



**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 A2 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 authority – Dr. Karl Sevelde 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**  
Group CEO



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Chairman of the Board of Directors