



Roland Matt
Group CEO

Georg Wohlwend
Chairman of the Board of Directors

Letter to shareholders

Defined by growth

Dear Shareholders

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

Highest new money inflow since 2010

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

Market effects impair result

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

High level of stability

With equity of CHF 2.0 billion, the LLB Group has a very strong capital base. At the end of 2018, the tier 1 ratio stood at 19.0 per cent. Accordingly, we were in the top range of Liechtenstein and Swiss banks, ranking well above the average of European financial institutions. In April 2018, the rating agency Moody's confirmed Liechtensteinische Landesbank's excellent A2 deposit rating, again underlining the solidity of the LLB Group.

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

Fund powerhouse in the FL-A-CH region

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

Awards for investment competence

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

Further major progress with digitalisation

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

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

From over-the-counter business to client experience

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

Introduction of innovation management

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

Acting responsibility

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

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

New composition and certification of the Board of Directors

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

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

Top performing LLB share

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

Higher dividend

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

Full of drive and enthusiasm into 2019

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

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

Thank you for your trust

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

Yours sincerely



Roland Matt
Group CEO



Georg Wohlwend
Chairman of the Board of Directors

Strategy and organisation

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

Structure and organisation of the LLB Group

Business model

The Group structure of LLB follows a clear strategic pattern:

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

The three market divisions

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

- **Retail & Corporate Banking** comprises the universal banking business in the home markets of Liechtenstein and Switzerland (see chapter "Retail & Corporate Banking", pages 24–27). It provides the full range of universal bank services to private and corporate clients. As the market leader in Liechtenstein, LLB has a strong competitive position. Bank Linth is the largest regional bank in eastern Switzerland.
- **Private Banking** comprises all the private banking activities of the LLB Group: investment advice, asset management, asset structuring as well as financial and pension planning (see chapter "Private Banking", pages 28–31). Its focus is on the onshore markets of Liechtenstein, Switzerland and Austria, on the traditional cross-border markets in Germany and the rest of Western Europe, and on the growth markets of Central and Eastern Europe as well as the Middle East. LLB has become Austria's leading asset management bank (see "Focus topic 2018: Growth", pages 13 and 14).

- **Institutional Clients** comprises the intermediary and fund business as well as the Asset Management Business Area of the LLB Group (see chapter "Institutional Clients", pages 32–25). Clients include fiduciaries, lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions. With our Asset Management, the largest investment team in Liechtenstein, we have multiple award-winning investment expertise. Through the acquisition of Semper Constantia Privatbank AG and LB(Swiss) Investment AG, we have become a leading fund provider in the market regions of Liechtenstein (FL), Austria (A) and Switzerland (CH) (the so-called FL-A-CH region).

Management structure

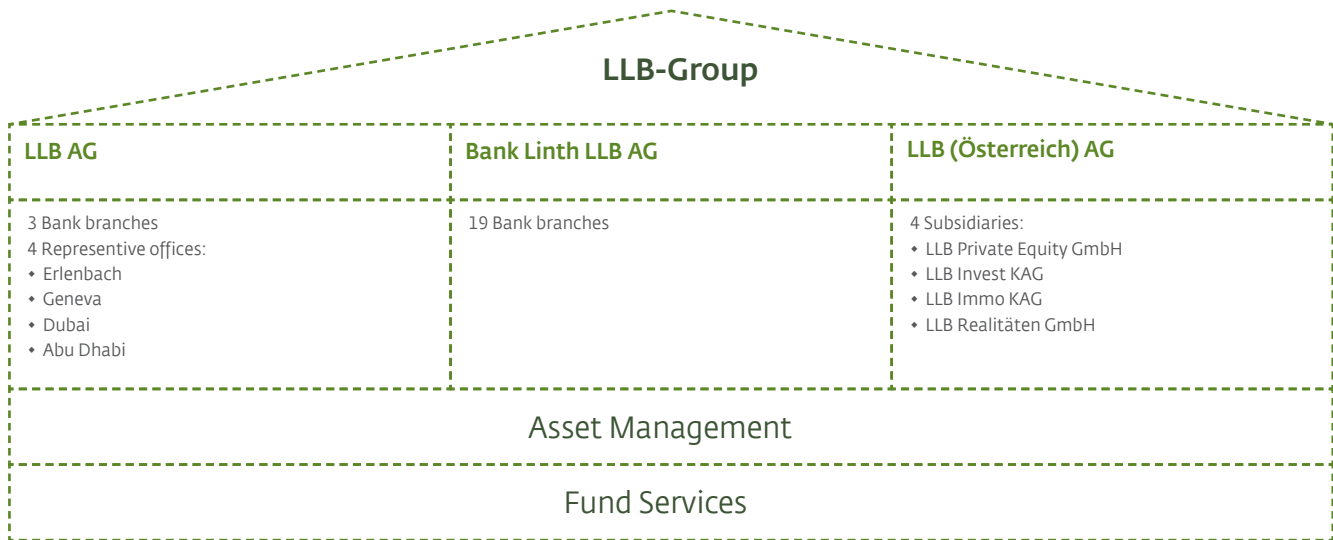
The management structure of the LLB Group is divided into divisions.

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

Group structure

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

Group structure



	Retail & Corporate Banking	Private Banking	Institutional Clients
Objectives and markets	<ul style="list-style-type: none"> • Market leader in Liechtenstein and largest provider in eastern Switzerland 	<ul style="list-style-type: none"> • Leading provider in Liechtenstein and Austria, growth and expansion in Switzerland • Stable position in the traditional offshore markets of Germany and the rest of Western Europe • Expansion and recognised market position in the growth markets of Central and Eastern Europe (CEE) as well as the Middle East (ME) 	<ul style="list-style-type: none"> • Preferential partner for fiduciaries and lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions in Liechtenstein, Switzerland and Austria • Fund powerhouse in the FL-A-CH region
Focus markets	<ul style="list-style-type: none"> • Private and corporate clients in Liechtenstein and in eastern Switzerland 	<ul style="list-style-type: none"> • Onshore: Liechtenstein, Switzerland, Austria • Cross-border: Switzerland, Germany, rest of Western Europe • Growth markets: CEE and ME 	<ul style="list-style-type: none"> • Financial intermediaries • Public institutions • Fund Services • Asset Management
Core elements of the StepUp2020 strategy	<ul style="list-style-type: none"> • Efficient market penetration • Leading bank branch concept • Refinement of SME and retail offerings 	<ul style="list-style-type: none"> • Increased product penetration • Development of central product management and pricing • Expansion in growth markets of CEE and ME 	<ul style="list-style-type: none"> • Intensification of dialogue using "LLB Xpert Views" • New pricing and offering structure • Expansion of fund services

StepUp2020 strategy

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

Strategic success factors

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

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

The four core elements

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

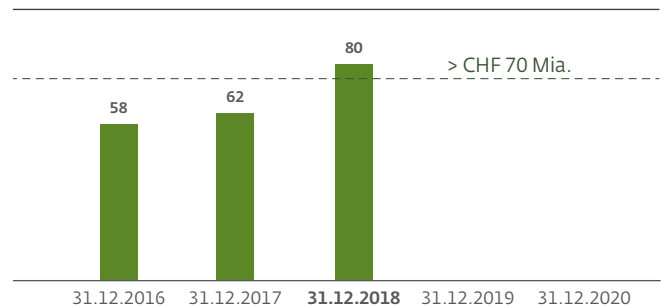
- **Growth:** We want to achieve this in two ways. Firstly, we want to grow organically by building on our own strengths. To this end, we will increase resources available for client advisory services. Secondly, we will target acquisitions in our home markets of Liechtenstein, Switzerland and Austria.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

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

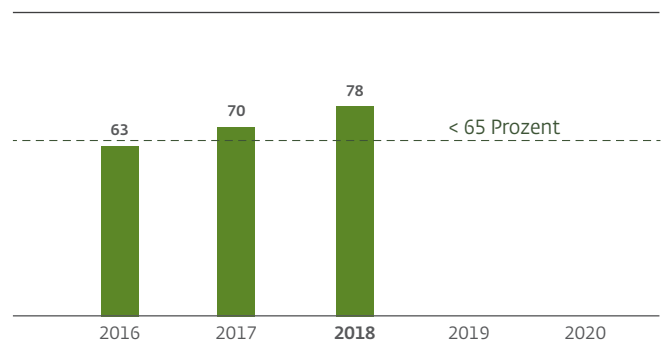
Growth and financial targets

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

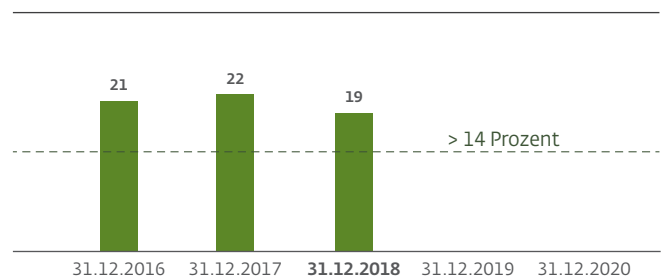
1. Business volume



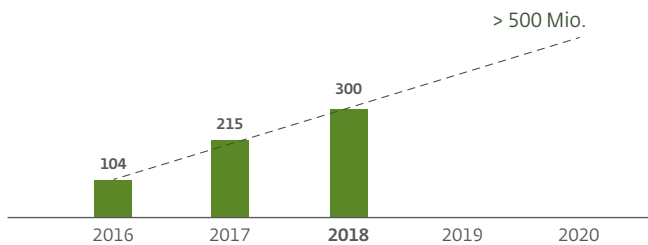
2. Cost-Income-Ratio



3. Tier 1 ratio



4. Cumulative Group net profit



Corporate culture

Vision and guiding principles

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

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

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

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

Code of Conduct

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

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

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

Focus topic 2018: Growth

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

LLB becomes leading asset management bank

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

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

Entry into the Swiss fund market

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

Two acquisitions successfully completed in one year



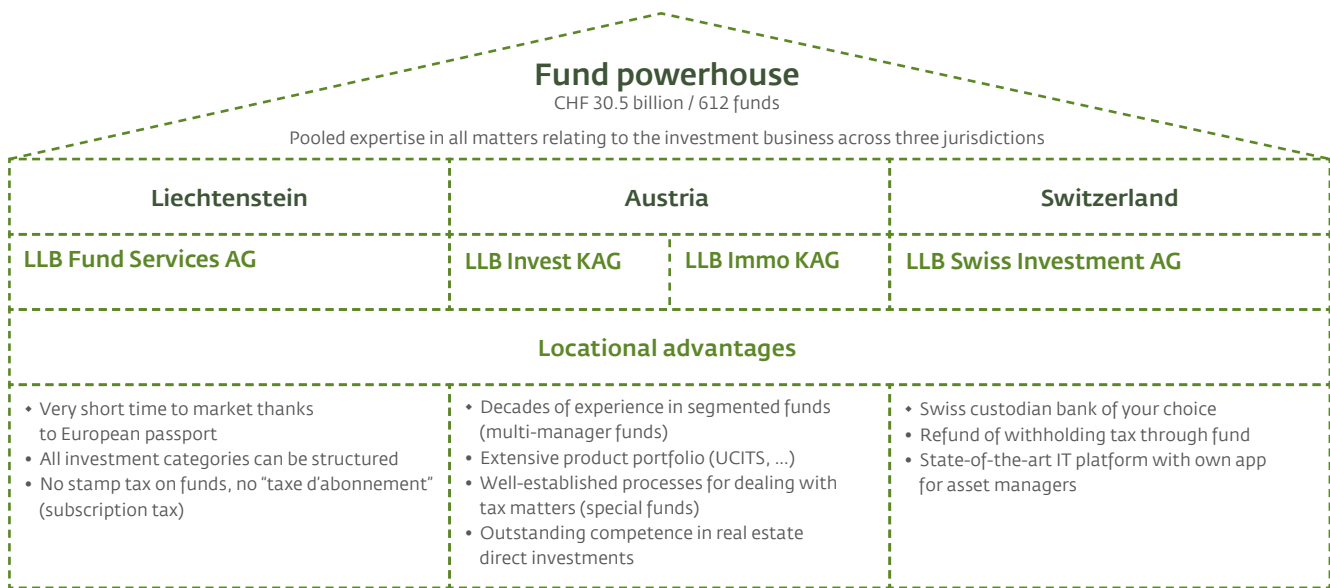
Emergence of a fund powerhouse

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

Financial strength to make further acquisitions

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

Fund Services of the LLB Group



Finance and risk management

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

Integrated approach

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

Financial management

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

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

Risk management

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

Internal control system

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

Liquidity management

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

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

Capital management

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

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

Solid equity base

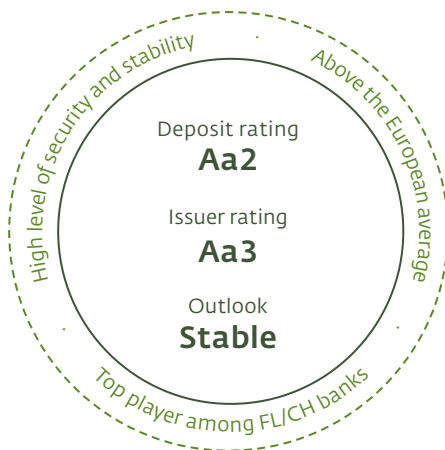
LLB is considered to be of systemic importance to the Liechtenstein economy and subject to a regulatory minimum capital adequacy ratio of 13 per cent. We are targeting a Tier 1 ratio of over 14 per cent as a strategic objective.

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

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

Rating confirms financial strength

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



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

Credit management

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

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

Standardised control mechanisms

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

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

Independent credit management

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

Legal and compliance risks

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

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

Cross-border banking

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

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

Cyber risks

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

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

The assets and information entrusted to us are protected by coordinated processes and systems. Specialists continually analyse the latest risks arising from cyber threats and implement appropriate

counter measures. The LLB Group's virtual Cyber Security Incident Response Team (vCSIRT), which has been operational since 2017, provides 24 / 7 cyber incident detection and initiates defensive measures. In July 2018, the Group Information Security Department became part of the Group CFO Division. This facilitates cooperation with those responsible for risk management and risk reporting, and allows us to use synergies in these areas.

Fraud detection system

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

Raising awareness among employees

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

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

Rules of conduct

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

Highlights 2018

January

18 Two top positions at the Hedge Fund Awards 2018

February

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

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

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

March

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

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

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

April

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

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

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

May

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

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

June

26 LLB extends agreement with Vaduz FC

“LLB Sommer im Hof” events delight audiences in Vaduz

July

4 LLB completely takes over Semper Constantia Privatbank AG in Vienna

“LLB Sommer im Hof” events delight audiences in Vaduz

August

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

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

September

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

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

October

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

November

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

December

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