

# Economic environment

**A**fter economic activity increasingly began to falter towards the end of 2018, the long-lasting upwards trend on the stock markets came to an abrupt end. Investors had to accept losses. The banks must be prepared for persistently low interest rate levels in Europe.

## International perspectives

Economic development in the strongest economies lost impetus in 2018. Political uncertainties, such as the trading disputes between the USA and Europe, as well as between the USA and China, caused a gloomy mood on the markets. The US government's protectionist trade policy is having an adverse impact on corporate global value chains and, both in China and in the euro zone, has led to a slowdown in output. The markets were also burdened by uncertainty surrounding the Brexit negotiations, the fading Macron effect and the foreseeable end of Chancellor Merkel's government in Germany. The geopolitical uncertainties are making the formulation of monetary policy more difficult. Following four interest rate hikes in 2018, the US Federal Reserve (the Fed) will be more cautious in 2019. The European Central Bank (ECB) only envisages an interest rate rise in the second half of the year. Consequently, money market interest rates in Switzerland will probably still be in the negative range at the end of 2019.

### USA

US President Donald Trump has provided the US economy with an additional boost thanks to an extensive tax reduction package. However, this effect will probably diminish during 2019. The US economy was, in fact, already losing impetus during the third quarter of 2018. After forecasting an economic growth rate of 2.5 per cent for 2019, the Fed revised its expectation to 2.3 per cent in December 2018. Inflation will probably also weaken somewhat in 2019. As a result of the fall in long-term interest rates in the USA, the yield curve has continued to level off. This could also be interpreted as an early warning signal of a possible recession. According to the current plans, US import tariffs will rise to their highest levels since the 1970s, which can also be seen as an indicator that the global economic picture is very likely to become even more overcast. Consequently, trading activities would be subdued.

### Euro zone

The economic outlook for the euro zone is muted. Although growth should again pick up somewhat following an unexpectedly weak second half of 2018, the mood among consumers and producers has,

nevertheless, deteriorated. The general uncertainty could dampen economic activity and thus the development of inflation. Bank economists, economic research institutes and international organisations have recently revised their 2019 forecasts downwards for Germany and the euro zone. For example, the Ifo Institute in Munich has revised its economic growth forecast to 1.1 per cent, whereas back in September experts were still reckoning with 1.9 per cent. The Austrian Institute for Economic Research (WIFO) reported similar findings. However, in spite of setbacks, the economic assessments of Austrian companies at the end of the year remained surprisingly confident. Starting from a relatively high level, the companies rated the economic situation as being somewhat worse; their expectations for 2019 were somewhat less positive.

### Switzerland / Liechtenstein

The Swiss economy slowed down surprisingly strongly in the third quarter of 2018, with GDP declining by 0.2 per cent. According to the State Secretariat for Economic Affairs (SECO), moderate growth is to be expected in the coming quarters. The days of significantly above-average growth, however, are probably over. The situation in the Swiss financial services sector was not particularly encouraging. According to SECO, lower financial services exports and a challenging interest rate environment meant that the value added shrank in the third quarter by 1.1 per cent. In the meantime, according to the Economic Research Department of the Swiss Federal Institute of Technology in Zurich, the decline in the value-added share of the financial sector in Switzerland has probably come to an end. Since 2007, the share of value added attributable to the banks has almost halved. If there are no further setbacks (e.g. fines) in the financial services sector, profitability may rise again, according to the Economic Research Department.

In Liechtenstein, according to the "Economic Monitor Q4/2018" of the Liechtenstein Financial Market Supervisory Authority (FMA), there are no signs of a slowdown in the economy. Output has stabilised at a high level. The very positive economic situation is clearly discernible in the continually good employment figures. Employment increased by as much as 3.8 per cent in the first half year of 2018 compared to the same period in 2017, while exports of goods grew by 11 per cent.

### Liechtenstein financial centre

Financial service providers in Liechtenstein benefitted in the first half of 2018 from the favourable economic environment. According to an economic report published in October by the Liechtenstein Department of Statistics, the revenue at six selected financial service providers climbed by 19 per cent in the first half of 2018 compared to the first half of 2017. Employment in the financial services sector, too, had risen by 4 per cent by the middle of 2018 compared to the corresponding period in the previous year. However, given the cloudy outlook for the global economic situation, a slowing of momentum can be expected. The Liechtenstein Bankers Association remains confident (according to an assessment published in the "Government Financial Planning 2019 to 2022"). Its member banks generally expanded strongly between 2016 and 2017. In retrospect, it can be seen that the focus and strategic realignment with regard to efficient cost management, client-oriented service and product offers and profitability paid off. New business growth areas were opened up, which promise positive developments in the future. Nevertheless, the Bankers Association also pointed out that, in a highly digitalised environment, negative interest rates, volatile financial markets, an increasing shortage of specialist staff, as well as the scope and complexity of regulatory requirements still present the Liechtenstein banks with core challenges. On the whole, however, the Bankers Association believes that, in the medium to long term, the banks' growth strategies will have a positive effect on their annual business results, employment growth and the financial situation. The Liechtenstein Investment Fund Association basically foresees continued growth. Their assessment, also published in the "Government Financial Planning 2019 to 2022" sounds positive. The Liechtenstein Investment Fund Association expects fund volume growth of 10 to 12 per cent for 2019 against the backdrop of a neutral stock market development. From 2020, it expects an increase of 4 to 7 per cent.

### Interest rates

The central banks are acting very differently at the present time. The spectrum ranges from an extraordinarily expansionary monetary policy, to a withdrawal from special monetary policy measures, to an even almost "neutral" monetary policy. In December, the Fed raised its benchmark interest rate for a fourth time in 2018. It raised the interest rate by a quarter of a point to the new target corridor of 2.25 to 2.5 per cent as a reaction to the good economic situation in the USA. The Fed has signalled a more gradual rise in rates for 2019. Nevertheless, a further interest rate hike will probably be made in 2020. The US central bank also indicated a long-term interest rate of 2.8 per cent.

In comparison, the monetary policy of the ECB continues to be very expansionary. Key interest rates should remain at their present record low level until probably beyond the summer of 2019. In December 2018, however, the ECB decided to stop its bond purchasing programme at the end of 2018. It wants to gradually withdraw the

programme, but continue to invest the accruing interest income from the programme in bonds. The end of the bond purchasing programme can be regarded as a first step on the long road towards normalising monetary policy.

The Swiss National Bank (SNB) still left its interest rates unchanged. The markets are assuming that it will only initiate an interest rate turnaround after the ECB has taken the first step. With a negative interest of 0.75 per cent and its readiness, if necessary, to intervene in the foreign exchange market, the SNB's policy remains extremely expansionary. An end to negative interest rates is not expected before 2020.

### Currencies

In 2018, the US dollar benefitted from the growing gap in interest rates. Larger inflows of capital led to a real effective upward revaluation of the greenback. The US dollar rose almost 2 per cent against the Swiss franc, more than 5 per cent against the euro and about 6 per cent against the British pound. Investment experts expect that the dollar will gain less ground in 2019. In April 2018, the euro reached its high point of the year against the Swiss franc of CHF 1.20; by the end of December, it had slipped to CHF 1.13. The SNB believes that its own currency is overvalued. The situation on the foreign exchange market continues to be fragile. In the SNB's view, the negative interest rate and its readiness, if necessary, to intervene in the foreign exchange market are still necessary because it wants to reduce the attractiveness of investments in Swiss francs to relieve the upward pressure on the currency. However, it seems that the Swiss National Bank has not made any large market interventions for about one and a half years. Most market participants interpret this to mean that, with exchange rates of over EUR / CHF 1.14, no market interventions by the SNB are to be expected.

### Equity markets

2018 ended on the stock markets with turbulence. On balance, it was a disappointing year for investors. The development on the international financial markets was characterised by higher volatility. According to an assessment made by the SNB, concerns about a global slowdown in growth, persisting uncertainty regarding Brexit, Italian fiscal policy and the continuing tensions caused by the USA's trade policy – particularly towards China – weighed heavily on the equity markets. The situation was exacerbated by an increase in long-term interest rates in the USA at the beginning of October. Analysts expect the volatility on the equity markets to persist in the short term and that 2019 will be a challenging year. There are still too many variables that are difficult to assess from an investor's perspective. Consequently, no great euphoria should be expected on the equity markets any time soon.

# Retail & Corporate Banking

**T**hanks to its Retail & Corporate Banking, the LLB Group is successfully positioned as a universal bank for private and corporate clients. But client requirements are changing. For us this means looking to the future and having the boldness to implement innovative and pioneering solutions.

## Markets and services

The Retail & Corporate Banking Division of Liechtensteinische Landesbank and its subsidiary Bank Linth encompasses the deposits and financing business in the domestic markets of Liechtenstein and Switzerland. In addition, it has very diverse relationships with cross-border clients from the Austrian province of Vorarlberg. We offer the complete spectrum of banking and financial services for private and corporate clients. A unique aspect is our 360-degree advisory concept, which offers solutions for every phase of life and every stage of company development – from birth to estate planning, or from the setting up of a business to the transfer of the company to the next generation.

### Payments, savings and deposits

In Liechtenstein LLB is the clear market leader in payment services and account management. Almost every resident has an account at the Landesbank. Our “LLB Combi / Bank Linth Combi” enables private clients to design their individual banking relationship themselves. An interactive online configurator helps our clients to put together a service package that fits their requirements, and also reveals the costs of every module for full transparency. The specific investment advice and asset management for clients having available assets up to CHF 0.5 million are also components of Retail & Corporate Banking. Under the designation “Compass”, we offer a 360-degree spectrum of advisory services for every phase of life and stage of the business cycle. SMEs can find various basic product packages offering attractive, transparent services and conditions.

### Lending and mortgage business

Lending business is an important business area for the LLB Group. With its 78'513 private, corporate and institutional clients, LLB is the leader in the Liechtenstein home market. It holds a 50-per cent market share of Liechtenstein mortgage lending business. And it is also the market leader in corporate client business with a market share of 60 per cent.

As the largest regional bank in eastern Switzerland, Bank Linth is one of the largest providers in both business areas.

### Individual pension fund solutions

We are the only bank in Liechtenstein to offer clients individual pension fund solutions through the LLB Pension Fund Foundation for Liechtenstein (see chapter “Responsibilities for society and the environment”, page 58). Measured in terms of the number of persons insured and the assets managed, the Pension Fund Foundation is the second-largest collective foundation in Liechtenstein and the only one in the country whose members can choose between two investment strategies. At the end of 2018, the LLB Pension Fund Foundation administered 5'300 actively insured persons in 450 affiliated companies.

In eastern Switzerland, Bank Linth offers pension fund solutions for corporate clients through the ALVOSO LLB Pension Fund.

## Regionally anchored

Retail & Corporate Banking is a regional and local business. Our client advisers are at home in their market regions and can assess the needs of private clients and companies (see chapter “Employees”, page 65). Founded in 1861, Liechtensteinische Landesbank is the oldest bank in Liechtenstein. Its continuing role as the financial backbone for private individuals and companies in the Principality is confirmed by the bank's very high market share of retail & corporate banking business. Furthermore, LLB is the only bank that operates several bank branches

### Bank branch and ATM network

LLB is the only bank in Liechtenstein to offer

**3 bank branches and  
23 ATM locations**

In the Swiss cantons of St. Gallen, Zurich, Schwyz and Thurgau Bank Linth operates a total of

**19 bank branches and  
29 ATM locations**

and an extensive network of ATMs in Liechtenstein. Many customers are also shareholders of the bank: 18.8 per cent of LLB registered shares are held by private individuals and companies domiciled in Liechtenstein (see chapter "LLB share", page 43). Established in 1848, Bank Linth also has a long history and is firmly anchored in the local community. Around 10'500 shareholders form the bank's foundation and actively participate in its development.

### Partner bank and SME Award

LLB is well networked with the local business community. In 2018, the bank further intensified its collaboration with the Chamber of Commerce that began in 2016. For the first time we jointly operated a stand at the Liechtenstein Industry, Trade and Commerce Exhibition (LIHGA), an annual regional trade fair. To underscore our expertise in corporate client business, in 2018 in collaboration with the Chamber of Commerce, we launched an SME Award. We now plan to award this prize every two years at the LIHGA (see chapter "Responsibilities for society and the environment", page 59).

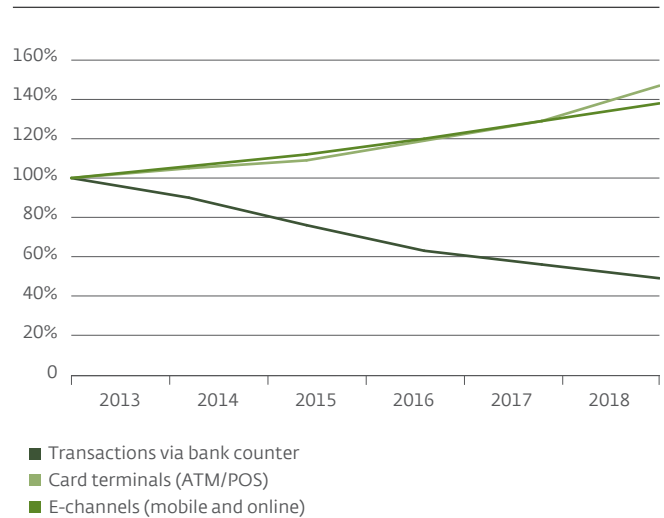
In 2017, LLB began providing advice to the Liechtenstein Technopark and to start-up companies as a network partner to the "Home of Innovation" initiative. Moreover, LLB is a supporting member of "digital-liechtenstein.li", a platform to encourage digital innovation and networking in Liechtenstein.

### Omni-channel concept: digital and personal

The LLB Group's StepUp2020 strategy also takes into consideration the continuing digitalisation of banking business. We are carefully monitoring the developments on the market and in 2018 we implemented a structured Innovations Management function (see chapter "Corporate Center", page 41). During the period from 2016 to 2020, to fulfil changed client requirements, we are investing around CHF 30 million for Group-wide innovations and infrastructure projects to expand digital channels and services. By doing so, we are complying with changed client requirements. Whereas across-the-counter business is declining, our clients are increasingly using our e-channels. In 2018, more than 2.3 million (2017: 2.2 million) transactions were carried out via our online and mobile banking channels. Card transactions using LLB cards also increased to 2.7 million (2017: 2.3 million) (see graph, right column).

The intensity and scope of advice is also increasing, which is why we are not only investing in technology but also in the training of our bank branch teams. Counter staff are becoming client advisers, who are certified according to the standards of the Swiss Association for Quality (see chapter "Employees", page 68). By the end of 2018, 73 client advisers of the Retail & Corporate Banking Division had successfully completed the certification programme.

### Number of transactions via bank counter, ATMs, card terminals (POS), e-channels (mobile and online)



### Bank branches focused on advising clients

The trend in the bank branches is away from transaction business and towards personal advice provided on the spot. This opens up great opportunities for the LLB Group because, in spite of the declining number of standard transactions made at the bank counter, in 2018 around 24'500 customers visited the three LLB branches in Liechtenstein and around 18'500 customers the branches of Bank Linth. These direct contacts offer the potential for the provision of advice, which we utilise more intensively. The redesign of the client zones of bank branches offers us ideal support here. In these new remodelled bank branches our client advisers can assist clients with everyday transactions by offering them basic services while, at the same time, being ready and available to provide comprehensive advice. This in a branch environment that offers an inspiring experience and which enables clients to feel comfortable and at ease.

### Investments in modern branches

In spring 2019, LLB will unveil its first newly designed bank branch in Balzers (Liechtenstein), at which it will present its unique "Bankorama" experience. This enables clients to interactively experience the world of banking. In this manner, LLB wants to make banking products simple to understand and to create an experience with them.

Bank Linth opened its first branches reflecting its "bank of the future" vision in 2017. In the meantime, thirteen of its nineteen branches have been remodelled. The transformation should be completed by 2020; then all Bank Linth branches will appear in their new design. The client is also the key focus of Bank Linth's concept. The centrepiece of the new branches is always a welcome desk staffed by a client

This page contains, inter alia, the following GRI disclosures (2016 version): 102-43. A list of all disclosures shown in the report can be found in the GRI Content Index on page 111.

adviser. The rooms are open and accessible, and the use of natural materials creates a welcoming atmosphere and a sense of well-being for the client.

### E-channels

Designed in accordance with the latest security and technological standards, in February 2017 we introduced new mobile banking apps with touch ID and a user-friendly scan and pay function for LLB and Bank Linth. This was followed in summer 2017 by the launch of a new web portal with integrated online banking. We are therefore one of the few banks that have designed their entire online offering as a one-stop-shop – including expanded online banking. Within the scope of our "Novus" digitalisation programme (see chapter "Corporate Center", page 40–41), in 2018 we extended our digital service offering to clients and refined the functions in our online and mobile banking systems. The platform can be personalised enabling private and corporate clients to set up their digital banking according to their requirements. The high degree of functionality and security of our integrated online banking are convincing: over the last five years the number of online and mobile users has risen from 22'016 (2014) to 35'940 (2018), an increase of more than 63 per cent. Almost 30 per cent of these users employ our mobile application. Experts also acknowledge our innovative approach: in April we were presented with the silver award for our technology at the "Best of Swiss Web Awards" 2018.

### eBill and LLB Connect

As the first bank in Liechtenstein, we introduced an eBill solution in September 2018. Using eBill, clients can receive, check and release invoices for payment simply and quickly via LLB online banking. When certain invoices are received regularly, they can be automatically released for payment by means of a standing approval function. Sending invoices via eBill is very simple, and for companies facilitates administration and the control of accounts receivable, and it brings other advantages. For example, electronic dispatch brings significant time savings because several work steps, material and postage costs are no longer necessary.

LLB Connect was introduced in mid-2018 to provide our corporate clients with an interface for the submission or retrieval of account information, credits, payment orders and stock market and foreign exchange orders. LLB Connect enables corporate clients to directly link their internal system with LLB. The Electronic Banking Internet Communication Standard, or EBICS for short, has been available to our clients since 2016. In 2019, we plan to expand and deepen this service. With the EBICS portal we intend to introduce a solution that is capable of providing a multi-banking function.

### Customer Service Center

As the interface between online and offline services, the Customer Service Center (CSE) has been the central hub for around 56'000 clients for five years. It offers them comprehensive service for all banking transactions. In 2018, this dedicated team answered 109'000 telephone calls,

about 9'000 e-mails and 4'600 bank messages. It also dealt with 66'000 enquiries and questions.

### Saving time for clients

As part of the StepUp2020 strategy, the LLB Group set itself the goal of investing more time in the individual care of its clients and enhancing the quality of advice it gives them. The Lean Management Group Programme makes a significant contribution to standardising processes as far as possible and to aligning our company even more closely with clients' requirements (see chapter "Corporate Center", page 41). In the Retail & Corporate Banking Division, we have fundamentally reviewed and revised our lending processes during the last few years and substantially reduced the time needed to process a loan application, i.e. by 30 per cent in the case of a standard mortgage loan – while at the same time improving the quality of the process by 30 per cent.

### Feedback from client surveys

So that we can determine where our clients' problems lie, we initiated a series of roundtable discussions in 2018 with various corporate clients in order to obtain valuable feedback. We learned from these discussions that our clients would like a shorter throughput time for orders and faster access to client advisers. The measures implemented within the scope of the lean management process are aimed at exactly these issues. Thanks to the good feedback we received from them, these roundtable talks will now be held annually. In addition, in collaboration with the Chamber of Commerce, we have launched a comprehensive written client survey. Among other responses, this showed that it is easy for clients to reach LLB, that corporate clients are very satisfied with the quality of service they receive, and that information and documents are clearly formulated and comprehensible. According to the results of the survey, improvements are needed with the user-friendliness of online banking. Consequently, we have already implemented various measures to resolve this issue. Standardised questionnaires were also used to carry out qualitative client interviews among private clients with the goal of better coordinating processes and services to suit changing client requirements.

### Retail & Corporate Banking



# 2'329'553

Transactions were made by the almost 36'000 LLB mobile and online banking clients in 2018. That is almost 40 per cent more than five years ago.

## Business segment result

Interest differential business, which comprises the largest part of earnings in private and corporate banking, developed positively. The pressure on margins in deposits and mortgage business was more than compensated for by growth in lending business. In the reporting period value allowances for credit loss expense were released. In spite of the investments made in the branch and distribution network,

operating expenses remained stable. The business volume rose by 2 per cent to CHF 19.1 billion. Loans to customers in line with LLB's risk conscious policy expanded by 3.7 per cent. The segment posted new money inflows from private and corporate clients in the home markets of Switzerland and Liechtenstein.

## Segment reporting

| in CHF thousands                                 | 2018           | 2017           | + / - %     |
|--------------------------------------------------|----------------|----------------|-------------|
| Net interest income                              | 90'317         | 87'439         | 3.3         |
| Expected credit losses                           | 6'931          | 833            | 732.0       |
| Net interest income after expected credit losses | 97'248         | 88'271         | 10.2        |
| Net fee and commission income                    | 29'729         | 30'210         | -1.6        |
| Net trading income                               | 11'383         | 11'441         | -0.5        |
| Other income                                     | 1'783          | 1'622          | 9.9         |
| <b>Total operating income</b>                    | <b>140'143</b> | <b>131'545</b> | <b>6.5</b>  |
| Personnel expenses                               | -30'458        | -29'886        | 1.9         |
| General and administrative expenses              | -1'607         | -3'544         | -54.6       |
| Depreciation and amortisation                    | 0              | -40            | -100.0      |
| Services (from)/to segments                      | -50'127        | -49'117        | 2.1         |
| <b>Total operating expenses</b>                  | <b>-82'192</b> | <b>-82'587</b> | <b>-0.5</b> |
| <b>Segment profit before tax</b>                 | <b>57'951</b>  | <b>48'957</b>  | <b>18.4</b> |

## Performance figures

|                                       | 2018 | 2017 |
|---------------------------------------|------|------|
| Gross margin (in basis points)*       | 70.0 | 70.8 |
| Cost-Income-Ratio (in per cent)**     | 61.7 | 63.2 |
| Net new money (in CHF millions)       | 407  | -100 |
| Growth of net new money (in per cent) | 4.8  | -1.2 |

\* 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)               | 19'142     | 18'763     | 2.0     |
| Assets under management (in CHF millions)       | 8'449      | 8'449      | 0.0     |
| Loans (in CHF millions)                         | 10'693     | 10'314     | 3.7     |
| Employees (full-time equivalents, in positions) | 197        | 193        | 2.1     |

# 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

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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

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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

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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

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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

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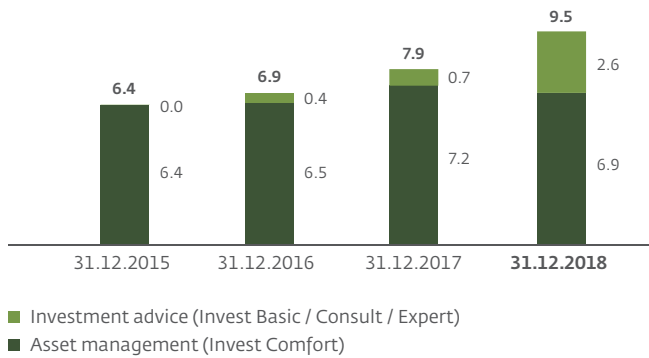
### Asset management and investment advisory

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       |
| <b>Total operating income</b>                    | <b>118'597</b> | <b>107'651</b> | <b>10.2</b> |
| 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        |
| <b>Total operating expenses</b>                  | <b>-73'000</b> | <b>-62'195</b> | <b>17.4</b> |
| <b>Segment profit before tax</b>                 | <b>45'597</b>  | <b>45'456</b>  | <b>0.3</b>  |

## 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    |

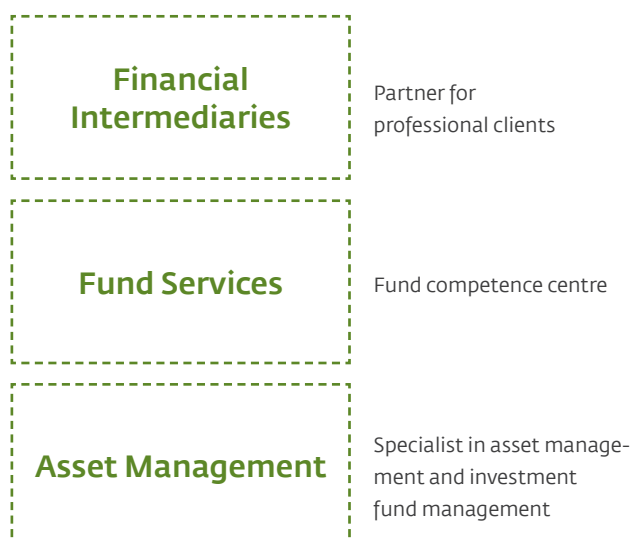
# Institutional Clients

**T**hanks to the purchase of Semper Constantia Privatbank AG and the Swiss investment fund company LB(Swiss) Investment AG, the LLB Group has advanced to become a fund powerhouse in the FL-A-CH region. This enables us to create more value for our institutional clients.

## Specialised in serving professional clients

Institutional Clients encompasses the intermediary and fund business, as well as the asset management operations of the LLB Group. We concentrate on fiduciaries, asset managers, fund promoters, insurance companies, pension funds and public institutions. Our core markets are Liechtenstein, Switzerland and Austria.

In April 2018, LLB took over the Zurich-based fund management company, LB(Swiss) Investment AG, which changed its name in May to LLB Swiss Investment AG. This now enables us to offer external asset managers, family offices, pension funds and banks in Switzerland tailor-made investment fund services. At the end of September 2018, the merger of Semper Constantia with LLB Österreich to become Liechtensteinische Landesbank (Österreich) AG was completed, permitting us to greatly expand our position in institutional business in Austria.



## Funds powerhouse

Thanks to the acquisitions it has made, the LLB Group now operates investment fund management companies in its three home markets of Liechtenstein, Switzerland and Austria. It manages an investment fund volume of over CHF 30 billion. Consequently, LLB has significantly consolidated its position in this field of business and now can be regarded as a potent fund powerhouse in the FL-A-CH region (Liechtenstein / Austria / Switzerland). It focuses on providing private label fund solutions, known also in Austria as white label funds or Master-KAG solutions. These are very individual solutions, ideally suited for efficient asset management and as structuring alternatives for large volumes of assets. They are characterised, in particular, by the fact that they delegate fund management to an external third party, or they engage such specialists as investment advisers. Irrespective of whether a fund is set up for a restricted group of investors or is publicly distributed, the investor protection is the same.

In Liechtenstein, LLB Fund Services AG is one of the three largest private label vendors. Over the last two decades, it has made a name for itself – just like the Austrian LLB Invest KAG – as a specialist in this business area. All LLB's fund management companies provide a comprehensive range of services in line with the "all in one shop" concept. We plan and set up tailor-made funds, both in-house as well as for independent asset managers, family offices and other fund promoters. We also manage and structure them, as well as providing state-of-the-art risk management. At our business locations in Vaduz and Zurich, we supplement these services by taking over the representative function of foreign funds.

### Fund business in Liechtenstein and Switzerland

The Fund Services business area operates as the LLB Group's fund competence centre in Switzerland and Liechtenstein, and is an important earnings pillar with significant growth potential. In the year under report, the business area achieved a net new money inflow with private label funds of CHF 296 million. Based on an holistic and needs-oriented advisory approach, its spectrum of services ranges from the setting up of a fund, to the initial issuance of units, all the way to the provision of services throughout the life cycle of a fund. The strategic

takeover of LB(Swiss) Investment AG in April 2018 provided the LLB Group with access to the Swiss investment funds market and therefore opened up new growth perspectives.

### **Fund business in Austria**

LLB Österreich currently manages CHF 14.8 billion of assets in funds business. Through its subsidiary, LLB Invest KAG, Liechtensteinische Landesbank (Österreich) AG offers customised complete solutions in the areas of public funds, funds for large-scale investors, special funds and multi-manager funds. The spectrum of products ranges from money market tracking funds, to bond and equity funds, to real estate share funds and extends to alternative investment funds and asset allocation funds. A fund solution can be chosen for every investment mentality and for almost every requirement.

LLB Immo KAG, a subsidiary, offers open real estate funds with individual solutions. These include, for example, acquisition and administration of properties, facility and cash management, as well as consolidated reporting. All these solutions are defined in collaboration with our clients and offered from one source. LLB Immo KAG can call on extensive experience acquired over many years in the real estate market. Real estate special funds are aimed mainly at professional investors, which include pension funds, insurance companies and foundations that want to benefit from the long-term advantages of indirect real estate investments.

### **LLB as a custodian bank for funds**

LLB extended its position as the leading custodian bank in Liechtenstein, serving 252 funds by the end of 2018. As a pioneer in this business and the first bank to offer this service in Liechtenstein, it has acknowledged experience and expertise in the management and administration of complex fund mandates having various strategies and asset classes. LLB Österreich has a similar pedigree, offering this service for 308 funds at the end of 2018.

### **EU passport for UCITS and alternative investment funds**

Thanks to its membership of the EEA, Liechtenstein is the only country having unlimited access to two economic areas, i.e. Switzerland and the European Union. In accordance with the Undertakings for Collective Investments in Transferable Securities (UCITS) directive based on European law and the law concerning the Managers of Alternative Investment Funds (AIFM), Liechtenstein funds can be marketed and freely distributed in the 28 EU states, as well as the EEA / EFTA states (see chapter "Regulatory framework and developments", page 47).

## **Financial intermediaries**

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The team responsible for financial intermediaries offers independent asset managers, fiduciaries and insurance companies comprehensive service and support so that together they can create suitable solutions for the intermediaries and their end clients. At the same time, we are a reliable partner for pension Funds and public institutions when they need asset management and payment services. We are constantly investing in digitalisation projects in order to keep pace with our clients' requirements. In 2018, numerous additional measures were implemented to increase efficiency in our client relationships.

### **Expansion of digital client interfaces**

On the basis of feedback regularly obtained from clients, we specifically invested in the improvement of digital client interfaces in 2018 and further developed our services. In June 2018, new online banking functions were implemented to simplify the placing of orders and the administration of their portfolios for our professional clients. LLB online banking now offers professional clients the possibility of continuing to retrieve closed accounts and custody accounts for a certain period, and enables them to access various performance contribution reports and extended presentation options.

In 2019, additional, needs-based functions are planned. Financial reporting is to be extended and the administration of forms is to be optimised. Furthermore, sophisticated analysis tools are to be provided and our interfaces for connecting intermediaries' software applications are to be refined. Improved and more efficient processes should reduce administrative time and effort both for our clients and for our client advisers. Our long-term objective is to make our online banking system even more responsive to the requirements of intermediaries and to create a digital onboarding process for our clients.

### **Business compliance function**

To fulfil a clear client wish we set up a business compliance function in the Financial Intermediaries business area in 2017. When financial intermediaries come to us with complex business cases, a compliance specialist can now be called in to provide an initial assessment of the situation. Consequently, clients are supported through the regulatory requirements and the compliance process right from the start. For them this means added value in the form of the provision of specialist knowledge and a shorter time to market. Financial intermediaries greatly appreciate this service and use it regularly. In addition, the business compliance function carries out our preliminary clarifications for various business cases and therefore helps to quickly identify and address regulatory obstacles.

### **Lean transformation: more time for clients**

The Financial Intermediaries business area has undergone a complete "lean" transformation (see chapter "Corporate Center", page 41). The goal of the process is, by implementing a better workload balance, to free up 15 to 20 per cent more capacity among client advisers and thus

gain more time for direct contacts with clients, as well as generating more qualitative advice. For this purpose, among other measures, an assistance pool was set up through which stock market and payment orders are to be centrally and efficiently processed. By taking over around 25'000 stock market orders per year, the pool will relieve our client advisers of a great deal of work pressure. Within the scope of our ongoing improvement system, we shall continue to critically assess and, if necessary, adapt our processes and procedures.

Also within the context of lean management, we organised and held moderated discussions with groups of clients for the first time in 2018. Subsequently, the results of the discussions were systematically evaluated. They showed us where and how we can optimise our services. The various improvements described in the previous paragraphs, especially those implemented in regard to digital client interfaces, were all measures that were derived from these discussions with clients. In future, we intend to hold these client group discussions once a year. In addition, we shall regularly request feedback from clients by means of a standardised questionnaire.

## Asset Management

In 2018, we added two new staff members to the Asset Management Division in Vaduz. Thanks to the takeover of Semper Constantia, eleven specialists from Vienna have joined the team. The Asset Management Division supports all three market divisions in their target regions by providing them with its investment competence and value-oriented investment approach (see chapter "Strategy and organisation", page 9). It therefore plays a central role within the LLB Group. Our specialists have extensive experience in meeting the investment needs of institutional clients.

Our Asset Management has been Global Investment Performance Standards (GIPS) certified for 16 years. These international quality standards are based on the complete and correct disclosure, as well as comparable presentation of investment results. They ensure that clients receive fair and transparent reports.

### Awards

The most important award for an asset manager, such as the LLB Group, is to be the best in its category over all main investment classes, i.e. for bonds, equities and strategy funds. At the Thomson Reuters Lipper Fund Awards 2018, the LLB Group was the recipient of these awards. It was also ranked first in the category best "Bond Small Company". The LLB Equities Dividend Pearls Global (CHF) fund was honoured in the category "Equity Global Income" for the best performance over the last five years. The Asset Management of the LLB Group was also awarded the "GELD" award for the best real estate equity fund in Austria over three years in 2018. The following is a brief overview of the most important awards received:

- **Lipper Fund Awards Switzerland 2018:** best group over three years "Overall Small Company", best group over three years "Bond Small Company" and best performance in the category "Equity Global Income" (three awards in one year);
- **Lipper Fund Awards Austria 2018:** LLB Equities Real Estate Global (CHF) selected as the best real estate equity fund in Vienna over three years;
- **Alternative Investments Awards 2018 of "Geld", the Austrian journal for financial professionals:** also for LLB Equities Real Estate Global (CHF) selected as the best real estate equity fund in Vienna over three years;
- **Hedge Fund Awards 2018 of "Acquisition International (AI)" magazine:** "Best Portfolio Manager – Liechtenstein" and "Best Alternative UCITS Fund" (two awards in two years).

In long-term competitive comparison, LLB has been at the top of the rankings for years with its broadly diversified strategy funds. In this context, broadly diversified means: with the strategy funds we invest in fourteen asset classes (liquidity, CHF bonds, global bonds, real asset bonds, high interest and emerging market bonds, convertible bonds, local equities, global equities, emerging market equities, real estate equities, commodities, hedge funds and disaster bonds) and in around 4'500 individual instruments.

### Expansion of the LLB fund range

Thanks to the acquisitions made in 2018, we were able to further expand our range of investment funds. For example, the purchase of Semper Constantia Privatbank AG has opened the door for us to the real estate segment. Following the merger with LLB Österreich, the company now has extensive experience in this business and, in addition to numerous funds, can also offer investors individual access to a comprehensive range of indirect and direct real estate investments.

The volume invested in LLB funds has posted an above-average performance – while keeping costs low – over the last six years. At the end of 2018, the fund volume stood at CHF 30.5 billion. The vast majority of the 612 LLB funds is Europe-compatible, meaning that they fulfil the UCITS V EU directive (see chapter "Regulatory framework and developments", page 47). Furthermore, they all fulfil the criterion of strict diversification. The 40 LLB own funds are largely actively managed by experienced fund managers and are usually licensed for distribution in Liechtenstein, Switzerland, Austria and Germany.

### Asset management

With six different investment strategies from "Fixed Interest" to "Equities" in the reference currencies CHF, EUR and USD, LLB enables the diversification of capital investments. The volume of assets under management at the end of 2018 totalled CHF 6.9 billion.

Client requirements are always at the forefront in the LLB Group. In 2018, therefore, we extended our offering with passive asset management mandates having various investment strategies, with which the equity exposure, in particular, is passively managed. Another new LLB feature is the total return approach of LLB Österreich. Its asset management possesses core competence in exercising mandates with the focus on value preservation and extensive experience in the implementation of value protection concepts.

### Partner-like dialogue and transfer of knowledge

The transfer of knowledge and the strong networking with external partners is particularly important for intermediaries. By transferring knowledge, we create added value for our clients and promote the exchange of ideas and views. We utilise two channels for this purpose: our exclusive round-table events and an online platform designed to fulfil the requirements of intermediaries. In addition, we have extensive and close links with various associations and financial centre players, so that we can learn right in the front line which themes are, or are going to be, important in the future. This enables us to actively shape and configure the basic business conditions, which determine our business model.

#### "LLB Xpert Views"

For several years LLB experts and investment specialists have regularly informed our clients about current topics at the exclusive round table discussions, which are held within the context of our "LLB Xpert Views". The focus in 2018, for instance, was on the EU data protection directive, tax issues and regulatory developments such as MiFID II and FIDLEG. We organised about a dozen such round tables during the year under report, including four "LLB Xpert Views" specials, at which on the one hand, the LLB Group explained its investment policy to institutional clients, and on the other, it highlighted specific subjects for fund management companies and public institutions. Furthermore, in November we held a Swiss round table in Zurich for the first time with great success and thereby extended our geographical reach.

Our "LLB Xpert Views" online platform is also a central point of contact for fiduciaries, independent asset managers, fund managers and fund promoters. We can make available our know-how in the areas of asset management, as well as law and taxation to our clients via the online platform. Moreover, "LLB Xpert Views" supports intermediaries and institutional clients in complying with the latest regulatory provisions. Institutional clients receive a compact and transparent overview of the latest regulatory developments.

### Partnerships with financial centre players

LLB participates actively in various networks and thus secures an audience for its views. The Group company, LLB Asset Management AG, is a member of the Liechtenstein Association of Independent Asset Managers (VuVL) and a committed partner in the development of the financial centre. At the same time, the Group company, LLB Fund Services AG, is a member of the executive board of the Liechtenstein Investment Fund Association (LAFV), which actively shapes the basic framework of the Liechtenstein fund centre. LLB Österreich is a member of the executive board of the Association of Austrian Investment Companies (VÖIG) – the umbrella association of all Austrian administration companies and all Austrian real estate capital investment companies. In Zurich, LLB Swiss Investment AG is a member of the Swiss Funds & Asset Management Association (SFAMA), the representative trade association of the Swiss investment fund and asset management industry.

### Business segment result

The segment profit before tax of the Institutional Clients segment rose by 8 per cent. Operating income improved largely on account of the good performance of interest business from foreign currency investments. Income from fees and commissions exceeded the previous year's result thanks to active sales and marketing efforts, as well as the first-time consolidation of LLB Swiss Investment AG and Semper Constantia. The two acquisitions made a positive contribution of CHF 26.8 million to the increase in operating income. Operating expenses increased on account of the takeover of the personnel of the acquired companies. Thanks to the takeover of Semper Constantia, the business volume rose by over 50 per cent and now stands at CHF 43 billion. Adjusted to consider the acquisition volumes, the business volume decreased due to market factors.

### Institutional Clients

**Φ 43'000'000'000**

Swiss francs is the total business volume of the Institutional Clients segment. That is an increase of about 55 per cent.

## Segment reporting

| in CHF thousands                                 | 2018           | 2017           | + / - %     |
|--------------------------------------------------|----------------|----------------|-------------|
| Net interest income                              | 19'817         | 14'725         | 34.6        |
| Expected credit losses                           | 0              | 7'500          | -100.0      |
| Net interest income after expected credit losses | 19'817         | 22'225         | -10.8       |
| Net fee and commission income                    | 80'952         | 56'201         | 44.0        |
| Net trading income                               | 11'007         | 11'138         | -1.2        |
| Other income                                     | 2              | 2              | -7.0        |
| <b>Total operating income</b>                    | <b>111'778</b> | <b>89'566</b>  | <b>24.8</b> |
| Personnel expenses                               | -26'220        | -17'709        | 48.1        |
| General and administrative expenses              | -4'647         | -2'507         | 85.4        |
| Depreciation and amortisation                    | -116           | 0              |             |
| Services (from) / to segments                    | -20'550        | -13'369        | 53.7        |
| <b>Total operating expenses</b>                  | <b>-51'534</b> | <b>-33'585</b> | <b>53.4</b> |
| <b>Segment profit before tax</b>                 | <b>60'244</b>  | <b>55'981</b>  | <b>7.6</b>  |

## Performance figures

|                                       | 2018 | 2017 |
|---------------------------------------|------|------|
| Gross margin (in basis points)*       | 31.1 | 30.7 |
| Cost-Income-Ratio (in per cent)**     | 46.1 | 40.9 |
| Net new money (in CHF millions)       | 89   | 397  |
| Growth of net new money (in per cent) | 0.3  | 1.6  |

\* 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)               | 43'007     | 27'790     | 54.8    |
| Assets under management (in CHF millions)       | 42'489     | 27'485     | 54.6    |
| Loans (in CHF millions)                         | 518        | 305        | 69.8    |
| Employees (full-time equivalents, in positions) | 171        | 90         | 89.8    |



What brings people  
together?



Where there is diversity,  
there is culture.



## Everyone is part of the whole

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Bernd  
Moosmann

Head of Group Human  
Resources

**W**hen people embody the same values, a unique identity is created. People from 38 nations work at the LLB Group. Together, they bring our corporate culture to life. By acting

according to our values of “integrity, respectfulness, excellence and pioneering”, they set the kind of positive energy free that makes all the difference. Growth means development at LLB, and diversity under one roof is a guarantee for quality and innovative power. Everyone is part of the whole, as the whole is part of the individual.

Video statement at:  
[ar2018.llb.li/corporate-culture](https://ar2018.llb.li/corporate-culture)

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Hanna Roeckle  
Polyeder / Polyhedron  
Gemini Green  
Lacquer on GFP  
125 × 99 × 99 cm  
Göttlich Golden Genial,  
Museum for  
Communication Berlin,  
2016 / 2017

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# 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.

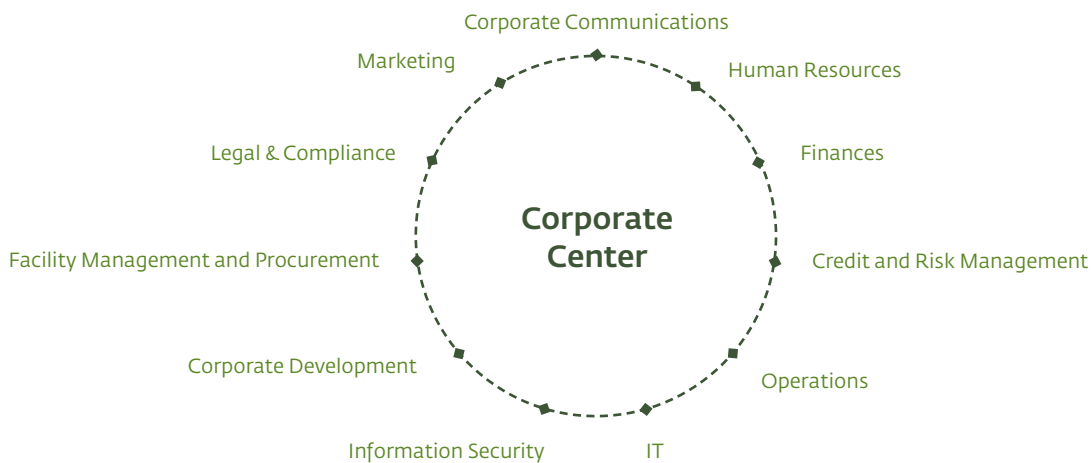
The Corporate Center plays a key role in the realisation of the StepUp2020 strategy. In 2018, the priorities were placed on the digitalisation of banking business, the implementation of innovation management, as well as the optimisation of the organisation in line with the principles of lean management.

## 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

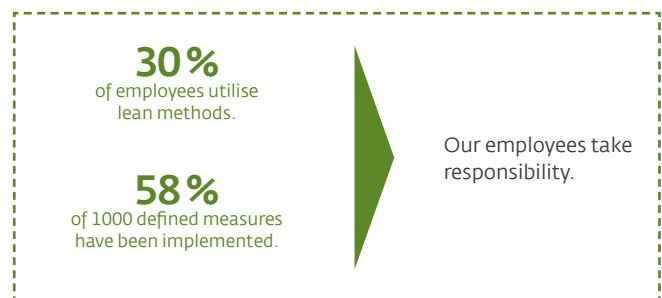
We have already largely completed the implementation of the ISO 20022 international standard for the processing of payment orders. Payment transfers between the banks in Liechtenstein, Switzerland and the EU have been carried out in accordance with the ISO 20022 standard since 2016. In the year under 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         |
| <b>Total operating income</b>                       | <b>29'146</b>  | <b>70'607</b>  | <b>-58.7</b> |
| 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         |
| <b>Total operating expenses</b>                     | <b>-99'181</b> | <b>-88'612</b> | <b>11.9</b>  |
| <b>Segment profit before tax</b>                    | <b>-70'035</b> | <b>-18'005</b> | <b>289.0</b> |

### Additional information

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