

Private Banking

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

Stability and security

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

High level of service quality

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

Support from technology

In continually analysing and monitoring client portfolios, our client advisers and analysts are supported by the latest technology. Highly efficient programmes use sophisticated algorithms to calculate the

return and risk assessment of individual financial instruments in order to enhance portfolio efficiency. Individual targets and restrictions are automatically considered. If the risk / return characteristics of an investment do not fulfil the client's criteria, the software flags up an alert. Thanks to the LLB's advanced mobile and online banking applications, clients have an overview of their assets at all times.

Transparent pricing model

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

Outstanding investment performance

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

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

International presence – local ties

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

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

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

Liechtenstein, Switzerland and Austria

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

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

Traditional cross-border markets

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

Central and Eastern Europe

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

Middle East

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

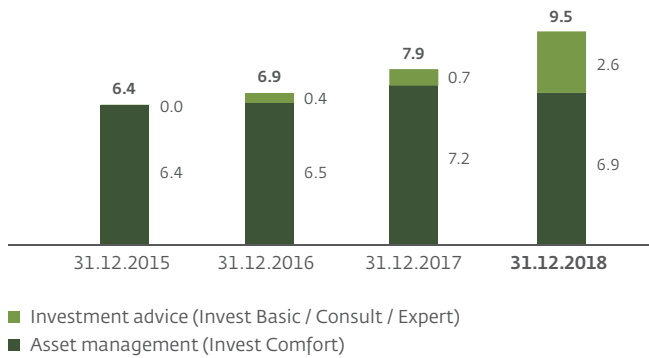
Products to suit client requirements

Asset management and investment advisory

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

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

LLB Invest (in CHF billions)



Financial planning for every phase of life

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

Focus on clients

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

Business segment result

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

Private Banking

Φ 780'000'000

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

Segment reporting

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

Performance figures

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

* Operating income (excluding expected credit losses) relative to average monthly business volumes.

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

Additional information

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