loan being classified as in default.

The LLB Group regards a financial asset as being impaired when its recoverable value, which is determined on the basis of a calculation of the present value, is lower than the carrying value. The difference between the present value and the carrying value is recognised as a specific allowance.

A cautious write-off policy is pursued with impaired assets because if a debt is waived it can no longer be recovered. A debt is written off only when there is no reasonable expectation of recovery in the future, a pledge default certificate has been submitted, which enables, in spite of the write-off, the remaining debt or a part of the remaining debt to be claimed, and where agreement has been reached with the debtor that LLB or a subsidiary within the LLB Group irrevocably waives a part of the debt.

Reporting of impairments

IAS 1 "Presentation of Financial Statements" regulates which positions must at least be contained in financial statements. Up to 31 December 2017, there were no regulations governing the disclosure of impairments. Up to 31 December 2017, the LLB Group reported impairments in value of balance sheet items caused by changes in creditworthiness in the position "Expected credit losses". A provision was formed for impairments in value of off-balance-sheet items caused by changes in creditworthiness. The allocation or release of provisions was reported by the LLB Group under "General and administrative expenses", i.e. depending on their origin, impairments either reduced operating income or were charged to general and administrative expenses.

The introduction of IFRS 9 brought an adjustment to IAS 1. From 1 January 2018, IAS 1 stipulates that all impairment charges are to be reported in one line. Accordingly, the LLB Group has changed its presentation and now recognises all impairments in the position "Expected credit losses". All impairments are contained in operating income.

Modification of contracts

The control process for managing credit quality levels is described in "Credit quality level, monitoring of significant increase in credit risk (SICR) and cure period". A modification of the contractual terms implies a change in the existing risk estimate of a financial asset and therefore has an influence on the classification of the financial asset within the impairment model. This becomes problematic if, on account of the modification of the contractual terms, a financial asset in credit quality level 3 is classified as fundamentally different. The derecognition and re-entry of the financial asset means that it is automatically classified in credit quality level 1. However, this does not conform to the financial asset's risk profile so that following the modification it is again transferred to credit quality level 3. The control process is followed in the case of financial assets of credit quality levels 1 and 2.

2.6.2 Measurement of financial instruments up to 31 December 2017 according to IAS 39 "Financial Instruments: Recognition and Measurement"

The transition from IAS 39 to IFRS 9 was made utilising the simplified application option, i.e. the current period shows the values according to the disclosure under IFRS 9, the comparison period shows the values according to the old regulations under IAS 39. The two substantial changes, which became relevant for the LLB Group as a result of the transition from IAS 39 to IFRS 9, are:
- the impairment model according to the expected loss model under IFRS 9 in comparison with the impairment model according to the incurred loss model under IAS 39,
- changes in the measurement of financial investments due to the elimination of the measurement guidelines for the available-for-sale financial assets, as well as the possibility of an option to designate equity instruments for measurement at fair value through comprehensive income.

The accounting policies for major financial instruments in accordance with IAS 39 are explained in the following.

2.6.2.1 Cash and balances with central banks

Cash and balances with central banks are initially recognised at effective cost, which corresponds to the fair value at the time they were allocated. Subsequently they are measured at amortised cost using the effective interest method. No value allowances are made.

2.6.2.2 Due from banks and loans

Balances due from banks and from customers are initially recognised at effective cost, corresponding to the fair value of the specific loan at the time it was granted. Subsequently they are measured at amortised cost using the effective interest method.

Interest on balances due from banks and from customers is recognised on an accrual basis and is reported according to the effective interest method under interest income.

Negative interest on assets and liabilities is accrued in a period-compliant manner and reported in the income statement as interest paid or interest received.

Basically, the LLB Group extends loans only on a collaterised basis and only to counterparties having very high creditworthiness.

A loan is regarded as being impaired if it is likely that the entire amount owed according to the loan agreement is not recoverable. Loan impairments are caused by counterparty- or country-specific criteria. Indications for the impairment of a financial asset are:

- financial difficulties of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the increased probability that the borrower will enter bankruptcy or other financial reorganisation;
- national or regional economic conditions that correlate with defaults on the assets of the Group.

The amount of the impairment is measured as the difference between the carrying value of the claim and the present value of the estimated future cash flow of the claim, discounted by the loan's effective interest rate. Allowances for credit risks are reported as a reduction of the carrying value of a claim in the balance sheet. In the case of off-balance-sheet items, such as a commitment, a provision for credit loss is reported under provisions. Impairments are recognised in the income statement.

2.6.2.3 Derivative financial instruments

The derivative financial instruments, which the LLB Group discloses in its balance sheet, were measured in exactly the same way under IAS 39 as they are now under IFRS 9. Reference is made to the text passage under point 2.6.1.1.

2.6.2.4 Financial investments

According to IFRS, financial investments can be divided into various categories. The classification depends on the purpose for which the individual financial investments were made. The management of the LLB Group determines the classification upon initial recognition. In the 2017 financial year, financial investments were classified in the category "Financial investments at fair value through profit and loss", as well as in the category "Available-for-sale financial assets". All value adjustments with the category "Financial investments at fair value through profit and loss" are recognised in the income statement. All value adjustments with the category "Available-for-sale financial assets" are reported in other comprehensive income.

This designation of the financial investments is in line with LLB's investment strategy. The securities are managed on a fair value basis and their performance is evaluated accordingly. The members of the Group Executive Board receive the corresponding information.

Financial assets at fair value through profit and loss

Financial assets are recorded on the balance sheet at fair value. Non-realised gains and losses are reflected in the income statement at fair value under income from financial instruments. The fair value of listed shares is based on current market prices. If no active market exists for the financial assets, their value is determined on the basis of the statements made under the paragraph "Debt instruments" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets at fair value through other comprehensive income".

Dividend income from financial investments is recorded as income from financial instruments at fair value. Interest income is recognised as interest income on an accrual basis.

Available-for-sale financial assets

Financial assets which are available for sale are recognised at fair value. Value changes, such as unrealised gains or losses, are reported in other comprehensive income. The fair value of these financial assets is measured on the basis of listed shares. If no active market exists for the financial assets, their value is determined on the basis of the statements made under the paragraph "Debt instruments" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets at fair value through other comprehensive income".

Dividend income from financial investments is recorded as income from financial instruments at fair value. Interest income is recognised as interest income on an accrual basis.

2.6.2.5 Balances due to banks and customers

Balances due to banks and customers are measured at amortised cost using the effective interest method. If the liabilities contain premiums or discounts, i.e. the value reported in the balance sheet does not correspond to the nominal amount, the difference is amortised over the term of the liability.

Interest and negative interest is recognised on an accrual basis and reported in interest income. Effects which arise as a result of the early disposal of the financial liability are recognised in the income statement.

2.6.2.6 Debt issued

Medium-term notes and mortgage-backed securities are recognised at fair value, which usually corresponds to the issuance value, and at amortised cost.

Interest on medium-term notes and mortgage-backed securities is recognised on an accrual basis and is reported according to the effective interest method under interest paid. Negative interest is reported as interest income.

2.6.3 Balance sheet positions outside IFRS 9

2.6.3.1 Non-current assets and liabilities held for sale

Long-term (non-current) assets (or a disposal group) are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. In this case, the asset (or the disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets (or disposal groups) and such a sale must be highly probable. Long-term assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

The measurement of non-current liabilities held for sale is carried out in exactly the same way as for the assets.

2.6.3.2 Property, investment property and other equipment

Property is reported in the balance sheet at acquisition cost less any depreciation necessary for operational reasons. Bank buildings are buildings held by the LLB Group for use in the delivery of services or for administrative purposes.

Investment property is held to earn rental income and / or for capital appreciation. A classification is made only on the basis of objective indications and not on the basis of an intention to change the use of a property. Investment property is periodically valued by external experts. Changes in fair value are recognised in the income statement as other income in the current period. If a property is partially used as an investment property, the classification is based on whether or not the two portions can be sold separately. If the portions of the property can be sold separately, each part is recognised accordingly. If the portions cannot be sold separately, the whole property is classified as a bank building unless the portion used by the bank is minor.

Other equipment encompasses fixtures, furnishings, machinery and IT equipment. These items are recognised in the accounts and depreciated over their estimated useful life.

Depreciation is carried out on a straight-line basis over the estimated useful life:

Property	33 years
Investment property	No depreciation
Undeveloped land	No depreciation
Building supplementary costs	10 years
Fixtures, furnishings, machinery	5 years
IT equipment	3-6 years

Small value purchases are charged directly to general and administrative expense. In general, maintenance and renovation expenditures are booked to general and administrative expense. If the related cost is substantial and results in a significant increase in value, such expenditures are capitalised and depreciated over their useful life. Profits from the sale of fixed assets are reported as other income. Losses result in additional write-downs on fixed assets.

Property and equipment is regularly reviewed for impairment, but always when, on account of occurrences or changed circumstances, an overvaluation of the carrying value appears to be possible. If, as a result of the review, a reduction in value or modified useful life is determined, the residual carrying value is depreciated over the adjusted useful life, or an unplanned write-down is made.

2.6.3.3 Goodwill and other intangible assets

Goodwill is defined as the difference between the purchase price paid for and the determined fair value at date of acquisition of identified net assets in a company purchased by the LLB Group. Other intangible assets contain separately identifiable assets, which, among other factors, can result from acquisitions. These can include, for example, acquired client relationships, purchased brands values, software and similar items. Amortisation is carried out using the straight-line method over the useful life of five to fifteen years. Goodwill and other intangible assets are recognised in the balance sheet at acquisition cost on the date of acquisition. On each balance sheet date, goodwill and other intangible assets are reviewed for indications of impairment or changes in future benefits. If such indications exist, an analysis is performed to assess whether the carrying value of goodwill or other intangible assets is fully recoverable. An amortisation is made if the carrying amount exceeds the recoverable amount. For impairment testing purposes, goodwill is distributed into cash generating units. A cash generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The individual company is regarded as the smallest cash generating unit by the LLB Group.

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is possible that economic benefits will flow to the company, and the cost can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to six years. See also Note 18.

2.6.3.4 Current and deferred taxes

Current income tax is calculated on the basis of the tax law applicable in the individual country and recorded as expense for the accounting period in which the related income was earned. The relevant amounts are recorded on the balance sheet as provisions for taxes. The tax impact from time differentials due to different valuations arising from the values of assets and liabilities reported according to IFRS shown on the Group balance sheet and their taxable value are recorded on the balance sheet as accrued tax assets or, as the case may be, deferred tax liabilities. Deferred tax assets and deferred tax liabilities attributable to time differentials or accountable loss carry forwards are capitalised if there is a probability that sufficient taxable profits will be available to offset such differentials of loss carry forwards. Accrued / deferred tax assets / liabilities are calculated at the tax rates that are likely to be applicable for the accounting period in which the tax assets are realised or the tax liabilities paid.

Current and deferred taxes are credited or charged directly to equity or other comprehensive income if the related tax pertains to items that have been credited or charged directly to equity or other comprehensive income in the same or some other accounting period.

2.6.3.5 Employee benefits

Retirement benefit plans

The LLB Group has pension plans for its employees in Liechtenstein and abroad, which are defined according to IFRS as defined benefit plans. In addition, there are long-term service awards which qualify as other long-term employee benefits.

For benefit-oriented plans, the period costs are determined by opinions obtained from external experts. The benefits provided by these plans are generally based on the number of insured years, the employee's age, covered salary and partly on the amount of capital saved. For benefit-oriented plans with segregated assets, the relevant funded status is recorded on the balance sheet as an asset or liability (in accordance with the Projected Unit Credit Method). An asset position is calculated according to the criteria of IFRIC 14.

For plans without segregated assets, the relevant funded status recorded on the balance sheet corresponds to the cash value of the claims. The cash value of the claims is calculated using the projected unit credit method, whereby the number of insured years accrued up to the valuation date are taken into consideration.

The effects of retroactive improvements to benefits resulting from plan changes as well as plan curtailments are recognised directly in the income statement.

Variable salary component and share-based compensation

Regulations exist governing the payment of variable salary components. The valuation procedure with the variable salary component is based on the degree of individual target achievement. Executives receive a portion of their profit-related bonus in the form of entitlements to LLB shares, which, after expiry of the blocking period, automatically leads to payment in shares.

The LLB Group enters a provision as a liability in those cases where a contractual obligation exists or a de facto obligation arises as a result of past business practice. The expense is recognised under personnel expenses. Obligations to be paid in cash are entered under other liabilities. The portion to be compensated with LLB shares is entered in equity. The number of shares for the share-based compensation corresponds to the average share price of the last quarter of the year under report.

2.6.3.6 Provisions and contingent liabilities

Provisions are liabilities whose maturities and amounts are uncertain. These are recognised in the balance sheet if the LLB Group a) has a liability towards a third party which is attributable to an event in the past, b) the liability can be reliably estimated, and c) an outflow of resources to cover this liability is probable. They are reported separately in the balance sheet.

Provisions are allocated within the scope of the best possible estimate of the expected payment. Such estimates are based on all the information available and are adjusted accordingly as soon as new information becomes available. New information or actually occurring events may substantially differ from the estimates made, which in turn can lead to significant changes in the consolidated financial statement. As soon as no further uncertainties exist in relation to the time point or amount of the payment, these items are reclassified in other liabilities.

The LLB Group's business environment exposes it to both legal and regulatory risks. As a result, LLB is involved in various legal proceedings whose financial influence on the LLB Group – depending on the stage of the proceeding – is difficult to assess and are subject to many uncertainties. The LLB Group makes provisions for ongoing and threatened proceedings when, in the opinion of management after taking legal advice, it is probable that a liability exists, and the amount of the liability or payment can be reasonably estimated.

For legal proceedings in cases where the facts are not specifically known, the claimant has not quantified the alleged damages, the proceedings are at an early stage, or where sound and substantial information is lacking, the LLB Group is not in a position to estimate reliably the approximate financial implication. In many legal cases, a combination of these facts makes it impossible to estimate the financial effect of contingent liabilities for the LLB Group. If, indeed, such assumptions or estimates were made or disclosed, it could seriously prejudice the position of the LLB Group in such legal cases.

Restructuring provisions are allocated only if the general criteria for the recognition of liabilities are fulfilled. Moreover, a detailed restructuring plan must be available, which at least names the business area concerned and its location, the approximate number of employees affected and their functions, the necessary expenditure and the time point of the restructuring measures. The persons affected must also have a well-founded expectation that the company will indeed carry out the restructuring measures. A decision taken by management can only justify the requirement to allocate a provision once the implementation of the restructuring measures has already commenced, or if the restructuring plan has been publicly announced.

In addition, provisions are allocated for expected credit losses with off-balance-sheet positions. This is due to the fact that there is no corresponding asset within the balance sheet which could be reduced in value by means of a value allowance. The expected credit loss is reported in the income statement under "expected credit losses"; in the balance sheet the credit loss forms an integral part of other business risks.

If liabilities do not fulfil the criteria applying to a provision, this could lead to the formation of a contingent liability. Contingent liabilities indicate that uncertainty exists about whether future events, which cannot be influenced, will lead to liabilities, or if management assumes that for current liabilities an outflow of economic resources is not probable, or if it is not possible to adequately estimate the amount of the liability. Guarantees issued lead to contingent liabilities if indeed LLB can be made jointly and severally liable for liabilities towards third parties, but it can be assumed that these liabilities will not be paid by the LLB Group. The amount of existing contingent liabilities is the result of the best possible estimate made by management and is based on the requirements for provisions. If, on the basis of the current evaluation of contingent liabilities, an outflow of economic resources in the future is probable, a provision is allocated for this position which was previously treated as a contingent liability.

2.6.3.7 Treasury shares

Shares of Liechtensteinische Landesbank AG held by the LLB Group are valued at cost of acquisition and reported as a reduction in equity. The difference between the sale proceeds and the corresponding cost of acquisition of treasury shares is recorded under capital reserves.

2.6.3.8 Securities lending and borrowing transactions

Securities lending and borrowing transactions are generally entered into on a collateralised basis, with securities mainly being advanced or received as collateral.

Treasury shares lent out remain in the trading portfolio or in the financial investments portfolio as long as the risks and rewards of ownership of the shares are not transferred. Securities that are borrowed are not recognised in the balance sheet as long as the risks and rewards of ownership of the securities remain with the lender.

Fees and interest received or paid are recognised on an accrual basis and recorded under net fee and commission income.

2.7 Recognition of revenues

2.7.1 Recognition of revenues according to IFRS 15

The LLB Group earns revenues by providing various services. These revenues are recognised when the obligation to provide the service has been fulfilled by the LLB Group, i.e. when by providing the service, the power of disposal is transferred to the customer. Furthermore, it must be sufficiently certain that the revenues can be collected in the amount recognised. This means in the case of variable revenues that recognition may only take place once it has been ensured that at a time when there is no uncertainty, no significant cancellations of previously recognised revenues can occur. Recognition can be carried out over a period or on a specific date.

2.7.1.1 Recognition of revenues over a specified period

Account fees are typical revenues earned from fees and services that are recognised over a period at the LLB Group.

In the case of services that are delivered over a period, the client also enjoys the benefit from the service over the period since the power of control is continually transferred with the provision of the service. Accordingly, the revenues obtained from the provision of the service are recognised over the period the service is provided. On account of the nature of the contracts at the LLB Group, a time period exists between the provision of the service and the payment by the client for it, which generally amounts to a maximum of one year. The payments made by clients are made on specific dates, usually at the end of a quarter.

The costs incurred in the provision of the service are recognised continually over the period because these are the same services that are required every day.

2.7.1.2 Recognition of revenues on a specific date

Typical revenues earned from fees and services that are recognised on a specific date include brokerage or processing fees for credit cards used abroad.

In the case of services which are delivered on a specific date, the power of control is transferred to the client. The resulting benefit for the client occurs once for the client on this date. Accordingly, the revenues obtained from the provision of the service are recognised once, i.e. in relation to this date.

In the case of services that are only delivered over a period, but the payment for them is variable and a large degree of uncertainty exists concerning the amount of the revenues, recognition of the revenues occurs only at that time when it is highly probably that no significant cancellation will occur with the recognised revenues. At the LLB Group, this situation can only arise in connection with performance fees.

The costs incurred in providing a service are generally recognised at the time point when the service is delivered. One exception is the costs in connection with performance fees because the service is continually provided over a period of time, but the obtainment of specific objectives is uncertain due to external factors. Accordingly, in this case, the costs are not recognised at the same time as the revenue, but rather over the period the service is provided to achieve the objective.

2.7.1.3 Recognition

The revenues recognised from fees and services are based on the service obligations specified in the contract and the payment to be made by the client for them. The payment may contain both fixed and variable components, whereby variable payments only occur in connection with asset management and are influenced by certain threshold values. The client may have to make an additional payment if, for example, a specified return is attained or he has decided to pay a previously stipulated percentage on his assets on a previously determined date as a fee. The recognition period basically amounts to a maximum of one year and the revenues are only to be recognised on the effective date. Only on this date will it be sufficiently clear that no significant cancellation of the revenues will occur.

Basically, the revenues are to be allocated to the individual service obligations. On account of the business model, this will not be possible for an immaterial part of the revenues because the client also has the option of paying an all-in-fee for a range of different services. The revenues from all-in-fees are periodically analysed and, if they are significant, they are disclosed (see Note 2).

If discounts have been granted within the scope of combinations of several products, these can be assigned to the individual service obligations.

2.7.2 Recognition of revenues according to IAS 18 "Revenue"

Revenues from services are recognised when the services have been rendered. Asset management fees, security account fees and similar revenues are recognised pro rata over the period the service is rendered. Interest is recognised according to the effective interest method. Dividends are recognised from the date the legal right to receive payment is established.

2.8 Adjustments on account of new accounting policies

The introduction of IFRS 9 and amendments to IAS 1 in relation to the presentation of the origin of interest necessitated that various alterations had to be made to existing tables and that some tables became obsolete. The most important adjustments were as follows:

Table name	Page	Adjustment	Reason
Consolidated income statement	122	Breakdown of interest according to measurement basis	Amendments to IAS 1
Consolidated statement of comprehensive income	123	Consideration of relevant FVOCI factors	IFRS 9 introduction
Net interest income	150	Revision of note	Amendments to IAS 1, IFRS 9 introduction
Net trading income	151	Revision of note	IFRS 9 introduction
Net income from financial investments at fair value	152	Revision of note	Amendments to IAS 1, IFRS 9 introduction
Trading portfolio assets		Table deleted, positions integrated in note "Financial investments at fair value"	IFRS 9 introduction
Derivative financial instruments	156	New tables regarding Hedge Accounting	IFRS 9 introduction
Financial investments at fair value	159	Revision of note	IFRS 9 introduction
Fair value measurement	173	Revision of note	IFRS 9 introduction
Risk of default for financial instruments not measured at fair value according to the credit worthiness of the borrower	207	New tables	IFRS 9 introduction
Expected credit loss and value allowances	209	New tables	IFRS 9 introduction
Collateral held for positions having impaired credit standing	212	New table	IFRS 9 introduction
Outstanding contractual amount of written- off claims	212	New table	IFRS 9 introduction

3 Initial application of IFRS 9

The LLB Group has applied IFRS 9 since 1 January 2018. IFRS 9 was structured by the IASB in three phases: "Classification and Measurement", "Impairment" and "Hedge Accounting". The following information relates only to classification and measurement as well as impairment. Under IFRS 9, macro-hedge accounting on the portfolio level, which the LLB Group currently applies, has not so far been regulated. Therefore, the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" continue to apply.

The accounting guidelines associated with the changes are reported in the accounting principles. Further information is provided in this chapter, however the focus lies on the quantitative disclosure.

The effects of the transition from IAS 39 to IFRS 9 on the classification of financial assets and financial liabilities

At the LLB Group, the application of IFRS 9 only has an impact on financial assets that are contained in the balance sheet position "Financial investments". For the LLB Group this is the only position where, as a result of broad discretionary scope and estimates in relation to the business model and the SPPI ability, the measurement under IFRS 9 can differ from that under IAS 39. For all other balance sheet positions, to which IFRS 9 is applicable, the classification under IFRS 9 is identical to that under IAS 39.

Application of the business models

The management of the LLB Group specifies the strategy, and therefore the related business model, for all the Group companies. Two business models come into question for the financial assets that were contained in the Group's portfolio at the time of transition, i.e. the "Hold to Collect and Sell" and the "Others" business models. In addition, equities that fulfilled the definition criteria of equity instruments were irreversibly designated as FVOCI. The decision regarding allocation to a business model or designation was made at the product level.

Debt instruments – Under IAS 39, these instruments were recognised both at fair value through profit and loss, as well as available for sale (AFS). Those debt instruments that were measured at fair value through profit and loss under IAS 39 were assigned to the "Others" business model. The debt instruments that were measured as available for sale under IAS 39 were allocated to the "Hold to Collect and Sell" business model. The primary aim of this allocation of debt instruments is the management of liquidity requirements. Since 1 January 2018, all new debt instruments are assigned to the "Hold to Collect and Sell" business model.

Equity instruments – Under IAS 39, equity instruments were measured at fair value through profit and loss. This included mainly equity instruments with an infrastructure character and investment funds that were classified as equity. With the transition from IAS 39 to IFRS 9 equity instruments with an infrastructure character have been designated at FVOCI. Investment funds continue to be measured at FVTPL because they do not meet the criteria for SPPI cash flows. They are now reported under debt instruments.

Assessment of the SPPI

The assessment of whether financial assets conform to SPPI criteria is a critical judgement. The SPPI test is particularly relevant in the case of complex products. Within the LLB Group, the assessment is decisive for the classification of debt instruments because the SPPI condition is a co-factor in deciding how a debt instrument is to be measured. The assessment of every debt instrument is made prior to the classification. The internal assessment is checked against a downstream Bloomberg assessment.

Comparison of assessments under IAS 39 and IFRS 9

The following table summarises the statements made and compares the measurements under IAS 39 and IFRS 9:

	Measurement under IAS 39	Measurement under IFRS 9
Assets		
Cash and balances with central banks	Amortised Cost	Amortised Cost
Due from banks	Amortised Cost	Amortised Cost
Loans	Amortised Cost	Amortised Cost
Trading portfolio assets	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial investments at fair value		
Debt instruments	FVTPL	FVTPL
Debt instruments	Available for Sale	FVOCI
Equity instruments	FVTPL	FVTPL
Equity instruments	FVTPL	FVOCI
Accrued income and prepaid expenses	Amortised Cost	Amortised Cost
Liabilities		
Due to banks	Amortised Cost	Amortised Cost
Due to customers	Amortised Cost	Amortised Cost
Derivative financial instruments	FVTPL	FVTPL
Debt issued	Amortised Cost	Amortised Cost
Accrued expenses and deferred income	Amortised Cost	Amortised Cost

Quantitative disclosure

The following tables bring together the qualitative statements on classification and measurement, as well as impairment and show the transition of the year-end totals for balance sheet positions under IAS 39 to the year-opening totals under IFRS 9 for the individual measurement categories:

Transition of the carrying value of financial assets and financial liabilities from IAS 39 to IFRS 9

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Revaluation	Carrying amount IFRS 9 as at 01.01.2018
Amortised cost			
Assets			
Cash and balances with central banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'129'723		4'129'723
Due from banks			
Opening balance according to IAS 39	1'940'433		
Revaluation: ECL allowance		–120	
Closing balance according to IFRS 9			1'940'313
Loans			
Opening balance according to IAS 39	12'083'966		
Revaluation: ECL allowance		–10'679	
Closing balance according to IFRS 9			12'073'287
Accrued income and prepaid expenses			
Opening balance according to IAS 39 and closing balance according to IFRS 9	39'395		39'395
Total assets	**18'193'517**	**–10'799**	**18'182'718**
Liabilities			
Due to banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	943'316		943'316
Due to customers			
Opening balance according to IAS 39 and closing balance according to IFRS 9	15'652'158		15'652'158
Debt issued			
Opening balance according to IAS 39 and closing balance according to IFRS 9	1'169'027		1'169'027
Accrued expenses and deferred income			
Opening balance according to IAS 39 and closing balance according to IFRS 9	30'250		30'250
Total liabilities	**17'794'750**		**17'794'750**

The difference in the balance sheet positions resulting from the revaluation corresponds to the difference in the value allowance between IAS 39 and IFRS 9.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassi-fication	Transfer	Carrying amount IFRS 9 as at 01.01.2018
At fair value through profit and loss				
Assets				
Trading portfolio assets				
Opening balance according to IAS 39 and closing balance according to IFRS 9	62			62
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	58'740			58'740
Debt instruments				
Bonds				
Opening balance according to IAS 39 and closing balance according to IFRS 9	915'108			915'108
Fund units				
Opening balance according to IAS 39				
Transfer from equities FVTPL *			234'502	
Closing balance according to IFRS 9				234'502
Equity instruments				
Equity instruments with infrastructure character				
Opening balance according to IAS 39	23'449			
Reclassification: from FVTPL to FVOCI **		–23'449		
Closing balance according to IFRS 9				0
Fund units				
Opening balance according to IAS 39	234'502			
Transfer to equity instruments FVTPL *			–234'502	
Closing balance according to IFRS 9				0
Other equity instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'697			4'697
Total assets	**1'236'557**	**–23'449**	**0**	**1'213'109**
Liabilities				
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	117'448			117'448
Total liabilities	**117'448**			**117'448**

* Under IAS 39, fund units were reported under equity instruments. Under IFRS 9, these are reported under debt instruments. Callable instruments do not fulfil the characteristics of equity and cannot, under IFRS 9, be designated for measurement at fair value in other comprehensive income.
** The reclassification causes a reclassification of unrealised income within equity. The effects are disclosed in the statement of changes in equity.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassi-fication	Carrying amount IFRS 9 as at 01.01.2018
At fair value through other comprehensive income			
Assets			
Debt instruments, available for sale			
Opening balance according to IAS 39	282'317		
Reclassification: from AFS to FVOCI		−282'317	
Closing balance according to IFRS 9			0
Debt instruments at fair value through other comprehensive income			
Opening balance according to IAS 39	0		
Reclassification: from AFS to FVOCI		282'317	
Closing balance according to IFRS 9			282'317
Equity instruments			
Equity instruments with infrastructure character			
Opening balance according to IAS 39	0		
Reclassification: from FVTPL to FVOCI *		23'449	
Closing balance according to IFRS 9			23'449
Total assets	**282'317**	**23'449**	**305'766**

* The reclassification causes a reclassification of unrealised income within equity. The effects are disclosed in the statement of changes in equity.

Transition of the value allowance for expected credit loss from IAS 39 / IAS 37 to IFRS 9

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Loans and receivables (IAS 39) / Amortised cost (IFRS 9)			
Due from banks	0	120	120
Loans	77'445	10'679	88'124
Total	**77'445**	**10'799**	**88'244**

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Available for sale (IAS 39) / FVOCI (IFRS 9)			
Debt instruments	0	41	41
Total	**0**	**41**	**41**

in CHF thousands	Provisions according to IAS 37 as at 31.12.2017	Revaluation	Provisions according to IFRS 9 as at 01.01.2018
Off-balance-sheet positions			
Credit cards	0	3	3
Financial guarantees	2'120	2'771	4'891
Total	**2'120**	**2'775**	**4'895**

In line with the changeover to IFRS 9, a reclassification of equity instruments with infrastructure character was made. These financial assets that were formerly recognised at fair value through profit and loss are now measured at fair value through other comprehensive income. Without the reclassification the operating income would have been CHF thousands 505 higher.

The following table shows the change in fair value:

in CHF thousands	
Reclassification carried out as at 1 January 2018: from FVTPL to FVOCI	
Equity instruments, recognised at fair value through profit and loss as at 31 December 2017	23'449
Fair value gain / (loss), which would have been recorded if no reclassification had been carried out	505
Fair value as at 31 December 2018	**23'954**

4 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or an adjustment of the consolidated financial statement for 2018.

Segment reporting

The business activities of the LLB Group are divided into the following three business areas. These form the basis for the segment reporting:

- Retail & Corporate Banking segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- Private Banking segment encompasses all the private banking activities of the LLB Group.
- Institutional Clients segment encompasses the financial intermediary and investment fund business as well as the asset management and wealth structuring activities of the LLB Group.

The segments receive comprehensive support from the Corporate Center. It comprises the following functions: finance, credit and risk management, legal and compliance matters, trading and securities administration, payment services, human resources management, communication and marketing, corporate development, as well as logistics and IT services.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Executive Management (chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the LLB Group meet the definition of a reportable segment under IFRS 8.

In accordance with the principle of responsibility and based on the organisational structure, income and expenditure are allocated to the business divisions. Indirect costs resulting from services provided internally are accounted for according to the principle of causation and are recorded as a revenue increase for the service provider and as a cost increase for the service beneficiary. The remaining income and expenditure for overriding services which cannot be assigned to the segments are shown under Corporate Center. Furthermore, consolidation adjustments are reported under Corporate Center.

Transactions between the segments are executed at standard market conditions.

Financial year 2017

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	87'439	25'992	14'725	17'767	145'923
Expected credit losses	833	0	7'500	0	8'333
Net interest income after expected credit losses	88'271	25'992	22'225	17'767	154'255
Net fee and commission income	30'210	72'825	56'201	−4'406	154'830
Net trading income	11'441	8'826	11'138	51'452	82'857
Net income from financial investments at fair value	0	0	0	2'625	2'625
Share of net income of joint venture	0	0	0	−14	−14
Other income	1'622	8	2	3'184	4'816
Total operating income *	**131'545**	**107'651**	**89'566**	**70'607**	**399'369**
Personnel expenses	−29'886	−32'200	−17'709	−75'604	−155'400
General and administrative expenses	−3'544	−2'650	−2'507	−74'105	−82'806
Depreciation and amortisation	−40	0	0	−28'734	−28'773
Services (from) / to segments	−49'117	−27'344	−13'369	89'831	0
Total operating expenses	**−82'587**	**−62'195**	**−33'585**	**−88'612**	**−266'979**
Operating profit before tax	**48'957**	**45'456**	**55'981**	**−18'005**	**132'389**
Tax expenses					−21'131
Net profit					**111'259**

* There were no substantial earnings generated between the segments so that income between the segments is not material.

Financial year 2018

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	90'317	36'317	19'817	11'543	157'993
Expected credit losses	6'931	0	0	175	7'106
Net interest income after expected credit losses	97'248	36'317	19'817	11'718	165'098
Net fee and commission income	29'729	73'640	80'952	−9'040	175'280
Net trading income	11'383	8'639	11'007	42'767	73'796
Net income from financial investments at fair value	0	0	0	−19'396	−19'396
Share of net income of joint venture	0	0	0	−3	−3
Other income	1'783	3	2	3'100	4'888
Total operating income *	**140'143**	**118'597**	**111'778**	**29'146**	**399'664**
Personnel expenses	−30'458	−38'195	−26'220	−87'554	−182'427
General and administrative expenses	−1'607	−3'431	−4'647	−81'097	−90'783
Depreciation and amortisation	0	−5	−116	−32'575	−32'697
Services (from) / to segments	−50'127	−31'368	−20'550	102'045	0
Total operating expenses	**−82'192**	**−73'000**	**−51'534**	**−99'181**	**−305'906**
Operating profit before tax	**57'951**	**45'597**	**60'244**	**−70'035**	**93'758**
Tax expenses					−8'631
Net profit					**85'127**

* There were no substantial earnings generated between the segments so that income between the segments is not material.

There were no revenues deriving from transactions with a single external customer that amounted to ten per cent or more of the Group's revenues.

Segment reporting by geographic location

The geographic analysis of operating income and assets is based on the location of the company in which the transactions and assets are recorded. The LLB Group does not manage the segments or the individual companies according to geographic distribution. The geographic analysis is prepared and disclosed in order to comply with IFRS.

Financial year 2017

	Liechtenstein		Switzerland		Austria		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	284'718	71.3	103'536	25.9	11'114	2.8	**399'369**	**100.0**
Total assets (in CHF millions)	12'834	64.1	6'874	34.3	310	1.5	**20'017**	**100.0**

Financial year 2018

	Liechtenstein		Switzerland		Austria		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	245'585	61.4	116'435	29.1	37'643	9.4	**399'664**	**100.0**
Total assets (in CHF millions)	13'140	57.4	7'444	32.5	2'308	10.1	**22'892**	**100.0**

Notes to the consolidated income statement

1 Net interest income

in CHF thousands	2018	2017	+/– %
Interest income from financial instruments measured at amortised cost			
Interest income from banks	23'013	16'068	43.2
Interest income from loans	169'948	165'207	2.9
Loan commissions with the character of interest	3'462	3'844	−9.9
Interest income from financial liabilities	11'055	5'677	94.7
Total interest income from financial instruments measured at amortised cost	**207'478**	**190'796**	**8.7**
Interest income from financial instruments, recognised at fair value through other comprehensive income			
Interest income from debt instruments	3'415	2'151	58.8
Total interest income from financial instruments, recognised at fair value through other comprehensive income	**3'415**	**2'151**	**58.8**
Interest income from financial instruments at fair value through profit and loss			
Interest income from debt instruments	13'746	11'656	17.9
Interest rate derivatives	2'789	3'737	−25.4
Total interest income from financial instruments at fair value through profit and loss	**16'534**	**15'393**	**7.4**
Total interest income	**227'427**	**208'340**	**9.2**
Interest expenses from financial instruments measured at amortised cost			
Interest expenses on amounts due to banks	−12'488	−11'244	11.1
Interest expenses on amounts due to customers	−22'166	−13'115	69.0
Interest income from financial assets	−14'703	−12'431	18.3
Total interest expenses from financial instruments measured at amortised cost	**−49'357**	**−36'790**	**34.2**
Interest expenses from financial instruments measured at fair value			
Interest rate derivatives	−20'078	−25'629	−21.7
Total interest expenses from financial instruments measured at fair value	**−20'078**	**−25'629**	**−21.7**
Total interest expenses	**−69'435**	**−62'419**	**11.2**
Total net interest income	**157'993**	**145'922**	**8.3**

2 Net fee and commission income

in CHF thousands	2018	2017	+ / − %
Brokerage fees	46'496	51'502	−9.7
Custody fees	37'429	32'080	16.7
Advisory and management fees	49'805	47'163	5.6
Investment fund fees	95'940	23'407	309.9
Credit-related fees and commissions	714	585	22.2
Commission income from other services	30'882	27'015	14.3
Total fee and commission income	**261'267**	**181'751**	**43.7**
Brokerage fees paid	−11'348	−10'110	12.2
Other fee and commission expenses	−74'639	−16'812	344.0
Total fee and commission expenses	**−85'987**	**−26'922**	**219.4**
Total net fee and commission income	**175'280**	**154'830**	**13.2**

LLB and its subsidiaries offer clients an all-in fee for various services. The all-in fee is recognised in the line "Advisory and management fees". The following table shows what share of the income position the all-in fee has and what proportion of which services is included in it.

in CHF thousands	2018
Total all-in fees	**28'498**
of which brokerage	5'482
of which securities administration	4'898
of which asset management	13'063
of which commission other services business	5'055

3 Net trading income

in CHF thousands	2018	2017	+ / − %
Foreign exchange trading	64'527	59'391	8.6
Foreign note trading	−550	1'727	
Precious metals trading	407	204	99.4
Interest rate instruments *	9'412	21'535	−56.3
Total net trading income **	**73'796**	**82'857**	**−10.9**

* The LLB Group uses interest rate swaps for trading and hedging purposes. If the interest rate swaps do not fulfil the approval criteria according to IAS 39 in order to be booked as hedging transactions, they are treated as interest rate swaps for trading purposes.
** Due to the application of IFRS 9, the line "Trading portfolio assets" was integrated in Note 4 (see Annual Report 2017).

4 Net income from financial investments at fair value

in CHF thousands	2018	2017	+ / − %
Financial investments at fair value through profit and loss			
Dividend income	406	507	−19.9
Price gains * / **	−19'914	−3'541	462.3
Total net income from financial investments at fair value through profit and loss	**−19'508**	**−3'035**	**542.8**
Financial investments available for sale			
Realised gain ***		5'185	
Total net income from financial investments available for sale		**5'185**	
Financial investments, recognised at fair value through other comprehensive income			
Dividend income	470	475	−1.0
of which from financial investments held on the balance sheet date	470	475	−1.0
of which from financial investments sold during the reporting period	0	0	
Realised gain	−337		
Expected credit loss on financial investments	−21		
Total financial investments, recognised at fair value through other comprehensive income	**112**	**475**	**−76.3**
Total net income from financial investments at fair value	**−19'396**	**2'625**	

* The realised price gains for 2018 amounted to minus CHF thousands 9'998 (previous year: minus CHF thousands 7'782).
** Due to the application of IFRS 9, the line "Trading portfolio assets" was removed from Note 3 (see Annual Report 2017).
*** Contains realised gains from the sale of strategic investments amounting to CHF thousands 5'153 for 2017.

5 Other income

in CHF thousands	2018	2017	+ / − %
Net income from properties	1'397	1'311	6.5
Non-period-related and non-operating income	785	1'207	−35.0
Realised profits from sales of tangible assets *	903	773	16.8
Income from various services	1'803	1'525	18.2
Total other income	**4'888**	**4'816**	**1.5**

* Contains income from sales of properties.

6 Personnel expenses

in CHF thousands	2018	2017	+ / − %
Salaries *	−142'072	−117'868	20.5
Pension and other post-employment benefit plans **	−19'271	−20'612	−6.5
Other social contributions	−14'775	−11'372	29.9
Training costs	−1'802	−1'384	30.2
Other personnel expenses	−4'506	−4'163	8.2
Total personnel expenses	**−182'427**	**−155'400**	**17.4**

* Contains the variable compensation of the management, which is disclosed in detail in the compensation report as well as aggregated in Note "Related party transactions".
** See Note "Pension plans and other long-term benefits" for details.

The average headcount of the LLB Group amounted to 980 full-time equivalent positions in the 2018 business year (previous year: 865 full-time equivalent positions).

7 General and administrative expenses

in CHF thousands	2018	2017	+ / – %
Occupancy	– 10'252	– 10'199	0.5
Expenses for IT, machinery and other equipment	– 31'875	– 18'643	71.0
Information and communication expenses	– 16'636	– 13'225	25.8
Marketing and public relations	– 10'871	– 8'009	35.7
Consulting and audit fees	– 8'260	– 6'350	30.1
Capital tax and other tax	– 455	– 34	
Provisions for legal and litigation risks *	– 973	4'999	
Material costs	– 1'409	– 1'222	15.3
Legal and representation costs *	– 2'362	– 21'705	– 89.1
Litigation costs	– 220	– 252	– 12.5
Supervision fees	– 1'227	– 1'057	16.1
Other general and administrative expenses	– 6'242	– 7'108	– 12.2
Total general and administrative expenses	**– 90'783**	**– 82'806**	**9.6**

* See Note 25 for details.

8 Depreciation and amortisation

in CHF thousands	2018	2017	+ / – %
Depreciation of property	– 6'251	– 6'932	– 9.8
Depreciation of equipment	– 6'960	– 7'609	– 8.5
Amortisation of intangible assets	– 19'485	– 14'232	36.9
Total depreciation and amortisation	**– 32'697**	**– 28'773**	**13.6**

9 Tax expenses

in CHF thousands	2018	2017	+ / – %
Current taxes	– 11'805	– 17'034	– 30.7
Deferred taxes *	3'174	– 4'097	
Total tax expenses	**– 8'631**	**– 21'131**	**– 59.2**

* For further details, see Note 24.

The actual net payments made by the LLB Group for domestic and foreign corporate profit taxes amounted to CHF 16.3 million for the 2018 financial year (previous year: CHF 9.7 million).

The tax on pre-tax Group profit deviates from the theoretical amount, calculated on the basis of the weighted average Group tax rate on profit before tax, as follows:

in CHF thousands	2018	2017	+ / − %
Operating profit before tax	93'758	132'389	− 29.2
Assumed average income tax rate of 12.5 %	**− 11'720**	**− 16'549**	**− 29.2**
Increase / (Decrease) resulting from			
Use of losses carried forward	1'676	1'193	40.4
Effect of taxes calculated at tax rates other than the assumed tax rate	− 3'427	− 1'544	122.0
Tax savings / (charges) from previous years	451	− 4'266	
Non-tax deductible (expenses) / tax-exempt income	4'389	34	
Total tax expenses	**− 8'631**	**− 21'131**	**− 59.2**

The assumed average tax burden is based on the domestic tax rate in Liechtenstein.

10 Earnings per share

	2018	2017	+ / − %
Net profit attributable to the shareholders of LLB (in CHF thousands)	77'991	105'739	− 26.2
Weighted average shares outstanding	29'752'960	28'869'770	3.1
Basic earnings per share (in CHF)	**2.62**	**3.66**	**− 28.4**
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	77'991	105'739	− 26.2
Weighted average shares outstanding for diluted earnings per share	29'752'960	28'869'770	3.1
Diluted earnings per share (in CHF)	**2.62**	**3.66**	**− 28.4**
Dividend (in CHF)	* **2.10**	**2.00**	

* Proposal of the Board of Directors to the General Meeting of Shareholders on 3 May 2019.

Notes to the consolidated balance sheet

11 Cash and balances with central banks

in CHF thousands	31.12.2018	31.12.2017	+/– %
Cash	60'191	82'606	–27.1
Demand deposits with central banks	5'648'133	4'047'118	39.6
Total cash and balances with central banks	**5'708'324**	**4'129'723**	**38.2**

12 Due from banks

in CHF thousands	31.12.2018	31.12.2017	+/– %
On demand	758'731	689'809	10.0
At maturity or callable	852'723	1'250'623	–31.8
Total due from banks	**1'611'454**	**1'940'433**	**–17.0**

13 Loans

in CHF thousands	31.12.2018	31.12.2017	+/– %
Mortgage loans	11'119'861	10'555'234	5.3
Public institutions	73'552	86'899	–15.4
Fixed advances and loans	1'220'508	1'319'616	–7.5
Other loans and advances	520'411	199'661	160.6
Expected credit losses	–81'791	–77'445	5.6
Total loans	**12'852'541**	**12'083'966**	**6.4**

Further information, especially regarding the expected credit loss, is provided in chapter 3 “Credit risk” in Risk management.

14 Derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients. Swiss banks having a high credit worthiness act as counterparties. The bank does not assume a market-maker function. Derivative financial instruments are used to a limited extent in the management of the bank's own securities portfolio.

	Total		
in CHF thousands	Positive Replacement Values	Negative Replacement Values	Total contract volume
31.12.2017			
Derivative financial instruments in the trading portfolio			
Interest rate contracts			
Interest rate swaps	13	55'302	1'011'000
Forward contracts	11	146	31'498
Foreign exchange contracts			
Forward contracts	54'154	57'082	11'227'129
Options (OTC)	2'649	2'649	83'107
Precious metals contracts			
Forward contracts	5	5	247
Options (OTC)	25	25	2'505
Equity / index contracts			
Options (OTC)	445	445	108'711
Equities			
Forward contracts	0	0	23'298
Total derivative financial instruments in the trading portfolio	**57'302**	**115'653**	**12'487'495**
Derivative financial instruments for hedging purposes			
Interest rate contracts			
Interest rate swaps (fair value hedge)	1'438	1'795	340'000
Total derivative financial instruments for hedging purposes	**1'438**	**1'795**	**340'000**
Total derivative financial instruments	**58'740**	**117'448**	**12'827'495**

in CHF thousands	Total Positive Replacement Values	Total Negative Replacement Values	Total contract volume
31.12.2018			
Derivative financial instruments in the trading portfolio			
Interest rate contracts			
Interest rate swaps	34	44'914	910'000
Forward contracts	580	55	77'360
Foreign exchange contracts			
Forward contracts	189'883	197'590	15'825'229
Options (OTC)	4'898	4'898	198'720
Precious metals contracts			
Forward contracts	0	0	0
Options (OTC)	70	70	82'426
Equity / index contracts			
Options (OTC)	350	350	81'926
Equities			
Forward contracts	0	0	27'822
Total derivative financial instruments in the trading portfolio	**195'815**	**247'877**	**17'203'482**
Derivative financial instruments for hedging purposes			
Interest rate contracts			
Interest rate swaps (fair value hedge)	2'071	7'687	747'565
Total derivative financial instruments for hedging purposes	**2'071**	**7'687**	**747'565**
Total derivative financial instruments	**197'886**	**255'564**	**17'951'047**

The LLB Group employs fair value hedge accounting for interest rate risks on fixed-rate instruments. For this purpose, it uses interest rate swaps. The following tables show information on the nominal value (contract volumes), the replacement values and the ineffectiveness of the positions in hedge accounting;

in CHF thousands	Nominal value of hedging instrument	Carrying value of hedging instrument: Assets	Carrying value of hedging instrument: Liabilities	Balance sheet position of hedging instrument	Fair value change to measurement of ineffective hedge
31.12.2018					
Fair value hedge					
Interest rate swaps	286'282	2'071		197'886	633
Interest rate swaps	461'282		7'687	255'564	5'892

in CHF thousands	Carrying value of underlying transaction: Assets	Carrying value of underlying transaction: Liabilities	Cumulative total from fair value adjustments of the underlying transaction: Assets	Cumulative total from fair value adjustments of the underlying transaction: Liabilities	Balance sheet position of underlying transaction	Fair value change to measurement of ineffective hedge
31.12.2018						
Fair value hedge						
Mortgage loans	11'119'861		565		12'852'541	5'452
Medium-term notes		1'236'362		67	1'236'362	347

in CHF thousands	Ineffectiveness recognised in the income statement	Income statement position
31.12.2018		
Fair value hedge		
Interest rate risk	−347	−49'357

15 Financial investments at fair value

in CHF thousands	31.12.2018	31.12.2017	+/– %
Financial investments at fair value through profit and loss (IFRS 9 / IAS 39) *			
Debt instruments			
listed	635'336	915'159	–30.6
unlisted	63'328	0	
Total debt instruments	**698'664**	**915'159**	**–23.7**
Equity instruments			
listed	340	1	
unlisted	6'217	262'658	–97.6
Total equity instruments	**6'558**	**262'659**	**–97.5**
Total financial investments at fair value through profit and loss (IFRS 9 / IAS 39)	**705'222**	**1'177'818**	**–40.1**
Financial investments available for sale (IAS 39)			
Debt instruments			
listed		282'317	
unlisted		0	
Total debt instruments		**282'317**	
Total financial investments available for sale (IAS 39)		**282'317**	
Financial investments, recognised at fair value through other comprehensive income (IFRS 9)			
Debt instruments			
listed	1'207'796		
unlisted	0		
Total debt instruments	**1'207'796**		
Equity instruments			
listed	0		
unlisted	24'039		
Total equity instruments	**24'039**		
Total financial investments, recognised at fair value through other comprehensive income (IFRS 9)	**1'231'834**		
Total financial investments at fair value	**1'937'057**	**1'460'135**	**32.7**

* Due to the application of IFRS 9, the note "Trading portfolio assets" was integrated in the note "Financial investments at fair value" (see Annual Report 2017, Note 14). The positions are recognised under debt and equity instruments measured at fair value through profit and loss.

The equity instruments measured at fair value through other comprehensive income are strategic investments having an infrastructure character. Short-term realised gains are not the priority with them, rather they represent a long-term commitment.

16 Investment in joint venture

in CHF thousands	2018	2017	+ / – %
As at 1 January	33	47	– 30.7
Additions / (Disposals)	0	0	
Share in profit / (loss)	– 3	– 14	– 82.4
As at 31 December	**30**	**33**	**– 7.8**

Details of investment in joint venture

			Ownership interest in %	
Name	Registered office	Business activity	2018	2017
Data Info Services AG	Vaduz	Service company	50.0	50.0

in CHF thousands	2018	2017
Assets	69	102
Liabilities	4	8
Operating profit	0	724
Net profit	– 5	– 29

Investments in joint ventures are recognised in the balance sheet according to the equity method and are not substantial for the LLB Group. Losses are fully recognised in the balance sheet.

17 Property and other equipment as well as investment property

in CHF thousands	Property	Other equipment	Total property and other equipment	Investment property
As at 1 January 2017				
Cost	219'686	74'822	294'508	18'368
Accumulated depreciation / revaluation	−119'905	−49'635	−169'540	−2'350
Net book amount	**99'781**	**25'187**	**124'969**	**16'018**
Year ended December 2017				
Opening net book amount	99'781	25'187	124'968	16'018
Additions	16'613	9'755	26'368	0
Disposals	−12'381	−4'367	−16'748	−1'018
Depreciation / Revaluation	−6'932	−7'609	−14'541	0
Disposals / (Additions) from accumulated depreciation / revaluation	1'187	3'843	5'029	0
Closing net book amount	**98'267**	**26'809**	**125'076**	**15'000**
As at 31 December 2017				
Cost	223'918	80'210	304'128	17'350
Accumulated depreciation / revaluation	−125'651	−53'401	−179'052	−2'350
Net book amount	**98'267**	**26'809**	**125'076**	**15'000**
Year ended December 2018				
Opening net book amount	98'267	26'809	125'077	15'000
Additions	7'483	11'374	18'857	0
Additions from changes to scope of consolidation	411	930	1'341	0
Disposals	−32'563	−2'575	−35'137	0
Depreciation / Revaluation	−6'251	−6'960	−13'211	0
Disposals / (Additions) from accumulated depreciation / revaluation	20'198	2'820	23'019	0
Disposals / (Additions) from accumulated depreciation / revaluation from changes to scope of consolidation	0	−2	−2	0
Closing net book amount	**87'546**	**32'397**	**119'943**	**15'000**
As at 31 December 2018				
Cost	199'250	89'940	289'189	17'350
Accumulated depreciation / revaluation	−111'704	−57'543	−169'246	−2'350
Net book amount	**87'546**	**32'397**	**119'943**	**15'000**

Additional information

There are no financing leases for premises or equipment. The investment property is held solely for the purpose of capital appreciation.

Future net commitments for operating leases

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Due within one year	2'653	3'086	–14.0
of which non-cancellable commitments	2'653	538	392.9
Due within one to five years	11'091	7'237	53.3
of which non-cancellable commitments	11'091	447	
Due in more than five years	1'761	3'284	–46.4
of which non-cancellable commitments	1'761	564	212.3
Total future net commitments for operating leases	**15'505**	**13'606**	**14.0**
of which non-cancellable commitments	15'505	1'549	900.7

Operating expenses for 2018 include CHF thousands 4'175 and for 2017 CHF thousands 3'712 from operating leases. At year's end, the LLB Group was obligated under a number of non-cancellable operating leases for premises and equipment used mainly for banking purposes. The significant premises leases include renewal options and escalation clauses.

Future net receivables from operating leases

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Due within one year	1'594	1'302	22.4
Due within one to five years	4'705	3'858	22.0
Due in more than five years	4'557	3'016	51.1
Total future net receivables from operating leases	**10'856**	**8'176**	**32.8**

Other income for 2018 includes CHF thousands 1'581 and for 2017 CHF thousands 1'509 from operating leases.

18 Goodwill and other intangible assets

in CHF thousands	Goodwill	Client relationships and brand values	Software	Other intangible assets	Total
As at 1 January 2017					
Cost	55'620	55'763	79'340	0	190'723
Accumulated amortisation / impairment	0	−36'560	−35'730	0	−72'290
Net book amount	**55'620**	**19'203**	**43'609**	**0**	**118'432**
Year ended December 2017					
Opening net book amount	55'620	19'203	43'609	0	118'432
Additions	0	0	8'715	0	8'715
Disposals	0	0	−1'254	0	−1'254
Amortisation / Impairment	0	−3'718	−10'514	0	−14'232
Disposals / (Additions) from accumulated amortisation / impairment	0	0	1'235	0	1'235
Closing net book amount	**55'620**	**15'485**	**41'791**	**0**	**112'896**
As at 31 December 2017					
Cost	55'620	55'763	86'801	0	198'184
Accumulated amortisation / impairment	0	−40'278	−45'009	0	−85'287
Net book amount	**55'620**	**15'485**	**41'791**	**0**	**112'896**
Year ended December 2018					
Opening net book amount	55'620	15'485	41'791	0	112'896
Additions	113'720	82'923	12'874	1'115	210'632
Disposals			−115		−115
Additions from changes to scope of consolidation			1'414		1'414
Amortisation / Impairment		−7'060	−12'299	−126	−19'485
Disposals / (Additions) from accumulated amortisation / impairment			−29		−29
Closing net book amount	**169'340**	**91'348**	**43'636**	**989**	**305'314**
As at 31 December 2018					
Cost	169'340	138'686	100'974	1'115	410'115
Accumulated amortisation / impairment	0	−47'338	−57'337	−126	−104'802
Net book amount	**169'340**	**91'348**	**43'636**	**989**	**305'314**

Goodwill

The LLB Group carried goodwill for the following cash generating units:

in CHF thousands	31.12.2018	31.12.2017
Bank Linth LLB AG	55'620	55'620
Liechtensteinische Landesbank AG	64'850	
Liechtensteinische Landesbank (Österreich) AG	40'978	
LLB Swiss Investment AG	7'892	

Goodwill impairment testing
Goodwill is tested for impairment annually in the third quarter as a basis for the annual financial reporting at 31 December, and also as required. In order to determine a possible impairment, the recoverable amount of each cash generating unit which carries goodwill is compared with its balance sheet value. According to the calculations made, the recoverable amount of a cash generating unit always corresponds to the value in use. The balance sheet value or carrying value comprises equity before goodwill and intangible assets, as well as goodwill and intangible assets from the underlying purchase price allocation of this cash generating unit.

On the basis of the impairment testing carried out, management reached the conclusion that for the year ended on 31 December 2018, the total goodwill of CHF 169.3 million allocated to the cash generating units remains recoverable. No impairment needs to be recognised because the recoverable amount exceeds the balance sheet value.

Recoverable amount
For determining the value in use, which corresponds to the recoverable amount of the respective cash generating units, the LLB Group employs a discounted cash flow (DCF) valuation model. It takes into consideration the special characteristics of the banking business and the financial services sector, as well as the regulatory environment. With the aid of the model, and on the basis of the financial planning approved by management, the cash value of estimated free cash flow is calculated. If regulatory capital requirements exist for the cash generating unit, these capital requirements are deducted from the estimated free cash flows for the respective period and are available to the cash generating unit for distribution. This amount then corresponds to the theoretical sum that could be paid out to the shareholders. For the assessment of the forecasted earnings, management employs approved financial plans covering a period of five years. The results for all periods after the fifth year are extrapolated from the forecasted result and the free cash flows of the fifth year with a long-term growth rate, which corresponds to the long-term inflation rate of the functional currency of the tested cash generating unit. These are the inflation rates of Switzerland, Liechtenstein and Austria. Under certain circumstances, the growth rates may vary for the individual cash generating units because the probable developments and conditions in the respective markets are taken into account.

Assumptions
As far as possible, the parameters on which the valuation model is based are coordinated with external market information. In this context, the value in use of a cash generating unit is most sensitive to changes in the forecasted earnings, changes to the discount rate and changes in the long-term growth rate. The discount rate is determined on the basis of the capital asset pricing model (CAPM), which contains a risk-free interest rate, a market risk premium, a small cap premium, as well as a factor for the systematic market risk, i.e. the beta factor.

The long-term growth rate outside the five-year planning period (terminal value), on which the impairment tests for the annual report as at 31 December 2018 were based and which were used for extrapolation purposes, as well as the discount rate for the cash generating units are shown in the table below.

The discount rate is directly influenced by the fluctuation of interest rates. On account of the unchanged, historically low interest rate levels on the market, the discount rate of the cash generating unit has not changed in comparison with the previous year. In a longer-term comparison, the present interest rate environment is also reflected in substantially lower interest income as well as corresponding lower annual earnings and free cash flows distributable to shareholders. On account of the fact that the discount rate is linked to current interest rate levels, when the latter rise, basically the discount rate, and interest income, will also rise. The cash generating units are exposed to only a limited level of risk because they operate in a local market, and in retail and private banking as well as in the institutional business with a limited risk profile.

	Growth rate		Discount rate	
in per cent	2018	2017	2018	2017
Bank Linth LLB AG	1.0	1.0	6.0	6.0
Liechtensteinische Landesbank AG	1.0		6.5	
Liechtensteinische Landesbank (Österreich) AG	1.5		7.5	
LLB Swiss Investment AG	1.0		8.5	

Sensitivities

During the periodic preparation and execution of impairment tests, all the parameters and assumptions, on which the testing of the individual cash generating units is based, are reviewed and – if necessary – adjusted. A change in the risk-free interest rate has an influence on the discount rate, whereby a change in the economic situation, especially in the financial services industry, also has an impact on the expected or estimated results. In order to check these effects on the value in use of the individual cash generating units, the parameters and assumptions employed with the valuation model are subjected to a sensitivity analysis. For this purpose, the forecasted free cash flow attributable to shareholders is changed by 10 per cent, the discount rate by 10 per cent and the long-term growth rates by 10 per cent. According to the results of the impairment tests carried out, and based on the described assumptions, an amount between CHF 20.5 million and CHF 463.3 million in excess of the balance sheet value is obtained for all cash generating units. A reduction of the free cash flow by 10 per cent, or an increase in the discount interest rate of 10 per cent, or a reduction in the long-term growth rate of 10 per cent would not result in an impairment of the goodwill.

In view of the challenging situation in the financial services industry, which is expected to persist in the future, the management estimates that an impairment of the goodwill in the coming financial years is not improbable. However, thanks to the relative strength in comparison with competitors as well as the realised and planned cost-cutting and efficiency improvement measures, a positive development is expected over the medium to long-term.

If the estimated earnings and other assumptions in future financial years deviate from the current outlook due to political or global risks in the banking industry – such as for example due to uncertainty in connection with the implementation of regulatory provisions and the introduction of certain legislation, or a decline in general economic performance – this could result in an impairment of goodwill in the future. This would lead to a reduction in the income statement of the LLB Group and a decrease in the equity attributable to shareholders and net profit. Such an impairment would not, however, have an impact on cash flows or on the Tier 1 ratio because – in accordance with the Liechtenstein Capital Adequacy Ordinance – goodwill must be deducted from capital.

Client relationships and brand values

Client relationships and brand values are assets, which are acquired and capitalised within the scope of an acquisition. These are amortised over a period of 15 years on a straight-line basis. Estimated aggregated amortisation amounts to:

in CHF thousands	
2019	9'431
2020	9'431
2021	9'431
2022	6'326
2023	5'713
2024 and thereafter	51'016
Total	**91'348**

19 Other assets

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Settlement accounts	5'528	1'032	435.7
VAT and other tax receivables	1'354	1'111	21.8
Precious metals holdings	37'121	29'671	25.1
Total other assets	**44'003**	**31'814**	**38.3**

20 Assets pledged

	31.12.2018		31.12.2017	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Financial investments	337'650	262'109	82'980	0
Mortgage loans	1'242'735	991'700	1'096'910	880'400
Total assets pledged	**1'580'385**	**1'253'809**	**1'179'890**	**880'400**

The financial investments are pledged with national and central banks for Lombard limits, for stock exchange guarantees and to safeguard the business activity of foreign organisations pursuant to local legal provisions. Mortgage loans are pledged as collateral for shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions.

21 Due to banks

in CHF thousands	31.12.2018	31.12.2017	+ / − %
On demand	222'530	204'110	9.0
At maturity or callable	1'286'882	739'205	74.1
Total due to banks	**1'509'412**	**943'316**	**60.0**

22 Due to customers

in CHF thousands	31.12.2018	31.12.2017	+ / − %
On demand	12'356'765	10'623'400	16.3
At maturity or callable	1'575'014	1'339'516	17.6
Savings accounts	3'543'927	3'689'242	− 3.9
Total due to customers	**17'475'706**	**15'652'158**	**11.7**

23 Debt issued

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Medium-term notes *	242'147	286'014	−15.3
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions **	994'215	883'014	12.6
Total debt issued	**1'236'362**	**1'169'027**	**5.8**

* The average interest rate was 0.56 per cent as at 31 December 2018 and 0.66 per cent as at 31 December 2017.
** The average interest rate was 0.98 per cent as at 31 December 2018 and 1.16 per cent as at 31 December 2017.

The following table shows the changes in medium-term notes and shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions, separated into cash and non-cash changes.

			Non-cash changes				
in CHF thousands	01.01.2017	Cash changes	Changes in scope of consolidation	Changes in exchange rates	Changes in fair value	Other changes	31.12.2017
Issuance / (Repayment) of medium-term notes	437'200	−151'399	0	657	0	−444	286'014
Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	790'836	92'200	0	0	0	−22	883'014
Total liabilities from financing activities	**1'228'035**	**−59'199**	**0**	**657**	**0**	**−467**	**1'169'027**

			Non-cash changes				
in CHF thousands	01.01.2018	Cash changes	Changes in scope of consolidation	Changes in exchange rates	Changes in fair value	Other changes	31.12.2018
Issuance / (Repayment) of medium-term notes	286'014	−43'870	0	−16	0	19	242'147
Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	883'014	111'300	0	0	0	−99	994'215
Total liabilities from financing activities	**1'169'027**	**67'430**	**0**	**−16**	**0**	**−79**	**1'236'362**

24 Deferred taxes

in CHF thousands	As at 1 January	New measurement: ECL value allowance (from initial application IFRS 9)	Amount recognised in the income statement	Amount recognised in other comprehensive income	Change from additions and disposals to the scope of consolidation	As at 31 December
Deferred tax assets						
2017						
Tax losses carried forward	1'430	0	0	−72	0	1'359
Property and equipment	3'548	0	77	0	0	3'625
Liability for pension plans	16'258	0	340	−2'875	0	13'724
Intangible assets	126	0	−126	0	0	0
Derivative financial instruments	6'960	0	−2'069	0	0	4'891
Total	**28'322**	**0**	**−1'778**	**−2'947**	**0**	**23'599**
Offsetting						−10'956
Total after offsetting						**12'642**
2018						
Tax losses carried forward	1'359	0	1'601	−50	0	2'909
Property and equipment	3'625	0	183	0	370	4'178
Liability for pension plans	13'724	0	960	−689	337	14'332
Intangible assets	0	0	−5	0	128	123
Derivative financial instruments	4'891	0	−1'030	0	−252	3'609
Expected credit losses		2'202	456	−307	0	2'351
Total deferred tax assets	**23'599**	**2'202**	**2'165**	**−1'046**	**582**	**27'502**
Offsetting						−6'732
Total after offsetting						**20'770**
Deferred tax liabilities						
2017						
Intangible assets	3'841	0	−744	0	0	3'097
Property	24	0	0	−24	0	0
Financial investments	7'154	0	3'063	−125	0	10'091
Provisions	12'240	0	0	0	0	12'240
Total deferred tax liabilities	**23'258**	**0**	**2'319**	**−149**	**0**	**25'428**
Offsetting						−10'956
Total after offsetting						**14'472**
2018						
Intangible assets	3'097	0	−1'532	0	20'457	22'021
Financial investments	10'091	0	−466	−3'382	−418	5'824
Provisions	12'240	0	987	0	−85	13'143
Total deferred tax liabilities	**25'428**	**0**	**−1'010**	**−3'382**	**19'953**	**40'988**
Offsetting						−6'732
Total after offsetting						**34'257**

As at 31 December 2018, no temporary differences which were not booked as deferred taxes and which in future could be offset with potential tax allowances existed (previous year: CHF thousands 2'365).

The tax losses carried forward which were not recognised as deferred tax assets as at 31 December 2018 expire as follows:

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Within 1 year	0	0	
Within 2 to 5 years	0	0	
Within 6 to 7 years	0	0	
No expiry	0	2'365	− 100.0
Total	**0**	**2'365**	**− 100.0**

In general, tax losses in Switzerland can be carried forward for seven years; in the Principality of Liechtenstein and Austria, they can be carried forward for an unlimited period.

25 Provisions

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2018	Total 2017
As at 1 January	22'967	5'161	28'128	51'071
New provision charged to statement of comprehensive income on account of the modified retroactive adjustment in the transition to IFRS 9	0	2'775	2'775	
Additions from changes to scope of consolidation	0	154	154	
Provisions applied	− 2'023	− 680	− 2'703	− 20'337
Increase in provisions recognised in the income statement	1'080	4'164	5'244	3'134
Decrease in provisions recognised in the income statement	− 108	− 3'038	− 3'146	− 5'740
As at 31 December	**21'917**	**8'534**	**30'451**	**28'128**

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Short-term provisions	30'451	28'128	8.3
Long-term provisions	0	0	
Total	**30'451**	**28'128**	**8.3**

Provisions for legal and litigation risks

The LLB Group is involved in various legal proceedings within the scope of normal banking business. It allocates provisions for ongoing and threatened legal proceedings if, in the opinion of LLB, payments or losses are likely and the amounts can be estimated.

As at 31 December 2018, the LLB Group was involved in various litigation and proceedings, which could have an impact on its financial reporting. The LLB Group endeavours to disclose the claims for damages, the scope of legal proceedings and other relevant information in order for the reader to be able to estimate the possible risk for the LLB Group.

LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks which must achieve an individual solution with the US authorities to resolve the US taxation dispute. LLB (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., with its registered office in Zurich-Erlenbach, is responsible for the proceedings. LLB Verwaltung (Switzerland) AG is cooperating closely with the US authorities and is working with them to achieve a final settlement of the issue, while complying with the prevailing legal regulations. In the opinion of the management, the legal risk of an outflow of resources in connection with the possibility that LLB Verwaltung (Switzerland) AG may not have complied with US law, especially US tax law, was still not unlikely as at 31 December 2018. Based on the calculation criteria applied in the non-prosecution agreement between LLB AG, Vaduz, and the US authorities, as well as the latest information and payments made by other banks, a provision was recorded in the balance sheet by LLB Verwaltung (Switzerland) AG as at 31 December 2018. The management believes the provision set aside is sufficient.

At the start of 2015, LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., received two legal claims in connection with an investment project. Several persons, who have no connection with LLB Verwaltung (Switzerland) AG, had endeavoured to persuade an investor to invest a sum in an investment project. The investment project did not exist and the persons acting fraudulently were able to embezzle a part of the investment sum. The claimants have lodged claims against LLB Verwaltung (Switzerland) AG for the payment of damages in respect of a part of the embezzled amount plus interest. LLB Verwaltung (Switzerland) AG denies that the actions of a former employee of LLB Verwaltung (Switzerland) AG led to the loss. At the beginning of October 2017, the High Court of Justice in London ruled at first instance that there had been misconduct on the part of a former employee and that LLB Verwaltung (Switzerland) AG was jointly liable for his misconduct and for the damage caused by him. LLB Verwaltung (Switzerland) AG was not liable for misconduct itself. LLB Verwaltung (Switzerland) AG has lodged an appeal against this first instance ruling. On the basis of the first instance ruling and the non-suspensive effect of the appeal, LLB Verwaltung (Switzerland) AG has deposited an amount of CHF 15.1 million with the court for damages, interest charges and third-party attorneys' fees. These costs were booked as general and administrative costs in 2017 in accordance with the IFRS accounting regulations. LLB Verwaltung (Switzerland) AG continues to believe that this damage is covered by the insurance company.

Provisions for other business risks and restructuring

LLB (Österreich) AG will introduce the Avaloq banking software package as at 1 January 2020. The service agreement for the use of the existing software can only be terminated by either party from the end of 2021 at the earliest. A provision amounting to CHF 3.9 million was allocated as at 31 December 2018 for the service fees to be paid for the years 2020 and 2021 even though the software will not be used.

The provisions for restructuring relate to the StepUp2020 strategy announced in October 2015. As at 31 December 2018, provisions amounting to CHF 0.9 million for restructuring, covering estimated rebuilding and restoration costs and expenses for social plans were allocated. The acquisitions of LB(Swiss) Investment AG and Semper Constantia Privatbank AG did not result in any provisions for restructuring as at 31 December 2018.

26 Other liabilities

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Outstanding medium-term notes	28	79	– 64.6
Charge accounts	4'543	6'179	– 26.5
Accounts payable	36'497	26'419	38.1
Settlement accounts	108'763	15'536	600.1
Pension plans	112'430	107'669	4.4
Outstanding holidays / flexi-time	5'770	2'927	97.2
Other long-term benefits	4'201	3'811	10.2
Total other liabilities	**272'232**	**162'619**	**67.4**

27 Share capital

	31.12.2018	31.12.2017	+ / – %
Number of registered shares (fully paid up)	30'800'000	30'800'000	0.0
Nominal value per registered share (in CHF)	5	5	0.0
Total nominal value (in CHF thousands)	**154'000**	**154'000**	**0.0**

28 Share premium

in CHF thousands	2018	2017	+ / – %
As at 1 January	23'509	24'968	– 5.8
Net movements in treasury shares	– 44'666	– 1'458	
As at 31 December	**– 21'157**	**23'509**	

29 Treasury shares

	Quantity	in CHF thousands
As at 1 January 2017	1'959'238	167'045
Purchases	0	0
Disposals	– 36'301	– 3'159
As at 31 December 2017	**1'922'937**	**163'886**
Purchases	116'500	7'485
Disposals *	– 1'914'596	– 163'176
As at 31 December 2018	**124'841**	**8'195**

* This contains the transfer of 1.85 million treasury shares on 4 July 2018 to the owners for the purchase of Semper Constantia Privatbank AG with registered office in Vienna.

30 Retained earnings

in CHF thousands	2018	2017	+ / − %
As at 1 January	1'815'454	1'758'816	3.2
Reclassification of equity instruments from FVTPL to FVOCI (from first application of IFRS 9)	−9'242		
Revaluation: ECL allowance (from first application of IFRS 9)	−10'650		
As at 1 January, restated	1'795'561	1'758'816	2.1
Net profit attributable to the shareholders of LLB	77'991	105'739	−26.2
Dividends paid	−57'883	−49'091	17.9
Increase / (Reduction) in non-controlling interests	−616	−10	
As at 31 December	**1'815'053**	**1'815'454**	**−0.0**

31 Other reserves

in CHF thousands	2018	2017	+ / − %
As at 1 January	−62'371	−74'511	−16.3
Reclassification of equity instruments from FVTPL to FVOCI (from first application of IFRS 9)	9'242		
As at 1 January, restated	−53'129	−74'511	−28.7
Foreign currency translation	−4'951	4'155	
Actuarial gains / (losses) of pension plans	346	10'577	−96.7
Value changes from financial investments measured at fair value through other comprehensive income	4'346	−2'591	
Increase / (Reduction) in non-controlling interests	0	0	−100.0
As at 31 December	**−53'388**	**−62'371**	**−14.4**

32 Non-controlling interests

in CHF thousands	2018	2017	+ / − %
As at 1 January	116'276	110'146	5.6
Revaluation: ECL allowance (from first application of IFRS 9)	−1'052		
As at 1 January, restated	115'224	110'146	4.6
Non-controlling interests in net profit	7'136	5'520	29.3
(Dividends paid) / Reduction of nominal value in non-controlling interests	−1'826	−1'623	12.5
Increase / (Reduction) in non-controlling interests	1'715	10	
Actuarial gains / (losses) of pension plans	978	2'224	−56.0
Value changes from financial investments measured at fair value through other comprehensive income	164	−1	
As at 31 December	**123'391**	**116'276**	**6.1**

33 Fair value measurement

Measurement guidelines

The fair value represents a market-based measurement and not an entity-specific valuation. It is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date on the principal market or the most advantageous market.

As far as possible, the fair value is determined on the basis of the quoted market prices in active markets accessible to the company on the measurement date. An active, accessible market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value is determined using significant and observable inputs. These are basically available in the case of quoted assets or liabilities. If a market for financial or non-financial assets or liabilities is inactive, or if no observable inputs, or insufficient observable inputs, are available, the LLB Group must employ techniques or processes (valuation methods or models) to determine the fair value. The valuation techniques contain assumptions, including estimates, to enable an exit price on the measurement date from the perspective of the market participant to be determined. However, such assumptions and estimates contain uncertainties, which at a later date can lead to substantial changes in the fair value of financial and non-financial assets and liabilities. In the case of financial and non-financial assets and liabilities for which a valuation technique involving non-observable market data is used to determine the fair value, these are measured at the transaction price. This fair value can differ from the fair value determined on the basis of valuation techniques.

All financial and non-financial assets and liabilities measured at fair value are categorised into one of the following three fair value hierarchies:

Level 1

The fair value of listed securities and derivatives contained in the trading portfolio and financial investments is determined on the basis of market price quotes on an active market.

Level 2

If no market price quotes are available, the fair value is determined by means of valuation methods or models which are based on assumptions made on the basis of observable market prices and other market quotes.

Level 3

For the remaining financial instruments, neither market price quotes nor valuation methods or models based on market prices are available. Our own valuation methods or models are employed to measure the fair value of these instruments.

Valuation methods

Valuation methods and techniques are employed to determine the fair value of financial and non-financial assets and liabilities for which no observable market prices on an active market are available. These include, in particular, illiquid financial investments. If available, the LLB Group uses market-based assumptions and inputs as the basis for valuation techniques. If such information is not available, assumptions and inputs from comparable assets and liabilities are employed. In the case of complex and very illiquid financial and non-financial assets and liabilities, the fair value is determined using a combination of observable transaction prices and market information.

The LLB Group employs standardised and accepted valuation techniques to determine the fair value of financial and non-financial assets and liabilities which are not actively traded or listed. In general, the LLB Group uses the following valuation methods and techniques as well as the following inputs.

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Derivative financial instruments	Option models	Underlying assets of future contracts	
Own investment funds	Market to model	Market prices of underlying assets	
Equities	Market to model	Market prices of underlying assets	
Due from banks	Present value calculation	Market price of congruent LIBOR interest rates	
Due to banks	Present value calculation	Market price of congruent LIBOR interest rates	
Loans	Present value calculation	Market price of congruent LIBOR interest rates	
Due to customers	Present value calculation	Market price of congruent LIBOR interest rates	
Debt issued	Present value calculation	Market price of congruent LIBOR interest rates	
Accrued income and prepaid expenses / Accrued expenses and deferred income	Fair value corresponds to carrying value on account of the short-term maturity	Price conditions; deferred income corresponds to deferrals on commissions and fees	
Level 3			
Financial investments at fair value through profit and loss	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Financial investments, recognised at fair value through other comprehensive income	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property
Non-current assets held for sale	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of financial and non-financial assets and liabilities of the LLB Group within the fair value hierarchy. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As at 31 December 2018, the LLB Group had no assets or liabilities which were measured at fair value on a non-recurring basis in the balance sheet. In the 2018 financial year, there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Level 1			
Financial investments at fair value through profit and loss	635'676	915'160	−30.5
Financial investments available for sale		282'317	−100.0
Financial investments, recognised at fair value through other comprehensive income	1'207'796		
Total financial instruments at fair value	**1'843'472**	**1'197'477**	**53.9**
Cash and balances with central banks	5'708'324	4'129'723	38.2
Total financial instruments not at fair value	**5'708'324**	**4'129'723**	**38.2**
Total Level 1	**7'551'796**	**5'327'201**	**41.8**
Level 2			
Derivative financial instruments	197'886	58'740	236.9
of which for hedging purpose	2'071	1'438	44.0
Financial investments at fair value through profit and loss	69'546	239'209	−70.9
Total financial instruments at fair value	**267'431**	**297'949**	**−10.2**
Due from banks	1'617'123	1'944'825	−16.8
Loans	13'391'601	12'595'887	6.3
Accrued income and prepaid expenses	56'868	39'395	44.4
Total financial instruments not at fair value	**15'065'592**	**14'580'107**	**3.3**
Total Level 2	**15'333'023**	**14'878'055**	**3.1**
Level 3			
Financial investments at fair value through profit and loss	0	23'449	−100.0
Financial investments, recognised at fair value through other comprehensive income	24'039		
Total financial instruments at fair value	**24'039**	**23'449**	**2.5**
Total financial instruments not at fair value	**0**	**0**	
Investment property	15'000	15'000	0.0
Non-current assets held for sale	21'214	6'734	
Total other assets at fair value	**36'214**	**21'734**	**66.6**
Total Level 3	**60'253**	**45'183**	**33.4**
Total assets	**22'945'072**	**20'250'439**	**13.3**

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Level 1			
Total Level 1	**0**	**0**	
Level 2			
Derivative financial instruments	255'564	117'448	117.6
of which for hedging purpose	7'687	1'795	328.2
Total financial instruments at fair value	**255'564**	**117'448**	**117.6**
Due to banks	1'509'905	945'030	59.8
Due to customers	17'540'159	15'708'690	11.7
Debt issued	1'280'606	1'215'905	5.3
Accrued expenses and deferred income	51'625	30'250	70.7
Total financial instruments not at fair value	**20'382'294**	**17'899'875**	**13.9**
Total Level 2	**20'637'858**	**18'017'323**	**14.5**
Level 3			
Non-current liabilities held for sale	2'386	0	
Total other liabilities at fair value	**2'386**	**0**	
Total Level 3	**2'386**	**0**	
Total liabilities	**20'640'244**	**18'017'323**	**14.6**

Measurement of assets and liabilities, classified as Level 3

The financial investments measured at fair value through other comprehensive income increased by CHF 0.6 million in the 2018 business year. Two factors were responsible for this increase: 1) an increase in the fair value of the instruments already held in the 2017 business year led to a rise in other comprehensive income of CHF 0.5 million; and 2) instruments amounting in value to CHF 85 thousand were acquired within the scope of the takeover of Semper Constantia Privatbank AG and its subsidiaries.

There were no value changes in investment property. Accordingly, there were no effects on the income statement.

The change in value of non-current assets held for sale was caused by the classification of properties as available for sale and their subsequent sale. The sale realised a profit of CHF 0.8 million, compared with a decrease in carrying value of CHF 4.0 million. The profit was recognised in the income statement as other income. The change in value between the current period and the comparison period therefore relates to new properties, which were classified in 2018 as IFRS 5 Non-current Assets Held for Sale.

The measurement process to determine the fair value of recurring and non-recurring Level 3 assets and liabilities, especially the significant non-observable inputs, as shown in the previous table, are explained in the following. The interrelationships between observable and non-observable inputs are not explained in the following, because such interrelationships have no significant influence on the measurement of fair value.

Financial investments measured at fair value through other comprehensive income

With the transition to IFRS 9, financial investments were designated FVOCI, measured at fair value through other comprehensive income. Only the fair value recognition changes as a result of the designation, the procedure for measuring the fair value remains the same.

Financial investments are periodically valued without affecting the income statement on the basis of market values provided by external experts. The financial investments consist of the non-listed shares of companies, which are periodically revalued on the basis of current company data or by third parties with the aid of valuation models. The valuation is made available to shareholders. An own valuation by shareholders with the aid of a valuation model based on observable or significant non-observable inputs is therefore unnecessary. How changes would affect the fair value, or how sensitively this would react, cannot be quantified or would have to be based on various assumptions to be made by LLB on how the company will develop. Since these are investments having an infrastructure character, whereby basically the fair value has changed in the last few years only by the amount of profit attained, a sensitivity analysis would bring no additional benefit for the reader of the financial statement. The financial investments do not diverge to highest and best use.

Investment property

Investment property is periodically valued by external experts or is valued on the basis of relative values in a market comparison. If no corresponding values for comparable properties are available, on which to base a reliable calculation of the fair value, assumptions are made. These assumptions contain assessments and considerations of such circumstances as the location and condition of the property, as well as the expected costs and revenues with it. Properties are always revalued whenever on the basis of events or changed circumstances the fair value no longer reflects the market price, so that changes in the calculation of the fair value can be promptly determined and recognised in the accounts. Changes in the inputs, on which the measurement of the fair value is based, can lead to significant changes in it. It cannot be quantified to what extent changes influence the fair value and the sensitivity of fair value, because the valuation of a property is based on an individual measurement, which is influenced by various assumptions. Consequently, a significant change in the fair value can occur, which is not quantifiable. Investment properties do not diverge to highest and best use.

Non-current assets and liabilities held for sale

Non-current assets held for sale encompass wholly owned properties, which currently comprise bank branches, rental apartments, unused real estate and also a company which manages apartments (see also Note 35 "Non-current assets and liabilities held for sale"). These are recognised as investment property.

The liabilities relate to the management company.

Financial investments not measured at fair value

The fair value hierarchy also includes details of financial assets and liabilities which are not measured on a fair value basis, but for which a fair value does exist. In addition to their inclusion in the fair value hierarchy, basically a comparison between the fair value and the carrying value of the individual categories of financial assets and liabilities is to be presented.

The following table shows this comparison only for positions which were not measured at fair value, since for positions measured at fair value the carrying value corresponds to the fair value. On account of the maturity being more than one year, for specific positions a present value was calculated taking as a basis LIBOR interest rates appropriate for the duration of the term. In the case of all other positions, the carrying value represents a reasonable approximation of the fair value.

	31.12.2018		31.12.2017	
in CHF thousands	Book amount	Fair value	Book amount	Fair value
Assets				
Cash and balances with central banks	5'708'324	5'708'324	4'129'723	4'129'723
Due from banks	1'611'454	1'617'123	1'940'433	1'944'825
Loans	12'852'541	13'391'601	12'083'966	12'595'887
Accrued income and prepaid expenses	56'868	56'868	39'395	39'395
Liabilities				
Due to banks	1'509'412	1'509'905	943'316	945'030
Due to customers	17'475'706	17'540'159	15'652'158	15'708'690
Debt issued	1'236'362	1'280'606	1'169'027	1'215'905
Accrued expenses and deferred income	51'625	51'625	30'250	30'250

34 Netting of financial assets and financial liabilities

The LLB Group has concluded agreements with various counterparties which permit netting. These are mainly agreements in connection with securities lending and borrowing transactions, reverse-repurchase deals and over-the-counter transactions.

The following table provides an overview of the financial assets and financial liabilities which are subject to an enforceable netting agreement or similar agreements. The LLB Group does not conduct netting with the financial assets and financial liabilities of balance sheet transactions because the legal requirements for netting are not satisfied. Accordingly, the table shows unnetted amounts in the balance sheet, risks therefore which the bank has accepted with the individual executed transactions, and which existed on the balance sheet date. The information provided in the table does not represent the current credit risk in connection with the transactions conducted by the LLB Group.

in CHF thousands	On the balance sheet recognised amounts	Potential netting amounts: Financial instruments	Potential netting amounts: Financial collaterals	Amounts after potential netting
31.12.2017				
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements				
Reverse repurchase agreements	117'203	0	116'823	380
Positive replacement values	58'740	5'181	48'745	4'813
Cash collateral receivables on derivative instruments	82'199	0	82'199	0
Total assets	**258'142**	**5'181**	**247'768**	**5'193**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements				
Repurchase agreements	150'000	0	149'929	71
Negative replacement values	117'448	0	82'199	35'249
Cash collateral payables on derivative instruments	1'769	0	1'769	0
Total liabilities	**269'217**	**0**	**233'897**	**35'320**
31.12.2018				
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements				
Reverse repurchase agreements	101'164	0	100'415	749
Positive replacement values	197'886	4'601	166'686	26'599
Cash collateral receivables on derivative instruments	202'633	0	202'633	0
Total assets	**501'684**	**4'601**	**469'735**	**27'348**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements				
Repurchase agreements	395'000	0	395'118	−118
Negative replacement values	255'563	0	202'633	52'930
Cash collateral payables on derivative instruments	113'391	0	113'391	0
Total liabilities	**763'954**	**0**	**711'142**	**52'812**

35 Non-current assets and liabilities held for sale

Properties, which encompass bank branches, rental apartments and unused real estate and which are wholly owned by individual group companies, are available for immediate sale. Two properties will be sold in the second quarter of 2019. For other properties offers have been received, or discussions are being held. The carrying value of the properties to be sold in the second quarter amounts to CHF 2.1 million. A profit on the sale of around CHF 1.3 million is expected.

Furthermore, a company, which manages rental apartments, that is not wholly owned is also designated for immediate sale.

The net balance sheet value of all assets totals CHF 18.8 million.

Notes to the consolidated off-balance sheet transactions

36 Contingent liabilities

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Collateral guarantees and similar instruments	34'158	19'933	71.4
Performance guarantees and similar instruments	61'344	34'665	77.0
Total contingent liabilities	**95'503**	**54'598**	**74.9**

37 Credit risks

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Irrevocable commitments	475'154	247'724	91.8
Deposit and call liabilities	9'138	9'141	−0.0
Total credit risks	**484'292**	**256'865**	**88.5**

38 Fiduciary transactions

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Fiduciary deposits with other banks	511'667	362'276	41.2
Other fiduciary financial transactions	1'696	2'012	−15.7
Total fiduciary transactions	**513'363**	**364'288**	**40.9**

39 Lending and pension transactions with securities

LLB has own securities which have been lent or pledged by it. These are recognised in LLB's balance sheet and recorded in the table below. Furthermore, securities owned by third parties which LLB received as collateral and in some cases has repledged or resold are reported in the table. These are not recognised in LLB's balance sheet.

	31.12.2018		31.12.2017	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with repurchase agreements	533'456	533'456	177'305	177'305
of which capable of being resold or further pledged without restrictions	533'456	533'456	177'305	177'305
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	0	582'184	0	395'266
of which resold or further pledged securities	0	82'759	0	41'864

Pension plans and other long-term benefits

Pension plans

Post-employment benefits

The LLB Group has established a number of pension plans, in compliance with prevailing legal provisions, which insure most employees in the event of death, invalidity and retirement. In addition, further plans exist for long-service anniversaries, which qualify as other long-term employee benefits. In the case of the pension plans, contributions are made by employees, which are then supplemented by corresponding contributions from the LLB Group. The pension schemes are financed in compliance with the local legal and fiscal regulations. The risk benefits are based on the insured salary and the pension benefits on the accumulated capital. The assets of the funded pension plans are held within separate foundations or insurances and may not revert to the employer. The mortality rates specified in the Professional Pensions Law 2015 (BVG 2015) were employed to calculate the mortality, life expectancy and invalidity rates for all pension plans. The last actuarial valuations were performed on 31 December 2018 and 31 December 2017. The actuarial gains and losses are included in other comprehensive income.

Joint committees are set up for pension plans, which are administered via collective foundations. The foundation board of the autonomous pension foundation is also composed of an equal number of employee and employer representatives. On the basis of the legal provisions and the pension plan regulations, the foundation board is obligated to act solely in the interest of the foundation and the actively insured persons and pensioners. Consequently, in this pension plan the employer itself may not decide on benefits and their financing, rather decisions must be taken on equal terms.

The foundation board is responsible for determining the investment strategy, for amendments to the pension plan regulations, and especially for the financing of the pension plan benefits. The foundation board members of the pension plans specify investment guidelines for the investment of the pension plan assets, which contain the tactical asset allocation and the benchmarks for the comparison of performance with a general investment universe. The assets of the pension plans are well diversified. With regard to diversification and security, the legal provisions of the BPVG Pension Law apply to pension plans in Liechtenstein, and the legal provisions of the BVG Pension Law apply to pension plans in Switzerland. The foundation board members continually monitor whether the selected investment strategy is suitable for the provision of the pension plan benefits and whether the risk budget corresponds to the demographic structure. The observance of the investment guidelines and the investment performance of the investment advisers are reviewed on a quarterly basis. In addition, the investment strategy and its suitability and effectiveness are periodically checked by an external consultant.

The pension plan is designed as a defined contribution plan, i.e. a savings account is maintained for all the retirement benefits of each employee. The annual savings contributions and interest (no negative interest is possible) are credited to the pension savings account annually. At the time of retirement, the insured person may choose between a life-long pension, which includes a reversional spouse pension, or the withdrawal of the savings capital. In addition to the retirement benefits, the pension plan also includes invalidity and partner pensions. These are calculated on the basis of the insured annual salary (defined benefit plan). Furthermore, the insured employee may purchase improvements to his pension plan up to a maximum sum specified in the regulations. If the employee leaves the company, the savings credit balance is transferred to the new employer's pension plan or to a blocked pension savings account. When determining the benefits, the minimum provisions of the Professional Pension Plans Law (BPVG) and its implementing ordinance are to be observed. The minimum salary to be insured and the minimum pension savings balance sum are stipulated in the BPVG. On account of the pension plan structure and the legal provisions of the BPVG, the employer is subject to actuarial risks. The most important of these are investment risk, interest rate risk and longevity risk. The risks of death and invalidity have been congruently re-insured since. Currently, the individually accumulated pension capital is converted into a life-long pension at age 64 with a pension conversion rate of 5.60 per cent. This conversion rate is reduced annually and will amount to 5.10 per cent from 1 January 2022. Amendments to the contribution payments made by the bank, the associate companies or the employees – in accordance with the regulations – require the approval of the bank, the associate companies and a majority of all employees. The employer must bear at least half of the contributions. In the event of underfunding, financial recovery contributions may be charged to both the employer and the employee to eliminate the shortfall in coverage.

One-time effects influencing pension plans and other long-term benefits

Within the LLB Group, in the second half of 2018, pension plan changes occurred at two companies. These changes resulted in a profit of CHF 0.4 million and an increase in equity of CHF 7.3 million.

The following amounts were recognised in the income statement and in equity as pension costs:

Benefit expenses

	Pensions plans		Other long-term benefits	
in CHF thousands	2018	2017	2018	2017
Defined benefit costs				
Service cost				
Current service cost	−17'128	−17'911	−412	−449
Past service cost including effects of curtailment	−63	−1'118	−277	0
Total service cost	**−17'191**	**−19'029**	**−689**	**−449**
Net interest				
Interest cost on defined benefit obligation	−3'759	−3'565	−22	−27
Interest income on plan assets	3'073	2'823	0	0
Total net interest	**−686**	**−742**	**−22**	**−27**
Administration expense	−616	−610		
Net actuarial (losses) / gains recognised	0	0	−313	−20
Total defined benefit cost	**−18'493**	**−20'381**	**−1'024**	**−496**
of which personnel expenses	−18'493	−20'381	−1'024	−496
of which financial expense	0	0	0	0
Contributions to defined contribution plans	**−778**	**−231**	**0**	**0**
Remeasurement of the defined benefit liability				
Actuarial (gains) / losses				
Arising from changes in demographic assumptions	6	0		
Arising from changes in economic assumptions	16'086	7'230		
Arising from experience	2'573	−8'998		
Return on plan assets (excl. amounts in interest income)	−16'921	17'444		
Total defined benefit cost recognised in other comprehensive income	**1'744**	**15'676**		
Total benefit cost	**−17'527**	**−4'936**	**−1'024**	**−496**

Development of plan obligations

in CHF thousands	Pensions plans 2018	Pensions plans 2017	Other long-term benefits 2018	Other long-term benefits 2017
As at 1 January	534'045	516'504	3'811	3'914
Current service cost	17'128	17'911	412	449
Plan participation contributions	7'641	7'166	0	0
Interest costs	3'759	3'565	22	27
Benefits paid through pension assets	−11'203	−13'980	0	0
Benefits paid by employer	−1	−12	−605	−624
Actuarial (gains) / losses	−18'665	1'768	313	20
Liabilities assumed in a business combination	10'667		0	
Plan amendments	63	1'118	277	0
Exchange rate differences	−12	5	−29	25
As at 31 December	**543'422**	**534'045**	**4'201**	**3'811**
of which active employees	380'476	372'297		
of which pensioners	162'946	161'748		
Average term of obligation	17.2	17.7		

Development of plan assets

in CHF thousands	Pension plans 2018	Pension plans 2017
As at 1 January	426'376	399'896
Plan participation contributions	7'641	7'166
Company contributions	14'155	13'637
Interest income on plan assets	3'073	2'823
Administration expense	−616	−610
Assets assumed in a business combination	8'487	
Benefits paid through pension assets	−11'203	−13'980
Return on plan assets (excl. amounts in interest income)	−16'921	17'444
As at 31 December	**430'992**	**426'376**

The pension fund assets as at 31 December 2018 include shares of LLB with a market value of CHF thousands 19 (31.12. 2017: CHF thousands 15). The expected Group contributions for the 2019 financial year amount to CHF thousands 14'039 for the pension plans and CHF thousands 396 for the other long-term benefits.

Overview of net debt recognised in the balance sheet

	Pension plans		Other long-term benefits	
in CHF thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Present value of funded obligations	541'968	533'222	0	0
Minus fair value of plan assets	430'992	426'376	0	0
Under- / (Over-)funded	**110'976**	**106'846**	**0**	**0**
Present value of unfunded obligations	1'454	823	4'201	3'811
Net debt recognised in the balance sheet	**112'430**	**107'669**	**4'201**	**3'811**

Asset classes and expected returns

	31.12.2018	31.12.2017
in CHF thousands	Share of total assets	Share of total assets
Equities		
listed market prices (Level 1)	82'533	90'895
other than listed market prices	0	0
Bonds		
listed market prices (Level 1)	163'452	154'196
other than listed market prices	0	0
Real estate		
listed market prices (Level 1)	1'457	1'581
other than listed market prices	29'805	24'600
Alternative financial investments	23'530	28'937
Qualified insurance policies	109'171	97'431
Other financial investments	165	0
Cash and cash equivalents	20'879	28'736

The expected return on bonds and shares is based on the yield for long-term Federal notes and the corresponding market expectations. The remaining expected returns are based on empirical values.

Weighted average of principal actuarial assumptions

	Pension plans		Other long-term benefits	
in per cent	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Discount rate	0.90	0.70	1.11	0.75
Future salary increases	1.50	1.50	1.73	1.58
Future pension indexations	0.00	0.00	1.23	0.92
Life expectancy at the age of 65				
Year of birth	1973	1972	1973	1972
men	24.33	24.26	24.33	24.26
women	26.37	26.29	26.37	26.29
Year of birth	1953	1952	1953	1952
men	22.50	22.38	22.50	22.38
women	24.54	24.43	24.54	24.43

Sensitivity analysis of significant actuarial assumptions

The following sensitivity analysis for the significant actuarial assumptions, on which calculations are based, shows how the cash value of pension obligations would change on the balance sheet date on account of a possible change in the actuarial assumptions. Only the listed assumption changes, all other assumptions remain unchanged.

	Pension plans			
	31.12.2018		31.12.2017	
in CHF thousands	+ 0.25 %	− 0.25 %	+ 0.25 %	− 0.25 %
Discount rate	− 23'004	24'705	− 23'292	25'044
Salary increase	2'213	− 2'148	2'236	− 2'178
Interest credit rate	5'436	− 5'299	5'448	− 5'314

in CHF thousands	+ 1 year	− 1 year	+ 1 year	− 1 year
Life expectancy	13'404	− 13'615	13'664	− 13'861

Related party transactions

Related parties

The LLB Group is controlled by the Principality of Liechtenstein, which holds 57.5 per cent of the registered shares of Liechtensteinische Landesbank AG, Vaduz. The shareholder group, consisting of the Haselsteiner Familien-Privatstiftung and grosso Holding Gesellschaft mbH, holds 5.9 per cent of the registered shares. At the end of the year under report, LLB held 0.4 per cent of its own shares and 0.2 per cent were held by members of the Board of Directors and the Board of Management. The remaining registered shares are owned by the general public.

The related parties of the LLB Group comprise the Principality of Liechtenstein, associated companies, members of the Board of Directors and the Board of Management, as well as their close family members and enterprises which are controlled by these individuals through their majority shareholding, or their role as chairman and / or CEO in these companies, as well as own pension funds.

Within the scope of its business activity, the LLB Group also conducts banking transactions with related parties. These transactions mainly involve loans, investments and services. The volumes of these transactions, the holdings and corresponding income and expenses are shown below.

See "Scope of consolidation" on page 190 for a detailed list of the intercompany relationships of the LLB Group.

Compensation of key management personnel

	Fixed compensation *		Variable compensation		Contribution to benefit plans and other social contributions		Share-based compensation		Entitlements		Total	
in CHF thousands	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Compensation												
Members of the Board of Directors **	731	772	0	0	114	119	0	0	157	170	1'002	1'061
Members of the Board of Management ***	3'236	3'055	1'333	842	1'091	1'046	0	0	1'333	842	6'993	5'785

* Fixed compensation fee, meeting allowances.
** The Board of Directors comprises six members.
*** The Board of Management comprises six members.

Loans of key management personnel

	Fixed mortgages		Variable mortgages		Total	
in CHF thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Members of the Board of Directors						
Georg Wohlwend, Chairman since 13.05.2017	0	0	0	0	0	0
Gabriela Nagel-Jungo, Vice Chairwoman	400	400	0	0	400	400
Markus Foser, Vice Chairman until 09.05.2018		300		700		1'000
Markus Büchel, Member until 09.05.2018		1'285		0		1'285
Patrizia Holenstein, Member	0	0	0	0	0	0
Urs Leinhäuser, Member	0	0	0	0	0	0
Roland Oehri, Member until 09.05.2018		0		0		0
Thomas Russenberger, Member since 10.05.2018	0		0		0	
Richard Senti, Member since 10.05.2018	576		0		576	
Related parties	0	553	0	350	0	903
Total	**976**	**2'539**	**0**	**1'050**	**976**	**3'589**
Members of the Board of Management						
Roland Matt, CEO	1'000	1'005	0	0	1'000	1'005
Other members of the Board of Management	2'810	2'810	0	0	2'810	2'810
Related parties	0	0	0	0	0	0
Total	**3'810**	**3'815**	**0**	**0**	**3'810**	**3'815**

At 31 December 2018, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 3 and 51 months (previous year: between 1 and 95 months) at standard market client interest rates of 0.95 to 1.65 per cent per annum (previous year: 1.10 to 1.65 %). Mortgages at standard market conditions with variable interest rates were not issued (previous year: maturity between 2 and 23 months).

At 31 December 2018, the maturities of the fixed mortgages for the members of the Board of Management ranged between 1 and 78 months (previous year: between 10 and 90 months) at interest rates of 0.4 to 1.88 per cent per annum (previous year: 0.4 to 1.88 %).

In 2018, an expiring loan was extended at the same conditions. The fair value of the collateral for the newly granted loan amounted to CHF thousands 1'352.

Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1'000 (previous year: CHF thousands 1'000) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate. Other loans to the Board of Management amounted to CHF thousands 200 (previous year: CHF thousands 246).

No allowances for loans to management were necessary. LLB granted third parties guarantees amounting to CHF thousands 168 (previous year: CHF thousands 168) for management and related parties.

Transactions with management and related parties

in CHF thousands	2018	2017	+ / − %
Loans			
As at 1 January	7'403	7'931	−6.7
Loans issued / changes to management and related parties	576	0	
Loan repayments / changes to management and related parties	−3'193	−528	505.1
As at 31 December	**4'786**	**7'403**	**−35.3**
Deposits			
As at 1 January	5'321	5'370	−0.9
Change	−184	−49	276.6
As at 31 December	**5'137**	**5'321**	**−3.5**
Income and expenses			
Interest income	331	103	222.9
Interest expenses	−59	−3	
Other income *	46	25	84.4
Other expenses **	−4	−11	−67.0
Total	**315**	**114**	**175.2**

* Mainly net fee and commission income.
** Services in connection with consultation.

Transactions with own pension funds

in CHF thousands	2018	2017	+ / – %
Loans			
As at 1 January	367	342	7.2
Change	275	25	
As at 31 December	**642**	**367**	**75.0**
Deposits			
As at 1 January	27'435	17'597	55.9
Change	– 7'065	9'838	
As at 31 December	**20'371**	**27'435**	**– 25.7**
Income and expenses			
Interest income	1	0	
Interest expenses	– 20	– 21	– 6.9
Other income *	708	682	3.8
Other expenses	– 3	0	
Total	**685**	**660**	**3.7**

* Mainly net fee and commission income.

No guarantees have been granted by the LLB Group for third parties on behalf of own pension funds.

Transactions with associated companies

in CHF thousands	2018	2017	+ / – %
Loans			
As at 1 January	0	0	
Change	1	0	
As at 31 December	**1**	**0**	
Deposits			
As at 1 January	21'798	742	
Change	– 10'273	21'056	
As at 31 December	**11'525**	**21'798**	**– 47.1**
Income and expenses			
Other income	0	41	– 100.0
Other expenses	– 87	– 135	
Total	**– 87**	**– 94**	**– 7.7**

No guarantees were granted by the LLB Group for third parties for associated companies.

Company acquisitions

LB(Swiss) Investment AG

As at 3 April 2018, LLB acquired 100 per cent of LB(Swiss) Investment AG (LB(Swiss)). The acquisition was made within the scope of a share deal with the previous sole owner, the Frankfurter Bankgesellschaft (Switzerland) AG. LB(Swiss) offers efficient, made-to-measure investment fund management, compliance and risk management services.

With this acquisition LLB accomplishes its planned strategic market entry in Switzerland. The expertise of LB(Swiss) makes it possible for the LLB Group to offer classical investment fund services (51 funds with a gross fund volume of CHF 4.7 billion as at 31 March 2018), to act as representatives for foreign funds and to provide consulting services in the fields of compliance and risk management. LB(Swiss) was renamed “LLB Swiss Investment AG” and shall continue to operate in Switzerland as an independent company.

Acquired net assets	in CHF thousands
Cash and balances with central banks	8'484
Various receivables	596
Accrued income and prepaid expenses	302
Financial investments	1'180
Other fixed assets	26
Intangible assets	15'795
Deferred tax assets	327
Acquired assets	**26'709**
Various liabilities	51
Accrued expenses and deferred income	229
Derivative financial instruments	37
Pension benefit obligation	1'635
Deferred tax liabilities	3'084
Assumed liabilities	**5'036**
Acquired net assets	**21'673**
Total purchase price	**32'947**
Goodwill	**11'274**
Cash outflow from acquisition	**16'456**

The purchase price for LB(Swiss) amounted to CHF 32.9 million as at 3 April 2018. This sum includes an earn-out obligation totalling CHF 1.9 million as well as a deferred purchase price payment of CHF 6.1 million due on 3 October 2019.

The purchase price is composed of a cash payment on the acquisition date and a final payment on the earn-out closing date, 18 months after the completion date. The final payment includes a deferred purchase price payment resulting from the provisional goodwill compensation (30 % of the provisional goodwill compensation as at 3 April 2018) and earn-out components. The scope of the earn-out components depends on the development of assets under administration up to the earn-out closing date.

The individual factors comprising the measured goodwill include, in particular, the employees taken over, the available know-how, the strategic market entry in Switzerland and the growth associated with this, as well as synergy effects. On the earnings side, significant synergy effects will result from a more robust growth of investment fund volume. Goodwill and amortisation of goodwill are not tax deductible.

The LLB Group regards the individual company as the smallest cash generating unit. 30 per cent of the goodwill is allocated to LLB AG and 70 per cent to LLB Swiss Investment AG.

The costs relating to the acquisition amounting to CHF 0.4 million were recognised directly in the income statement under general and administrative expenses.

Measurement methods and input factors relating to the market value measurement of intangible assets, as well as sensitivity of input factors

The intangible assets were measured using the following methods and input factors:

- Client relationships: Measured using the multi-period excess earnings method. Sensitive input factors are the planned cash flows, the shrinkage rate with existing clients and the discount rate.
- Software: Measured using the cost approach. The sensitive input factor is the number of work days required to replicate the software.
- FINMA concession: Measured using the cost approach. Sensitive input factors are the duration of the application procedure and the scope of the underlying cost components.

The “Goodwill and other intangible assets” position encompasses the fair values of client relationships (CHF 13.6 million), software (CHF 1.9 million) and FINMA concession (CHF 0.3 million).

Since 3 April 2018, LLB Swiss Investment AG has contributed CHF 6.0 million to total operating income as at 31 December 2018 and CHF 1.6 million to Group net profit. If the merger had occurred on 1 January 2018, LLB Swiss Investment would have contributed CHF 6.9 million to total operating income and CHF 2.2 million to Group net profit.

Semper Constantia Privatbank AG

As at 4 July 2018, LLB acquired 100 per cent of Semper Constantia Privatbank AG (Semper Constantia) with its registered office in Vienna. The acquisition was made within the scope of a share deal with the shareholders, the Haselsteiner Familien-Privatstiftung, grosso Holding Gesellschaft mbH and the former management of Semper Constantia. Semper Constantia is a private bank focusing on asset management and advisory services, custodian bank and investment fund business, as well as real estate. Its target markets are the DACH region, Liechtenstein, Italy and Central and Eastern Europe.

The acquisition of Semper Constantia enables the LLB Group to significantly expand its asset management business in Austria, and to establish Austria as its third strong domestic market. With its strong position in private banking and institutional business and its excellent reputation, Semper Constantia represents an ideal opportunity for the LLB Group to expand its activities in Austria. On 30 September 2018, Semper Constantia merged with LLB Österreich to become Liechtensteinische Landesbank (Österreich) AG. This created the largest and leading asset management bank in Austria with combined client assets of EUR 20 billion. The merged company now becomes one of the top providers of private banking and institutional business in Austria.

Acquired net assets	in CHF thousands
Cash and balances with central banks	923'871
Due from banks	162'122
Loans	215'978
Active derivative financial instruments	20'763
Financial investments	162'139
Other intangible assets	71'271
Equipment	7'650
Current tax claims	214
Deferred tax assets	25
Accrued income and prepaid expenses	1'296
Other assets	1'963
Acquired assets	**1'567'292**
Due to banks	47'092
Due to customers	1'325'366
Passive derivative financial instruments	19'392
Current tax liabilities	2'003
Deferred tax liabilities	17'924
Accrued expenses and deferred income	2'983
Provisions	158
Other liabilities	30'764
Assumed liabilities	**1'445'681**
Acquired net assets	**121'611**
Total purchase price	**222'975**
Goodwill	**102'446**
Cash outflow from acquisition	**864'897**

The purchase price for Semper Constantia on 4 July 2018 amounted to CHF 223.0 million. This contained an earn-out commitment amounting to CHF 49.0 million due on 30 June 2019.

Loans to clients having a contractual nominal value of CHF 218.3 million with a market value of CHF 216.0 million were taken over. In determining the market value, it was taken into consideration that loans totalling CHF 2.3 million could probably not be recovered.

The valuation of assets and liabilities has not yet been completed. It is based on preliminary information and measurements, and is therefore reported only on a provisional basis.

In accordance with the transaction agreement, LLB will transfer a cash payment and 1.85 million shares of LLB AG to the sellers. The cash funds and LLB shares were to be measured at market value at the time point of the acquisition. In addition, the transaction agreement envisages an earn-out clause (assets under management multiple). The definitive purchase price will be determined on 30 June 2019 on the basis of the assets under management at this time point. Up to this date, the second variable purchase price is not known and must be estimated within the scope of the initial recognition of the acquisition and recognised as conditional purchase price payment as a liability in LLB's balance sheet. Any possible adjustments between the acquisition date and the definitive payment of the second variable purchase price are to be recognised in the income statement.

The individual factors, which constitute the measured goodwill, comprise, in particular, the employees taken over, the available know-how, the establishment of Austria as the third strong domestic market, as well as the growth associated with this, and the synergy effects. Significant synergy effects should result on the earnings side from stronger growth in the business volume. Goodwill and amortisation of goodwill are not tax deductible.

The LLB Group regards the individual company as the smallest cash generating unit. 60 per cent of the goodwill will be allocated to LLB AG and 40 per cent to LLB (Österreich) AG.

The costs relating to the acquisition amounting to CHF 14.4 million were recognised directly in the income statement under general and administrative expenses.

Measurement measures and input factors relating to the market value measurement of intangible assets, as well as sensitivity of input factors

The intangible assets were measured using the following methods and input factors:

- Client relationships: Measured using the multi-period excess earnings method. Sensitive input factors are the planned cash flows, the shrinkage rate with existing clients and the discount rate.
- Software: Measured using the cost approach.
- FMA concession: Measured using the cost approach. Sensitive input factors are the duration of the application procedure and the scope of the underlying cost components.

The "Goodwill and intangible assets" position encompasses the fair value of client relationships (CHF 69.3 million), the FMA concession (CHF 0.8 million) and software (CHF 1.1 million).

Since 4 July 2018, Semper Constantia has contributed CHF 26.3 million to total operating income and a loss of CHF 4.8 million to Group net profit. If the merger had occurred on 1 January 2018, Semper Constantia would have contributed CHF 53.5 million to total operating income and a loss of CHF 2.0 million to Group net profit.

Scope of consolidation

Company	Registered office	Business activity	Currency	Capital Stock	Equity interest (in %) IFRS	Equity interest (in %) Legal
Fully consolidated companies						
Bank Linth LLB AG	Uznach (CH)	Bank	CHF	16'108'060	74.8	74.8
Liechtensteinische Landesbank AG	Vaduz (FL)	Bank	CHF	154'000'000	100.0	100.0
Liechtensteinische Landesbank (Österreich) AG	Vienna (AT)	Bank	EUR	5'000'000	100.0	100.0
LLB Asset Management AG	Vaduz (FL)	Asset management company	CHF	1'000'000	100.0	100.0
LLB Berufliche Vorsorge AG	Lachen (CH)	Pension scheme	CHF	500'000	100.0	100.0
LLB Beteiligungs GmbH	Vienna (AT)	Investment company	EUR	35'000	100.0	100.0
LLB Fund Services AG	Vaduz (FL)	Fund management company	CHF	2'000'000	100.0	100.0
LLB Holding AG	Uznach (CH)	Holding company	CHF	95'328'000	100.0	100.0
LLB Immo Kapitalanlagegesellschaft m.b.H.	Vienna (AT)	Investment company	EUR	5'000'000	95.0	95.0
LLB Invest AGmvK	Vaduz (FL)	Investment company	CHF	65'000	100.0	100.0
LLB Invest Kapitalanlagegesellschaft m.b.H.	Vienna (AT)	Investment company	EUR	2'300'000	100.0	100.0
LLB Private Equity GmbH	Vienna (AT)	Financial consulting company	EUR	36'842	65.0	65.0
LLB Realitäten GmbH	Vienna (AT)	Real estate trust company	EUR	35'000	100.0	100.0
LLB Services (Schweiz) AG	Erlenbach (CH)	Service company	CHF	100'000	100.0	100.0
LLB Swiss Investment AG	Zurich (CH)	Fund management company	CHF	8'000'000	100.0	100.0
LLB Verwaltung (Schweiz) AG	Erlenbach (CH)	Management company	CHF	100'000'000	100.0	100.0
PREMIUM Spitalgasse 19A GmbH & Co KG	Vienna (AT)	Real estate company	EUR	413'598	80.0	80.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Vaduz (FL)	Charitable foundation	CHF	30'000	100.0	100.0
Joint venture						
Data Info Services AG	Vaduz (FL)	Service company	CHF	50'000	50.0	50.0
Companies fully consolidated for the first time						
LLB Beteiligungs GmbH	Vienna (AT)	Investment company	EUR	35'000	100.0	100.0
LLB Immo Kapitalanlagegesellschaft m.b.H.	Vienna (AT)	Investment company	EUR	5'000'000	95.0	95.0
LLB Invest Kapitalanlagegesellschaft m.b.H.	Vienna (AT)	Investment company	EUR	2'300'000	100.0	100.0
LLB Private Equity GmbH	Vienna (AT)	Financial consulting company	EUR	36'842	65.0	65.0
LLB Realitäten GmbH	Vienna (AT)	Real estate trust company	EUR	35'000	100.0	100.0
LLB Swiss Investment AG	Zurich (CH)	Fund management company	CHF	8'000'000	100.0	100.0
PREMIUM Spitalgasse 19A GmbH & Co KG	Vienna (AT)	Real estate company	EUR	413'598	80.0	80.0
Companies removed from the scope of consolidation						
LLB Beteiligungen AG	Uznach (CH)	Investment company	CHF	100'000	100.0	100.0
LLB Qualified Investors AGmvK	Vaduz (FL)	Investment company	CHF	50'000	100.0	100.0
LLB Holding (Schweiz) AG	Erlenbach (CH)	Holding company	CHF	250'000	100.0	100.0
Changes in company names during 2018						
LLB Linth Holding AG in LLB Holding AG						

In the year under report, there were no disposals or losses of control of ownership interests. As at 31 December 2018 and as at 31 December 2017, there were no major restrictions in respect of the possibility to access assets of the Group companies or to appropriate them. As at 31 December 2018 and as at 31 December 2017, there were no participations in consolidated structured companies.

Risk management

Principles of risk management

One of the core competences of a financial institute is to consciously accept risks and manage them profitably. In its risk policy, the LLB Group defines qualitative and quantitative standards of risk responsibility, risk management and risk control. Furthermore, the organisational and methodical parameters for the identification, measurement, control and monitoring of risks are specified. The proactive management of risk is an integral part of corporate policy and safeguards the LLB Group's ability to bear and accept risk.

Organisation and responsibilities

Group Board of Directors
The Board of Directors of the LLB Group is responsible for stipulating risk management principles, as well as for specifying responsibilities and procedures for approving business transactions entailing risk. In fulfilling its tasks and duties, the Group Board of Directors is supported by the Group Risk Committee.

Group Executive Board
The Group Executive Board is responsible for the overall management of risk readiness within the parameters defined by the Group Board of Directors and for the implementation of the risk management processes. It is supported in this task by various risk committees.

Group Credit & Risk Management
Group Credit & Risk Management identifies, assesses, monitors and reports on the principal risk exposure of the LLB Group and is functionally and organisationally independent of the operative units. It supports the Group Executive Board in the overall management of risk exposure.

Risk categories

The LLB Group is exposed to various types of risks. It differentiates between the following risk categories:

Market risk
The risk of losses arises from unfavourable changes in interest rates, exchange rates, security prices and other relevant market parameters.

Liquidity and refinancing risk
Represents the risk of not being able to fulfil payment obligations on time or not being able to obtain refinancing funds on the market at a reasonable price to fulfil current or future payment liabilities.

Credit risk
Credit or counterparty risk includes the danger that a client or a counterparty cannot or cannot completely fulfil their obligations vis à vis the LLB Group or an individual Group company. This can result in a financial loss for the LLB Group.

Operational risk
Is the danger of losses due to the unsuitability or failure of internal procedures, people or systems, or as a result of external events.

Strategic risk
Arises as a result of decisions taken by the Group Executive Board which have a negative influence on the survival, development ability or independence of the LLB Group.

Reputation risk
If risks are not recognised, reasonably controlled and monitored, this can lead not only to substantial financial losses, but also to damage to the Group's reputation.

Risk categories

Risk management process

Risk management process

The implementation of an efficient risk management process is essential to enable risks to be identified, assessed, controlled and monitored, and should create a culture of risk awareness at all levels of the LLB Group. The Group Board of Directors specifies the risk strategy, which provides the operative units with a framework for the treatment of risk exposure. Depending on the type of risk, not only the stipulation of upper limits for losses may be required, but also a detailed set of regulations which stipulate which risks may be accepted under what conditions, and when measures to control risks are to be implemented.

The risk management process diagram shows the control loop of the LLB Group's risk management process.

1 Market risks

Market risk is the risk that arises from changes in interest rates, exchange rates and security prices in the financial and capital markets. A differentiation is made between market risks in the trading book and market risks in the banking book. The potential for losses exists primarily in the impairment of the value of an asset or the increase in the value of liabilities (market value perspective) as well as in secondary capacity in the diminution of current earnings or an increase in current expenditures (earnings perspective).

1.1 Market risk management

The LLB Group has in place a differentiated risk management and risk control system for market risks. The market risk control process comprises a sophisticated framework of rules involving the identification and the uniform valuation of market risk-relevant data as well as the control, monitoring and reporting of market risks.

Trading book

The trading book contains own positions in financial instruments which are held for short-term further sale or repurchase. These activities are closely associated with the needs of our clients for capital market products and are regarded as being supporting activities for our core business.

The LLB Group conducts relatively small-scale trading book activities in accordance with Article 94 (1) of the Capital Requirements Regulation (CRR). A limits system is in operation to ensure compliance and is monitored by Group Risk Management. On account of the materiality, the trading book is no longer explained in detail.

Banking book

In general, the holdings in the banking book are employed to pursue long-term investment goals. These holdings include assets, liabilities, and off-balance sheet positions, which are the result, on the one hand, of classical banking business and, on the other, are held to earn revenue over their life.

Market risks with the banking book mainly involve interest rate fluctuation risk, exchange rate risk and equity price risk.

Exchange rate risk

This relates to the risks arising in connection with the uncertainties regarding future exchange rate trends. The calculation of these risks takes into consideration all the positions entered into by the bank.

Interest rate fluctuation risk

This is regarded as the adverse effects of changes in market interest rates on capital resources or current earnings. The different interest maturity periods of claims and liabilities from balance sheet transactions and derivatives represent the most important basis.

Equity price risk

This is understood to be the risk of losses due to adverse changes in the market prices of equities.

1.2 Valuation of market risks

Sensitivity analysis

In sensitivity analysis a risk factor is altered. Subsequently, the effects of the alteration of the risk factor on the portfolio concerned are estimated.

Value-at-risk

The value-at-risk concept measures the potential loss under normal market conditions over a given time interval.

Scenario analysis

While the value-at-risk concept supplies an indication of possible losses under normal market conditions, it cannot provide information about potential losses under extreme conditions. The aim of the scenario analyses of the LLB Group is to simulate the effects of normal and stress scenarios.

1.3 Management of market risks

Within the specified limit parameters, the individual Group companies are at liberty to manage their interest rate risks as they wish. Interest rate swaps are employed mainly to control interest rate risks. Risks are restricted by means of value-at–risk models and sensitivity limits.

In client business, currency risks are basically controlled by making investments or obtaining refinancing in matching currencies. The residual currency risk is restricted by means of sensitivity limits.

Investments in equities are limited by the imposition of nominal limits.

1.4 Monitoring and reporting of market risks

Group Credit & Risk Management monitors the observance of market risk limits and is also responsible for reporting market risks.

1.5 Sensitivities by risk categories

Currency sensitivity affects both interest rate sensitive and non-interest rate sensitive instruments. The sensitivity of instruments in foreign currencies is determined by multiplying the CHF market value by the assumed exchange rate fluctuation of + / – 10 per cent.

Interest rate sensitivity measures the market change on interest-rate-sensitive instruments for the LLB Group caused by a linear interest rate adjustment of + / – 100 basis points.

The equity price risks are measured assuming a price fluctuation of + / – 10 per cent on the equity market.

1.6 Effects on Group net profit

Exchange rate risk

The price gains resulting from the valuation of transactions and balances are booked to profit and loss. The price gains resulting from the transfer of the functional currency into the reporting currency are booked under other comprehensive income without affecting profit and loss.

Interest rate fluctuation risk

The LLB Group recognises client loans in the balance sheet at amortised cost. This means that a change in the interest rate does not cause any change in the recognised amount and therefore to no significant recognition affecting profit and loss of the effects of interest rate fluctuation. However, fluctuations in interest rates can lead to risks because the LLB Group largely finances long-term loans with client assets. Within the scope of financial risk management, these interest rate fluctuation risks in the balance sheet business of the LLB Group are hedged mainly by means of interest rate swaps. If the IFRS hedge accounting criteria for hedging instruments (interest rate swaps) and underlying transactions (loans) are met, the hedged part of the loans to clients is recognised in the balance sheet at fair value. Further information regarding recognition and measurement is provided in "Hedge accounting" under point 2.6.1.1 "Classification and measurement of financial assets" in the section "Financial assets at fair value through profit and loss" on page 133.

At 31 December 2018, mortgage loans stood at CHF 11'120 million. The exchange rate risks applying to this portfolio are hedged at 14.9 per cent through interest rate swaps.

Equity price risk

The valuation is carried out at current market prices. The equity price risk resulting from the valuation at current market prices is reflected in the income statement and in other comprehensive income.

Sensitivities

in CHF thousands	31.12.2018 Sensitivity	31.12.2017 Sensitivity
Currency risk	**12'086**	**8'342**
of which affecting net income	687	3'462
of which not affecting net income	11'399	4'880
Interest rate risk	**90'697**	**61'046**
of which affecting net income	15'337	17'111
of which not affecting net income	75'360	43'935
Equity price risk *	**3'060**	**26'265**
of which affecting net income	656	26'265
of which not affecting net income	2'404	0

* Corresponds to a 10 per cent change in equity instruments (see Note 15).

Exchange rate risk by currency

in CHF thousands	31.12.2018 Sensitivity	31.12.2017 Sensitivity
Currency risk	**12'086**	**8'342**
of which USD	435	40
of which EUR	11'399	7'865
of which others	252	437

1.7 Currency risks

Balance sheet by currency as at 31 December 2017

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	3'972'410	774	156'109	430	4'129'723
Due from banks	160'567	770'260	517'021	492'585	1'940'433
Loans	11'187'822	419'290	409'493	67'361	12'083'966
Derivative financial instruments	58'139	155	0	446	58'740
Financial investments at fair value	847'940	362'090	250'105	0	1'460'135
Investment in joint venture	33	0	0	0	33
Property and equipment	124'370	0	707	0	125'077
Investment property	15'000	0	0	0	15'000
Goodwill and other intangible assets	112'755	0	141	0	112'896
Current tax assets	0	0	890	0	890
Deferred tax assets	11'347	0	1'295	0	12'642
Accrued income and prepaid expenses	28'487	4'122	6'258	528	39'395
Non-current assets held for sale	6'734	0	0	0	6'734
Other assets	2'099	30	35	29'650	31'814
Total assets reported in the balance sheet	**16'527'703**	**1'556'721**	**1'342'054**	**591'000**	**20'017'478**
Delivery claims from forex spot, forex futures and forex options transactions	2'923'511	3'430'084	4'051'686	904'956	11'310'237
Total assets	**19'451'214**	**4'986'805**	**5'393'740**	**1'495'956**	**31'327'715**
Liabilities and equity					
Due to banks	705'480	65'559	134'863	37'414	943'316
Due to customers	10'459'558	2'411'887	2'200'361	580'352	15'652'158
Derivative financial instruments	116'849	155	0	445	117'449
Debt issued	1'161'240	0	7'787	0	1'169'027
Current tax liabilities	16'876	0	202	0	17'078
Deferred tax liabilities	14'472	0	0	0	14'472
Accrued expenses and deferred income	19'382	6'309	3'628	930	30'250
Provisions	28'128	0	0	0	28'128
Other liabilities	148'826	2'419	8'843	2'531	162'619
Share capital	154'000	0	0	0	154'000
Share premium	23'509	0	0	0	23'509
Treasury shares	−163'886	0	0	0	−163'886
Retained earnings	1'815'454	0	0	0	1'815'454
Other reserves	−62'371	0	0	0	−62'371
Non-controlling interests	116'276	0	0	0	116'276
Liabilities and equity reported in the balance sheet	**14'553'794**	**2'486'329**	**2'355'684**	**621'672**	**20'017'478**
Delivery liabilities from forex spot, forex futures and forex options transactions	4'983'784	2'500'075	2'959'401	869'916	11'313'176
Total liabilities and equity	**19'537'578**	**4'986'404**	**5'315'086**	**1'491'588**	**31'330'656**
Net position per currency	**−86'364**	**401**	**78'654**	**4'368**	**−2'940**

Balance sheet by currency as at 31 December 2018

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	4'470'531	639	1'236'818	336	5'708'324
Due from banks	95'795	812'430	238'068	465'161	1'611'454
Loans	11'626'842	441'684	728'845	55'170	12'852'541
Derivative financial instruments	196'918	513	70	385	197'886
Financial investments at fair value	789'640	623'005	524'412	0	1'937'057
Non-current assets held for sale	12'566	0	8'648	0	21'214
Investment in joint venture	30	0	0	0	30
Property and equipment	116'355	0	3'588	0	119'943
Investment property	15'000	0	0	0	15'000
Goodwill and other intangible assets	304'871	0	443	0	305'314
Current tax assets	0	0	1'670	0	1'670
Deferred tax assets	16'812	0	3'958	0	20'770
Accrued income and prepaid expenses	26'914	10'715	18'754	485	56'868
Other assets	3'333	59	3'531	37'080	44'003
Total assets reported in the balance sheet	**17'675'606**	**1'889'045**	**2'768'805**	**558'617**	**22'892'072**
Delivery claims from forex spot, forex futures and forex options transactions	3'404'114	5'311'035	5'598'104	1'638'805	15'952'058
Total assets	**21'079'720**	**7'200'080**	**8'366'909**	**2'197'422**	**38'844'131**
Liabilities and equity					
Due to banks	1'281'772	119'660	98'014	9'965	1'509'412
Due to customers	10'620'942	2'675'108	3'535'173	644'483	17'475'706
Derivative financial instruments	253'652	513	202	1'196	255'564
Debt issued	1'235'956	0	406	0	1'236'362
Non-current liabilities available for sale	2'386	0	0	0	2'386
Current tax liabilities	14'316	0	57	0	14'373
Deferred tax liabilities	17'203	0	17'054	0	34'257
Accrued expenses and deferred income	13'047	8'245	29'882	451	51'625
Provisions	30'451	0	0	0	30'451
Other liabilities	193'887	2'833	74'839	673	272'232
Share capital	154'000	0	0	0	154'000
Share premium	−21'157	0	0	0	−21'157
Treasury shares	−8'195	0	0	0	−8'195
Retained earnings	1'815'053	0	0	0	1'815'053
Other reserves	−53'388	0	0	0	−53'388
Non-controlling interests	123'391	0	0	0	123'391
Liabilities and equity reported in the balance sheet	**15'673'316**	**2'806'360**	**3'755'627**	**656'769**	**22'892'072**
Delivery liabilities from forex spot, forex futures and forex options transactions	5'533'919	4'389'374	4'497'289	1'538'132	15'958'715
Total liabilities and equity	**21'207'236**	**7'195'735**	**8'252'916**	**2'194'901**	**38'850'788**
Net position per currency	**−127'516**	**4'345**	**113'993**	**2'521**	**−6'657**

1.8 Interest rate repricing balance sheet

Interest commitments of financial assets and liabilities (nominal)

in CHF thousands	Within 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total
31.12.2017						
Financial assets						
Cash and balances with central banks	4'047'118	0	0	0	0	4'047'118
Due from banks	1'221'406	292'063	352'212	0	0	1'865'681
Loans	1'928'814	2'178'679	1'412'059	4'932'182	1'608'292	12'060'027
Financial investments	30'045	57'355	272'902	753'211	56'874	1'170'387
Total financial assets	**7'227'383**	**2'528'098**	**2'037'174**	**5'685'393**	**1'665'166**	**19'143'213**
Derivative financial instruments	80'000	466'000	750'000	55'000	0	1'351'000
Total	**7'307'383**	**2'994'098**	**2'787'174**	**5'740'393**	**1'665'166**	**20'494'213**
Financial liabilities						
Due to banks	507'316	90'000	286'000	60'000	0	943'316
Due to customers	6'744'759	1'362'895	2'958'717	4'460'008	20'000	15'546'378
Debt issued	8'350	28'212	136'036	606'346	390'083	1'169'027
Total financial liabilities	**7'260'424**	**1'481'107**	**3'380'753**	**5'126'354**	**410'083**	**17'658'721**
Derivative financial instruments	0	35'000	131'000	730'000	455'000	1'351'000
Total	**7'260'424**	**1'516'107**	**3'511'753**	**5'856'354**	**865'083**	**19'009'721**
Interest rate repricing exposure	**46'959**	**1'477'991**	**−724'580**	**−115'961**	**800'083**	**1'484'492**
31.12.2018						
Financial assets						
Cash and balances with central banks	5'648'778	0	0	0	0	5'648'778
Due from banks	966'626	320'821	250'442	0	0	1'537'890
Loans	2'257'726	2'181'904	1'461'754	5'251'798	1'690'745	12'843'926
Financial investments	26'365	100'441	157'902	1'378'308	144'385	1'807'402
Total financial assets	**8'899'496**	**2'603'166**	**1'870'099**	**6'630'106**	**1'835'130**	**21'837'995**
Derivative financial instruments	111'282	475'000	795'000	276'282	0	1'657'565
Total	**9'010'778**	**3'078'166**	**2'665'099**	**6'906'388**	**1'835'130**	**23'495'560**
Financial liabilities						
Due to banks	749'406	285'000	385'000	90'006	0	1'509'412
Due to customers	8'359'241	1'333'474	3'175'158	4'468'164	24'750	17'360'787
Debt issued	1'684	5'068	141'154	594'972	493'485	1'236'362
Total financial liabilities	**9'110'331**	**1'623'542**	**3'701'312**	**5'153'142**	**518'235**	**20'106'561**
Derivative financial instruments	51'282	55'000	255'000	750'000	546'282	1'657'565
Total	**9'161'613**	**1'678'542**	**3'956'312**	**5'903'142**	**1'064'517**	**21'764'125**
Interest rate repricing exposure	**−150'835**	**1'399'624**	**−1'291'213**	**1'003'247**	**770'612**	**1'731'435**

In the fixed-interest-rate repricing balance sheet, asset and liability surpluses from fixed-interest rate positions as well as from interest-rate-sensitive derivative positions in the balance sheet are calculated and broken down into maturity ranges (cycle times). The positions with an unspecified duration of interest rate repricing are allocated to the corresponding maturity ranges (cycle times) on the basis of a replication.

2 Liquidity and refinancing risk

Liquidity risk is defined as a situation where present and future payment obligations cannot be fully met or met on time, or in the event of a liquidity crisis refinancing funds may only be available at increased market rates (refinancing costs) or assets can only be made liquid at markdowns to market rates (market liquidity risk).

2.1 Liquidity risk management

Processes and organisational structures ensure that liquidity risks are identified, uniformly measured, controlled and monitored, as well as being included in risk reporting. The liquidity risk regulations, which include the LLB Group's risk tolerance criteria, are regularly reviewed by the Group Executive Board and approved by the Group Board of Directors. The liquidity risk limits to be observed by the LLB Group are stipulated in the regulations.

The objectives of the LLB Group's liquidity risk management include the following points:

- the ability to meet financial obligations at all times
- compliance with regulatory provisions
- optimisation of the refinancing structure
- optimisation of payment streams within the LLB Group.

2.2 Valuation of liquidity risks

In our liquidity risk management concept, scenario analysis plays a central role. This includes the valuation of the liquidity of assets, i.e. the liquidity characteristics of our asset holdings in various stress scenarios.

2.3 Contingency planning

The LLB Group's liquidity risk management encompasses a contingency plan. The contingency plan includes an overview of emergency measures, sources of alternative financing and governance in stress situations.

2.4 Monitoring and reporting of liquidity risks

Group Credit & Risk Management monitors compliance with liquidity risk limits and is responsible for reporting on liquidity risks.

The following tables show the maturities according to contractual periods, separated according to derivative and non-derivative financial instruments as well as off-balance sheet transactions. The values of derivative financial instruments represent replacement values. All other values correspond to nominal values, i.e. possible interest and coupon payments are included.

Maturity structure of derivative financial instruments

	Term to maturity within 3 months		Term to maturity 4 to 12 months		Term to maturity 1 to 5 years		Term to maturity after 5 years		Total	
in CHF thousands	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*
31.12.2017										
Derivative financial instruments in the trading portfolio										
Interest rate contracts										
Swaps	0	438	0	2'440	13	40'218	0	12'207	13	55'302
Forward contracts	9	87	0	59	2	0	0	0	11	146
Foreign exchange contracts										
Forward contracts	46'014	49'330	7'426	7'052	714	701	0	0	54'154	57'082
Options (OTC)	282	282	2'365	2'365	1	1	0	0	2'649	2'649
Precious metals contracts										
Forward contracts	0	0	5	5	0	0	0	0	5	5
Options (OTC)	0	0	25	25	0	0	0	0	25	25
Equity instruments / Index contracts										
Options (OTC)	390	390	0	0	56	56	0	0	445	445
Equities										
Forward contracts	0	0	0	0	0	0	0	0	0	0
Total derivative financial instruments in the trading portfolio	**46'695**	**50'526**	**9'821**	**11'945**	**785**	**40'975**	**0**	**12'207**	**57'302**	**115'653**
Derivative financial instruments for hedging purposes										
Interest rate contracts										
Swaps (fair value hedge)	0	0	0	0	0	94	1'438	1'701	1'438	1'795
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**0**	**0**	**94**	**1'438**	**1'701**	**1'438**	**1'795**
Total derivative financial instruments	**46'695**	**50'526**	**9'821**	**11'945**	**785**	**41'069**	**1'438**	**13'908**	**58'740**	**117'448**

* PRV: Positive replacement values; NRV: Negative replacement values

in CHF thousands	Term to maturity within 3 months PRV*	NRV*	Term to maturity 4 to 12 months PRV*	NRV*	Term to maturity 1 to 5 years PRV*	NRV*	Term to maturity after 5 years PRV*	NRV*	Total PRV*	NRV*
31.12.2018										
Derivative financial instruments in the trading portfolio										
Interest rate contracts										
Swaps	0	608	0	978	34	38'047	0	5'280	34	44'914
Forward contracts	485	43	95	12	0	0	0	0	580	55
Foreign exchange contracts										
Forward contracts	109'585	116'509	79'445	80'273	853	797	0	12	189'883	197'590
Options (OTC)	647	647	2'611	2'611	1'640	1'640	0	0	4'898	4'898
Precious metals contracts										
Forward contracts	0	0	0	0	0	0	0	0	0	0
Options (OTC)	0	0	70	70	0	0	0	0	70	70
Equity instruments / Index contracts										
Options (OTC)	350	350	0	0	0	0	0	0	350	350
Equities										
Forward contracts	0	0	0	0	0	0	0	0	0	0
Total derivative financial instruments in the trading portfolio	**111'066**	**118'157**	**82'221**	**83'944**	**2'528**	**40'484**	**0**	**5'292**	**195'815**	**247'877**
Derivative financial instruments for hedging purposes										
Interest rate contracts										
Swaps (fair value hedge)	0	0	0	18	1'425	106	646	7'563	2'071	7'687
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**18**	**1'425**	**106**	**646**	**7'563**	**2'071**	**7'687**
Total derivative financial instruments	**111'066**	**118'157**	**82'221**	**83'961**	**3'953**	**40'590**	**646**	**12'855**	**197'886**	**255'564**

* PRV: Positive replacement values; NRV: Negative replacement values

Maturity structure of non-derivative financial instruments and off-balance sheet transactions

in CHF thousands	Demand deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2017							
Financial assets							
Cash and balances with central banks	4'047'118	0	0	0	0	0	4'047'118
Due from banks	619'445	0	897'614	355'689	0	0	1'872'749
Loans	173'600	230'840	1'997'778	1'847'052	6'620'538	1'674'715	12'544'523
Financial investments at fair value	0	0	59'767	282'136	794'965	65'686	1'202'554
Accrued income and prepaid expenses	0	0	39'395	0	0	0	39'395
Total financial assets	**4'840'163**	**230'840**	**2'994'555**	**2'484'877**	**7'415'503**	**1'740'401**	**19'706'339**
Financial liabilities							
Due to banks	201'995	0	395'068	285'664	60'092	0	942'819
Due to customers	9'832'032	4'383'451	506'416	666'973	147'621	20'145	15'556'638
Debt issued	0	0	40'246	144'432	632'340	395'637	1'212'656
Accrued expenses and deferred income	0	0	30'250	0	0	0	30'250
Total financial liabilities	**10'034'027**	**4'383'451**	**971'980**	**1'097'070**	**840'052**	**415'782**	**17'742'362**
Net liquidity exposure	**–5'193'863**	**–4'152'611**	**2'022'575**	**1'387'807**	**6'575'451**	**1'324'619**	**1'963'978**
Off-balance-sheet transactions	**311'462**	**0**	**0**	**0**	**0**	**0**	**311'462**
Contingent liabilities	54'598	0	0	0	0	0	54'598
Irrevocable commitments	247'724	0	0	0	0	0	247'724
Deposit and call liabilities	9'141	0	0	0	0	0	9'141

in CHF thousands	Demand deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2018							
Financial assets							
Cash and balances with central banks	5'648'371	0	0	0	0	0	5'648'371
Due from banks	690'794	0	602'655	256'482	0	0	1'549'931
Loans	392'679	214'813	2'056'538	1'920'993	6'957'994	1'759'317	13'302'334
Financial investments at fair value	0	0	49'245	180'691	1'487'716	166'809	1'884'460
Accrued income and prepaid expenses	0	0	56'868	0	0	0	56'868
Total financial assets	**6'731'843**	**214'813**	**2'765'306**	**2'358'165**	**8'445'710**	**1'926'126**	**22'441'963**
Financial liabilities							
Due to banks	222'585	0	810'478	384'178	90'136	0	1'507'377
Due to customers	11'222'246	4'569'931	447'380	883'331	220'137	24'868	17'367'892
Debt issued	0	0	10'115	148'861	616'926	500'229	1'276'131
Accrued expenses and deferred income	0	0	51'625	0	0	0	51'625
Total financial liabilities	**11'444'830**	**4'569'931**	**1'319'598**	**1'416'370**	**927'199**	**525'097**	**20'203'025**
Net liquidity exposure	**–4'712'987**	**–4'355'118**	**1'445'708**	**941'796**	**7'518'511**	**1'401'029**	**2'238'938**
Off-balance-sheet transactions	**579'795**	**0**	**0**	**0**	**0**	**0**	**579'795**
Contingent liabilities	95'503	0	0	0	0	0	95'503
Irrevocable commitments	475'154	0	0	0	0	0	475'154
Deposit and call liabilities	9'138	0	0	0	0	0	9'138

3 Credit risk

Within the scope of credit risk management, vital importance is attached to the avoidance of credit losses and the early identification of default risks. In addition to systematic risk / return management at the individual loan level, the LLB Group proactively manages its credit risks at the credit portfolio level. The primary objective is to reduce the overall level of risk through diversification and a stabilisation of expected returns.

3.1 Credit risk management

Processes and organisational structures ensure that credit risks are identified, uniformly evaluated, controlled, monitored and included in risk reporting.

Basically, the LLB Group conducts its lending business for private and corporate clients on a secured basis. The process of granting a loan is based on a thorough evaluation of the borrower's creditworthiness, the possible impairment and the legal existence of collateral, as well as risk classification in a rating process performed by experienced credit specialists. The granting of loans is subject to a specified assignment of authority. A major characteristic of the credit approval process is the separation between front and back office functions.

In addition, the LLB Group conducts lending business with banks on a secured and unsecured basis, whereby individual risk limits are approved for every counterparty.

3.2 Evaluation of credit risks

The consistent evaluation of credit risks represents an essential prerequisite of successful risk management. The credit risk can be broken down into the components: probability of default, loss given default and the expected exposure at the time point of the default.

Probability of default
The LLB Group assesses the probability of default of individual counterparties by means of an internal rating system. The different rating procedures are adapted to suit the different characteristics of borrowers. The credit risk management ratings employed for banks and debt instruments are based on external ratings from recognised rating agencies.

The reconciliation of the internal rating with the external rating is carried out in accordance with the following master scale.

Loss given default
The loss given default is influenced by the amount of collateralisation and the costs of realising the collateral. It is expressed as a percentage of the individual commitment.

The potential loss at portfolio level is broken down as follows at the LLB Group:

Rating classes (master scale)

LLB rating	Description	External rating **
1 to 4	Investment grade	AAA, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3
5 to 8, not rated *	Standard monitoring	Ba1, Ba2, Ba3, B1, B2
9 to 10	Special monitoring	B3, Caa, Ca, C
11 to 14	Sub-standard	Default

* Non-rated loans are covered and subject to limits.
** For the securitisation of credit risks in the standard approach, the LLB Group employs solely the external ratings of the recognised rating agency Moody's (for the segments: due from banks, finance companies and securities firms, due from companies and due from international organisations).

Expected loss
Expected loss is a future-related, statistical concept that permits the LLB Group to estimate the average annual costs. It is calculated on the basis of the default probability of a counterparty, the expected credit commitment made to this counterparty at the time of the default, and the magnitude of the loss given default. The concept of expected loss is also applied within the scope of IFRS 9 / ECL. See point 2.6.1.4 "Impairments" in the accounting principles.

Value-at-risk concept
The value-at-risk approach aims at computing the size of fluctuations in credit losses incurred by means of a statistical model and to show the change in the risk status of the credit portfolio.

Scenario analysis

The modelling of external credit losses is performed on the basis of stress scenarios, which enable us to evaluate the effects of fluctuations in the default rates of the assets pledged as collateral taking into consideration the existing risk concentration in every portfolio.

3.3 Controlling credit risk

Credit risk management has the task of actively influencing the risk situation of the LLB Group. This is carried out using a limits system, risk-adjusted pricing, through the possibility of using risk hedging instruments and the specific repayment of credit commitments. Risk management is conducted both at the individual loan and at the portfolio level.

Risk restriction

The LLB Group has in place a comprehensive limits system to restrict credit risk exposure. In addition to the limitation of individual credit risks, to prevent risk concentrations, the LLB Group assigns limits for regions and sectors.

Risk mitigation

To mitigate credit risk exposure, the LLB Group takes security mainly in the form of pledged assets and financial collateral. In the case of financial collateral in the form of marketable securities, we determine their collateral value by applying a schedule of reductions, the size of which is based on the quality, liquidity, volatility and complexity of the separate instruments.

Derivatives

The LLB Group may employ credit derivatives to reduce risks. This possibility has not been utilised in recent years.

3.4 Monitoring and reporting of credit risks

The organisational structure of the LLB Group ensures that departments which cause the risks (front office) and those that evaluate, manage and monitor them (back office) are completely separated.

Individual credit risks are monitored by means of a comprehensive limits system. Infringements are immediately reported to the senior officer responsible.

3.5 Risk provisioning

Overdue claims

A claim is deemed to be overdue if a substantial liability from a borrower to the bank is outstanding. The overdraft begins on the date when a borrower exceeds an approved limit, has not paid interest or amortisation, or has utilised an unauthorised credit facility.

Specific valuation allowances are made for claims that are overdue by more than 90 days.

Default-endangered claims

Claims are regarded as being in danger of default if, on the basis of the client's creditworthiness, a loan default can no longer be excluded in the near future.

Impairments

Basically, an impairment is calculated and a provision set aside for all positions which are subject to a credit risk. Essentially, the credit quality determines the scope of the impairment. If the credit risk has not risen significantly since initial recognition, the expected credit loss is calculated over a year (credit quality level 1). However, if a significant increase in the credit risk has occurred since initial recognition, the expected loss is calculated over the remaining term to maturity (credit quality level 2). In the case of defaulted credit positions – a default in accordance with the Capital Requirements Regulation (CRR) Art. 178 – a specific value allowance is determined and recognised by the Group Recovery Department. The expected credit loss is calculated over the loan's remaining term to maturity (credit quality level 3).

3.6 Country risks

A country risk arises if specific political or economic conditions in a country affect the value of a foreign position. Country risk is composed of transfer risk (e.g. restrictions on the free movement of money and capital) and other country risks (e.g. country-related liquidity, market and correlation risks).

Country risks are controlled on the basis of a limits system and are continually monitored. Ratings provided by a recognised rating agency are utilised for certain individual countries.

3.7 Risk concentration

The largest credit risk for the LLB Group arises from loans made to banks and loans made to customers. In the case of loans to customers, the majority of loans are secured by mortgages, which are granted to clients having first-class creditworthiness within the scope of the LLB Group's lending policy. Thanks to the diversified nature of the collateral portfolio, containing properties primarily in the Principality of Liechtenstein and in Switzerland, the risk of losses is reduced to a minimum. The LLB Group undertakes bank investments on both a secured and an unsecured basis. The risk of losses with loans to banks is restricted, on the one hand, through a broad distribution of risks and, on the other, by the strict minimum lending requirements applied to the counterparties.

Maximal credit risk by region without considering collateral

in CHF thousands	Liechtenstein / Switzerland	Europe excl. FL / CH	North America	Asia	Others *	Total
31.12.2017						
Credit risks from balance sheet transactions						
Due from banks	1'379'224	473'410	47'879	24'811	15'109	1'940'433
Loans						
Mortgage loans	10'493'172	30'156	0	0	0	10'523'328
Loans to public institutions	86'899	0	0	0	0	86'899
Miscellaneous loans	725'834	199'034	343	338'877	209'651	1'473'739
Derivative financial instruments	39'526	18'058	0	110	1'046	58'740
Financial investments at fair value						
Fixed-interest securities	292'092	677'921	162'126	40'690	24'648	1'197'476
Total	**13'016'747**	**1'398'579**	**210'348**	**404'488**	**250'454**	**15'280'615**
Credit risks from off-balance sheet transactions						
Contingent liabilities	47'364	2'000	0	3'592	1'642	54'598
Irrevocable commitments	208'715	7'335	0	4'705	26'969	247'724
Deposit and call liabilities	9'141	0	0	0	0	9'141
Total	**265'220**	**9'335**	**0**	**8'297**	**28'611**	**311'463**
31.12.2018						
Credit risks from balance sheet transactions						
Due from banks	804'444	624'895	156'299	16'857	9'341	1'611'836
Loans						
Mortgage loans	11'053'486	42'410	319	1'980	0	11'098'195
Loans to public institutions	73'552	0	0	0	0	73'552
Miscellaneous loans	655'096	374'675	1'893	417'073	241'997	1'690'734
Derivative financial instruments	40'675	146'339	325	2'397	8'150	197'886
Financial investments at fair value						
Fixed-interest securities	502'536	899'194	342'551	90'583	71'596	1'906'460
Total	**13'129'789**	**2'087'513**	**501'387**	**528'890**	**331'084**	**16'578'663**
Credit risks from off-balance sheet transactions						
Contingent liabilities	76'560	2'187	0	3'501	13'255	95'503
Irrevocable commitments	219'611	127'478	25	351	127'690	475'154
Deposit and call liabilities	9'101	0	37	0	0	9'138
Total	**305'271**	**129'665**	**62**	**3'852**	**140'945**	**579'794**

* None of the categories summarised in the position "Others" exceeds 10 per cent of the total volume.

Maximal credit risk by sector without considering collateral

in CHF thousands	Financial services	Real estate	Private households	Others [a]	Total
31.12.2017					
Credit risks from balance sheet transactions					
Due from banks	1'940'433	0	0	0	1'940'433
Loans					
Mortgage loans	125'831	1'882'383	7'294'838	1'220'276	10'523'328
Loans to public institutions	0	0	0	86'899	86'899
Miscellaneous loans	348'783	20'389	627'393	477'174	1'473'739
Derivative financial instruments	53'119	11	3'504	2'106	58'740
Financial investments at fair value					
Fixed-interest securities	881'225	0	0	316'251	1'197'476
Total	**3'349'391**	**1'902'783**	**7'925'735**	**2'102'706**	**15'280'615**
Credit risks from off-balance sheet transactions					
Contingent liabilities	5'775	4'289	9'220	35'314	54'598
Irrevocable commitments	51'831	30'289	73'429	92'175	247'724
Deposit and call liabilities	9'141	0	0	0	9'141
Total	**66'747**	**34'578**	**82'649**	**127'489**	**311'463**
31.12.2018					
Credit risks from balance sheet transactions					
Due from banks	1'611'836	0	0	0	1'611'836
Loans					
Mortgage loans	148'291	2'285'220	7'454'795	1'209'889	11'098'195
Loans to public institutions	0	0	0	73'552	73'552
Miscellaneous loans	452'856	49'416	741'278	447'184	1'690'734
Derivative financial instruments	186'584	41	7'141	4'120	197'886
Financial investments at fair value					
Fixed-interest securities	1'345'267	5'731	0	555'462	1'906'460
Total	**3'744'834**	**2'340'408**	**8'203'214**	**2'290'207**	**16'578'663**
Credit risks from off-balance sheet transactions					
Contingent liabilities	13'807	2'407	17'728	61'561	95'503
Irrevocable commitments	180'986	32'222	152'581	109'365	475'154
Deposit and call liabilities	9'138	0	0	0	9'138
Total	**203'931**	**34'629**	**170'309**	**170'926**	**579'794**

[a] None of the categories summarised in the position "Others" exceeds 10 per cent of the total volume.

3.8 Risk of default for financial instruments not measured at fair value according to the creditworthiness of the borrower

The following tables show the creditworthiness of borrowers with financial instruments, which are measured at amortised cost or at fair value through other comprehensive income, as well as for credit commitments and financial guarantees.

The carrying value of financial instruments, which are measured at fair value through other comprehensive income, is not corrected by means of a value allowance because the impairment is charged directly to other comprehensive income. In the case of credit commitments and financial guarantees, a corresponding provision is set aside.

in CHF thousands	Note	Investment Grade	Standard Monitoring	Special Monitoring	Sub-standard	Total
31.12.2018						
Due from banks	12	1'611'454	0	0	0	1'611'454
Loans	13	1'869'460	10'433'965	421'951	127'164	12'852'541
Financial investments measured at fair value through other comprehensive income						
Fixed-interest securities	15	1'207'796	0	0	0	1'207'796
Credit risks from balance sheet transactions		**4'688'709**	**10'433'965**	**421'951**	**127'164**	**15'671'790**
Financial guarantees		335'612	222'271	4'660	1'701	564'244
Credit cards		550	14'995	6	0	15'551
Credit risks from off-balance sheet transactions		**336'162**	**237'266**	**4'666**	**1'701**	**579'795**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
31.12.2018				
Due from banks				
Investment grade	1'611'836	0		1'611'836
Standard monitoring	0	0		0
Special monitoring	0	0		0
Sub-standard			0	0
Total gross carrying value	**1'611'836**	**0**	**0**	**1'611'836**
Total value allowances	**−383**	**0**	**0**	**−383**
Total net carrying value	**1'611'454**	**0**	**0**	**1'611'454**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
31.12.2018				
Loans				
Investment grade	1'859'832	10'889		1'870'720
Standard monitoring	10'225'832	216'047		10'441'880
Special monitoring	335'344	87'373		422'717
Sub-standard			199'015	199'015
Total gross carrying value	**12'421'009**	**314'309**	**199'015**	**12'934'332**
Total value allowances	**−7'958**	**−1'982**	**−71'851**	**−81'791**
Total net carrying value	**12'413'050**	**312'327**	**127'164**	**12'852'541**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
31.12.2018				
Fixed-interest securities				
Investment grade	1'207'796	0		1'207'796
Standard monitoring	0	0		0
Special monitoring	0	0		0
Sub-standard			0	0
Total carrying value	**1'207'796**	**0**	**0**	**1'207'796**
Total value allowances	**–60**	**0**	**0**	**–60**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
31.12.2018				
Financial guarantees				
Investment grade	335'612	0		335'612
Standard monitoring	219'727	2'544		222'271
Special monitoring	4'009	652		4'660
Sub-standard			1'701	1'701
Total credit risk	**559'347**	**3'196**	**1'701**	**564'244**
Total provisions	**–1'128**	**–450**	**–1'701**	**–3'279**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
31.12.2018				
Credit cards				
Investment grade	550	0		550
Standard monitoring	14'965	30		14'995
Special monitoring	6	0		6
Sub-standard			0	0
Total credit risk	**15'521**	**30**	**0**	**15'551**
Total provisions	**–6**	**0**	**0**	**–6**

3.9 Expected credit loss and value allowances

The development of expected credit loss and the value allowances made are shown in the following overview. The following table shows, on an aggregated basis, the values for all balance sheet and off-balance sheet positions for which a calculation of the expected credit loss was made, followed by a complete reconciliation for only the most important positions.

in CHF thousands	Note	Gross carrying value				Value allowances			
31.12.2018		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets (balance sheet positions)									
Financial instruments measured at amortised cost									
Due from banks	12	1'611'836	0	0	1'611'836	−383	0	0	−383
Loans	13	12'421'009	314'309	199'015	12'934'332	−7'958	−1'982	−71'851	−81'791
Total		**14'032'845**	**314'309**	**199'015**	**14'546'168**	**−8'341**	**−1'982**	**−71'851**	**−82'174**

in CHF thousands	Note	Carrying value				Value allowances			
31.12.2018		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial instruments measured at fair value through other income *									
Fixed-interest securities	15	1'207'796	0	0	1'207'796	−60	0	0	−60
Total		**1'207'796**	**0**	**0**	**1'207'796**	**−60**	**0**	**0**	**−60**

in CHF thousands	Note	Credit risk				Value allowance provision			
31.12.2018		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments and financial guarantees (off-balance sheet positions) **									
Financial guarantees		559'347	3'196	1'701	564'244	−1'128	−450	−1'701	−3'279
Credit cards		15'521	30	0	15'551	−6	0	0	−6
Total		**574'867**	**3'226**	**1'701**	**579'795**	**−1'134**	**−450**	**−1'701**	**−3'285**

* The carrying value corresponds to fair value, no value allowance can be made. The value allowance is made through other comprehensive income.
** The value corresponds to the maximum credit risk. Value allowances are recognised as provisions.

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Gross carrying amount as at 1 January 2018 according to IFRS 9	11'591'783	371'422	198'206	12'161'411
Transfers				
from Stage 1 to Stage 2	−126'676	126'676		0
from Stage 2 to Stage 1	163'563	−163'563		0
from Stage 2 to Stage 3		−22'044	22'044	0
from Stage 3 to Stage 2		0	0	0
Additions from changes to scope of consolidation	286'419	0	5'506	291'925
Additions due to issuing loans	3'977'114	77'084	1'433	4'055'631
Disposals due to redemption of loans / waiving of claims	−3'470'048	−75'266	−28'174	−3'573'488
Foreign currency influences	−1'147	0	0	−1'147
Changes due to adjusted risk parameters and due to maturity effect	0	0	0	0
Gross carrying amount as at 31 December 2018	**12'421'009**	**314'309**	**199'015**	**12'934'332**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Valuation allowance as at 1 January 2018 according to IAS 39			−77'445	−77'445
Revaluation effect according to first application of IFRS 9	−8'944	−1'735		−10'679
Valuation allowance as at 1 January 2018 according to IFRS 9	−8'944	−1'735	−77'445	−88'124
Transfers				
from Stage 1 to Stage 2	755	−4'197		−3'442
from Stage 2 to Stage 1	−148	148		0
from Stage 2 to Stage 3		3'682	−3'682	0
from Stage 3 to Stage 2		0	0	0
Additions from changes to scope of consolidation	−138	0	−2'437	−2'575
Additions due to issuing loans	−3'533	−533	−4'086	−8'152
Disposals due to redemption of loans / waiving of claims	3'703	159	15'799	19'661
Foreign currency influences	2	0	0	2
Changes due to adjusted risk parameters and due to maturity effect	345	494	0	839
Valuation allowance as at 31 December 2018	**−7'958**	**−1'982**	**−71'851**	**−81'791**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Financial guarantees				
Credit risk as at 1 January 2018 according to IFRS 9	301'825	497	2'120	304'441
Transfers				
from Stage 1 to Stage 2	−758	758		0
from Stage 2 to Stage 1	1'020	−1'020		0
from Stage 2 to Stage 3		−4	4	0
from Stage 3 to Stage 2		0	0	0
Additions from changes to scope of consolidation	250'908	0	0	250'908
Addition due to granting of new financial guarantees	147'224	3'256	36	150'516
Disposal due to withdrawal of financial guarantees	−140'508	−290	−459	−141'257
Foreign currency influences	−361	0	0	−361
Changes due to adjusted risk parameters and due to maturity effect	−4	0	0	−4
Credit risk as at 31 December 2018	**559'347**	**3'196**	**1'701**	**564'244**

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Financial guarantees				
Provision on 1 January 2018 according to IAS 39			−2'120	−2'120
Remeasurement effect according to initial application of IFRS 9	−1'988	−783	0	−2'771
Provision on 1 January 2018 according to IFRS 9	−1'988	−783	−2'120	−4'891
Transfers				
from Stage 1 to Stage 2	177	−177		0
from Stage 2 to Stage 1	−541	541		0
from Stage 2 to Stage 3		4	−4	0
from Stage 3 to Stage 2		0	0	0
Additions from changes to scope of consolidation	0	0	0	0
Addition due to granting of new financial guarantees	−178	−117	−36	−331
Disposal due to withdrawal of financial guarantees	622	25	459	1'106
Foreign currency influences	2	0	0	2
Changes due to adjusted risk parameters and due to maturity effect	778	56	0	834
Provision as at 31 December 2018	**−1'128**	**−450**	**−1'701**	**−3'279**

3.10 Collateral and positions with impaired credit rating

Chapter 3.7 "Risk concentration" shows the maximum credit risk without considering possible collateral. The LLB Group pursues the goal of reducing credit risks where possible. This is achieved by obtaining collateral from the borrower. The LLB Group predominantly holds collateral against loans to clients and banks.

The types of cover for loans to clients and due from banks are shown in the following tables.

Types of cover for loans

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Secured by properties	11'212'329	10'509'538	6.7
Other collateral	1'309'653	1'060'493	23.5
Unsecured	330'558	513'935	– 35.7
Total	**12'852'541**	**12'083'966**	**6.4**

The table above shows the types of cover for net client loans, i.e. after deduction of expected credit loss. If value allowances are made for client loans, the amount of the allowance largely depends on the collateral provided by the client. The maximum value allowance may only correspond to the value of the collateral held and is shown in the following table.

in CHF thousands	Gross carrying value	Impaired creditworthiness	Net carrying value	Fair value of collateral held
Financial assets of stage 3 on reporting date 31.12.2018				
Loans to customers	199'015	– 71'851	127'164	127'164

Write-offs are made only on a very restrictive basis. The following table shows to what extent the LLB Group can also legally recover written-off claims in future.

in CHF thousands	31.12.2018
Written-off financial assets in year under report, subject to an enforcement measure	**Contractually outstanding amount**
Loans to customers	68

Newly agreed loans to customers

Newly agreed loans to customers are not substantial.

Changes to collateral policy

There were no substantial changes to the collateral policy or in the quality of collateral in the 2018 business year.

Types of cover for due from banks

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Secured	101'164	117'298	– 13.8
Unsecured	1'510'289	1'823'134	– 17.2
Total	**1'611'454**	**1'940'433**	**– 17.0**

Expected value allowances of stage 1 exist for claims due from banks.

Taken-over collateral

	2018			2017		
in CHF thousands	Financial investments	Real estate / Properties	Total	Financial investments	Real estate / Properties	Total
As at 1 January	0	2'741	2'741	0	1'018	1'018
Additions / (Disposals)	0	−1'723	−1'723	0	1'723	1'723
(Value allowances) / Revaluations	0	−168	−168	0	0	0
As at 31 December	**0**	**850**	**850**	**0**	**2'741**	**2'741**

Taken-over collateral is disposed of again as soon as possible. It is reported under financial investments, trading portfolio assets, investment property and non-current assets held for sale, respectively.

4 Operational risk

The LLB Group defines operational risks as being the danger of losses due to the failure of internal procedures, people or IT systems or as a result of an external event. Legal risks form a part of operational risks. The LLB Group has in place an active and systematic process for managing operational risks. Policies and directives have been formulated for the identification, control and management of this risk category, which are valid for all Group companies. Potential and incurred losses from all organisational units, as well as significant external events, are recorded and evaluated promptly at the parent bank. In addition, the LLB Group collates and analyses risk ratios, e.g. from the areas of due diligence and employee transactions for own account. Ultimately, the risks are limited by means of internal rules and regulations regarding organisation and control.

5 Strategic risk

For LLB Group, a strategic risk represents the endangering of a projected business result due to the inadequate focusing of the Group on the political, economic, technological, social or ecological environment. Accordingly, these risks can arise as a result of an inadequate strategic decision-making process, unforeseeable events on the market or a deficient implementation of the selected strategies.

Strategic risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

6 Reputational risk

If risks are not identified, adequately managed and monitored, this can lead not only to substantial financial losses, but also to reputational damage. The LLB Group does not regard reputational risk as an independent risk category, but rather as the danger of additional losses stemming from the categories concerned. To this extent, a reputational risk can cause and also result in losses in all risk categories, such as market or credit risks.

Reputational risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

Regulatory disclosures

1 Capital adequacy requirements (Pillar I)

The Banking Law and Banking Ordinance of the Principality of Liechtenstein form the legal basis of capital adequacy requirements, which in turn are based on the directives of the Basel Committee on Banking Supervision as adapted by the European Union.

In accordance with Basel III, banks may choose from various approaches to calculate the capital requirements for credit, market and operational risks. The LLB Group applies the standard approach for credit risk, the basic indicator approach for operational risks and the standard approach for market risks (trading book activities of insignificant materiality in accordance with Article 94 (1) CRR). The determination of capital requirements and tier capital is carried out on the basis of the IFRS consolidated financial statement.

Further information regarding the regulatory framework and key figures of the LLB Group can be found in the separately published Disclosure Report 2018.

1.1 Segmentation of credit risks

	Regulatory risk weighted									
in CHF thousands	0 %	10 %	20 %	35 %	50 %	75 %	100 %	150 %	250 %	Total
31.12.2018										
Central governments and central banks	5'761'359	0	15'626	0	5'672	0	0	0	0	5'782'657
Regional governments	0	0	144'992	0	3'497	0	0	0	0	148'489
Public sector entities	0	0	149'303	0	5'055	0	0	0	0	154'358
Multilateral development banks	76'978	0	0	0	0	0	0	0	0	76'978
Banks and securities firms	0	0	2'014'964	0	191'736	0	8'363	24	0	2'215'087
Corporates	0	0	202'799	0	73'687	0	1'459'459	65'438	0	1'801'382
Retail	0	0	0	0	0	329'301	682'251	0	0	1'011'552
Secured by real estate	0	0	0	8'269'397	1'794'073	0	927'753	0	0	10'991'222
In default	0	0	0	0	0	0	135'637	63'425	0	199'062
Equity instruments	0	0	0	0	0	0	26'467	0	30	26'497
Covered bonds	0	357'496	357'431	0	6'807	0	0	0	0	721'734
Collective investments and others	62'885	0	605	0	0	0	221'424	0	20'770	305'683
Total	**5'901'221**	**357'496**	**2'885'720**	**8'269'397**	**2'080'527**	**329'301**	**3'461'353**	**128'886**	**20'800**	**23'434'701**
Total previous year	4'324'656	217'771	2'540'482	7'906'146	2'049'596	280'767	2'891'508	101'856	63	20'312'845

1.2 Mitigation of credit risk

	31.12.2018				31.12.2017			
in CHF thousands	Covered by recognised financial collateral	Covered by guarantees	Other credit commit-ments	Total	Covered by recognised financial collateral	Covered by guarantees	Other credit commit-ments	Total
Balance sheet positions	0	6'656	0	6'656	0	11'099	0	11'099
Off-balance sheet positions	0	0	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0	0	0
Total	**0**	**6'656**	**0**	**6'656**	**0**	**11'099**	**0**	**11'099**

1.3 Leverage Ratio (LR)

A further integral part of the Basel III package is the leverage ratio which, with its comparison of unweighted on-balance sheet and off-balance sheet risk positions, on the one hand, and equity held, on the other, attempts to prevent the danger of financial institutes becoming excessively indebted. In future this reference ratio is to be limited to three per cent and is currently being monitored by the supervisory authority. It is not yet legally binding.

At the end of 2018, the leverage ratio of the LLB Group amounted to 6.7 per cent (31.12.2017: 8.3 %).

1.4 Liquidity Coverage Ratio (LCR)

The Delegated Regulation (EU) 2015 / 61, which came into force in Liechtenstein in January 2016, supplements the CRR in regard to liquidity coverage criteria for banks. The regulations are to ensure that banks possess a reasonable level of liquidity in order to cover their liquidity requirements in the case of a liquidity stress scenario within 30 calendar days. As the only binding regulatory liquidity reference figure, the LCR represents an important indicator both for liquidity risk measurement as well as liquidity risk control.

At the end of 2018, a regulatory LCR lower limit of 100 per cent was applicable for the LLB Group. With a value of 147.8 per cent, the LLB Group's ratio was substantially higher than legally required.

2 Internal capital (Pillar II)

The financial market regulatory requirements with respect to quantitative risk management, which arise from Pillar II, are fulfilled by the LLB Group by, among other measures, the conducting of a risk-bearing capacity calculation. The objective of the risk-bearing capacity calculation is to ensure the continued existence of the LLB Group. In line with this objective, the adequacy of the Group's capital resources is tested using internal models. The results attained with the individual risk categories are aggregated in a total risk potential and are compared with the capital available to cover these potential losses. This process enables the extent to be determined to which the LLB Group is in a position to bear potential losses.

For the purpose of the calculation of its risk-bearing capacity, the LLB Group employs a value-at-risk approach with a confidence level of 99.98 per cent and a holding duration of one year. Correlations between the individual risk categories are not considered.

The LLB Group's financial strength should remain unimpaired by fluctuations on the capital market. Scenario analyses and stress tests are employed to simulate external influences and assess their impact on equity capital. Where necessary, measures are taken to mitigate risks.

Assets under management

in CHF millions	31.12.2018	31.12.2017	+ / – %
Assets in own-managed funds	6'212	4'840	28.3
Assets with discretionary mandates	7'955	7'197	10.5
Other assets under management	53'123	38'215	39.0
Total assets under management	**67'290**	**50'252**	**33.9**
of which double counting	5'067	4'295	18.0

in CHF millions	2018	2017	+ / – %
Total assets under management as at 1 January *	50'252	46'428	8.2
Net new money	1'278	470	
Market and currency effects **	– 4'681	3'354	
Other effects (incl. reclassifications)	20'442	0	
Total assets under management as at 31 December *	**67'290**	**50'252**	**33.9**

* Including double counting.
** Including interest and dividend income.

Breakdown of assets under management

in per cent	31.12.2018	31.12.2017
By asset class		
Equities	19	24
Bonds	21	17
Investment funds	30	26
Liquidity	24	30
Precious metals / others	5	4
Total	**100**	**100**
By currency		
CHF	32	44
EUR	39	24
USD	22	24
Others	7	7
Total	**100**	**100**

Calculation method

Assets under management comprise all client assets managed or held for investment purposes. Basically, these include all balances due to customers, fiduciary time deposits and all valued portfolio assets.

Also included are other types of client assets which can be deduced from the principle of the investment purpose. Custody assets (assets held solely for transaction and safekeeping purposes) are not included in assets under management.

Assets in own-managed funds

This item comprises the assets of the LLB Group's own investment funds.

Assets with discretionary mandates

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of assets with discretionary mandates. The figures comprise both assets deposited with Group companies and assets deposited with third parties, for which the Group companies hold a discretionary mandate.

Other assets under management

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of other assets under management. The figures comprise assets for which an administration or advisory mandate is exercised.

Double counting

This item comprises fund units in own-managed funds which are contained in client portfolios with discretionary mandates and in other client safekeeping accounts.

Net new money

This position is composed of the acquisition of new clients, lost client accounts and inflows or outflows from existing clients. Performance-related asset fluctuations, e.g. price changes, interest and dividend payments including interest, commissions and expenses charged to client accounts, are not regarded as inflows or outflows. Acquisition-related changes to assets will also not be considered.

Other effects

An amount of CHF 290 million net was reclassified from assets under management to custody assets in the year under report.

As a result of the takeover of Semper Constantia a one-time net new money increase of CHF 20'732 million occurred.

Financial statement of LLB AG in the online annual report with Excel files for your own statistics

http://ar2018.llb.li/financial-statement-llb-ag

Financial statement of LLB AG, Vaduz

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinische Landesbank Aktiengesellschaft Vaduz

Report on the audit of the financial statements

Opinion

As statutory auditor, we have audited the financial statements (balance sheet, income statement and notes to the financial statements (pages 225 to 247) and the management report (page 224) of Liechtensteinische Landesbank Aktiengesellschaft (LLB AG) for the year ended 31 December 2018.

In our opinion, the accompanying financial statements give a true and fair view of the financial position in accordance with Liechtenstein law. Further, the financial statements and the annual report comply with Liechtenstein law and the company's articles of association.

Basis for opinion

We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the financial statements and the annual report are free from material misstatement.

We audited the items and disclosures in the financial statements by means of analyses and surveys on a sample basis. Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach

Overview

Overall materiality: CHF 4.0 million, which represents 5 % of the result from normal business activities.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus was identified:

- Valuation of loans

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 4.0 million
How we determined it	5 % of the result from normal business activities.
Rationale for the materiality benchmark applied	We chose the result from normal business operations as the benchmark because, in our view, it is the benchmark against which the performance of LLB AG is most commonly measured. The result from normal business activities represents profit before tax and before changes to the provisions for general banking risks and is a generally accepted benchmark for materiality considerations.

We agreed with the Group Audit Committee that we would report to them misstatements above CHF 0.2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter

LLB AG grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

As at 31 December 2018, loans amount to CHF 6.8 billion (2017: CHF 6.4 billion) and thus represent the largest asset item of the Bank. Mortgage-based loans form the majority of the loan portfolio (76 % of total loans by value). In addition, the Bank grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual loss allowances. Calculating the amount of the individual loss allowance requires judgement. We focussed on the following two points:

- The methods used by the Bank to identify loans in the loan portfolio that may need a loss allowance, including loans that according to LLB AG's definition show indications of impairment.
- The appropriateness and consistent application of the policies and instructions issued by Group management relating to the calculation of the amount of individual loss allowances.

The recognition and valuation principles applied to accounts receivable from customers and the methods used to identify default risk, to determine the need for impairment and to evaluate collateral are described in the management report.

Please refer to page 230 (Accounting policies and valuation principles) and page 233 (Notes to the balance sheet).

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of accounts receivable from customers:

- Credit processing and approval: Sample testing of the requirements and processes set out in the Bank's internal policies and working instructions in relation to credit processing. We also tested that approvals were granted at the appropriate level of authority.
- Credit monitoring (periodic reviews): Sample testing of identified loans at risk and identifying the extent of any need for impairment.

Where significant judgement was required, we also challenged the decisions of those authorised to approve loans with our own critical opinion as part of our substantive tests of detail. Our tests of detail covered the following:

- Sample-based testing of new business and loans at risk in the loan portfolio (including loans with individual loss allowances or indications of impairment) to evaluate whether additional loss allowances were needed.
- Sample-based testing of the method used to calculate loss allowances on the loan portfolio in terms of its appropriateness and compliance with the policies and instructions issued by the Group.

The combination of the tests of key controls and substantive tests of detail gives us sufficient assurance to assess the valuation of customer loans as adequate.

The assumptions used by LLB AG are in line with our expectations.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Liechtenstein law and the company's articles of incorporation that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We confirm that the proposal for the appropriation of retained earnings complies with Liechtenstein law and the company's articles of incorporation.

The annual report accords with the financial statements.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Claudio Tettamanti
Auditor in charge

Valentin Studer

St. Gallen, 22 February 2019

Management report

Liechtensteinische Landesbank AG was entered in the Commercial Register of the Principality of Liechtenstein under the register no. FL-0001.000.289-1 on 3 August 1926.

The details of the management report of Liechtensteinische Landesbank AG, Vaduz, can largely be seen in the consolidated report of the LLB Group.

On the balance sheet date, Liechtensteinische Landesbank AG, Vaduz, and its subsidiaries held a total of 124'841 registered shares (previous year: 1'922'937 shares). This corresponds to a share capital stake of 0.4 per cent (previous year: 6.2 %). With respect to the volume of and changes to treasury shares of Liechtensteinische Landesbank AG, reference is made to the individual financial statement.

The Board of Directors proposes to the General Meeting of Shareholders on 3 May 2019 that a dividend of net CHF 2.10 per registered share be paid out.

No important changes have occurred since the balance sheet date which would necessitate the reporting of any additional data or a correction of the 2018 financial statement.

Balance sheet

in CHF thousands	Note	31.12.2018	31.12.2017	+/−%
Assets				
Cash and balances with central banks		3'599'823	3'376'198	6.6
Due from banks		1'447'437	2'174'930	−33.4
due on a daily basis		636'299	642'600	−1.0
other claims		811'138	1'532'331	−47.1
Loans	1	6'789'787	6'406'992	6.0
of which mortgages	1	5'143'457	4'815'600	6.8
of which subordinated claims (gross)		0	0	
Bonds and other fixed-interest securities		1'338'466	939'152	42.5
Money market instruments		0	0	
from public authority issuers		0	0	
from other issuers		0	0	
Bonds		1'338'466	939'152	42.5
from public authority issuers		246'381	177'166	39.1
from other issuers		1'092'086	761'986	43.3
of which subordinated bonds		0	0	
Shares and other non-fixed-interest securities		50'331	227'354	−77.9
Participations	4	30	33	−7.8
Shares in associated companies	4	436'200	170'348	156.1
Intangible assets		42'293	41'651	1.5
Fixed assets	6	89'472	88'225	1.4
Own shares	2a) / 3	7'735	94'894	−91.8
Other assets	17	169'675	162'589	4.4
Accrued income and prepayments		65'554	46'951	39.6
Total assets		**14'036'805**	**13'729'316**	**2.2**

Liabilities				
Due to banks		1'449'095	1'071'357	35.3
due on a daily basis		699'648	560'303	24.9
with agreed maturities or periods of notice		749'447	511'053	46.6
Due to customers		10'351'357	10'525'864	−1.7
savings deposits		2'227'348	2'366'888	−5.9
other liabilities		8'124'009	8'158'976	−0.4
due on a daily basis		7'726'906	7'565'767	2.1
with agreed maturities or periods of notice		397'103	593'209	−33.1
Certified liabilities		131'103	151'224	−13.3
medium-term notes		131'103	151'224	−13.3
Other liabilities	17	269'649	175'937	53.3
Accrued expenses and deferred income		49'775	30'805	61.6
Provisions		9'829	14'545	−32.4
tax provisions	9	5'803	9'951	−41.7
other provisions	9	4'026	4'594	−12.4
Provisions for general banking risks	9	310'000	310'000	0.0
Share capital	10	154'000	154'000	0.0
Share premium		47'750	47'750	0.0
Retained earnings		1'185'080	1'150'080	3.0
legal reserves		390'550	390'550	0.0
reserves for own shares		7'735	94'894	−91.8
other reserves		786'795	664'636	18.4
Balance brought forward		4'872	4'463	9.2
Profit for the year		74'295	93'292	−20.4
Total liabilities		**14'036'805**	**13'729'316**	**2.2**

Off-balance sheet transactions

in CHF thousands	Note	31.12.2018	31.12.2017	+ / − %
Contingent liabilities	1 / 18	43'893	28'218	55.6
Credit risks		190'660	199'872	−4.6
irrevocable commitments	1	190'622	199'834	−4.6
call liabilities	1	38	37	1.0
Derivative financial instruments	19	15'447'731	13'302'397	16.1
Fiduciary transactions	20	512'591	364'129	40.8

Income statement

in CHF thousands	Note	2018	2017	+ / – %
Interest income		114'926	99'472	15.5
of which from fixed-interest securities		15'471	11'309	36.8
of which from trading transactions		0	12	– 99.0
Interest expenses		– 28'064	– 22'345	25.6
Net interest income		**86'862**	**77'128**	**12.6**
Shares and other non-fixed-interest securities		162	372	– 56.6
of which from trading transactions		162	372	– 56.6
Participations and associated companies		10'004	0	
Income from securities		**10'166**	**372**	
Credit-related commissions and fees		353	312	13.0
Commissions from securities and investment business		104'076	114'294	– 8.9
Other commission and fee income		19'194	20'112	– 4.6
Commission and fee expenses		– 44'868	– 47'641	– 5.8
Net commission and fee income		**78'754**	**87'076**	**– 9.6**
Income from financial transactions		**55'378**	**70'944**	**– 21.9**
of which from trading business	21	50'089	53'011	– 5.5
Income from real estate holdings		1'158	1'145	1.1
Sundry ordinary income		21'440	34'359	– 37.6
Other ordinary income		**22'598**	**35'504**	**– 36.4**
Total operating income		**253'758**	**271'024**	**– 6.4**
Personnel expenses	22	– 104'900	– 94'653	10.8
Administrative expenses	23	– 48'022	– 41'991	14.4
Total operating expenses		**– 152'922**	**– 136'644**	**11.9**
Gross operating profit		**100'836**	**134'379**	**– 25.0**
Depreciation on intangible assets and fixed assets		– 20'649	– 19'815	4.2
Sundry ordinary expenses	24	– 445	– 15'844	– 97.2
Allowances on claims and allocations to provisions for contingent liabilities and lending risks	9	– 696	– 6'597	– 89.4
Earnings from the release of allowances on claims and of provisions for contingent liabilities and lending risks	9	1'021	11'277	– 90.9
Write-downs to participations, shares in associated companies and securities treated as long-term investments		– 3	– 14	– 82.4
Earnings from write-ups to participations, shares in associated companies and securities treated as long-term investments		0	0	
Result from normal business operations		**80'065**	**103'386**	**– 22.6**
Income taxes		– 5'864	– 9'867	– 40.6
Other taxes		95	– 227	
Releases / (Additions) to provisions for general banking risks		0	0	
Profit for the year *		**74'295**	**93'292**	**– 20.4**

* The return on capital (annual profit in relation to balance sheet total) amounted to 0.53 per cent as at 31 December 2018 and to 0.68 per cent as at 31 December 2017 (pursuant to the Banking Ordinance, Art. 24e, Para. 1, Point 6).

Distribution of balance sheet profit

The Board of Directors proposes to the General Meeting of Shareholders on 3 May 2019 that the balance sheet profit as at 31 December 2018 be distributed as follows:

in CHF thousands	2018	2017
Profit for the year	74'295	93'292
Balance brought forward	4'872	4'463
Balance sheet profit	79'167	97'755
Distribution of balance sheet profit		
Allocation to other reserves	10'000	35'000
Allocation to corporate capital (common stock) *	64'418	57'883
Balance carried forward *	4'749	4'872

* Shares eligible for dividends are all shares outstanding except for own shares as of record date. The amounts presented are based on the numbers of shares eligible for dividends as at 31 December 2018.

If this proposal is accepted, a dividend of net CHF 2.10 per registered share will be paid out on 9 May 2019.

Notes on business operations

Liechtensteinische Landesbank Aktiengesellschaft with its registered office in Vaduz and two domestic branch offices is active as a full-service (universal) bank. LLB AG has subsidiaries in Liechtenstein, Austria and Switzerland. At the end of 2018, LLB AG employed 574 persons (previous year: 545) on a full-time equivalent basis. The average headcount in 2018 amounted to 565 persons (previous year: 540) on a full-time equivalent basis.

As a universal bank, LLB AG is engaged in the commission and fees business, credit and lending business, money market and interbank business, as well as securities trading business.

Commissions and fees business

The major proportion of revenues from commissions and fees business is attributable to commissions earned in connection with securities trading for customers. Other important income streams are provided by securities safe custody business, asset management (incl. investment funds) and brokering fiduciary investments.

Credit and lending business

The largest proportion of loans comprises mortgages, Lombard loans and advances to public institutions. Mortgages are granted to finance properties in Liechtenstein and in the neighbouring areas of Switzerland. Real estate financing for the rest of Switzerland and Lombard loans are granted within the scope of the integrated asset management business. A major proportion of loans and advances to public authorities relates to credit facilities extended to cantons and municipalities in Switzerland. As regards international syndicated loans, the bank is active to only a very limited extent in this line of business.

Money market and interbank business

Domestic and international funds deposited with the bank, which in as far as they are not invested in lending business or held as liquid funds, are placed with first-class banks, predominantly in Switzerland and Western Europe.

Securities trading business

The bank offers its clients a full range of services in connection with the execution and settlement of securities trading transactions. It trades for its own account only to a moderate extent. Transactions with derivative financial instruments for the bank's own account are largely employed for hedging purposes.

Accounting policies and valuation principles

Basic principles

The accounting and valuation policies are drawn up in accordance with the provisions of the Liechtenstein Person and Company Law (PGR), as well as the Liechtenstein Banking Law and the accompanying Banking Ordinance.

Recording of business

All completed business transactions are valued and recorded in the balance sheet and the profit and loss account according to the specified valuation principles. The transactions are booked on the transaction date. Up to their date of settlement or the value date, futures transactions are recorded at their replacement value under other assets or other liabilities.

Foreign currency translations

Assets and liabilities denominated in foreign currencies are translated at the foreign exchange middle rate prevailing on the balance sheet date. Bank note holdings for exchange business are translated at the bank note bid rate in effect on the balance sheet date. Exchange gains and losses arising from the valuation are booked to the profit and loss account. The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2018	31.12.2017
1 USD	0.9866	0.9765
1 EUR	1.1282	1.1715
1 GBP	1.2628	1.3201

Average rate	2018	2017
1 USD	0.9775	0.9837
1 EUR	1.1524	1.1132
1 GBP	1.3016	1.2749

Liquid funds, public authority debt instruments and bills approved for refinancing by central banks, balances due from banks and customers, liabilities

These items are shown in the balance sheet at nominal value minus any unearned discount on money market instruments.

Impaired due amounts, i.e. amounts due from debtors who probably will not repay them, are valued on an individual basis and their impairment is covered by specific allowances. Off-balance sheet transactions, such as commitments for loans, guarantees and derivative financial instruments, are also included in this valuation. Loans are regarded as overdue at the latest when interest and / or principal repayments are more than 90 days in arrears. Overdue and impaired interest payments are charged directly to allowances and provisions. Loans are put on a non-accrual basis if the interest due on them is deemed to be uncollectible and interest accrual is therefore no longer practical.

The impairment is measured on the basis of the difference between the book value of the claim and the probable recoverable amount taking into consideration counterparty risk and the net proceeds from the realisation of any collateral. If it is expected that the realisation process will take longer than one year, the estimated realisation proceeds are discounted on the balance sheet date. The specific allowances are deducted directly from the corresponding asset positions. A claim is reclassified as no longer endangered if the outstanding principal and interest are again repaid on time in accordance with the original contractual terms. To cover the risks in retail business, which are composed of numerous small claims, lump-sum individual allowances, calculated on the basis of empirical values, are made for the unsecured loans and overdrawn limits for which individual allowances have not already been considered.

Debt instruments and other fixed-interest securities, equities and other non-fixed-interest securities

Trading portfolios of securities and precious metals are valued at the market value on the balance sheet date. Securities for which there is no regular, active market are carried at the lower of cost or market value. Holdings of securities and precious metals as current assets are valued at the lower of cost or market value. Interest earnings are credited to the item interest income, dividend income is carried under the item income from securities. Price gains are shown under the item income from financial transactions.

Fixed-interest securities that are intended to be held until final maturity are valued according to the accrual method. Accordingly, interest income, including amortisation of premiums and accretion of discounts, is recognised on an accrual basis until final maturity. Interest-related realised capital gains or losses arising from the premature sale or redemption of securities are recognised on an accrual basis over the remaining period to maturity, i.e. up to the original date of final maturity. Interest earnings are credited to the item interest income. Equities and precious metals holdings held as fixed assets are valued at the lower of cost or market value. Dividend income is carried under the item income from securities. Allowances are shown under the items write-downs to participations, shares in associated companies and securities treated as long-term investments and earnings from write-ups to participations, shares in associated companies and securities treated as long-term investments, respectively.

Participations

Participations comprises shares owned by LLB AG in companies which represent a minority participation and which are held as long-term investments. These items are valued at cost minus necessary allowances.

Shares in associated companies

LLB AG's existing majority participations are recorded as shares in associated companies. These items are valued at cost minus necessary allowances.

Intangible assets

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that economic benefits will flow to the company from them, and the costs can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to ten years.

Low-cost acquisitions are charged directly to administrative expenses.

Tangible fixed assets

Real estate is valued at the acquisition cost plus any investment that increases the value of the property, less necessary depreciation. New buildings and refurbishments are depreciated over 33 years and building supplementary costs over 10 years. No depreciation is charged on undeveloped land unless an adjustment has to be made to allow for a reduction in its market value. Other physical assets include fixtures, furniture, machinery and IT equipment. They are capitalised and depreciated in full over their estimated economic life (3 to 6 years).

Low-cost acquisitions are charged directly to administrative expenses.

Treasury shares

Own shares (treasury shares) held by the Liechtensteinische Landesbank AG are recognised at market values up to the acquisition costs and are reported as treasury shares. The difference between the market value of treasury shares and the acquisition costs is reported in the income statement under income from financial transactions.

Allowances and provisions

In accordance with prudent accounting practice, specific allowances and provisions as well as general allowances are made for all risks existing on the balance sheet date. Allowances are offset directly with the corresponding asset position. Provisions are booked as such in the balance sheet.

Taxes

Accruals for taxes payable on the basis of the profits earned in the period under report are charged as expenses in the corresponding period. Provisions for deferred tax are formed in relation to allowances and provisions recognised only for tax purposes. The calculation is made on the basis of the estimated tax rates used for actual taxation.

Provisions for general banking risks

Provisions for general banking risks are precautionary reserves formed to hedge against latent risks in the bank's operating activities.

Off-balance sheet transactions

Off-balance sheet transactions are valued at nominal values. Provisions are made in the case of identifiable risks arising from contingent liabilities and other off-balance sheet transactions.

Derivative financial instruments

The gross replacement values of individual contracts in derivative financial instruments – positive and negative replacement values are not offset against each other – are stated in the balance sheet (under other assets or other liabilities) and in the notes to the financial statement. All replacement values for contracts concluded for the bank's own account are reported. In contrast, in the case of customer transactions only the replacement values for OTC contracts are reported, or for exchange-traded products if margin requirements are inadequate. The contract volumes are reported in the statement of off-balance sheet transactions and in the notes. Trading positions in financial derivatives are valued at market rates provided the contracts are listed on an exchange or a regular, active market exists. If this is not the case, the contracts are valued at the lower of cost or market value. If interest business positions are hedged with derivatives, the differential amount between the market value and the accrual method is recognised in the settlement account.

Statement of cash flows

On account of its obligation to prepare a consolidated financial statement, LLB AG is exempted from the necessity to provide a statement of cash flow. The consolidated statement of cash flow of the LLB Group is a part of the consolidated financial statement.

Changes to the previous year

None.

Notes to the balance sheet

1 Type of collateral

		Type of collateral			
in CHF thousands		Secured by mortgage	Other collateral	Unsecured	Total
Loans					
Loans (excluding mortgage loans)		16'757	1'160'872	468'701	1'646'330
Mortgage loans					
residential property		4'150'221	1'318	64'624	4'216'164
office and business property		497'290	506	5'797	503'593
commercial and industrial property		219'095	0	1'141	220'236
other		203'325	0	140	203'465
Total loans	**31.12.2018**	**5'086'688**	**1'162'696**	**540'403**	**6'789'787**
	31.12.2017	4'797'726	947'651	661'615	6'406'992

Off-balance sheet transactions					
Contingent liabilities		2'406	37'164	4'323	43'893
Irrevocable commitments		66'852	13'121	110'649	190'622
Call liabilities		0	0	38	38
Total off-balance sheet transactions	**31.12.2018**	**69'258**	**50'285**	**115'010**	**234'553**
	31.12.2017	82'599	27'939	117'551	228'090

Impaired claims

in CHF thousands	Gross outstanding amount	Estimated proceeds from realisation of collateral	Net outstanding amount	Specific allowances
31.12.2018	**48'505**	**23'689**	**24'815**	**24'815**
31.12.2017	64'710	35'630	29'080	29'080

2 Securities and precious metals holdings

a Securities and precious metals trading positions

in CHF thousands	Book value 31.12.2018	Book value 31.12.2017	Cost 31.12.2018	Cost 31.12.2017	Market value 31.12.2018	Market value 31.12.2017
Debt securities	0	50	0	50	0	50
listed	0	50	0	50	0	50
unlisted	0	0	0	0	0	0
Equities	10	1	67	43	10	1
listed	1	1	58	43	1	1
of which own shares	0	0	0	0	0	0
unlisted	10	0	10	0	10	0
Precious metals	1'421	1'293	1'421	1'293	1'421	1'293
Total	**1'431**	**1'344**	**1'489**	**1'386**	**1'431**	**1'344**

b Securities and precious metals holdings as current assets (excluding trading positions)

in CHF thousands	Book value 31.12.2018	Book value 31.12.2017	Cost 31.12.2018	Cost 31.12.2017	Market value 31.12.2018	Market value 31.12.2017
Debt securities	1'338'466	939'101	1'346'528	952'599	1'351'745	950'021
listed	1'338'466	939'101	1'346'528	952'599	1'351'745	950'021
unlisted	0	0	0	0	0	0
Equities	7'760	95'012	8'402	168'744	8'070	95'620
listed	7'735	94'894	8'195	163'886	8'015	95'474
unlisted	25	118	207	4'858	55	146
Total	**1'346'226**	**1'034'113**	**1'354'931**	**1'121'343**	**1'359'814**	**1'045'641**

c Securities and precious metals as fixed assets

in CHF thousands	Book value 31.12.2018	Book value 31.12.2017	Cost 31.12.2018	Cost 31.12.2017	Market value 31.12.2018	Market value 31.12.2017
Debt securities	0	0	0	0	0	0
listed	0	0	0	0	0	0
unlisted	0	0	0	0	0	0
Equities	50'296	227'225	57'304	231'127	53'396	234'540
listed	0	0	0	0	0	0
unlisted	50'296	227'225	57'304	231'127	53'396	234'540
Precious metals	35'658	28'358	35'658	28'358	35'658	28'358
Total	**85'954**	**255'583**	**92'962**	**259'485**	**89'054**	**262'898**

3 Own shares included in current assets (excluding trading positions)

	Quantity		Book value	
Quantity / in CHF thousands	**2018**	**2017**	**2018**	**2017**
As at 1 January	1'922'937	1'959'238	94'894	78'987
Bought	116'500	0	7'100	0
Sold *	−1'914'596	−36'301	−163'176	−3'159
Additions / (Impairments)	0	0	68'917	19'066
As at 31 December	**124'841**	**1'922'937**	**7'735**	**94'894**

* This contains the transfer of 1.85 million treasury shares on 4 July 2018 to the owners for the purchase of Semper Constantia Privatbank AG with registered office in Vienna.

4 Participations and shares in associated companies

in CHF thousands	31.12.2018	31.12.2017
Participations		
With market value	0	0
Without market value	30	33
Total participations	**30**	**33**
Shares in associated companies		
With market value	0	0
Without market value	436'200	170'348
Total shares in associated companies	**436'200**	**170'348**

5 Substantial participations and shares in associated companies

Company name and registered office	Business activity	Currency	Share capital	% share of votes	% share of capital
Participations					
Data Info Services AG, Vaduz	Service company	CHF	50'000	50.0	50.0
Shares in associated companies					
Liechtensteinische Landesbank (Österreich) AG, Vienna	Bank	EUR	5'000'000	100.0	100.0
LLB Asset Management AG, Vaduz	Asset management	CHF	1'000'000	100.0	100.0
LLB Fund Services AG, Vaduz	Fund management company	CHF	2'000'000	100.0	100.0
LLB Swiss Investment AG	Fund management company	CHF	8'000'000	100.0	100.0
LLB Holding AG, Uznach	Holding company	CHF	95'328'000	100.0	100.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Charitable foundation	CHF	30'000	100.0	100.0

6 Statement of fixed assets

in CHF thousands	Cost	Accumulated depreciation	Book value 31.12.2017	Invest-ments	Disinvest-ments	Reclassi-fications	Additions	Depre-ciation	Book value 31.12.2018
Total participations (non-controlling interests)	**37**	**−4**	**33**	**0**	**0**	**0**	**0**	**−3**	**30**
Total shares in associated companies	**206'967**	**−36'619**	**170'348**	**266'002**	**−400**	**0**	**0**	**250**	**436'200**
Total securities and precious metals as fixed assets	**335'444**	**−79'861**	**255'583**	**196'920**	**−366'548**	**0**	**0**	**0**	**85'954**
Total intangible assets *	**136'411**	**−94'760**	**41'651**	**12'609**	**0**	**0**	**0**	**−11'967**	**42'293**
Real estate									
bank premises	174'281	−111'577	62'704	2'676	0	0	0	−4'826	60'555
other properties	25'038	−10'038	15'000	0	0	0	0	0	15'000
Other fixed assets	97'478	−86'956	10'522	7'253	0	0	0	−3'856	13'919
Total fixed assets	**296'797**	**−208'571**	**88'225**	**9'929**	**0**	**0**	**0**	**−8'682**	**89'472**
Fire insurance value of real estate			194'917						194'917
Fire insurance value of other fixed assets			40'205						37'036

* Solely licence and software costs.

Depreciation is carried out according to prudent business criteria over the estimated service life. No undisclosed reserves exist.

7 Pledged or assigned assets and assets subject to reservation of ownership

in CHF thousands	31.12.2018	31.12.2017
Excluding lending transactions and pension transactions with securities		
Book value of pledged and assigned (as collateral) assets	50'248	82'980
Actual commitments	0	0
Lending transactions and pension transactions with securities		
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with repurchase agreements	250'228	177'305
of which capable of being resold or further pledged without restrictions	250'228	177'305
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	582'184	395'266
of which resold or further pledged securities	82'759	41'864

8 Liabilities due to own pension funds

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Current account, call money and time deposits	19	26	−26.5
Savings deposits	20'089	27'122	−25.9
Total	**20'108**	**27'149**	**−25.9**

9 Allowances and provisions / provisions for general banking risks

in CHF thousands	Total 31.12.2017	Specific allowances	Recoveries, overdue interest, currency differences	New provisions charged to income statement	Provisions released to income statement	Total 31.12.2018
Allowances for loan default risks						
Specific allowances	29'080	−4'441	502	696	−1'021	24'815
Lump-sum individual allowances (incl. those for country risks)	0	0	0	0	0	0
Provisions for taxes and deferred taxes	9'951	0	0	0	−4'148	5'803
Other provisions	4'594	−373	0	0	−195	4'026
Total allowances and provisions	**43'625**	**−4'815**	**502**	**696**	**−5'364**	**34'644**
Minus allowances	−29'080					−24'815
Total provisions according to balance sheet	**14'545**					**9'829**
Provisions for general banking risks	**310'000**					**310'000**

10 Share capital, significant shareholders and groups of shareholders linked by voting rights

	31.12.2018			31.12.2017		
in CHF thousands	Total nominal value	Quantity	Capital ranking for dividend	Total nominal value	Quantity	Capital ranking for dividend
Share capital	154'000	30'800'000	153'376	154'000	30'800'000	144'385
Total common stock	**154'000**	**30'800'000**	**153'376**	**154'000**	**30'800'000**	**144'385**

No conditional or authorised capital exists.

	31.12.2018		31.12.2017	
in CHF thousands	Nominal	Holding in %	Nominal	Holding in %
With voting right: Principality of Liechtenstein	88'500	57.5	88'500	57.5
With voting right: shareholder group Haselsteiner Familien-Privatstiftung and grosso Holding Gesellschaft mbH	9'025	5.9		

11 Statement of shareholders' equity

in CHF thousands	2018
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	94'894
Other reserves	664'636
Provisions for general banking risks	310'000
Balance sheet profit	97'755
Total shareholders' equity as at 1 January (before profit distribution)	**1'759'585**
Dividend and other distributions from previous year's profit	−57'883
Net profit for the year	74'295
Allocation to provisions for general banking risks	0
Total shareholders' equity as at 31 December (before profit distribution)	**1'775'997**
Of which:	
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	7'735
Other reserves	786'795
Provisions for general banking risks	310'000
Balance sheet profit	79'167

12 Maturity structure of assets, liabilities and provisions

in CHF thousands		Sight deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Immo-bilised	Total
Assets									
Cash and balances with central banks		3'599'823	0	0	0	0	0	0	3'599'823
Due from banks		636'299	0	473'863	280'442	52'331	4'502	0	1'447'437
Loans		24'673	529'013	1'248'885	871'531	3'155'784	959'902	0	6'789'787
of which mortgage loans		16'647	107'933	327'889	723'724	3'092'257	875'008	0	5'143'457
Securities and precious metals held for trading		1'431	0	0	0	0	0	0	1'431
Securities and precious metals holdings as currents assets (excluding trading positions)		1'346'226	0	0	0	0	0	0	1'346'226
Securities and precious metals holdings as fixed assets		35'658	50'296	0	0	0	0	0	85'954
Other assets		533'197	0	44'801	33'072	49'477	14'703	90'895	766'146
Total assets	**31.12.2018**	**6'177'309**	**579'309**	**1'767'549**	**1'185'045**	**3'257'592**	**979'107**	**90'895**	**14'036'805**
	31.12.2017	5'355'885	743'417	2'197'422	1'249'959	3'194'992	896'675	90'966	13'729'316
Liabilities and provisions									
Due to banks		461'312	238'336	591'655	157'792	0	0	0	1'449'095
Due to customers		6'929'105	2'965'376	231'075	225'748	54	0	0	10'351'357
of which savings deposits		0	2'167'574	55'397	4'352	25	0	0	2'227'348
of which other liabilities		6'929'105	797'802	175'678	221'396	29	0	0	8'124'009
Certified liabilities		0	0	4'379	13'363	89'500	23'861	0	131'103
of which medium-term notes		0	0	4'379	13'363	89'500	23'861	0	131'103
Provisions (excluding provisions for general banking risks)		0	0	0	0	9'829	0	0	9'829
Other liabilities		178'874	196	40'818	30'824	52'676	16'036	0	319'423
Total liabilities and provisions	**31.12.2018**	**7'569'290**	**3'203'908**	**867'926**	**427'727**	**152'060**	**39'897**	**0**	**12'260'808**
	31.12.2017	7'865'705	2'656'381	858'084	393'000	148'628	47'934	0	11'969'731

Bonds and other fixed-interest securities that are due in the following financial year	157'317

13 Due from and due to associated companies and related parties

a Due from and due to participations and associated companies

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Due from participations	0	0	
Due to participations	0	0	
Due from associated companies	435'461	604'880	– 28.0
Due to associated companies	1'114'671	865'388	28.8

b Due from and due to qualified participations and companies associated with the Principality of Liechtenstein

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Due from the Principality of Liechtenstein	0	4	– 100.0
Due to the Principality of Liechtenstein	0	0	
Due from companies associated with the Principality of Liechtenstein *	57'750	65'500	– 11.8
Due to companies associated with the Principality of Liechtenstein *	0	0	

* Associated companies: Liechtensteinische Kraftwerke, Bürgergenossenschaft Balzers, Liechtensteinische Gasversorgung, LTN Liechtenstein TeleNet AG, Liechtensteinische Post AG, Verkehrsbetrieb LIECHTENSTEINmobil and AHV-IV-FAK-Anstalt.

The stated due from and due to are included in the balance sheet in the items loans and due to customers.

c Loans to corporate bodies

in CHF thousands	31.12.2018	31.12.2017	+ / – %
Members of the Board of Directors	576	3'189	– 81.9
Members of the Board of Management	2'844	2'895	– 1.8

d Related party transactions

Transactions (e.g. securities transactions, payment transfers, lending facilities and interest on deposits) were made with related parties under the same terms and conditions as applicable to third parties.

14 Breakdown of assets and liabilities by location

	31.12.2018		31.12.2017	
in CHF thousands	FL / CH	Abroad	FL / CH	Abroad
Assets				
Cash and balances with central banks	3'599'823	0	3'376'198	0
Due from banks	904'077	543'360	1'616'446	558'484
Loans (excluding mortgages)	841'480	804'850	895'044	696'349
Mortgage loans	5'143'457	0	4'815'600	0
Bonds and other fixed-interest securities	220'247	1'118'220	104'986	834'166
Shares and other non-fixed-interest securities	40'749	9'582	217'455	9'899
Participations	30	0	33	0
Shares in associated companies	131'405	304'795	98'508	71'840
Intangible assets	42'293	0	41'651	0
Fixed assets	89'472	0	88'225	0
Own shares	7'735	0	94'894	0
Other assets	129'411	40'264	97'092	65'497
Accrued income and prepayments	49'975	15'580	34'712	12'239
Total assets	**11'200'154**	**2'836'651**	**11'480'842**	**2'248'474**
Liabilities				
Due to banks	468'820	980'275	318'579	752'777
Due to customers (excluding savings deposits)	5'716'052	2'407'957	5'440'060	2'718'916
Savings deposits	1'895'742	331'606	2'045'987	320'900
Certified liabilities	131'103	0	151'224	0
Other liabilities	220'682	48'967	137'802	38'134
Accrued expenses and deferred income	24'334	25'440	20'080	10'725
Provisions	9'829	0	14'545	0
Provisions for general banking risks	310'000	0	310'000	0
Share capital	154'000	0	154'000	0
Share premium	47'750	0	47'750	0
Legal reserves	390'550	0	390'550	0
Reserves for own shares	7'735	0	94'894	0
Other reserves	786'795	0	664'636	0
Profit carried forward	4'872	0	4'463	0
Profit for the year	74'295	0	93'292	0
Total liabilities	**10'242'559**	**3'794'246**	**9'887'863**	**3'841'453**

15 Geographical breakdown of assets by location

	31.12.2018		31.12.2017	
	Absolute value	% of total	Absolute value	% of total
Liechtenstein / Switzerland	11'200'154	79.8	11'480'842	83.6
Europe (excluding Liechtenstein / Switzerland)	1'670'897	11.9	1'402'259	10.2
North America	403'751	2.9	198'049	1.4
Asia	501'612	3.6	386'590	2.8
Others	260'391	1.9	261'576	1.9
Total assets	**14'036'805**	**100.0**	**13'729'316**	**100.0**

16 Breakdown of assets and liabilities by currency

in CHF thousands	CHF	EUR	USD	Others	Total
Assets					
Cash and balances with central banks	3'587'758	11'392	384	289	3'599'823
Due from banks	187'282	109'835	694'591	455'730	1'447'437
Loans (excluding mortgages)	723'373	441'841	426'282	54'833	1'646'330
Mortgage loans	5'136'067	7'390	0	0	5'143'457
Bonds and other fixed-interest securities	429'645	419'630	489'191	0	1'338'466
Shares and other non-fixed-interest securities	35'720	8'381	6'229	0	50'331
Participations	30	0	0	0	30
Shares in associated companies	436'200	0	0	0	436'200
Intangible assets	42'293	0	0	0	42'293
Fixed assets	89'472	0	0	0	89'472
Own shares	7'735	0	0	0	7'735
Other assets	134'742	6'116	28'277	540	169'675
Accrued income and prepayments	30'859	17'862	15'993	840	65'554
Total on-balance sheet assets	**10'841'178**	**1'022'447**	**1'660'947**	**512'233**	**14'036'805**
Delivery claims from forex spot, forex futures and forex options transactions	3'448'956	4'703'362	4'222'210	1'065'581	13'440'109
Total assets	**14'290'134**	**5'725'809**	**5'883'157**	**1'577'813**	**27'476'914**
Liabilities					
Due to banks	534'516	441'657	391'549	81'373	1'449'095
Due to customers (excluding savings deposits)	3'938'545	1'648'477	2'018'545	518'443	8'124'009
Savings deposits	2'223'291	4'057	0	0	2'227'348
Certified liabilities	130'697	406	0	0	131'103
Other liabilities	211'519	54'050	3'057	1'022	269'649
Accrued expenses and deferred income	22'784	15'137	11'326	528	49'775
Provisions	9'829	0	0	0	9'829
Provisions for general banking risks	310'000	0	0	0	310'000
Share capital	154'000	0	0	0	154'000
Share premium	47'750	0	0	0	47'750
Legal reserves	390'550	0	0	0	390'550
Reserves for own shares	7'735	0	0	0	7'735
Other reserves	786'795	0	0	0	786'795
Profit carried forward	4'872	0	0	0	4'872
Profit for the year	74'295	0	0	0	74'295
Total on-balance sheet liabilities	**8'847'178**	**2'163'784**	**2'424'477**	**601'366**	**14'036'805**
Delivery liabilities from forex spot, forex futures and forex options transactions	5'467'335	3'545'357	3'421'479	1'010'770	13'444'941
Total liabilities	**14'314'513**	**5'709'141**	**5'845'956**	**1'612'136**	**27'481'746**
Net position per currency	**– 24'379**	**16'669**	**37'201**	**– 34'322**	**– 4'832**

17 Other assets and liabilities

in CHF thousands	31.12.2018	31.12.2017	+ / − %
Precious metals holdings	37'080	29'651	25.1
Tax prepayments	655	439	49.3
Positive replacement values *	79'281	74'512	6.4
Settlement account	47'153	51'151	−7.8
Clearing accounts	1'610	3'035	−46.9
Deferred tax claim	3'896	3'801	2.5
Total other assets	**169'675**	**162'589**	**4.4**
Charge accounts	3'560	4'967	−28.3
Negative replacement values *	119'723	118'118	1.4
Accounts payable	103'103	16'440	527.2
Settlement account	16'930	17'168	−1.4
Clearing accounts	26'332	19'244	36.8
Total other liabilities	**269'649**	**175'937**	**53.3**

* Replacement values are shown gross.

Notes to off-balance sheet transactions

18 Contingent liabilities

in CHF thousands	31.12.2018	31.12.2017	+/– %
Credit guarantees and similar instruments	23'545	15'251	54.4
Performance guarantees and similar instruments	13'516	6'666	102.8
Other contingent liabilities	6'832	6'302	8.4
Total contingent liabilities	**43'893**	**28'218**	**55.6**

19 Open derivative contracts

		Trading instruments			Hedging instruments		
in CHF thousands		Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments							
Swaps		0	0	0	16'930	52'601	2'027'565
Forward transactions		87	27	12'704	0	0	0
Foreign exchange contracts							
Forward contracts		59'305	64'136	13'227'440	0	0	0
Options (OTC)		2'563	2'563	96'078	0	0	0
Precious metals							
Forward contracts		47	47	2'019	0	0	0
Options (OTC)		0	0	0	0	0	0
Equity / Index contracts							
Options (OTC)		350	350	81'926	0	0	0
Total excluding netting agreements	**31.12.2018**	**62'351**	**67'122**	**13'420'166**	**16'930**	**52'601**	**2'027'565**
	31.12.2017	57'344	61'021	11'581'397	17'168	57'097	1'721'000

Liechtensteinische Landesbank AG has concluded no netting agreements.

20 Fiduciary transactions

in CHF thousands	31.12.2018	31.12.2017	+/– %
Fiduciary deposits with other banks	512'591	364'129	40.8
Total fiduciary transactions	**512'591**	**364'129**	**40.8**

Notes to the income statement

21 Income from trading operations

in CHF thousands	2018	2017	+ / – %
Foreign exchange trading	50'124	51'222	–2.1
Foreign note trading	–435	1'455	
Precious metals trading	374	173	115.5
Securities trading	27	161	–83.2
Total	**50'089**	**53'011**	**–5.5**

22 Personnel expenses

in CHF thousands	2018	2017	+ / – %
Salaries and compensations	–84'151	–74'869	12.4
Social benefits and retirement benefit plans	–16'626	–15'545	7.0
of which retirement benefit plans	–11'226	–10'386	8.1
Other personnel expenses	–4'124	–4'240	–2.7
Total	**–104'900**	**–94'653**	**10.8**

The compensation of the Board of Directors and the Board of Management are disclosed in the consolidated financial statement.

23 Administrative expenses

in CHF thousands	2018	2017	+ / – %
Occupancy expenses	–3'297	–2'918	13.0
Expenses for IT, machinery, vehicles and other equipment	–16'809	–14'025	19.9
Other business expenses	–27'916	–25'048	11.4
Total	**–48'022**	**–41'991**	**14.4**

24 Other ordinary expenses

in CHF thousands	2018	2017	+ / – %
Losses on receivables	0	–15'450	–100.0
Operational risk	0	0	
Sundry other ordinary expenses	–445	–394	13.1
Total other ordinary expenses	**–445**	**–15'844**	**–97.2**

Risk management

Overview

LLB AG's risk policy is governed, in legal and operative terms, by the Liechtenstein Banking Law, the corresponding Banking Ordinance and the principles of the Basel Committee for Banking Supervision as well as by the bank's own statutes and business regulations. The ultimate responsibility for basic risk policy and for continually monitoring the bank's risk exposure lies with the Board of Directors. In fulfilling this function, it is supported by the Risk Committee. The Board of Management has overall responsibility for risk management. It is supported by separate expert risk committees. An independent Group Credit & Risk Management monitors compliance with the issued regulations.

Market risks

On the basis of its business activity, LLB AG is exposed primarily to interest rate fluctuation, share price and currency risks. The Group Risk Management Committee is responsible for managing risks associated with trading activities, and the Asset & Liability Committee for controlling interest rate fluctuation risks. These bodies limit risk exposure using sensitivity and value-at-risk analyses. Aggregate risks are analysed and worst-case scenarios are simulated on a regular basis.

Credit default risks

Credit and lending facilities are extended primarily in interbank business, in private and corporate client business mainly on a secured basis, and in business transactions with public authorities. The Group Credit Risk Committee is responsible for credit risk management. The bank pursues a conservative collateral lending policy. Credits and loans are granted within the scope of strict credit approval procedures. An internal rating system is employed to determine risk-related terms and conditions. A limits system based on the creditworthiness of the individual country is used to control country risks.

Valuation estimates of real estate are stipulated in internal directives. The market value, which serves as the basis for loan-to-value ratios, is determined as follows:

- owner-occupied property: actual value;
- investment property: productive and actual value, depending on the property and the ratio of productive to actual value;
- owner-used commercial or industrial property: the productive and actual values attainable on the market, depending on the property and the ratio of productive to actual value;
- building land: internally stipulated price estimates taking into consideration future use.

Operational and legal risks

Internal regulations and directives concerning organisation and controls are employed to limit exposure to operative and legal risks. In formulating these instructions, the Board of Management is supported by the Operational Risk Committee. Compliance with these regulations is regularly checked by the Group Compliance and Group Operational Risk / ICS departments and by Group Internal Audit. External legal experts are brought in on a case-by-case basis to control and manage legal risks.

Liquidity risks

Liquidity risks are monitored and managed in accordance with the provisions of banking law.

Business policy concerning the use of derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients.

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Key dates 2019

February

7 Presentation of awards at the Switzerland 2019 Lipper Fund Awards

20 Publication of Bank Linth 2018 business result

March

8 Reopening of Bank Linth bank branch in Bad Ragaz

11 Presentation of awards at the Austria 2019 Lipper Fund Awards

13 Presentation of awards at the Germany 2019 Lipper Fund Awards

14 Media and analyst conference, 2018 business result, LLB Group

30 Reopening of LLB bank branch in Balzers

April

3 SAQ certification event, Vaduz

17 General Meeting of Shareholders Bank Linth

26 Reopening of Bank Linth bank branch in Flums

May

3 General Meeting of Shareholders of LLB AG

June

Representative office in Dubai moves to DIFC (Dubai International Financial Center)

July

"LLB Sommer im Hof" performances by various artists in the inner courtyard of the headquarters building

August

13 Presentation of 2019 Bank Linth interim financial reporting

27 Presentation of 2019 LLB Group interim financial reporting

November

12 LLB Investment forum

December

Final stage preparations of LLB Österreich for the migration to the Avaloq core banking system

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