

Corporate Center

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

Service provider within the Group

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

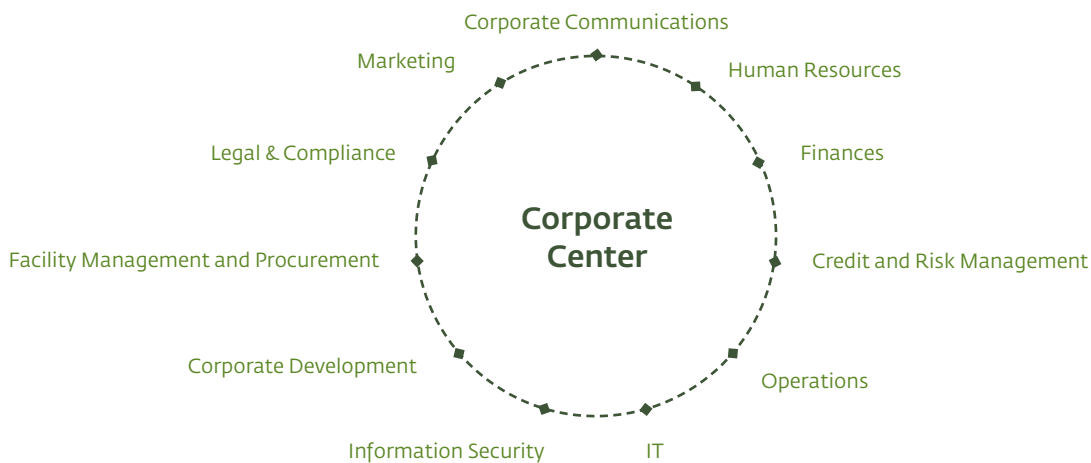
The Corporate Center plays a key role in the realisation of the StepUp2020 strategy. In 2018, the priorities were placed on the digitalisation of banking business, the implementation of innovation management, as well as the optimisation of the organisation in line with the principles of lean management.

Shared Service Centers

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

Digitalisation of banking business

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



The Corporate Center bundles eleven central areas of activity of the LLB Group

are designed in accordance with the latest security, data encryption and user-friendliness standards. Over recent years we have achieved high growth rates with our online banking service and now our mobile banking app is also becoming ever more popular (see chapter "Retail & Corporate Banking", page 25).

Great progress with internal digitalisation

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

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

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

IT investments at LLB Österreich

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

Efficient payment systems in Switzerland

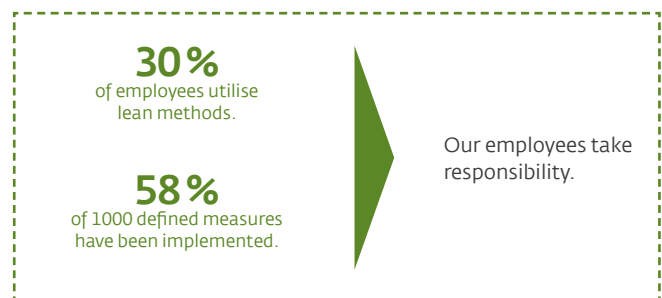
We have already largely completed the implementation of the ISO 20022 international standard for the processing of payment orders. Payment transfers between the banks in Liechtenstein, Switzerland and the EU have been carried out in accordance with the ISO 20022 standard since 2016. In the year under report, the focus was on the interface between clients and the bank. A large majority of our corporate clients have in the meantime migrated to the new standard for electronic data exchange. LLB is well prepared for the future thanks to its new online banking system. The final standardisation step will take

place in 2020 with the introduction of the standardised QR invoice. This will replace ten types of payment slips and therefore enable a further automation phase in the payments process. The LLB Group is also well prepared for this digitalisation step.

Innovation management

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

Time savings through lean management



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

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

Lean management in the market divisions

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

In 2019, our goal remains to save more time for our clients. Essentially, this means optimising interface processes for the benefit of

clients and ensuring that decisions are clear and transparent. This will enable us to safeguard and strengthen the LLB Group's competitive position.

Business segment result

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

Segment reporting

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

Additional information

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