Consolidated financial statement of the LLB Group

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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

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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.

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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.

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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.

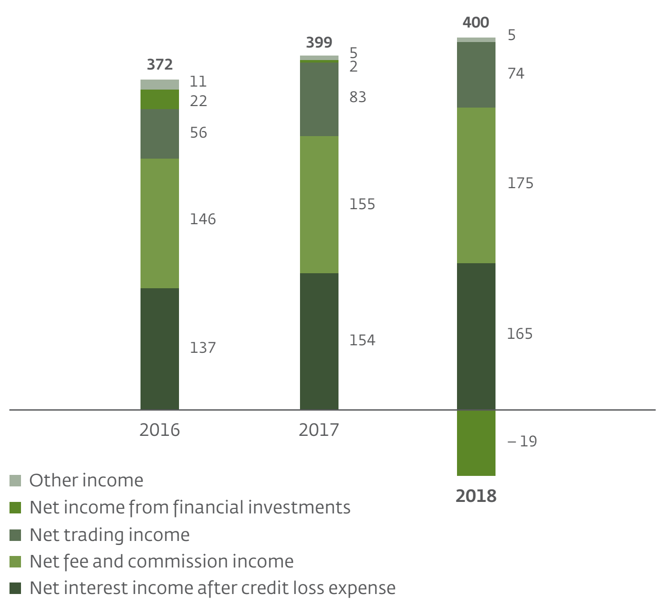
Net fee and commission income increased by 13.2 per cent or CHF 20.5 million to CHF 175.3 million (2017: CHF 154.8 million). The rise was attributable to intensive marketing measures, for example with the launch of new LLB Invest products. The contribution to income of the acquired companies amounted 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.

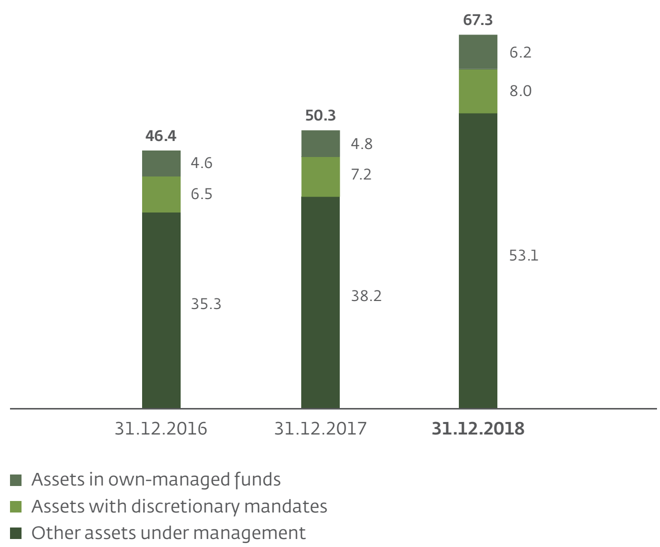
Equity attributable to the shareholders of LLB amounted to CHF 1.9 billion at 31 December 2018. The tier 1 ratio stood at 19.0 per cent (31.12.2017: 21.6 %). The return on equity attributable to the shareholders of LLB amounted to 4.3 per cent (2017: 6.0 %).

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.

in CHF thousands	Total 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

Name	Registered office	Business activity	Ownership interest in % 2018	Ownership interest in % 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 con-solidation	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 con-solidation	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

	Pensions plans		Other long-term benefits	
in CHF thousands	**2018**	**2017**	**2018**	**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

	Pension plans	
in CHF thousands	**2018**	**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*	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**

* 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

in CHF thousands	2018 Financial investments	2018 Real estate / Properties	2018 Total	2017 Financial investments	2017 Real estate / Properties	2017 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 commitments	Total	Covered by recognised financial collateral	Covered by guarantees	Other credit commitments	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.